

# PRINCIPLES



**COMMERCIAL  
CREDIT**

ANNUAL REPORT 2021/22



**AS WE UNDERGO A CHALLENGING TIME AS A NATION, WE AS A COMPANY REITERATE THE FACT THAT PRINCIPLES DEFINE US AND WILL GUIDE US THROUGH THESE HEADWINDS.**

**AS A PURPOSE DRIVEN ENTITY, WE TRAIN OUR FAMILY TO CULTIVATE A WIN-WIN ATTITUDE THAT INSPIRES SYNERGY AND TEAMWORK WITH LOVE AND CARING INSTILLED WITHIN A CULTURE OF CONTINUOUS LEARNING AND DEVELOPMENT THAT ENHANCES THE ESSENCE OF INTEGRITY AND TRUST.**

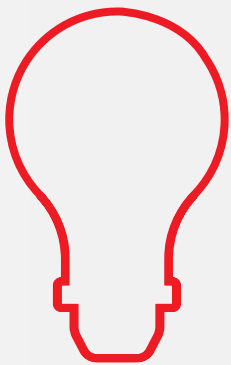
**OUR UNRELENTING COMMITMENT TOWARDS MATERIALISING OUR PURPOSE HAS CREATED A MUTUALLY BENEFICIAL PARTNERSHIP WITH OUR STAKEHOLDERS.**

# **The Best is Achieved Together.**

The challenges of today can not be resolved individually. That is why we at Commercial Credit appreciate the differences of others and work together to achieve a common purpose.

## PURPOSE

To build leaders who uplift the lives of people by simple acts of love.

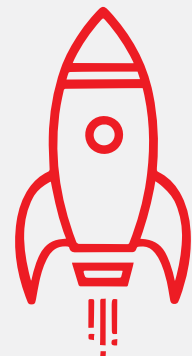


## MISSION

To be a dynamic finance Company which develops and nurtures leaders at every level of the organisation to serve society with passion.

## VISION

To be the most liberated Company admired for its people, partnerships and performance.



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# ENT

# SHARED VALUES

## LOVING AND CARING

Commercial Credit defines love as the silent sacrifices made or the extra miles travelled to make others happy and thereby help to uplift their lives. Those who seek to love feel happy and satisfied. Love energizes everyone and benefits of unconditional love and appreciation are immeasurable. Sincere appreciation is one of the deepest needs of human existence and making someone feel good, releases reservoirs of positive energy. At Commercial Credit, love plays an immeasurable role in the day-to-day life of our team members. Those who embrace love, love themselves, love others and also love life.

By demonstrating a simple act of loving and caring, they would go out of their way to help out a team member or a customer. This radiates positivity and reinforces the feeling of love in the recipient who in turn would more often than not reciprocate the feeling with a caring gesture of his or her own to another. This creates a ripple effect of loving and caring and is one of the key elements of our corporate culture.



## THINK WIN-WIN

Win-Win is one paradigm of human interaction and it arises from a character of integrity, maturity and the abundance mentality. Life is a co-operative arena where human interactions are based on mutual benefits and mutual respect. Additionally, a culture of Think Win-Win is embodied in agreements that effectively clarify and manage expectations as well as accomplishments. Commercial Credit always strive to align its processes and supportive systems to encourage this win - win mind set.

We believe the intense focus on winning at all costs does not bring greater good to the individual, the Company, the society or the country. Our focus is always on creating a win-win situation, one where all parties concerned are pleased with the outcome and where no party is left feeling short-changed. It is an attitude that has been readily embraced by our team members and one that has created countless satisfied customers.





## INTEGRITY AND TRUST

We believe that trust is the key to every relationship. It determines how relationships begin and grow; and swiftly establishes positivism. Integrity means that our lives are integrated around principles and that our security comes from within, nor from outside. Being a person of integrity is of utmost importance to all team members at Commercial Credit. A trustworthy individual has the gift of lifting others and making them do good deeds, sometimes even impossible ones. Therefore, we place great emphasis on creating a culture of true integrity where an individual does the right thing even when no one is watching.



## SYNERGY AND TEAMWORK

Commercial Credit believes that Synergy creates better alternatives by valuing the mental, emotional and psychological differences between people; recognizing that strength lies not in similarities but in differences. Commercial Credit team members always try to combine individual strengths with a shared commitment to perform towards common goals aligning to the Company purpose.



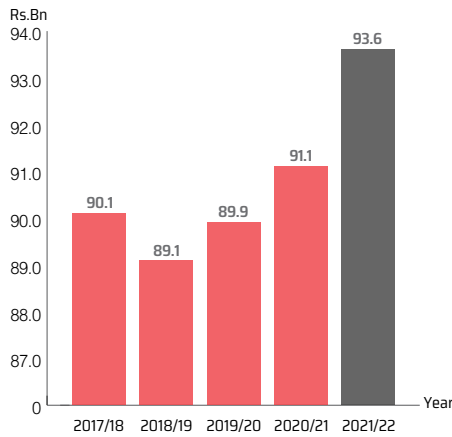
## LEARNING AND DEVELOPMENT

Learning and development at Commercial Credit is characterized as the process of renewing and enhancing the physical, emotional, mental and spiritual dimensions of our lives, which would facilitate personal growth. Learning and development is the single most powerful investment that one can make and is a continuous process in the achievement of effective, efficient and sustainable results. By encouraging an environment which strongly believes in learning and development, Commercial Credit strives to do the best in every single activity that it engages in.

# COMPANY FINANCIAL & NON FINANCIAL HIGHLIGHTS

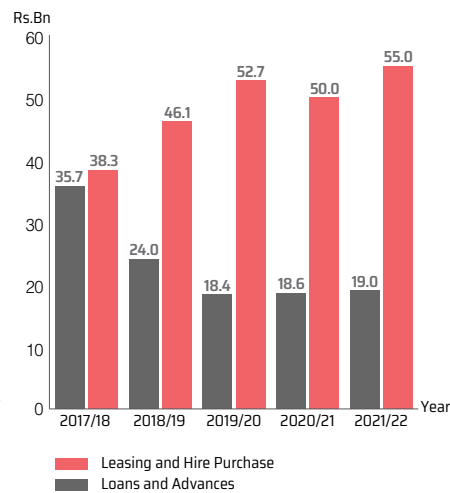
|  | 2021/22<br>LKR.'000' | 2020/21<br>LKR.'000' | Per cent<br>Change |
|--|----------------------|----------------------|--------------------|
| <b>Financial Performance</b>             |                      |                      |                    |
| Gross Income                             | 21,820,030           | 18,191,763           | 19.9%              |
| Net Interest Income                      | 11,948,942           | 9,035,088            | 32.3%              |
| Profit Before Taxation                   | 6,391,345            | 3,192,394            | 100.2%             |
| Profit After Taxation                    | 4,520,313            | 2,334,756            | 93.6%              |
| <b>Financial Position</b>                |                      |                      |                    |
| Net lending portfolio                    | 73,993,334           | 68,567,137           | 7.9%               |
| Total Assets                             | 93,630,228           | 91,129,873           | 2.7%               |
| Total Deposit Base                       | 48,077,988           | 47,989,537           | 0.2%               |
| Borrowings                               | 20,525,268           | 23,889,048           | -14.1%             |
| Shareholders' Funds                      | 19,193,329           | 15,396,356           | 24.7%              |
| Liquid Assets                            | 8,098,312            | 10,150,224           | -20.2%             |
| <b>Key Indicators per Ordinary Share</b> |                      |                      |                    |
| Earnings per Share (LKR)                 | 14.21                | 7.34                 |                    |
| Net Assets per Share (LKR)               | 60.34                | 48.40                |                    |
| Year end Market Price per Share          | 25.20                | 21.50                |                    |
| <b>Key Performance Indicators</b>        |                      |                      |                    |
| Return on Average Assets                 | 4.89%                | 2.58%                |                    |
| Equity / Assets                          | 20.50%               | 16.89%               |                    |
| Gross Non Performing Accommodations      | 4.67%                | 5.39%                |                    |
| Net Non Performing Accommodations        | (4.09)%              | (2.94)%              |                    |
| Return on Average Shareholders' Funds    | 26.14%               | 15.62%               |                    |
| <b>Statutory Ratios</b>                  |                      |                      |                    |
| Capital Funds to Deposits                | 39.92%               | 32.08%               |                    |
| Core Capital (Tier 1 Capital)            | 17,152,793           | 13,016,331           |                    |
| Core Capital (Tier 11 Capital)           | 18,720,043           | 14,067,803           |                    |
| Core Capital Ratio                       | 17.61%               | 13.45%               |                    |
| Total Risk Weighted Capital Ratio        | 19.22%               | 14.55%               |                    |
| <b>Memorandum information</b>            |                      |                      |                    |
| Number of Employees                      | 2,883                | 2,928                |                    |
| Number of Branches                       | 129                  | 126                  |                    |
| External Credit Rating (ICRA)            | BBB (Stable)         | BBB (Stable)         |                    |

## Total Assets



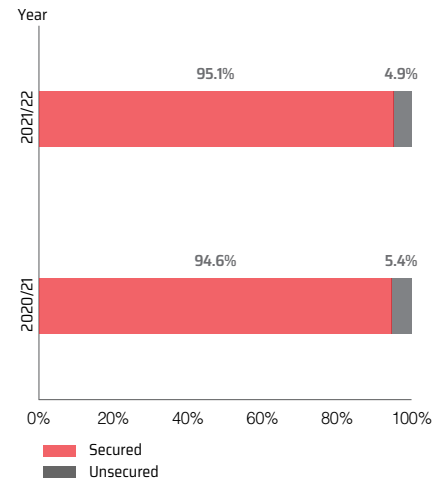
Source : Company Data

## Net Lending Portfolio



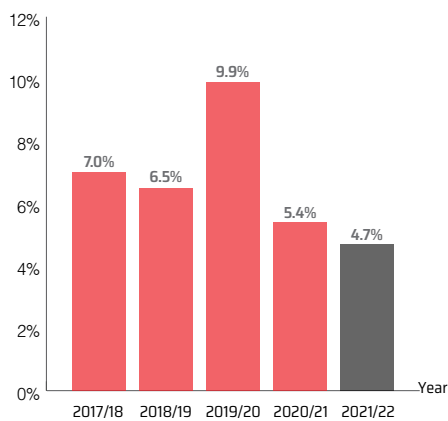
Source : Company Data

## Secured and Unsecured Portfolio Composition



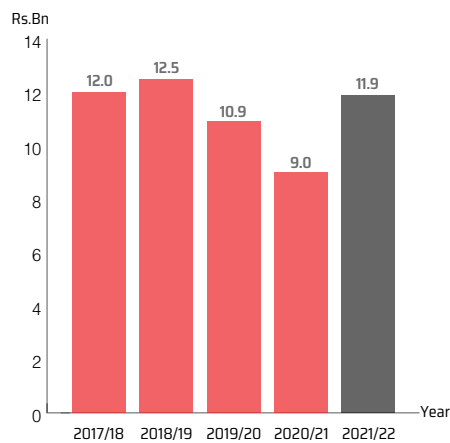
Source : Company Data

## Gross Non Performing Accommodation



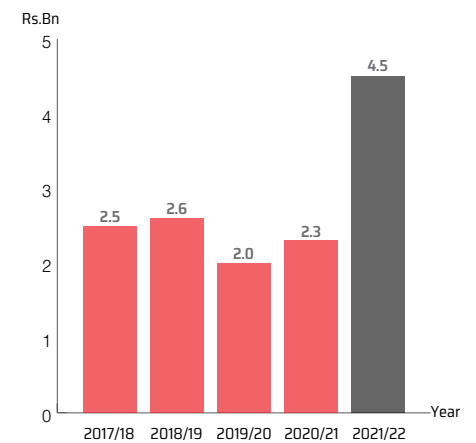
Source : Company Data

## Net Interest Income



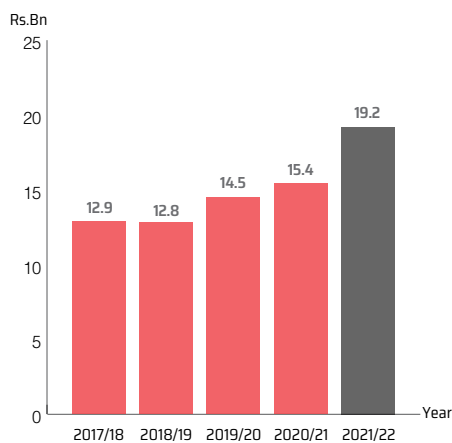
Source : Company Data

## Profit After Tax



Source : Company Data

## Total Equity



Source : Company Data

## Total Deposits



Source : Company Data

# PRINCIPLES DEFINE US



# BOARD OF DIRECTORS & EXECUTIVE MANAGEMENT



# CHAIRMAN'S STATEMENT



**OUR PURPOSE DRIVEN VALUE CENTRED APPROACH TO BUSINESS, WAS WHAT GAVE US THIS SUCCESS, WHERE WE REHABILITATED AND RETAINED OUR CUSTOMERS, ALLOWING BOTH PARTIES TO WITHSTAND IN UNISON, THE FORMIDABLE HEADWINDS DURING THE YEAR.**

On behalf of the Board of Directors, I extend a warm welcome to you to the 39th Annual General Meeting of Commercial Credit and Finance PLC. It gives me great pleasure to present to you, on behalf of your Board of Directors, the Annual Report of the Company for the financial year ended 31st March 2022. It has been with the shareholders for the prescribed period of time and I shall, with your permission, take it as read.

Your company navigated with commendable success a very challenging year of unprecedented macro-economic stress and pandemic overhang. Our purpose driven value centred approach to business, was what gave us this success, where we rehabilitated and retained our customers, allowing both parties to withstand in unison, the formidable headwinds during the year.

## **ECONOMIC PERFORMANCE**

The Sri Lankan economy rebounded during 2021 amidst the pandemic overhang owing to the government's vaccination drive which facilitated economic activity with minimum disruption.

As a result a GDP growth of 3.7% was recorded during 2021 compared to the 3.6% contraction in 2020. All of the three key sectors of the economy recorded growth during the year, with notable growth of 5.3% arising from the industry sector while the agriculture and service sectors growing by 2% and 3% respectively.

Moving away from the expansionary monetary stimulus measures adopted with the emergence of the COVID 19 pandemic, monetary tightening measures were initiated by the Central Bank in mid – August 2021. This was due to excessive inflationary pressures and the imbalance in the external sector and the rising volatility in financial markets. Since then the Central Bank initiated multiple revisions in the key policy interest rates and the Statutory Reserve Ratio (SRR). These measures are expected to gradually contract the economic activity by curtailing inflation and stabilizing the Sri Lankan rupee.

## OPERATING ENVIRONMENT

Recovering well from a lackluster year, the NBFIs sector performance improved considerably during 2021 both in terms of credit growth and profitability. The sector asset base grew by 6.1% during the year ending up at 1,487.7 Bn. This growth was caused by the 9.9% growth in the net loan book with high growth in the hire purchase and gold loan segments.

Asset quality also improved during the year, with both gross and net non-performing advances (NPA) ratios improving to 11% and 2.7% respectively from 13.9% and 4.2% respectively in 2020.

Customer deposits dominated the liabilities of the sector, accounting for 70.6 % of sector liabilities. Sector deposits grew by 4.6 % to reach Rs.783.3 Bn while borrowings declined marginally by 0.6% reaching Rs. 325.9 Bn during the year.

## BUSINESS PERFORMANCE

The net loan book of the company increased by 7.9% together with increased interest yields, resulting in an increase in the Net Interest Margin (NIM) to 14.4% from 11.0%. The company reported a profit after tax of Rs.4.52 Bn, a 93.6% growth compared to the previous year. This growth was principally driven by

the 32.3% increase in the net interest income, 67.5% increase in the fee and commission income and the 82.4% increase in the other operating income.

The significant increase in profitability coupled with slow growth in the asset base saw the company reporting a Return on Assets (ROA) of 4.9% compared to 2.6% the previous year. Return on Equity also grew to 26.1% compared to 15.6% the previous year.

The Board of Directors is pleased to recommend a final dividend of Rs. 2.00 per share for the financial year ending at 31 March 2022.

## NAVIGATING THROUGH THE UNPREDICTABLE

The Company has continuously complied with the highest ethical and governance standards and ensured sustainable value to its stakeholders. Given the macroeconomic headwinds faced by the country, the Board increased its oversight to ensure internal controls remained effective and key risks are identified and managed effectively.

During the year, all Board Sub-Committees and Executive Sub-Committees played an active role by conducting regular meetings to advise the management on operational matters, make assessments of changing situations and to recommend necessary actions. This proactive engagement by a largely non-executive Board was vital in ensuring the seamless continuity of the business processes of the Company and its competency to face challenges while seizing new business opportunities in the market.

## DEFINING THE FUTURE

On the back of a successful financial year amidst the aftermath of the COVID 19 pandemic and a rapidly deteriorating domestic economy, the company needs to prepare themselves to a yet another challenging year ahead. In these troubled times where the livelihood of the general public is substantially disrupted, it is vital that we support the customers through our products and services as well as in how we deal with our customers.

From a company stand point it is critical that we proactively take measures to overcome the challenges the current economic crisis the country is undergoing. With meticulous planning these challenges can be turned into opportunities and be catalysts for growth.


## APPRECIATIONS

Your Board of Directors and I extend our heartfelt gratitude to our loyal customers who have demonstrated their confidence in the Company's products and services continuously. Without their trust and loyalty, we would not have been able to scale the heights that we have reached today.

I also express my sincere appreciation to my colleagues on the Board for being a source of discerning guidance, inestimable support and sincere encouragement to me in a challenging year. It is this outstanding group of professionals who have tapped into their wealth of knowledge and experience, to steer our path to overcome the many challenges faced and to emerge successful over the years. I also thank our Chief Executive Officer and Board Member Mr. Roshan Egodage for the inspiration he provides and his outstanding leadership, in navigating the Company to where it is today.

I would be failing in my duties without a special word of thanks to the dynamic and dedicated employees of the Company. It is their drive, hard work, determination and discipline that has enabled us to achieve so much and there is no doubt that we are well-positioned to reach even greater heights together in the coming years.

Our thanks and appreciation go to the CBSL who provided support and guidance throughout the year and to all our stakeholders for their confidence placed in us during a challenging year. We look forward to their continued support into the future.



**E. D. P. Soosaipillai**  
Chairman

12<sup>th</sup> August 2022

## REVIEW OF THE CHIEF EXECUTIVE OFFICER



**A CHALLENGING YEAR WAS NAVIGATED SUCCESSFULLY WITH THE POWER OF SYNERGY THROUGH EMPATHY AND WIN-WIN MINDSET DEMONSTRATED ACROSS ALL LEVELS OF THE COMPANY, WALKING THE EXTRA MILE TO UNDERSTAND THE ADVERSITIES FACED BY OUR CUSTOMERS.**

As the financial year 2021/22 draws to a close, it gives me great pleasure to present the performance review of Commercial Credit and Finance PLC for the financial year ending 31st March 2022.

This gives me the opportunity to share some of the main highlights and key achievements of the Company during the period under review. A detailed analysis and information of all relevant areas are presented under the Management Discussion & Analysis and other sections of this Annual Report.



## IMPORTANCE OF SHARED VALUES

In a bleak backdrop of an economic crisis, where social values are being superseded by the need for survival, we believe that our purpose and shared values will provide our company with the much needed foresight and direction to rehabilitate those who are affected and uplift their lives to the best of our capabilities.

The resounding success of the Company has accomplished over the year can be mainly attributed to the passion, dedication and the drive of all members of the Commercial Credit team. The underlying component which has attributed towards our continuous success through the years is our Shared Values and the unique principle-based culture. These standards which are nurtured within the organization has set us apart and ensured a loyal customer base. It is these Shared Values that has transformed Commercial Credit and Finance PLC into an innovative and formidable corporate entity within the Sri Lankan financial services sector. Through this unique culture, we have instilled a sense of self confidence in our employees, encouraging them to serve our customers with empathy while retaining their loyalty.

We constantly emphasize the importance of our Shared Values and Principles to our employees at every level through a wholesome set of initiatives. These are a prerequisite in convincing all members of the Commercial Credit family that meaningful progression towards the Company's purpose of "to build leaders who uplift the lives of people by simple acts of love" is only possible through the installment of our unique corporate culture within the organization. We have continuously encouraged activities towards this effort; such as conducting continuous training sessions on developing character and competence of the staff members, singing of the Value Song prior to the commencement of each working day at all locations and at corporate events of the Company, wearing Value Badges and holding value hours in each branch/department on a monthly basis. This is also to inculcate a sense of belonging and wellbeing among our employees as they face each day and extend the same into their day to day lives.

In addition, the employee's based on their practice of Shared Values within the interior and exterior of the Company plays a pivotal role his/her remunerations and promotions. Furthermore, employee performance is monitored and measured by a 360 Degree Evaluation conducted quarterly based on the employee's practice of shared values.

The Company has continuously found inspiration through "The 7 Habits of Highly Effective People" philosophy authored by the late Dr. Stephen Covey, the Founder of the World-renowned personal development organization- Franklin Covey. Thereby, the Company has initiated numerous measures in communicating these '7 habits' to the employees through comprehensive training programs which are conducted across the Company at all locations with the participation of a significant number of employees at each level. This has enabled our employees to obtain a holistic and an integrated experience which has translated into an effective and a sustainable lifestyle. These positive changes have enriched the lives of our staff members upgrading both their professional and personal lives, which in turn has had a positive impact on all our internal and external stakeholders as it is reflected in our business operations.

## PERFORMANCE

A challenging year was navigated successfully with the power of synergy through empathy and win-win mindset demonstrated across all levels of the company, walking the extra mile to understand the adversities faced by our customers.

The asset base of the company stood at Rs. 93.6 Bn recording a growth of 2.7% during the year. This was mainly caused by the 7.9% increase in the net loan book standing at Rs. 74.0 Bn which accounted to 79.0% of the company's asset base. This grow was mainly driven by the 11.0% increase in the leasing and hire purchase segment.

The company's asset quality continued to improve during the year finishing the year with a Gross NPA of 4.67% compared to 5.39% the previous year. This was achieved through company's customer oriented approach towards collections. Similarly the Net NPA also improved to a negative 4.1% during

the year from a negative 2.9% the previous year reiterating the company's focus on provisioning during times of uncertainty. Both the gross and net NPA compared well with the NBF1 sector which stood at 11.0% and 2.7% respectively.

The funding side of the company was dominated by the public deposits accounting for 70.1% of the funding base. The deposit base grew marginally by 0.2% finishing the year at Rs. 48.1 Bn. Bank borrowing dropped substantially by 14.9% during the year, owing to the liquidity shortage faced by the banking sector.

The Net Interest Margin (NIM) of the company improved to 14.4% from 11.0% the previous year, on the back of the 32.3% increase in net interest income which substantially over powered the growth in the interest earning assets.

The company recorded a profit after tax of Rs. 4.52 Bn, a 93.6% increase compared to the previous year. This growth mainly stemmed from the 32.3% increase in the net interest income, 67.5% increase in the fee and commission income and the 82.4% increase in the other operating income. The cost to income ratio also improved during the year to 47.1% from 56.3%.

## FUTURE FOCUS

The country is facing an unprecedented economic crisis which is having a bearing on corporates and individuals representing all walks of life. As a company which has grown together with people it is our duty to support our customers in these times of distress and help them overcome these predicaments. Our company's purpose and shared values will continue to guide us through these perilous waters.

As a responsible corporate citizen who believes these adversities can be overcome through meticulous planning, commitment to the cause & team work, we pledge to play our role to the fullest of our capabilities.

The Company will make it a priority to invest in effective learning infrastructure for all our employees island-wide in obtaining knowledge and competence on the '7 habits' teachings, Company's Shared Values and job-related technical trainings.

## REVIEW OF THE CHIEF EXECUTIVE OFFICER (Cont...)

### APPRECIATION

I am delighted to acknowledge the fact that Commercial Credit has accomplished immense success during the past several years- becoming one of the leading companies in the Non-Bank Financial Institutions (NBFI) sector of the country.

I reflect the successful journey we have taken with a sense of accomplishment in becoming one of the leading companies in the Non- Bank Financial Institutions (NBFI) sector of the country. In this regard, I wish to express my heartfelt gratitude towards our valued customers and shareholders for the trust placed in us. You have given us the strength to make our goals a reality and strive towards achieving unparalleled heights.

I would also pay tribute to the able team at Commercial Credit. They continuously amaze me with their exemplary work ethics, professionalism and innovation, and it is without doubt their determination and hard work which has transformed Commercial Credit to the exceptional heights it has reached today. With such amazing individuals at our service driving us forward, Commercial Credit will continue to attain remarkable achievements in the financial services sector of Sri Lanka, while setting the benchmark for many other entities who extend a helping hand in terms of financial support to those who wish to make their dreams a reality.

Last but not the least, I take this opportunity to extend my sincere appreciation to the Board of Directors, led by our chairman Mr. D. Soosaipillai, for the support and guidance provided to me and my team during these troubled times. The depth of knowledge, experience and leadership provided by the Chairman and the Board, has added significant value to the company. I look forward to the continuous support and direction of the members of the Board, to steer the Company through the challenges which awaits us.



**R.S. Egodage**  
Chief Executive Officer

12<sup>th</sup> August 2022

# PROFILES OF THE BOARD OF DIRECTORS



**E.D.P. Soosaipillai**  
Chairman  
Independent Non-Executive Director

Mr. D. Soosaipillai is a fellow of both the Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka and is considered a pioneer in the leasing and financial services industry both in Sri Lanka and the Maldives. He has served on the boards of several leading specialized leasing companies in the capacity of Finance Director, Chief Executive Officer and Managing Director.

He was appointed as a Director of Commercial Credit and Finance PLC in January 2014. He chairs the Board Nomination Committee and the Board Remuneration Committee. He chaired the Board Audit Committee of Trade Finance and Investments PLC, the subsidiary of Commercial Credit and Finance PLC at that time and during the period January to October 2015.

He is an Independent Non-Executive Director on the Board of Finlays Colombo Ltd. and chairs the Board Audit Committee of the Company. Mr. Soosaipillai is a member of the Sri Lanka Institute of Directors and is an active member of the Audit Committee Forum and the INED Forum of SLID. Mr Soosaipillai has over 30 years of experience in Financial Services, Risk Management and Compliance, both at the operational and strategic levels. He was engaged by the World Bank as a Short Term Consultant on a Payables Assessment assignment in the Maldives as part of a wider Public Finance Management project in 2012. Mr. Soosaipillai also served as the Managing Director of the Maldives Finance Leasing Company (Private) Limited for more than 7 years and as the Chief Executive Officer of Ceylease Financial Services Limited, a subsidiary of the Bank of Ceylon.



**R.S. Egodage**  
Chief Executive Officer  
Executive Director

Mr. Egodage took over the reins of Commercial Credit in October 2009 following the takeover of the Company by BG Investments (Private) Limited and joined the Board of Commercial Credit in March 2011. As Chief Executive Officer, he has been the driving force behind the Company's stellar success, charting a visionary course of leadership and growth.

Prior to taking over the stewardship of Commercial Credit, Mr. Egodage held several senior management positions in the finance industry including the Deputy Chief Executive Director of The Finance Company PLC in 2006, while serving on the Boards of several group of companies at the same time.

Mr. Egodage has previously been General Manager - Finance, Planning and Administration at Kotagala Plantations PLC and General Manager - Projects and Planning at Agalawatte Plantations PLC. He currently serves on the Boards of several privately held companies registered in Sri Lanka, Philippines and Singapore. Having earned a BSc. Eng. degree from the University of Peradeniya and initially embarking on a career in engineering, he then set his sights on a career in business management, earning an MBA from the University of Colombo. He is a fellow member of the Chartered Institute of Management Accountants, UK (FCMA), an associate member of the Chartered Institute of Marketing, UK (ACIM) and an Associate Member of the Institute of Certified Management Accountants, Sri Lanka (ASCMA).



**G.R. Egodage**  
Executive Director

Mrs. Egodage joined Commercial Credit as an Executive Director following the takeover of the management by BG Investments (Private) Limited in December 2009. Presently, she serves as a Director of BG Investments (Private) Limited and BG Capital (Private) Limited.

Mrs. Egodage began her career as an Assistant Lecturer at the Department of Chemistry, University of Peradeniya. She served for a period of 4 years as a Process Chemist at Ansell Lanka. From 1996 to 2005 she held the post of Assistant Director for Quality Control and Quality Assurance at the Coconut Development Authority. She brings the experience and dedication to her role as an Executive Director of Commercial Credit and is an integral component of the success story of the Company. She holds a BSc. (Hons) Degree in Chemistry from the University of Peradeniya and a Post Graduate Diploma in Business Administration from the Open University of Sri Lanka.

## PROFILES OF THE BOARD OF DIRECTORS (Cont...)



**K.D. Vander Weele**  
Non-Executive Director

Mr. Kenneth D Vander Weele is a co-founder and partner in Creation Investments Capital Management, LLC, an impact investment fund manager and transaction advisory group. He is also the founder and managing partner of Creation Investments Sri Lanka, LLC, a Delaware Company. He joined the Board of Commercial Credit and Finance PLC in March 2014.

From 2000 until 2009, Mr. Vander Weele served as the President of the Investment Services Division at Opportunity International, a major microfinance network, during which time he was involved in forming three microfinance banks in Eastern Europe (Forus Bank-Russia, Opportunity Bank-Montenegro and Opportunity Bank-Serbia) and served as the Board chair of each bank. Between 1991 and 2000, Mr. Vander Weele held various positions with the Opportunity International Network, including Global COO, Regional Vice President for Eastern Europe and Interim CEO. From 1975 to 1981, Mr. Vander Weele held various positions at Grant Thornton, CPAs, in their Madison, Boston, Chicago and US National Office. From 1981 to 1991, he was the Senior Vice President, CFO and a founding shareholder of Graphisphere Corporation, a graphic arts holding Company with private equity shareholders, a strategic buyer.

He is a director of Muthoot Microfin-India. Mr. Vander Weele has a PhD in international economics from Oxford University and a BBA in Accounting from the University of Wisconsin. He is also a Certified Public Accountant (CPA, USA). He currently serves in the Boards of NOA Holdings NV - Holland, Sonata Finance Private Limited - India, Fusion Microfinance Private Limited - India, Creation Investments Social Venture Funds I, II, III and IV - USA, and Vivriti Capital-India.



**P.S.R.C. Chitty**  
Chief Operating Officer  
Executive Director

Mr. Rajiv Casie Chitty is a fellow of the Association of Chartered Certified Accountants (ACCA), UK and Associate Member of the Chartered Institute of Management Accountants (ACMA), UK and a Chartered Financial Analyst, USA. He obtained his Masters in Economics from the University of Colombo and won the Janashakthi Gold at the 2006 CIMA Pinnacle Awards. Mr. Casie Chitty is an Independent Non-Executive Director of ACL Cables PLC, Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC, Ceylon Printers PLC and Office Equipment PLC. He is the former President of the ACCA Sri Lanka panel. Mr. Casie Chitty has over 31 years' experience in the private sector of which over 16 years has been at senior management level.



**L.L.S. Wickremasinghe**  
Independent Non-Executive Director

Mr. Lasantha Wickremasinghe, FCA is a fellow member and a past president of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and a fellow member of the Association of Accounting Technicians Sri Lanka (AAT). He is a partner at B R DE SILVA & COMPANY Chartered Accountants since 1997 and specializes in Audit and Assurance Services. He is a member of Board of Management and the Audit Committee chairman of Postgraduate Institute of Management, University of Sri Jayewardenepura (PIM) and Board of Management Member of the Api Wenuwen Api Fund. He serves as the Treasurer of Sri Lanka Cricket.

He serves as the Chairman of the Board Integrated Risk Management Committee and is a member of the Board Audit Committee and Board Related Party Transaction Review Committee.



**T.M.L. Paktun**  
Independent Non-Executive Director

Ms. Tamara Paktun is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Association of Chartered Certified Accountants, UK. She is a senior finance professional with extensive experience in the private sector, both in Sri Lanka and overseas.

She was appointed to the Board of Commercial Credit and Finance PLC in February 2020 and chairs the Board Audit Committee and the Board Related Party Transactions Review Committee. She is a member of the Board Integrated Risk Management Committee and the Remuneration Committee.

Ms. Paktun was the Director Finance & Operations of Pricewaterhouse Coopers Sri Lanka and Maldives for over 13 years and previously functioned as the Chief Financial Officer of Ceylease Financial Services Limited, the leasing subsidiary of the Bank of Ceylon.



**R. Saravanamuttu**  
Independent Non-Executive Director

Dr. Rajan Saravanamuttu has 38 Years International experience in Finance, Business Advisory, Risk management and corporate governance and Board and shareholder structuring. He is a former member of the Financial Advisory division of Deloitte Touché Ross Tohmatsu (Sydney, Australia), and assisted large public companies manage their investment portfolios and strategically plan the management of “unfunded liabilities”.

He has undertaken global work assignments, Joint Venture Partnering, and set up and managed “greenfield operations” internationally, both in the public and private sectors. He has trained & worked on various international assignments in: Australia\*, Benelux, England, India\*, Italy, Germany, Switzerland, Spain\*, Portugal, South Africa\*, Bahrain\* Thailand\* and the USA (\*set up JVs with local shareholders). Also functioned as Business Research Advisor - Asia Pacific Region, for Group 4 Securitas International BV, to lead on regional acquisition targets and with responsibility for mergers and disposals. Dr. Saravanamuttu is a Former Vice President and Six Sigma champion for Johnson Controls Facilities Management Division Europe, responsible then for \$1.4 Bn. Turnover across 18 countries. Has held numerous Board appointments in those European companies with extensive responsibilities for major Customer relationships, strategy, operations, and sustainability.

He is currently the Managing Director of Suriya Investments & Asset Management Limited a “boutique” UK based International financial and business Advisory Firm. He holds a DBA from the International School of Management (ISM) Paris and a M.Sc in Accounting & Finance from the University of Technology, Sydney, and the Advanced Management Certificate (DBA program) from St John’s University, New York. He is also a Certified Management Accountant (CMA, Australia), Fellow of the Institute of Public Accountants (Australia) and a Fellow of the Chartered Management Institute (UK) and a Fellow of the Institute of Directors (UK) since 1984.

## PROFILES OF THE BOARD OF DIRECTORS (Cont...)



**Gillian Edwards**  
Independent Non-Executive Director

Mrs. Gillian Edwards is a career banker with over 36 years of experience in the Sri Lankan Banking Sector. Having rendered her services to DFCC Bank PLC and Seylan Bank PLC, she counts for over 11 years at Senior Corporate Management level. Her work experience spans the transformative years in Retail Banking. Under her Leadership, Personal Financial Services / Retail Banking was set up at DFCC Vardhana Bank PLC and she progressed to head the Consumer Banking at DFCC Bank PLC. Having held the positions of Senior Vice President Consumer Banking at DFCC Bank PLC and Assistant General Manager Personal Banking at Seylan Bank PLC, her vast experience covers all aspects of Retail Banking, Small and Medium Enterprise(SME) and Micro Small and Medium Enterprises (MSME). Mrs. Edwards holds a Masters in Business Administration from University of Southern Queensland, Australia, a Post Graduate Executive Diploma in Bank Management from the Institute of Bankers of Sri Lanka, and is an Associate Member of the Certified Management Accountants, Australia. She was honored for her achievements in the Banking Sector at the "Top 50 Professional and Career Women Awards Sri Lanka and Maldives, 2020". She is a member of the Board Intergrated Risk Management Committee.



**G. B. Egodage**  
Non-Executive Director

Mr. Bandula Egodage has extensive experience in the private and government sector organizations at senior management level and board level in Sri Lanka.

He currently serves as the Chairman of Asia Pacific Institute of Information Technology (APIIT) Sri Lanka, Vice President of Corporate & Regulatory Affairs for Nestlé Lanka PLC, Chairman of Industrial Association of Sri Lanka, an Executive Member of SAARC (South Asian Association for Regional Cooperation) Chamber of Commerce and Industry, Director of Sri Lanka Coconut Research Institute, Suwasevana Hospitals and Ceyline Group of Companies, Executive Committee Member of Sri Lanka Maldives Business Council, Export Development Board - Advisory Committee on Education and Member of Swiss Business Circle.

He is a seasoned professional with over 35 years of experience in the local and international business markets. As the Vice President - Corporate and Regulatory Affairs of Nestlé Lanka PLC he has wide experience in Public Affairs, Regulatory Affairs, Exports, Sales, Corporate Communications and Crisis Management functions.

He is the former Chairman of the Export Development Board of Sri Lanka, National Packaging Center and Development Holdings Pvt Ltd and former Director of Trade Finance PLC, the National Gem & Jewellery Authority of Sri Lanka and the Sri Lanka Coconut Cultivation Board.

He has also headed multiple trade delegations including presidential trade delegations in representation of Sri Lanka and been a regular panellist at international trade forums: Head of the Presidential Trade Delegation to Kenya and Bahrain and Belarus Member of the Sri Lankan Ministerial Commerce Delegation to Vietnam, China, South Africa, Mozambique, Swaziland and India.



**D.E. Malfar**  
Non-Executive Director

Mr. Douglas Malfar joined Creation Investments in 2019 and is a Vice President, focusing his energy and efforts on investments in Asia and CEEMEA. Mr. Malfar has more than eight years of experience working with global financial service companies and institutions. Prior to joining Creation Investments, he worked as an investment banker in the financial institutions group at Goldman Sachs, where he worked on numerous transactions across mergers and acquisitions, public and private capital raises (debt & equity), and shareholder activism defense / anti-raid. Mr. Malfar began his career at Keefe, Bruyette, & Woods, a boutique investment bank that specializes in regional banks. Mr. Malfar has a Bachelor of Science in Finance from the University of Illinois and currently resides in Chicago.

Creation Investments is a leading impact investment management company dedicated to emerging market private equity and private credit investments in high-growth, socially responsible financial institutions. Creation Investments is headquartered in Chicago and has offices in Bangalore, Dallas, and Mexico City. As of March 31, 2022, Creation Investments manages over \$1.9 billion on behalf of investors in impact investing strategies.

He was appointed as a director of Commercial Credit and Finance PLC on 1st July 2022.

# EXECUTIVE MANAGEMENT TEAM



**Roshan Egodage**



**Geya Egodage**



**Rajiv Casie Chitty**



**Anuradha Ranaweera**



**K.L.A. Senaviratne**



**Janaka Deshapriya**



**Prasanna Wickramasinghe**



**Lawrence Fernando**



**Shalika Herath**



**Lalith Karunarathna**



**Ayesh Pitigala**



**D.G. Jayaratne**



**Sisira Attanayake**



**Havindu Balasooriya**



**Nirosh Madawala**



**Shammi Jayathilake**



**COMPANY  
AT A GLANCE**



# ABOUT THE COMPANY



Commercial Credit and Finance PLC was established on the 4th of October 1982 following its incorporation under the Companies Act No. 17 of 1982 as a Private Limited Liability Company in Sri Lanka's hill capital, Kandy, as Commercial Credit (Pvt) Ltd. Subsequently, it was registered as a Public Limited Liability Company under the provisions of the above Act on the 16th of December 1989 as Commercial Credit Ltd. The Company was then re-registered under the Companies Act No. 07 of 2007 on the 8th of April 2008 and under the Finance Business Act No. 42 of 2011 on the 6th of August 2012. When the shares of the Company were listed on the Dirisavi Board of the Colombo Stock Exchange on the 1st of June 2011, the Company's name underwent another change and became Commercial Credit PLC. In compliance with the provisions of the Finance Business Act No. 42 of 2011, the Company changed its name to Commercial Credit and Finance PLC with effect from 17th May 2012.

The Company was originally established with the prime focus on agricultural lending. From its inception, the Company inculcated a strong process and system driven culture reaping numerous benefits over the years. However, the Company underwent a change in its majority shareholdings in October 2009 resulting in a new management team. This dynamic team brought with it a new philosophy; a value driven culture that drives the Company towards greater success in the longer term thereby contributing to the meaningful development of the overall society.

## BRANCH NETWORK

 **13**  
NORTHERN PROVINCE

 **14**  
NORTH CENTRAL PROVINCE

 **13**  
CENTRAL PROVINCE

 **15**  
NORTH WESTERN PROVINCE

 **30**  
WESTERN PROVINCE

 **08**  
SABARAGAMUWA PROVINCE

 **14**  
SOUTHERN PROVINCE

 **09**  
UVA PROVINCE

 **13**  
EASTERN PROVINCE

 **129**  
**TOTAL**  
**BRANCHES**







FASTEST GROWING  
FINANCE COMPANY  
SRI LANKA  
2012  
COMMERCIAL CREDIT AND FINANCE PLC  
GLOBAL BANKING & FINANCE REVIEW

MOST  
INNOVATIVE  
FINANCE COMPANY  
SRI LANKA  
2012  
COMMERCIAL CREDIT AND FINANCE PLC  
GLOBAL BANKING & FINANCE REVIEW

144th Sports Festival  
2010

SLIM  
Winner

SLIM

SLIM

SLIM

**PRINCIPLES  
DEFINE US**



**COMMERCIAL  
CREDIT**

# MANAGEMENT DISCUSSION & ANALYSIS

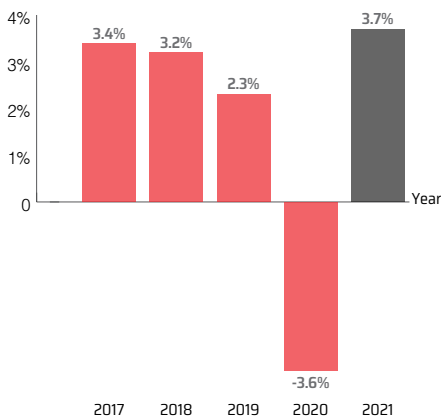


# ECONOMIC REVIEW

## SRI LANKAN ECONOMY

The Sri Lankan economy bounced back in 2021, owing to easing of nationwide pandemic restrictions and the vaccination drive. In 2021 the GDP growth is recorded at 3.7%, following the pandemic induced negative growth of -3.6% in 2020. Industry sector recorded the most significant growth during the year, growing by 5.3% compared to the 6.9% contracting in 2020. This was mainly driven by the recovery in the manufacturing and construction sectors. Service and agriculture sectors also grew by 3% and 2% respectively compared to the 1.6% and 2.2% contraction in 2020 respectively.

### Real GDP Growth Rate



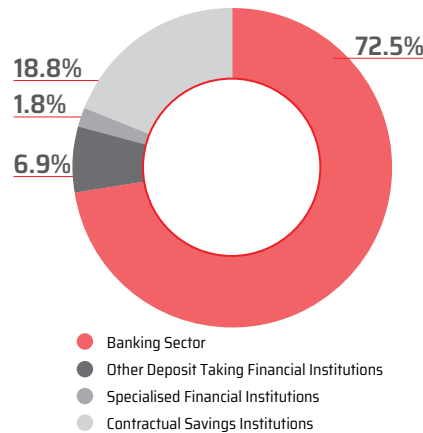
Source: Central Bank of Sri Lanka Annual Report

Monetary tightening measures were initiated by the Central Bank in mid - August 2021 following the expansionary monetary stimulus measures adopted with the emergence of the COVID 19 pandemic since April 2020. This was a result of the excessive inflationary pressures and the imbalance in the external sector and the financial markets. Since then the Central Bank initiated multiple revisions in the key policy interest rates and the Statutory Reserve Ratio (SRR). The most recent policy interest rate hikes which came in to effect on 8th April 2022 saw the Standing Lending Facility Rate (SLFR) and the Standing Deposit Facility Rate (SDFR) increase by 700bps to 14.50% and 13.50%, respectively.

## FINANCIAL SECTOR

There was an initial knee-jerk reaction as the pandemic's impact on society and economy started unfolding gradually. However, this was soon replaced with a gleam of hope as the financial system put up a brave front. Profitability in the sector saw a significant increase, supported by increases in both net interest income and non-interest income. However, banks faced a foreign currency liquidity shortage due to several sovereign rating downgrades and the lack of foreign inflows into the country.

## Composition of the Total Assets in the Financial System



Source: Central Bank of Sri Lanka Annual Report

## LICENSED FINANCE COMPANIES AND SPECIALISED LEASING COMPANIES (LFC AND SLC) SECTOR

The performance of the Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) sector experienced growth in terms of credit growth, asset quality and profitability representing 5.6% of the assets of Sri Lanka's financial system.

### Assets

The sector asset base increased by 6.1% amounting to Rs.1, 487.7 Bn in 2021. A leap from the contraction of 2.2% in 2020. This expansion was mainly fueled by the 9.9% expansion in loans and advances which amounted to 76.8% of the total assets.

The net lending portfolio of the sector stood at Rs. 1,142.5 Bn, a 9.9% increase compared to 2020. Notable growth stemmed from secured loans & advances and pawning advances which grew by 9.3% and 81.7% respectively, which collectively accounted for 46.6% of the sector net lending portfolio. The growth of the leasing and hire purchase portfolios consolidated with a marginal decline of 0.8% due to the restrictions imposed by the Government on importing motor vehicles.



## Product wise loans and Advances



Source: Central Bank of Sri Lanka Annual Report

## Liabilities & Capital

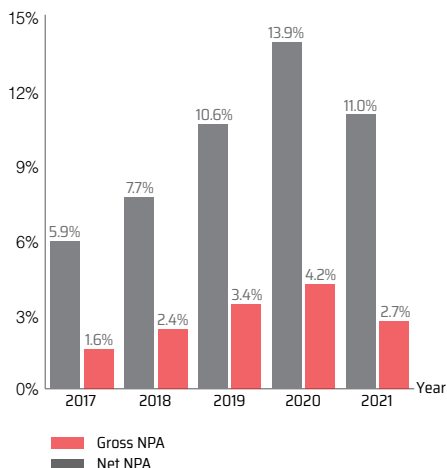
The LFCs and SLCs sectors continued to remain resilient with customer deposits contributing to 52.7% of the total liabilities. The deposit base increased to Rs.783.3 billion a 4.6% increase, while borrowings declined by 0.6% to Rs. 325.9 billion during 2021.

The sector demonstrated strength in capital base growth amounting to Rs.251.6 billion at the end of 2021 from Rs.218.9 billion recorded in 2020. This was driven by the regulatory requirement to infuse new capital of Rs. 2 billion by 01 January 2021 and Rs. 2.5 billion by 01 January 2022. The sector core capital ratio increased to 15.5% (from 14.5% in 2020) and Total Risk Weighted Capital Ratio to 17% (from 15.7% in 2020).

## Credit Quality

The sector gross NPL ratio still remained high at 11.0% despite reducing from 13.9% reported in 2020. With higher provision coverage for NPLs, the net NPL ratio also improved to 2.7% from 4.2% in 2020.

### Gross NPA & Net NPA



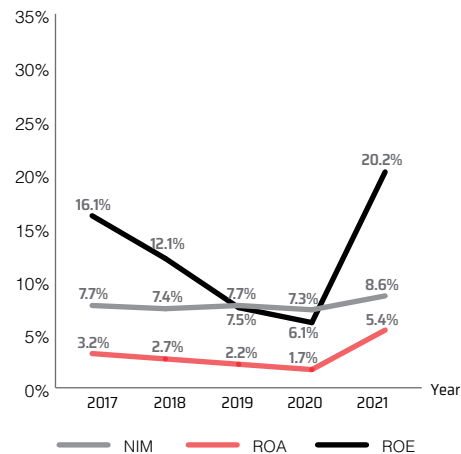
Source: Central Bank of Sri Lanka Annual Report

## Profitability

A significant decline in interest expenses by 27.1% resulted in the net interest income of the sector increase by 18.2%, despite the decline in interest income by 5%. The Net Interest Margin (NIM) during 2021 was at 8.6% as against to 7.3% in 2020 on the back of the over powering increase in the net interest income in comparison to the increase in average assets.

The sector recorded a profit after tax of Rs. 55.6 Bn in 2021. This is a significant increase of 305.8% from the Rs.13.7 Bn in 2020. This was achieved due to the substantial increase in non-interest income by Rs. 17.5 Bn. The significant increase in the sector profitability resulted in a sharp increase in the Return on Equity (ROE) at 20.2% and Return on Assets (ROA) before tax at 5.4% in 2021 compared to 6.1% and 1.7% respectively 2020.

### Key Industry Performance Indicators



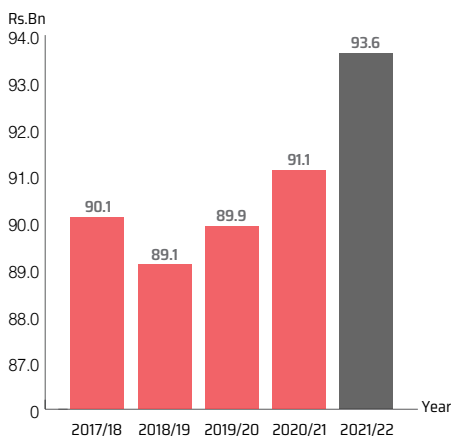
Source: Central Bank of Sri Lanka Annual Report

# COMPANY FINANCIAL REVIEW

## ASSETS

The Company's asset base grew to Rs. 93.6 Bn from Rs. 91.1 Bn during the financial year ended 31st March 2022 recording a growth of 2.7%. This was mainly fueled by the growth in the net loan book which grew by 7.9% during the period. The net loan book accounted for 79.0% of the Company's asset base. The asset base of the NBFI sector also grew by 6.1% during 2021.

### Total Assets

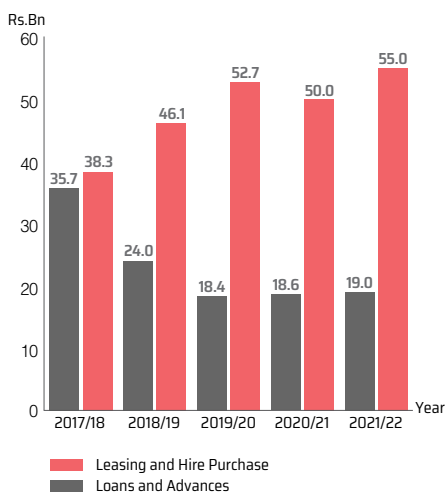


Source : Company Data

## LENDING PORTFOLIO

The net loan book of the Company stood at Rs. Rs. 74.0 Bn, a growth of 7.9% from Rs. 68.7 Bn. The main driving factor for net loan growth came from the leasing and hire purchase segment which grew by 10.1% accounting for 74.3% of the net loan book of the Company. The loans and advances segment also grew marginally by 2.1% mainly caused by the 1.6% growth in the gold loan portfolio. The NBFI sector net loan portfolio grew by 9.9% fueled by significant growth in gold loan and hire purchase products.

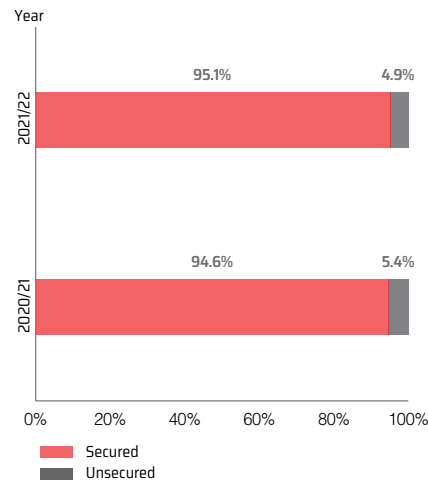
### Net Lending Portfolio



Source : Company Data

The asset backed loan portfolio of the Company grew by 9.0% during the year with notable growth coming from the leasing and hire purchase segments coupled with mild growth in the gold loan segments. This resulted in an assets backed loan composition of 95.3% compared to 94.6% the previous year. The non-asset backed loan portfolio shrunk by 5.2% with revolving business loan and term loan portfolios reporting a decline during the year.

### Secured and Unsecured Portfolio Composition

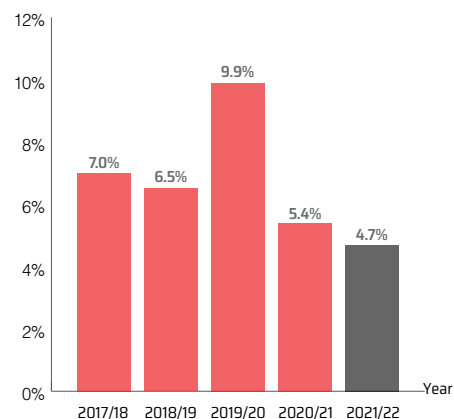


Source : Company Data

## ASSET QUALITY

The Company's asset quality further improved finishing the year with a Gross Non Performing Accommodation (NPA) ratio of 4.67% compared to the 5.39% the previous year. This was due the company's conservative approach towards new investments and increased focus on collections. The company's net NPA also improved to a negative 4.1% from a negative 2.9% reflecting diligent provisioning. The NBFI sector Gross NPA improved to 11.0% in 2021 from 13.9%. The sector Net NPA also improved to 2.7% from 4.2% during 2021.

### Gross Non Performing Accommodation

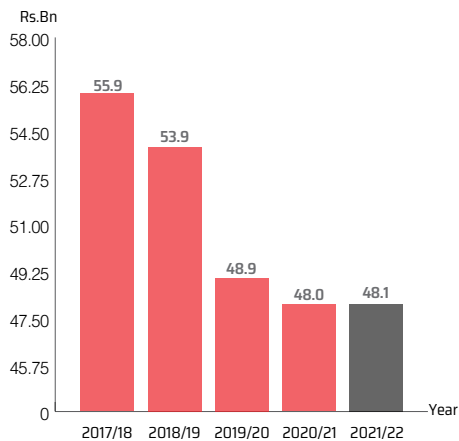


Source : Company Data

## DEPOSITS

Public deposits continued to serve as the main source of funding for the company accounting for 70.1% of the funding requirement. The deposit base increased marginally by 0.2% during the year finishing at Rs. 48.1 Bn. The deposit base in the NBFIs sector also grew by 4.6% in 2021.

### Total Deposits

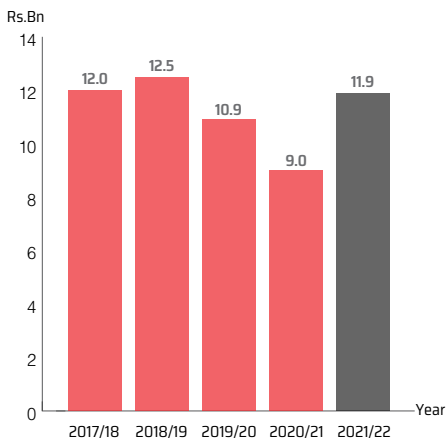


Source : Company Data

## NET INTEREST INCOME

The net interest income improved by 32.3% during the year as a result of a 14.2% increase in the interest income and the 9.0% drop in the interest expense. This was due to the improvement in new loan disbursements compared to the previous year resulting in a year on year gross loan growth of 8.2%. Interest expense also dropped by 9.0% with the funding base contracted by 4.6%, while the policy rates remained low. This is reflected in the company cost of funds which reduced to 9.1% from 9.8% during the year.

### Net Interest Income

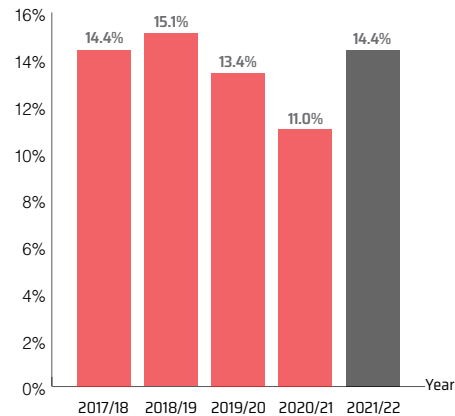


Source : Company Data

## NET INTEREST MARGIN

The company Net Interest Margin (NIM) increased to 14.4% from 11.0% due to the 32.3% increase in net interest income while the average earning assets grew by 1.5%. This was a result of the increase in interest yields from 19.6% to 22.1% and the reduction in cost of funds from 9.8% to 9.1%. The NBFIs sector NIM also improved to 8.6% from 7.3% in 2020.

### Net Interest Margin

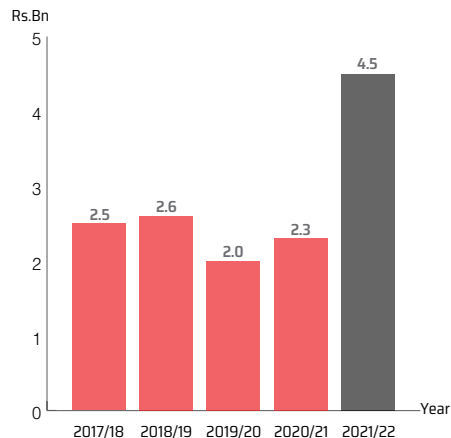


Source : Company Data

## PROFITABILITY

The company reported a profit after tax of Rs.4.52 Bn, a 93.6% growth compared to the previous year. This growth was mainly fueled by the 32.3% increase in the net interest income, 67.5% increase in the fee and commission income and the 82.4% increase in the other operating income. The cost to income ratio also improved during the year to 47.1% from 56.3%. The NBFIs sector profitability increased drastically during the year by 305.8% owing to the reduction in interest expense and impairment charges.

### Profit After Tax



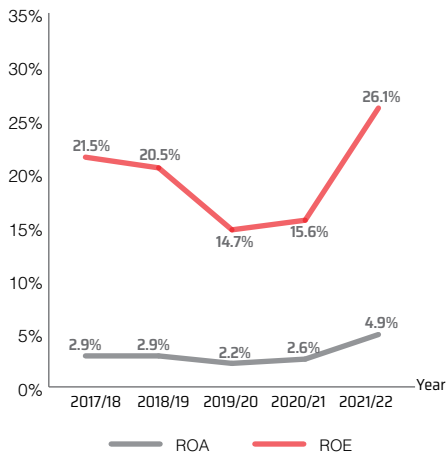
Source : Company Data

## COMPANY FINANCIAL REVIEW (Cont...)

The significant increase in profitability while enjoying slow growth in the asset base saw the company reporting a Return on Assets (ROA) of 4.9% compared to 2.6% the previous year. Return on Equity also grew to 26.1% compared to 15.6% the previous year. The NBF1 sector ROA rose to 5.4% from 1.7% on the back of the increase in profitability. The sector ROE also improved to 20.2% from 6.1% the previous year.

Both the Core capital and total risk weighted capital ratio and the core capital ratio improved during the year to 17.6% and 19.2% respectively, compared to 13.5% and 14.6% report the previous year. However both ratios remained above the minimum regulatory requirement of 7% and 11% respectively.

### ROA & ROE



Source : Company Data

# SUSTAINABILITY REPORT



# SUSTAINABILITY REPORT

The company strongly believes that a sustainable business model can only be achieved by staying true to its purpose and shared values. This requires the products and services as well as its day to day functions to be immersed in the company's corporate philosophy.

## MARKETING AND BRANDING

### Overview

The company inherits a strong culture which is nourished by its purpose and shared values. This narrations is spread among the general public through the channels used by the marketing department. The main focus of the Marketing & Branding campaigns of the Company is to showcase the inherently good-natured qualities in all human beings by reflecting their compassionate and magnanimous traits. This invariably has a positive impact on the wider society as it shows how qualities such as kindness and compassion can be a prerequisite to uplifting the life of a fellow human being.

The Department is aware that any message that is disseminated through the multiple media platforms will be scrutinized. Therefore every process is meticulously planned prior to communicating it to the general public who are viewed and valued as our own customers or potential clients, who we are keen to serve.

## DELIVERING TECHNOLOGY-BACKED PRODUCTS AND SERVICES

### Overview

A sustainable business model requires infrastructure development which makes the lives of internal and external users easier and pleasant to associate with. The Information & Communication Technology (ICT) Department of Commercial Credit has been formed to provide state-of-the-art, innovative IT solutions for the various departments within the Company. The main objective of the ICT Department is providing its large internal customer based modern ICT solutions together with a professional service so that they can carry out their day-to-day tasks and responsibilities efficiently and effectively at all times.

## EMPLOYEES

The company considers its unique culture based on purpose and shared values enable the company to achieve a competitive advantage. This competitive advantage retained by constantly investing in its human resource. This transforms the human capital of Commercial Credit to become its most prized asset. It is clear that the exceptional levels of talent, discipline, and passion of these individuals of the Company have taken it to new heights during the past several years. The Human Resources Department (HRD) is responsible for nurturing and developing the key attribute of the Company – its unique culture. The Company strongly believes that this culture plays a pivotal role in creating and grooming effective, fair-minded leaders who significantly contribute towards the progress of the Company and actively contribute to the betterment of society. Therefore, the Company is intentional about making every possible attempt to continuously enhance the capabilities of the HR Department and fine-tune the HR practices in order to create a positive environment for all concerned.

## Maintaining Compliance

The Company has put in place a range of policies and procedures related to employees, their rights and privileges as well as their duties and responsibilities. They are useful in making employees aware about conducting themselves in day-to-day situations and during unexpected occurrences. The Company adheres to the Shop and Office Employees Act No. 15 of 1954 in practicing its HR activities. Additionally, the Company has also introduced its own operating procedure manuals covering a wide array of key HR-related topics including handling of grievances, attendance and leave, disciplinary action, performance evaluation, recruitment, resignation, termination and retirement, staff facilities, staff planning, training & competencies, transfers and promotion and user registration. As a progressive organization, the Company has also introduced its Anti-Sexual Harassment Policy and Ethical Working Framework in order to establish a conducive working environment through developing self-disciplined individuals.

## Maintaining effective infrastructure for people

The health and well-being of the Company's employees are of utmost importance and numerous facilities and enhancements have been incorporated to maximize its effects within the framework of the Company. Fitness Centre (Gymnasium) memberships have been offered to employees at concessionary rates and they are encouraged to make use of these facilities regularly to improve their physical fitness. The Company also offers medical insurance schemes to all employees and their dependents.

The Company practices an "open door policy" across all levels of the organization, paving the way for any employee – irrespective of their designation – to converse directly and allay their concerns with the Chief Executive Officer and Executive Directors at any given time. This approach has been well-received by the employees and resulted in a consistently high level of employee satisfaction as shown in the bi-annual employee satisfaction surveys carried out by the Company. Such levels of employee satisfaction have translated into a high degree of commitment and motivation, which in turn has led to extraordinary results for the Company. Further, the removal of traditional hierarchical designations has had a positive impact on the development of the unique culture based on Shared Values.

## Managing and Assessing Employee Satisfaction

The Company has a clear understanding of the many advantages of having a satisfied workforce. A satisfied employee often equates to a happy and productive employee which in turn means that the greater output and improved results generated by him or her will reflect in a better end result for the Company. Keeping this in mind, the Company's Human Resources proactively works towards creating the best possible workplace environment for all employees. Employee satisfactory surveys are carried out periodically to extract views from the employees about their job satisfaction levels. This keeps the Company on the right track to appropriately respond to workplace concerns in a timely manner. This also helps the Company to get a better understanding of the varying motivations of the employees and enables it to identify future growth opportunities and plan accordingly.

Two satisfactory surveys – the On-Board Satisfactory Survey and the Employee Satisfactory Survey – are utilized to effectively measure employee satisfaction based on the relevant employee category. The On-Board Satisfaction Survey has been primarily created to obtain feedback from employees who are new to the Company and are yet to complete their probationary period. It is carried out at the end of the third month from the date of joining and consists of 20 questions covering employee working conditions, peer and supervisor conditions, Company culture and learning environment.

The General Employee Satisfaction Survey is conducted twice a year in the months of June and December and focuses on obtaining feedback from confirmed employees to get an understanding of their perception on employee conditions at the workplace. It consists of 15 key questions to employees in the form of a questionnaire. The duly-filled questionnaires are used as a source of a primary survey data. The Company uses a 360 Degree Appraisal system as its performance appraisal system which further enhances employee satisfaction since the employee gets the opportunity to rate his/her superior, peer and subordinate.

## SHARED VALUES

The Launch of Our Shared Values

The Shared Values of Commercial Credit were launched during the Value Day held on 4th March 2012 at the BMICH with the participation of the entire staff. The highlight of the Value Day included the introduction of a Value Policy together with the unveiling of the Company's Theme Song, Value Oath and the Value Badge. These initiatives were established to promote a Value-driven culture within the Company with continuous efforts being made through the years to ensure that the Company's unique culture is steeped in the Shared Values that we advocate. The unrelenting commitment towards its shared value and purpose has enabled the company to achieve a competitive advantage in a highly competitive sector.

## Instilling Our Shared Values

With the intention of instilling our Shared Values among the Commercial Credit team, including the significant number of newcomers, various programs were conducted during the year. While some of these programs were continuations of previous ones – several new initiatives were additionally introduced which broadened the scope of our training.

The 360 Degree Value Appraisal System is such an initiative that has been in existence since the year 2015. As this system has been based on the Company's Shared Values, it is more compatible with the Company's Purpose "To build leaders who uplift the life of people by simple acts of love". Moreover, this system also plays a key role in nurturing the desired Value-based culture and to identify the various Value Champions of the Company who are instrumental in driving the desired culture.

The Commercial Credit ERP system is utilized to evaluate every member of the Company practicing the 360 Degree Value Appraisal on a quarterly basis. As a Value-driven Company, Commercial Credit has given a higher weightage for this appraisal in determining a particular individual's performance. The subjective appraisal evaluates the extent to which an individual possesses the key talents required by him or her in engaging with daily work processes.

## Value Song and Value Badges

The company's Value Song is aired at all Company offices at 8.30 a.m. before the commencement of each working day and at all Commercial Credit events. Each employee is expected to wear a Value Badge with bronze being the entry level badge. Over time, the bronze Value Badge would be upgraded to silver, gold and subsequently platinum in recognition of the degree of commitment the employee demonstrates towards practicing Shared Values.

## Value Day

It is the Company practice to hold a Value Day once every two (02) years to recognize and reward the employees who have sincerely and effectively practiced the Company's Shared Values. This presents another opportunity for the organisation to highlight and appreciate the staff members who have reflected the Company's Shared Values. It portrays them as role models and encourages others to follow suit. The mechanism for recognising such employees involves a detailed process where each staff member is given an opportunity to nominate colleagues to be considered for upgrading of Value Badges. Subsequently, based on the 360 Degree Value Appraisal results and number of votes received, selected staff members were recognized for excellence by upgrading their Value Badges from bronze to silver, gold and platinum respectively.

## Value Policy

The commitment of Commercial Credit towards its Shared Values is captured in the Value Policy which provides guidelines and procedures on the development and implementation of a Value-based culture. The policy, which applies to all employees and all activities, contains a detailed framework and course of action to ensure the adherence of employees, by embedding the Values into the performance evaluation process.

## Value Register

The Value Register is a record of good conduct and excellence in reflecting the Shared Values by employees, be it work related or otherwise. When a noteworthy action of an individual is observed by a team member, the Value Register will be used as the platform to communicate and highlight this action throughout the Company. Employees post their comments of appreciation about their colleagues anonymously in the Value Register, which is considered the most effective internal social networking system of the Company. A Value profile is created for each employee which is based upon the worded appreciation received by their colleagues.

## SUSTAINABILITY REPORT (Cont...)

### LEARNING AND DEVELOPMENT

The company's competitive advantage achieved through its commitment towards its purpose and shared values, is sustained and enriched through the company's learning and development initiatives. A large number of training programs and workshops were held on culture development throughout the year at all locations of the Company. The '7 Habits of Highly Effective People' authored by the late Dr. Stephen Covey, the sole inspiration behind the world-renowned personal development organization Franklin Covey, continues to be a major source of inspiration at the Company. The Company believes that the blend of fundamental principles and practical experience, and the wisdom and compassion contained in the 7 Habits teachings, are a powerful force enabling personal change. The employees were encouraged to practice the 7 Habits as this would enable them to have a holistic and integrated approach to achieve effectiveness in each role they play in both their professional and personal lives.

The Company is of the belief that the practice of the 7 Habits by employees will allow the internalization of the Shared Values. Value Mentors, working together with the location heads, are expected to conduct Value Hours in each location on a monthly basis. This will provide staff members to have regular opportunities to clarify matters regarding the issues they encounter in living the Shared Values on a day-to-day basis.



# STAKEHOLDER ENGAGEMENT

Commercial Credit and Finance PLC believes that genuine sustainability requires engaging closely with stakeholders in building mutually beneficial relationships. As a value-driven organisation, the Company has formed valuable relationships with its stakeholders and maintains a routine of checks and balances to ensure these relationships are sustained. Much of our interactions take place in conducting our daily operations, while structured activities are also conducted to bring stakeholders closer. This association helps us gain vital feedback on our products and services in a bid to exceed the expectations of our stakeholders.



Business Partners



Society & Environment



Government  
Institutions & Regulators



Employees



Customers



Investors

## STAKEHOLDER ENGAGEMENT (Cont...)



### BUSINESS PARTNERS

#### Stakeholder aspirations

- Contractual performance
- Future business opportunities
- Maintaining healthy relationships
- Timely settlement of dues
- Ease of working
- Growth potential
- Collaboration for new technologies

#### Engagement mechanism

Supplier relationship management  
On-site visits and meetings

#### Frequency

As required  
As required



### SOCIETY & ENVIRONMENT

#### Stakeholder aspirations

- Responsible financing
- Commitment to community
- Financial inclusion and awareness
- Ethics and business conduct
- Environmental performance
- Employment opportunities

#### Engagement mechanism

Media advertising campaigns  
Press releases, conferences and media briefings  
Informal briefings and communications  
Public events and gatherings  
Corporate website  
Sponsorships for social events

#### Frequency

As required  
As required  
As required  
As required  
Continuous  
As required



## GOVERNMENT INSTITUTIONS & REGULATORS

### Stakeholder aspirations

- Compliance with directives and codes
- Microfinance and SME development
- Supporting economic growth

### Engagement mechanism

On-site surveillance

Directives and circulars

Meetings and consultations

Press releases

Periodic returns

Submissions to policymakers

### Frequency

Annually

As required

As required

As required

As required

As required



## EMPLOYEES

### Stakeholder aspirations

- Performance and reward management
- Training and development
- Career advancement opportunities
- Work-life balance
- Retirement benefit plans
- Value driven corporate culture
- Diversity and inclusion
- Perception of a prosperous future in the Company

### Engagement mechanism

Social events: value day, family day etc

360 degree staff appraisal

Training programmes

Open door policy

Intranet

Special staff events

Employee satisfaction survey

Code of conduct and whistle blower policy

### Frequency

Continuous

Quarterly

As required

Continuous

Continuous

Continuous

Bi-annually

Continuous

## STAKEHOLDER ENGAGEMENT (Cont...)



### CUSTOMERS

#### Stakeholder aspirations

- Customer security and privacy
- Service quality
- Financial inclusion
- Affordability of services and convenience
- Grievance handling mechanism
- Financial education and literacy
- Financial support for revival of business

#### Engagement mechanism

Customer visits and meetings  
 Branch network and call centre  
 Media advertisements  
 Corporate website  
 Customer workshops  
 Sponsorships for social events

#### Frequency

As required  
 Continuous  
 As required  
 Continuous  
 As required  
 As required



### INVESTORS

#### Stakeholder aspirations

- Financial performance
- Governance
- Transparency and disclosure
- Business expansion plans
- Risk management
- Sustainable growth

#### Engagement mechanism

Annual Reports and Annual General Meetings (AGMs)  
 Extraordinary General Meetings  
 Interim financial statements  
 Press conferences and releases  
 Announcements to CSE  
 Corporate website  
 Investor feedback forms

#### Frequency

Annually  
 As required  
 Quarterly  
 As required  
 As required  
 Continuous  
 Annually

# RISK MANAGEMENT & CORPORATE GOVERNANCE



# RISK MANAGEMENT

## OVERVIEW

Risk Management underpins the day to-day management of the Company's operations and the achievement of the Company's long term strategic objectives. Firmly anchored to its core risk principles, the Company adopts a prudential approach to ensure Risk Management by anchoring itself to its core risk principles, regulatory requirements as well as best practices and industry trends that emerge both in the local market and global environment.

In this context, the Company seeks to manage its risk profile judiciously in line with the Board approved Risk Appetite that sets out the limits and tolerance for managing its most significant risks. The Risk Appetite limits play a vital role in the Company's risk strategy together with the Company's Integrated Risk Management framework (IRMF), and serves as the foundation for ensuring that all material risks are identified, well understood, accurately measured and proactively managed in order to safeguard the Company's financial strength and reputation as well as retain the public trust in the Company.

The ability to manage varying risk factors arising across multiple locations, product categories, asset classes, customer segments and functional departments is one of the key factors that determines the degree of success and sustainability of a financial institution. Since risk management is a responsibility of each and every employee of the company and they need to clearly understand the risks the company

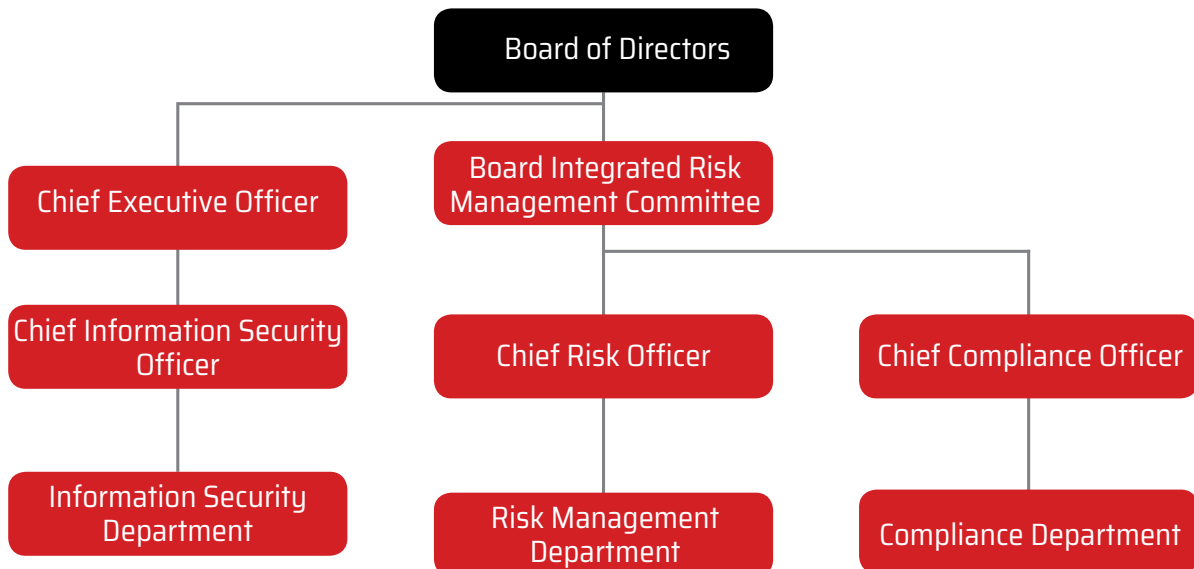
is exposed to, Commercial Credit has enhanced its risk management capabilities and insights to facilitate more robust and better risk based decision making processes to ensure that the Company continues to create value to its stakeholders.

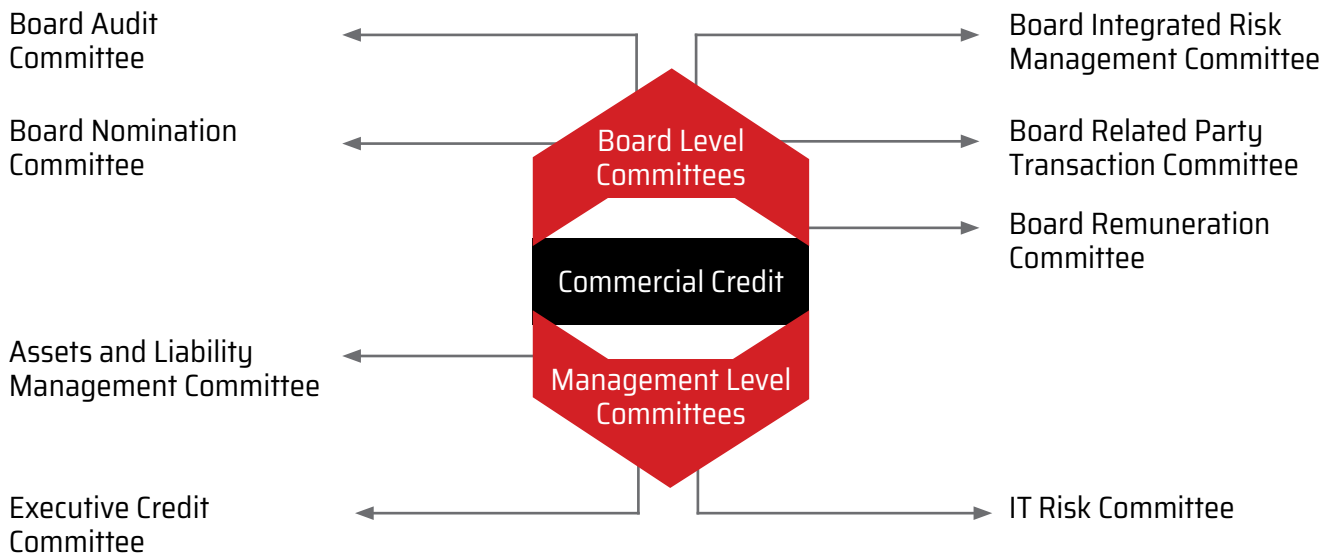
## RISK GOVERNANCE STRUCTURE

The overall responsibility for risk governance lies with the Company's Board of Directors. The Board sets the Company's risk strategy and risk appetite boundaries for all key risk categories. As the ultimate authority responsible for risk management, the Board determines guidelines for the management and control of the Company's key risks and for ensuring appropriate risk policies and limits for all important risks. Based on the business model and the strategic objectives of the Company, the Board has approved risk policies for various risk areas. These risk policies are subject to review and approval by the Board annually.

The Corporate Management take proactive measures to execute and monitor the risk mitigants for each activity. The management also inculcates the principles of responsible risk management among employees at all levels. The Company has invested in establishing strong risk management architecture, which includes an independent Risk Management Department, Board-approved risk appetite and risk tolerance levels along with well-defined procedures to support effective management of risk.

### Functional Structure of the Integrated Risk Management Framework





Meanwhile, the day to day management of risk is cascaded down to the operational level via the three-lines-of-defense mechanism that reflects the Company's belief that "managing risk is everyone's responsibility"



As such all business heads and branch managers are deemed the first-line-of-defense and are held accountable for identifying and managing risk and operating within the approved risk policies. The second-line-of defense comprises the Risk Management Department (RMD) and the Compliance Department (CD) headed by independent CRO and CO respectively. The RMD monitors all key risks in line with Board approved appetite and plays a key role in assisting the Board in its routine risk review process. The RMD performs periodic assessments to determine any shift in the individual risk profiles based on new developments or trends in the macroeconomic environment. More frequent need-based assessments are also often carried out in times of uncertainty. The RMD is also tasked with monitoring new and emerging risks within the Company's risk universe. Due diligence procedures conducted by the Company's internal audit team and external auditors act as the third-line-of-defense in providing independent assurance regarding the overall efficacy of the Company's Integrated risk management framework in meeting its stated objectives.

Business decisions are made in a manner that the safeguarding of stakeholders' interest of the Company and profitability arising from various sources of risk contribute towards our strategic objectives. Underlying systems and processes permit the creation of risk awareness across the entire Company and identify, measure, analyze and evaluate risks. Processes are also in place to develop and implement appropriate response strategies

## RISK MANAGEMENT (Cont...)

according to the set risk appetite in order to manage such identified risks. As in the case of all activities of the Company, it could be said that the efforts made to develop a culture based on the Shared Values of the Company form a very fundamental aspect of Risk Management at Commercial Credit.

**The activities of Commercial Credit's Risk Management system take place at three broad levels as follows:**

### STRATEGIC LEVEL

At the strategic level, Risk Management functions are performed by the Board of Directors and the Board Integrated Risk Management Committee (BIRMC). Tasks include defining risks, ascertaining risk appetite, formulating strategies and policies for managing risks and establishing adequate systems and controls to ensure that overall risk remains within the risk appetite.

### MANAGEMENT LEVEL

At the management level, Risk Management within business areas or across business lines ensures that strategies, policies and directives approved at the strategic level are operationalized. Development and implementation of underlying procedures, processes and controls are ensured at the management level. Assuring the compliance with laid down policies, procedures and controls, and reviewing the outcome of operations, and measuring and analyzing risk related information are also performed at this level.

### OPERATIONAL LEVEL

At the operational level, Risk Management activities are performed by individuals who take risks on Company's behalf, which includes front, middle and back office personnel. They are required to comply with approved policies, procedures and controls. Operational level personnel give valuable inputs to continuously improve risk related activities undertaken in day-to-day operations.

### RISK MANAGEMENT PROCESS



A comprehensive Risk Management process has been developed and is continuously reviewed by the Board Integrated Risk Management Committee (BIRMC) together with the Operational Management. The Company has established risk subcommittees in the areas of Information Technology and Credit, in addition to the Assets and Liabilities Committee (ALCO). The effectiveness of these subcommittees are assessed by the BIRMC annually.

The risk sub-committees comprise of selected representatives from Operational Management, Middle Management and Operational Staff from respective disciplines. These sub-committees meet regularly and are responsible for identifying and analyzing risks. The identified risks are taken up for discussion at risk sub-committee meetings where issues are discussed in detail. The decisions and directives of the BIRMC are communicated to the Operational Management through sub-committees for operationalization of such decisions and directives. The BIRMC meets on a regular basis to review and discuss various reports related to Risk Management presented to the Committee by the Management and the findings of the risk sub-committees.

Risks related to areas under each sub-committee have been identified and Risk Registers have been developed and maintained. Each identified risk has been categorized based on the probability of occurrence and expected impact. The impact has been categorized as critical, high, medium and low. The frequency has been categorized as certain, likely, possible and remote. Control activities are developed for all risks and the appropriate risk treatment identified and actioned.



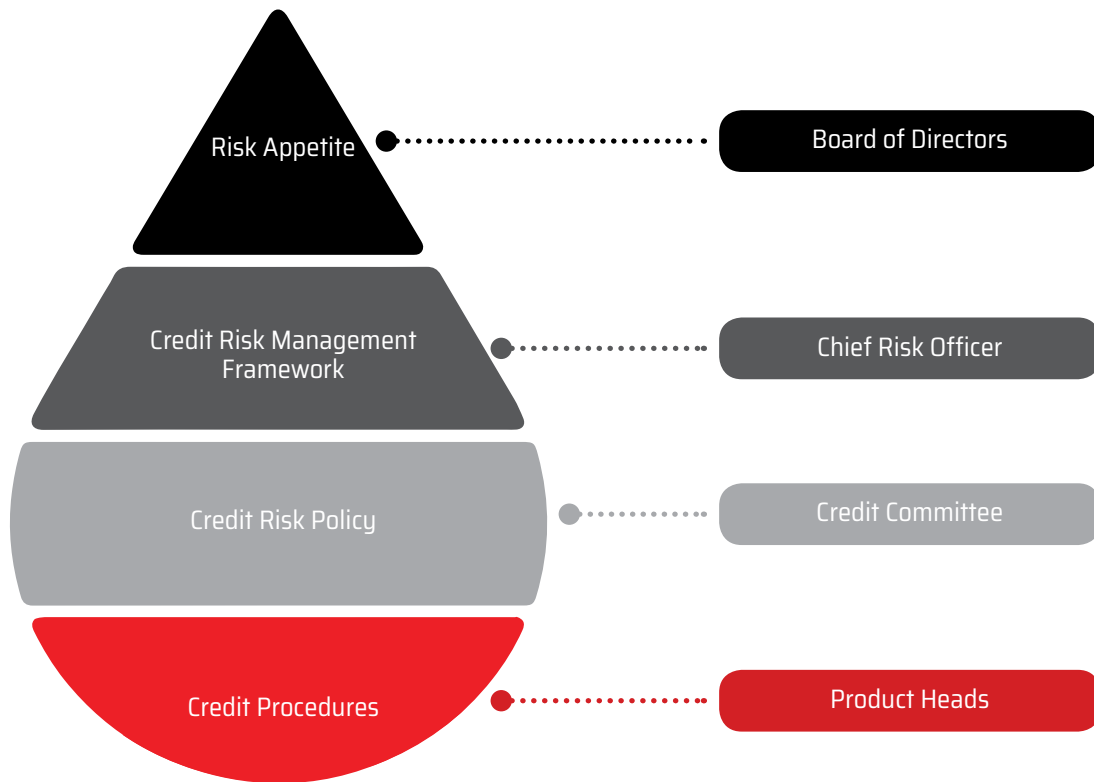
**TYPES OF RISKS**

In pursuing the Company's desired strategic objectives, Commercial Credit is exposed to several risks which have been categorized as follows.

**CREDIT RISK**

Credit risk is the risk of financial loss if a customer or counter party fails to honour its financial or contractual obligations to the company. The Company's credit risk arises mainly from various accommodations granted and could be identified as the most significant risk faced by the Company. The credit risk management objective is to minimize credit risk while ensuring optimal risk rewards pay off for the finance institution and maximize the return and maintain the quality of the portfolio by minimizing the non-performing loans and probable losses.

**CREDIT RISK MANAGEMENT STRUCTURE AND APPROACH**



The Credit Risk Management Framework deals with the credit risk management of the Company and the credit policy and credit procedures are used as the tools for implementing the credit risk management framework. The Credit Policy and credit procedures play a central role in managing daily business activities. The policy is reviewed at least once in two years and approved by the Board of Directors ensuring consistency with the Company's business strategy. The Executive Credit committee meetings drive policy decisions and implementation plans. Credit is required to be granted according to the approved policies and procedures of the Company. Special attention is given to Credit Risk Management in terms of analyzing customer credit worthiness through thorough customer investigations before and after credit facilities are provided. Repayment of accommodations granted is closely monitored by those responsible for granting various facilities as well as those directly responsible for recovery activities. Indicators have been developed to measure risks associated with credit which are reviewed on a continuous basis for the entire organization as well as for each product and operational location.

The credit facility origination process comprises of initial screening and credit appraisal. The evaluation focuses on the borrower's ability to meet his/her obligations in a timely manner. Efforts are made to ensure that consistent standards are maintained in credit approval. Collateral and guarantees form an important part of the credit risk mitigation process.

To safeguard the Company against possible losses and problems that may arise in granting credit facilities need to be identified early. The Credit Risk sub-committee measures and tracks the status of the credit portfolio. Credit reports need to be prepared monthly without failing to review high level credit portfolio concentration and assess performance of the facilities granted.

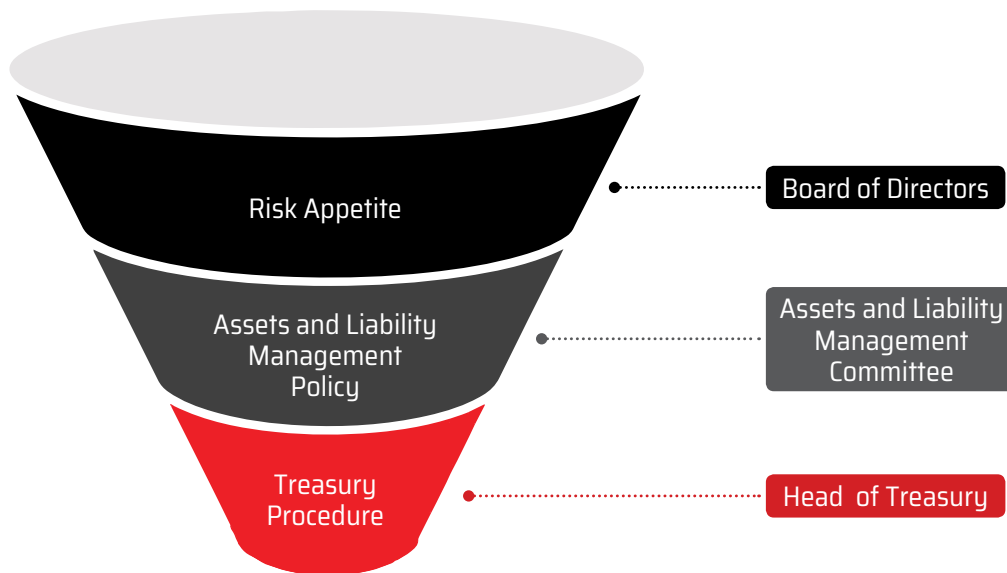
## RISK MANAGEMENT (Cont...)

Default loans are managed by the Recoveries and Credit Division. This unit is responsible for all aspects of an overdue facility, restructuring of the credit, scrutiny of legal documents and liaising with the customer until all recovery matters are finalized. Regular meetings are held in order to ensure the smooth functioning of the recoveries function.

Credit Quality Parameters such as Credit quality related ratios, Product-wise NPA, Provision covers, and as a percentage of the total portfolio are monitored. Lending Parameters such as Single borrower exposure (individual), Sector-wise concentration, Product-wise concentration, collateral wise concentration, geographical concentration, and related party exposure limits were monitored.

The level 3 control by the Internal Audit Division is through regular credit audits, reports of which are tabled for review at the Board Audit Committee and escalated to the RMD and Board Integrated Risk Management Committee

### MARKET RISK



Market risk is the risk arising from fluctuations in market variables such as interest rates, foreign currencies, asset prices such as vehicle prices and gold prices. Therefore, the market risk is addressed through Liquidity risk management and interest rate risk management. This is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in the market variables.

As the Company's operations involve granting accommodations, accepting deposits and obtaining funding facilities, the movements in interest rates constitute the most important market risk for the Company. The company's market risk management is operationalized through assets and liability management policy (ALM), Treasury procedure and Board-approved Risk appetite limits.

### INTEREST RATE RISK

Interest rate risk exists in any interest-bearing asset or liability, such as lending and borrowings, due to the possibility of a change in the interest rates. Interest rate risk is an integral part of finance business, and when prudently managed, even a source of profit.

### INTEREST RISK MANAGEMENT APPROACH

The Company encounter interest rate risk in several ways, including repricing risk, and yield curve risk. Interest rate risk parameters such as WACC, Incremental Cost of funds, and maturities profiles of assets and liabilities are monitored. Further, the Company maintains an adequate Net Interest Margin (NIM) so that increases in interest expenses can be absorbed. Although the mismatch in assets and liabilities in terms of maturity is widely prevalent in the industry, in view of the composition of the portfolio of the Company, this mismatch has been mitigated to a significant extent. Gold prices are monitored continuously and LTV rates for pawning and gold loan advances are set on a regular basis taking the tenure of each product into account.

## LIQUIDITY RISK

Liquidity risk is the risk of only being able to meet liquidity obligations at increased cost or, at the extreme, being unable to meet obligations as they fall due. In the case of the Company, this relates mainly to the ability to meet refund of deposits obtained from the public as they fall due and the settlement of installments on bank and other borrowings.

## LIQUIDITY RISK MANAGEMENT APPROACH

Special attention is given on the liquidity of the Company as it provides critical defense against this and several other risks such as reputation, compliance, and financial risks. The company maintains a conservative outlook towards managing Liquidity Risk, which is governed by the Board approved ALM Policy and appropriate Risk Appetite Limits. The company works to ensure adequate resources are maintained at all times to meet obligations and prevent potential liquidity shocks. From the governance perspective, the responsibility for managing the company's Liquidity risk lies with ALCO while clearly defined responsibilities ensure its management at operational level.

The treasury department is responsible for maintaining the Liquid Asset Ratio above the Central Bank stipulated levels, while the ALCO is responsible for monitoring the liquid asset ratio. The assets and liability mismatch of the company is monitored on a monthly basis at the ALCO and reported to the BIRMC if there is any deviation from the Board approved risk appetite limits.

The Company's projected liquidity requirements are assessed on a continuous basis to ensure that they can be met as and when such requirements arise. The Company also strives to ensure that the liquidity ratios required to be maintained by the applicable Central Bank regulations are complied with the requirements of Finance Companies (Liquid Assets) Direction No. 04 of 2013.

## OPERATIONAL RISK

Operational risk is the risk of losses or failed internal processes, people and systems, or from external events such as natural disasters, social or political events. It is inherent in all financial products and processes and the company's objective is to control it in a cost-effective manner. Operational risk includes legal risk but excludes strategic and reputational risk.

## OPERATIONAL RISK MANAGEMENT APPROACH

The Company manages operational risk through policies, risk assessment, risk mitigation including insurance coverage, managing technology risk, a comprehensive Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP), creating a culture of risk awareness across the company, stress testing and monitoring and reporting. The degree of compliance of staff with such operational policies, processes and controls is regularly reviewed.

Awareness building and comprehensive training sessions are undertaken to educate staff on the significance of the compliance with operational policies, processes and controls. In this context, the Value driven culture which is rigorously promoted across all levels of Commercial Credit in ensuring that employees are self-disciplined, plays a key role. Internal Frauds as an operational risk parameter is monitored.

## REPUTATIONAL RISK

Reputational risk is the risk of adverse impact on earnings, assets and liabilities or brand value arising from negative stakeholder perception of the company's business practices, activities and financial position. The company recognizes that reputational risk is driven by a wide range of other business risks relating to the "conduct" of the company that must all be actively managed. In addition, the increase of social media has widened the stakeholder base and expanded the sources of reputational risk.

Further, with the emergence of the Company as a major player among NBFIs, it is critical that due attention is given to safeguard the reputation the Company has earned among all stakeholders. In today's highly interconnected world with the capability to communicate rapidly, an excellent reputation carefully built over a long period could be at risk instantly.

## REPUTATIONAL RISK MANAGEMENT APPROACH

Accordingly, reputational risk is broadly managed through the systems and controls adopted for all other risk types such as credit, market, operational risk, etc., which are underpinned by communication policy and ethics framework that prohibit unethical behavior and promote employees to live a principle-based life. Further, promotion of the value driven culture within the organization and customer confidence building initiatives employed, enhance the reputation of the Company. The Company pays close attention to ensure that there is no reputation-reality gap for any stakeholder group of Commercial Credit.

## INFORMATION TECHNOLOGY (IT) RISK

IT risk is the business risk associated with use, ownership, operation, involvement, influence and adoption of IT within an organization. It is a major component of operational risk comprising IT-related events such as system interruptions/failures, errors, frauds through system manipulations, cyberattacks, obsolescence in applications, falling behind competitors concerning the technology, etc., that could potentially affect the whole business. Given the uncertainty with regard to frequency and magnitude, managing IT risk poses challenges. Hence, the company has accorded top priority to addressing IT risk, giving more focus to cyber security strategies and continually investing on improving the cyber security capabilities. With the growing needs of the business, the focus on managing IT risks is intensified in recent years with an ever-increasing emphasis on strengthening IT governance to align with CBSL directives as well as globally accepted best practices.

## RISK MANAGEMENT (Cont...)

### INFORMATION TECHNOLOGY RISK MANAGEMENT APPROACH

The Company has strengthened the governance of information security and Information Security risk management, by establishing an Information security unit which is headed by the Chief Information Security Officer (CISO) and an IT Risk Committee which reports to the BIRMC and is responsible for managing risks relating to information security. The IS function is supported by an out-sourced Security Operation Center which monitors systems on a 24x7 basis. The Information Security Risk Management Program focuses on Identifying risks and addressing all levels of IT risk, conducting vulnerability assessments for all critical systems, ensuring strict compliance with all regulations and best practices and raising awareness among employees and customers.

A comprehensive Disaster Recovery Plan is in place in preparation of contingent risk incidents. As a result of our continuous efforts in managing ICT risk, minimal system disruptions, with no significant impact on operations, were experienced. Information Security/ Information Technology Governance Framework provide the framework to the Company.

### STRATEGIC RISK

Strategic risk is related to strategic decisions and may manifest in the company not being able to keep up with the evolving market dynamics, resulting in loss of market share and failure to achieve strategic goals. Corporate planning and budgeting process and critical evaluation of their alignment with the company's vision, mission and the risk appetite facilitate management of strategic risk.

### STRATEGIC RISK MANAGEMENT APPROACH

The primary means of managing strategic risk is through a Board-approved Strategic Plan prepared annually to outline the future direction of the company through a set of long-term goals, objectives and priorities along with the actions needed to achieve them in line with the company's purpose on a three (3) year rolling basis. It is the key document used by the leadership to prioritize the allocation of resources, to strengthen the company's competitive position.

### COMPLIANCE AND REGULATORY RISK

Compliance and regulatory risk refers to the potential risk to the company resulting from noncompliance with applicable laws, rules and regulations and codes of conduct and could result in regulatory fines, financial losses, disruptions to business activities and reputational damage.

### COMPLIANCE AND REGULATORY RISK MANAGEMENT APPROACH

A compliance function reporting directly to the BIRMC and the Board of Directors is in place to assess the company's compliance with external and internal regulations on an ongoing basis. The company's culture and the shared values too play a key role in managing this risk.

### RISK APPETITE

Risk Appetite is the quantum of risk the company is willing to assume in different areas of business in achieving its strategic objectives and ensuring the its desired risk profile. The Risk Appetite framework and Risk Tolerance limits have been defined by the Board in consultation with the Senior Management of the Commercial Credit in line with the Commercial Credit's overall business strategy, providing clear direction to the business units for ongoing operations and risk management. The Risk Appetite framework and Risk Tolerance limits are reviewed and adjusted by the Board when required, based on developments in the operating environment. In the event the risk appetite threshold has been breached, risk management and business controls are implemented to bring the exposure level back within the accepted range. Risk appetite, therefore, translates into operational measures such as limits or qualitative checkpoints for the dimensions of capital, earnings volatility and concentration risk etc. In order to effectively implement Risk appetite, Commercial Credit has defined quantitative indicators (e.g., capital adequacy level and risk limits) or qualitatively embedded same in the policies and procedures.

# CORPORATE GOVERNANCE

Corporate Governance is the system of rules, practices and processes by which a Company is managed. Good Corporate Governance helps in driving the Company towards performance excellence while complying with external and internal regulations, guidelines and ethical standards. Sound internal controls and procedures play an integral part in maintaining high standards of transparency, disclosure, financial controls and accountability in good Corporate Governance.

The Company is committed to high standards of Corporate Governance and we are constantly seeking ways of improving our Governance practices. We believe that the emphasis the Company consistently instills among all members of the Commercial Credit team of the Company's Shared Values play a critical role in this regard. The systems are designed and developed to influence the behavior of everyone assigned with the responsibility of managing the affairs of the Company ensuring that the interests of all stake holders are effectively served on a consistent basis.

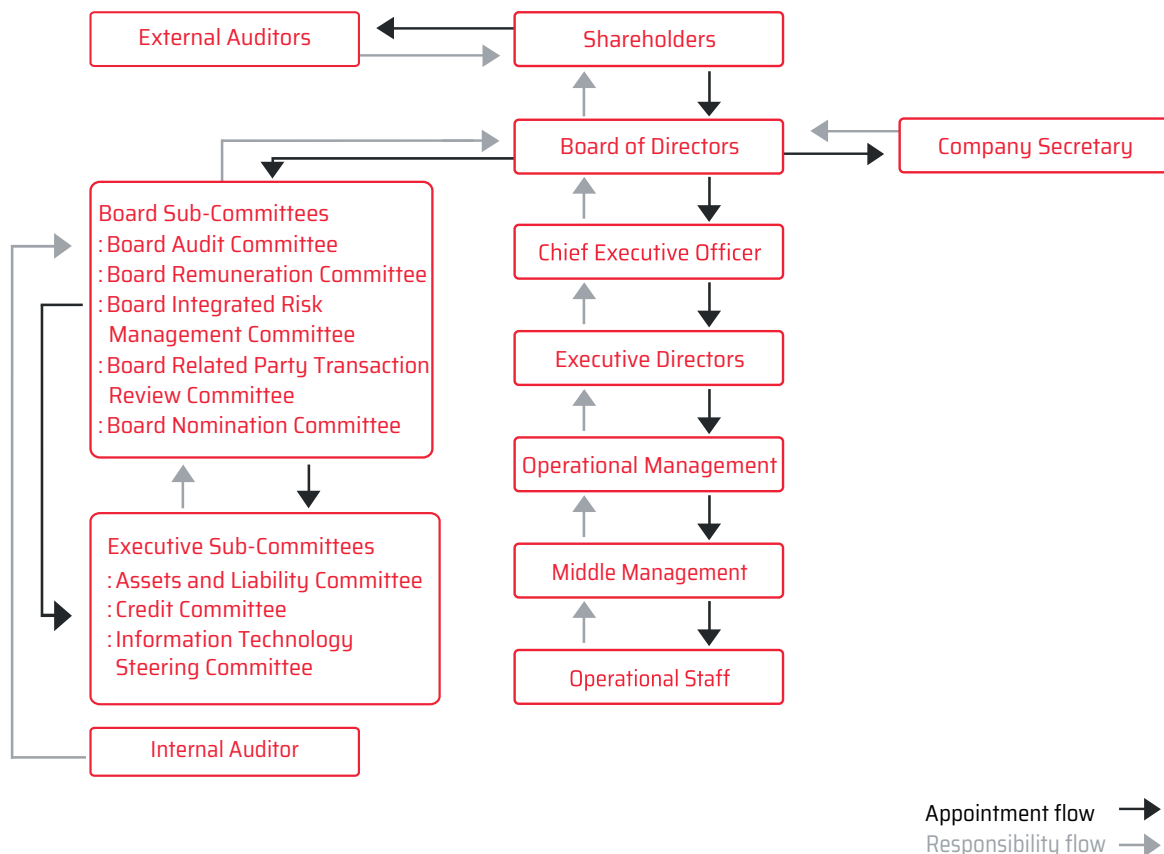
The Company's Corporate Governance model has been built and enhanced based on the following requirements and guidelines, within the legal framework of the Companies Act No. 07 of 2007

1. The Listing Rules of the CSE.
2. Finance Companies (Corporate Governance) Direction No.03 of 2008 issued by the Central Bank of Sri Lanka.
3. Finance Companies (Corporate Governance-Amendments) Direction No.04 of 2008 issued by the Central Bank of Sri Lanka.
4. Finance Companies (Corporate Governance-Amendments) Direction No.06 of 2013 issued by the Central Bank of Sri Lanka.

The Company's compliance with the voluntary Code of Best Practice in Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities & Exchange Commission of Sri Lanka (SEC), is subordinate to the prevalent CBSL Directions and the applicable Listing Rules issued by the Colombo Stock Exchange.

## GOVERNANCE STRUCTURE OF THE COMPANY

The governance structure of the Company comprises of several governance bodies with well-defined roles and responsibilities, accountability and clear reporting lines.



## CORPORATE GOVERNANCE (Cont...)

### BOARD OF DIRECTORS

The Board of Directors as the highest decision making authority of the Company jointly provides strategic leadership and direction to the Company and ensures that strategies are formulated and implemented so that consistent progress is made by the Company towards its Purpose, Vision and Mission in keeping with our Shared Values.

The Board of Directors of the Company comprised of ten members as at the end of the financial year under review. The Company's Board of Directors consists of professionals in varied fields who collectively possess a wealth of knowledge and experience and are thus eminently suitable to provide the leadership and direction required.

The Board is led by the Chairman who is an Independent Non-Executive Director, who had no financial or other relationship with any other member of the Board. The Chief Executive Officer (CEO) has a business relationship with a Non-Executive Director of the Company where such Non- Executive Director and CEO serve on the Board of Asia Pacific Institute of Information Technology Ltd. Additionally, the CEO of the Company is the spouse of an Executive Director of the Company.

The Board has appointed the CEO, who is the apex executive of the organization. The Board has identified other KRPs (Key Responsible Persons) who are in a position to influence policy, direct activities and exercise control over the business activities. The Board maintains appropriate oversight over these KRPs and meets them as required to discuss the performance and issues related to their areas of operation. The Board has developed a succession plan for the identified KRPs to ensure the minimum disruption to operations.

The Board carries out a self-evaluation of its performance designed to improve the Boards effectiveness and that of its Committees. The evaluation is conducted annually in line with good Corporate Governance practices. The Board discusses the results of self-evaluation to identify weaknesses and improve its practices.

The Board meets approximately once a month or as the need arises to discuss any prevailing issues and to take appropriate action as required. Thirteen (13) Board meetings were held during the financial year under review, including a single meeting of the Non-Executive Directors in the absence of the Executive Directors. The Board of Directors through their regular meetings and those of Board Sub-Committees reviews the performance of the Company in the interests of all stakeholders. The financial performance, compliance with rules and regulations and risk management receive close attention of the Board. The financial budget and other plans and indicators together with related resource requirements are reviewed and approved by the Board for the ensuing financial period. In reviewing the performance of the Company, the Board meets the Executive Management as required.

The Board has established a Risk Management Framework which includes overall risk policy, risk management procedures and mechanisms and has delegated the process of risk management to the Board Integrated Risk Management Committee (BIRMC), which reports to the Board on risks arising from new strategies and ongoing operations, and discusses means of mitigating such risks.

The Board has delegated the oversight of the financial reporting, internal control and the external audit to the Board Audit Committee (BAC). The Board Audit Committee assesses the integrity and accuracy of the internal control systems and reviews the accuracy of the financial information is used by the Board and Board Sub-Committees to ensure sound decision making.

The composition of the Board during the period under review is set out below together with a record of the attendance at Board meetings and Board Sub-Committee meetings.

| Director / Category   | Board               | Audit Committee     | Intergraded Risk Management Committee | Related Party Transaction Review Committee | Remuneration Committee | Nomination Committee |
|---|---------------------|---------------------|---------------------------------------|--|------------------------|----------------------|
|   | Attended / Eligible | Attended / Eligible | Attended / Eligible                   | Attended / Eligible                        | Attended / Eligible    | Attended / Eligible  |
| Mr. E.D.P. Soosaipillai<br>( Independent Non-Executive )                        | 13/13*              | 8/8**               | N/A                                   | N/A  | 5/5                    | 6/6                  |
| Mr. R. S. Egodage ( Executive )   | 12/12               | N/A                 | 12/12                                 | N/A  | 2/2                    | 6/6                  |
| Mrs. G.R. Egodage ( Executive )   | 12/12               | N/A                 | N/A                                   | N/A  | N/A                    | N/A                  |
| Mr. R.C. Chitty (Executive)   | 11/12               | N/A                 | 12/12                                 | 4/4  | N/A                    | N/A                  |
| Mr. K.D.V. Weele ( Non- Executive)  | 11/13*              | N/A                 | N/A                                   | N/A  | N/A                    | N/A                  |
| Mr. P.T. Fisher ( Resigned w.e.f. 11.02.2022)<br>( Non - Executive)             | 9/11*               | N/A                 | N/A                                   | N/A  | N/A                    | N/A                  |
| Mr. L. Wickramasinghe<br>( Independent Non-Executive )                          | 13/13*              | 15/15**             | 12/12                                 | 4/4  | N/A                    | 6/6                  |
| Ms. T.M.L. Paktsun ( Independent Non-Executive )                                | 13/13*              | 15/15**             | 12/12                                 | 4/4  | 5/5                    | N/A                  |
| Mrs. G.A.M. Edwards (appointed w.e.f. 01/07/2021) (Independent Non-Executive )  | 10/10*              | N/A                 | 9/9                                   | N/A  | N/A                    | N/A                  |
| Dr. R. Sarawanamuthu (appointed w.e.f. 10/09/2021) (Independent Non-Executive ) | 8/8*                | N/A                 | N/A                                   | N/A  | 3/3                    | N/A                  |
| Mr. G.B. Egodage (appointed w.e.f. 1/10/2021)<br>( Non-Executive)               | 7/7*                | 6/7**               | 5/5                                   | N/A  | N/A                    | 4/4                  |

\* - Includes a single meeting of the Non-Executive Directors in the absence of the Executive Directors

\*\* - Include two meetings with the External Auditors in the absence of the Executive Directors and Management

The Board composition of Executive, Non-Executive and Independent Non-Executive Directors met the regulatory requirements

## BOARD SUB-COMMITTEES

Towards strengthening Board oversight and governance, the Board has delegated authority to five Board Sub-Committees, namely, Board Audit Committee, Board Remuneration Committee, Board Related Party Transaction Review Committee, Board Nominations Committee and Board Integrated Risk Management Committee. These Committees are made up of members of the Board and were constituted as required by the Listing Rules of the CSE and the related directives of the CBSL. The reports of these individual Committees are given elsewhere in this annual report.

These Committees deal with and decide on certain specific subjects and specialized matters and make appropriate recommendations to the Board. These Committees have been constituted with Board approved terms of reference and held regular meetings. The minutes of the proceedings are maintained by the secretary to the Committee and reported to the Board.

## OPERATIONAL AND RISK SUB-COMMITTEES

In order to facilitate the implementation of the policies and decisions made by the Board and the Executive Management, regular meetings are held among the operational management, functional heads and heads of the various branches and service centers of the Company. These meetings focus on achievement of operational targets, resource requirements and, underlying processes and risks. The Assets and Liabilities Committee (ALCO) and Risk Sub-Committees covering the areas of Fixed Deposits, Information Technology and Credit, have been formed with the intention of identifying and reviewing the related risk aspects of the operations of the Company and actions required to deal with such risks. These Sub- Committees are represented by risk management and operational personnel that meet regularly. Matters discussed and decisions made are communicated to the Board Integrated Risk Management Committee (BIRMC).

# CORPORATE GOVERNANCE (Cont...)

## COMPANY SECRETARIES

Jacey & Company was the company secretary until the appointment of Corporate Services (Private) w.e.f 1 January 2022 by the Board to provide corporate secretarial services to the Company. The Company Secretaries play a key role in compliance matters by ensuring that the Company complies with the requirements of the Companies Act No. 07 of 2007, the Rules of the CSE and other regulatory bodies. The Secretaries also ensure that Board procedures are followed and information is provided to shareholders on a timely basis. The appointment and removal of the Company Secretary is a matter for the Board.

## COMPLIANCE WITH LEGAL REQUIREMENTS

All Directors have access to the advice and services of the Company Secretaries as well as to the financial information of the Company and to external consultants at the expense of the Company if required. The Directors make every endeavor to ensure that the Company complies with applicable laws and regulations. The Company has appointed a Compliance Officer to strengthen the compliance with regulatory and statutory requirements governing the operation of the Company.

## HIGHLIGHTS FOR 2021/22

### 1. Directors' Appointment/Re-appointments at the Annual General Meeting

- Mr. E.D.P. Soosaipillai, Independent Non-Executive Director of the Company who was first appointed to the Board on 22 January 2014, was re-elected at the Annual General Meeting held on 03 September 2021.
- Mr. L.L.S. Wickremasinghe Independent Non-Executive Director of the Company who was first appointed to the Board on 26 June 2019, was re-elected at the Annual General Meeting held on 03 September 2021.
- Mr. P.S.R.C. Chitty, Executive Director of the Company who was first appointed to the Board on 05 January 2016, was re-elected at the Annual General Meeting held on 03 September 2021.
- Mrs. G.A.M. Edwards, Independent Non-Executive Director of the Company who was first appointed to the Board on 01 July 2021, was re-elected at the Annual General Meeting held on 03 September 2021.
- Dr. R. Sarawanamuthu appointed as an Independent Non-Executive Director of the Company with effect from 10 September 2021.
- Mr. G.B. Egodage appointed as a Non-Executive Director of the Company with effect from 01 October 2021.

### 2. Director Retirement/Resignation

- Mr. P.T. Fisher, Non-Executive Director of the Company resigned with effect from 11 February 2022

### 3. Re-appointment of Auditors

Messrs. Ernst & Young, Chartered Accountants were re-appointed as the Auditors of the company at the AGM held on 03 September 2021

### 4. Re-appointment of Messrs. Ernst & Young, Chartered Accountants for assessment of Corporate Governance and Compliance

The Company engaged the services of Messrs. Ernst & Young, Chartered Accountants to seek their assessment of the Company's compliance with the requirements of the Finance Business Act Direction No. 03 of 2008 on Corporate Governance for Licensed Finance Companies issued by the CBSL and subsequent amendments there to.

### 5. Re-appointment of Messrs. Ernst & Young, Chartered Accountants for certification on the process adapted by the Directors on the system of Internal Controls over Financial Reporting

The Company also engaged the services of Messrs. Ernst & Young, Chartered Accountants to seek an assurance on the process adopted by the Directors on the system of internal control over financial reporting.



## COMPLIANCE WITH FINANCE COMPANIES DIRECTION

Compliance with the Finance Companies (Corporate Governance) direction No.03 of 2008 and amendments there to as specified in Finance Companies (Corporate Governance-Amendment) Directions No.04 of 2008 and No.06 of 2013 issued by the Central Bank of Sri Lanka.

| Rule reference | Principle and compliance | Status of compliance | Reference to Annual Report |
|----------------|--------------------------|----------------------|----------------------------|
|----------------|--------------------------|----------------------|----------------------------|

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS

#### 2 (1) Strengthening the Safety and Soundness of the Company

|    |   |          |  |
|----|---|----------|--|
| a) | <p><b>Approving and overseeing strategic objectives and corporate values</b></p> <p>A three year strategic plan covering financial years 2022/23- 2024/25 that encompasses the strategic objectives and corporate values has been approved by the Board of Directors (Board)</p>  | Complied |  |
| b) | <p><b>Approving overall business strategy including risk policy and management procedures</b></p> <p>The Company's three year strategic plan including measurable goals has been approved by the Board. Further, overall risk policy and risk management procedures and mechanism are in place.</p>   | Complied |  |
| c) | <p><b>Risk Management</b></p> <p>The Board has delegated the process of management of risk to the Board Integrated Risk Management Committee (BIRMC), which identifies risks and ensures implementation of appropriate systems to manage the risks faced by the Company prudently.</p>  | Complied |  |
| d) | <p><b>Communication with stakeholders</b></p> <p>A Board approved policy on communications with the relevant stakeholders is in place.</p>  | Complied |  |
| e) | <p><b>Reviewing Internal Control systems and Management Information Systems (MIS)</b></p> <p>There is a Board mechanism at the Company to identify the accuracy of the Company's internal control systems by the Board of Directors to ensure effectiveness of internal control over financial reporting.</p> <p>The Company has a process to review the accuracy of all Non-financial information which is used by the Board and the Board Sub-Committees.</p>   | Complied |  |
| f) | <p><b>Key Management Personnel</b></p> <p>The Board of Directors has identified and designated personnel who are in a position to significantly influence policy, direct activities and exercise control over business activities as KMPs.</p> <p>KMPs are defined according to the definition issued by CBSL. Board of Directors including Executive Directors, Chief Financial Officer, Genius Operations (2), Genius MIS, ICT Consultant, Win - Win Ambassador, Chief Risk Officer and Compliance Officer are present KMPs of the company.</p> | Complied |  |
| g) | <p><b>Authority and responsibility for the Board and KMPs</b></p> <p>The Board has approved areas of key responsibilities for themselves and clearly defined areas of key responsibilities for KMPs.</p>  | Complied |  |

## CORPORATE GOVERNANCE (Cont...)

| Rule reference | Principle and compliance  | Status of compliance | Reference to Annual Report |
|----------------|---|----------------------|----------------------------|
| h)             | <p><b>Oversight of affairs of the Company by KMPs</b></p> <p>The Board has a process for appropriate oversight of the affairs of the Company by KMPs. The Board meets the KMPs on a regular basis as and when required to obtain explanations of matters relating to their areas of responsibility.</p>                   | Complied             |                            |
| i)             | <p><b>Assess effectiveness of governance practices</b></p> <p>The Board has periodically assessed the effectiveness of the Board Directors' own governance practices through the self - evaluation process.</p>   | Complied             |                            |
| j)             | <p><b>Succession plan for KMP's</b></p> <p>Board approved succession plan for KMPs is in place</p>  | Complied             |                            |
| k)             | <p><b>Regular meetings with KMPs</b></p> <p>KMPs are invited to Board meetings as and when required to explain matters relating to their areas of responsibility and to assist the Board in reviewing related policies</p>  | Complied             |                            |
| l)             | <p><b>Understanding the regulatory environment</b></p> <p>The Board has taken measures to understand the regulatory environment and the Company maintains a healthy relationship with the regulators.</p>   | Complied             |                            |
| m)             | <p><b>Hiring and oversight of External Auditors</b></p> <p>The Board exercised due diligence in hiring and oversight of External Auditors with the assistance of the BAC. The External Auditors are appointed by the Shareholders at the Annual General Meeting</p>   | Complied             |                            |
| 2(2)           | <p><b>Appointment of the Chairman and CEO and defining and approving their functions and responsibilities</b></p> <p>The Chairman and the CEO are appointed by the Board and their functions and responsibilities are separated and defined and approved by the Board of Directors</p>                                    | Complied             |                            |
| 2(3)           | <p><b>Obtaining independent professional advice by the Directors</b></p> <p>A procedure approved by the Board of Directors to obtain independent professional advice where necessary at the Company's expense is in place.</p>  | Complied             |                            |
| 2(4)           | <p><b>Managing conflict of interest</b></p> <p>A procedure is in place to avoid conflicts of interest and Directors who have an interest in a matter under discussion make a disclosure of his/her interest therein and refrain from engaging themselves in the deliberations on that matter and from voting thereon.</p> | Complied             |                            |
| 2 (5)          | <p><b>Availability of formal schedule of matters specifically reserved for the Board</b></p> <p>There is a Board approved formal schedule of matters specially reserved for the Board to ensure that the Company is firmly under its authority</p>  | Complied             |                            |
| 2 (6)          | <p><b>Disclosure of probable solvency issues</b></p> <p>The Company is solvent and no situation has arisen to challenge its solvency.</p>   | Complied             |                            |
| 2 (7)          | <p><b>Publish Corporate Governance Report on compliance with the Direction in the Annual Report</b></p> <p>This Report forms a part of the Corporate Governance Report of the Company</p>   | Complied             | Refer pages 55 - 65        |

| Rule reference | Principle and compliance   | Status of compliance | Reference to Annual Report |
|----------------|--|----------------------|----------------------------|
| 2 (8)          | <p><b>Self-assessment of Directors</b></p> <p>The Board has in place a scheme of self-assessment to be undertaken by each Director annually, and records of such assessments are obtained by the Company Secretary and discussed by the Board.</p>   | Complied             |                            |
| <b>3</b>       | <b>Meetings of the Board</b>   |                      |                            |
| 3 (1)          | <p><b>Regular Board meetings</b></p> <p>Board Meetings were held regularly and thirteen (13) Board meetings were held during the year 2021/22.</p> <p>There were fifty one (51) instances where the Board's consent has been obtained through circulation of resolutions/papers during the financial year under review, which were subsequently ratified by the Board at their meetings</p>  | Complied             |                            |
| 3 (2)          | <p><b>Directors to include matters and proposals in the agenda</b></p> <p>The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda.</p>   | Complied             |                            |
| 3 (3)          | <p><b>Notice of Board meetings</b></p> <p>The Board has given notice of at least 7 days for a Regular Board meeting to provide all Directors an opportunity to attend</p>  | Complied             |                            |
| 3 (4)          | <p><b>Attendance of Directors at Board meetings</b></p> <p>All the Directors have complied with the direction requirement and attended two-thirds of the meetings during the year 2021/22. Further, no Director has been absent for three consecutive meetings during the year 2021/2022.</p>  | Complied             | Refer page 53              |
| 3 (5)          | <p><b>Appointment of a Company Secretary</b></p> <p>The Board has appointed a professional Secretarial Company as the Company Secretary in accordance with the provisions of the Companies Act and other regulations. Jaycees and Company were the Company Secretaries until Corporate Services (Pvt) Limited were appointed as Company Secretaries and Registrars on 01st January 2022.</p> | Complied             | Refer page 54              |
| 3 (6)          | <p><b>Responsibility for preparing agenda for Board meeting</b></p> <p>The Chairman sets the Board Agenda, assisted by the Company Secretary.</p>  | Complied             |                            |
| 3 (7)          | <p><b>Director's access to advice and services of the Company Secretary</b></p> <p>Board approved procedure is in place to enable all Directors to have access to advice and services of the Company secretary</p>   | Complied             |                            |
| 3 (8)          | <p><b>Maintenance of minutes of Board meeting</b></p> <p>The Company Secretary maintains the minutes of the Board Meetings which are approved at the next Board meeting. The Directors have access to past Board minutes and papers at any time.</p>   | Complied             |                            |
| 3 (9)          | <p><b>Recording minutes of Board meetings in sufficient detail</b></p> <p>Board minutes contain required details such as data and information used by the Board in its deliberations, matters considered by the Board, fact-finding discussions, the decisions and Board resolutions etc. used by the Board members in their decision making.</p>  | Complied             |                            |

## CORPORATE GOVERNANCE (Cont...)

| Rule reference | Principle and compliance   | Status of compliance | Reference to Annual Report |
|----------------|--|----------------------|----------------------------|
| <b>4</b>       | <b>Composition of the Board</b>  |                      |                            |
| 4 (1)          | <p><b>Number of Directors on the Board</b></p> <p>The Board comprised of not less than 5 and not more than 13 Directors during the year which is in line with the direction requirement. The Board consists of ten (10) Directors as at 31 March 2022</p>  | Complied             | Refer page 53              |
| 4 (2)          | <p><b>Period of service of a Director</b></p> <p>None of the Non-Executive Directors have held office for over nine (9) years</p>  | Complied             |                            |
| 4 (3)          | <p><b>Appointment of Executive Directors and Board composition</b></p> <p>The number of Executive Directors do not exceed one half (1/2) of the number of Directors on the Board. At present, there are only 3 Executive Directors.</p>  | Complied             |                            |
| 4 (4)          | <p><b>Board balance and criteria for independence</b></p> <p>The number of Independent Non-Executive Directors is in excess of the regulatory requirement of one fourth (1/4) of total number of Directors of the Board.</p>   | Complied             |                            |
| 4 (5)          | <p><b>Alternate Director</b></p> <p>No such situation has arisen during the financial year 2021/22</p>   | Complied             |                            |
| 4 (6)          | <p><b>Skills and experience of Non-Executive Directors to bring an objective judgment</b></p> <p>All Non-Executive Directors are persons with proven track records and necessary skills and experience to bring independent judgment to bear on issues of strategies, performance and resources. A brief profile of each Director is disclosed in this Annual Report</p> | Complied             | Refer pages 17 - 21        |
| 4 (7)          | <p><b>Quorum at Board meetings</b></p> <p>The required quorum of five (5) Directors and the regulatory requirement that more than half (1/2) of the quorum to be comprised of Non-Executive Directors has been met at all Board meetings held during the financial year 2021/22.</p>   | Complied             |                            |
| 4 (8)          | <p><b>Disclosure of independent Non-Executive Directors, Board composition in corporate governance communications and in the Annual Report</b></p> <p>The Independent Non -Executive Directors have been expressly identified in all corporate communications</p>  | Complied             |                            |
| 4 (9)          | <p><b>Formal and transparent procedure for appointment of new Directors</b></p> <p>Article 24 of the Articles of Association of the Company addresses the procedure for appointment and removal of Directors. Further, the Board has appointed a Nomination Committee to identify and recommend suitable candidates to the Board.</p>                                    | Complied             | Refer page 72              |
| 4 (10)         | <p><b>Re-election of Directors appointed to fill a casual vacancy</b></p> <p>All Directors appointed to the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment.</p>  | Complied             | Refer page 54              |

| Rule reference | Principle and compliance   | Status of compliance | Reference to Annual Report |
|----------------|--|----------------------|----------------------------|
| 4 (11)         | <p><b>Disclosure of Resignations/Removal of Directors</b></p> <p>Resignations of Directors and the reasons are promptly informed to the Director of Department of Supervision of Non-Bank Financial Institutions and the shareholders through the CSE after obtaining such approval from Director of Department of supervision of NBFIs.</p>   | Complied             |                            |
| <b>5</b>       | <b>Criteria to assess the fitness and propriety of Directors</b>   |                      |                            |
| 5 (1)          | <p><b>Age of Directors should not exceed seventy (70) years</b></p> <p>There are no Directors who are over seventy (70) years of age</p>   | Complied             |                            |
| 5 (2)          | <p><b>Holding office in more than 20 companies</b></p> <p>There are no Directors who hold Directorship in more than twenty (20) Companies/ Societies/Bodies/Corporates Including Associate Companies and Subsidiaries of the Finance Company and do not hold Directorship in more than ten (10) Companies that are classified as Specified Business Entities as defined in Sri Lanka Accounting and Auditing Standards act No. 15 of 1995.</p>   | Complied             |                            |
| <b>6</b>       | <b>Delegation of functions</b>   |                      |                            |
| 6 (1)          | <p><b>Delegation of Board functions</b></p> <p>The Board has not delegated matters to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions</p>   | Complied             |                            |
| 6 (2)          | <p><b>Review delegation of Board functions on a periodic basis</b></p> <p>A comprehensive process for delegation of authority is being developed.</p>  | Complied             |                            |
| <b>7</b>       | <b>The Chairman and the Chief Executive Officer</b>  |                      |                            |
| 7 (1)          | <p><b>Separation of roles of Chairman and CEO</b></p> <p>The roles of Chairman and CEO are separated and held by two individuals appointed by the Board</p>  | Complied             | Refer page 17              |
| 7 (2)          | <p><b>Designation of an Independent Non-Executive Director as the Senior Director when the Chairman is not an Independent Non-Executive Director</b></p> <p>Chairman is an Independent Non-Executive Director</p>  | Complied             | Refer page 52              |
| 7 (3)          | <p><b>Disclosure of relationship between the Chairman, CEO and members of the Board</b></p> <p>The identity of the Chairman and the CEO are disclosed in this Annual Report.</p> <p>The Chairman has no financial or any other relationship with any other member of the Board.</p> <p>The Chief Executive Officer (CEO) has a business relationship with a Non-Executive Director of the company where such Non-Executive Director and CEO serve on the Board of Asia Pacific Institute of Information Technology Ltd. The CEO of the Company is the spouse of an Executive Director of the Company</p> | Complied             | Refer page 52              |

## CORPORATE GOVERNANCE (Cont...)

| Rule reference | Principle and compliance   | Status of compliance | Reference to Annual Report |
|----------------|--|----------------------|----------------------------|
| 7 (4)          | <p><b>Role of the Chairman</b></p> <p>The Chairman leads the Board ensuring it works effectively and discharge its responsibilities and ensure that all key issues are discussed at the Board meeting. Further, The effectiveness of the Chairman and Board in discharging of their functions and responsibilities are assessed by its annual self-assessment process.</p>   | Complied             |                            |
| 7 (5)          | <p><b>Role of Chairman in the preparation of the agenda for Board meetings</b></p> <p>The Chairman sets the Board Agenda, assisted by the Company Secretary.</p>   | Complied             |                            |
| 7 (6)          | <p><b>Ensure that all Directors are informed adequately and timely of the issues arising at Board meetings</b></p> <p>Agenda has adequate information in relation to the agenda items and papers are circulated to the Directors seven (7) days prior to the meeting.</p>  | Complied             |                            |
| 7 (7)          | <p><b>Encouraging all Directors to make an active contribution to Board's affairs</b></p> <p>The Chairman encourages all Directors to actively contribute towards the best interest of the Company.</p>  | Complied             |                            |
| 7 (8)          | <p><b>Encourage participation of Non-Executive Directors and relationship between Executive and Non-Executive Directors</b></p> <p>The Chairman encourages effective participation of all Directors and encourages constructive relationships between the Executive and Non-Executive Directors.</p>   | Complied             |                            |
| 7 (9)          | <p><b>Avoidance of engaging in activities involving direct supervision of KMP or executive duties by the Chairman</b></p> <p>The Chairman is an Independent Non-Executive Director and does not get involved in the supervision of KMP's or in any other executive duties.</p>   | Complied             |                            |
| 7 (10)         | <p><b>Effective communication with shareholders</b></p> <p>Shareholders are given the opportunity to express their views on matters of interest at annual general meeting which is the main forum where the Board maintains effective communication with shareholders. Further, the Board approved communication policy includes the process in this regard.</p>   | Complied             |                            |
| 7 (11)         | <p><b>Role of Chief Executive Officer</b></p> <p>The CEO functions as the apex executive of the Company supported by the Executive Management</p>  | Complied             |                            |
| <b>8</b>       | <b>Board Appointed Committees</b>  |                      |                            |
| 8 (1)          | <p><b>Establishing Board Committees, its functions and reporting</b></p> <p>Company has established five Board Committees namely Audit Committee, Integrated Risk Management Committee, Related Party Transactions Review Committee, Remuneration Committee and Nomination Committee. Each Sub-Committee is governed by its own Terms of Reference and has a Secretary who maintains minutes and records under the supervision of the Chairman of the Sub-Committee. The Reports of the Board Sub-Committees are included in this Annual Report.</p> | Complied             | Refer pages 70 - 74        |

| Rule reference | Principle and compliance  | Status of compliance | Reference to Annual Report |
|----------------|---|----------------------|----------------------------|
| <b>8 (2)</b>   | <b>Board Audit Committee</b>  |                      |                            |
| a)             | <p><b>Chairperson of the Board Audit Committee</b></p> <p>The Chairperson of the Committee is an independent Non-Executive Director and the profile of the Chairperson is given in this Annual Report</p>   | Complied             | Refer page 19              |
| b)             | <p><b>Composition of Audit Committee</b></p> <p>All members of the Board Audit Committee are Non-Executive Directors.</p>   | Complied             | Refer page 70              |
| c)             | <p><b>Functions of the Audit Committee</b></p> <p>The Committee makes recommendations to the Board on:</p> <ul style="list-style-type: none"> <li>• The appointment of the External Auditor for audit services provided in compliance with the relevant statutes;</li> <li>• The implementation of the central bank guidelines issued to auditors from time to time;</li> <li>• The application of the relevant accounting standards; and</li> <li>• The service period, audit fee and any resignation or dismissal of the auditor</li> <li>• The BAC has ensured that the service period of the engagement of the external audit partner has not exceeded five years.</li> </ul> | Complied             |                            |
| d)             | <p><b>Review and monitor External Auditor's independence and objectivity and the effectiveness of audit processes</b></p> <p>The Committee monitors the External Auditor's independence objectivity and effectiveness of the audit process taking into account relevant professional and regulatory requirements. The Committee has obtained a representation from External Auditors that confirm the External Auditors are independent.</p>  | Complied             |                            |
| e)             | <p><b>Provision of non-audit services by External Auditor</b></p> <p>A Board approved policy on the engagement of the External Auditor to provide non-audit services is in place. The Committee ensures that the External Auditors are able to maintain objectivity and independence and are suitable to perform the required non-audit services</p>  | Complied             |                            |
| f)             | <p><b>Determine scope of audit</b></p> <p>The Committee has discussed the nature and scope of the audit with the External Auditor including the assessment of the Company's compliance with relevant directions in relation to corporate governance and the management's internal controls over financial reporting.</p>  | Complied             |                            |
| g)             | <p><b>Review financial information of the Company by the Audit Committee</b></p> <p>The Committee has a process to review financial information of the Company in order to monitor the integrity of the financial statements of the Company, its annual report, accounts and periodical reports prepared for disclosure.</p>  | Complied             |                            |
| h)             | <p><b>Discussion of issues, problems and reservations arising from the interim and final audits with the External Auditor</b></p> <p>The Committee has met External Auditors to discuss issues, problems and reservations arising from the interim and the final audit</p>  | Complied             |                            |
| i)             | <p><b>Review of External Auditor's Management Letter and Management's response</b></p> <p>The management letter and the management's response is reviewed and oversight given to any corrective actions required.</p>   | Complied             |                            |

## CORPORATE GOVERNANCE (Cont...)

| Rule reference | Principle and compliance   | Status of compliance | Reference to Annual Report |
|----------------|--|----------------------|----------------------------|
| j)             | <p><b>Review of Internal Audit Function</b></p> <p>The Company has an Internal Audit Charter which covers the scope and functions of the Internal Audit Department and which has been reviewed by the Committee and approved by the Board. This Internal Audit Charter ensures that the audit work is performed with proficiency and due professional care.</p> <p>The Committee has reviewed the resources of the internal audit department when they discussed the Internal Audit Plan for the financial year.</p> <p>The Committee reviewed the internal audit findings and results of the internal audit process and, where necessary, ensured that appropriate actions are taken on the recommendations of the internal Audit Department.</p> <p>The Committee has carried out of the performance appraisal of the senior staff members of the Internal Audit Department.</p> <p>The Committee reviews the appointment and is informed of the resignation of senior staff members of the Internal Audit Department.</p> <p>The Head of internal audit directly reports to the Board Audit Committee thus ensuring the independence and impartiality of the Internal Audit Department.</p> | Complied             |                            |
| k)             | <p><b>Major findings of internal investigations and Management's response</b></p> <p>The Committee considers the major findings of the internal audit department and the management's responses thereto and ensures that the recommendations were implemented.</p>   | Complied             |                            |
| l)             | <p><b>Participants of Audit Committee meetings</b></p> <p>The CEO, COO, CFO, Head of Internal Audit, CRO, Compliance Officer, Head of IT, DGM Operations and a representative from the External Auditor are invited to attend meetings. Other Board members may also attend the meetings by invitation. The Committee met the External Auditor on two occasions in the absence of Executive Directors and management.</p>  | Complied             |                            |
| m)             | <p><b>Authority and resources of the Audit Committee</b></p> <p>The Board Audit Committee is guided by the Committee Charter which sets out the authority and responsibility of the Committee. The BAC is authorized to obtain external professional advice. The Committee has full access to information in order to investigate matters.</p>   | Complied             |                            |
| n)             | <p><b>Meetings of Audit Committee</b></p> <p>The Committee met fifteen (15) occasions during the financial year 2021/22 including two meetings with the external auditors in the absence of the Executive Directors and Management and a record of the proceeding, deliberations and decisions is maintained in the minutes of these meetings.</p>   | Complied             | Refer page 53              |
| o)             | <p><b>Disclosure in Annual Report</b></p> <p>Required information is discussed in the "Report of the Board Audit Committee" and "Corporate Governance Report" in this annual report of the Company.</p>  | Complied             | Refer page 70              |
| p)             | <p><b>Recording and maintenance of minutes of meetings</b></p> <p>Detailed minutes of the meetings are maintained by the secretary to the Committee</p>  | Complied             |                            |



| Rule reference | Principle and compliance   | Status of compliance | Reference to Annual Report |
|----------------|--|----------------------|----------------------------|
| q)             | <p><b>Whistle-blowing policy</b></p> <p>A Board-approved whistle blower policy is in place. The policy and procedure has been communicated to all staff members.</p>   | Complied             |                            |
| <b>8 (3)</b>   | <b>Board Integrated Risk Management Committee</b>  |                      |                            |
| a)             | <p><b>Composition of Board Integrated Risk Management Committee</b></p> <p>The composition of the Committee is in compliance with the requirements stipulated in the direction.</p>  | Complied             | Refer page 74              |
| b)             | <p><b>Risk assessment</b></p> <p>Committee has a documented process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Company on a monthly basis through appropriate risk indicators and management information.</p>  | Complied             |                            |
| c)             | <p><b>Review adequacy and effectiveness of all Executive Level Committees</b></p> <p>The Committee has reviewed the effectiveness of the performance of management level Committees that reports to the BIRMC.</p>   | Complied             |                            |
| d)             | <p><b>Corrective action to mitigate the effect of risks exceeding the prudent levels decided by the Committee</b></p> <p>The Company has established Risk Appetite limits on Credit, Market, Liquidity and Operational based on the past history and the market conditions and Risk Appetite statement is submitted to BIRMC on a monthly basis.</p>         | Complied             |                            |
| e)             | <p><b>Frequency of meetings</b></p> <p>The Committee has met twelve (12) times during the financial year 2021/22.</p>  | Complied             | Refer page 53              |
| f)             | <p><b>Action against officers for failure to identify specific risks and take prompt corrective action</b></p> <p>No such instances have occurred during the financial year 2021/22</p>  | Complied             |                            |
| g)             | <p><b>Submission of risk assessment report to the Board</b></p> <p>A comprehensive report is submitted to the Board within a week of each Committee meeting.</p>   | Complied             |                            |
| h)             | <p><b>Establish a compliance function</b></p> <p>The Company has appointed a dedicated compliance officer designated as a KMP to carry out the compliance function and report to the Committee periodically</p>  | Complied             |                            |
| <b>9</b>       | <b>Related Party Transactions</b>  |                      |                            |
| 9 (2)          | <p><b>Avoid conflict of interest</b></p> <p>A Board approved Related Party Transaction Policy is in place which deals with different related parties to avoid any conflicts of interest that may arise from any transactions with the related parties</p>  | Complied             | Refer page 73              |
| 9 (3)          | <p><b>Related Party Transactions covered in the Direction</b></p> <p>A Board approved Related Party Transaction Policy is in place which deals with different types of related party transactions as per the direction and for the Company to avoid any conflicts of interest that may arise from such transactions with the identified related parties.</p> | Complied             | Refer page 73              |

## CORPORATE GOVERNANCE (Cont...)

| Rule reference | Principle and compliance   | Status of compliance | Reference to Annual Report |
|----------------|--|----------------------|----------------------------|
| 9 (4)          | <p><b>Prohibit engaging in transactions with a related party in a manner that would grant such party “more favorable treatment”</b></p> <p>A monitoring system is in place at the Company where the Company extracts quarterly reports on all related party transactions which are verified by the Compliance Officer to ensure that the Company does not grant related parties more favorable treatment than accorded to other customers.</p> | Complied             |                            |
| <b>10</b>      | <b>Disclosures</b>   |                      |                            |
| 10 (1)         | <p><b>Disclosure of Financial Statements</b></p> <p>Annual audited financial statements and interim financial statements were prepared in accordance with formats prescribed by the supervisory and regulatory authorities and accounting standards and are published in the newspapers in all three languages.</p>  | Complied             |                            |
| <b>10 (2)</b>  | <b>Responsibility of Board to ensure appropriate disclosure in the Annual Report</b>   |                      |                            |
| a)             | <p><b>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</b></p> <p>Refer the “Report of the Board of Directors on the Affairs of the Company” in this annual report</p>  | Complied             | Refer pages 68 - 69        |
| b)             | <p><b>Report on Company’s Internal Control systems</b></p> <p>Refer the “Directors’ Statement on Internal Controls over Financial Reporting” in this annual report</p>   | Complied             | Refer pages 77 - 78        |
| c)             | <p><b>External Auditor’s Certification on the effectiveness of the internal control mechanism</b></p> <p>Refer the “Directors’ Statement on Internal Controls over Financial Reporting” in this annual report</p>  | Complied             | Refer pages 77 - 78        |
| d)             | <p><b>Details of Directors, including names, transactions with the Company</b></p> <p>Refer the “Report of the Board of Directors’ on the Affairs of the Company” and notes to the financial statements on related party transactions in this annual report</p>  | Complied             | Refer pages 68 - 69/174    |

| Rule reference | Principle and compliance   | Status of compliance | Reference to Annual Report |
|----------------|--|----------------------|----------------------------|
| e)             | <p><b>Fees/remuneration paid by the Company to the Directors in aggregate</b></p> <p>Refer the "Report of the Board of Directors' on the Affairs of the Company" and notes to the financial statements on related party transactions in this annual report</p>   | Complied             | Refer pages 68 - 69/174    |
| f)             | <p><b>Net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds</b></p> <p>Accommodations outstanding as a percentage of the Company's capital funds;<br/>Directors: NIL<br/>Other KMPs: Rs. 18.6 Mn, (0.12% )</p>   | Complied             |                            |
| g)             | <p><b>Aggregate value of remuneration paid to and transactions with KMP's</b></p> <p>Remuneration paid to KMPs (including Executive Directors): Rs. 246 Mn</p> <p>Accommodations to KMPs (including Executive Directors):<br/>Rs. 18.6 Mn</p> <p>Deposits made by key management (including Executive Directors) : 44.7 Mn</p> | Complied             |                            |
| h)             | <p><b>Certification of Compliance</b></p> <p>Refer the "Report of the Board of Directors' on the affairs of the Company.</p>   | Complied             | Refer pages 68 - 69        |
| i)             | <p><b>Statement of Regulatory and supervisory concerns</b></p> <p>As per CBSL onsite Examination Report, CBSL has not directed the Company to disclose any such instances during the year 2021/22.</p>   | Complied             |                            |
| j)             | <p><b>External Auditors Certification of Compliance</b></p> <p>The External Auditors have carried out an agreed upon procedure engagement on corporate governance and have issued the factual findings report in this regard</p>   | Complied             |                            |

## CORPORATE GOVERNANCE (Cont...)

The following table indicate the status of compliance on the contents of Annual Report in terms of the listing rules of the CSE Rule No. 7.6

| Rule No.   | Disclosure Requirement   | Section/Reference   |
|------------|--|---|
| 7.6 (i)    | Names of the Directors who held duties during the financial year   | Refer Page 53   |
| 7.6 (ii)   | Principal activities of the Company and its subsidiaries during the year and any changes there in  | Refer Pages 68 - 69   |
| 7.6 (iii)  | The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held   | Refer Page 180  |
| 7.6 (iv)   | The public holding percentage  | Refer Pages 179 - 182   |
| 7.6 (v)    | Directors' and Chief Executive Officer's holding in shares of the Company at the beginning and end of the financial year   | Refer Page 182  |
| 7.6 (vi)   | Information pertaining to material foreseeable risk factors  | Refer Pages 44 - 50   |
| 7.6 (vii)  | Details of material issues pertaining to employees and industrial relations  | There were no material issues pertaining to employees and industrial relations. |
| 7.6 (viii) | Extents, locations, valuations and the number of buildings of the Company's land holdings and investment properties  | Refer Note 18 and 19 of the Audited Financial Statements in this Annual Report. |
| 7.6 (ix)   | Number of shares representing the stated capital   | Refer Page 179  |
| 7.6 (x)    | A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings  | Refer Page 179  |
| 7.6 (xi)   | Ratios and market price information: <ul style="list-style-type: none"> <li>• Equity <ol style="list-style-type: none"> <li>1. Dividend per share</li> <li>2. Dividend pay out</li> <li>3. Net asset value per share</li> <li>4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year)</li> </ol> </li> <li>• Debt (only if listed) <ol style="list-style-type: none"> <li>1. Interest rate of comparable government security</li> <li>2. Debt/equity ratio</li> <li>3. Interest cover</li> <li>4. Quick asset ratio</li> <li>5. The market prices and yield during the year</li> <li>6. Any changes in credit rating</li> </ol> </li> </ul> | Refer Page 182<br><br><br><br><br><br>Refer Page 183                            |
| 7.6 (xii)  | Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value  | Not Applicable  |
| 7.6 (xiii) | Details of funds raised through a Initial Public issue, Rights Issue and private Placement   | Not Applicable  |

| Rule No.  | Disclosure Requirement  | Section/Reference   |
|-----------|---|---|
| 7.6 (xiv) | Information in respect of Employee Share Ownership or Stock Option Scheme <ul style="list-style-type: none"> <li>• Total number of shares allotted during the financial year</li> <li>• Price at which shares were allotted</li> <li>• Highest, lowest &amp; closing price of the share recorded during the financial year</li> <li>• Details of funding granted to employees (if any)</li> </ul> | Not Applicable  |
| 7.6 (xv)  | Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules  | Refer "Report of the Board of Directors on the Affairs of the Company", "Report of the Board Audit Committee", "Report of the Remuneration Committee", "Report of the Board Integrated Risk Management Committee" and Corporate Governance section in this Annual Report. |
| 7.6 (xvi) | Related Party transactions exceeding ten (10) percent of the Equity or five (5) percent of the total assets of the Entity as per Audited Financial Statements, whichever is lower   | Not applicable as there were no related party transactions that have exceeded the stipulated limit.   |

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

The directors have pleasure in presenting to the shareholders the annual report of the board of directors (the "Board") for the year ended 31st March, 2022. This report contains information conforming to the requirements under the Companies Act No. 7 of 2007 (the "Companies Act") and other information required by the Listing Rules of the Colombo Stock Exchange (the "Listing Rules").

## PRINCIPAL ACTIVITIES

The principal activities of Commercial Credit and Finance PLC (the "Company") are accepting deposits, granting of leasing facilities, hire purchase facilities, personal loans, micro finance loans, gold loans and other credit facilities.

## CHANGES TO THE NATURE OF BUSINESS

There were no significant changes to the principle activities of the Company during the financial year ended 31st March, 2022.

## FINANCIAL STATEMENTS

The financial statements for the year ended 31st March, 2022 are set out in this annual report.

## DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for preparing and presenting the financial statements, as set out in this annual report. The financial statements have been prepared in conformity with the Sri Lanka Accounting Standards set by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act.

The directors are of the view that the financial statements give a true and fair view of the state of affairs of the Company and of the profit for the year then ended.

## SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are given on pages 91 to 106. The Directors consider that, in preparing these financial statements, suitable accounting policies have been used which are applied consistently and supported by reasonable and prudent judgment and that all applicable accounting standards have been followed. The financial statements are prepared on a Going Concern basis.

## CORPORATE GOVERNANCE

The Board ensures that the Company's corporate governance framework remain robust and relevant. The corporate governance practices within the Company are set out in pages 51 to 67 of this report.

## DIRECTORS

The names and the profiles of the directors as who held office during the year are set out on Pages 17 to 21.

## RELATED PARTY TRANSACTIONS

The Related Party Transaction Review Committee considers all transactions that require approval, in line with the Company's Related Party Transaction Policy and in compliance with section 9 of the Listing Rules, Sri Lanka Accounting Standard and the Directions issued by the Central Bank of Sri Lanka and are disclosed in Note 52 to the financial statements.

## INTEREST REGISTER

An interest register is being maintained as required by the Companies Act.

## DIRECTORS' SHAREHOLDING

The shares held by the directors at the beginning and at the end of the financial year were as follows. (The Articles of Association of the Company do not stipulate a share qualification for directors):

|   | 31.03.2022 | 31.03.2021 |
|---|------------|------------|
| Mr. E.D.P. Soosaipillai                           | NIL        | NIL        |
| Mr. R.S. Egodage                                  | NIL        | NIL        |
| Ms. G.R. Egodage                                  | NIL        | NIL        |
| Mr. P.T. Fisher<br>(resigned on 11.02.2022)       | N/A        | NIL        |
| Mr. K. Vander Weele                               | NIL        | NIL        |
| Mr. P.S.R.C. Chitty                               | 429,808    | 429,808    |
| Mr. L.L.S. Wickremasinghe                         | NIL        | NIL        |
| Ms. T. M. L. Paktsun                              | NIL        | NIL        |
| Ms. G.A.M. Edwards                                | NIL        | NIL        |
| Mr. G.B. Egodage<br>(appointed on 01.10.2021)     | NIL        | N/A        |
| Dr. R. Saravanamuttu<br>(appointed on 10.09.2021) | NIL        | N/A        |

There are no Company debentures held by the directors.

## DIRECTORS' FEES & EMOLUMENTS

Directors' fees and emoluments for the financial year ended 31st March, 2022, was LKR 11,310,000/- (2021- LKR11, 089,500/-).

## DONATIONS

During the year the Company has made LKR 1,190,158/- as charitable contributions (2021-LKR 891,280/-).

## PROPERTY, PLANT & EQUIPMENT

The details of the property, plant & equipment of the Company, additions during the year and the depreciation charges for the year are shown in Note No. 19 to the financial statements. The directors consider the market value of the property, plant & equipment as at 31st March, 2022 not to be significantly different to the amounts disclosed.

## STATED CAPITAL

The stated capital of the Company remains at LKR 2,150,640,315/- consisting of 318,074,365 Ordinary (Voting) Shares. The shares of the Company are listed on the Colombo Stock Exchange (CSE).

## SHAREHOLDERS

The total shareholder base of the Company as at 31st March, 2022 was 2,687 (2021 - 1,774). The distribution of the shareholding and a list of the 20 major shareholders are given under Investor Information in page 180 of this report.

## STATUTORY PAYMENTS

The directors, to the best of their knowledge and belief are satisfied that all statutory payments had been made up to date.

## COMPLIANCE

We certify that the Company complies with the prudential requirements, regulations, laws and internal controls and are taking measures to rectify any non-compliance

## AUDITORS

The financial statements for the period under review have been audited by Messers Ernst & Young, Chartered Accountants and the audit report is set out in pages 82 to 85 of this report.

The audit & audit related fees and non-audit fees payable to Ernst & Young for the year under review amounted to LKR 6,464,000 /- and LKR 637,156/- respectively.


As far as the directors are aware, the auditors do not have any relationship other than that of an auditor with the Company or any of its subsidiaries.

A resolution re- appointing Ernst & Young, Chartered Accountants as the auditors of the Company and authorizing the directors to determine their remuneration will be proposed at the annual general meeting.

By Order of the Board.



**Corporate Services (Private) Limited**  
Secretaries  
12<sup>th</sup> August 2022  
Colombo



**E. D. P. Soosaipillai**  
Chairman



**R. S. Egodage**  
Director

# REPORT OF THE BOARD AUDIT COMMITTEE

The Board audit Committee (BAC) supports the Board in discharging its responsibilities and exercises oversight over financial reporting, internal audit, internal controls and the external audit. The Charter of the BAC approved by the Board clearly defines the Terms of Reference of the Committee and regulates the composition, role and responsibilities of the BAC.

The Committee is empowered by the Board to:

- Ensures that financial reporting systems in place are effective and well managed in order to provide accurate, appropriate and timely information to the Board, Regulatory Authorities, the Management and other stakeholders.
- Monitor and review the adequacy and effectiveness of accounting policies, financial and other internal controls and the financial reporting process
- Exercise independent oversight of the Company's external and internal audit functions and ensures the independence and effectiveness of both audit functions.
- Review Company compliance with relevant legal and regulatory requirements and accounting standards in the preparation and presentation of financial information and monitor the integrity of the Financial Statements and other reports issued by the Company in terms of disclosure requirements

## COMPOSITION OF THE COMMITTEE

The Committee consists of three Non-Executive Directors, the majority of whom are independent. Ms. T.M.L. Paktsun an Independent Director is the Chairperson and the other members are Mr. L.L. S. Wickramasinghe and Mr. G.B. Egodage. Brief profiles of the Members are given on pages 17 to 21 of the Annual Report.

The Committee held 15 meetings during the year ended 31 March 2022. The proceedings of these meetings are regularly reported to the Board.

The Committee invited members of the senior management team to participate on a need's basis including the Head of Internal Audit, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Chief Risk Officer and the Compliance Officer. The Company's External auditors and members of the Operational Management team are also invited to participate when deemed necessary.

## ACTIVITIES DURING THE YEAR

### FINANCIAL REPORTING, RISKS AND INTERNAL CONTROLS

- The Committee supported the Board in its oversight of the preparation of the financial statements by ensuring the statements were prepared in accordance with the Company's accounting records and in compliance with the provisions of Sri Lanka Accounting Standards and the Companies Act No7 of 2007
- The Committee ensured that the accounting policies and practices are appropriate and adequate internal controls and procedures were in place to provide reasonable assurance that the financial reporting system is effective and provides reliable and timely information.
- The Committee reviewed the impact of adopting new accounting standards, the accounting treatment of significant risk and uncertainties and key estimates and judgments material to the Company's financial

reporting and whether disclosures made in the published financial statements were adequate and appropriate

- The Committee satisfied itself that adequate internal controls and procedures are in place to provide reasonable assurance that the Company's assets are safeguarded.
- The existing models were further improved to incorporate the potential implications of the Covid 19 pandemic and the moratorium schemes introduced to support the recovery of the economy based on stress testing the exposure to sectors with perceived elevated risks and adjustments made to economic factors.

### INTERNAL AUDIT

- Reviewed the independence, objectivity and performance of the internal audit function, the findings of internal audits completed and their evaluation of the Company's internal control system.
- Reviewed and approved the internal annual audit plan for the year and evaluated the adequacy and frequency of coverage.
- Reviewed the internal audit reports and significant findings with management responses and the status of implementation on a regular basis.
- Evaluated the Internal Audit function covering key areas such as scope, quality of internal audits, independence and resources.

### EXTERNAL AUDIT

- Assisted the Board in engaging External Auditors for audit services, in compliance with regulatory provisions.
- Monitored and assessed the independence, objectivity and effectiveness of the External Auditor and recommended their re-appointment and remuneration for shareholder approval.
- Discussed the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the Auditor prior to commencement of the annual audit.
- Discussed all relevant matters arising from the interim and final audits, together with the Management Letter and management responses thereto.
- The Committee met the External Auditor in the absence of the Management to ensure that the Auditors had the independence to discuss and express their opinion on any matter and that there was no limitation of scope in relation to the audit. It provided assurance to the Committee that there was no cause for concern.
- Reviewed the non-audit services provided by the auditors, ensuring such assignments do not fall within the restricted services and the provision of such services would not impair the external auditor's independence and objectivity.

### COMMITTEE EFFECTIVENESS

The Committee completed the annual evaluation process with a self-assessment in April 2022 and concluded that the Committee continues to operate effectively.



**T.M.L. Paktsun**  
Chairperson – Board Audit Committee  
23<sup>rd</sup> May 2022  
Colombo



# REPORT OF THE BOARD REMUNERATION COMMITTEE

The Remuneration Committee ("Committee") was reconstituted by the Board on 20th June 2020, and comprises of three (3) Independent Non-Executive Directors, Mr. E.D.P. Soosaipillai (Chairman), Ms. T.M.L. Paktsun and Dr. R. Saravanamuttu.

Brief profiles of the Members are given on pages 17 to 21 of the Annual Report.

The Committee is independent of the Management and free from any business, personnel or any other relationships that may interfere in making independent judgments.

During the year under review, 5 Committee meetings were held and the attendance of the members at these meetings is given on page 53 of this Report.

The Committee is responsible to the Board for reviewing the remuneration of the Executive Director/Chief Executive Officer and to recommend appropriate remuneration benefits and other payments.

The Committee established a non-discriminatory remuneration policy for all members of the Board of Directors so far as their contributions on the Board and their participation and leadership of the Board Sub-Committees are concerned. This policy shall be reviewed once each year.

The Committee shall consider/evaluate the performance of the CEO against the targets and goals set and determine the basis for revising the remuneration, increments, bonuses and other performance based incentives of the CEO.

The Committee met each calendar quarter since reconstitution, and a signed statement by the Chair of the Committee on the matters highlighted at the meeting and included in the minutes are tabled at the Board meetings as appropriate. The recommendations made by the Committee are discussed at Board meetings and the final determination based on such recommendations if any is required, is made by the Board of Directors.



**E.D.P. Soosaipillai**

Chairman -Board Remuneration Committee

20<sup>th</sup> June 2022  
Colombo

# REPORT OF THE BOARD NOMINATION COMMITTEE REPORT

The Nomination Committee ("Committee") was reconstituted by the Board on 29th June 2020, and comprises of two Independent Non-Executive Directors, Mr. E.D.P. Soosaipillai (Chairman), Mr. L.L.L. Wickremasinghe and Mr. G.B Egodage, Non Independent Non-Executive Director and Mr. R.S. Egodage, Executive Director and CEO.

Brief profiles of the Members are given on pages 17 to 21 of the Annual Report.

The Committee is independent of the Management and free from any business, personnel or any other relationships that may interfere in making independent judgments.

During the year under review, 6 Committee meetings were held and the attendance of the members at these meetings is given on page 53 of this Report.

The Committee supports the Board in fulfilling its statutory and fiduciary responsibilities relating to the selection/appointment of new Directors, re-appointment of current Directors, selection and appointment of the CEO and the Executive Directors and to ensure the highest levels of Corporate Governance in the Company and among members of the Board of Directors.

Whilst exercising general oversight with respect to the corporate governance by the Board of Directors the Committee also considers and recommends succession arrangements from time to time for the retiring Directors, the Chief Executive Officer and Executive Directors, taking into account the additional/new expertise required. The Committee regularly reviewed the structure, size, composition including gender representation and competencies (including the skills, knowledge and experience) of the Board members and made recommendations to the Board with regard to any changes;

The Committee Reviewed and recommended to the Board for approval the Board and Board Sub-Committee's composition is in compliance with the listing rules of the CSE and the regulations of the CBSL, established a procedure for the conduct of Board and Board Sub-Committee meetings and reviewed the managements responses and actions to the CBSL findings and those of the External Auditors on matters of Corporate Governance.



**E. D. P. Soosaipillai**

Chairman- Board Nomination Committee

16<sup>th</sup> June 2022  
Colombo

# REPORT OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

## COMPOSITION OF THE COMMITTEE

The Board Related Party Transactions Review Committee (the Committee) of the Company was established as a Board Sub-Committee on 22nd September 2015. Its scope is to conform to the requirements of the Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka.

The Committee appointed by the Board of directors consists of two independent non-executive directors and the Chief Operating Office/ Executive Director. Ms T M L Paktsun an Independent Director is the Chairperson of the Committee. Mr L L S Wickremasinghe and Mr P S R C Chitty are the other two members.

Brief profiles of the Directors representing the Committee are given on pages 17 to 21

The Committee held four meetings during the year under review. The proceedings of the Committee meetings were regularly reported to the Board of Directors.

## PURPOSE OF THE COMMITTEE

The Committee was formed to assist the Board in reviewing all related party transactions carried out by the company and is governed by the Terms and References approved by the Board of Directors.

## THE MANDATE OF THE COMMITTEE INCLUDES

- To evaluate and consider all transactions with related parties (except those expressly exempted by Listing Rule 9.5 of the CSE) in order to ensure that transactions with related parties are on normal commercial terms similar to those afforded to non-related parties.
- Determining whether Related Party Transactions that are to be entered into by the company require Board or shareholder approval
- Establishing guidelines for recurrent related party transactions for senior management to follow in its ongoing dealings with the related party
- Ensuring that no Director of the company shall participate in any discussion of a proposed related party transaction for which he or she is a related party, unless such Director, is requested to do so by the Committee for the express purpose of providing information concerning the related party transaction to the Committee.
- Ensuring immediate market disclosures and disclosures in the Annual Report as required by rules /regulations are made on a timely and detailed manner.

## SCOPE OF OPERATION

The committee has ensured that the company has the necessary processes to identify, review and disclose Related Party transactions.

The monitoring of the system in place to capture information on Related Party Transactions and to ascertain that these transactions and dealings are in strict conformity with Statutory and Regulatory requirements the Company is obliged to adhere to.

The monitoring of the system in place to obtain a comprehensive list of Related Parties based on latest available declarations signed off by Directors and Key Management Personnel.

The monitoring of the quarterly Reports on Related Party Transactions presented to the Committee by comparing Related Party Transactions with benchmarked criteria applicable for Non Related Party Transactions, to evaluate and determine that related Parties have not received more favourable or preferential consideration.

The Committee has the right to access as well as the right to call for clarifications and explanations from the Management and Auditors on any allied matter.

## COMMITTEE EFFECTIVENESS

The committee completed the annual evaluation process with a self-assessment in May 2022 and concluded that the Committee operates effectively.

## RELATED PARTY TRANSACTIONS DURING THE PERIOD

Details of Related Party Transactions are disclosed under Note No. 52 to the financial statements in this Annual Report



### T.M.L. Paktsun

Chairperson-Related Party Transaction Review Committee  
10<sup>th</sup> May 2022  
Colombo

# REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Board's Integrated Risk Management Committee (BIRMC) has been established by the Board of Directors in compliance with the corporate governance for Licensed non-bank financial institutions in Sri Lanka, issued by the Monetary Board of the CBSL. The composition and the scope of work of the committee are in line with the same, as set out in the BIRMC charter, and clearly sets out the membership, authority, duties and responsibilities of the committee.

The BIRMC assists the Board of Directors in fulfilling its responsibilities for overseeing the Company's risk management framework and activities, including the review of major risk exposures and the steps taken to monitor and control those exposures pertaining to the numerous of risks faced by the company in its business operations. The Corporate Management is responsible for identifying relevant risks and notifying the BIRMC. Duties of the BIRMC include determining the adequacy and effectiveness of such measures, and to ensure that the actual overall risk profile of the company conforms to the desirable risk appetite of the company, as approved by the Board.

The BIRMC is made up of three Independent Non-Executive Directors, One Non-Executive Director, Chief Executive Officer, an Executive Director and Members of the Corporate Management supervising broad risk categories.

During the year under review the BIRMC was made up of the following:

- Mr. Lasantha Wickremasinghe- Independent Non-Executive Director - Chairman
- Ms. Tamara Mu Lin Lam Paktsun- Independent Non-Executive Director
- Mr. Bandula Egodage- Non-Executive Director (w. e. f 15th September 2021)
- Ms. G. Edwards Independent- Non-Executive Director (w. e. f 11th June 2021)
- Mr. R.S. Egodage- Executive Director/Chief Executive officer
- Mr. P.S.R.C. Chitty- Executive Director/Chief Operating officer
- Mr. J. Deshapriya- Executive Management Member
- Mr. K.L.A. Senevirathne- Executive Management Member
- Mr. N. Madawala- Executive Management Member
- Mr. K.A. Buddhika- Management Member
- Mr. O.M. Anura Sampath- Management Member

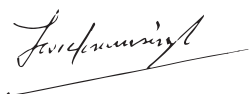
Twelve (12) Meetings of the BIRMC were held during the period under review and attendance of the Directors at these meetings is given in this Annual Report. All key risks such as credit, operational, market, liquidity, information technology, strategic, etc. are assessed by the BIRMC regularly through a set of defined risk indicators. The Committee works very closely with the Key Management Personnel and the Board in fulfilling its statutory, fiduciary, and regulatory responsibilities for risk management. The risk profile of the company is communicated to the Board of Directors periodically through the Risk Assessment Report submitted to the Board following each BIRMC meeting. A self-assessment of the effectiveness of the BIRMC was made by the members of the committee and assessments was conveyed to the Board of Directors.

## ACTIVITIES IN 2021/2022

In discharging the above duties and responsibilities vested on the BIRMC, the Committee reviewed significant risks during the year. The activities carried out by the Committee are include below

- Main focus area for the year 2021/2022 was on the deteriorated credit quality level of the industry amidst socio-economic challenges that the country is facing. Deliberations on sectors affected and the factors that are within the control of the Company to mitigate the risks were given due understanding with a view to arresting deterioration of credit quality.
- Excess liquidity arising out of mediocre credit growth, challenges stemming from decreasing interest rates attracted the attention of the Committee in most of the deliberations leading to formulation of strategies by the Management.
- Amid the heightened cyber threats in the environment, the BIRMC focused on the progress of the key information security of the company which is included in data leakage prevention policy implementation.
- Reviewed periodic reports from the Management on the metrics used to measure, monitor and manage risks, including acceptable and appropriate levels of risk exposures.
- Improvements were recommended to the company's risk management framework and related policies and procedures as deemed suitable.
- Reviewed and revised the Terms of Reference of all Management Committees dealing with specific risks or some aspects of risk, such as Asset and Liability Committee and Executive Credit Committee. Actions initiated by the Senior Management were monitored periodically to verify the effectiveness of the measures taken by these respective Committee.
- Assess the compliance function to ascertain the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business Operations
- Assessed the impact of changes in interest yield, gross loan portfolio, cost of funds, impairment charges and other key parameters by using a range of additional stress tests.
- Actions were taken to mitigate enhanced Cyber Risk and data leakage prevention by conducting periodic internal and external vulnerability assessments, timely patch upgrades/update databases, applications, middleware and operating systems, strengthen the security measures
- Live implementation has been completed in Credit Risk Rating Models to assess the Credit risk of the customer to support the customer for the credit decision.
- The Company's Risk Appetite limits were reviewed based on the strategic plan of the company.
- Involvement in the development of an Early Warning System to management to proactively access information regarding potential risks of the company.
- The Company's Credit Risk Management framework was further strengthened with the recent review and implementing credit delegation authority of the company.

On behalf of the Board Integrated Risk Management Committee,



**Lasantha Wickremasinghe**

Chairman - Board Integrated Risk Management Committee  
22<sup>nd</sup> June 2022

# CEO'S & CFO'S RESPONSIBILITY STATEMENT

The Financial Statements of the Commercial Credit and Finance PLC (Company) as at 31 March 2022 are prepared and presented in compliance with the following regulatory requirements:

- I. Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by The Institute of Chartered Accountants of Sri Lanka
- II. Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- III. Companies Act No. 07 of 2007
- IV. Finance Business Act No. 42 of 2011
- V. Directions, circulars and guidelines issued to Licensed Finance Companies by the Central Bank of Sri Lanka
- VI. Listing Rules of the Colombo Stock Exchange

The Accounting Policies of the Company are in compliance with Sri Lanka Accounting Standards (SLFRS's and LKAS's) issued by The Institute of Chartered Accountants of Sri Lanka and have been consistently applied by the Company

Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Board Audit Committee and the External Auditors. All significant items have been disclosed and explained by way of Notes to the Financial Statements.

We confirm to the best of our knowledge, that the Financial Statements presented herewith give a true and fair view of the financial position, Statement of Profit or Loss and the cash flows of the Company for the year ended 31 March 2022. We also confirm that the Company has adequate resources to continue its operations into the foreseeable future and accordingly adopt the going concern basis in preparing these Financial Statements.

We accept responsibility for the integrity and the objectivity of the Financial Statements. The estimates and judgments relating to the Financial Statements were made on a reasonable and prudent basis; in order that the Financial Statements reflect a true and fair view; the form and the substance of transactions and that the state of affairs of the Company is reasonably presented. To ensure this, the company has taken proper and sufficient care in implementing internal control systems, for safeguarding assets and for preventing and detecting fraud as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. The Internal Auditor of the company has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the company are consistently followed. However, there are inherent limitations that should be recognized in weighing the assurance provided by any system of internal control and accounting.

The Financial Statements of the Company were audited by Messrs Ernst & Young, Chartered Accountants. The Report issued by them is available on page 82 to 85 of this Report. The audit and non-audit services provided by Messrs Ernst & Young are approved by the Board Audit Committee, to ensure that the provision of such services does not contravene with the guidelines issued by the Central Bank of Sri Lanka or impair Messrs Ernst & Young's independence.

The Board Audit Committee meets periodically with the internal audit team and the external auditor to review their audit plans and to discuss their reports on internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance. The Board Audit Committee Report is available on page 70.

We confirm to the best of our knowledge that

- The Company has complied with all applicable laws, rules, regulations and guidelines;
- There is no material non-compliance;
- There is no material litigation against the company other than those disclosed in Note 50 of the Financial Statements section of this Annual Report;
- All taxes, duties, levies and all statutory payments by the company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the company as at the reporting date have been paid, or where relevant provided for.



**Janaka Deshapriya**  
Chief Financial Officer



**Roshan Egodage**  
Director/Chief Executive officer

12<sup>th</sup> August 2022

# STATEMENT OF DIRECTORS RESPONSIBILITY FOR FINANCIAL REPORTING

The statement sets out the responsibility of the Board of Directors (the "Board") in relation to the financial statements of Commercial Credit and Finance PLC (the "Company") prepared in accordance with the provisions of the Companies Act No. 07 of 2007 (the "Companies Act").

The responsibility of the external auditor in relation to the financial statements is set out in the report of the auditors given on pages 82 to 85 of the annual report.

In terms of sections 150 (1), 151, 152) and 153(1) and (2)) of the Companies Act, the directors are required to prepare financial statements for each financial year, which should give a true and fair view of the state of affairs of the Company as at the end of each financial year and place them before a general meeting. The financial statements comprise of the Statement of Financial Position as at 31 March 2022, the Statement of Profit or Loss and the Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flow for the year then ended and notes thereto.

The financial statements of the Company gives a true and fair view of the:

- Financial position of the Company as at 31 March 2022 and
- Financial performance of the Company for the financial year then ended.

In preparing the financial statements, the directors are required to ensure that appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and all applicable accounting standards as relevant have been complied with and material departures, if any, have been disclosed and explained.

The directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company. The financial statements prepared and presented in this report have been prepared based on Sri Lanka Accounting standards (SLFRSs/LKASs) and are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

The Board has also instituted effective and comprehensive systems of internal control for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year and is under regular review of the Board. The results of such reviews carried out during the year are given on pages 77 to 78 in the Directors Statement on Internal Control over Financial Reporting. The External Auditors Assurance Report on the Directors Statement on Internal Control is given on page 79.

The Board has taken steps to ensure that the Company maintains proper books of accounts and review the financial reporting system at their regular meetings and also through the Board Audit Committee. The report of the Board Audit Committee is given on page 70.

The Board also approves the interim and annual financial statements prior to their release following a review and recommendation by the Board Audit Committee.

The Board accepts responsibility for the integrity and objectivity of the financial statements presented in this annual report.

The Company's external auditors, Messer Ernst & Young were provided with every opportunity to carry out reviews and checks on the system of internal control they considered appropriate and necessary for expressing their independent audit opinion on the financial statements and the maintaining of financial records. They have examined the financial statements made available to them by the Company together with the financial records, related data and minutes of shareholders' and directors' meetings and expressed their opinion which appears as reported by them on pages 82 to 85.

The financial statements of the Company have been certified by the Chief Financial Officer of the Company, the officer responsible for their preparation as required by section 150 (1) (b) and 152(1) (b) of the Companies Act and have been signed by two directors of the Company as required by section 150 (1) (c) and 152(1) (c) of the Companies Act.

Further as required by section 56(2) of the Companies Act, the Board has made an assessment of the solvency of the Company immediately after the distribution of the proposed final dividend and confirms that the Company satisfies the solvency test as required by section 57 of the Companies Act and has obtained a certificate from the external auditors, prior to declaring the final dividend of Rs. 2 for the year ended 31st March 2022.

The directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities, which were due and payable by the Company as at the reporting date have been paid or where relevant provided for.

Accordingly, the directors are of the view that they have discharged their responsibilities as set out in this statement

By order of the Board



**CORPORATE SERVICES (PVT) LTD**

Secretaries

12<sup>th</sup> August 2022

# DIRECTORS STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors present this statement on internal control over Financial Reporting of the company in compliance with the section 10 (2) (b), of the Finance Companies Direction No. 3 of 2008, as amended by Finance Companies (Corporate Governance amendment) Direction No. 6 of 2013.

The Board is responsible for ensuring the adequacy and effectiveness of the system of internal control at Commercial Credit and Finance PLC. The system is designed, to manage the Company's key areas of risk within an acceptable risk profile and established risk appetite, rather than to eliminate the risk of failure in achieving the business objectives of the Company. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing significant risks faced by the Company and this process includes enhancing the system of internal controls in response to changes to the Company's enabling business environment and regulatory guidelines.

The process is regularly reviewed by the Board and the Board is of the view that the system of internal controls in place over financial reporting is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with applicable and relevant accounting principles and regulatory requirements.

The Management supports the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks encountered with and in the design, operation and monitoring of suitable internal controls to mitigate these risks and their impact on the Company

## KEY INTERNAL CONTROL PROCESSES

The key processes established in monitoring the adequacy and integrity of the system of internal controls with respect to financial reporting include the following,

- Monitoring of the Company's operational verticals in ensuring that the Company's operations are conducted in accordance with the corporate objectives, the Board's stated risk appetite, strategies and the annual budget as well as the policies and business decisions that have been approved.
- Board Sub-Committees regularly develop, review and recommend to the Board the Company's Policies and procedures covering all functional areas of the Company and recommend these to the Board for approval for adoption.
- The Internal Audit function of the Company checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using appropriate sampling and rotational procedures and highlights significant findings of concern. Audits are carried out on all departments, branches, locations and units in accordance with the annual audit plan reviewed and approved by the Board Audit Committee (BAC). The frequency of audits is determined by the level of risk assessed, to provide an independent and objective report. Findings of Internal Audit are submitted to the BAC for review and observations at their periodic meetings.
- The BAC reviews internal control issues identified by the Internal Audit Function, External Auditor, Regulatory authority and the management and evaluates the adequacy of specific rectification actions, detective controls and preventive controls in ensuring the underlying systemic effectiveness of the risk management and internal control systems are continuously improved. The BAC also carries out a review of the effectiveness of the internal audit function with particular emphasis on the scope and quality of internal audits. The minutes of the BAC meetings are tabled at the meetings of the Board of Directors on a periodic basis. Further details of the activities undertaken by the BAC are set out in the Board Audit Committee Report which appears on page 70.
- The Board Integrated Risk Management Committee (BIRMC) is established to support the Board in overseeing the overall management of principal areas of risk of the Company. The Committee works with Key Responsible Persons and Management Level Committees which includes representatives from key business units of the Company to support the Board with the implementation of policies advocated by the BIRMC.
- In assessing the internal control systems over financial reporting, identified officers of the Company continue to review and update all procedures and controls that are connected with significant accounts and disclosures in the Financial Statements of the Company. The Internal Audit Department of the Company continues to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.
- The Company adopts Sri Lanka Accounting Standards comprising of SLRFS's and LKAS's and progressive improvements to processes to comply with the new requirements of recognition, measurement, classification and disclosures were implemented. Financial reporting and management information processes will be further strengthened by continuous monitoring and steps are taken to make improvements to the process where required to enhance effectiveness and efficiency.

## DIRECTORS STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (Cont...)

- During the year the Company further strengthened its internal control processes to ensure that the potential impact of the COVID-19 Pandemic and moratorium schemes introduced to support the recovery of the economy were accurately captured in the financial statements. Further the company provided remote system access to employees to overcome disruptions to workplace access and the management ensured that all critical activities and key reconciliations were performed without interruption.
- The recommendations made by the External Auditors in connection with the internal control system in the previous year's audit was taken into consideration and appropriate steps taken to implement them where appropriate.

### CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka and the listing rules of the CSE.

### REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have reviewed the above Directors Statement on Internal Control over Financial Reporting for the year and reported to the Board that nothing has come to their 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 of the effectiveness of the internal control system of the Company. Their Report on the Statement of Internal Control is given on page 79.

By order of the Board,



**E. D. P. Soosaipillai**  
Chairman



**R. S. Egodage**  
Executive Director / Chief Executive Officer



**T. M. L. Paktsun**  
Director / Chairperson of Board Audit Committee  
23<sup>rd</sup> May 2022



# INDEPENDENT ASSURANCE REPORT



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Chartered Accountants  
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ey.com

SPF/WDPL/AY

## INDEPENDENT ASSURANCE REPORT

### TO THE BOARD OF DIRECTORS OF COMMERCIAL CREDIT AND FINANCE PLC

#### Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Commercial Credit and Finance PLC ("The Company") to provide assurance on the Directors' Responsibility Statement on Internal Control over Financial Reporting ("The Statement") included in the annual report for the year ended 31 March 2022.

#### Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with section 10(2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008/ section 10 (2) (b) of the finance Leasing (Corporate Governance) Direction no. 4 of 8 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 behavior.

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.

#### Our responsibilities and compliance with SLSAE 3051

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 License Finance Company/Finance Leasing Company on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka.

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

For purpose 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.

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. A A Ludowyke FCA FCMA, Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajjewanani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: G B Goutian ACMA, Ms. P S Piranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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# INDEPENDENT ASSURANCE REPORT

## Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

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 our judgement, having regard to our 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.

## Our 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 has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.

A handwritten signature in black ink, appearing to read 'Emmanuel + Giovanni', is located below the conclusion text.

13<sup>th</sup> June 2022  
Colombo

# FINANCIAL INFORMATION



# INDEPENDENT AUDITORS' REPORT



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SPF/WDPL/AY/MHM

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF COMMERCIAL CREDIT AND FINANCE PLC

#### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of Commercial Credit and Finance PLC ("the Company"), which comprise the Statement of Financial Position as at 31 March 2022, and the Statement of Profit or Loss and Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinion

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. A A Ludowyke FCA FCMA, Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yatagala ACA ACMA

Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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| Key audit matter  | How our audit addressed the key audit matter   |
|---|--|
| <p><b>Impairment allowances for Loan, Lease and Hire Purchase receivables</b></p> <ul style="list-style-type: none"> <li>• As at 31 March 2022, Loan, Lease and Hire Purchase receivables net of impairment allowances amounted to LKR 73.9 Bn and is disclosed in notes 10 &amp; 11. These collectively contributed 79% to the Company's total assets.</li> <li>• Impairment allowances for Loan, Lease and Hire Purchase receivables is a key audit matter due to: <ul style="list-style-type: none"> <li>- materiality of the reported allowance which involved complex calculations; and</li> <li>- significant judgements used in assumptions and estimates made by the management as reflected in note 5.5.5, which in the current year was influenced by the need to assess the change in current economic conditions on forward looking information and the continuing impact of COVID-19 debt moratorium relief measures</li> </ul> </li> </ul> <p>Our audit procedures included amongst others the following:</p> | <p>Our audit procedures included amongst others the following:</p> <ul style="list-style-type: none"> <li>• We assessed the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management</li> <li>• We evaluated the design, implementation and operating effectiveness of internal controls over estimation of the impairment allowances, including testing of related system controls</li> <li>• We checked the completeness, accuracy and classification of the underlying data used in the computation of impairment allowances by agreeing details to relevant source documents and accounting records of the Company</li> </ul> <p>• <b>For Loan, Lease and Hire Purchase receivables assessed on a collective basis for impairment:</b></p> <ul style="list-style-type: none"> <li>• We tested key calculations used in the impairment allowances.</li> <li>• We assessed whether significant judgements used in assumptions and estimate made by the management in the underlying methodology and management overlays were reasonable. We also evaluated the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios. Our procedures were based on the best available information up to the date of our report</li> </ul> <p>• <b>For loans and advances assessed on an individual basis for impairment:</b></p> <ul style="list-style-type: none"> <li>• We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances</li> <li>• We checked the accuracy of the underlying individual impairment calculations</li> <li>• We evaluated the reasonableness of key inputs used in the provision for credit impairment made with the particular focus on current economic conditions. Such evaluations were carried out considering value and timing of cash flow forecasts particularly relating to elevated risk industries, status of recovery action and collateral values</li> <li>• We assessed the adequacy of the related financial statement disclosures set out in notes 10 &amp; 11</li> </ul> |
| <p><b>Financial reporting related IT based Internal controls</b></p> <p>A significant part of the Company's financial reporting process is primarily reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets.</p> <p>Accordingly, financial reporting related IT based Internal controls is considered a key audit matter.</p>   | <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the internal control environment of the processes relating to financial reporting and related disclosures.</li> <li>• We identified and test checked relevant controls of key IT systems related to the Company's financial reporting process.</li> <li>• We evaluated the design and operating effectiveness of IT controls, including those related to user access and change management.</li> <li>• We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of general ledger reconciliations.</li> </ul>   |



## Key audit matter

## How our audit addressed the key audit matter

### Valuation of Investment Properties

As at reporting date 31 March 2022, Investment Properties carried at fair value, amounted to LKR 1.5 Bn. The fair value of such property was determined by external valuers engaged by the Company. The valuation of Investment Properties was significant to our audit due to the use of significant estimates which require significant judgement. Details of the valuation methodology and key inputs used in the valuation are disclosed in note 18 to the financial statements

- We read the professional valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of each property.
- We also assessed the qualifications and expertise of the valuers and reviewed the terms of their engagement with the Company to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.
- We involved our internal specialised resources to review the valuation reports for the selected properties and assessed whether the valuation approach and methods used are in accordance with the established standards for valuation of the properties and suitable for use in determining the fair value for the purpose of assessment of fair value gain/loss and disclosure of fair value in the financial statements. Our internal specialised resources also assessed the assumptions used by the third-party valuers in the valuation process.
- We also assessed the adequacy of the disclosures included in the financial statements regarding the key assumptions which have the highest effect in the determination of the fair value of properties as disclosed in note 18.

## OTHER INFORMATION INCLUDED IN THE 2022 ANNUAL REPORT

Other information consists of the information included in the Company's 2022 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2022 Annual Report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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



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

We also:

1. 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.
2. 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 controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. 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.
5. 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.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### 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.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2199.

13 June 2022  
Colombo

# STATEMENT OF FINANCIAL POSITION

|   | Notes | 2022<br>LKR           | 2021<br>LKR           |
|---|-------|-----------------------|-----------------------|
| <b>Assets</b>   |       |                       |                       |
| Cash and bank balances  | 7     | 2,632,255,116         | 2,239,713,277         |
| Reverse repurchase agreements   |       | 354,147,585           | 1,476,871,848         |
| Placements with banks   | 8     | 1,811,884,152         | 4,487,753,541         |
| Financial assets recognised through profit or loss - measured at fair value | 9     | 5,087,514,674         | 5,494,633,483         |
| Financial assets at amortised cost  |       |                       |                       |
| Loans and receivables   | 10    | 18,990,319,759        | 18,601,016,345        |
| Lease Rentals Receivable & Stocks out on hire                               | 11    | 55,003,014,280        | 49,966,120,204        |
| Debt & other instruments  | 12    | -                     | 253,257,877           |
| Financial assets at fair value through other comprehensive income           | 13    | 2,554,019             | 2,554,019             |
| Other financial assets  | 14    | 461,938,633           | 644,132,392           |
| Inventories   | 15    | 88,973,435            | 71,610,208            |
| Other assets  | 16    | 501,654,644           | 794,383,901           |
| Investment in associate   | 17    | 300,640,397           | 340,823,054           |
| Investment property   | 18    | 1,493,885,665         | 1,478,919,009         |
| Property, plant and equipment   | 19    | 4,826,749,332         | 3,457,055,330         |
| Right of use assets   | 20    | 485,538,621           | 412,836,384           |
| Intangible assets & goodwill  | 21    | 888,783,421           | 940,837,669           |
| Deferred tax Asset  | 28    | 700,374,664           | 467,354,511           |
| <b>Total assets</b>   |       | <b>93,630,228,397</b> | <b>91,129,873,052</b> |
| <b>Liabilities</b>  |       |                       |                       |
| Due to banks  | 22    | 19,229,423,107        | 22,593,203,146        |
| Due to customers  | 23    | 48,077,987,723        | 47,989,536,843        |
| Debt instruments issued   | 24    | 1,295,844,686         | 1,295,844,686         |
| Other financial liabilities   | 25    | 1,988,564,234         | 1,658,937,116         |
| Other liabilities   | 26    | 2,317,261,908         | 1,518,373,695         |
| Post employment benefit obligations   | 27    | 334,424,812           | 395,651,701           |
| Current tax liabilities   |       | 1,193,392,657         | 281,970,260           |
| <b>Total Liabilities</b>  |       | <b>74,436,899,127</b> | <b>75,733,517,448</b> |
| <b>Shareholders' Funds</b>  |       |                       |                       |
| Stated capital  | 29    | 2,150,640,315         | 2,150,640,315         |
| Retained earnings   | 30    | 12,619,872,455        | 9,048,914,434         |
| Reserves  | 31    | 4,422,816,499         | 4,196,800,855         |
| <b>Total Equity</b>   |       | <b>19,193,329,270</b> | <b>15,396,355,604</b> |
| <b>Total Liabilities and Shareholders' Funds</b>                            |       | <b>93,630,228,397</b> | <b>91,129,873,052</b> |
| Commitments and Contingencies   | 50    | 718,603,067           | 476,629,299           |

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



Chief Financial Officer

The Board of Directors is responsible for these financial statements.



Chairman



Director/Chief Executive Officer

Accounting policies and notes from pages 91 to 176 form an integral part of these Financial Statements.

13th June 2022

Colombo



# STATEMENT OF PROFIT OR LOSS

|   |          | 2022                  | 2021            |
|---|----------|-----------------------|-----------------|
|   | Notes    | LKR                   | LKR             |
| Gross Income  | 32       | 21,820,029,659        | 18,191,763,124  |
| Interest income   | 32.1     | 18,365,076,301        | 16,086,955,727  |
| Interest expenses   | 32.2     | (6,416,134,783)       | (7,051,867,805) |
| <b>Net interest income</b>  |          | <b>11,948,941,518</b> | 9,035,087,922   |
| Fee and commission income   | 33       | 1,797,135,534         | 1,072,790,785   |
| Net income from Real estate sales   | 34       | 7,575,360             | 5,800,656       |
| Net (loss)/gain from trading  | 35       | 23,274,836            | 28,156,396      |
| Other operating income  | 36       | 1,423,846,607         | 780,743,520     |
| Change in fair value of Investment property   | 18       | 203,121,021           | 217,316,040     |
| <b>Total operating income</b>   |          | <b>15,403,894,876</b> | 11,139,895,319  |
| Impairment Charges of financial assets  | 37       | (1,778,040,281)       | (1,690,340,885) |
| Net fair value gains/(losses) from financial instruments at fair value through profit or loss |          | 35,247,286            | 67,436,244      |
| <b>Net operating income</b>   |          | <b>13,661,101,881</b> | 9,516,990,679   |
| <b>Operating expenses</b>   |          |                       |                 |
| Personnel expenses  | 38       | (2,786,838,749)       | (2,454,694,077) |
| Depreciation & amortization   | 19,20,21 | (536,566,324)         | (586,686,489)   |
| Other operating expenses  | 39       | (2,534,817,199)       | (2,421,659,253) |
| <b>Operating profit before Tax on financial services</b>                                      |          | <b>7,802,879,608</b>  | 4,053,950,861   |
| Value added tax   | 40       | (1,400,965,963)       | (812,380,400)   |
| <b>Operating profit after Value Added Tax on financial services</b>                           |          | <b>6,401,913,645</b>  | 3,241,570,460   |
| Share of loss of associates   | 41       | (10,569,129)          | (49,176,946)    |
| <b>Profit before Taxation</b>   |          | <b>6,391,344,516</b>  | 3,192,393,514   |
| Income Taxation   | 42       | (1,871,031,635)       | (857,637,307)   |
| <b>Profit for the year</b>  |          | <b>4,520,312,881</b>  | 2,334,756,207   |
| <b>Profit attributable to:</b>  |          |                       |                 |
| Equity holders of the company   |          | 4,520,312,881         | 2,334,756,207   |
| Non-controlling interests   |          | -                     | -               |
|   |          | <b>4,520,312,881</b>  | 2,334,756,207   |
| Basic Earnings Per Share  | 43.1     | 14.21                 | 7.34            |
| Diluted Earnings Per Share  | 43.2     | 14.21                 | 7.34            |
| Dividend Per Share  | 44       | 2.50                  | -               |

Accounting policies and notes from pages 91 to 176 form an integral part of these Financial Statements.

# STATEMENT OF COMPREHENSIVE INCOME

|   |      | 2022          | 2021          |
|---|------|---------------|---------------|
|   | Note | LKR           | LKR           |
| <b>Profit for the year</b>  |      | 4,520,312,881 | 2,334,756,207 |
| Net gains/(losses) on remeasuring financial assets at fair value through other comprehensive income |      | -             | (3,737,842)   |
| <b>Total other comprehensive income to be reclassified to Statement of profit or loss</b>           |      | -             | (3,737,842)   |
| Revaluation gain on land and buildings  |      | -             | 181,566,512   |
| Deferred tax charge relating to revaluation gain on buildings                                       | 29   | -             | (43,575,963)  |
|   |      | -             | 137,990,549   |
| Actuarial gains/(losses) on defined benefit plans   | 27   | 94,535,130    | (6,842,736)   |
| Deferred tax charge/(reversal) relating to actuarial gain on defined benefit plans                  | 28   | (22,688,431)  | 1,642,257     |
|   |      | 71,846,699    | (5,200,479)   |
| <b>Total other comprehensive income not to be reclassified to Statement of profit or loss</b>       |      | 71,846,699    | 132,790,069   |
| Other Comprehensive Income for the year, net of taxes   |      | 71,846,699    | 129,052,227   |
| <b>Total Comprehensive Income for the Year</b>  |      | 4,592,159,580 | 2,463,808,434 |
| <b>Total Comprehensive income attributable to:</b>  |      |               |               |
| Equity holders of the company   |      | 4,592,159,580 | 2,463,808,434 |
| Non-controlling interests   |      | -             | -             |
| <b>Total Comprehensive Income for the year</b>  |      | 4,592,159,580 | 2,463,808,434 |

Accounting policies and notes from pages 91 to 176 form an integral part of these Financial Statements.

# STATEMENT OF CHANGES IN EQUITY

|                                       | Note  | Stated Capital |             | Revaluation Reserve |                | General Reserve |              | Retained Earnings |     | Statutory Reserve |     | FVOCI Reserve |     | Total |               |
|---------------------------------------|-------|----------------|-------------|---------------------|----------------|-----------------|--------------|-------------------|-----|-------------------|-----|---------------|-----|-------|---------------|
|                                       |       | LKR            | LKR         | LKR                 | LKR            | LKR             | LKR          | LKR               | LKR | LKR               | LKR | LKR           | LKR | LKR   | LKR           |
| <b>Balance as at 1 April 2020</b>     |       | 2,150,640,315  | 220,517,452 | 58,751,125          | 7,570,420,764  | 3,322,590,488   | (6,262,158)  | 13,316,657,986    |     |                   |     |               |     |       |               |
| Net profit for the year               | 31    | -              | -           | -                   | 2,334,756,207  | -               | -            | 2,334,756,207     |     |                   |     |               |     |       | 2,334,756,207 |
| Other comprehensive income net of tax | 31/32 | -              | 137,990,549 | -                   | (5,200,479)    | -               | (3,737,842)  | 129,052,227       |     |                   |     |               |     |       |               |
| <b>Total comprehensive income</b>     |       |                | 137,990,549 | -                   | 2,329,555,728  | -               | (3,737,842)  | 2,463,808,435     |     |                   |     |               |     |       |               |
| Transferred to Statutory Reserve      | 31/32 | -              | -           | -                   | (466,951,241)  | 466,951,241     | -            | -                 |     |                   |     |               |     |       |               |
| Impact of Amalgamation                |       | -              | -           | -                   | (384,110,816)  | -               | -            | (384,110,816)     |     |                   |     |               |     |       | (384,110,816) |
| Dividend paid                         | 45    | -              | -           | -                   | -              | -               | -            | -                 |     |                   |     |               |     |       | -             |
| <b>Balance as at 31 March 2021</b>    |       | 2,150,640,315  | 358,508,001 | 58,751,125          | 9,048,914,434  | 3,789,541,729   | (10,000,000) | 15,396,355,604    |     |                   |     |               |     |       |               |
| <b>Balance as at 1 April 2021</b>     |       | 2,150,640,315  | 358,508,001 | 58,751,125          | 9,048,914,434  | 3,789,541,729   | (10,000,000) | 15,396,355,604    |     |                   |     |               |     |       |               |
| Net profit for the year               | 30    | -              | -           | -                   | 4,520,312,881  | -               | -            | 4,520,312,881     |     |                   |     |               |     |       | 4,520,312,881 |
| Other comprehensive income net of tax | 27/28 | -              | -           | -                   | 71,846,699     | -               | -            | 71,846,699        |     |                   |     |               |     |       |               |
| <b>Total comprehensive income</b>     |       |                | -           | -                   | 4,592,159,580  | -               | -            | 4,592,159,580     |     |                   |     |               |     |       | 4,592,159,580 |
| Transferred to Statutory Reserve      | 31    | -              | -           | -                   | (226,015,644)  | 226,015,644     | -            | -                 |     |                   |     |               |     |       |               |
| Dividend paid                         | 44.1  | -              | -           | -                   | (795,185,914)  | -               | -            | (795,185,914)     |     |                   |     |               |     |       | (795,185,914) |
| <b>Balance as at 31 March 2022</b>    |       | 2,150,640,315  | 358,508,001 | 58,751,125          | 12,619,872,455 | 4,015,557,373   | (10,000,000) | 19,193,329,270    |     |                   |     |               |     |       |               |

Accounting policies and notes from pages 91 to 176 form an integral part of these Financial Statements.

# STATEMENT OF CASH FLOWS

|   |          | 2022                   | 2021                   |
|---|----------|------------------------|------------------------|
|   | Notes    | LKR                    | LKR                    |
| <b>Cash flows from / (used in) operating activities</b>                                       |          |                        |                        |
| Profit before Income Tax Expense  |          | 6,391,344,516          | 3,192,393,514          |
| Adjustments for   |          |                        |                        |
| Depreciation and amortisation   | 19/20/21 | 320,126,655            | 335,845,452            |
| Amortisation of Right of use assets   | 20       | 216,439,669            | 250,841,037            |
| Share of loss of associate  | 41       | 10,569,129             | 49,176,946             |
| Impairment charge of loans and advances, lease,hire purchase                                  | 37       | 1,778,040,281          | 1,690,340,884          |
| Net fair value adjustment of Investment property  | 18       | (203,121,021)          | (217,316,040)          |
| Disposal gain on Investment property  | 18       | (40,837,910)           | (1,025,550)            |
| Net fair value gains/(losses) from financial instruments                                      | 13       | (35,247,286)           | (67,436,244)           |
| Amortisation of prepaid debenture issue cost  | 24       | -                      | 92,814,829             |
| Provision for defined benefit plans   | 27       | 64,739,241             | 85,328,758             |
| <b>Operating profit before working capital changes</b>  |          | <b>8,502,053,274</b>   | <b>5,410,963,587</b>   |
| Decrease in Inventories   |          | (17,363,226)           | (5,699,910)            |
| Decrease in Loans and Advances  |          | (493,690,773)          | (947,666,156)          |
| Increase in Lease Rentals Receivable & Stock out on hire                                      |          | (6,688,201,891)        | (2,138,983,131)        |
| Right of use assets   |          | (289,141,906)          | -                      |
| (Increase)/Decrease in Other Financial Assets   |          | 189,462,180            | 99,153,533             |
| (Increase)/Decrease in Debt & other instruments   |          | 253,257,877            | (207,396,652)          |
| (Increase)/Decrease in Other Assets   |          | 292,729,257            | (611,054,144)          |
| (Increase)/Decrease in Placements and Reverse repurchase agreements                           |          | -                      | 1,160,131,423          |
| Decrease in Amounts Due to Customers  |          | 88,450,880             | 1,577,836,462          |
| Increase/(Decrease) in Other Financial Liabilities  |          | 329,627,117            | 179,006,113            |
| Increase/(Decrease) in Other Liabilities  |          | 1,151,929,046          | 38,002,177             |
| Cash generated from Operations  |          | 3,319,111,834          | 4,554,293,302          |
| Post employment benefit obligation  | 27       | (31,431,000)           | (23,591,375)           |
| Taxes paid  |          | (1,215,317,822)        | (727,692,283)          |
| <b>Net cash flows (used in)/from Operating activities</b>                                     |          | <b>2,072,363,012</b>   | <b>3,803,009,644</b>   |
| <b>Cash flows from / (used in) Investing activities</b>                                       |          |                        |                        |
| Acquisition of Investment Property  | 18       | (564,439,736)          | (20,700,000)           |
| Disposal Proceeds from Investment Property  |          | 299,682,012            | 87,132,850             |
| Acquisition of Property, plant and equipments   | 20       | (1,271,415,348)        | (184,724,128)          |
| Net investment in placements with banks   |          | 2,150,742,525          | (810,976,174)          |
| Acquisition of Intangible assets  | 21       | 52,054,249             | -                      |
| Net investment in Financial assets recognised through profit or loss - measured at fair value |          | 442,366,095            | (2,322,027,088)        |
| Proceed from sale of property, plant & equipments   |          | 75,344,692             | -                      |
| Financial assets at fair value through other comprehensive income                             |          | -                      | (3,871,292)            |
| <b>Net cash flows used in Investing activities</b>  |          | <b>1,184,334,488</b>   | <b>(3,255,165,832)</b> |
| <b>Cash flows from / (used in) Financing activities</b>                                       |          |                        |                        |
| Net cash flow from/(used in) Debt Instruments issued  |          | -                      | 1,287,590,000          |
| Repayment of Debt Instruments   |          | -                      | (3,434,454,608)        |
| Proceeds from Loans obtained  | 22       | 12,139,414,017         | 19,796,557,166         |
| Lease Payments  |          | (353,040,833)          | (282,421,537)          |
| Repayment of Bank Loans   | 22       | (15,709,014,501)       | (17,259,508,533)       |
| Dividend paid   | 44.1     | (795,185,914)          | -                      |
| <b>Net cash flows from Financing activities</b>   |          | <b>(4,717,827,229)</b> | <b>107,762,488</b>     |
| <b>Net increase in Cash and Cash equivalents</b>  |          | <b>(1,461,129,729)</b> | <b>655,606,300</b>     |
| <b>Addition Due to Amalgamation with Trade finance and investments PLC</b>                    |          | <b>-</b>               | <b>177,903,328</b>     |
| <b>Cash and Cash equivalents at the beginning of the year</b>                                 |          | <b>4,657,201,936</b>   | <b>3,823,692,308</b>   |
| <b>Cash and Cash equivalents at the end of the year</b>                                       |          | <b>3,196,072,206</b>   | <b>4,657,201,936</b>   |
| <b>Cash and Cash Equivalents For the Purpose of Cash Flow Statement</b>                       |          |                        |                        |
| Cash in Hand  | 7        | 2,632,255,116          | 2,239,713,277          |
| Reverse repurchase agreements (less than three months)  |          | 354,147,586            | 1,476,871,847          |
| Placements with Banks (less than three months)  |          | 706,016,903            | 1,231,143,767          |
| Bank Overdrafts   | 22       | (496,347,399)          | (290,526,956)          |
| <b>Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement</b>                 |          | <b>3,196,072,206</b>   | <b>4,657,201,936</b>   |

Accounting policies and notes from pages 91 to 176 form an integral part of these Financial Statements.

# ACCOUNTING POLICIES

## CORPORATE INFORMATION

### 1.1 GENERAL

Commercial Credit and Finance PLC (“Company”) is a Limited Liability Company incorporated in Sri Lanka on 4 October 1982 under the Companies Act No. 17 of 1982 and domiciled in Sri Lanka. The Company was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No. 07 of 2007 (Companies Act) On 8 April 2008. It is a Licensed Finance Company registered under the Finance Business Act No. 42 of 2011.

The registered office of the Company and the principal place of business is located at No. 106, Yatinuwara Veediya, Kandy. The shares of the company have a primary listing on the Colombo Stock Exchange (CSE).

### 1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

#### Company

During the year, the principal activities of the Company were acceptance of deposits, granting lease facilities, hire purchase, term loans, personal loans, micro loans, pawning, other credit facilities, real estate development and related services.

#### Associate Company

##### TVS Lanka (Pvt) Ltd

The company's primary activities involved import, assembling and distribution of brand new TVS motor bikes, motor bike spare parts, Tractors and Tractors spare part, lubricants, batteries and tyres. The registered office and principle place of business of the company is located at No.38, Old Negombo Road, Wattala. The Company holds 19.5% of the share of TVS Lanka (Pvt) Ltd. as at the balance Sheet Date. The Chief Operating Officer of the Company is a director of TVS Lanka (Pvt) Ltd and it is considered an associate since Commercial Credit and Finance PLC has a significant influence.

### 1.3 PARENT ENTERPRISE AND ULTIMATE PARENT ENTERPRISE

The Company's immediate parent is BG Investment (Private) Limited. In the opinion of the directors, the Company's ultimate parent entity is BG Capital (Private) Limited, which is incorporated in Sri Lanka while Mr. R.S. Egodage is the Company's ultimate controlling party.

### 1.4 APPROVAL OF FINANCIAL STATEMENTS BY DIRECTORS

The Financial Statements of Commercial Credit and Finance PLC for the year ended 31 March 2022 was authorized for issue by the board of directors on 13th June 2022.

### 1.5 RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors of the company is responsible for these Financial Statements of the Company as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards.

## 2. BASIS OF PREPARATION

### 2.1 STATEMENT OF COMPLIANCE

The financial statements of the company have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKAS), 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, the Finance Business Act No. 42 of 2011.

These financial statements include the following components.

- A Statement of Profit or Loss and Statement of Comprehensive Income providing the information of the financial performance of the Company
- A Statement of Financial Position providing the information on the financial position of the Company as at the year end.
- A Statement of Changes in Equity depicting all changes in shareholder's equity during the year under review of the Company.
- A Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilize those cash flows.
- Notes to the Financial Statements comprising accounting policies & other explanatory information.

### 2.2 BASIS OF MEASUREMENT

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following items stated in the Statement of Financial Position which have been measured at fair value.

- Financial assets recognized through Profit or Loss (FVPL)
- Financial assets held at fair value through other comprehensive income (FVOCI)
- Investment Property
- Freehold Land & Buildings classified as Property, Plant & Equipment

### 2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements of the Company have been prepared in Sri Lanka Rupees (LKR), except when otherwise indicated.

### 2.4 COMPARATIVE INFORMATION

The comparative information is re-classified wherever necessary to conform to the current year's presentation.

## ACCOUNTING POLICIES (Cont...)

### 2.5 PRESENTATION OF FINANCIAL STATEMENTS

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in 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 49 (Current & Non-Current analysis of Assets & Liabilities).

### 2.6 MATERIALITY & AGGREGATION

In compliance with Sri Lanka Accounting Standards - LKAS 01 on "Presentation of Financial Statements", each material class of similar items are presented separately in these Financial Statements. Items of dissimilar nature or functions are presented separately unless they are not material.

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position of the company 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 realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss of the Company unless required or permitted by any accounting standard or interpretation thereon.

### 3. SIGNIFICANT ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS

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. Further, Management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

Accounting judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key significant accounting judgements, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in the respective notes.

### 3.1 GOING CONCERN

The company has prepared the financial statement for the year ended 31 March 2022 on the basis that it will continue to operate as a going concern. In determining the basis of preparing the financial statements for the year ended 31 March 2022, based on available information, the management has assessed the prevailing macroeconomic conditions and its effects on the Company and the appropriateness of the use of the going concern basis. It is the view of the management that there are no material uncertainties that may cast significant doubt on the company's ability to continue as a going concern.

In determining the above significant management judgements, estimates and assumptions, the impact of the macroeconomic uncertainties, including power disruptions, fuel shortages and the effects of the COVID 19 pandemic have been considered as of the reporting date.

### 3.2 IMPAIRMENT LOSSES ON LEASE RECEIVABLE, HIRE PURCHASE RECEIVABLE AND LOANS AND ADVANCES TO CUSTOMERS

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

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

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

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

It has been the Company's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

The outbreak of COVID-19 has caused disruption to business and economic activities, and uncertainty in the global and local economy. Further the various quarantine measures adopted by different countries greatly affected global trade. The Company strictly followed the guidelines and instructions issued by the government health authorities and the Central Bank of Sri Lanka (CBSL) when conducting its commercial operations. The Company de-recognises a financial asset, such as a loan to a customer, when the terms and conditions have been re-negotiated to the extent that, substantially, it becomes a new loan. However, the Company concluded that the COVID-19 moratorium did not give rise to a substantial modification to the original terms and conditions of the moratorium eligible loans.

Since the debt moratorium process significantly impacted on the Company's portfolio resulting in a revision to the original average effective rate of the moratorium portfolio as well as a significant extension on the average maturity of the moratorium portfolio, the management is of the view that there is a substantial change of terms by this modification. Therefore, the Company adjusted the original effective rate for moratorium facilities and accounted accordingly.

The granting of the moratorium was due to the cash flow difficulties faced by the customer with the outbreak of the COVID-19 pandemic. The contracts in stage O1 which was granted moratorium, shall be transferred to stage O2 on the assumption that the moratorium resulted in a significant increase in credit risk.

### 3.3 IMPAIRMENT OF OTHER FINANCIAL ASSETS

The Company reviews its debt securities classified as FVOCI/amortised cost, at each reporting date to assess whether they are impaired. Objective evidence that a debt security held at FVOCI/amortised cost is impaired includes among other things significant financial difficulty of the issuer, a breach of contract such as a default or delinquency in interest or principal payments etc.

Equity instruments classified as Fair Value through Other Comprehensive Income (FVOCI) are not subjective to impairment assessment.

### 3.4 IMPAIRMENT OF GOODWILL

The Company assesses whether there are any indicators of impairment of goodwill at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the Value in use (VIU) of the asset. Estimating VIU requires the Company to make an estimate of the expected future cash flows from the asset and also to select a suitable discount rate in order to calculate the present value of the relevant future cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates and hence, they are subject to uncertainty. Refer Note 21 for details.

### 3.5 TAXATION INCLUDING DEFERRED TAX ASSETS

The Company is subject to income taxes and other taxes including VAT on financial services.

### 3.6 FAIR VALUE OF PROPERTY PLANT AND EQUIPMENT

The freehold land and buildings of the Company are reflected at fair value at the date of revaluation less any accumulated depreciation and impairment losses. The Company engages independent valuation specialists to determine fair value of freehold land and buildings, including methods of valuation are given in note 19.5 to the financial statements.

### 3.7 USEFUL LIFETIME OF PROPERTY PLANT AND EQUIPMENT

The Company reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

### 3.8 CLASSIFICATION OF INVESTMENT PROPERTIES

Management requires using its judgment to determine whether a property qualifies as an investment property. The Company has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Company are accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Company assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties. (Refer Note 18.3)

### 3.9 FAIR VALUE OF INVESTMENT PROPERTIES

The Company carries its Investment Properties at fair value, with changes in fair values being recognised in the Statement of profit or loss. The Company engaged an independent valuer to determine the fair value as at 31 March 2022.

The best evidence of fair value is usually the current price in an active market for similar lease and other contracts. In the absence of such information, the Company determines the amount within a range of reasonable fair value estimates. In making such estimates, the Company considers information from a variety of sources including:

- Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using capitalization rates that reflect current market assessments of the returns and yields, an uncertainty in the amount and timing of the cash flows.

## ACCOUNTING POLICIES (Cont...)

### 3.10 PRINCIPAL ASSUMPTIONS FOR MANAGEMENT'S ESTIMATION OF FAIR VALUE

If information on current or recent prices of assumptions underlying the discounted cash flow approach of Investment Properties is not available, the fair values of Investment Properties are determined using discounted cash flow valuation techniques. The company uses assumptions that are mainly based on market conditions existing at each reporting date.

The principal assumptions underlying management's estimation of fair value are those related to: the future rentals, maintenance requirements, and appropriate capitalization rates / yields and voids. These valuations are regularly compared to actual market yield data and actual transactions by the company and those reported by the market.

### 3.11 FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs of these models are derived from observable market data where possible, but if this is not available, judgements such as discount rates, default rate assumptions, etc. is required to establish fair values. The valuation of financial instruments is described in more in Note 47 to these financial statements.

The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements.

### 3.12 DEFINED BENEFIT PLAN

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

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

### 3.13 RIGHT-OF-USE ASSETS AND OPERATING LEASE LIABILITY

The Company uses its judgment to determine whether an operating lease contract qualifies for recognition of right-of-use assets. The Company applies judgements in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create economic

benefits for it to exercise either the renewal or termination. Further, the Company cannot readily determine the interest rate implicit in the lease. Therefore, it uses its incremental borrowing rate to measure operating lease liability. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in similar economic environment

### 3.14 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. Unless the probability of occurrence is remote, contingent liabilities are not recognized in the statement of financial position but are disclosed in the statement of financial position. (Refer Note 50).

#### 3.14.1 Uncertainty Over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within certain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

## 4. NEW ACCOUNTING STANDARDS ISSUED DURING THE YEAR/CHANGES TO ALREADY EXISTING ACCOUNTING STANDARDS

There were no new accounting standards issued by the Institute of Chartered Accountants of Sri Lanka during the year ended 31st March 2022. The amendments to the following existing Sri Lanka Accounting Standards which were effective from 1st April 2021 did not have a material impact on the Financial Statements of the Company.

- Sri Lanka Accounting Standard - SLFRS 16 (Leases): COVID-19 Related Rent Concessions
- Sri Lanka Accounting Standard - LKAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors)



## 5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements of the Company, unless otherwise indicated. The accounting policies have been consistently applied by the Company where applicable.

### 5.1 BASIS OF CONSOLIDATION

Company's associate accounted under "Equity method of accounting" In terms of Sri Lanka Accounting Standard (LKAS 28) "Investments in Associates & Joint Ventures".

### 5.2 BUSINESS COMBINATION AND GOODWILL

Business combinations are accounted for using the Acquisition method as per the requirements of Sri Lanka Accounting Standard (SLFRS 3) - "Business Combinations". When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Acquisition related costs are expensed as incurred and included in other expenses. Goodwill is initially recorded at cost and subsequently at cost less any accumulated impairment losses in accordance with the Sri Lanka Accounting Standard (SLFRS 3) - "Business Combinations".

Goodwill has to be reviewed for impairment annually or more frequently if events or circumstances indicate that the carrying value may be impaired.

The Company elects on a transaction by transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

### 5.3 FOREIGN CURRENCY TRANSACTIONS AND BALANCES

All foreign currency transactions are translated into the functional currency which is Sri Lankan Rupees (LKR) at the spot exchange rate at the date of the transactions were affected. In this regard, the Company's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot

rate of exchange at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the reporting date.

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

### 5.4 FINANCIAL INSTRUMENTS – INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

#### 5.4.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery or assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Company recognizes balances due to customers when funds are transferred to the Company.

#### 5.4.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 5.4.3.1(a) and 5.4.3.1(b). Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for the day 1 profit or loss. As described below,

#### Day 1 profit or loss

When the transaction price 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 recognizes the difference between the transaction price and fair value (a day 1 profit or loss) in the statement of profit or loss over the tenor of the financial instrument using the Effective Interest Rate (EIR) method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the statement of profit or loss when the inputs become observable, or when the instrument is derecognized.

## ACCOUNTING POLICIES (Cont...)

### 5.4.3 Measurement categories of Financial Assets and Liabilities

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in note 5.5.3.1
- Fair value through Profit or loss 5.5.3.2
- FVOCI, as explained in note 5.5.3.3

The subsequent measurement of financial assets depends on their classification.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading.

#### 5.5.3.1 Loans and advances, Lease rental receivables

The Company only measures loans and receivables, Lease rentals receivable and stock out on hire and debt & other financial instruments at amortised cost if both of the following conditions are met,

- The financial asset is held within a business model with the objective of collecting contractual cash flows
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below,

##### (a) Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risk that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected.
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios in to account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

##### (b) The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial instruments to identify whether they meet the SPPI test. Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial assets (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial assets is denominated and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de-Minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

#### 5.5.3.2 Financial assets or financial liabilities at Fair Value through Profit or Loss (FVPL)

The Company classified financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent patterns of short-term profit taking. Held for trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest income from financial assets held for trading is recorded under net interest income while dividend income is recorded in net trading income when the right to payment has been established. Included in this classification are debt securities and equity investments that have been acquired principally for the purpose of selling or repurchasing in the near term.

### 5.5.3.3 Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments at FVOCI when they meet the definition of equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI equity instruments are not subject to an impairment assessment.

### 5.5.3.4 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue of funds and costs that are an integral part of the EIR. The Company does not have compound financial instruments that contains both liability and equity components and require separation as at the date of the issue.

### 5.5.3.5 Financial guarantees and undrawn loan commitments

The Company issues financial guarantees and loan commitments. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognised in the income statement, and the ECL provision.

The premium received is recognised in the income statement under Net fees and commission income on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees and undrawn loan commitments where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 50.

### 5.5.3.6 Reclassification of financial assets and liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company may acquire, dispose of, or terminates a business line (change in business model). When the Company reclassifies its financial assets it applies the reclassification prospectively from the reclassification date without restating any previously recognised gains, losses (including impairment gains or losses) or interest. Financial liabilities are never reclassified. When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognised in profit or loss.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassified date becomes its new gross carrying amount.

When a financial asset is reclassified out of the amortized cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income.

The effective interest rate and the measurement of expected credit losses are not adjusted as a result of reclassification.

When a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost.

The effective interest rate and measurement of expected rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

## ACCOUNTING POLICIES (Cont...)

When a financial asset is reclassified out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category. The financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Covid-19 pandemic has resulted in significant volatility in the financial markets. However, the Company did not require to reclassify any of its financial assets as a result of the significant volatility created by the pandemic.

### 5.5.4 Derecognition of financial assets and liabilities

#### 5.5.4.1 Derecognition due to substantial modification of terms and conditions

The Company de-recognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be credit impaired at the date of inception.

When assessing whether or not to de-recognize a loan to a customer, amongst others, the Group considers the following factors:

- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criteria

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

#### 5.5.4.2 De-recognition other than for substantial modification

##### (a) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Group also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset if and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset
- Or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flow in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.
- A transfer only qualifies for derecognition if either,
- The Company has transferred substantially all the risks and rewards of the asset.
- Or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Company's continuing involvement, in which case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

As explained in Note 5.5.4.2, modifications to the original terms and conditions of the loans due to Covid-19 moratorium, did not result in a derecognition of the original loans as the company concluded that the modifications were not substantial. Since the debt moratorium process significantly impacted to the Company's portfolio resulting in a revision to the original average effective rate of the moratorium portfolio as well as a significant extension on the average maturity of the moratorium portfolio, the management of the view that there is a substantial change of terms by this modification. Therefore, the Company adjusted original effective rate for moratorium facilities and accounted accordingly.

### **(b) Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

## **5.5.5 Impairment allowance for financial assets**

### **5.5.5.1 Overview of the ECL principles**

The Company has been recording the impairment for expected credit losses for all loans and debt & other financial instruments not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL impairment is based on the credit losses expected to arise over the life of the asset (the lifetime Expected Credit Loss or (LTECL)), unless there has been no significant increase in credit risk since origination, in which case, the impairment is based on the 12 months' Expected Credit Loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in note 5.5.5.1(a)

To support our clients through the COVID-19 pandemic, we have launched various relief programs. Utilization of a payment deferral program does not, all else being equal, automatically trigger a significant increase in credit risk.

The Company has applied expert credit judgement (Management Overlays), including consideration of the significant government assistance programs, in the assessment of underlying credit deterioration and migration of balances to progressive stages. The Company considered both quantitative and qualitative information in the assessment of significant increase in credit risk. Utilization of a payment deferral program was not necessarily considered an immediate trigger, in keeping with CA Sri Lanka and regulatory guidance, for an account to migrate to a progressive stage. Early observations of payment behavior of expiries for this year were considered in the assessment of the changes in the risk of default occurring over the expected life of a financial instrument when determining staging and is a key input in determining migration.

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

The PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation includes a projection of all relevant macroeconomic variables used in our models for a five year period, subsequently reverting to long-run averages. Macroeconomic variables used in our expected credit loss models include, but are not limited to, unemployment rates, gross domestic product growth rates, Interest rates and Inflation.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on financial instruments that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The policy for grouping financial assets measured on a collective basis is explained in Note 5.5.5.4. The details of individual assessment of ECLs are given in Note 5.5.5.3.

## ACCOUNTING POLICIES (Cont...)

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 5.5.5.1(a). Based on the above process, the Company categorize its loans into 'Stage 1', 'Stage 2', 'Stage 3' and 'originated credit impaired', as described below:

- Stage 1

When loans are first recognized, the group recognizes an impairment based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from stage 2.

- Stage 2

When a loan has shown a significant increase in credit risk since origination, the Group records an impairment for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 3.

- Stage 3

Loans considered credit impaired (as outlined in Note 5.5.5). The Company records an impairment for the LTECLs. The Company is focused on supporting customers who are experiencing financial difficulties because of the Covid-19 pandemic and has offered a range of industry-wide financial assistance measures including the debt moratorium initiated by the Central Bank of Sri Lanka. As per industry guidance, eligibility for the debt moratorium does not automatically result in a significant increase in credit risk (SICR) which moves an exposure from stage 1 (12-month ECL) to stage 2 (lifetime ECL).

- Originated credit impaired

Originated credit impaired assets are financial assets that are credit impaired on initial recognition. They are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

### 5.5.5.1 (a) Definition of default and cure

The Company consider a financial instrument as defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether an individually significant customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Company
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/ protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about the financial difficulties

It is the Company's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria has been present. Once cured, the decision whether to classify an asset as Stage 2 or Stage 1 largely depends on the days past due, at the time of the cure. The Company's criterion for 'cure' for rescheduled / restructured loans is more stringent than ordinary loans and is explained in Note 5.5.5.10.

### 5.5.5.1 (b) Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk. Since initial recognition. The Company considers an exposure to have a significantly increased credit risk when it is past due for more than 30 days.

The Company also applies a secondary qualitative method for triggering a significant increase in credit risk, such as restructuring or rescheduling of an assets while the asset is less than 30 days past due. In certain cases, the Company may also consider that events explained in note 5.5.5.1(a) are significant increase in credit risk as opposed to a default, for customers who are considered as individually significant.

### 5.5.5.2 The calculation of ECL

The Company calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfall (the base case, best case and the worst case), discounted at an approximation to the EIR. Each of these is associated with different loss rates. The assessment of multiple scenarios incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Key elements of the ECL calculations are outlined below:

- Probability of Default (PD)

The PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The concept of PDs is further explained in Note 5.5.5.4(a).

- Exposure at default (EAD)

The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 5.5.5.4(b).

- Loss Given Default (LGD)

The LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 5.5.5.4(c).

With the exception of revolving facilities, for which the treatment is separately set out in Note 5.5.5.5, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call it earlier.

### 5.5.5.3 Calculation of Expected Credit Losses for Individually significant loans

The Company first assess ECLs individually for financial assets that are individually significant. In the event the Company determines that such assets are not impaired (Not in stage 3), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The criteria used to determine whether individually significant customer is in default is discussed in Note 5.5.5.1(a).

If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial assets at its original effective interest rate and comparing the resultant present value with the Financial asset's current carrying amount. The impairment on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment is only released when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on impaired assets continues to be recognized through the unwinding of the discount.

When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations
- The amount and timing of expected receipts and recoveries
- The extent of other creditors' commitments ranking ahead of, or pari-passu with the Company and the likelihood of other creditors continuing to support the Company;

### 5.5.5.4 Grouping of financial assets measured on a collective basis

The Company calculates ECLs either on a collective or an individual basis. Asset classes where the Company calculates ECL on an individual basis include all customers whose exposure is more than or equal to the internal threshold for classifying them as individually significant. However, if the customer is determined to be in stage I or stage II, such customers are moved back to collective ECL calculation.

For all other asset classes, the Company calculates ECL on a collective basis. The Company categorizes these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Product type
- Type of collateral
- Whether the loan is restructured /rescheduled

## ACCOUNTING POLICIES (Cont...)

### 5.5.5.4 (a) PD Estimation process

PD estimation for loans and advances to other customers under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most Financial Institutions in the country at present.

Accordingly, exposures are categorized among 5 Company based on the DPD as follows,

- Zero days past due
- 1 - 30 days past due
- 31 - 60 days past due
- 61 - 90 days past due
- Above 90 days past due

The movement of the customers in to bad DPD categories are tracked at each account level over the periods and it is used to estimate the amount of loans that will eventually be written off.

### 5.5.5.4 (b) Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Company assesses the possible default events within 12 months. However, if a Stage 1 loan that is expected to default within the 12 months from the balance sheet date is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and stage 3 financial assets and credit impaired financial assets at origination, events over the lifetime of the instruments are considered. The Company determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Company's models.

### 5.5.5.4 (c) Loss Given Default

LGD values are assessed at least annually for each material collateral type. The Company segregates its customer loan book based on following major types of collaterals when calculating the LGD.

- Secured against motor vehicles and other movable properties
- Secured against immovable property
- Secured against cash / deposits held within the company
- Secured against gold

These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realized from any collateral held. Historically collected loss data is used for LGD calculation and involves a wider set of transaction characteristics (e.g., product type, collateral type) as well as borrower characteristics. The LGD rates, where possible, are calibrated through back testing against recent recoveries.

### 5.5.5.5 Other revolving facilities

The Company's product offering includes Factoring and draft facilities in which the company has the right to cancel and/or reduce the facilities with a very short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period of 12 months to reflect the Company's expectations of the customer behavior, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities.

### 5.5.5.6 Forward looking information

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

- GDP growth
- Unemployment rates
- Interest rates
- Exchange rate
- Inflation rate

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary completeness and accuracy, the Company obtains the above data from third party sources (Central Bank, World Bank and International Monetary Fund etc).

### 5.5.5.7 Collateral valuation

To mitigate its credit risks on financial assets, the Company seeks to use collateral, where possible. The collateral comes in various forms, such as motor vehicles, cash, guarantees, real estate, receivables, inventories and other non-financial assets.

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuation specialists.

### 5.5.5.8 Collateral repossessed

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to the relevant asset category.

### 5.5.5.9 Write-offs

Financial assets are written off either partly or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the statement of profit or loss.



### 5.5.5.10 Rescheduled and restructured loans

The Company sometimes makes concessions or modifications to the original terms of loans in response to the borrower's financial difficulties, taking possession of the collateral. The Company considers a loan as rescheduled / restructured, when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Rescheduling / restructure may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Company's policy to monitor future payments of these loans are paid as agreed.

As Per the SLFRS 09 rescheduled /restructured loans are at a minimum classified as stage 2 at the date of the modification of the loan. The Company also consider whether such assets should be classified as Stage 3. Once an asset has been classified as stage 3, it will remain in stage 3 until it becomes performing (less than 30 days past due) but still be subjective for LTECL.

#### a) COVID-19 Moratorium (First Wave): Circular No. 4 of 2020 - Relief Measures to Assist COVID-19 Affected Businesses and Individuals

CBSL issued Circular No. 4 of 2020 on 24th March 2020 instructing Finance Companies to offer a debt moratorium to COVID-19 affected segments of the economy. According to the above circular, Finance Companies were required to offer moratoriums of 3 months & 6 months for eligible borrowers under different qualifying criteria. Instalments (both capital and interest) fallen due during the moratorium period have been converted to a new loan account which can be repaid by the borrowers after the moratorium period. Repayment period of the new loan varies based on the repayment capacity of each borrower and the terms and conditions of the loan agreement with the Company. When initially recognised, the new loans were recorded at their nominal value as the Company considers that it is representative of the fair value. As per the Circular No. 4 of 2020 and the subsequent communications issued by the CBSL in this regard, finance companies were required to charge interest at a reduced rate of 11.5% per annum during the moratorium period for equated monthly instalments (EMI) loans. Non - EMI loans were not eligible for any interest rate concession during the moratorium period.

As explained in Note 5.5.4.2 the Company derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan. However, the Company concluded that the COVID-19 moratorium did not give rise to a substantial modification to the original terms and conditions of the moratorium eligible loans. Therefore, the Company adjusted original effective rate for moratorium facilities and accounted accordingly.

#### b) COVID-19 Moratorium (Second Wave): CBSL Circular No. 11 of 2020 No. 10 of 2020 - Debt Moratorium for COVID-19 Affected Businesses and Individuals

Second wave of the COVID-19 outbreak in the country resulted in reimposing the travel restrictions, leading to disruption of economic activities. Giving due consideration on the requests received from affected individuals and businesses, CBSL advised licensed Finance Companies to extend the debt moratorium for a further period of six months commencing from 1st October 2020 to 31st March 2021. Licensed Finance Companies shall convert the capital and interest falling due during the moratorium period commencing from 1st October 2020 to 31st March 2021.

The repayment period of such converted loan shall be minimum of two years and the repayment shall commence from 01 April 2021. However, this could differ based on the terms and conditions agreed with the borrower.

## 5.6 LEASE

### 5.6.1 Identification of a Lease

Previously, the Company determined, at contract inception, whether an arrangement is or contains a lease under LKAS 17/IFRIC 4. Under SLFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of lease as explained in Note 21.

On transition, the Company elected to apply SLFRS 16, only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17/IFRIC 4 were not reassessed to ascertain whether there is a lease. Therefore, the definition of a lease under SLFRS 16, was applied only to contracts entered in to or changed on or after 1st January 2019.

The Company applied SLFRS 16 using the modified retrospective approach and thereby the comparative figures were not restated and continues to be reported under LKAS 17.

## ACCOUNTING POLICIES (Cont...)

### 5.6.2 As a Lessor

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessor will continue to classify leases as either operating leases or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 does not have an impact for leases where the Company is the lessor.

### 5.6.3 As a Lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying assets to the Company. Under SLFRS 16, the Company recognises right of the use of assets and lease liabilities for most leases except for short term leases to which the Company applied recognition exemptions in SLFRS 16.

#### 5.6.3.1 Leases classified as operating leases under LKAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments discounted at the incremental borrowing rates as at 1st April 2019. Rights of use of assets are measured at an amount equal to the lease liability, adjusted by the amount of any pre-paid or accrued lease payments.

In addition, the Company applied following practical expedients permitted by SLFRS 16, to Leases previously classified as operating leases under LKAS 17.

- Applied a Single discount rate to a portfolio of leases with similar characteristics
- Applied the exemption not to recognize right of use assets and liabilities for leases with less than 12 months of lease term.
- Exclude initial direct costs, from the measurement of the right of use asset for leases previously accounted for as operating leases at the date of initial application.
- Used hindsight when determining the lease term of the contact contains options to extend or terminate the lease.

### 5.7 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 CGU's (Cash Generating Unit) 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.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimate 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 the Statement of profit or loss.

### 5.8 PROVISIONS

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

### 5.9 TAXATION

#### 5.9.1 Current Taxes

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in the Statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Refer note No. 28 for the accounting policy for deferred taxation.

#### 5.9.2 VAT on Financial Services

VAT on financial services is calculated in accordance with VAT Act No.14 of 2002 and subsequent amendments thereto.

## 5.10 RECOGNITION OF INCOME AND EXPENSE

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

### (i) Interest Income and Interest Expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate exactly discounts estimated future cash payment or receipt through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets and financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial assets and liability is adjusted if the Company revises its estimates of payment and receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for the financial assets and 'Interest and similar expense' for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continue to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### (ii) Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

#### a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and etc.

#### b) Fee income from providing transaction service

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the purchase or sale of business is recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

#### c) Dividend Income

Dividend income is recognized when the right to receive the payment is established.

#### d) Real Estate Sales

Revenue from the real estate sale is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

## 6. EFFECT OF SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AS AT 31 MARCH 2022

As per the Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, the new and amended standards and interpretations that are issued up to the date of issuance of the Company's financial statements but are not effective for the current annual reporting period, are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

### 6.1 SLFRS 17 INSURANCE CONTRACTS

On 28 June 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued the amended SLFRS 17 - Insurance Contracts. The amendment is not applicable to the Company at present.

### 6.2 AMENDMENTS TO LKAS 37 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS: ONEROUS CONTRACTS - COSTS OF FULFILLING A CONTRACT

On 25 March 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets (LKAS 37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

The Financial Statements of the Company is not expected to have a material impact from the Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Costs of Fulfilling a Contract.

## ACCOUNTING POLICIES (Cont...)

### 6.3 AMENDMENTS TO LKAS 16 PROPERTY, PLANT & EQUIPMENT: PROCEEDS BEFORE INTENDED USE

On 25 March 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued LKAS 16 Property, Plant and Equipment - Proceeds before Intended Use (LKAS 16), which prohibits entities 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 recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The Financial Statements of the Company is not expected to have a material impact from the Amendments to LKAS 16 Property, Plant & Equipment: Proceeds before Intended Use.

### 6.4 AMENDMENTS TO SLFRS 3 BUSINESS COMBINATIONS: UPDATING A REFERENCE TO CONCEPTUAL FRAMEWORK

On 23 March 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 3 Business Combinations - Updating a Reference to the Conceptual Framework (SFRS 3). The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

An exception was also added to the recognition principle of SLFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, it was decided to clarify existing guidance in SLFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

The Amendments to SLFRS 3 Business Combinations: Updating a reference to conceptual framework is not applicable to the Company.

The following amendments to the existing accounting standards which have been issued by the Institute of Chartered Accountants of Sri Lanka are also effective for annual periods beginning on or after 1 January 2022.

- SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards - Subsidiary as a first time adopter
- SLFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial Liabilities
- LKAS 41 Agriculture - Taxation in fair value measurements

### Finance Business Act Directions issued by the Central Bank of Sri Lanka

The Central Bank of Sri Lanka issued the Finance Business Act Direction No. 1 of 2020 (Classification and Measurement of Credit Facilities) with the intention of harmonizing regulatory reporting framework with the Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) and establishing consistent and prudent practices in the Licensed Finance Companies (LFCs). This Direction is effective for financial years beginning on or after 1 April 2022.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. CASH AND BANK BALANCES

|                     | 2022          | 2021          |
|---------------------|---------------|---------------|
|                     | LKR           | LKR           |
| Cash in Hand        | 474,485,686   | 455,470,574   |
| Balances with banks | 2,157,769,430 | 1,784,242,704 |
|                     | 2,632,255,116 | 2,239,713,277 |

### ACCOUNTING POLICY

Cash and cash equivalents are defined as cash in hand, demand deposits and investments with short maturities i.e. three months or less from the date of acquisition.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, deposits in banks net of outstanding bank overdrafts and reverse repurchase agreements. Investments with short maturities i.e. those having original maturities of three months or less from the date of acquisition are also treated as cash equivalents.

## 8. PLACEMENTS WITH BANKS

|                  | 2022          | 2021          |
|------------------|---------------|---------------|
|                  | LKR           | LKR           |
| Time deposits    | 1,774,213,998 | 3,753,298,201 |
| Savings deposits | 37,670,154    | 734,455,340   |
|                  | 1,811,884,152 | 4,487,753,541 |

## 9. FINANCIAL ASSETS RECOGNISED THROUGH PROFIT OR LOSS - MEASURED AT FAIR VALUE

|  | 2022          | 2021          |
|--|---------------|---------------|
|  | LKR           | LKR           |
| Government of Sri Lanka Treasury bills | 5,064,096,026 | 3,821,888,863 |
| Quoted equity investments (Note 9.1)   | 23,418,648    | 39,740,452    |
| Investments in unit trusts (Note 9.2)  | -             | 1,633,004,168 |
|  | 5,087,514,674 | 5,494,633,483 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 9.1 QUOTED EQUITY INVESTMENTS

|                                   | 2022         |                        |                   | 2021         |                        |                   |
|-----------------------------------|--------------|------------------------|-------------------|--------------|------------------------|-------------------|
|                                   | No of Shares | Cost of Investment LKR | Market Value LKR  | No of Shares | Cost of Investment LKR | Market Value LKR  |
| Access Engineering PLC            | 300,000      | 6,288,506              | 4,500,000         | 300,000      | 6,288,506              | 6,630,000         |
| ACL Cables PLC                    | 72,000       | 3,671,855              | 4,104,000         | 36,000       | 1,619,855              | 1,292,400         |
| Browns Beach Hotels PLC           | -            | -                      | -                 | 9,000        | 292,500                | 91,800            |
| Central Finance Company PLC       | -            | -                      | -                 | 25,451       | 2,282,816              | 2,053,896         |
| Chevron Lubricants Lanka PLC      | 32,781       | 3,145,043              | 2,855,225         | 55,440       | 7,695,374              | 4,989,600         |
| Dipped Products PLC               | 59,260       | 2,293,465              | 1,925,950         | 5,926        | 560,110                | 274,966           |
| Entrust Securities PLC            | 10,000       | 240,000                | 240,000           | 10,000       | 240,000                | 240,000           |
| Hatton National Bank PLC          | 10,720       | 1,459,429              | 1,171,160         | 10,224       | 1,405,241              | 1,288,224         |
| Janashakthi Insurance Company PLC | 15,251       | 5,143,602              | 343,148           | 152,251      | 5,143,602              | 4,552,305         |
| John Keells Holdings PLC          | 3,917        | 598,787                | 567,965           | 3,917        | 598,787                | 581,675           |
| Lanka Walltile PLC                | -            | -                      | -                 | 24,888       | 2,460,594              | 4,691,388         |
| MTD Walkers PLC                   | 132,000      | 5,744,058              | 1,953,600         | 132,000      | 5,744,058              | 1,953,600         |
| Nations Trust Bank PLC            | 8,908        | 617,187                | 401,751           | 8,385        | 593,600                | 463,691           |
| NDB Bank PLC                      | 13,295       | 1,235,037              | 905,390           | 22,658       | 2,999,284              | 1,830,766         |
| Orient Finance PLC                | 330,000      | 4,290,000              | 4,290,000         | 330,000      | 4,290,000              | 4,587,000         |
| People's Leasing & Finance PLC    | -            | -                      | -                 | 47,619       | 788,783                | 561,904           |
| Serandib Hotels PLC               | 10,000       | 185,535                | 160,000           | 20,602       | 360,535                | 298,729           |
| Tokyo Cement Company (Lanka) PLC  | -            | -                      | -                 | 5,000        | 1,415,115              | 333,500           |
| Union Bank of Colombo PLC         | -            | -                      | -                 | 55,000       | 913,000                | 572,000           |
| Seylan Bank PLC                   | -            | -                      | -                 | 50,568       | 2,508,173              | 2,452,548         |
| <b>Total</b>                      |              | <b>34,912,505</b>      | <b>23,418,648</b> |              | <b>48,199,933</b>      | <b>39,740,452</b> |

### 9.2 INVESTMENTS IN UNIT TRUSTS

|                                 | 2022         |                  | 2021         |                  |
|---------------------------------|--------------|------------------|--------------|------------------|
|                                 | No. of Units | Market Value LKR | No. of Units | Market Value LKR |
| National Equity Fund            | -            | -                | 5,052,472    | 126,210,743      |
| First Capital Money Market Fund | -            | -                | 382,472      | 739,099,807      |
| NDB Weath Money Plus Fund       | -            | -                | 17,021,868   | 404,985,980      |
| JB Vantage Money Market Fund    | -            | -                | 12,981,569   | 362,707,638      |
|                                 |              |                  | -            | 1,633,004,168    |

## 10. LOANS AND RECEIVABLES

|  | 2022            | 2021            |
|--|-----------------|-----------------|
|  | LKR             | LKR             |
| Loan against fixed deposit                         | 1,235,875,171   | 1,411,383,272   |
| Short Term loans                                   | 746,816,669     | 1,022,431,969   |
| Microfinance loans                                 | 2,709,169,903   | 2,531,985,875   |
| Abhivurdhi SME loans                               | 86,009,777      | 149,256,400     |
| Business loans                                     | 291,591,489     | 376,094,188     |
| Gold Loans   | 10,292,743,526  | 10,120,429,906  |
| Gold loan advances                                 | 837,074         | 11,449,250      |
| Factoring receivables                              | 48,344,767      | 49,664,391      |
| Term draft loans                                   | 1,742,769,355   | 1,005,783,860   |
| Auto Loans   | 2,369,509,727   | 2,399,396,463   |
| Staff Loans  | 234,290,021     | 297,443,851     |
| Education Loans                                    | 223,873,358     | 293,134,271     |
| Other Loans  | 448,629,798     | 627,766,808     |
|  | 20,430,460,637  | 20,296,220,503  |
| Less : Allowance for impairment losses (Note 10.1) | (1,440,140,878) | (1,695,204,159) |
| Net loans and advances                             | 18,990,319,759  | 18,601,016,345  |

## MODIFICATION OF EFFECTIVE INTEREST RATES

### Loans

The Company has modified the effective interest rates of the moratorium given contracts.

Amortised cost of such contracts as at the moratorium granted date is Rs. 2,654,915,141.00 and as at 31.03.2022 is Rs. 1,998,997,005.00

### 10.1 ALLOWANCE FOR IMPAIRMENT LOSSES

|  | 2022          | 2021            |
|--|---------------|-----------------|
|  | LKR           | LKR             |
| Balance as at 1st April                      | 1,695,204,159 | 2,317,606,655   |
| Additional due to the Amalgamation with TFIL | -             | 5,337,698       |
| Charge / (Reversal) for the year             | 104,387,358   | 566,592,095     |
| Amounts written off                          | (359,450,640) | (1,194,332,289) |
| As at 31 March                               | 1,440,140,877 | 1,695,204,159   |

The Company's allowance for impairment losses consists of collective impairment amounting to LKR 1,294,363,916 /- (2021 - LKR 1,514,676,284/-) and individual impairment amounting to LKR 145,776,962/- (2021 - LKR 180,527,875/-).

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 10.1.1 Disclosure on Staging of Financial Asset

#### Credit Exposure Movement

| 2022                          | Stage 1          | Stage 2         | Stage 3         | Total            |
|-------------------------------|------------------|-----------------|-----------------|------------------|
| Balance as at 01st April 2021 | 13,478,155,441   | 3,704,584,705   | 3,113,480,356   | 20,296,220,502   |
| During the year granted       | 14,625,473,687   | 1,900,686,973   | 793,168,501     | 17,319,329,160   |
| W/O                           | (8,213,349)      | (3,717,375)     | (361,707,314)   | (373,638,039)    |
| Recoveries                    | (12,241,974,019) | (3,067,327,721) | (1,502,149,247) | (16,811,450,987) |
| Stage 1                       | (1,188,229,363)  | 809,168,351     | 379,061,012     | -                |
| Stage 2                       | 128,218,978      | (393,855,346)   | 265,636,367     | -                |
| Stage 3                       | 49,932,780       | 80,350,470      | (130,283,250)   | -                |
| As at 31 March 2022           | 14,843,364,154   | 3,029,890,056   | 2,557,206,426   | 20,430,460,636   |

| 2021                          | Stage 1         | Stage 2         | Stage 3         | Total            |
|-------------------------------|-----------------|-----------------|-----------------|------------------|
| Balance as at 01st April 2020 | 11,088,056,583  | 4,035,000,609   | 5,612,242,070   | 20,735,299,262   |
| During the year granted       | 11,935,352,774  | 1,964,314,908   | 1,262,539,969   | 15,162,207,651   |
| W/O                           | (892,514)       | (1,194,824)     | (1,182,759,009) | (1,184,846,347)  |
| Recoveries                    | (9,506,548,218) | (2,548,037,389) | (2,361,854,457) | (14,416,440,064) |
| Stage 1                       | (597,817,487)   | 399,198,596     | 198,618,891     | -                |
| Stage 2                       | 304,557,852     | (469,869,729)   | 165,311,877     | -                |
| Stage 3                       | 255,446,452     | 325,172,534     | (580,618,986)   | -                |
| As at 31 March 2021           | 13,478,155,441  | 3,704,584,705   | 3,113,480,356   | 20,296,220,502   |

#### Provision for Impairment Movement

|   | Stage 1       | Stage 2      | Stage 3       | Total         |
|---|---------------|--------------|---------------|---------------|
| Balance as at 01st April 2021               | 418,653,749   | 258,766,913  | 1,017,783,498 | 1,695,204,160 |
| Charge/(write back) to the Income Statement | (552,375)     | 41,654,343   | 63,285,390    | 104,387,358   |
| Stage 1                                     | (128,262,202) | 75,127,560   | 53,134,641    | -             |
| Stage 2                                     | 8,318,132     | (36,818,945) | 28,500,813    | -             |
| Stage 3                                     | 11,823,454    | 24,799,298   | (36,622,752)  | -             |
| Amounts written off                         | -             | -            | (359,450,640) | (359,450,640) |
| As at 31 March 2022                         | 309,980,759   | 363,529,169  | 766,630,950   | 1,440,140,878 |



|   | Stage 1       | Stage 2      | Stage 3       | Total         |
|---|---------------|--------------|---------------|---------------|
| Balance as at 01st April 2020               | 339,133,841   | 295,519,510  | 1,723,379,839 | 2,358,033,190 |
| Charge/(write back) to the Income Statement | 167,923,609   | (92,024,389) | (300,035,733) | (224,136,513) |
| Stage 1                                     | (122,856,360) | 56,816,912   | 66,039,448    | -             |
| Stage 2                                     | 12,224,722    | (48,747,142) | 36,522,420    | -             |
| Stage 3                                     | 22,227,937    | 47,202,022   | (69,429,959)  | -             |
| Amounts written off                         | -             | -            | (438,692,517) | (438,692,517) |
| As at 31 March 2021                         | 418,653,749   | 258,766,913  | 1,017,783,498 | 1,695,204,160 |

## 10.2 GROSS LOANS AND RECEIVABLES

| 2022 - LKR                      | Stage 1        | Stage 2       | Stage 3       | Total          |
|---------------------------------|----------------|---------------|---------------|----------------|
| Loan against fixed deposit      | 861,834,450    | 161,458,925   | 212,581,797   | 1,235,875,171  |
| Short Term loans                | 118,986,621    | 237,468,275   | 390,361,774   | 746,816,669    |
| Microfinance loans              | 2,562,577,592  | 49,995,113    | 96,597,198    | 2,709,169,903  |
| Abhivurdhi SME loans            | 42,773,798     | 3,433,208     | 39,802,771    | 86,009,777     |
| Business loans                  | 222,716,283    | 8,989,227     | 59,885,980    | 291,591,489    |
| Gold Loans / Gold loan advances | 8,590,346,896  | 1,117,754,332 | 585,479,373   | 10,293,580,600 |
| Factoring receivables           | 18,822,514     | 226,891       | 29,295,362    | 48,344,767     |
| Term draft loans                | 1,223,788,452  | 306,008,719   | 212,972,184   | 1,742,769,355  |
| Auto Loans                      | 856,878,287    | 963,540,065   | 549,091,375   | 2,369,509,727  |
| Staff Loans                     | 190,064,232    | 7,086,032     | 37,139,757    | 234,290,021    |
| Education Loans                 | 77,229,981     | 68,832,206    | 77,811,171    | 223,873,358    |
| Other Loans                     | 77,345,050     | 105,097,063   | 266,187,685   | 448,629,798    |
|                                 | 14,843,364,154 | 3,029,890,056 | 2,557,206,426 | 20,430,460,636 |

### Less: Impairment allowance

|                                |                |               |               |                |
|--------------------------------|----------------|---------------|---------------|----------------|
| Short Term loans               | 16,864,042     | 85,587,255    | 208,506,859   | 310,958,156    |
| Microfinance loans             | 29,994,934     | 17,563,075    | 59,604,481    | 107,162,490    |
| Abhivurdhi SME loans           | 3,515,681      | 1,535,113     | 18,435,820    | 23,486,615     |
| Business loans                 | 11,343,410     | 3,584,223     | 39,472,492    | 54,400,124     |
| Gold Loan / Gold loan advances | 158,275,790    | 88,726,384    | 58,403,491    | 305,405,665    |
| Factoring receivables          | 658,818        | 226,891       | 51,306,228    | 52,191,938     |
| Term draft loans               | 34,819,912     | 10,548,203    | 104,853,001   | 150,221,115    |
| Auto Loans                     | 13,083,593     | 52,869,530    | 74,534,305    | 140,487,429    |
| Staff Loans                    | 5,503,962      | 2,932,601     | 21,919,884    | 30,356,446     |
| Education Loans                | 2,274,468      | 7,827,784     | 15,156,953    | 25,259,206     |
| Other Loans                    | 33,646,148     | 92,128,111    | 114,437,436   | 240,211,695    |
|                                | 309,980,759    | 363,529,169   | 766,630,950   | 1,440,140,878  |
| Net Loans and Receivables      | 14,533,383,395 | 2,666,360,887 | 1,790,575,476 | 18,990,319,758 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### GROSS LOANS AND RECEIVABLES

| 2021 - LKR                        | Stage 1        | Stage 2       | Stage 3       | Total          |
|-----------------------------------|----------------|---------------|---------------|----------------|
| Loan against fixed deposit        | 894,003,748    | 260,851,408   | 256,528,117   | 1,411,383,272  |
| Short term loans                  | 198,167,709    | 323,497,606   | 500,766,654   | 1,022,431,969  |
| Microfinance loans                | 2,306,503,133  | 39,727,822    | 185,754,921   | 2,531,985,875  |
| Abhivurdhi SME loans              | 58,959,532     | 5,190,919     | 85,105,949    | 149,256,400    |
| Business loans                    | 240,288,384    | 2,956,922     | 132,848,881   | 376,094,188    |
| Gold Loans / Gold loan advances   | 7,791,011,963  | 1,422,276,495 | 918,590,699   | 10,131,879,156 |
| Factoring receivables             | 19,648,213     | 1,783         | 30,014,394    | 49,664,391     |
| Term draft loans                  | 543,818,303    | 293,685,185   | 168,280,372   | 1,005,783,860  |
| Auto Loans                        | 721,988,010    | 1,215,001,048 | 462,407,405   | 2,399,396,463  |
| Staff Loans                       | 223,584,528    | 16,757,987    | 57,101,335    | 297,443,851    |
| Education Loans                   | 146,242,238    | 77,064,755    | 69,827,277    | 293,134,272    |
| Other Loans                       | 333,939,680    | 47,572,775    | 246,254,353   | 627,766,808    |
|                                   | 13,478,155,441 | 3,704,584,705 | 3,113,480,356 | 20,296,220,503 |
| <b>Less: Impairment allowance</b> |                |               |               |                |
| Loan against fixed deposit        | -              | -             | 1,286,462     | 1,286,462      |
| Short term loans                  | 26,193,472     | 76,538,520    | 295,762,186   | 398,494,178    |
| Microfinance loans                | 58,447,359     | 11,297,136    | 108,824,190   | 178,568,684    |
| Abhivurdhi SME loans              | 6,432,341      | 1,107,008     | 40,913,196    | 48,452,544     |
| Business loans                    | 33,053,816     | 456,996       | 59,940,067    | 93,450,880     |
| Gold Loan / Gold loan advances    | 110,933,370    | 92,352,025    | 91,859,070    | 295,144,466    |
| Factoring receivables             | -              | -             | 38,542,920    | 38,542,920     |
| Term draft loans                  | 13,063,488     | 13,657,508    | 135,738,933   | 162,459,929    |
| Auto Loans                        | 4,704,503      | 28,760,236    | 64,896,709    | 98,361,448     |
| Staff Loans                       | 11,724,522     | 6,516,474     | 36,559,659    | 54,800,655     |
| Education Loans                   | 4,573,268      | 9,292,236     | 17,046,731    | 30,912,236     |
| Other Loans                       | 149,527,610    | 18,788,772    | 126,413,376   | 294,729,757    |
|                                   | 418,653,749    | 258,766,912   | 1,017,783,498 | 1,695,204,159  |
| Net Loan and Receivable           | 13,059,501,692 | 3,445,817,794 | 2,095,696,858 | 18,601,016,345 |

## 11. LEASE RENTALS RECEIVABLE AND STOCKS OUT ON HIRE

|  | 2022                  | 2021                  |
|--|-----------------------|-----------------------|
|  | LKR                   | LKR                   |
| <b>Gross rentals receivable</b>                            |                       |                       |
| - Lease rentals  | 54,643,315,799        | 59,465,800,226        |
| - Amounts receivable from hirers                           | 31,465,369,443        | 15,463,699,091        |
|  | 86,108,685,242        | 74,929,499,317        |
| Less: Unearned income                                      | (25,782,579,240)      | (20,592,606,216)      |
| Net rentals receivable                                     | 60,326,106,002        | 54,336,893,101        |
| Less : Allowance for impairment losses (Note 11.1)         | (5,323,091,722)       | (4,370,772,897)       |
| <b>Total net rentals receivable (Note 11.2 &amp; 11.3)</b> | <b>55,003,014,280</b> | <b>49,966,120,204</b> |

### 11.1 ALLOWANCE FOR IMPAIRMENT LOSSES

|   | 2022          | 2021          |
|---|---------------|---------------|
|   | LKR           | LKR           |
| Balance as at 1st April                     | 4,370,772,897 | 2,553,390,942 |
| Charge / (Reversal) for the year            | 1,651,307,815 | 1,054,787,250 |
| Additions Due to the amalgamation with TFIL | -             | 1,201,287,223 |
| Amounts written off                         | (698,988,991) | (438,692,517) |
| As at 31 March                              | 5,323,091,722 | 4,370,772,897 |

The Company's allowance for impairment losses consists of collective impairment amounting to LKR 5,287,830,383/- (2021 collective impairment - LKR 4,342,293,042/-) and individual impairment amounting LKR 35,261,339/- (2021 - LKR 28,479,855/-)

### 11.2 GROSS RENTALS RECEIVABLE

| 2022                              | Stage 1        | Stage 2        | Stage 3        | Unearned Income  | Total          |
|-----------------------------------|----------------|----------------|----------------|------------------|----------------|
| Lease                             | 16,750,459,995 | 25,071,471,534 | 12,821,384,271 | (15,922,665,750) | 38,720,650,049 |
| Amounts receivable from hirers    | 20,389,469,935 | 7,524,544,890  | 3,551,354,618  | (9,859,913,490)  | 21,605,455,954 |
|                                   | 37,139,929,930 | 32,596,016,424 | 16,372,738,888 | (25,782,579,240) | 60,326,106,002 |
| <b>Less: Impairment allowance</b> |                |                |                |                  |                |
| Lease                             | 452,124,163    | 1,542,437,545  | 2,020,015,196  | -                | 4,014,576,903  |
| Amounts receivable from hirers    | 543,609,184    | 380,912,812    | 383,992,823    | -                | 1,308,514,819  |
|                                   | 995,733,347    | 1,923,350,356  | 2,404,008,019  | -                | 5,323,091,722  |
| Net Loans and Receivables         | 36,144,196,583 | 30,672,666,068 | 13,968,730,869 | (25,782,579,240) | 55,003,014,280 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

| 2021                              | Stage 1        | Stage 2        | Stage 3       | Unearned Income  | Total          |
|-----------------------------------|----------------|----------------|---------------|------------------|----------------|
| Lease                             | 25,100,278,564 | 26,006,723,374 | 8,358,798,288 | (16,335,222,324) | 43,130,577,901 |
| Amounts receivable from hirers    | 10,231,999,887 | 3,839,261,143  | 1,392,438,061 | (4,257,383,892)  | 11,206,315,199 |
|                                   | 35,332,278,451 | 29,845,984,516 | 9,751,236,350 | (20,592,606,216) | 54,336,893,101 |
| <b>Less: Impairment allowance</b> |                |                |               |                  |                |
| Lease                             | 479,365,444    | 1,324,950,527  | 1,963,854,011 | -                | 3,768,169,982  |
| Amounts receivable from hirers    | 251,894,311    | 140,028,902    | 210,679,702   | -                | 602,602,916    |
|                                   | 731,259,755    | 1,464,979,429  | 2,174,533,713 | -                | 4,370,772,898  |
| Net Loans and Receivables         | 34,601,018,696 | 28,381,005,087 | 7,576,702,637 | (20,592,606,216) | 49,966,120,204 |

### 11.3 MATURITY OF LEASE RENTALS RECEIVABLES AND STOCK OUT ON HIRE - COMPANY

| As at 31 March 2022                    | Within one year        | 1 -5 years        | Over 5 years        | Total                 |
|--|------------------------|-------------------|---------------------|-----------------------|
|  | LKR                    | LKR               | LKR                 | LKR                   |
| <b>Gross rentals receivable</b>        |                        |                   |                     |                       |
| - Lease rentals                        | 26,751,896,120         | 27,878,332,495    | 13,087,184          | 54,643,315,799        |
| - Amounts receivable from hirers       | 18,206,015,611         | 13,259,353,832    | -                   | 31,465,369,443        |
|  | 44,957,911,731         | 41,137,686,327    | 13,087,184          | 86,108,685,242        |
| Less: Unearned income                  | (14,328,565,851)       | (11,453,026,677)  | (986,712)           | (25,782,579,240)      |
| Net rentals receivable                 | 30,629,345,880         | 29,684,659,650    | 12,100,472          | 60,326,106,002        |
| Less : Allowance for impairment losses |                        |                   |                     | (5,323,091,722)       |
| <b>Total net rentals receivable</b>    |                        |                   |                     | <b>55,003,014,280</b> |
| <b>As at 31 March 2021</b>             | <b>Within one year</b> | <b>1 -5 years</b> | <b>Over 5 years</b> | <b>Total</b>          |
|  | <b>LKR</b>             | <b>LKR</b>        | <b>LKR</b>          | <b>LKR</b>            |
| <b>Gross rentals receivable</b>        |                        |                   |                     |                       |
| - Lease rentals                        | 31,485,259,950         | 27,974,765,118    | 5,775,158           | 59,465,800,226        |
| - Amounts receivable from hirers       | 10,096,075,835         | 5,367,623,257     | -                   | 15,463,699,091        |
|  | 41,581,335,784         | 33,342,388,375    | 5,775,158           | 74,929,499,317        |
| Less: Unearned income                  | (11,615,129,799)       | (8,977,023,358)   | (453,059)           | (20,592,606,216)      |
| Net rentals receivable                 | 29,966,205,985         | 24,365,365,017    | 5,322,099           | 54,336,893,101        |
| Less : Allowance for impairment Losses |                        |                   |                     | (4,370,772,897)       |
| <b>Total net rentals receivable</b>    |                        |                   |                     | <b>49,966,120,204</b> |

## 11.4 DISCLOSURE ON STAGING OF FINANCIAL ASSET

### 11.4.1 Credit Exposure Movement

| 2022                          | Stage 1          | Stage 2         | Stage 3         | Total            |
|-------------------------------|------------------|-----------------|-----------------|------------------|
| Balance as at 01st April 2021 | 32,225,174,622   | 13,994,544,428  | 8,117,174,051   | 54,336,893,101   |
| During the year granted       | 18,854,573,562   | 9,105,233,337   | 2,067,455,932   | 30,027,262,830   |
| W/O                           | (45,451,562)     | (64,683,078)    | (827,748,361)   | (937,883,000)    |
| Recoveries                    | (12,739,953,134) | (6,962,092,124) | (3,398,121,672) | (23,100,166,929) |
| Stage 1                       | (15,240,698,808) | 11,292,809,117  | 3,947,889,691   | -                |
| Stage 2                       | 1,014,144,650    | (4,938,772,673) | 3,924,628,023   | -                |
| Stage 3                       | 227,781,044      | 598,980,525     | (826,761,569)   | -                |
| As at 31 March 2022           | 24,295,570,374   | 23,026,019,533  | 13,004,516,095  | 60,326,106,002   |

| 2021                          | Stage 1          | Stage 2         | Stage 3         | Total            |
|-------------------------------|------------------|-----------------|-----------------|------------------|
| Balance as at 01st April 2020 | 31,637,491,009   | 14,844,789,056  | 9,536,601,745   | 56,018,881,810   |
| During the year granted       | 15,805,848,234   | 2,755,490,065   | 631,295,300     | 19,192,633,599   |
| W/O                           | (311,135,849)    | (406,981,101)   | (1,367,926,052) | (2,086,043,002)  |
| Recoveries                    | (14,505,579,128) | (3,225,720,006) | (1,057,280,172) | (18,788,579,306) |
| Stage 1                       | (5,360,478,580)  | 4,373,257,299   | 987,221,281     | -                |
| Stage 2                       | 3,949,988,108    | (5,539,918,022) | 1,589,929,914   | -                |
| Stage 3                       | 1,009,040,827    | 1,193,627,138   | (2,202,667,965) | -                |
| As at 31 March 2021           | 32,225,174,622   | 13,994,544,428  | 8,117,174,051   | 54,336,893,101   |

### 11.4.2 Provision for Impairment Movement

| 2022  | Stage 1       | Stage 2       | Stage 3       | Total         |
|---|---------------|---------------|---------------|---------------|
| Balance as at 01st April 2021               | 731,259,755   | 1,464,979,429 | 2,174,533,713 | 4,370,772,897 |
| Charge/(write back) to the Income Statement | 689,330,584   | 214,078,402   | 747,898,829   | 1,651,307,815 |
| Stage 1                                     | (596,905,384) | 437,870,437   | 159,034,947   | -             |
| Stage 2                                     | 88,518,467    | (354,718,451) | 266,199,984   | -             |
| Stage 3                                     | 83,529,925    | 161,140,539   | (244,670,464) | -             |
| Amounts written off                         | -             | -             | (698,988,991) | (698,988,991) |
| As at 31 March 2022                         | 995,733,347   | 1,923,350,356 | 2,404,008,018 | 5,323,091,721 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

| 2021  | Stage 1       | Stage 2       | Stage 3         | Total           |
|---|---------------|---------------|-----------------|-----------------|
| Balance as at 01st April 2020               | 732,656,716   | 793,663,026   | 1,803,061,724   | 3,329,381,466   |
| Charge/(write back) to the Income Statement | 78,114,652    | 800,097,205   | 1,357,511,863   | 2,235,723,720   |
| Stage 1                                     | (224,085,462) | 154,362,178   | 69,723,284      | -               |
| Stage 2                                     | 115,412,614   | (338,497,663) | 223,085,050     | -               |
| Stage 3                                     | 29,161,235    | 55,354,683    | (84,515,918)    | -               |
| Amounts written off                         | -             | -             | (1,194,332,289) | (1,194,332,289) |
| As at 31 March 2021                         | 731,259,755   | 1,464,979,429 | 2,174,533,713   | 4,370,772,897   |

### 11.5 MODIFICATION OF EFFECTIVE INTEREST RATES

#### Lease & HP

The Company has modified the effective interest rates of the moratorium given contracts.

Amortised cost of such contracts as at the moratorium granted date is Rs. 34,622,818,293.00 and as at 31.03.2022 is Rs. 25,234,943,961.00

### 12. DEBT AND OTHER INSTRUMENTS

|                                | 2022 | 2021        |
|--------------------------------|------|-------------|
|                                | LKR  | LKR         |
| Investment in Commercial Paper | -    | 253,257,877 |
|                                | -    | 253,257,877 |

### 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

|   | 2022      | 2021      |
|---|-----------|-----------|
|   | LKR       | LKR       |
| Financial assets at fair value through other comprehensive income |           |           |
| Unquoted equity investments (Note 13.1)                           | 2,554,019 | 2,554,019 |
|   | 2,554,019 | 2,554,019 |

### 13.1 UNQUOTED EQUITY INVESTMENTS

|                                    | 2022          |                       |                   | 2021          |                       |                   |
|------------------------------------|---------------|-----------------------|-------------------|---------------|-----------------------|-------------------|
|                                    | No. of Shares | Carrying Value<br>LKR | Fair Value<br>LKR | No. of shares | Carrying Value<br>LKR | Fair Value<br>LKR |
| Credit Information Bureau          | 200           | 700,504               | 2,354,019         | 200           | 700,504               | 2,354,019         |
| Finance House Consortium (Pvt) Ltd | 40,000        | 400,000               | 200,000           | 40,000        | 400,000               | 200,000           |
| <b>Total</b>                       |               | <b>11,100,504</b>     | <b>2,554,019</b>  |               | <b>11,100,504</b>     | <b>2,554,019</b>  |

### 14. OTHER FINANCIAL ASSETS

|  | 2022               | 2021               |
|--|--------------------|--------------------|
|  | LKR                | LKR                |
| Refundable deposits  | 43,722,764         | 42,393,699         |
| Other receivables  | 298,276,868        | 390,185,254        |
| Compensation receivable from government over acquisition of investment property ( Note 14.1) | 119,939,000        | 172,696,835        |
| Debt Relief Obligation receivable from government  | -                  | 38,856,604         |
|  | <b>461,938,633</b> | <b>644,132,392</b> |

#### 14.1 COMPENSATION RECEIVABLE FROM GOVERNMENT

|  | 2022               | 2021               |
|--|--------------------|--------------------|
|  | LKR                | LKR                |
| Government Compensation receivable                 | 214,654,240        | 237,351,075        |
| Less : Allowance for impairment losses (Note 14.2) | (94,715,240)       | (64,654,240)       |
|  | <b>119,939,000</b> | <b>172,696,835</b> |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 14.2 ALLOWANCE FOR IMPAIRMENT LOSSES

|                          | 2022       | 2021       |
|--------------------------|------------|------------|
|                          | LKR        | LKR        |
| Balance as at 01st April | 64,654,240 | 47,357,620 |
| Charge during the year   | 30,061,000 | 17,296,620 |
| As at 31 March           | 94,715,240 | 64,654,240 |

### 15. INVENTORIES

|                    | 2022       | 2021       |
|--------------------|------------|------------|
|                    | LKR        | LKR        |
| Real estate stocks | 88,973,435 | 71,610,208 |
|                    | 88,973,435 | 71,610,208 |

As of 31 March 2022, provision for inventories amounting to LKR 7,876,165 /- (2021 - LKR 7,876,165/-) was recognised and the inventory balances are carried at net realisable value.

#### ACCOUNTING POLICY

Inventories are valued at the lower of cost and net realizable value. Company evaluates the net realizable value considering the current market prices at which such stocks can be sold in the ordinary course of business.

### 16. OTHER ASSETS

|                   | 2022        | 2021        |
|-------------------|-------------|-------------|
|                   | LKR         | LKR         |
| Pre-paid expenses | 253,072,976 | 449,425,587 |
| Sundry assets     | 248,581,668 | 344,958,314 |
|                   | 501,654,644 | 794,383,901 |



## 17. INVESTMENT IN ASSOCIATES

### TVS LANKA (PRIVATE) LIMITED

|                                     | 2022        | 2021        |
|-------------------------------------|-------------|-------------|
|                                     | LKR         | LKR         |
| TVS Lanka (Private) Ltd (Note 17.1) | 300,640,397 | 340,823,054 |
|                                     | 300,640,397 | 340,823,054 |

The Principle place of Business of TVS Lanka (Pvt) Ltd is located at No 38, Old Negombo Road ,Wattala.

The company holds 19.5% of voting shares of TVS Lanka (Pvt) Ltd.

### 17.1 TVS LANKA (PRIVATE) LIMITED

|                                     | 2022         | 2021         |
|-------------------------------------|--------------|--------------|
|                                     | LKR          | LKR          |
| As at 1 April                       | 340,823,054  | 390,000,000  |
| Share of profit/(loss) for the year | (40,182,657) | (49,176,946) |
| As at 31 March                      | 300,640,397  | 340,823,054  |

### 17.2 THE FINANCIAL INFORMATION OF THE TVS LANKA (PRIVATE) LIMITED IS AS FOLLOWS,

| For the year /period ended 31 March             | TVS Lanka<br>(Private) Limited<br>2022          | TVS Lanka<br>(Private) Limited<br>2021          |
|---|---|---|
|   | LKR   | LKR   |
| Revenue   | 3,479,855,174                                   | 7,563,810,289                                   |
| Expenses  | 3,534,055,834                                   | 7,563,718,216                                   |
| Net Profit/(Loss) after tax for the year/period | (54,200,660)                                    | 92,073  |
| <b>As at 31 March</b>                           | <b>TVS Lanka<br/>(Private) Limited<br/>2022</b> | <b>TVS Lanka<br/>(Private) Limited<br/>2021</b> |
|   | <b>LKR</b>                                      | <b>LKR</b>                                      |
| Non Current Assets                              | 301,358,942                                     | 314,538,517                                     |
| Current Assets                                  | 3,729,045,486                                   | 2,146,583,527                                   |
| <b>Total assets</b>                             | <b>4,030,404,428</b>                            | <b>2,461,122,044</b>                            |
| <b>Total liabilities</b>                        | <b>2,488,658,800</b>                            | <b>880,920,130</b>                              |
| Net Assets                                      | 1,541,745,628                                   | 1,580,201,914                                   |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 18. INVESTMENT PROPERTY

|  | 2022                 | 2021                 |
|--|----------------------|----------------------|
|  | LKR                  | LKR                  |
| Balance at 1 April                         | 1,478,919,009        | 1,698,461,370        |
| Acquired during the year                   | 564,439,736          | 20,700,000           |
| Disposal During the year                   | (258,844,102)        | (87,132,850)         |
| Transferred to Property Plant & Equipments | (493,750,000)        | (370,425,550)        |
| Net fair value adjustment                  | 203,121,021          | 217,316,040          |
| <b>Balance at 31 March</b>                 | <b>1,493,885,664</b> | <b>1,478,919,009</b> |

|   | 2022       | 2021      |
|---|------------|-----------|
|   | LKR        | LKR       |
| Rental income derived from investment properties                | 13,034,000 | 4,946,003 |
| Profit arising from investment properties carried at fair value | 13,034,000 | 4,946,003 |

**18.1** During the financial year 2014/2015, The government of Sri Lanka, under the provisions of section 38 of the land acquisition Act No.28 of 1964, has acquired the Lot numbers 1 to 77 in plan No. 87/2010 dated 14/07/2010 of the investment property located at Rassandeniya, Matara. The land extent acquired was 955 perches out of the total of 1511 perches.

By a letter dated 9th August 2019 the "Divisional Secretariat of Matara Four Gravets", has been informed that the initiatives are in progress to pay the compensation. Further on 25 May 2016, the government of Sri Lanka, under the provisions of section 7 of the land acquisition Act No.28 of 1964, has issued the gazette notice detailing lands that is intended to be acquired and has requested the persons interested to claim for compensations through acquiring officer.

Accordingly, an amount corresponding to such compensation receivable was transferred to other financial assets. Value of such compensation was decided based on the valuation performed by M/S. Sunil Fernando Associates (Pvt) Ltd, a firm of chartered valuation surveyors based on the residual method of valuation as at 31 March 2022. ( Note 14)

| Property   | Method of valuation          | Effective date of valuation | Significant unobservable inputs (Level 3)                           | Sensitivity of fair value to un-observable inputs | Value (LKR) |
|--|------------------------------|-----------------------------|---|---|-------------|
| Lot numbers 1 to 77 in plan No. 87/2010 dated 14/07/2010, Rassandeniya, Matara | Residual Method of valuation | 31-Mar-22                   | Estimated price per perch LKR 300,000/- (Land Extent - 955 perches) | Positively correlated sensitivity                 | 328,000,000 |

**18.2** Fair value of the investment property is ascertained by independent valuations carried out by Chartered valuation surveyors, who have recent experience in valuing properties of akin location and category. Investment property is appraised in accordance with SLFRS 13, International Valuation Standards published by the International Valuation Standards Committee (IVSC) and Sri Lankan Valuation Standards by the independent valuers.

In determining the fair value, the current condition of the properties, future usability and associated redevelopment requirements have been considered. Also, the valuers have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The appraised fair values are rounded within the range of values.

**18.3** Investment properties are stated at fair value, which have been determined based on valuations performed by following independent chartered valuation surveyors, as at 31 March 2022.

- 1 Mr. Sunil Fernando
- 2 Mr. A.B.M. Gunadasa
- 3 Mr. H.M.N. Herath
- 4 Mr. R.M. Gunarathna
- 5 Mr. L.K.D.A. Kulathunga
- 6 Mr. L.P. Wijeweera
- 7 Mrs. W.A.C. Wikramarachchi
- 8 Mr. M.A.A. Sarath
- 9 Mr. K.G.A. Shantha
- 10 Mr. T.M.B. Thennakoon
- 11 Mr. K.U.M. Dissanayake
- 12 Mrs. G. Wanigathunga
- 13 Mr. M.M.S. Manathunga
- 14 Mr. Nilantha Jayawardane
- 15 Mr. K.R.N. Jayawardana
- 16 Mr. G.M.G. Senavirathne
- 17 Mr. W.D.A. Welikalage
- 18 Mrs. H.M.U. Ranasinghe Kumarapeliya
- 19 Mrs. K.P. Iresha Udayangani
- 20 Mr. D. Jayawardena
- 21 Mr. H.D. Wickramasinghe

Description of valuation techniques used and key inputs to valuation on investment properties:

| Property   | Method of valuation            | Effective date of valuation | Significant unobservable inputs (Level 3)  | No. of buildings | Sensitivity of fair value to un-observable inputs | Value 2022 (LKR) | Value 2021 (LKR) |
|--|--------------------------------|-----------------------------|--|------------------|---|------------------|------------------|
| Lot No. 1, 2 & 3 in Plan No. 9327/2014 at Main Street, Negombo | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 LKR 4,250,000/- (2021 LKR 4,000,000/-) (Land Extent - 29.34 perches)  | -                | Positively correlated sensitivity                 | 124,700,000      | 117,300,000      |
| Lot No. 1 in Plan No. 0082 at Magamma, Dehiowita               | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 LKR 275,000/- (2021 LKR 250,000/-) (Land Extent - 45 perches)<br><br>Estimated current cost of construction per square feet LKR 3,250/- (8,254/- square feet) | 1                | Positively correlated sensitivity                 | 43,300,000       | 38,100,000       |
| Lot No 283 in Plan No. 520004 at Moragahahena Road, Homagama   | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 LKR 1,000,000/- (2021 LKR 750,000/-) (Land Extent - 383.45 perches)   | -                | Positively correlated sensitivity                 | 383,500,000      | 287,600,000      |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

| Property  | Method of valuation            | Effective date of valuation | Significant unobservable inputs (Level 3)   | No. of buildings | Sensitivity of fair value to un-observable inputs | Value 2022 (LKR) | Value 2021 (LKR) |
|---|--------------------------------|-----------------------------|---|------------------|---|------------------|------------------|
| Lot No. 01 Plan No. 7011, Delgahawaththa, Hunupitiya New Road, Kelaniya | Comparison Method of valuation | 31-Mar-22                   | Estimated current cost of construction per square foot 2022 LKR 5,000/- (2021 LKR 4,000/-) (3400 square feet)<br><br>Estimated price per perch LKR 1,600,000/- (Land Extent - 9.27 perches)         | 1                | Positively correlated sensitivity                 | 30,000,000       | 26,500,000       |
| Property  | Method of valuation            | Effective date of valuation | Significant unobservable inputs (Level 3)   | No. of buildings | Sensitivity of fair value to un-observable inputs | Value 2022 (LKR) | Value 2021 (LKR) |
| Lot No.1 in Plan No.802 at Nawagamuwa                                   | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 265,000/- (2021 LKR 250,000/-) (Land Extent - 171.5 perches)   | -                | Positively correlated sensitivity                 | 24,300,000       | 23,000,000       |
| Lot no A in Plan No. 5431, Malabe-Kottawa Road, Kottawa                 | Comparison Method of valuation | 17-Mar-21                   | Estimated price per perch 2021- LKR 1,100,000/- (2020 - LKR 850,000/-) (Land Extent - 145 perches)  | -                | Positively correlated sensitivity                 | -                | 159,000,000      |
| Lot No.A2, in Plan No. 280A, Meegahawatta, Biyagama                     | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 1300,000/- (2021 - LKR 1,100,000) (Land Extent - 32.2 perches)   | -                | Positively correlated sensitivity                 | 42,000,000       | 34,000,000       |
| Lot No. 3 in Plan No.1143 at Kuda-Payagala, Payagala                    | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 820,000/- (2021 - LKR 775,000/-) (Land Extent - 13.5 perches)<br><br>Estimated current cost of construction per square foot LKR 3,000/- (2832 square feet)     | 1                | Positively correlated sensitivity                 | 19,600,000       | 19,300,000       |
| Lot No. 2B in Plan No.477 at Bangalawatta Road, Kottawa                 | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 1,650,000/- (2021 - LKR 1,600,000/-) (Land Extent - 15.70 perches)<br><br>Estimated current cost of construction per square foot LKR 3,000/- (809 square feet) | 1                | Positively correlated sensitivity                 | 28,300,000       | 27,500,000       |

| Property  | Method of valuation            | Effective date of valuation | Significant unobservable inputs (Level 3)  | No. of buildings | Sensitivity of fair value to un-observable inputs | Value 2022 (LKR) | Value 2021 (LKR) |
|---|--------------------------------|-----------------------------|--|------------------|---|------------------|------------------|
| Lot No. A3, B, C1, D1 & E, Plan No. 1105, Dalaviyagodawatta, Kalawila Village, Beruwala | Comparison Method of valuation | 31-Mar-20                   | Estimated price per perch 2021 - LKR 150,000/- (2020 - LKR 150,000/-) (Land Extent - 21.5 perches)   |                  | Positively correlated sensitivity                 | 10,332,740       | 10,332,740       |
| Lot No. 32 in Plan No.3180 Kottegoda Road, Maswila, Bandaragama                         | Comparison Method of valuation | 30-Jan-20                   | Estimated price per perch 2021 - LKR 155,000/- (2020 - LKR 155,000/-) (Land Extent - 10 perches)   | -                | Positively correlated sensitivity                 | -                | 3,800,000        |
| Lot No.01, Plan No.5093, Pallanchena Estate, Kochchikade                                | Comparison Method of valuation | 16-Jan-20                   | Estimated price per perch 2021 - LKR 350,000/- (2020 - LKR 350,000/-) (Land Extent - 10 perches)<br><br>Estimated current cost of construction per square foot LKR 4,500/- (2688 square feet)      | -                | Positively correlated sensitivity                 | 10,500,000       | 10,500,000       |
| Lot No X Plan No 4069, Maradana Ward No 2, Mattakkuliya, Colombo                        | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 3,500,000 (2020 - LKR 3,400,000/-) (Land Extent - 18.15 perches)<br><br>Estimated current cost of construction per square foot LKR 4,500/- (4956 square feet) | 1                | Positively correlated sensitivity                 | 85,800,000       | 80,400,000       |
| Lot No.2 in Plan No.3047 Bunnehepola, Udubadawata, Kurunegala                           | Comparison Method of valuation | 23-Jul-18                   | Estimated price per perch 2018 - LKR 80,000/- (Land Extent - 1A )  |                  | Positively correlated sensitivity                 | 2,500,000        | 2,500,000        |
| Lot No. 01 Plan No. 1801 Demataluwa, Kurunegala   | Comparison Method of valuation | 27-Jan-18                   | Estimated price per perch 2018-LKR 45,000/- (Land Extent - 1R-10P)   | -                | Positively correlated sensitivity                 | -                | 1,090,240        |
| Lot No.1 in Plan No.08/2007 Wickramarachchi Mawatah, Yakkala                            | Comparison Method of valuation | 26-Sep-18                   | Estimated price per perch 2018-LKR 325,0000/- (Land Extent - 40 perches)   |                  | Positively correlated sensitivity                 | -                | 8,813,000        |
| Lot No 01 Plan No. 20, Hakamuna Village, Pelmadulla, Rathnapura                         | Comparison Method of valuation | 12-Nov-18                   | Estimated price per perch 2018-LKR 400,00/- (Land Extent - 192 perches)  |                  | Positively correlated sensitivity                 | 4,159,000        | 4,159,000        |
| Lot No. 01 Plan No. 2151, Katumuna Land, Seethaeliya, Nuwaraeliya                       | Comparison Method of valuation | 29-Dec-18                   | Estimated price per perch 2018-LKR 600,000/- (Land Extent - 10.6 perches)  |                  | Positively correlated sensitivity                 | 3,639,000        | 3,639,000        |
| Lot No. 5594 plan No. 126/2010, Apothecaryawatta, Wndsor Awanue, Dehiwala               | Comparison Method of valuation | 7-Mar-19                    | Estimated price per perch 2019-LKR 3,500,000/- (Land Extent - 9.3 perches)   |                  | Positively correlated sensitivity                 | -                | 10,087,000       |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

| Property  | Method of valuation            | Effective date of valuation | Significant unobservable inputs (Level 3)   | No. of buildings | Sensitivity of fair value to un-observable inputs | Value 2022 (LKR) | Value 2021 (LKR) |
|---|--------------------------------|-----------------------------|---|------------------|---|------------------|------------------|
| Lot No. 2A In Plan No.1280A/2008 at Gonnagahawatta                        | Comparison Method of valuation | 31-Mar-18                   | Estimated price per perch 2018-LKR 150,000/- (Land Extent - 32.2 perches)<br><br>Estimated current cost of construction per square foot LKR 3,000/- ( 1000 square feet)   | 1                | Positively correlated sensitivity                 | 1,385,100        | 8,050,000        |
| Lot No 99 Plan No 520022, Kahatagahaovitapillawa, Siyambalagoda, Homagama | Comparison Method of valuation | 27-Feb-19                   | Estimated price per perch 2019 -LKR 700,000/- (Land Extent - 11.7 perches)  |                  | Positively correlated sensitivity                 | 4,900,000        | 4,900,000        |
| Lot No X2 Plan No 7739, Gonapolakumbura Kattiya, Palannaruwa, Horana      | Comparison Method of valuation | 28-Mar-19                   | Estimated price per perch 2019 -LKR 600,000/- (Land Extent - 10.8 perches)  |                  | Positively correlated sensitivity                 | 10,399,000       | 10,399,000       |
| Lot No.3896 Plan No.195, Buddhagaya Mawatha, Anuradhapura                 | Comparison Method of valuation | 28-Mar-18                   | Estimated price per perch 2018 -LKR 400,000/- (Land Extent - 24.94 perches)<br><br>Estimated current cost of construction per square foot LKR 3,000/- ( 3986 square feet) | 1                | Positively correlated sensitivity                 | 4,704,961        | 4,704,961        |

| Property   | Method of valuation            | Effective date of valuation | Significant unobservable inputs (Level 3)                                     | No. of buildings | Sensitivity of fair value to un-observable inputs | Value 2022 (LKR) | Value 2021 (LKR) |
|--|--------------------------------|-----------------------------|---|------------------|---|------------------|------------------|
| Lot E Plan No.147 Kirineliya, Urugamuwa  | Comparison Method of valuation | 28-Oct-18                   | Estimated price per perch 2018 - LKR 50,000/- (Land Extent -0A-2R-10 perches) |                  | Positively correlated sensitivity                 | 2,992,182        | 2,992,182        |
| Lot No. 5 Plan No.1133,Walpita village, Homamgama                                | Comparison Method of valuation | 28-Sep-18                   | Estimated price per perch 2018- LKR 175,000/- (Land Extent - 19 perches)      |                  | Positively correlated sensitivity                 | -                | 2,935,000        |
| Lot No.5 Plan No.1738 & Lot No. 6 Plan No. 1738 , Weerambuwa village, Kurunegala | Comparison Method of valuation | 18-Mar-18                   | Estimated price per perch 2018 - LKR 125,000/- (Land Extent - 15 perches)     |                  | Positively correlated sensitivity                 | 2,069,000        | 3,794,000        |
| Lot No. 11 in Plan No.225, Gorakamulla Kumbura                                   | Comparison Method of valuation | 30-Apr-19                   | Estimated price per perch 2019 - LKR 147,558/- (Land Extent - 11.5 perches)   | -                | Positively correlated sensitivity                 | 1,696,926        | 1,696,926        |
| Lot No.01 Plan No.6894 Mawela South, Kaluthara                                   | Comparison Method of valuation | 3-Aug-18                    | Estimated price per perch 2018 - LKR 325,000/- (Land Extent - 40 perches)     | -                | Positively correlated sensitivity                 | 7,747,000        | 1,247,000        |

| Property  | Method of valuation            | Effective date of valuation | Significant unobservable inputs (Level 3)                                       | No. of buildings | Sensitivity of fair value to un-observable inputs                      | Value 2022 (LKR) | Value 2021 (LKR) |
|---|--------------------------------|-----------------------------|---|------------------|--|------------------|------------------|
| Lot No.01 Plan No.5405 Kahatagahalanda - Homagama               | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 1,000,000/- (Land Extent - 346.86 perches) |                  | Positively correlated sensitivity                                      | 346,860,000      | -                |
| Wackwella Kakiri Bokka Land                                     | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 7,000,000/- (Land Extent - 17.435 perches) |                  | Positively correlated sensitivity<br>Positively correlated sensitivity | 103,399,000      | -                |
| Kongahawatta - Thuduwwatta Battaramulla land (Plan Land - 3872) | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 10,000,000/- (Land Extent - 21.50 perches) |                  | Positively correlated sensitivity                                      | 171,362,757      | -                |
| Delgahawatta Land - Plan No. 597                                | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 60,000/- (Land Extent - 103.95 perches)    |                  | Positively correlated sensitivity                                      | 3,639,000        | -                |
| Hunugulawatta Property Plan No.3671                             | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 450,000/- (Land Extent - 21.50 perches)    |                  | Positively correlated sensitivity                                      | 15,000,000       | -                |
| Bogahawatta Property - (Lot No. 3)                              | Comparison Method of valuation | 31-Mar-22                   | Estimated price per perch 2022 - LKR 315,000/- (Land Extent - 10 perches)       |                  | Positively correlated sensitivity                                      | 4,500,000        | -                |

**18.4** The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment property of the year ended 31 March 2022.

The sensitivity of the investment property valuation is the effect of the assumed changes in land price per perch and cost of construction per square feet (while other variables are held constant) on the profit or loss for the year and carrying value of investment property as at 31 March 2022.

#### Increase/(Decrease)

| 2022              |                                      |   | 2021              |                                      |   |
|-------------------|--------------------------------------|---|-------------------|--------------------------------------|---|
| Value of the land | Cost of construction per square feet | Fair value gain/(loss) on Investment property | Value of the land | Cost of construction per square feet | Fair value gain/(loss) on Investment property |
| LKR               |                                      |   | LKR               |                                      |   |
| 5%                | 5%                                   | 71,589,283                                    | 5%                | 5%                                   | 68,670,161                                    |
| -5%               | -5%                                  | (71,589,283)                                  | -5%               | -5%                                  | (68,670,161)                                  |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### ACCOUNTING POLICY

Investment properties are measured initially at cost, including transaction costs. The carrying amounts includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and exclude the costs of day to day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the Statement of profit or loss in the year in which they arise.

## 19. PROPERTY, PLANT AND EQUIPMENT

### 19.1 GROSS CARRYING AMOUNTS

|  | Balance As at<br>01.04.2021 | Additions/<br>Transfers<br>(Note 20.3) | Valuation | Disposals         | Balance As at<br>31.03.2022 |
|--|-----------------------------|--|-----------|-------------------|-----------------------------|
|  | LKR                         | LKR                                    | LKR       | LKR               | LKR                         |
| <b>At Cost</b>                           |                             |  |           |                   |                             |
| <b>Freehold assets</b>                   |                             |  |           |                   |                             |
| Furniture & fittings                     | 373,862,932                 | 15,513,904                             | -         | 41,634,374        | 347,742,462                 |
| Leasehold improvements                   | 471,207,329                 | 63,355,747                             | -         | 3,027,154         | 531,535,922                 |
| Office equipment                         | 184,074,731                 | 24,529,452                             | -         | 16,224,838        | 192,379,345                 |
| Motor vehicles                           | 94,828,670                  | 56,044,917                             | -         | 3,735,000         | 147,138,584                 |
| Computer equipments                      | 1,256,208,250               | 25,207,982                             | -         | -                 | 1,281,416,232               |
| Air conditioning system                  | 128,922,243                 | 14,011,942                             | -         | 10,723,326        | 132,210,859                 |
| Generators                               | 28,596,868                  | 4,800,000                              | -         | -                 | 33,396,868                  |
|  | 2,537,701,022               | 203,463,941                            | -         | 75,344,692        | 2,665,820,271               |
| <b>At valuation</b>                      |                             |  |           |                   |                             |
| Freehold Land                            | 2,209,246,485               | 518,650,000                            | -         | -                 | 2,727,896,485               |
| Building and building integrals          | 599,686,348                 | 8,339,130                              | -         | -                 | 608,025,478                 |
| Work in progress                         | -                           | 905,108,928                            | -         | -                 | 905,108,928                 |
|  | 2,808,932,833               | 1,432,098,058                          | -         | -                 | 4,241,030,891               |
| <b>Total value of depreciable assets</b> | <b>5,346,633,855</b>        | <b>1,635,561,999</b>                   | <b>-</b>  | <b>75,344,692</b> | <b>6,906,851,162</b>        |



## 19.2 DEPRECIATION

|                                 | Balance As at<br>01.04.2021 | Additions/<br>Transfers<br>(Note 20.3) | Valuation | Disposals  | Balance As at<br>31.03.2022 |
|---------------------------------|-----------------------------|--|-----------|------------|-----------------------------|
|                                 | LKR                         | LKR                                    | LKR       | LKR        | LKR                         |
| <b>At Cost</b>                  |                             |  |           |            |                             |
| <b>Freehold assets</b>          |                             |  |           |            |                             |
| Furniture & fittings            | 276,250,805                 | 31,936,605                             | -         | 37,291,948 | 270,895,462                 |
| Leasehold improvements          | 306,644,585                 | 69,032,347                             | -         | 2,552,506  | 373,124,426                 |
| Office equipments               | 128,484,682                 | (723,316)                              | -         | 13,148,604 | 114,612,763                 |
| Motor vehicles                  | 43,485,851                  | 20,362,339                             | -         | 1,636,388  | 62,211,802                  |
| Computer equipments             | 1,021,581,144               | 123,729,179                            | -         | -          | 1,145,310,323               |
| Air conditioning system         | 82,403,649                  | 13,774,915                             | -         | 9,478,007  | 86,700,558                  |
| Generators                      | 10,841,657                  | 4,878,191                              | -         | -          | 15,719,848                  |
|                                 | 1,869,692,373               | 262,990,260                            | -         | 64,107,452 | 2,068,575,179               |
| <b>At valuation</b>             |                             |  |           |            |                             |
| Building and building integrals | 19,886,153                  | (8,359,503)                            | -         | -          | 11,526,650                  |
|                                 | 19,886,153                  | (8,359,503)                            | -         | -          | 11,526,650                  |
| Total Depreciation              | 1,889,578,526               | 254,630,756                            | -         | 64,107,452 | 2,080,101,830               |

## 19.3 NET BOOK VALUES

|   | 2022          | 2021          |
|---|---------------|---------------|
|   | LKR           | LKR           |
| <b>At Cost</b>                                      |               |               |
| Furniture & fittings                                | 76,847,000    | 97,612,127    |
| Leasehold improvements                              | 158,411,496   | 164,562,744   |
| Office equipment                                    | 77,766,582    | 55,590,049    |
| Motor vehicles                                      | 84,926,782    | 51,342,819    |
| Computer equipments                                 | 136,105,910   | 234,627,106   |
| Air conditioning system                             | 45,510,301    | 46,518,594    |
| Generators  | 17,677,020    | 17,755,211    |
| Freehold Land                                       | 2,727,896,485 | 2,209,246,485 |
| Building & building integrals                       | 1,501,607,756 | 579,800,195   |
| Total net book value of property, plant & equipment | 4,826,749,332 | 3,457,055,330 |

**19.4** During the financial year, the Company acquired property, plant & equipment to the aggregate value of LKR 526,989,130 /- (2021 - LKR 601,608,261/-). Cash payments amounting to LKR 203,529,023/- (2021- LKR 456,453,424/-) was paid during the year for purchases of Property, Plant & Equipment.

## NOTES TO THE FINANCIAL STATEMENTS

**19.5** The Company uses the revaluation model of measurement of land and buildings. The company engaged Sunil Fernando & Associates (Private) Limited and A.B.M. Gunadasa, an independent chartered valuation surveyor, to determine the fair value of its land and buildings as at 31 March 2022. The fair value was determined by Comparison Method using current market value of land, residual method of valuation and the depreciated replacement cost of buildings and Lands. Valuations are based on market prices, adjusted for any difference in the nature, location or condition of the specific property.

### Commercial Credit and Finance PLC

#### Fair Value of Lands

| Location  | Extent     | Valuer  | Valuation Date | Valuation Details            | No. of buildings | Significant unobservable input: price per perch/ acre/range | Fair Value 2022<br>LKR | Fair Value 2021<br>LKR |
|---|------------|---|----------------|------------------------------|------------------|---|------------------------|------------------------|
| Plan 548, Lot 1, Maithripala Senanayake Mawatha, New Town, Anuradhapura | P 12.2     |   | 31/03/2021     | Comparison Method            | -                | Rs. 2,750,000/- per perch                                   | 33,000,000             | 33,000,000             |
| No. 106, Yatinuwara Veediya, Kandy                                      | P 13.4     |   | 31/03/2021     | Comparison Method            | -                | Rs. 7,400,000/- per perch                                   | 136,680,000            | 136,680,000            |
| Plan 3256, Lot C1A & C1B, Yaggapitiya, Kurunegala                       | P 738.9    |   | 31/03/2021     | Residual Method of valuation | -                | Rs. 350,000/- per perch                                     | 143,300,000            | 143,300,000            |
| Plan 806, Lot 2, Assessment No. 136, Kurunegala Road, Puttalam          | P 13.64    |   | 31/03/2021     | Comparison Method            | -                | Rs. 800,000/- per perch                                     | 13,640,000             | 13,640,000             |
| Lot No.01 in Plan No.5258 at Athurugiriya Road, Homagama                | P 23.39    |   | 31/03/2021     | Comparison Method            | -                | Rs. 800,000/- per perch                                     | 210,700,000            | 210,700,000            |
| Lot No.01 in Plan No.1351 at Kandy Road, Nuwaræliya                     | P 18.50    | Sunil Fernando & Associates (Private) Limited | 31/03/2021     | Comparison Method            | -                | Rs. 5,700,000/- per perch                                   | 105,450,000            | 80,550,000             |
| Lot No. 275, 277, 283, 285, 287 & 289 High Level Road, Nugegoda         | P 29.85    |   | 31/03/2021     | Comparison Method            | -                | Rs. 450,000/- per perch                                     | 207,800,000            | 207,800,000            |
| 113/11, Green Road, Negombo   | P 26.5     |   | 31/03/2021     | Comparison Method            | -                | Rs. 1,700,000/- per perch                                   | 45,000,000             | 45,000,000             |
| Plan 3333A, No. 165, Kynsey Road, Colombo 08                            | P 66       |   | 31/03/2021     | Comparison Method            | -                | Rs. 15,500,000/- per perch                                  | 1,122,000,000          | 1,122,000,000          |
| Lot No.01 to 07 in Plan No.2762, Dampe Road, Bolgoda                    | P 458.12 P |   | 31/03/2019     | Comparison Method            | -                | Rs. 276,697/- per perch                                     | 216,576,485            | 216,576,485            |
| Lot 4A in Survey Plan No.519, Thurstan Road, Colombo 03.                | P 22.5     |   | 19/03/2021     | Comparison Method            | -                | Rs. 17,500,000/- per perch                                  | 393,750,000            | -                      |
| Lot No. 01 Plan No. 8002 at Nupe Anagarika Dharmapala Mawatha, Matara   | P 16.83    |   | 31/03/2021     | Comparison Method            | 1                | Rs. 5,300,000/- per perch                                   | 96,000,000             | -                      |
| Welikanda   | P 66       |   |                | Comparison Method            | -                |   | 4,000,000              | -                      |
|   |            |   |                |                              |                  |   | <b>2,727,896,485</b>   | <b>2,209,246,485</b>   |

## Fair Value of Buildings

| Location  | Extent             | Valuer  | Valuation Date | Valuation Details   | No. of buildings | Significant unobservable input: price per perch/ acre/range | Fair Value 2022<br>LKR | Fair Value 2021<br>LKR |
|---|--------------------|---|----------------|---|------------------|---|------------------------|------------------------|
| Plan 806, Lot 2, Assessment No. 136, Kurunegala Road, Puttalam          | 1640 square feet   | Sunil Fernando & Associates (Private) Limited | 31/03/2021     | Depreciated Replacement Cost  | 1                | Rs. 3,500/- per square feet                                 | 4,890,000              | 4,890,000              |
| Plan 548, Lot 1, Maithripala Senanayake Mawatha, New Town, Anuradhapura | 3975 square feet   |   | 31/03/2021     | Depreciated Replacement Cost  | 1                | Rs. 4,750/- per square feet                                 | 13,000,000             | 13,000,000             |
| No. 106, Yatinuwara Veediya, Kandy                                      | 12850 square feet  |   | 31/03/2021     | Depreciated Replacement Cost  | 1                | Rs. 6,500/- per square feet                                 | 59,958,988             | 59,671,038             |
| 113/11, Green Road, Negombo   | 2700 square feet   |   | 31/03/2021     | Depreciated Replacement Cost  | 1                | Rs. 2,500/- per square feet<br>Rs. 2750/- per square feet   | 90,000,000             | 90,000,000             |
| Plan 3333A, No. 165, Kynsey Road, Colombo 08                            | 29,305 square feet |   | 31/03/2021     | Depreciated Replacement Cost & Investment or Income based valuation | 1                | Rs. 11,000/- per square feet                                | 323,208,000            | 323,208,000            |
| Lot No. 01 in Plan No. 1351 at Kandy Road, Nuwaraeliya                  | 12,267 square feet |   | 31/03/2021     | Depreciated Replacement Cost & Investment or Income based valuation | 1                | Rs. 6,650/- per square feet                                 | 80,550,000             | 105,450,000            |
| Lot 4A in Survey Plan No.519,Thurstan Road,Colombo 03.                  | 3,550 square feet  |   |                | Depreciated Replacement Cost & Investment or Income based valuation | 1                | Rs. 9,282/- per square feet                                 | 32,951,180             | 3,467,310              |
| Lot No. 01 Plan No. 5258 at Athurugiriya Road, Homagama.                | Container Box      |   |                | Depreciated Replacement Cost & Investment or Income based valuation | 1                | Container Box   | 3,467,310              | 3,467,310              |
|   |                    |   |                |   |                  |   | <b>608,025,478</b>     | <b>599,686,348</b>     |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 19.6 IF LAND AND BUILDINGS WERE MEASURED USING THE COST MODEL, THE CARRYING AMOUNTS WOULD BE AS FOLLOWS:

|                                | 2022          |                               | 2021          |                               |
|--------------------------------|---------------|-------------------------------|---------------|-------------------------------|
|                                | Land          | Building & building integrals | Land          | Building & building integrals |
|                                | LKR           | LKR                           | LKR           | LKR                           |
| Cost                           | 2,727,896,485 | 608,025,478                   | 2,054,671,085 | 572,695,236                   |
| Less: Accumulated depreciation | -             | (11,526,650)                  | -             | (19,886,153)                  |
| Net carrying amount            | 2,727,896,485 | 596,498,828                   | 2,054,671,085 | 552,809,084                   |

**19.7** Property, Plant and equipment included fully depreciated assets having a gross amount of LKR 986,085,757/- (2021 - LKR 1,012,330,504/-)

### 19.8 TITLE RESTRICTION ON PROPERTY, PLANT AND EQUIPMENT

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

### 19.9 PROPERTY, PLANT AND EQUIPMENT PLEDGED AS SECURITY FOR LIABILITIES

There were no items of property, plant and equipment pledged as securities for liabilities as at the reporting date other than those disclosed in the Note 51 of these Financial Statements.

### 19.10 TEMPORARILY IDLE PROPERTY, PLANT AND EQUIPMENT

There were no temporarily idle Property, Plant and Equipment as at the reporting date.

#### ACCOUNTING POLICY

Property, Plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on Property, Plant and equipment. Initially Property, Plant and equipment are measured at cost.

#### Subsequent measurement

Property, Plant and equipment is stated at cost or valuation, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The Company has elected to use the revaluation model for land and buildings, while other classes of property, plant and equipment are measured using the cost model.

#### Cost Model

These are the amount of cash or cash equivalent paid or the fair value of other consideration given to acquire the asset at the time of its acquisition or construction, if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured.

#### Revaluation Model

Land and buildings are measured at fair value, less accumulated depreciation on buildings, and impairment losses recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

## ACCOUNTING POLICY

### Depreciation

The provision for depreciation is calculated by using a straight line method on the cost or valuation of all Property, Plant & Equipment other than freehold land, in order to write off such amounts over the estimated useful lives.

The estimated useful lives used are as follows:

| Components included in buildings and building integrals | Useful Life |
|---|-------------|
| Buildings   | 50 years    |
| Furniture and Fittings                                  | 8 years     |
| Leasehold Improvements                                  | 5 years     |
| Office Equipment  | 8 years     |
| Motor Vehicles  | 4 years     |
| Computer Hardware                                       | 4 years     |
| Air Conditioning System                                 | 8 years     |

### De-recognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other Operating Income' in the Statement of profit or loss in the year the asset is derecognized.

## 20. LEASES

The company assesses at the inception of a contract, whether 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 as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used.

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 20.1 MOVEMENT IN RIGHT-OF-USE ASSETS

|  | 2022          | 2021          |
|--|---------------|---------------|
|  | LKR           | LKR           |
| Balance as at 1st April  | 799,824,836   | 827,934,308   |
| Restated Balance as at 1st April                                     | 799,824,836   | 827,934,308   |
| Additions / renewal operating lease during the year                  | 225,158,089   | 41,162,094    |
| Additions due to Amalgamation With Trade finance and investments PLC | -             | 32,257,354    |
| Expiration of operating lease agreements during the year             | (53,757,965)  | (101,528,920) |
| Balance as at 31st March   | 971,224,960   | 799,824,836   |
| <b>Accumulated amortisation</b>                                      |               |               |
| Balance as at 1st April  | 386,988,452   | 178,108,601   |
| Amortisation for the year  | 203,511,147   | 292,003,138   |
| Additions due to merge   | -             | 18,405,633    |
| Expiration of Amortisation for the year                              | (104,813,260) | (101,528,920) |
| Balance as at 31st March   | 485,686,339   | 386,988,452   |
| Net Book Value at 31st March   | 485,538,621   | 412,836,384   |

### 20.2 MOVEMENT IN OPERATING LEASE LIABILITIES

|  | 2022          | 2021          |
|--|---------------|---------------|
|  | LKR           | LKR           |
| Balance as at 1st April  | 337,559,309   | 507,106,662   |
| Day 1 impact from the application of SLFRS 16                        | -             | -             |
| Restated Balance as at 31st March                                    | 337,559,309   | 507,106,662   |
| Additions/renewal of operating lease agreements during the year      | 143,513,803   | 41,162,094    |
| Additions due to Amalgamation With Trade finance and investments PLC | -             | 18,405,633    |
| Accretion of interest  | 187,267,823   | 53,306,457    |
| Payments to lease creditors  | (291,268,352) | (282,421,537) |
| As at 31st March   | 377,072,583   | 337,559,309   |

The operating lease liabilities are presented under Note 26 to the financial statements. Above is the movement of the operating lease liability during the period.

### Sensitivity of Right-of-Use Assets/Lease Liability to Key Assumption

Sensitivity to Incremental Borrowing Rates Increase/(decrease) in incremental borrowing rate as at 31st March 2022 by 1% would have (decreased)/increased the lease liability by approximately Rs (18,399,225) and Rs. 18,770,927 Mn respectively. Had the company increased/(decreased) the discount rate by 1%, the company profit before tax for the year would have (decreased)/increased by approximately Rs. 5,201,741 and Rs. (5,306,826) Mn respectively.

#### ACCOUNTING POLICY

##### Basis of Recognition

The Company applies Sri Lanka Accounting Standard SLFRS 16 “Leases” in accounting for all lease hold rights except for short term leases, which are held for use in the provision for services.

##### Basis of Measurement

The Company recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-Use assets are measured at cost less any accumulated amortization and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right of use assets are amortised on the straight line basis over the lease term.

##### Lease Liability

At the commencement date of the lease, the company recognises lease liabilities, measured at present value of lease payments to be made over the lease term.

The present value of lease commitments as at 31st March 2022 has been calculated using weighted average incremental borrowing rate of 11.77%

The Company applied modified retrospective approach in accordance with SLFRS 16 when accounting for right-of-use assets and operating lease liabilities.

## 21. INTANGIBLE ASSETS & GOODWILL

|                          | 2022               | 2021               |
|--------------------------|--------------------|--------------------|
|                          | LKR                | LKR                |
| Goodwill                 | 741,712,566        | 741,712,566        |
| Computer software (21.1) | 147,070,855        | 199,125,103        |
|                          | <b>888,783,421</b> | <b>940,837,669</b> |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### GOODWILL

IAS 36 states that an annual impairment test needs to be carried out to for intangible assets such as goodwill acquired in a business combination. An impairment loss should be recorded if the carrying amount of the cash generating unit exceeds the recoverable amount. The recoverable amount is the higher of the cash generating unit's fair value less costs to sell and its value in use. The value in use represents the present value of the future cash flows expected to be derived from the cash-generating unit.

The value in use is determined using the residual income approach. A three year financial forecast is prepared by the management of the company taking into account the industry growth & portfolio growth of the company. An additional two years are added to this using an appropriate growth rate. A suitable cost of equity is used to discount the total equity for each period as per the five year forecast. This calculation reveals that the company's value in use (i.e. recoverable amount) is greater than the carrying value and hence the company's goodwill is not impaired for the financial year.

The forecast utilized for the exercise is developed based on detailed assumptions determined based on historical performance and the economic condition in the country. Assumptions are developed for the following areas:

- New loan disbursements
- Interest yield rates
- Cost of finding
- Personal costs and overheads
- Gross non performing accommodation (NPA) and write off
- Taxes
- New deposit and borrowings
- Distribution of dividends

### 21.1 COMPUTER SOFTWARE

| Cost               | Balance As At | Additions/ | Transfers | Balance As At |
|--------------------|---------------|------------|-----------|---------------|
|                    | 01.04.2021    | Incurring  |           | 31.03.2022    |
|                    | LKR           | LKR        | LKR       | LKR           |
| Computer software  | 318,764,289   | 13,441,650 | -         | 332,205,939   |
| Written down value | 318,764,289   | 13,441,650 | -         | 332,205,939   |

| Amortisation      | Balance As At | Charged    | Transfers | Balance As At |
|-------------------|---------------|------------|-----------|---------------|
|                   | 01.04.2021    |            |           | 31.03.2022    |
|                   | LKR           | LKR        | LKR       | LKR           |
| Computer software | 119,639,186   | 65,495,898 | -         | 185,135,085   |
|                   | 119,639,186   | 65,495,898 | -         | 185,135,085   |
| Net Book Value    | 199,125,103   |            |           | 147,070,855   |



## 22. DUE TO BANKS

|  | 2022                  | 2021                  |
|--|-----------------------|-----------------------|
|  | LKR                   | LKR                   |
| Bank Overdrafts  | 496,347,399           | 290,526,956           |
| Securitised Borrowings, Syndicated Loans and Other Bank Facilities (Note 22.1) | 18,733,075,708        | 22,302,676,190        |
| <b>Total</b>   | <b>19,229,423,107</b> | <b>22,593,203,146</b> |

### 22.1 SECURITISED BORROWINGS AND DIRECT BANK FACILITIES

|  | As at<br>01.04.2021 | Loans<br>Obtained | Interest<br>Recognized | Repayments    | As at<br>31.03.2022 | Period    | Security                     |
|--|---------------------|-------------------|------------------------|---------------|---------------------|-----------|------------------------------|
|  | LKR                 | LKR               | LKR                    | LKR           | LKR                 |           |                              |
| <b>Securitized Borrowings</b>              |                     |                   |                        |               |                     |           |                              |
| People's Bank -<br>Securitization Loan 11  | 500,000,000         | -                 | 44,944,814             | 169,864,814   | 375,080,000         | 48 Months | Lease & HP<br>receivables    |
| Hatton National Bank PLC -<br>Trust 5      | 43,788,572          | -                 | 2,614,196              | 46,402,768    | -                   | 36 Months | Micro Finance<br>Receivables |
| Peoples Bank Trust Loan - 3                | 90,175,689          | -                 | 2,997,845              | 93,173,534    | -                   | 15 Months | Lease & HP<br>receivables    |
| Peoples Bank Trust Loan - 2 - 2            | 26,156,978          | -                 | 1,022,386              | 27,179,364    | -                   | 24 Months | Lease & HP<br>receivables    |
| Hatton National Bank PLC -<br>Trust 8      | 68,517,439          | -                 | 1,221,236              | 69,738,675    | -                   | 24 Months | Lease & HP<br>receivables    |
| Hatton National Bank PLC -<br>Trust 9      | 144,126,430         | -                 | 5,785,266              | 149,911,696   | -                   | 24 Months | Gold Loan                    |
| Hatton National Bank PLC -<br>Trust 10     | 94,276,737          | -                 | 1,860,241              | 96,136,977    | -                   | 24 Months | HP & Lease<br>Receivables    |
| Hatton National Bank PLC -<br>Trust 11     | 150,001,874         | -                 | 11,715,173             | 161,717,047   | -                   | 24 Months | Gold Loan                    |
| Hatton National Bank PLC -<br>Trust 12     | 472,624,679         | -                 | 45,276,722             | 517,901,401   | -                   | 48 Months | Gold Loan                    |
| Hatton National Bank PLC -<br>Syndicaion 2 | 720,000,000         | -                 | 94,500,000             | 274,500,000   | 540,000,000         | 18 Months | Lease & HP<br>receivables    |
| Hatton National Bank PLC -<br>Trust 13     | 417,462,868         | -                 | 22,161,801             | 439,624,668   | -                   | 19 Months | Gold Loan                    |
| Hatton National Bank PLC -<br>Trust 14     | 1,622,563,485       | -                 | 166,419,626            | 1,088,741,118 | 700,241,994         | 22 Months | Lease & HP<br>receivables    |
| Hatton National Bank PLC -<br>Syndicaion 3 | 433,360,000         | -                 | 50,380,850             | 150,340,850   | 333,400,000         | 48 Months | Lease & HP<br>receivables    |
| Hatton National Bank PLC -<br>Trust 15     | 268,179,641         | -                 | 18,123,397             | 225,993,933   | 60,309,106          | 18 Months | Lease & HP<br>receivables    |
| Hatton National Bank PLC -<br>Trust 16     | 774,082,727         | -                 | 20,986,692             | 520,901,219   | 274,168,201         | 36 Months | Gold Loan                    |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

|  | As at<br>01.04.2021 | Loans<br>Obtained | Interest<br>Recognized | Repayments  | As at<br>31.03.2022 | Period    | Security               |
|--|---------------------|-------------------|------------------------|-------------|---------------------|-----------|------------------------|
|  | LKR                 | LKR               | LKR                    | LKR         | LKR                 |           |                        |
| Hatton National Bank PLC - Trust 17          | 1,000,000,000       | -                 | 79,050,859             | 391,050,859 | 688,000,000         | 36 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 18          | 780,924,083         | -                 | 61,572,828             | 574,661,321 | 267,835,591         | 24 Months | Gold Loan              |
| Hatton National Bank PLC - Trust 19          | 817,325,725         | -                 | 51,249,653             | 567,705,559 | 300,869,819         | 26 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 20          | 1,007,017,995       | -                 | 76,900,007             | 536,756,659 | 547,161,344         | 30 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 21          | 753,372,945         | -                 | 60,519,771             | 214,721,164 | 599,171,551         | 24 Months | Lease & HP receivables |
| Hatton National Bank PLC - Syndicaion 4      | 1,006,734,961       | -                 | 92,091,160             | 298,826,121 | 800,000,000         | 60 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 22          | -                   | 950,000,000       | 47,948,375             | 156,296,376 | 841,651,999         | 24 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 23          | -                   | 1,000,000,000     | 42,217,381             | -           | 1,042,217,381       | 29 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 24          | -                   | 769,414,017       | 13,762,283             | -           | 783,176,300         | 39 Months | Gold Loan              |
| Hatton National Bank PLC - Trust 25          | -                   | 370,000,000       | 6,402,959              | -           | 376,402,959         | 16 Months | Lease & HP receivables |
| Seylan Bank - Trust 1                        | 399,792,895         | -                 | 35,080,617             | 257,299,495 | 177,574,016         | 24 Months | Lease & HP receivables |
| Seylan Bank Loan - Trust (TF)                | 123,262,359         | -                 | 7,804,087              | 131,066,446 | -                   | 38 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 05 (TF)     | 44,544,966          | -                 | 2,904,367              | 47,449,333  | -                   | 35 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 04 (TF)     | 122,651,328         | -                 | (11,280,882)           | 111,370,446 | -                   | 36 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 07 (TF)     | 283,113,764         | -                 | 1,390,462              | 284,504,226 | -                   | 36 Months | Lease & HP receivables |
| Hatton National Bank PLC - Syndicaion 5 (TF) | 81,149,044          | -                 | 3,188,426              | 84,337,470  | -                   | 36 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 08 (TF)     | 304,562,872         | -                 | (14,294,055)           | 231,048,801 | 59,220,017          | 37 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 09 (TF)     | 145,187,235         | -                 | 23,983,691             | 143,219,692 | 25,951,235          | 37 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 10 (TF)     | 704,269,930         | -                 | 41,656,628             | 623,958,061 | 121,968,498         | 37 Months | Lease & HP receivables |
| National Saving Bank - Trust 01 (TF)         | 192,156,883         | -                 | 2,028,416              | 194,185,299 | -                   | 18 Months | Lease & HP receivables |
| Hatton National Bank PLC - Trust 11 (TF)     | 350,010,571         | -                 | 28,358,495             | 277,760,833 | 100,608,233         | 24 Months | Lease & HP receivables |

|   | As at<br>01.04.2021 | Loans<br>Obtained | Interest<br>Recognized | Repayments    | As at<br>31.03.2022 | Period    | Security                 |
|---|---------------------|-------------------|------------------------|---------------|---------------------|-----------|--------------------------|
|   | LKR                 | LKR               | LKR                    | LKR           | LKR                 |           |                          |
| Hatton National Bank PLC - Trust 12 (TF)  | 657,875,087         | -                 | 80,231,651             | 380,973,945   | 357,132,792         | 36 Months | Lease & HP receivables   |
| Hatton National Bank PLC - Trust 13 (TF)  | 617,009,055         | -                 | 53,588,051             | 130,370,037   | 540,227,069         | 36 Months | Lease & HP receivables   |
|   | 15,216,278,814      | 3,089,414,017     | 1,276,365,476          | 9,669,690,205 | 9,912,368,102       |           |                          |
| <b>Direct Bank Borrowings</b>             |                     |                   |                        |               |                     |           |                          |
| Merchant Bank of Sri Lanka - Term Loan    | 148,891,552         | -                 | 11,872,206             | 114,689,340   | 46,074,419          | 24 Months | Lease & HP receivables   |
| National Development Bank PLC - Term Loan | 201,683,187         | -                 | 14,084,384             | 215,767,571   | -                   | 12 Months | Land & Buliding Mortgage |
| National Development Bank PLC - Term Loan | 201,568,386         | -                 | 14,084,384             | 215,652,770   | -                   | 12 Months | Land & Buliding Mortgage |
| National Development Bank PLC - Term Loan | -                   | 400,000,000       | 21,769,863             | 21,769,863    | 400,000,000         | 3 Months  | Lease & HP receivables   |
| National Development Bank PLC - Term Loan | -                   | 300,000,000       | 8,095,890              | 8,095,890     | 300,000,000         | 3 Months  | Lease & HP receivables   |
| National Development Bank PLC - Term Loan | -                   | 225,000,000       | 5,586,164              | 5,586,164     | 225,000,000         | 3 Months  | Lease & HP receivables   |
| National Development Bank PLC - Term Loan | -                   | 125,000,000       | 2,158,904              | 2,158,904     | 125,000,000         | 3 Months  | Lease & HP receivables   |
| National Development Bank PLC - Term Loan | -                   | 250,000,000       | 1,249,315              | 1,249,315     | 250,000,000         | 3 Months  | Lease & HP receivables   |
| National Development Bank PLC - Term Loan | -                   | 550,000,000       | 2,233,151              | 2,233,151     | 550,000,000         | 4 Months  | Lease & HP receivables   |
| National Development Bank PLC - Term Loan | 251,783,562         | -                 | 17,605,479             | 269,389,041   | -                   | 12 Months | Land & Buliding Mortgage |
| National Development Bank PLC - Term Loan | 151,070,137         | -                 | 10,632,329             | 161,702,466   | -                   | 12 Months | Land & Buliding Mortgage |
| National Development Bank PLC - Term Loan | 378,821,918         | -                 | 17,041,166             | 395,863,084   | -                   | 12 Months | Lease & HP receivables   |
| Seylan Bank PLC - Term Loan 04            | 25,000,001          | -                 | 550,542                | 25,550,543    | -                   | 60 Months | Lease & HP receivables   |
| Seylan Bank PLC - Term Loan 06            | 31,249,981          | -                 | 634,275                | 31,884,255    | -                   | 48 Months | Lease & HP receivables   |
| Seylan Bank PLC - Term Loan               | 437,498,000         | -                 | 39,957,780             | 164,961,780   | 312,494,000         | 48 Months | HP & Lease Receivables   |
| Cargills Bank Ltd - Term Loan             | 254,538,592         | 1,000,000,000     | 27,378,845             | 1,025,947,231 | 255,970,206         | 3 Months  | Lease & HP receivables   |
| Cargills Bank Ltd - Term Loan             | 35,000,000          | -                 | 810,769                | 35,810,769    | -                   | 18 Months | Lease & HP receivables   |
| Cargills Bank Ltd - Term Loan             | -                   | 500,000,000       | 10,834,521             | 510,834,521   | -                   | 3 Months  | Lease & HP receivables   |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

|  | As at<br>01.04.2021 | Loans<br>Obtained | Interest<br>Recognized | Repayments    | As at<br>31.03.2022 | Period    | Security                               |
|--|---------------------|-------------------|------------------------|---------------|---------------------|-----------|--|
|  | LKR                 | LKR               | LKR                    | LKR           | LKR                 |           |  |
| Cargills Bank Ltd - Short Term Loan        | -                   | 250,000,000       | -                      | -             | 250,000,000         | 3 Months  | Lease & HP receivables                 |
| Cargills Bank Ltd - Term Loan              | -                   | 300,000,000       | 23,310,386             | 92,060,386    | 231,250,000         | 48 Months | Lease & HP receivables                 |
| Hatton National Bank PLC - Term Loan 3     | 812,500,016         | -                 | 39,474,744             | 789,474,760   | 62,500,000          | 12 Months | Lease & HP receivables                 |
| Sampath Bank - Term Loan (TF)              | 134,440,898         | -                 | 8,692,607              | 132,683,504   | 10,450,000          | 50 Months | Lease & HP receivables                 |
| Seylan Bank - Term Loan (TF)               | 39,754,999          | -                 | 7,270,438              | 47,025,438    | -                   | 48 Months | Lease & HP receivables                 |
| HDFC Bank - Term Loan (TF)                 | 89,711,420          | -                 | 5,314,167              | 62,757,489    | 32,268,098          | 48 Months | Lease & HP receivables                 |
| Hatton National Bank PLC - Term Loan (TF)  | 343,542,199         | -                 | 18,669,505             | 264,963,704   | 97,248,000          | 36 Months | Lease & HP receivables                 |
|  | 3,537,054,848       | 3,900,000,000     | 309,311,815            | 4,598,111,940 | 3,148,254,723       |           |  |
| Sampath Bank PLC - Term Loan               | -                   | 1,000,000,000     | 30,641,266             | 113,974,666   | 916,666,600         | 60 Months | Lease & HP receivables                 |
| Sampath Bank PLC - Short Term Loan         | 300,000,000         | 600,000,000       | 24,020,356             | 624,020,356   | 300,000,000         | 6 Months  | Lease & HP receivables                 |
| Hatton National Bank PLC - Short Term Loan | 100,000,000         | -                 | 978,288                | 100,978,288   | -                   | 3 Months  | Lease & HP receivables                 |
| Hatton National Bank PLC - Short Term Loan | 500,000,000         | -                 | 5,356,164              | 505,356,164   | -                   | 6 Months  | Fixed deposit                          |
| Hatton National Bank PLC - Term Loan       | 1,333,360,000       | -                 | 99,600,056             | 599,460,056   | 833,500,000         | 36 Months | Lease & HP receivables                 |
| Hatton National Bank PLC - Term Loan       | -                   | 2,000,000,000     | 93,307,377             | 342,967,377   | 1,750,340,000       | 48 Months | Lease & HP receivables                 |
| Bank of Ceylon - Term Loan                 | 10,101,200          | -                 | 111,408                | 10,212,608    | -                   | 48 Months | Lease & HP receivables                 |
| Bank of Ceylon - Term Loan                 | 76,789,206          | -                 | 2,377,262              | 79,166,467    | -                   | 48 Months | Lease & HP receivables                 |
| Bank of Ceylon - Term Loan                 | 73,333,333          | -                 | 6,232,542              | 26,232,542    | 53,333,333          | 60 Months | Land Mortgage                          |
| Bank of Ceylon - Term Loan                 | 73,333,333          | -                 | 6,232,542              | 26,232,542    | 53,333,333          | 60 Months | Land Mortgage                          |
| DFCC Bank - Term Loan                      | 103,255,466         | 300,000,000       | 10,359,607             | 413,615,073   | -                   | 48 Months | Promissory Note                        |
| DFCC Bank - Term Loan                      | 479,166,667         | -                 | 38,455,124             | 163,455,124   | 354,166,667         | 48 Months | HP & Lease Receivables                 |
| Nation Trust Bank - Tram Loan              | 500,000,000         | -                 | 34,763,588             | 201,430,255   | 333,333,333         | 36 Months | Land Mortgage & HP & Lease Receivables |

|  | As at<br>01.04.2021 | Loans<br>Obtained | Interest<br>Recognized | Repayments     | As at<br>31.03.2022 | Period    | Security                                     |
|--|---------------------|-------------------|------------------------|----------------|---------------------|-----------|--|
|  | LKR                 | LKR               | LKR                    | LKR            | LKR                 |           |  |
| Nation Trust Bank - Tram Loan                  | -                   | 900,000,000       | -                      | -              | 900,000,000         | 36 Months | Land Mortgage<br>& HP & Lease<br>Receivables |
| Central Finance Company PLC -<br>Term Loan     | -                   | 200,000,000       | 3,968,754              | 26,190,976     | 177,777,778         | 36 Months | Lease & HP<br>receivables                    |
| Acuity securities limited -<br>Short Term Loan | -                   | 150,000,000       | 46,027                 | 150,046,027    | -                   | 1 Months  | Repo<br>Investment                           |
|  | 3,549,339,204       | 5,150,000,000     | 356,450,360            | 3,383,338,520  | 5,672,451,043       |           |  |
|  | 22,302,672,866      | 12,139,414,017    | 1,942,127,650          | 17,651,140,665 | 18,733,073,869      |           |  |

## 22.2 Changes in liabilities arising from financing activities (Securitised Borrowings, Syndicated Loans and Other Bank Facilities)

| Company   | Opening<br>1/4/2021 | Loans<br>Obtained | Capital Repaid<br>and Interest<br>Net Movement | Prepaid<br>Expense<br>amortisation | Closing<br>31/3/2022 |
|---|---------------------|-------------------|--|------------------------------------|----------------------|
|   | LKR                 | LKR               | LKR  | LKR                                | LKR                  |
| Securitised Borrowings, Syndicated Loans and Other<br>Bank Facilities | 22,302,672,866      | 12,139,414,017    | 1,942,127,650                                  | 17,651,140,665                     | 18,733,073,869       |

## 23. DUE TO CUSTOMERS

|                          | 2022           | 2021           |
|--------------------------|----------------|----------------|
|                          | LKR            | LKR            |
| Term Deposits - Monthly  | 22,511,315,707 | 25,462,856,526 |
| Term Deposits - Maturity | 24,148,239,880 | 21,230,452,824 |
| Savings Deposits         | 1,418,432,136  | 1,296,227,493  |
|                          | 48,077,987,723 | 47,989,536,843 |

## 24. DEBT INSTRUMENTS ISSUED

|                        | 2022          | 2021          |
|------------------------|---------------|---------------|
|                        | LKR           | LKR           |
| Debentures (Note 24.1) | 1,295,844,686 | 1,295,844,686 |
|                        | 1,295,844,686 | 1,295,844,686 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 24.1 DEBENTURES

| Type of debenture   | Face value (LKR) | Interest rate | Frequency of interest payment | Issued date | Maturity date | 2022               | 2021               |
|---|------------------|---------------|-------------------------------|-------------|---------------|--------------------|--------------------|
|   |                  |               |                               |             |               | Amortised Cost LKR | Amortised Cost LKR |
| Senior Rated, Subordinated, Guaranteed, Redeemable Debentures | 1,287,590,000    | 9%            | Yearly                        | 5-Mar-21    | 4-Mar-26      | 1,295,844,686      | 1,295,844,686      |
|   |                  |               |                               |             |               | 1,295,844,686      | 1,295,844,686      |

### 24.2 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES ( DEBENTURES)

|                          | As at 1/4/2021<br>LKR | Cash Flows                       |  |  | Non Cash Flows                      |                        |
|--------------------------|-----------------------|----------------------------------|--|--|-------------------------------------|------------------------|
|                          |                       | Debentures Capital Repaid<br>LKR | Debenture Interest Net Movement<br>LKR | Debenture Interest Net Movement<br>LKR | Prepaid Expense Amortisation<br>LKR | As at 31/3/2022<br>LKR |
| Debts Instruments Issued | 1,295,844,686         | -                                | 115,883,100                            | (115,883,100)                          | -                                   | 1,295,844,686          |

### 25. OTHER FINANCIAL LIABILITIES

|                | 2022<br>LKR   | 2021<br>LKR   |
|----------------|---------------|---------------|
| Trade Payables | 1,988,564,234 | 1,658,937,116 |
|                | 1,988,564,234 | 1,658,937,116 |

### 26. OTHER LIABILITIES

|   | 2022<br>LKR   | 2021<br>LKR   |
|---|---------------|---------------|
| VAT Payables                                | 1,714,334,082 | 972,995,280   |
| Advances received against Real Estate stock | 3,258,242     | 4,003,742     |
| Dividend Payable                            | 2,920,403     | 2,914,434     |
| Other Liabilities                           | 219,205,091   | 199,701,618   |
| Lease Liabilities                           | 377,072,583   | 337,599,309   |
| Deferred Revenue on Land sale income        | 471,507       | 1,159,312     |
|   | 2,317,261,908 | 1,518,373,695 |

## 26.1 UNDISCOUNTED CASH FLOW OF LEASE LIABILITY

|                 | Within 3 Months | Within 12 months | Over 12     | Total       |
|-----------------|-----------------|------------------|-------------|-------------|
|                 | LKR             | LKR              | LKR         | LKR         |
| <b>2022</b>     |                 |                  |             |             |
| Lease Liability | 53,165,964      | 150,792,143      | 345,982,687 | 549,940,794 |
|                 | 53,165,964      | 150,792,143      | 345,982,687 | 549,940,794 |
| <b>2021</b>     |                 |                  |             |             |
| Lease Liability | 43,642,930      | 120,919,091      | 221,523,738 | 386,085,759 |

## 27. POST EMPLOYMENT BENEFIT OBLIGATIONS

|   | 2022         | 2021         |
|---|--------------|--------------|
|   | LKR          | LKR          |
| As at the 1 April                       | 395,651,701  | 298,691,827  |
| Amount Charged for the year (Note 27.1) | 64,739,241   | 85,328,758   |
| Payments made during the year           | (31,431,000) | (23,591,375) |
| Actuarial Gains for the year            | (94,535,130) | 6,842,736    |
| Additions due to Amlagamation with TFIL | -            | 28,379,755   |
| As at 31 March                          | 334,424,812  | 395,651,701  |

## 27.1 EXPENSES ON DEFINED BENEFIT PLAN

|                                   | 2022       | 2021       |
|-----------------------------------|------------|------------|
|                                   | LKR        | LKR        |
| Current Service Cost for the year | 32,295,802 | 56,086,829 |
| Interest cost for the year        | 32,443,439 | 29,241,929 |
|                                   | 64,739,241 | 85,328,758 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 27.2 ASSUMPTIONS

|   | 2022                 | 2021                       |
|---|----------------------|----------------------------|
|   | LKR                  | LKR                        |
| Discount Rate                                 | 15.00%               | 8.2%                       |
| Salary scale                                  | 10.00%               | 9.00%                      |
| Staff Turnover                                | -                    | -                          |
| 20 - 30 years                                 | -                    | 10.00%                     |
| 35 years                                      | -                    | 7.50%                      |
| 40 years                                      | -                    | 5.00%                      |
| 45 years                                      | -                    | 2.50%                      |
| 50 years                                      | -                    | 1.00%                      |
| 19-20 years                                   | 49.00%               | -                          |
| 21-25 years                                   | 32.00%               | -                          |
| 26-30 years                                   | 19.00%               | -                          |
| 31-35 years                                   | 14.00%               | -                          |
| 36-40 years                                   | 9.00%                | -                          |
| 41-45 years                                   | 6.00%                | -                          |
| 46-50 years                                   | 7.00%                | -                          |
| 51-55 years                                   | 10.00%               | -                          |
| 56-60 years                                   | 10.00%               | -                          |
| Mortality                                     | A67/70<br>Ult tables | GA 1983<br>Mortality Table |
| Retirement age                                | 60 years             | 55 years                   |
| Weighted average future expected working life | 7.7 years            | 10.7 years                 |

An actuarial valuation of the gratuity of the Company was carried out as at 31 March 2022 by Smiles Global (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method".

**27.3** The following table demonstrates the sensitivity to a reasonable possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement, in respect of the year ended 31 March 2022

| Increase/ (Decrease)<br>in Salary Scale | Increase/ (Decrease)<br>in Discount Rate | Increase/(Decrease) in PVDBO |              |
|---|--|------------------------------|--------------|
|   |  | 2022                         | 2021         |
|   |  | LKR                          | LKR          |
|   | (-1%)                                    | 17,030,781                   | 41,478,685   |
|   | 1%                                       | (17,030,781)                 | (35,229,111) |
| (-1%)                                   |  | (19,278,998)                 | (34,635,266) |
| 1%                                      |  | 21,393,304                   | 39,898,079   |



## ACCOUNTING POLICY

The Company measures the present value of the defined retirement benefits of gratuity which is a defined benefit plan using the projected unit credit actuarial valuation method. The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 March 2022, carried out by Smiles Global (Pvt) Limited, a firm of professional actuaries.

All the employees of the Company are eligible for defined contribution plan under the Payment of Gratuity Act No. 12 of 1983. the liability for payment to an employee arises only after the completion of 5 years of continued service

### Funding Arrangements

The Gratuity liability is not externally funded.

### Defined Contribution Plan

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with respective Statutes and Regulations. The Company contributes 12% and 3% of salaries and other entitled allowances of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

## 28. DEFERRED TAXATION

### 28.1 DEFERRED TAX ASSETS, LIABILITIES AND INCOME TAX RELATES TO THE FOLLOWING;

|                                     | Statement of Financial Position |               | Statement of Profit or Loss |               | Statement of Other Comprehensive Income |             |
|-------------------------------------|---------------------------------|---------------|-----------------------------|---------------|---|-------------|
|                                     | 2022                            | 2021          | 2022                        | 2021          | 2022                                    | 2021        |
|                                     | LKR                             | LKR           | LKR                         | LKR           | LKR                                     | LKR         |
| <b>Deferred Tax Liabilities</b>     |                                 |               |                             |               |   |             |
| Capital Allowances for tax purposes | 102,683,344                     | 91,091,296    | 11,592,048                  | (34,716,297)  | -                                       | -           |
| Revaluation of Building             | 84,487,530                      | 84,487,530    | -                           | (6,818,595)   | -                                       | 43,575,963  |
| Investment Property                 | 48,977,435                      | 34,127,999    | 14,849,436                  | 21,139,016    | -                                       | -           |
| Lease Rental Receivable             | 169,831,091                     | 250,426,457   | (80,595,365)                | 46,256,144    | -                                       | -           |
|                                     | 405,979,400                     | 460,133,282   | (54,153,882)                | 25,860,268    | -                                       | 43,575,963  |
| <b>Deferred Tax Assets</b>          |                                 |               |                             |               |   |             |
| Post Employment Benefit Obligations | (80,261,955)                    | (94,956,408)  | (7,993,978)                 | (9,680,440)   | 22,688,431                              | (1,642,257) |
| Temporary difference on provisions  | (997,957,667)                   | (750,289,284) | (247,668,383)               | (750,289,284) | -                                       | -           |
| Tax Losses                          | (26,031,849)                    | -             | 56,644,250                  | -             | -                                       | -           |
| Profit from associates              | (2,102,593)                     | (82,676,099)  | (2,536,591)                 | (40,974,043)  | -                                       | -           |
|                                     | (1,106,354,064)                 | (927,921,791) | (201,554,702)               | (800,943,767) | 22,688,431                              | (1,642,257) |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

|  | Statement of Financial Position |               | Statement of Profit or Loss |               | Statement of Other Comprehensive Income |            |
|--|---------------------------------|---------------|-----------------------------|---------------|---|------------|
|  | 2022                            | 2021          | 2022                        | 2021          | 2022                                    | 2021       |
|  | LKR                             | LKR           | LKR                         | LKR           | LKR                                     | LKR        |
| <b>Deferred income tax charge/(reversal)</b> |                                 |               |                             |               |   |            |
| Deferred tax transfer from TFI               |                                 |               | -                           | 285,828,126   |   |            |
| Statement of Profit or Loss                  |                                 |               | <b>(255,708,584)</b>        | (489,255,373) |   |            |
| Statement of Other Comprehensive Income      |                                 |               |                             |               | <b>22,688,431</b>                       | 41,933,706 |
| Net Deferred Tax Asset                       | <b>(700,374,664)</b>            | (467,788,509) |                             |               |   |            |

### ACCOUNTING POLICY

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

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are off set if legally enforceable right exists to set off current tax assets against current income tax liabilities and Deferred tax relates to the same taxable entity and the same taxation authority.

## 29. STATED CAPITAL

### 29.1 ISSUED AND FULLY PAID-ORDINARY SHARES

|                              | 2022          |               | 2021          |               |
|------------------------------|---------------|---------------|---------------|---------------|
|                              | No. of Shares | LKR           | No. of Shares | LKR           |
| At the beginning of the year | 318,074,365   | 2,150,640,315 | 318,074,365   | 2,150,640,315 |
| At the end of the year       | 318,074,365   | 2,150,640,315 | 318,074,365   | 2,150,640,315 |

### 29.2 RIGHTS OF SHAREHOLDERS

The holders of ordinary shares have the right to receive dividends as declared from time to time and are entitled to one vote per share at meetings.

All shares rank equally with regard to the Company's residual assets.

## 30. RETAINED EARNINGS

|   | 2022           | 2021          |
|---|----------------|---------------|
|   | LKR            | LKR           |
| As at 01 April                                | 9,048,914,434  | 7,570,420,764 |
| Profit for the Year                           | 4,520,312,881  | 2,334,756,207 |
| Other Comprehensive Income net of tax         | 71,846,699     | (5,200,479)   |
| Dividend Paid (Note 44)                       | (795,185,914)  | -             |
| Impact of Amalgamation with TFIL              | -              | (384,110,816) |
| Transfers to Statutory Reserve Fund (Note 31) | (226,015,644)  | (466,951,241) |
| As at 31 March                                | 12,619,872,455 | 9,048,914,434 |

## 31. RESERVES

|                                     | 2022                |                 |                   |               |               |
|-------------------------------------|---------------------|-----------------|-------------------|---------------|---------------|
|                                     | Revaluation Reserve | General Reserve | Statutory Reserve | FVOCI Reserve | Total Reserve |
|                                     |                     | (Note 29.1)     | (Note 29.2)       |               |               |
|                                     | LKR                 | LKR             | LKR               | LKR           | LKR           |
| As at 01 April 2021                 | 358,508,001         | 58,751,125      | 3,789,541,729     | (10,000,000)  | 4,196,800,855 |
| Transfers to/(from) during the year | -                   | -               | 226,015,644       | -             | 226,015,644   |
| As at 31 March 2022                 | 358,508,001         | 58,751,125      | 4,015,557,373     | (10,000,000)  | 4,422,816,499 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

|  | 2021                |                 |                   |               |               |
|--|---------------------|-----------------|-------------------|---------------|---------------|
|  | Revaluation Reserve | General Reserve | Statutory Reserve | FVOCI Reserve | Total Reserve |
|  | LKR                 | LKR             | LKR               | LKR           | LKR           |
| As at 01 April 2020                                | 220,517,452         | 58,751,125      | 3,322,590,488     | -6,262,158    | 3,595,596,907 |
| Other Comprehensive Income for the year net of tax | 137,990,549         | -               | -                 | (3,737,842)   | 134,252,707   |
| Transfers to/(from) during the year                | -                   | -               | 466,951,241       | -             | 466,951,241   |
| As at 31 March 2021                                | 358,508,001         | 58,751,125      | 3,789,541,728     | (10,000,001)  | 4,196,800,855 |

**31.1** General reserve represents amounts set aside by the Board of Directors from time to time which is available for general application at the discretion of the Board. The purpose of setting up the General Reserve is to meet potential future unknown liabilities.

**31.2** Statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b)(ii) of Central Bank Direction No. 1 of 2003.

### 32. GROSS INCOME

|   | 2022           | 2021           |
|---|----------------|----------------|
|   | LKR            | LKR            |
| Interest income (Note 32.1)                 | 18,365,076,301 | 16,086,955,727 |
| Fee and Commission Income (Note 33)         | 1,797,135,534  | 1,072,790,785  |
| Net income from Real estate sales (Note 34) | 7,575,360      | 5,800,656      |
| Net gain/(loss) from trading (Note 35)      | 23,274,836     | 28,156,396     |
| Other operating income (Note 36)            | 1,423,846,607  | 780,743,520    |
| Change in fair value of Investment property | 203,121,021    | 217,316,040    |
|   | 21,820,029,659 | 18,191,763,124 |

### 32.1 INTEREST INCOME

|   | 2022           | 2021           |
|---|----------------|----------------|
|   | LKR            | LKR            |
| Reverse repurchase agreements                         | 52,876,368     | 128,122,526    |
| Placement with Banks and other Financial Institutions | 240,515,819    | 322,882,320    |
| Loans and Advances                                    | 3,991,011,846  | 3,971,189,884  |
| Lease rentals receivable & Stock out on hire          | 13,806,659,454 | 11,550,161,430 |
| Financial assets - fair value through profit or loss  | 274,012,814    | 114,599,567    |
| Total Interest Income                                 | 18,365,076,301 | 16,086,955,727 |

**32.2 INTEREST EXPENSES**

|                                       | 2022                 | 2021                 |
|---------------------------------------|----------------------|----------------------|
|                                       | LKR                  | LKR                  |
| Due to Banks                          | 2,054,422,277        | 1,942,363,789        |
| Due to Customers                      | 4,215,769,746        | 4,840,170,530        |
| Debt instruments issued               | 115,883,100          | 216,027,028          |
| Interest Expense on Lease Liabilities | 30,059,659           | 53,306,457           |
| <b>Total Interest Expenses</b>        | <b>6,416,134,783</b> | <b>7,051,867,805</b> |

**33. FEE AND COMMISSION INCOME/EXPENSE**

|  | 2022                 | 2021                 |
|--|----------------------|----------------------|
|  | LKR                  | LKR                  |
| <b>Fee and Commission Income</b>       |                      |                      |
| Credit Related Fees and Commissions    | 307,203,257          | 274,732,053          |
| Service Charges                        | 1,489,932,277        | 798,058,732          |
| <b>Total Fee and Commission Income</b> | <b>1,797,135,534</b> | <b>1,072,790,785</b> |

**34. NET INCOME FROM REAL ESTATE SALES**

|                                 | 2022             | 2021             |
|---------------------------------|------------------|------------------|
|                                 | LKR              | LKR              |
| Proceeds from Real Estate sales | 21,985,425       | 24,032,060       |
| Cost of sales                   | (14,410,065)     | (18,231,404)     |
|                                 | <b>7,575,360</b> | <b>5,800,656</b> |

**35. NET GAIN/(LOSS) FROM TRADING**

|   | 2022              | 2021              |
|---|-------------------|-------------------|
|   | LKR               | LKR               |
| Financial assets recognised through profit or loss - measured at fair value | 23,274,836        | 28,156,396        |
|   | <b>23,274,836</b> | <b>28,156,396</b> |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 36. OTHER OPERATING INCOME

|   | 2022                 | 2021               |
|---|----------------------|--------------------|
|   | LKR                  | LKR                |
| Sundry Income from Real estate            | 28,650,695           | 1,969,350          |
| Bad debt recoveries                       | 1,013,758,301        | 685,944,763        |
| Rent income                               | 13,034,000           | 4,946,003          |
| Dividend Income                           | 1,323,764            | 1,202,871          |
| Other sundry income                       | 326,241,937          | 85,654,983         |
| Gain from disposal of investment property | 40,837,910           | 1,025,550          |
| <b>Total Other Operating Income</b>       | <b>1,423,846,607</b> | <b>780,743,520</b> |

### 37. IMPAIRMENT CHARGES OF FINANCIAL ASSETS

|  | 2022                 | 2021                 |
|--|----------------------|----------------------|
|  | LKR                  | LKR                  |
| Loans and Receivables                        | 104,387,358          | 566,592,095          |
| Lease rentals receivable & Stock out on hire | 1,651,307,815        | 1,054,787,250        |
| Other Financial Assets                       | 22,345,108           | 68,961,539.78        |
|  | <b>1,778,040,281</b> | <b>1,690,340,885</b> |

### 38. PERSONNEL EXPENSES

|  | 2022                 | 2021                 |
|--|----------------------|----------------------|
|  | LKR                  | LKR                  |
| Salaries and bonus                               | 2,194,244,056        | 1,921,784,364        |
| <b>Contribution to Defined Contribution Plan</b> |                      |                      |
| Contribution to EPF                              | 193,698,415          | 168,689,387          |
| Contribution to ETF                              | 48,424,604           | 42,172,347           |
| Contribution to defined benefit plan (Note 28.1) | 64,739,241           | 85,328,758           |
| Travelling & Subsistence                         | 235,874,320          | 194,990,988          |
| Other allowances & staff related expenses        | 49,858,114           | 41,728,232           |
|  | <b>2,786,838,749</b> | <b>2,454,694,077</b> |

**39. OTHER OPERATING EXPENSES**

|  | 2022                 | 2021                 |
|--|----------------------|----------------------|
|  | LKR                  | LKR                  |
| Directors' Fees and Expense                          | 11,310,000           | 7,341,680            |
| Auditors' remuneration - Audit & audit related works | 6,464,000            | 11,119,300           |
| - Non-audit  | 637,156              | 4,142,809            |
| Professional and Legal Expenses                      | 277,583,361          | 204,698,633          |
| Office Administration and Establishment Expenses     | 1,953,994,458        | 1,751,516,712        |
| Advertising and Business Promotion Expenses          | 284,828,225          | 442,840,119          |
|  | <b>2,534,817,199</b> | <b>2,421,659,253</b> |

**40. TAX ON FINANCIAL SERVICES**

|                 | 2022                 | 2021               |
|-----------------|----------------------|--------------------|
|                 | LKR                  | LKR                |
| Value added tax | 1,400,965,963        | 812,380,400        |
|                 | <b>1,400,965,963</b> | <b>812,380,400</b> |

**41. SHARE OF LOSS OF ASSOCIATE**

|   | 2022       | 2021       |
|---|------------|------------|
|   | LKR        | LKR        |
| Share of Loss of associates before income tax | 10,569,129 | 49,176,946 |
| Share of Loss of associates net of income tax | 10,569,129 | 49,176,946 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 42. INCOME TAX

#### 42.1 THE MAJOR COMPONENTS OF INCOME TAX EXPENSE FOR THE YEARS ENDED 31 MARCH ARE AS FOLLOWS:

|   | 2022                 | 2021               |
|---|----------------------|--------------------|
|   | LKR                  | LKR                |
| <b>Current Income Tax</b>   |                      |                    |
| Income Tax for the year   | 2,114,305,233        | 1,346,458,683      |
| Tax on Capital Gains  | 12,434,986           | -                  |
| <b>Deferred Tax</b>   |                      |                    |
| Deferred Taxation Charge/(Reversal) (Note 28)                       | (255,708,584)        | (488,821,376)      |
|   | <b>1,871,031,635</b> | <b>857,637,307</b> |
| <b>Statement of Other Comprehensive Income</b>                      |                      |                    |
| Deferred tax related to other comprehensive income (Note 28)        | 22,688,431           | 41,933,706         |
| Income tax charged directly Statement of Other Comprehensive Income | 22,688,431           | 41,933,706         |

#### 42.2 RECONCILIATION OF ACCOUNTING PROFIT AND TAXABLE INCOME

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the years ended 31 March 2022 and 2021 is as follows:

|  | 2022            | 2021            |
|--|-----------------|-----------------|
|  | LKR             | LKR             |
| Accounting profit before tax   | 6,391,344,516   | 3,192,393,515   |
| Non deductible Expenses and Capital portion of lease rentals               | 4,559,405,170   | 4,611,661,726   |
| Exempt Income  | (322,468,555)   | (350,293,354)   |
| Allowable Expenses including depreciation allowances on leased hold assets | (1,834,047,143) | (1,173,862,032) |
| Total profit from businesses (leasing and non-leasing)                     | 8,794,233,988   | 6,279,899,854   |
| Profit/(Loss) on leasing business  | 15,371,149      | (669,655,340)   |
| Total Statutory Income   | 8,809,605,136   | 5,610,244,514   |
| Taxable Income   | 8,809,605,136   | 5,610,244,514   |
| Income Tax Expense   | 2,114,305,233   | 1,346,458,683   |
| Effective tax rate   | 29.08%          | 26.87%          |

#### ACCOUNTING POLICY

Current income tax assets and liabilities consists of amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognized directly in equity and not in the Statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.



## 43. EARNINGS PER ORDINARY SHARE

### 43.1 BASIC EARNINGS PER ORDINARY SHARE

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

| For the year ended 31 March  | 2022          | 2021          |
|--|---------------|---------------|
|  | LKR           | LKR           |
| <b>Amounts Used as the Numerators:</b>   |               |               |
| Profit attributable to Ordinary Shareholders for Basic Earnings Per Share          | 4,520,312,881 | 2,334,756,207 |
| <b>Number of Ordinary Shares Used as Denominators for Basic Earnings per share</b> |               |               |
| Weighted Average Number of Ordinary Shares   | 318,074,365   | 318,074,365   |
| Basic Earnings per ordinary share (Rs.)  | 14.21         | 7.34          |

### 43.2 DILUTED EARNINGS PER ORDINARY SHARE

Diluted EPS 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 plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares in to ordinary shares.

#### Number of Ordinary Shares Used as Denominators for Diluted Earnings per share

|   | Company       |               |
|---|---------------|---------------|
|   | 2022          | 2021          |
|   | LKR           | LKR           |
| <b>Amounts Used as the Numerators:</b>                                    |               |               |
| Profit attributable to Ordinary Shareholders for Basic Earnings Per Share | 4,520,312,881 | 2,334,756,207 |
| Weighted Average Number of Ordinary Shares                                | 318,074,365   | 318,074,365   |
| Diluted Earnings per ordinary share (Rs.)                                 | 14.21         | 7.34          |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 44. DIVIDEND PAID

#### 44.1 DECLARED AND PAID DURING THE YEAR

|   | Company     |      |
|---|-------------|------|
|   | 2022        | 2021 |
|   | LKR         | LKR  |
| <b>Dividends on Ordinary Shares:</b>            |             |      |
| Final Dividend for 2020/21 Rs.1.50/- per share. | 477,111,549 | -    |
| Interim Dividend for 2021/22 Rs.1/- per share.  | 318,074,365 | -    |
|   | 795,185,914 | -    |

#### ACCOUNTING POLICY

Dividend on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's shareholders. Interim dividends are deducted when they are declared.

### 45. OPERATING SEGMENTS

For management purposes, the Company is organised into seven operating segments based on services offered to customers as follows. The following table presents income and profit and certain asset and liability information regarding the Company's operating segments.

## 45.1

| 2022  | Finance Lease  |                | Hire Purchase |               | Microfinance and SME Loans |             | Gold loan      |                | Term Loan       |     | Revolving Loans |     | Investments |     | Unallocated |     | Total |     |
|---|----------------|----------------|---------------|---------------|----------------------------|-------------|----------------|----------------|-----------------|-----|-----------------|-----|-------------|-----|-------------|-----|-------|-----|
|   | LKR            | LKR            | LKR           | LKR           | LKR                        | LKR         | LKR            | LKR            | LKR             | LKR | LKR             | LKR | LKR         | LKR | LKR         | LKR | LKR   | LKR |
| Interest income                                       | 8,296,197,153  | 5,630,079,780  | 708,390,811   | 2,119,131,420 | 506,238,460                | 82,471,705  | 567,405,001    | 455,161,971    | 18,365,076,301  |     |                 |     |             |     |             |     |       |     |
| Fee Based Income                                      | 811,833,855    | 550,937,892    | 69,320,393    | 207,370,027   | 49,538,543                 | 8,070,363   | 55,524,065     | 44,540,395     | 1,797,135,534   |     |                 |     |             |     |             |     |       |     |
| Net income from Real estate sales                     | -              | -              | -             | -             | -                          | -           | -              | 7,575,360      | 7,575,360       |     |                 |     |             |     |             |     |       |     |
| Net gain from trading                                 | -              | -              | -             | -             | -                          | -           | 23,274,836     | -              | 23,274,836      |     |                 |     |             |     |             |     |       |     |
| Other operating income                                | 643,205,178    | 436,500,773    | 54,921,626    | 164,296,518   | 39,248,730                 | 6,394,041   | 43,990,979     | 35,288,763     | 1,423,846,607   |     |                 |     |             |     |             |     |       |     |
| Change in fair value of investment property           |                |                |               |               |                            |             |                | 203,121,021    | 203,121,021     |     |                 |     |             |     |             |     |       |     |
| Total Revenue   | 9,751,236,186  | 6,617,518,446  | 832,632,830   | 2,490,797,965 | 595,025,733                | 96,936,109  | 690,194,880    | 745,687,510    | 21,820,029,659  |     |                 |     |             |     |             |     |       |     |
| Segmental Result Before depreciation and amortisation | 3,726,846,765  | 2,529,164,174  | 318,225,803   | 951,963,644   | 227,414,216                | 111,400,514 | 263,787,125    | 284,995,977    | 8,339,445,932   |     |                 |     |             |     |             |     |       |     |
| Depreciation and Amortisation                         | -              | -              | -             | -             | -                          | -           | -              | -              | (536,566,324)   |     |                 |     |             |     |             |     |       |     |
| Segments Results                                      | -              | -              | -             | -             | -                          | -           | -              | -              | 7,802,879,608   |     |                 |     |             |     |             |     |       |     |
| VAT on Financial Services                             | -              | -              | -             | -             | -                          | -           | -              | -              | (1,400,965,963) |     |                 |     |             |     |             |     |       |     |
| Debt repayment levy                                   | -              | -              | -             | -             | -                          | -           | -              | -              | -               |     |                 |     |             |     |             |     |       |     |
| Share of loss of associates                           | -              | -              | -             | -             | -                          | -           | -              | -              | (10,569,129)    |     |                 |     |             |     |             |     |       |     |
| Profit before Taxation                                | -              | -              | -             | -             | -                          | -           | -              | -              | 6,391,344,516   |     |                 |     |             |     |             |     |       |     |
| Income Tax Expenses                                   | -              | -              | -             | -             | -                          | -           | -              | -              | (1,871,031,635) |     |                 |     |             |     |             |     |       |     |
| Net profit for the Year                               | -              | -              | -             | -             | -                          | -           | -              | -              | 4,520,312,881   |     |                 |     |             |     |             |     |       |     |
| Segment Asset   | 34,706,073,147 | 20,296,941,135 | 2,664,530,576 | 9,988,174,936 | 1,592,548,239              | 237,191,365 | 12,233,793,676 | 11,910,975,325 | 93,630,228,398  |     |                 |     |             |     |             |     |       |     |
| <b>Total Assets</b>                                   |                |                |               |               |                            |             |                |                | 93,630,228,398  |     |                 |     |             |     |             |     |       |     |
| Segment Liabilities                                   | 25,768,869,243 | 17,049,571,114 | 2,205,767,601 | 8,123,000,729 | 4,809,740,669              | 230,104,370 | 9,654,086,251  | 6,595,759,151  | 74,436,899,127  |     |                 |     |             |     |             |     |       |     |
| <b>Total Liabilities</b>                              |                |                |               |               |                            |             |                |                | 74,436,899,127  |     |                 |     |             |     |             |     |       |     |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 45.2

| 2021  | Finance Lease  |                | Hire Purchase |                | Microfinance and SME Loans |             | Gold loan      |               | Term Loan      |     | Revolving Loans |     | Investments |     | Unallocated |     | Total |     |
|---|----------------|----------------|---------------|----------------|----------------------------|-------------|----------------|---------------|----------------|-----|-----------------|-----|-------------|-----|-------------|-----|-------|-----|
|   | LKR            | LKR            | LKR           | LKR            | LKR                        | LKR         | LKR            | LKR           | LKR            | LKR | LKR             | LKR | LKR         | LKR | LKR         | LKR | LKR   | LKR |
| Interest income                                       | 9,130,159,126  | 2,881,372,248  | 578,533,767   | 1,744,913,979  | 810,685,035                | 79,795,267  | 565,604,412    | 295,891,893   | 16,086,955,727 |     |                 |     |             |     |             |     |       |     |
| Fee Based Income                                      | 608,862,904    | 192,150,065    | 38,580,680    | 116,363,075    | 54,062,151                 | 5,321,307   | 37,718,460     | 19,732,142    | 1,072,790,785  |     |                 |     |             |     |             |     |       |     |
| Net income from Real estate sales                     | -              | -              | -             | -              | -                          | -           | -              | 5,800,656     | 5,800,656      |     |                 |     |             |     |             |     |       |     |
| Net gain from trading                                 | -              | -              | -             | -              | -                          | -           | 28,156,396     | -             | 28,156,396     |     |                 |     |             |     |             |     |       |     |
| Other operating income                                | 443,111,344    | 139,840,797    | 28,077,810    | 84,685,400     | 39,344,740                 | 3,872,680   | 274,503,314    | 14,360,435    | 780,743,520    |     |                 |     |             |     |             |     |       |     |
| Change in fair value of investment property           |                |                |               |                |                            |             | 217,316,040    | 217,316,040   |                |     |                 |     |             |     |             |     |       |     |
| Total Revenue   | 10,182,133,374 | 3,213,363,111  | 645,192,257   | 1,945,962,454  | 904,091,926                | 88,989,254  | 658,929,582    | 553,101,166   | 18,191,763,124 |     |                 |     |             |     |             |     |       |     |
| Segmental Result Before depreciation and amortisation | 2,597,416,650  | 819,714,547    | 164,585,657   | 496,406,312    | 230,629,804                | 98,183,241  | 168,089,987    | 141,093,632   | 4,640,637,350  |     |                 |     |             |     |             |     |       |     |
| Depreciation and Amortisation                         | -              | -              | -             | -              | -                          | -           | -              | -             | (586,686,489)  |     |                 |     |             |     |             |     |       |     |
| Segments Results                                      | -              | -              | -             | -              | -                          | -           | -              | -             | 4,053,950,861  |     |                 |     |             |     |             |     |       |     |
| VAT on Financial Services                             | -              | -              | -             | -              | -                          | -           | -              | -             | (812,380,400)  |     |                 |     |             |     |             |     |       |     |
| Debt repayment levy                                   | -              | -              | -             | -              | -                          | -           | -              | -             | -              |     |                 |     |             |     |             |     |       |     |
| Share of loss of associates                           | -              | -              | -             | -              | -                          | -           | -              | -             | (49,176,946)   |     |                 |     |             |     |             |     |       |     |
| Profit before Taxation                                | -              | -              | -             | -              | -                          | -           | -              | -             | 3,192,393,515  |     |                 |     |             |     |             |     |       |     |
| Income Tax Expenses                                   | -              | -              | -             | -              | -                          | -           | -              | -             | (857,637,307)  |     |                 |     |             |     |             |     |       |     |
| Net profit for the Year                               | -              | -              | -             | -              | -                          | -           | -              | -             | 2,334,756,207  |     |                 |     |             |     |             |     |       |     |
| Segment Asset   | 37,064,600,846 | 11,206,315,200 | 2,681,242,275 | 10,131,879,156 | 5,838,995,563              | 376,094,188 | 16,490,268,709 | 7,340,477,115 | 91,129,873,052 |     |                 |     |             |     |             |     |       |     |
| Total Assets  | -              | -              | -             | -              | -                          | -           | -              | -             | 91,129,873,052 |     |                 |     |             |     |             |     |       |     |
| Segment Liabilities                                   | 30,802,551,357 | 9,313,012,729  | 2,228,247,465 | 8,420,102,225  | 4,852,499,598              | 312,553,225 | 13,704,244,406 | 6,100,306,442 | 75,733,517,447 |     |                 |     |             |     |             |     |       |     |
| Total Liabilities                                     | -              | -              | -             | -              | -                          | -           | -              | -             | 75,733,517,447 |     |                 |     |             |     |             |     |       |     |

## ACCOUNTING POLICY

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 Senior Management 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 eight operating segments based on products and services, as follows:

- Finance Lease
- Hire purchase
- Microfinance & SME loans
- Gold loan
- Term loans
- Revolving loan
- Investments
- Unallocated

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. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the company's total revenue in 2022 or 2021.

## 46. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

### 46.1

As at 31 March 2022

|   | At Fair Value                     |   | At Amortised Cost                           |               |
|---|-----------------------------------|---|---|---------------|
|   | Fair value through profit or Loss | Fair value through Other Comprehensive Income | Financial assets measured at amortised cost | Total         |
|   | LKR                               | LKR   | LKR   | LKR           |
| <b>Assets</b>   |                                   |   |   |               |
| Cash and Bank Balances  | -                                 | -   | 2,632,255,116                               | 2,632,255,116 |
| Reverse repurchase agreements   | -                                 | -   | 354,147,585                                 | 354,147,585   |
| Placements with banks   | -                                 | -   | 1,811,884,152                               | 1,811,884,152 |
| Financial assets recognised through profit or loss - measured at fair value | 5,087,514,674                     | -   | -   | 5,087,514,674 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

| As at 31 March 2022   | At Fair Value                     |   | At Amortised Cost                           |                       |
|---|-----------------------------------|---|---|-----------------------|
|   | Fair value through profit or Loss | Fair value through Other Comprehensive Income | Financial assets measured at amortised cost | Total                 |
|   | LKR                               | LKR   | LKR   | LKR                   |
| <b>Financial assets at amortised cost</b>                         |                                   |   |   |                       |
| Loans and Receivables   | -                                 | -   | 18,990,319,759                              | 18,990,319,759        |
| Lease rentals receivable & Stock out on hire                      | -                                 | -   | 55,003,014,280                              | 55,003,014,280        |
| Debt & other instruments  |                                   |   | -   | -                     |
| Financial assets at fair value through other comprehensive income | -                                 | 2,554,019                                     | -   | 2,554,019             |
| Other financial assets  | -                                 | -   | 461,938,633                                 | 461,938,633           |
| <b>Total Financial Assets</b>                                     | <b>5,087,514,674</b>              | <b>2,554,019</b>                              | <b>79,253,559,526</b>                       | <b>84,343,628,219</b> |

| As at 31 March 2022                              | At Amortised Cost           |                       |
|--|-----------------------------|-----------------------|
|  | Other Financial Liabilities | Total                 |
|  | LKR                         | LKR                   |
| <b>Liabilities</b>                               |                             |                       |
| Due to Banks                                     | 19,229,423,107              | 19,229,423,107        |
| Due to Customers                                 | 48,077,987,723              | 48,077,987,723        |
| Debt Instruments Issued and Other borrowed funds | 1,295,844,686               | 1,295,844,686         |
| Other Financial Liabilities                      | 1,988,564,234               | 1,988,564,234         |
| <b>Total Financial Liabilities</b>               | <b>70,591,819,750</b>       | <b>70,591,819,750</b> |

## 46.2

| As at 31 March 2021   | At Fair Value                     |   | At Amortised Cost                           |                       |
|---|-----------------------------------|---|---|-----------------------|
|   | Fair value through profit or Loss | Fair value through Other Comprehensive Income | Financial assets measured at amortised cost | Total                 |
|   | LKR                               | LKR   | LKR   | LKR                   |
| <b>Assets</b>   |                                   |   |   |                       |
| Cash and Bank Balances  | -                                 | -   | 2,239,713,277                               | 2,239,713,277         |
| Reverse repurchase agreements   | -                                 | -   | 1,476,871,848                               | 1,476,871,848         |
| Placements with banks   | -                                 | -   | 4,487,753,541                               | 4,487,753,541         |
| Financial assets recognised through profit or loss - measured at fair value | 5,494,633,483                     | -   | -   | 5,494,633,483         |
| Financial assets at amortised cost  |                                   |   |   | -                     |
| Loans and Receivables   | -                                 | -   | 18,601,016,345                              | 18,601,016,345        |
| Lease rentals receivable & Stock out on hire                                | -                                 | -   | 49,966,120,204                              | 49,966,120,204        |
| Debt & other instruments  |                                   |   | 253,257,877                                 | 253,257,877           |
| Financial assets at fair value through other comprehensive income           | -                                 | 2,554,019                                     | -   | 2,554,019             |
| Other financial assets  | -                                 | -   | 644,132,392                                 | 644,132,392           |
| <b>Total Financial Assets</b>   | <b>5,494,633,483</b>              | <b>2,554,019</b>                              | <b>77,668,865,484</b>                       | <b>83,166,052,986</b> |

| As at 31 March 2021                              | At Amortised Cost           |                       |
|--|-----------------------------|-----------------------|
|  | Other Financial Liabilities | Total                 |
|  | LKR                         | LKR                   |
| <b>Liabilities</b>                               |                             |                       |
| Due to Banks                                     | 22,593,203,146              | 22,593,203,146        |
| Due to Customers                                 | 47,989,536,843              | 47,989,536,843        |
| Debt Instruments Issued and Other borrowed funds | 1,295,844,686               | 1,295,844,686         |
| Other Financial Liabilities                      | 1,658,937,116               | 1,658,937,116         |
| <b>Total Financial Liabilities</b>               | <b>73,537,521,791</b>       | <b>73,537,521,791</b> |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 47. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

#### Financial assets recognised through profit or loss - measured at fair value

Financial assets recognised through profit or loss are valued using a valuation technique and consists of government debt securities, investments in unit trust and listed equity securities.

The Company values the government securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest, daily unit traded prices, broker statements and market data published by Central Bank of Sri Lanka.

#### Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income, primarily consist of equity securities which are valued using valuation techniques or pricing models. These assets are valued using models that use both observable and unobservable data. Quoted equities are valued using quoted market prices in the active market as at the reporting date.

#### 47.1 DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques.

- Level 1 : quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 : other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3 : techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

As at 31 March 2022

|   | Level 1              | Level 2  | Level 3          | Total                |
|---|----------------------|----------|------------------|----------------------|
|   | LKR                  | LKR      | LKR              | LKR                  |
| <b>Financial Assets</b>   |                      |          |                  |                      |
| <b>Financial assets - Recognised through profit or loss</b>             |                      |          |                  |                      |
| Government of Sri Lanka Treasury Bills                                  | 5,064,096,026        | -        | -                | 5,064,096,026        |
| Quoted equities   | 23,418,648           | -        | -                | 23,418,648           |
| <b>Financial assets - fair value through other comprehensive income</b> |                      |          |                  |                      |
| Unquoted equities   | -                    | -        | 2,554,019        | 2,554,019            |
| <b>Total Financial Assets</b>   | <b>5,087,514,674</b> | <b>-</b> | <b>2,554,019</b> | <b>5,090,068,693</b> |
| <b>Non-financial assets measured at fair value</b>                      |                      |          |                  |                      |
| Freehold land   | -                    | -        | 2,727,896,485    | 2,727,896,485        |
| Building & Building integrals   | -                    | -        | 1,501,607,756    | 1,501,607,756        |
| Investment property   | -                    | -        | 1,493,885,665    | 1,493,885,665        |
|   | -                    | -        | 5,723,389,906    | 5,723,389,906        |



The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

| As at 31 March 2021   | Level 1              | Level 2              | Level 3          | Total                |
|---|----------------------|----------------------|------------------|----------------------|
|   | LKR                  | LKR                  | LKR              | LKR                  |
| <b>Financial Assets</b>   |                      |                      |                  |                      |
| <b>Financial assets - Recognised through profit or loss</b>             |                      |                      |                  |                      |
| Government of Sri Lanka Treasury Bills                                  | 3,821,888,863        | -                    | -                | 3,821,888,863        |
| Quoted equities   | 39,740,452           | -                    | -                | 39,740,452           |
| Investments in Unit Trusts  | -                    | 1,633,004,168        | -                | 1,633,004,168        |
| <b>Financial assets - fair value through other comprehensive income</b> |                      |                      |                  |                      |
| Government of Sri Lanka Treasury Bills                                  | -                    | -                    | -                | -                    |
| Unquoted equities   | -                    | -                    | 2,554,019        | 2,554,019            |
| Investments in Unit Trusts  | -                    | -                    | -                | -                    |
| <b>Total Financial Assets</b>   | <b>3,861,629,315</b> | <b>1,633,004,168</b> | <b>2,554,019</b> | <b>5,497,187,502</b> |
| <b>Non financial assets measured at fair value</b>                      |                      |                      |                  |                      |
| Freehold land   | -                    | -                    | 2,209,246,485    | 2,209,246,485        |
| Building & Building integrals   | -                    | -                    | 579,800,195      | 579,800,195          |
| Investment property   | -                    | -                    | 1,478,919,010    | 1,478,919,010        |
|   | -                    | -                    | 4,267,965,689    | 4,267,965,689        |

There were no financial liabilities recorded at fair value as at 31 March 2022 and 31 March 2021.

#### 47.2 MOVEMENTS IN LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

|                                | 2022      | 2021      |
|--------------------------------|-----------|-----------|
|                                | LKR       | LKR       |
| <b>Equity Securities</b>       |           |           |
| As at 1 April                  | 6,291,861 | 4,310,479 |
| Sold during the financial year |           |           |
| Additions due to Merger        | -         | 1,981,382 |
| As at 31 March                 | 6,291,861 | 6,291,861 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 47.3 MOVEMENTS IN LEVEL 3 NON FINANCIAL ASSETS MEASURED AT FAIR VALUE

|                                       | Free hold Land<br>LKR | Building &<br>building integrals<br>LKR | Investment<br>Property<br>LKR |
|---------------------------------------|-----------------------|---|-------------------------------|
| Balance as at 1 April 2021            | 1,783,278,484         | 421,379,546                             | 1,698,461,370                 |
| Disposals                             | (22,400,000)          | -                                       | (87,132,850)                  |
| Acquired during the year              | 293,792,601           | 135,680,995                             | 20,700,000                    |
| Fair Value Recognised During the year | 154,575,400           | 26,991,112                              | 217,316,040                   |
| Disposals/Transfers                   | -                     | -                                       | (370,425,550)                 |
| Depreciation                          | -                     | (4,251,458)                             | -                             |
| <b>Balance as at 31 March 2022</b>    | <b>2,209,246,485</b>  | <b>579,800,195</b>                      | <b>1,478,919,010</b>          |
| Disposals                             | -                     | -                                       | (258,844,102)                 |
| Acquired during the year              | 518,650,000           | 913,448,058                             | 564,439,736                   |
| Fair Value Recognised During the year | -                     | -                                       | 203,121,021                   |
| Disposals/Transfers                   | -                     | -                                       | (493,750,000)                 |
| Depreciation                          | -                     | 8,359,503                               | -                             |
| <b>Balance as at 31 March 2022</b>    | <b>2,727,896,485</b>  | <b>1,501,607,756</b>                    | <b>1,493,885,665</b>          |

### 47.4 ESTIMATED FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT OTHER THAN FAIR VALUE

Set out below is the comparison, by class, of the carrying amounts of fair values of the Company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non- financial assets and non- financial liabilities.

|  | Level   | 2022                  |                       | 2021                  |                       |
|--|---------|-----------------------|-----------------------|-----------------------|-----------------------|
|  |         | Carrying Amount       | Fair Value            | Carrying Amount       | Fair Value            |
|  |         | LKR                   | LKR                   | LKR                   | LKR                   |
| <b>Financial Assets</b>                      |         |                       |                       |                       |                       |
| Cash and Bank Balances                       |         | 2,632,255,116         | 2,632,255,116         | 2,239,713,277         | 2,239,713,277         |
| Reverse Repurchase Agreements                |         | 354,147,585           | 354,147,585           | 1,476,871,848         | 1,476,871,848         |
| Placement with Banks                         |         | 1,811,884,152         | 1,811,884,152         | 4,487,753,541         | 4,487,753,541         |
| Loans and Receivables                        | Level 2 | 18,990,319,759        | 20,274,482,405        | 18,601,016,345        | 20,725,570,517        |
| Lease rentals receivable & Stock out on hire | Level 2 | 55,003,014,280        | 55,326,230,456        | 49,966,120,204        | 50,645,574,466        |
| Debt & other instruments                     | Level 2 | -                     | -                     | 253,257,877           | 253,257,877           |
| Other financial assets                       |         | 461,938,633           | 461,938,633           | 644,132,392           | 644,132,392           |
| <b>Total Financial Assets</b>                |         | <b>79,253,559,526</b> | <b>80,860,938,347</b> | <b>77,668,865,484</b> | <b>80,472,873,918</b> |
| <b>Financial Liabilities</b>                 |         |                       |                       |                       |                       |
| Due to Banks                                 | Level 2 | 19,229,423,107        | 18,471,654,509        | 22,593,203,146        | 21,883,338,500        |
| Due to Customers                             | Level 2 | 48,077,987,723        | 47,982,943,821        | 47,989,536,843        | 46,360,940,124        |
| Debt Instruments Issued                      | Level 2 | 1,295,844,686         | 1,027,347,789         | 1,295,844,686         | 1,295,844,686         |
| Other Financial Liabilities                  |         | 1,988,564,234         | 1,988,564,234         | 1,658,937,116         | 1,658,937,116         |
| <b>Total Financial Liabilities</b>           |         | <b>70,591,819,749</b> | <b>69,470,510,352</b> | <b>73,537,521,791</b> | <b>71,199,060,426</b> |

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

### **Assets for which Fair value approximates carrying value**

“For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to fixed deposits, certificate of deposits and savings deposits without a specific maturity.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

### **Fixed Rate Financial Instruments**

“Carrying amounts are considered as fair values for short term credit facilities. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Interest rates based on Treasury Bond rates with similar tenors have been used to arrive at the fair value of debentures issued.

## **48. RISK MANAGEMENT**

### **48.1 INTRODUCTION**

Risk is inherent in a financial business and such risks are 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 is primarily exposed to credit risk, interest rate risk, operational risk and liquidity risk the management of which is explained below.

#### **48.1.1 Risk Management structure**

The Board of Directors is responsible for establishing the overall risk management framework within the Company. The Board Integrated Risk Management Committee (BIRMC), which is a sub-committee of the board has been established with delegated risk management responsibilities. The BIRMC plays a vital role in establishing best practices in relation to risk policies and practices within the Company.

The activities of the Company's risk management system take place at three broad levels of hierarchy, as follows:

#### **Strategic Level**

Overall financial risks are monitored at the BIRMC level, and the decisions made by the BIRMC are communicated to the Board of Directors. The Board ratifies the risk policies and directions issued to the management by the BIRMC.

#### **Management Level:**

Development and implementation of underlying procedures, processes and controls are carried out at the Management Level. Assuring the compliance with laid down policies, procedures and controls and reviewing the outcomes of operations, and measuring and analysing risk related information is also performed at this level.

#### **Operational Level:**

The individuals accountable for the risk exposures relating to his or her responsibilities are required to comply with approved policies, procedures and controls.

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 48.1.2 Risk measurement and reporting system

A risk management process has been developed and is continuously reviewed by the BIRMC together with the operational management. The Company has established two risk sub committees, namely Credit Committee and Information Technology sub-committee to review operational risks related to each area. In addition the Assets and Liabilities Committee (ALCO) reviews market and liquidity risks. The effectiveness of these committees is assessed by the BIRMC.

The risk sub committees comprise of selected members of the operational management, middle management and operational staff of each relevant department. These sub committees meet on a regular basis and are responsible for identifying and analysing risks. The identified risks are taken up for discussion at risk subcommittee meetings and the minutes of the subcommittee meetings are circulated among the members of the BIRMC. The decisions and directives of the BIRMC are communicated to the operational management through the sub committees for operationalization of such decisions and directives.

### 48.2 CREDIT RISK

Credit risk is the potential loss incurred in the event that a borrower fails to fulfil agreed obligations. The Company's credit risk arises mainly from various accommodations granted and could be identified as the most significant risk faced by the Company.

#### Impairment Assessment

The methodology of the impairment assessment is explained in Note 5.5.5 under Accounting policies. The references below should be read in conjunction with those Accounting policies.

#### Mitigation:

Credit is required to be granted according to the approved policies and procedures of the Company. Special attention is given to credit risk management in terms of analysing customer credit worthiness through rigorous customer investigation before and after credit facilities are provided. Repayment of accommodations granted is closely monitored by those responsible for granting various facilities as well as those directly responsible for recovery activities. Indicators have been developed to measure risks associated with credit which are reviewed on a continuous basis for the entire organization as well as for each product and operational location.

#### Microfinance Loans & Abhiwurdhi SME Loans

As is the practice in the industry both in Sri Lanka and Internationally, Microfinance loans are granted without obtaining any security from the borrower. Abhiwurdhi Loans are granted mainly to Microfinance customers who have obtained Microfinance loans in the past and settled them satisfactorily. As these accommodations are not covered by collateral they could lead to substantial credit risks to the Company. Credit risks associated with Microfinance and Abhiwurdhi portfolios are controlled by the following measures:

- Limiting individual's first Microfinance loan to less than Rs. 40,000 and these are granted as Group-loans where loans granted to each member of the Group is guaranteed by the other members of the Group. Loans are granted after careful evaluation of the purpose for which they are taken and the repayment capacity,
- Microfinance Loans in higher amounts and Abhiwurdhi SME Loans are granted based on past credit performance of applicants and with careful evaluation of the purpose for which they are taken and the repayment capacity,
- Weekly and fortnightly collection system which closely monitors each loan granted,
- Careful monitoring of various ratios such as Portfolio-at-Risk (PAR)

#### Gold Loans

The Company also has a substantial portfolio of loans and advances granted under pawn brokering and related activities. These facilities are granted mainly based on gold articles obtained as security. In the event the price of gold in the local market reduce substantially, this would lead to a reduction in the value of the security obtained thereby exposing the Company to the risk that some customers may not redeem the articles retained by the Company. Where the articles are not so redeemed, the difference between the realizable value of the article held and the total of the capital, interest and other charges due would result in a loss to the Company. In order to manage this risk the Company has adopted the following practices:

- Frequent review of gold prices in the local and international markets and adjusting the amount of the loans granted for each sovereign of gold contained in the article,
- Close follow up of the payment of capital and interest due on loans and advances granted,
- Structuring of the loans and advances granted in a manner that recovery action is possible

#### 48.2.1 Assessment of Expected Credit Losses

(a) Analysis of the total impairment for expected credit losses is as follows,

##### Company

|   | Note | Stage 1       | Stage 2       | Stage 3       | Total         |
|---|------|---------------|---------------|---------------|---------------|
| <b>As at 31 March 2022 - LKR</b>              |      |               |               |               |               |
| Loans and receivables                         | 10.1 | 309,980,759   | 363,529,169   | 766,630,950   | 1,440,140,878 |
| Lease Rentals Receivable & Stocks out on hire | 11.1 | 995,733,347   | 1,923,350,356 | 2,404,008,019 | 5,323,091,722 |
| Other Financial assets                        | 14.1 | 94,715,240    | -             | -             | 94,715,240    |
|   |      | 1,400,429,345 | 2,286,879,526 | 3,170,638,969 | 6,857,947,840 |
| <b>As at 31 March 2021 - LKR</b>              |      |               |               |               |               |
| Loans and receivables                         | 10.1 | 418,653,749   | 258,766,913   | 1,017,783,498 | 1,695,204,160 |
| Lease Rentals Receivable & Stocks out on hire | 11.1 | 796,399,141   | 1,464,979,429 | 2,109,394,327 | 4,370,772,897 |
| Other Financial assets                        | 14.1 | 64,654,240    | -             | -             | 64,654,240    |
|   |      | 1,279,707,130 | 1,723,746,342 | 3,127,177,825 | 6,130,631,297 |

Please refer Note 10.1 and 11.1 for the movement of expected credit loss of the Loans & Receivables and Lease rentals receivables & Stock out on hire respectively

##### (b) Sensitivity analysis of impairment allowance for Loans and advances and Lease rentals receivables

| Change Criteria  | Change Factor                                  | Sensitivity Effect on impairment allowance increase |             |
|--|--|---|-------------|
|  |  | 2022  | 2021        |
|  |  | LKR   | LKR         |
| Probability of Default                                     | Increase by 5%                                 | 172,637,252   | 110,705,590 |
| Loss Given Default   | Increase by 5%                                 | 317,825,783   | 220,436,682 |
| Realisation of Cash Flows - Individually Significant Loans | Delayed by 1 year                              | 17,113,775  | 37,600,169  |
| Economic Factor Adjustment                                 | Increase worst case scenario probability by 5% | 21,031,266  | 15,994,493  |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 48.2.2 Analysis of maximum exposure to credit risk and collateral

The following table shows the maximum exposure to credit risk by class of financial asset.

| Company   | As at 31 March 2022             |                       | As at 31 March 2021             |                       |
|---|---------------------------------|-----------------------|---------------------------------|-----------------------|
|   | Maximum Exposure to Credit Risk | Net Exposure          | Maximum Exposure to Credit Risk | Net Exposure          |
|   | LKR                             | LKR                   | LKR                             | LKR                   |
| <b>Assets</b>   |                                 |                       |                                 |                       |
| Cash and Bank Balances  | 2,632,255,116                   | 2,632,255,116         | 2,239,713,277                   | 2,239,713,277         |
| Reverse Repurchase Agreements   | 354,147,585                     | -                     | 1,476,871,848                   | -                     |
| Placements with Banks   | 1,811,884,152                   | 1,811,884,152         | 4,487,753,541                   | 4,487,753,541         |
| Financial assets recognised through profit or loss - measured at fair value | 5,087,514,674                   | 5,087,514,674         | 5,494,633,483                   | 5,494,633,483         |
| <b>Financial assets at amortised cost</b>                                   |                                 |                       |                                 |                       |
| Loans and Receivables   | 20,430,460,636                  | 4,716,506,978         | 20,296,220,503                  | 4,327,117,596         |
| Lease rentals receivable & Stock out on hire                                | 60,326,106,002                  | 347,977,357           | 54,336,893,101                  | 329,765,890           |
| Debt & other instruments  | -                               | -                     | 253,257,877                     | 253,257,877           |
| Financial assets recognised through profit or loss - measured at fair value | 2,554,019                       | 2,554,019             | 2,554,019                       | 2,554,019             |
| Other financial assets  | 461,938,633                     | 461,938,633           | 644,132,392                     | 644,132,392           |
| <b>Total Financial Assets</b>   | <b>91,106,860,820</b>           | <b>15,060,630,929</b> | <b>89,232,030,041</b>           | <b>17,778,928,076</b> |

### 48.3 LIQUIDITY RISK & FUNDING MANAGEMENT

Liquidity risk is the risk of only being able to meet liquidity obligations at increased cost or, ultimately, being unable to meet obligations as they fall due. In the case of the Company this relates mainly to the ability to meet refund of deposits obtained from the public as they fall due and settlement of instalments on bank and other borrowings.

#### Mitigation:

Special attention is focused on the liquidity of the Company as it provides critical defense against this and several other risks such as reputational, compliance, and financial risks. An Asset Liability Management policy has been developed and integrated in to risk policy to provide necessary guidelines. The Company's projected liquidity requirements are assessed on a continuous basis to ensure that they can be met as and when such requirements arise. The Company also strives to ensure that the liquidity ratios required to be maintained by the applicable Central Bank regulations are complied with.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the company regularly monitors liquidity position and maintain an adequate buffer of liquid assets. Company also maintains access to diverse funding sources to meet unforeseen liquidity requirements. All statutory and prudent liquidity ratios are monitored against tolerance limits and stress testing is carried out regularly to assess the effectiveness of liquidity management. With the continuation of the COVID 19 disruptions this year, the company introduced more rigour to the processes already in place to manage its liquid assets. While closely monitoring any developments related to the pandemic, it has continued to keep its risk management measures under review to readily respond to changing circumstances. The company is comfortable with its existing buffer of liquid assets. The actions taken will help to maintain existing liquidity position while mitigating any disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

**48.3.1** The Finance Companies (Liquid Assets) Direction No. 01 of 2009 requires Company to maintain minimum liquid assets as follows;

- a) 10% of the outstanding value of time deposits received by the company and accrued interest payable at close of business on such day; and
- b) 15% of the outstanding value of savings deposits accepted by the company and accrued interest payable at close of business on such day; and
- c) 10% of total outstanding borrowings and any other payable that may be determined by the CBSL excluding the borrowings that are included in the capital funds of the company and borrowings which are secured by the mortgage of any assets of the company.

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 48.3.2 Analysis Of Financial Assets And Liabilities By Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2022.

| Company   | On Demand             | Less than<br>03 Months | 03-12 Months           | 01-05 Years           | Over 05 Years     | Total                  |
|---|-----------------------|------------------------|------------------------|-----------------------|-------------------|------------------------|
|   | LKR                   | LKR                    | LKR                    | LKR                   | LKR               | LKR                    |
| <b>Financial Assets</b>   |                       |                        |                        |                       |                   |                        |
| Cash and Bank Balances  | 2,632,255,116         | -                      | -                      | -                     | -                 | 2,632,255,116          |
| Reverse repurchase agreements   | -                     | 357,429,623            | -                      | -                     | -                 | 357,429,623            |
| Placement with Banks  | 37,670,154            | 736,155,560            | 1,080,978,891          | -                     | -                 | 1,854,804,605          |
| Financial assets recognised through profit or loss - measured at fair value | 23,418,648            | 5,064,096,026          | -                      | -                     | -                 | 5,087,514,674          |
| <b>Financial assets at amortised cost</b>                                   |                       |                        |                        |                       |                   |                        |
| Loans and Advances  | 590,946,842           | 12,250,270,139         | 5,993,530,905          | 3,262,452,974         | 38,432,834        | 22,135,633,695         |
| Lease rentals receivable & Stock out on hire                                | 9,748,922,779         | 9,745,669,143          | 25,993,569,503         | 41,137,686,327        | 13,087,184        | 86,638,934,936         |
| Financial assets at fair value through other comprehensive income           | -                     | -                      | -                      | -                     | 2,554,019         | 2,554,019              |
| Other financial assets  | -                     | 461,938,633            | -                      | -                     | -                 | 461,938,633            |
| <b>Total Financial Assets</b>   | <b>13,033,213,540</b> | <b>28,615,559,124</b>  | <b>33,068,079,299</b>  | <b>44,400,139,301</b> | <b>54,074,037</b> | <b>119,171,065,300</b> |
| <b>Financial Liabilities</b>  |                       |                        |                        |                       |                   |                        |
| Due to Banks  | 1,460,060,460         | 3,015,106,700          | 8,698,023,123          | 7,886,254,908         | -                 | 21,059,445,191         |
| Due to Customers  | 1,588,492,525         | 13,309,960,459         | 25,753,891,188         | 11,383,299,497        | -                 | 52,035,643,669         |
| Debt Instruments Issued and Other borrowed funds                            | -                     | -                      | 115,883,100            | 1,635,239,300         | -                 | 1,751,122,400          |
| Other Financial Liabilities   | -                     | 1,988,564,234          | -                      | -                     | -                 | 1,988,564,234          |
| <b>Total Financial Liabilities</b>  | <b>3,048,552,985</b>  | <b>18,313,631,393</b>  | <b>34,567,797,411</b>  | <b>20,904,793,705</b> | <b>-</b>          | <b>76,834,775,494</b>  |
| <b>Total Net Financial Assets/(Liabilities)</b>                             | <b>9,984,660,555</b>  | <b>10,301,927,731</b>  | <b>(1,499,718,112)</b> | <b>23,495,345,596</b> | <b>54,074,037</b> | <b>42,336,289,806</b>  |



The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2021.

| Company 2021  | On Demand             | Less than<br>03 Months | 03-12 Months           | 01-05 Years           | Over 05 Years     | Total                  |
|---|-----------------------|------------------------|------------------------|-----------------------|-------------------|------------------------|
|   | LKR                   | LKR                    | LKR                    | LKR                   | LKR               | LKR                    |
| <b>Financial Assets</b>   |                       |                        |                        |                       |                   |                        |
| Cash and Bank Balances  | 2,239,713,277         | -                      | -                      | -                     | -                 | 2,239,713,277          |
| Reverse repurchase agreements   | -                     | 1,478,422,727          | -                      | -                     | -                 | 1,478,422,727          |
| Placement with Banks  | 734,455,340           | 1,231,143,767          | 2,600,845,994          | -                     | -                 | 4,566,445,101          |
| Financial assets recognised through profit or loss - measured at fair value | 1,633,004,168         | 506,000,000            | 3,439,401,318          | -                     | -                 | 5,578,405,486          |
| <b>Financial assets at amortised cost</b>                                   |                       |                        |                        |                       |                   |                        |
| Loans and Advances  | 1,021,720,852         | 11,991,988,143         | 5,576,591,710          | 3,908,011,025         | 72,529,917        | 22,570,841,647         |
| Lease rentals receivable & Stock out on hire                                | 5,422,889,175         | 9,357,730,100          | 23,661,759,546         | 33,342,388,375        | 5,775,158         | 71,790,542,354         |
| Debt & other instruments  | -                     | -                      | 253,257,877            | -                     | -                 | 253,257,877            |
| Financial assets at fair value through other comprehensive income           | -                     | -                      | -                      | -                     | 6,291,861         | 6,291,861              |
| Other financial assets  | -                     | 644,132,392            | -                      | -                     | -                 | 644,132,392            |
| <b>Total Financial Assets</b>   | <b>11,051,782,811</b> | <b>25,209,417,129</b>  | <b>35,531,856,445</b>  | <b>37,250,399,399</b> | <b>84,596,936</b> | <b>109,128,052,723</b> |
| <b>Financial Liabilities</b>  |                       |                        |                        |                       |                   |                        |
| Due to Banks  | 290,526,956           | 4,331,087,565          | 11,126,279,684         | 10,036,632,510        | -                 | 25,784,526,715         |
| Due to Customers  | 1,338,108,224         | 11,490,371,506         | 26,986,135,949         | 12,242,835,681        | -                 | 52,057,451,360         |
| Debt Instruments Issued and Other borrowed funds                            | -                     | -                      | 116,626,022            | 1,762,348,773         | -                 | 1,878,974,795          |
| Other Financial Liabilities   | -                     | 1,658,937,116          | -                      | -                     | -                 | 1,658,937,116          |
| <b>Total Financial Liabilities</b>  | <b>1,628,635,180</b>  | <b>17,480,396,187</b>  | <b>38,229,041,655</b>  | <b>24,041,816,964</b> | <b>-</b>          | <b>81,379,889,987</b>  |
| <b>Total Net Financial Assets/(Liabilities)</b>                             | <b>9,423,147,630</b>  | <b>7,729,020,943</b>   | <b>(2,697,185,210)</b> | <b>13,208,582,435</b> | <b>84,596,936</b> | <b>27,748,162,736</b>  |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 48.3.3 Contractual Maturities Of Financial Commitments

The table below shows the contractual expiry by maturity of the customers' undrawn loan commitments. These are included in the time band containing the earliest date such can be drawn down by the Customers.

#### Company

| As at 31 March 2022                  | On Demand          | Less than 03 Months | 03-12 Months      | 01-05 Years        | Over 05 Years | Total              |
|--------------------------------------|--------------------|---------------------|-------------------|--------------------|---------------|--------------------|
|                                      | LKR                | LKR                 | LKR               | LKR                | LKR           | LKR                |
| <b>Commitments</b>                   |                    |                     |                   |                    |               |                    |
| Commitment for unutilised facilities | 147,578,067        | -                   | -                 | -                  | -             | 147,578,067        |
| Financial guarantee contracts        | -                  | 54,500,000          | 91,525,000        | 425,000,000        | -             | 571,025,000        |
| <b>Total Commitments</b>             | <b>147,578,067</b> | <b>54,500,000</b>   | <b>91,525,000</b> | <b>425,000,000</b> | <b>-</b>      | <b>718,603,067</b> |

| As at 31 March 2021                  | On Demand          | Less than 03 Months | 03-12 Months      | 01-05 Years        | Over 05 Years | Total              |
|--------------------------------------|--------------------|---------------------|-------------------|--------------------|---------------|--------------------|
|                                      | LKR                | LKR                 | LKR               | LKR                | LKR           | LKR                |
| <b>Commitments</b>                   |                    |                     |                   |                    |               |                    |
| Commitment for unutilised facilities | 179,891,299        | -                   | -                 | -                  | -             | 179,891,299        |
| Financial guarantee contracts        | -                  | 18,700,000          | 67,888,000        | 210,150,000        | -             | 296,738,000        |
| <b>Total Commitments</b>             | <b>179,891,299</b> | <b>18,700,000</b>   | <b>67,888,000</b> | <b>210,150,000</b> | <b>-</b>      | <b>476,629,299</b> |

### 48.4 MARKET RISK

Market risk is the risk arising from fluctuations in market variables such as interest rates, foreign exchange rates, equity prices and gold prices. This is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in the market variables. As the Company's operations involve granting accommodations, accepting deposits and obtaining funding facilities, the movements in interest rates constitute the most important market risk for the Company.

#### Mitigation:

Movements in interest rates are closely monitored. Further the Company maintains an adequate Net Interest Margin (NIM) so that increases in interest expenses can be absorbed. The assets and liabilities maturity mismatch is also closely monitored so that the possible adverse effects arising due to interest rate movements could be minimized. Although the mismatch in assets and liabilities in terms of maturity is widely prevalent in the industry, in view of the composition of the portfolio of the Company, this mismatch has been mitigated to a significant extent.

#### 48.4.1 Equity price risk

Equity price risk is the risk that the fair value of equities decreasing as a result of changes in the level of equity indices and individual stocks. The market value of the Company's equity portfolio as of 31 March 2022 is LKR 23,418,648/- (2021 - LKR 39,740,452/-).

The table below shows the impact on the profit or loss due to a reasonably possible change in the price of the Company's investment in trading securities with all other variables held constant:

|      | Impact on profit/loss |             |
|------|-----------------------|-------------|
|      | Company               |             |
|      | 2022                  | 2021        |
|      | LKR                   | LKR         |
| +10% | 2,341,865             | 3,974,045   |
| -10% | (2,341,865)           | (3,974,045) |

#### 48.4.2 INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

#### 48.4.3 INTEREST RATE SENSITIVITY

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the company's profit or loss statements and equity, arising from interest bearing loans and borrowings.

#### Company

| Financial Instrument             | Increase/<br>(Decrease) in basis<br>points | Sensitivity of Profit/(Loss) |                  | Sensitivity of Equity |                  |
|----------------------------------|--|------------------------------|------------------|-----------------------|------------------|
|                                  |  | 2022                         | 2021             | 2022                  | 2021             |
|                                  |  | LKR Mn                       | LKR Mn           | LKR Mn                | LKR Mn           |
| Long Term Loans linked to AWPLR* | +500/ (-500)                               | (450.73)/ 450.73             | (385.39)/ 385.39 | (450.73)/ 450.73      | (385.39)/ 385.39 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 48.4.4 INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS & LIABILITIES

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

#### Company

|   | Up to<br>03 Months    | 03-12<br>Months       | 01-05<br>Years        | Over<br>05 Years  | Non-Interest<br>Bearing | Total as at<br>31 March<br>2021 |
|---|-----------------------|-----------------------|-----------------------|-------------------|-------------------------|---------------------------------|
| As at 31 March 2022   | LKR                   | LKR                   | LKR                   | LKR               | LKR                     | LKR                             |
| <b>Assets</b>   |                       |                       |                       |                   |                         |                                 |
| Cash and Bank Balances  | 2,157,769,430         |                       |                       |                   | 474,485,686             | 2,632,255,116                   |
| Reverse repurchase agreements   | 354,147,585           |                       |                       |                   |                         | 354,147,585                     |
| Placement with Banks  | 769,262,757           | 1,042,621,395         |                       |                   |                         | 1,811,884,152                   |
| Financial assets recognised through profit or loss - measured at fair value | 5,064,096,026         | -                     |                       |                   | 23,418,648              | 5,087,514,674                   |
| Loans and receivables   | 12,440,832,736        | 5,293,467,902         | 1,196,174,538         | 32,463,402        | 27,381,181              | 18,990,319,759                  |
| Lease rentals receivable & Stock out on hire                                | 15,002,688,111        | 15,626,657,770        | 24,361,567,928        | 12,100,472        |                         | 55,003,014,280                  |
| Debt & other Instruments  | -                     | -                     |                       |                   |                         | -                               |
| Financial assets at fair value through other comprehensive income           |                       |                       |                       |                   | 2,554,019               | 2,554,019                       |
| Other financial assets  |                       |                       |                       |                   | 461,938,633             | 461,938,633                     |
| <b>Total Financial Assets</b>   | <b>35,788,796,645</b> | <b>21,962,747,067</b> | <b>25,557,742,466</b> | <b>44,563,874</b> | <b>989,778,166</b>      | <b>84,343,628,218</b>           |
| <b>Financial Liabilities</b>  |                       |                       |                       |                   |                         |                                 |
| Due to banks  | 4,859,869,056         | 7,533,754,280         | 6,835,799,772         | -                 |                         | 19,229,423,107                  |
| Due to Customers  | 14,167,158,468        | 23,915,623,011        | 9,995,206,244         | -                 |                         | 48,077,987,723                  |
| Debt Instruments Issued and Other borrowed funds                            |                       |                       | 1,295,844,686         |                   | -                       | 1,295,844,686                   |
| Other Financial Liabilities   |                       |                       |                       |                   | 1,988,564,234           | 1,988,564,234                   |
| <b>Total Financial Liabilities</b>  | <b>19,027,027,524</b> | <b>31,449,377,290</b> | <b>18,126,850,702</b> | <b>-</b>          | <b>1,988,564,234</b>    | <b>70,591,819,749</b>           |
| Interest sensitivity gap  | 16,761,769,121        | (9,486,630,224)       | 7,430,891,765         | 44,563,874        | (998,786,067)           | 13,751,808,469                  |

|  | Up to<br>03 Months    | 03-12<br>Months       | 01-05<br>Years        | Over<br>05 Years  | Non interest<br>bearing | Total as at<br>31 March<br>2021 |
|--|-----------------------|-----------------------|-----------------------|-------------------|-------------------------|---------------------------------|
| As at 31 March 2021                              | LKR                   | LKR                   | LKR                   | LKR               | LKR                     | LKR                             |
| <b>Assets</b>                                    |                       |                       |                       |                   |                         |                                 |
| Cash and Bank Balances                           | 1,784,242,704         |                       |                       |                   | 455,470,574             | 2,239,713,277                   |
| Reverse repurchase agreements                    | 1,476,871,847         |                       |                       |                   |                         | 1,476,871,847                   |
| Placement with Banks                             | 1,956,203,996         | 2,531,549,544         |                       |                   |                         | 4,487,753,540                   |
| Financial Investments measured at amortised cost | 2,134,313,095         | 3,320,579,936         |                       |                   | 39,740,452              | 5,494,633,482                   |
| Loans and receivables                            | 11,301,532,342        | 4,388,246,394         | 2,855,754,636         | 55,482,973        |                         | 18,601,016,345                  |
| Lease rentals receivable & Stock out on hire     | 7,130,903,806         | 16,158,338,919        | 26,671,051,752        | 5,825,728         |                         | 49,966,120,204                  |
| Debt & other Instruments                         | -                     | 253,257,877           |                       |                   |                         | 253,257,877                     |
| Financial Investments - Available for Sale       |                       |                       |                       |                   | 6,291,861               | 6,291,861                       |
| Other financial assets                           |                       |                       |                       |                   | 644,132,392             | 644,132,392                     |
| <b>Total Financial Assets</b>                    | <b>25,784,067,790</b> | <b>26,651,972,670</b> | <b>29,526,806,388</b> | <b>61,308,700</b> | <b>1,145,635,278</b>    | <b>83,169,790,824</b>           |
| <b>Financial Liabilities</b>                     |                       |                       |                       |                   |                         |                                 |
| Due to banks                                     | 10,296,808,114        | 6,646,244,575         | 5,650,150,457         | -                 |                         | 22,593,203,146                  |
| Due to Customers                                 | 12,245,318,114        | 25,064,762,484        | 10,679,456,245        | -                 |                         | 47,989,536,843                  |
| Debt Instruments Issued and Other borrowed funds |                       |                       | 1,295,844,686         |                   |                         | 1,295,844,686                   |
| Other Financial Liabilities                      |                       |                       |                       |                   | 1,658,937,116           | 1,658,937,116                   |
| <b>Total Financial Liabilities</b>               | <b>22,542,126,228</b> | <b>31,711,007,058</b> | <b>17,625,451,388</b> | <b>-</b>          | <b>1,658,937,116</b>    | <b>73,537,521,791</b>           |
| Interest sensitivity gap                         | 3,241,941,562         | (5,059,034,388)       | 11,901,355,000        | 61,308,700        | (513,301,839)           | 9,632,269,033                   |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 49. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

| Company   | 2022                  |                       |                              | 2021                  |                       |                              |
|---|-----------------------|-----------------------|------------------------------|-----------------------|-----------------------|------------------------------|
|   | With in<br>12 Months  | After<br>12 Months    | Total as at<br>31 March 2022 | With in<br>12 Months  | After<br>12 Months    | Total as at<br>31 March 2021 |
|   | LKR                   | LKR                   | LKR                          | LKR                   | LKR                   | LKR                          |
| <b>Assets</b>   |                       |                       |                              |                       |                       |                              |
| Cash and Bank Balances  | 2,632,255,116         | -                     | 2,632,255,116                | 2,239,713,277         | -                     | 2,239,713,277                |
| Reverse Repurchase Agreements   | 354,147,585           | -                     | 354,147,585                  | 1,476,871,848         | -                     | 1,476,871,848                |
| Placement with Banks  | 1,811,884,152         | -                     | 1,811,884,152                | 4,487,753,541         | -                     | 4,487,753,541                |
| Financial assets recognised through profit or loss - measured at fair value | 5,064,096,026         | 23,418,648            | 5,087,514,674                | 3,821,888,863         | 1,672,744,619         | 5,494,633,483                |
| Loans and Receivables   | 17,761,681,819        | 1,228,637,941         | 18,990,319,759               | 15,689,778,736        | 2,911,237,609         | 18,601,016,345               |
| Lease rentals receivable & Stock out on hire                                | 30,629,345,880        | 24,373,668,400        | 55,003,014,280               | 23,289,242,725        | 26,676,877,479        | 49,966,120,204               |
| Debt & other instruments  | -                     | -                     | -                            | 253,257,877           | -                     | 253,257,877                  |
| Financial assets at fair value through other comprehensive income           | -                     | 2,554,019             | 2,554,019                    | -                     | 2,554,019             | 2,554,019                    |
| Other financial assets  | 298,276,868           | 163,661,764           | 461,938,633                  | 429,041,860           | 215,090,534           | 644,132,394                  |
| Inventories   | -                     | 88,973,435            | 88,973,435                   | -                     | 71,610,208            | 71,610,208                   |
| Other assets  | 248,581,668           | 253,072,976           | 501,654,644                  | 344,958,314           | 449,425,587           | 794,383,901                  |
| Investments in Subsidiaries   | -                     | -                     | -                            | -                     | -                     | -                            |
| Investments in associates   | -                     | 300,640,397           | 300,640,397                  | -                     | 340,823,054           | 340,823,054                  |
| Investment property   | -                     | 1,493,885,665         | 1,493,885,665                | -                     | 1,478,919,010         | 1,478,919,010                |
| Property, plant and equipment   | -                     | 4,826,749,332         | 4,826,749,332                | -                     | 3,457,055,329         | 3,457,055,329                |
| Intangible assets & goodwill  | -                     | 888,783,421           | 888,783,421                  | -                     | 940,837,669           | 940,837,669                  |
| Right of use assets   | -                     | 485,538,621           | 485,538,621                  | -                     | 412,836,384           | 412,836,384                  |
| Deferred tax assets   | -                     | 700,374,664           | 700,374,664                  | -                     | 467,354,511           | 467,354,511                  |
| <b>Total Assets</b>   | <b>58,800,269,115</b> | <b>34,829,959,282</b> | <b>93,630,228,396</b>        | <b>52,032,507,040</b> | <b>39,097,366,013</b> | <b>91,129,873,053</b>        |
| <b>Liabilities</b>  |                       |                       |                              |                       |                       |                              |
| Due to Banks  | 12,393,623,335        | 6,835,799,772         | 19,229,423,107               | 15,747,894,206        | 6,845,308,940         | 22,593,203,146               |
| Due to Customers  | 38,082,781,479        | 9,995,206,244         | 48,077,987,723               | 37,310,325,592        | 10,679,211,251        | 47,989,536,843               |
| Debt instruments issued   | -                     | 1,295,844,686         | 1,295,844,686                | -                     | 1,295,844,686         | 1,295,844,686                |
| Other Financial Liabilities   | 1,988,564,234         | -                     | 1,988,564,234                | 1,658,937,116         | -                     | 1,658,937,116                |
| Other liabilities   | 2,112,113,561         | 205,148,347           | 2,317,261,908                | 1,295,951,132         | 222,422,563           | 1,518,373,695                |
| Post employment benefit obligations   | -                     | 334,424,812           | 334,424,812                  | -                     | 395,651,701           | 395,651,701                  |
| Current tax liabilities   | 1,193,392,657         | -                     | 1,193,392,657                | 281,970,260           | -                     | 281,970,260                  |
| <b>Total liabilities</b>  | <b>55,770,475,266</b> | <b>18,666,423,861</b> | <b>74,436,899,127</b>        | <b>56,013,108,046</b> | <b>19,438,439,142</b> | <b>75,733,517,448</b>        |

## 50. COMMITMENTS AND CONTINGENCIES

There were no material contingent liabilities outstanding as at the reporting date.

### LEGAL CLAIMS

The Company has controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end the Company had seven unresolved legal claims amounting to LKR 28,400,000/- (2021 - LKR 20,400,000/-) against the Company.

Although there can be no assurance, the Company believe, based on the information currently available, that the ultimate resolution of such legal procedures would not likely to have a material adverse effect of the results of operations, financial position of liquidity. Accordingly, no provision for any liabilities has been made in these Financial Statements.

### 50.1 COMMITMENTS

|  | Company            |                    |
|--|--------------------|--------------------|
|  | 2022               | 2021               |
|  | LKR                | LKR                |
| Commitment for unutilised facilities       | 147,578,067        | 179,891,299        |
| Guarantees issued                          | 571,025,000        | 296,738,000        |
| <b>Total commitments and contingencies</b> | <b>718,603,067</b> | <b>476,629,299</b> |

## 51. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

| Company<br>Nature of Assets                  | Nature of Liability | Carrying Amount Pledged |                       | Included Under                               |
|--|---------------------|-------------------------|-----------------------|--|
|  |                     | Company                 |                       |  |
|  |                     | 2022                    | 2021                  |  |
|  |                     | LKR                     | LKR                   |  |
| Lease Rentals Receivable & Stock out on Hire | Loans               | 15,809,026,805          | 16,130,274,230        | Lease Rentals Receivable & Stock out on Hire |
| Microfinance Loans / Gold Loans              | Loans               | 979,513,325             | 2,783,011,233         | Loans & Receivables                          |
| Land & Building                              | Loans               | 631,494,513             | 1,452,771,938         | Property, Plant and Equipment                |
| Balance held in foreign currency account     | Loans               | -                       | 103,255,466           | Cash & Bank Balances                         |
| Placement with banks                         | Loans               | 692,950,429             | 1,833,360,000         | Placement with banks                         |
|  |                     | <b>18,112,985,072</b>   | <b>22,302,672,867</b> |  |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 52. RELATED PARTY TRANSACTIONS

The Company carried out transactions with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures'.

Details of significant related party transactions which the company had during the year are as follows,

The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as related parties as per LKAS 24 - "Related Party Disclosures" under the supervision of Related Party Transactions Review Committee.

#### 52.1 TRANSACTIONS WITH KEY MANAGERIAL PERSONNEL (KMPS)

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company and "Key Management Personnel" has been defined to be the Board of Directors of the Company fall under such definition.

##### 52.1.1 Key Management Personnel Compensation

|                                | 2022               | 2021               |
|--------------------------------|--------------------|--------------------|
|                                | LKR                | LKR                |
| Short Term Employment Benefits | 157,936,529        | 97,860,407         |
| Post Employment Benefits       | 9,148,500          | 18,568,000         |
| Directors Fees & Expenses      | 11,310,000         | 11,089,500         |
|                                | <b>178,395,029</b> | <b>127,517,907</b> |

##### 52.1.2 Transactions, Arrangements and Agreements Involving KMPs, and their Close Members of Family (CFMs)

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity.

|                                      | 2022       | 2021       |
|--------------------------------------|------------|------------|
|                                      | LKR        | LKR        |
| Deposits held at the end of the year | 40,280,005 | 50,663,225 |
| Interest on Fixed Deposits           | 1,741,774  | 1,965,775  |
| Dividend Paid                        | 1,074,520  | -          |



## 52.2 TRANSACTIONS WITH RELATED ENTITIES

### 52.2.1 Transactions with Ultimate Controlling Party

Amounts paid for being a member of the Key Management Personnel as included in 53.1 above

### 52.2.2 Transactions with Ultimate Parent Entity

#### BG Capital (Pvt) Ltd

|  | 2022 | 2021      |
|--|------|-----------|
|  | LKR  | LKR       |
| Investment in Fixed Deposit at Commercial Credit and Finance PLC | -    | -         |
| Fixed deposit Interest paid for the period ended 31 March 2022   | -    | 9,529,167 |

### 52.2.3 Transactions with Immediate Parent Entity

#### BG Investments (Pvt) Ltd

|  | 2022        | 2021      |
|--|-------------|-----------|
|  | LKR         | LKR       |
| Dividends Paid (Gross)   | 398,075,240 | -         |
| Investment in Fixed Deposit at Commercial Credit and Finance PLC | -           | -         |
| Fixed deposit Interest paid for the period ended                 | -           | 9,887,900 |

### 52.2.4 Transactions with Significant Investor - Group Lease Holdings Pte Ltd

|                       | 2022        | 2021 |
|-----------------------|-------------|------|
|                       | LKR         | LKR  |
| Dividend Paid (Gross) | 238,476,250 | -    |

### 52.2.5 Transactions with Associates

|   | 2022       | 2021          |
|---|------------|---------------|
|   | LKR        | LKR           |
| TVS Lanka (Pvt) Ltd Payment for lease contracts | 4,116,060  | 1,223,943,593 |
| Purchase of vehicles                            | 39,056,250 | -             |

## NOTES TO THE FINANCIAL STATEMENTS (Cont...)

### 52.2.6 Transactions with other group entities

|   | 2022       | 2021       |
|---|------------|------------|
|   | LKR        | LKR        |
| <b>(a) APIIT Lanka (Pvt) Ltd</b>                                  |            |            |
| Investment in Fixed Deposits at Commercial Credit and Finance PLC | -          | 40,000,000 |
| Interest paid on Fixed Deposits                                   | 8,282,483  | 16,492,264 |
| MBA Fees Payments   | -          | 131,250    |
| <b>(b) Creation Investments Lanka LLC</b>                         |            |            |
| Dividend Paid   | 68,908,785 | -          |

During the financial year there were no Non Recurrent Related party transactions, in aggregate that exceeds 10% of the equity or 5% of the total assets and ,Recurrent related party transactions , in aggregate that exceeds 10% of the gross revenue / Income that required further disclosures.

### 53. EVENTS AFTER THE REPORTING DATE

#### SURCHARGE TAX

##### (a) Surcharge Tax

The Government of Sri Lanka in its Budget for 2022 proposed a one-time tax, referred to as a surcharge tax, at the rate of 25% to be imposed on any companies that have earned a taxable income in excess of LK Rs. 2,000 million for the year of assessment 2020/2021. The tax is imposed by the Surcharge Tax Act No. 14 of 2022 which was passed by the Parliament of Sri Lanka on 7th April 2022. As the law imposing the surcharge tax was enacted after the reporting period end, the financial statements for the year ended 31 March 2022 do not reflect the tax liability that would arise in consequence, the amount of which is best estimated at [LKR. 812,922,983].

##### (b) The Central Bank of Sri Lanka Significantly Tightens its Monetary Policy Stance to Stabilise the Economy

The Monetary Board of the Central Bank of Sri Lanka, at its meeting held on 08 April 2022, decided to increase the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 700 basis points to 13.50 per cent and 14.50 per cent, respectively, effective from the close of business on 08 April 2022.

##### (c) CCPI based headline inflation accelerated further on year-on-year basis in May 2022

"Headline inflation, as measured by the year-on-year (Y-o-Y) change in the Colombo Consumer Price Index (CCPI, 2013=100) increased to 39.1% in May 2022 from 29.8% in April 2022. This increase in Y-o-Y inflation was driven by the monthly increases of both Food and Non-Food categories. Subsequently, Food inflation (Y-o-Y) increased to 57.4% in May 2022 from 46.6% in April 2022, while Non-Food inflation (Y-o-Y) increased to 30.6% in May 2022 from 22.0% in April 2022.

There are no other events occurring after the reporting date which require adjustments to or disclosure in the financial statements.

#### ACCOUNTING POLICY

All material events after the reporting date have been considered where appropriate judgement or disclosures are made in respective notes to the Financial Statements.

### 54. CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka. As at the reporting date company has maintained the capital adequacy ratio as required by Central Bank of Sri Lanka.

**SUPPLEMENTARY  
INFORMATION**



# TEN YEAR SUMMERY

| Operating Results  | 2012/13          | 2013/14          | 2014/15        | 2015/16        | 2016/17        | 2017/18        | 2018/19        | 2019/20        | 2020/21              | 2021/22          |
|--|------------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------------|------------------|
|  | Company LKR:'000 | Company LKR:'000 | Group LKR:'000 | Group LKR:'000 | Group LKR:'000 | Group LKR:'000 | Group LKR:'000 | Group LKR:'000 | Amalgamated LKR:'000 | Company LKR:'000 |
| Interest Income  | 3,963,168        | 5,913,772        | 11,471,859     | 16,418,292     | 19,927,371     | 21,724,832     | 22,125,266     | 20,835,015     | 16,086,956           | 18,365,076       |
| Net Interest Income                                      | 2,408,012        | 4,037,642        | 7,255,332      | 10,212,068     | 11,930,703     | 11,951,694     | 12,465,523     | 10,912,143     | 9,035,088            | 11,948,942       |
| Interest Expenses  | 1,555,156        | 2,876,129        | 4,216,528      | 6,206,224      | 7,996,668      | 9,773,137      | 9,659,743      | 9,922,873      | 7,051,868            | 6,416,195        |
| Operating Expenses                                       | 1,620,520        | 2,555,196        | 3,850,499      | 5,114,541      | 5,756,181      | 5,901,096      | 6,959,003      | 6,466,977      | 5,463,040            | 5,858,222        |
| Profit/(Loss) before Tax                                 | 865,704          | 1,194,504        | 2,635,103      | 3,027,203      | 4,234,076      | 3,869,285      | 3,562,858      | 2,185,069      | 3,192,394            | 6,391,345        |
| Income Tax & VAT on Financial Services                   | 288,670          | 353,109          | 813,580        | 1,196,160      | 1,948,894      | 2,338,224      | 2,103,227      | 1,159,955      | 1,670,018            | 3,271,998        |
| Net Profit/(Loss)  | 679,401          | 1,007,836        | 2,193,562      | 2,322,228      | 3,116,513      | 2,542,058      | 2,635,586      | 2,006,616      | 2,334,756            | 4,520,313        |
| Dividend Paid  | 238,074          | 119,037          | 143,037        | 318,074        | 477,112        | 318,078        | 238,556        | 318,074        | -                    | 795,186          |
| <b>ASSETS</b>  |                  |                  |                |                |                |                |                |                |                      |                  |
| Cash & Bank Balance                                      | 395,655          | 1,123,108        | 2,513,573      | 1,155,204      | 1,947,457      | 1,746,911      | 2,340,080      | 1,208,462      | 2,239,713            | 2,632,255        |
| Treasury Bills & Bonds                                   | 257,673          | 811,343          | 744,207        | 1,234,681      | 1,805,037      | 2,490,000      | 2,054,937      | 2,034,739      | 3,821,889            | 5,064,096        |
| Placements with Banks & Other Finance Companies          | 572,721          | 624,132          | 1,070,748      | 1,300,959      | 1,518,067      | 2,014,315      | 3,513,125      | 3,826,996      | 4,487,754            | 1,811,884        |
| Investment in Dealing Securities                         | 46,705           | 46,858           | 227,040        | 306,710        | 201,357        | 132,066        | 60,257         | 39,202         | 39,740               | 23,419           |
| Lease-Hire Purchase, Loans and Advances                  | 14,485,926       | 25,931,647       | 48,130,085     | 60,967,186     | 71,680,227     | 74,030,750     | 70,082,305     | 71,066,766     | 68,567,137           | 73,993,334       |
| Property, Plant and Equipment                            | 557,661          | 607,580          | 1,212,183      | 1,421,201      | 1,574,347      | 1,812,095      | 3,131,399      | 3,126,825      | 3,457,055            | 4,826,749        |
| Total Assets   | 18,285,191       | 31,643,210       | 59,026,607     | 72,494,365     | 85,721,370     | 90,119,003     | 89,142,633     | 89,862,177     | 91,129,873           | 93,630,228       |
| <b>LIABILITIES</b>                                       |                  |                  |                |                |                |                |                |                |                      |                  |
| Deposits   | 13,155,609       | 22,855,779       | 43,231,212     | 50,381,350     | 54,637,126     | 55,858,727     | 53,936,319     | 48,948,642     | 47,989,537           | 48,077,988       |
| Borrowings   | 2,796,157        | 4,251,989        | 5,071,069      | 5,709,210      | 11,271,748     | 11,250,383     | 14,374,366     | 18,946,897     | 22,302,676           | 18,733,076       |
| Total Liabilities  | 16,831,846       | 28,340,201       | 53,056,876     | 64,480,168     | 75,025,477     | 77,215,198     | 76,316,667     | 75,366,000     | 75,733,517           | 74,436,899       |
| <b>SHARE HOLDERS' FUNDS</b>                              |                  |                  |                |                |                |                |                |                |                      |                  |
| Stated Capital   | 470,640          | 1,478,640        | 2,150,640      | 2,150,640      | 2,150,640      | 2,150,640      | 2,150,640      | 2,150,640      | 2,150,640            | 2,150,640        |
| Reserves   | 982,705          | 1,824,369        | 3,803,738      | 5,843,647      | 8,541,073      | 10,747,757     | 10,669,185     | 12,338,347     | 13,245,715           | 17,042,689       |
| Total Share Holders' Funds                               | 1,453,345        | 3,303,009        | 5,969,731      | 8,014,197      | 10,695,894     | 12,903,805     | 12,825,967     | 14,496,177     | 15,396,356           | 19,193,329       |
| <b>RATIOS</b>  |                  |                  |                |                |                |                |                |                |                      |                  |
| Growth of Income (%)                                     | 62.29            | 74.45            | 65.93          | 43.12          | 21.37          | 9.02           | 1.84           | -5.83          | -26.20               | 19.94            |
| Growth of Net Profit (%)                                 | 3.63             | 48.34            | 117.65         | 5.87           | 34.20          | -18.43         | 3.68           | -23.86         | 16.35                | 93.61            |
| Interest Cover (times)                                   | 1.62             | 1.47             | 0.29           | 0.52           | 0.62           | 0.69           | 0.69           | 0.70           | 1.57                 | 2.22             |
| Net Assets Growth (%)                                    | 47.61            | 127.27           | 80.74          | 34.25          | 33.46          | 20.64          | -0.60          | 13.02          | 6.21                 | 24.66            |
| Equity Assets Ratio (%)                                  | 7.95             | 10.44            | 10.11          | 11.05          | 12.48          | 14.32          | 14.39          | 16.13          | 16.89                | 20.50            |
| Growth of Leases, Hire Purchases, Loans and Advances (%) | 72.18            | 79.01            | 85.60          | 26.67          | 17.57          | 3.28           | -5.33          | 1.40           | -3.52                | 7.91             |
| Return on Assets (%)                                     | 6.07             | 4.78             | 1.78           | 1.18           | 1.12           | 1.01           | 0.95           | 0.98           | 2.58                 | 4.89             |
| Return on Equity (%)                                     | 55.74            | 42.38            | 56.84          | 43.30          | 45.26          | 32.79          | 27.69          | 15.99          | 15.62                | 26.14            |
| Total Assets to Share Holders' Funds (times)             | 12.58            | 9.58             | 9.89           | 9.05           | 8.01           | 6.98           | 6.95           | 6.20           | 5.92                 | 4.88             |
| Fixed Assets to Share Holders' Funds (times)             | 0.38             | 0.18             | 0.20           | 0.18           | 0.15           | 0.14           | 0.24           | 0.22           | 0.22                 | 0.25             |
| Net Asset per Share                                      | 6.10             | 11.55            | 18.76          | 25.20          | 33.63          | 40.57          | 40.32          | 45.57          | 48.40                | 60.34            |
| Earning per Share  | 2.85             | 4.20             | 7.45           | 7.29           | 9.79           | 7.99           | 8.28           | 6.30           | 7.34                 | 14.21            |
| Dividend per Share                                       | 1.00             | 0.50             | 0.50           | 1.00           | 1.50           | 1.00           | 0.75           | 1.00           | -                    | 2.50             |

# INVESTOR INFORMATION

## 1. STOCK EXCHANGE LISTING

The Ordinary shares of the company listed on the clombo stock Exchange since 1 June 2011 and the stock exchange ticker symbol for commercial credit and finance PLC is " COCR ".

## 2. SHARE HOLDER BASE

The Total Number of (Ordinary Voting) shareholders as at 31 March 2022 were 2,687 compared to 1,774 shareholders as at 31 March 2021.

## 3. DISTRIBUTION SHAREHOLDERS

| Range of Shares   | As at 31 March 2022 |              |                         | As at 31 March 2021 |              |                         |
|-------------------|---------------------|--------------|-------------------------|---------------------|--------------|-------------------------|
|                   | No of Shareholders  | No of Shares | Percent of Shareholding | No of Shareholders  | No of Shares | Percent of Shareholding |
| 1- 1000           | 1,656               | 467,426      | 0.15%                   | 1,080               | 259,870      | 0.08%                   |
| 1,001-10,000      | 791                 | 2,924,224    | 0.92%                   | 527                 | 1983432      | 0.62%                   |
| 10,001-100,000    | 211                 | 6,087,740    | 1.91%                   | 140                 | 3958961      | 1.24%                   |
| 100,001-1,000,000 | 16                  | 4,499,116    | 1.41%                   | 13                  | 3,398,133    | 1.07%                   |
| 1,000,001 & Over  | 13                  | 304,095,859  | 95.61%                  | 14                  | 308,473,969  | 96.98%                  |
| Total             | 2,687               | 318,074,365  | 100.00%                 | 1,774               | 318,074,365  | 100.00%                 |

## 4. COMPOSITION OF SHAREHOLDERS

| Shareholders  | As at 31 March 2022 |                    |                    | As at 31 March 2021 |                    |                    |
|---------------|---------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
|               | No. of Shareholders | No. of Shares      | % of Shareholdings | No. of Shareholders | No. of Shares      | % of Shareholdings |
| Resident      | 2,673               | 194,948,491        | 61.29              | 1,763               | 195,002,984        | 61.31              |
| Non- Resident | 14                  | 123,125,874        | 38.71              | 11                  | 123,071,381        | 38.69              |
| <b>Total</b>  | <b>2,687</b>        | <b>318,074,365</b> | <b>100.00</b>      | <b>1,774</b>        | <b>318,074,365</b> | <b>100.00</b>      |
| Individual    | 2,535               | 23,852,064         | 7.50               | 1,658               | 24,049,377         | 7.56               |
| Institution   | 152                 | 294,222,301        | 92.50              | 116                 | 294,024,988        | 92.44              |
| <b>Total</b>  | <b>2,687</b>        | <b>318,074,365</b> | <b>100.00</b>      | <b>1,774</b>        | <b>318,074,365</b> | <b>100.00</b>      |

## INVESTOR INFORMATION (Cont...)

### 5. TOP TWENTY SHAREHOLDERS

| No. | Name of the Shareholder                                     | Ordinary Voting Shares | As at 31st March 2022 |                |
|-----|---|------------------------|-----------------------|----------------|
|     |   |                        | No.of Shares          | %              |
| 1   | B G investments (Pvt) Limited                               |                        | 132,530,096           | 41.67%         |
| 2   | Group lease holdings Pte Ltd                                |                        | 95,390,500            | 29.99%         |
| 3   | Lanka orix finance Plc / B.g.investments (Pvt) Ltd          |                        | 26,700,000            | 8.39%          |
| 4   | Creation investments Sri Lanka, LlC                         |                        | 20,347,220            | 6.40%          |
| 5   | Creation investments SII LlC                                |                        | 7,216,294             | 2.27%          |
| 6   | Peoples leasing & finance Plc / Ms.S.N.Egodage              |                        | 5,093,438             | 1.60%          |
| 7   | Dr. E.Fernando  |                        | 5,000,000             | 1.57%          |
| 8   | Ceylinco life insurance Limited account No.1                |                        | 4,014,843             | 1.26%          |
| 9   | Mrs. H.H.J.Hewage   |                        | 1,946,124             | 0.61%          |
| 10  | Mr. S.M.Hemachandra   |                        | 1,746,070             | 0.55%          |
| 11  | Mr. T.k.Hemachandra   |                        | 1,555,689             | 0.49%          |
| 12  | Mrs. H.N.Hemachandra  |                        | 1,500,000             | 0.47%          |
| 13  | Mr. N.Y.Hemachandra   |                        | 1,055,585             | 0.33%          |
| 14  | Mr. S.B.Hemachandra   |                        | 1,000,000             | 0.31%          |
| 15  | Peoples leasing & finance Plc/B G investments (Pvt) Limited |                        | 602,079               | 0.19%          |
| 16  | DFCC bank Plc/P.s.r.casie Chitty                            |                        | 429,808               | 0.14%          |
| 17  | Miss. S.N.Egodage   |                        | 394,667               | 0.12%          |
| 18  | Mr. S.k.Semage  |                        | 379,000               | 0.12%          |
| 19  | Mrs. L.S.Semage   |                        | 317,169               | 0.10%          |
| 20  | Mr D.k.Gunaratne  |                        | 180,132               | 0.06%          |
|     | <b>Sub Total</b>  |                        | <b>307,398,714</b>    | <b>96.64%</b>  |
|     | Other   |                        | 10,675,651            | 3.36%          |
|     | <b>Total</b>  |                        | <b>318,074,365</b>    | <b>100.00%</b> |

| No. | Name of the Shareholder                                    | Ordinary Voting Shares |         |
|-----|--|------------------------|---------|
|     |  | As at 31st March 2021  |         |
|     |  | "No.of Shares"         | %       |
| 1   | B G investments (Pvt) Limited                              | 132,530,096            | 41.67%  |
| 2   | Group lease holdings Pte Ltd                               | 95,390,500             | 29.99%  |
| 3   | Lanka orix finance Plc/B.G.investments (Pvt) Ltd           | 26,700,000             | 8.39%   |
| 4   | Creation investments Sri Lanka,LLc                         | 20,347,220             | 6.40%   |
| 5   | Creation investments SII Llc                               | 7,216,294              | 2.27%   |
| 6   | Dr. E.Fernando   | 6,500,000              | 2.04%   |
| 7   | Peoples leasing & finance Plc /Ms.S.N.Egodage              | 5,093,438              | 1.60%   |
| 8   | Ceylinco life insurance Limited account No.1               | 4,014,843              | 1.26%   |
| 9   | Mrs. H.H.J.Hewage  | 1,942,429              | 0.61%   |
| 10  | Mr. S.B.Hemachandra  | 1,796,320              | 0.56%   |
| 11  | Mr. H.N.Hemachandra  | 1,796,070              | 0.56%   |
| 12  | Mrs. S.M.Hemachandra                                       | 1,796,070              | 0.56%   |
| 13  | Mr. N.Y.Hemachandra  | 1,795,000              | 0.56%   |
| 14  | Mr. T.k.Hemachandra  | 1,555,689              | 0.49%   |
| 15  | Peoples leasing & finance Plc/Bg investments (Pvt) Limited | 602,079                | 0.19%   |
| 16  | Mr. S.k.Semage   | 532,688                | 0.17%   |
| 17  | DFCC bank Plc/P.S.R.Casie Chitty                           | 429,808                | 0.14%   |
| 18  | Code -Gen international Pvt Ltd                            | 405,000                | 0.13%   |
| 19  | Mrs. L.S.Semage  | 403,237                | 0.13%   |
| 20  | Mr N.A.Peiris  | 200,000                | 0.06%   |
|     | Sub Total  | 311,046,781            | 97.79%  |
|     | Other  | 7,027,584              | 2.21%   |
|     | Total  | 318,074,365            | 100.00% |

## INVESTOR INFORMATION (Cont...)

### 6. DIRECTOR'S SHAREHOLDING

| Name                        | As at 31 March 2022 |               | As at March 2021 |               |
|-----------------------------|---------------------|---------------|------------------|---------------|
|                             | No.of Shares        | % of Holdings | No.of Shares     | % of Holdings |
| Mr. R.S. Egodage            | Nil                 | Nil           | Nil              | Nil           |
| Mr. P.S.R.C. Chitty         | 429,808             | 0.14          | 429,808          | 0.14          |
| Ms. G.R. Egodage            | Nil                 | Nil           | Nil              | Nil           |
| Mr. D. Soosaipillai         | Nil                 | Nil           | Nil              | Nil           |
| Mr. K. Vander Weele         | Nil                 | Nil           | Nil              | Nil           |
| Mr. Lasantha Wickremasinghe | Nil                 | Nil           | Nil              | Nil           |
| Ms.T.M.L.Paktsun            | Nil                 | Nil           | Nil              | Nil           |
| Mr.P.T Fisher               | N/A                 | N/A           | Nil              | Nil           |
| Ms. G.A.M. Edwards          | Nil                 | Nil           | N/A              | N/A           |
| Dr. R. Sarawanamuttu        | Nil                 | Nil           | N/A              | N/A           |
| Mr. G.B. Egodage            | Nil                 | Nil           | N/A              | N/A           |

### 7. SHARE INFORMATION

|  | As at March 2022 | As at March 2021 |
|--|------------------|------------------|
| Net Asset per Share (LKR)                  | 60.34            | 48.4             |
| <b>Share Price</b>                         |                  |                  |
| Highest (LKR)                              | 59.60            | 31.00            |
| Lowest (LKR)                               | 25.00            | 20.00            |
| Last Traded (LKR)                          | 25.20            | 21.50            |
| <b>Earnings</b>                            |                  |                  |
| Basic Earning per share (LKR)              | 14.21            | 7.34             |
| Price Earning Ratio (Times)                | 1.77             | 2.93             |
| Divident per share (LKR)                   | 2.50             | -                |
| Divident Payout Ratio                      | 0.18             | -                |
| Market Capitalisation                      | 8,015            | 6,838            |
| Public Holding (%)                         | 11.12            | 13.22            |
| Float Adjusted Market Capitalisation (LKR) | 891,320,709      | 904,062,768      |



## 8. DEBENTURE INFORMATION

|                    | As at March 2022 | As at March 2021 |
|--------------------|------------------|------------------|
| Debt/ Equity Ratio | 3.88             | 4.91             |
| Quick Asset Ratio  | 1.05             | 1.37             |
| Interest Cover     | 2.22             | 1.57             |

**8.1** Company issued LKR 1,287,590,000 rated, guaranteed, senior redeemable Debentures for 5 years in March 2021. These debentures were listed on the Colombo Stock Exchange.

|  | As at March 2022 | As at March 2021 |
|--|------------------|------------------|
| Yield as at Date of last Trade             | Not Traded       | Not Traded       |
| <b>The Market Prices during the year</b>   |                  |                  |
| Highest Price (LKR)                        | Not Traded       | Not Traded       |
| Lowest Price (LKR)                         | Not Traded       | Not Traded       |
| Last Traded Price (LKR)                    | Not Traded       | Not Traded       |
| Credit Rating (Instrument)                 | AA               | AA               |
| Comparable Government Security Coupon Rate | 9.00             | 9.00             |

# GLOSSARY

## A

### ACCOUNTING POLICIES

Principles, bases, conventions, rules and practices that are applied in recording transactions and in preparing and presenting Financial Statements.

### ACCURAL BASIS

Recognising the effects of transaction and other events when they occur without waiting for receipt or payment of cash or its equivalent.

### AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its expected useful life.

### AMORTISED COST

The amount at which the financial asset or financial liability is measured at initial recognition minus 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 minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

### ASSOCIATE COMPANY

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

### AVAILABLE FOR SALE (AFS)

A debt or equity security that is purchased with the intent of selling before it reaches maturity or selling prior to a lengthy time period in the event the security does not have a maturity.

## C

### CASH EQUIVALENTS

Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### COLLECTIVELY ASSESSED IMPAIRMENT

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

### COMMERCIAL PAPER

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities.

### COMMITMENTS

Credit facilities approved but not yet disbursed to the customers as at the date of the Statement of Financial Position.

### CONSOLIDATED FINANCIAL STATEMENTS

Financial statements of a holding Company and its subsidiaries based on their combined assets, liabilities and operating results.

## CONTINGENCIES

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or nonoccurrence of one or more uncertain future events.

### CORE CAPITAL

Representing permanent shareholders' equity (paid-up shares) and reserves created or increased by appropriations of retained earnings or other surplus, i.e. retained profits and other reserves.

### CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of the entity, the supervision of executive actions and accountability to owners and others stakeholders.

### COST/INCOME RATIO

Operating expenses as a percentage of net income.

### CREDIT RISK

Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

### CREDIT RATINGS

An evaluation of a corporate's ability to repay its obligation or the likelihood of non-defaulting, carried out by an independent rating agency.

### CURRENCY RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

### CUSTOMER DEPOSITS

Money deposited by account holders. Such funds are recorded as liabilities.

## D

### DEALING SECURITIES

These are marketable securities acquired and held with the intention of resale over a short period of time.

### DEFERRED TAXATION

Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

### DEPRECIATION

The systematic allocation of the depreciable amount of a tangible capital asset or fixed asset over its useful life.

### DERECOGNITION

Is the removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

### DERIVATIVES

A financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

**DIVIDEND COVER**

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

**DIVIDEND PER SHARE**

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; this indicates the proportion of current year's dividend attributable to an ordinary share in issue.

**DIVIDEND YIELD**

Dividend earned per share as a percentage of its market value.

**DISCOUNT RATE**

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

**E****EARNINGS PER ORDINARY SHARE (EPS)**

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

**ECONOMIC VALUE ADDED**

A measure of productivity that takes into consideration cost of total invested equity.

**EFFECTIVE INTEREST METHOD**

Is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial asset or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

**EFFECTIVE TAX RATE**

Provision for taxation including deferred tax divided by the profit before taxation.

**EXPOSURE**

A claim, contingent claim or position which carries a risk of financial loss.

**EQUITY METHOD**

A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

**EQUITY**

This consists of issued and fully paid up ordinary shares and reserves.

**F****FAIR VALUE**

The amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

**FINANCE LEASE**

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

**FINANCIAL ASSET**

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

**FINANCIAL INSTRUMENT**

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

**FINANCIAL LIABILITY**

A contractual obligation to deliver cash or another financial asset to another entity.

**G****GEARING**

Long-term borrowings divided by the total funds available for shareholders.

**GROSS DIVIDEND**

The portion of profits distributed to the shareholders including the tax with held.

**GUARANTEES**

A promise made by a third party (Guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual Obligations.

**H****HEDGING**

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavorable price movements (interest rate, foreign exchange rates, commodity prices, etc).

**HELD-TO-MATURITY**

Investments and debt securities that a Company has the ability and intent to hold until maturity.

**HIRE PURCHASE**

A system by which a buyer pays for an asset in regular installments while enjoying the use of such asset. During the repayment period, ownership(title) of the asset does not pass to the buyer.

## GLOSSARY (Cont...)

### I

#### **IMPAIRMENT**

The value of an asset when the recoverable amount is less than its carrying amount.

#### **IMPAIRED LOANS**

Loans where the Company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

#### **IMPAIRMENT ALLOWANCE FOR LOANS AND RECEIVABLES**

Amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

#### **INDIVIDUALLY ASSESSED IMPAIRMENT**

Exposure to loss is assessed on all individually significant accounts that do not qualify for collective assessment.

#### **INTANGIBLE ASSETS**

An intangible asset is an identifiable non-monetary asset without physical substance.

#### **INTEREST COVER**

Earnings before interest and taxes for the year divided by total interest expenses.

#### **INTEREST IN SUSPENSE**

Interest suspended on non-performing accommodations. (Leases, hire purchases, loans and other advances)

#### **INTEREST MARGIN**

Net interest income expressed as a percentage of average total assets.

#### **INTEREST RATE RISK**

The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

#### **INTEREST SPREAD**

The difference between the average yield a financial institution receives from loans and other interest-accruing activities and the average rate it pays on deposits and borrowings.

#### **INVESTMENT PROPERTIES**

Property (land or a building – or part of a building – or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

#### **INVESTMENT SECURITIES**

Securities acquired and held for yield and capital growth purposes which are usually held to maturity.

### K

#### **KEY MANAGEMENT PERSONNEL**

People having authority and responsibility for planning, directing and controlling the activities of an entity, either directly or indirectly. (The Board of Directors and Corporate Management).

### L

#### **LIQUID ASSETS**

Assets that are held in cash or can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills and Bonds.

#### **LIQUIDITY RISK**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

#### **LOANS PAYABLE**

Loan payable are financial liabilities, other than short-term trade payable on normal credit terms.

#### **LOANS AND RECEIVABLES**

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

#### **LOSS GIVEN DEFAULT (LGD)**

The percentage of an exposure that a lender expects to lose in the event of obligor default.

### M

#### **MARKET CAPITALISATION**

Number of ordinary shares in issue multiplied by the market value of a share as at a particular date.

#### **MARKET RISK**

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

#### **MATERIALITY**

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

**N****NET ASSET VALUE PER ORDINARY SHARE**

Total net asset value of a Company divided by the total number of ordinary shares in issue.

**NET INTEREST INCOME**

Difference between revenue generated from interest bearing assets and interest incurred on interest bearing liabilities.

**NET INTEREST MARGIN**

Net interest income as a percentage of average interest earning assets.

**NON-CONTROLLING INTEREST**

Portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

Non-Performing Advances / Non-Performing Accommodations Loans and advances of which rentals are in arrears for six months or more.

**NPA RATIO**

Total Non-Performing Accommodations (net of interest in suspense and other adjustments) divided by total accommodations (net of interest in suspense and other adjustments).

**O****OPERATIONAL RISK**

The losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

**P****PARENT**

An entity that controls one or more subsidiaries.

**PRICE EARNINGS RATIO**

Market price of a share divided by the earnings per share.

**PROVISION**

The amount of an expense that an entity elects to recognise now, before it has precise information about the exact amount of the expense.

**PROVISION COVER**

Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on non-performing loans, leases and advances.

**R****RELATED PARTIES**

Parties where one party has the ability to control the other party exercise a significant influence over the other party in making financial and operating decisions, directly or indirectly

**RELATED PARTY TRANSACTIONS**

Is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged or not.

**REPURCHASE AGREEMENTS**

Contracts to sell and subsequently repurchase securities at a specified price at a specified future date.

**RETURN ON AVERAGE ASSETS (ROA)**

Profit after tax divided by total average assets.

**RETURN ON EQUITY**

Profit after tax divided by total average equity.

**REVERSE REPURCHASE AGREEMENTS**

The purchased of securities with the agreement to sell them at a specified price at a specified future date.

**RISK WEIGHTED ASSETS**

On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by relevant factors weighted by risk.

**S****SEGMENTAL ANALYSIS**

Analysis of Financial Information by loan product.

**SHAREHOLDERS' FUNDS**

This consists of issued and fully paid up ordinary shares and reserves.

**STATUTORY RESERVE FUND**

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 01 of 2003.

**SPECIFIC IMPAIRMENT PROVISIONS**

Impairment is measured individually for loans that are individually significant to the Company

**SUBSIDIARY COMPANY**

An entity, including an unincorporated entity such as a partnership, which is controlled by another entity, known as Parent.

**SUBSTANCE OVER FORM**

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and the events are governed by their financial reality and not merely by its legal form.

**T****TOTAL RISK WEIGHTED CAPITAL**

Supplementary capital that includes items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt.



# NOTICE OF MEETING

NOTICE is hereby given that the Thirty Ninth (39th) Annual General Meeting of Commercial Credit and Finance PLC (the "Company") will be held at Commercial Credit and Finance PLC, City Office, Third (3rd) Floor, Training Room, No. 165, Kinsey Road, Colombo 08 on 9th September 2022 at 10.00 a.m. and the business to be brought before the meeting will be as follows:

1. To receive and consider the audited financial statements for the year ended 31st March 2022 and the reports of the auditors and of the directors thereon.
2. To declare a final dividend of Rupees Two (Rs. 2.00/-) per share for the year ended 31st March 2022, as recommended by the directors.
3. Re-election of directors
  - i. To re-elect Mr. R.S. Egodage, who retires by rotation in terms of Article 24(6) of the Articles of Association of the Company.
  - ii. To re-elect Ms. G.R. Egodage, who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company.
  - iii. To re-elect Ms. T.M.L. Paktsun, who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company.
  - iv. To re-elect Mr. G.B. Egodage, who was appointed during the course of the year and retires in terms of Article 24 (2) of the Articles of Association of the Company.
  - v. To re-elect Dr. R. Saravanamuttu, who was appointed during the course of the year and retires in terms of Article 24 (2) of the Articles of Association of the Company.
  - vi. To re-elect Mr. D. Malfar, who was appointed during the course of the year and retires in terms of Article 24 (2) of the Articles of Association of the Company.
4. To re-appoint M/s Ernst & Young, Chartered Accountants, who are deemed to be re-appointed as auditors until the conclusion of the next annual general meeting of the Company in terms of section 158 (1) of the Companies Act No. 07 of 2007, to audit the financial statements of the Company for the financial year ending 31st March 2023 and to authorize the directors to determine their remuneration therefor.
5. To authorize the directors to determine contributions to charities.
6. To approve the following amendments to the Articles of Association of the Company:

## SPECIAL RESOLUTION

IT IS HEREBY RESOLVED THAT the existing Articles of Association of the Company be amended as follows:

- (i) By deleting Article 11 (4) in its entirety.
- (ii) By including the following as Article 18A immediately after the existing Article 18:

'The Shareholders may concurrently participate either in person or by telephone, radio, conference television, virtual and online mode or similar equivalent communication or any other form of audio or audiovisual instantaneous communication by which all persons participating in the conference are able to hear and be heard by all other participants for the dispatch of business and adjourn and otherwise regulate the conference as they think fit. All provisions relating to the convening of a Meeting of the Shareholders, including the giving of Notice thereof and Agenda, the quorum for such conference meeting and the votes to be cast shall be the same as is applicable under these Presents in relation to such Meetings'.

(iii) By deleting the existing Article 21 (1) and (2) in its entirety and substituting it with the following:

- (1) Subject to the provisions of Article 21(2) hereof, the Board must call an Annual General Meeting of the Company to be held -
  - (a) once in each calendar year;
  - (b) not later than six (6) months after the balance sheet date of the Company; and
  - (c) not later than fifteen (15) months after the previous Annual General Meeting.
- (2) An Extraordinary Meeting of shareholders entitled to vote on an issue may be called at any time by the Board, and must be called by the Board on the written request of shareholders holding shares, carrying not less than ten percent (10%) of votes which may be cast on that issue.

## NOTICE OF MEETING

All General Meetings shall be held at such date, time and place either in person, virtual and online mode or such other form as the Board shall appoint\*.

(iv) By deleting the existing Article 24 (1) in its entirety and substituting it with the following:

'The number of Directors shall not be less than five (05) nor more than thirteen (13) in number and shall always be appointed in accordance with applicable laws and for so long as the shares of the Company are quoted on the Colombo Stock Exchange in accordance with the Listing Rules of such Exchange.'

(v) By deleting the existing Article 30 in its entirety and substituting it with the following:

'The Directors may concurrently participate either in person or by telephone, radio, conference, television, virtual and online mode or similar equivalent communication or any other form of audio or audiovisual instantaneous communication by which all persons participating in the conference are able to hear and be heard by all other participants for the dispatch of business and adjourn and otherwise regulate the conference as they think fit. All provisions relating to the convening of a Meeting of the Directors, including the giving of Notice thereof and Agenda, the quorum for such conference meeting and the votes to be cast shall be the same as is applicable under these Presents or any Statute in relation to such Meetings.

A resolution passed by such conference Meeting shall notwithstanding that the Directors are not present together at one place at the time of the conference, be deemed to have been passed at a conference of the Directors held on the day and at the time at which the conference was held and shall be deemed to have been held at the registered office of the Company unless otherwise agreed, and all Directors and other persons including the Secretary participating at that conference shall be deemed for all purposes to be present at the conference. However, the Secretary shall mention in the minute relating to the meeting that the meeting was conducted using the aforesaid means of communication and shall also mention the Director/Directors that participated through the said means'.

By Order of the Board



**Corporate Services (Private) Limited**

Secretaries

18<sup>th</sup> August 2022

Colombo



# FORM OF PROXY

I/We .....of ..... being a shareholder/s of Commercial Credit and Finance PLC do hereby appoint.....of.....failing him;

|                            |               |
|----------------------------|---------------|
| Mr. E D P SOOSAIPILLAI     | whom failing, |
| Mr. R S EGODAGE            | whom failing, |
| Ms. G R EGODAGE            | whom failing, |
| Mr. K D VANDER WEELE,      | whom failing, |
| Mr. P.S.R.C CHITTY,        | whom failing, |
| Mr. L.L.S. WICKRAMASINGHE, | whom failing, |
| Ms. T.M.L. PAKTSUN,        | whom failing, |
| Ms. G.A.M. EDWARDS,        | whom failing, |
| Mr. G.B EGODAGE,           | whom failing, |
| Dr. R. SARAVANAMUTTU       | whom failing, |
| Mr. D. Malfar              |               |

as my/our proxy to represent me/us and vote for me/us on my/our behalf at the Thirty Ninth (39th) Annual General Meeting of the Company to be held on 9th day of September 2022 and at any adjournment thereof, and at every poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our proxy to vote on my/our behalf in accordance with the preference indicated below:-

|   | For                      | Against                  |
|---|--------------------------|--------------------------|
| 1. To receive and consider the audited financial statements for the year ended 31st March 2022 and the reports of the auditors and of the directors thereon.  | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To declare a final dividend of Rupees Two (Rs. 2.00/-) per share for the year ended 31st March 2022, as recommended by the directors   | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>3. Re-election of directors</b>  |                          |                          |
| i. To re-elect Mr. R.S. Egodage, who retires by rotation in terms of Article 24(6) of the Articles of Association of the Company.   | <input type="checkbox"/> | <input type="checkbox"/> |
| ii. To re-elect Ms. G.R. Egodage, who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company.   | <input type="checkbox"/> | <input type="checkbox"/> |
| iii. To re-elect Ms. T.M.L. Paktsun, who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company.  | <input type="checkbox"/> | <input type="checkbox"/> |
| iv. To re-elect Mr. G.B. Egodage, who was appointed during the course of the year and retires in terms of Article 24 (2) of the Articles of Association of the Company  | <input type="checkbox"/> | <input type="checkbox"/> |
| v. To re-elect Dr. R. Saravanamuttu, who was appointed during the Course of the year and retires in terms of Article 24 (2) of the Articles of Association of the Company.  | <input type="checkbox"/> | <input type="checkbox"/> |
| vi. To re-elect Mr. D. Malfar, who was appointed during the course of the year and retires in terms of Article 24 (2) of the Articles of Association of the Company.  | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To re-appoint M/s Ernst & Young, Chartered Accountants, who are deemed to be re-appointed as auditors until the conclusion of the next annual general meeting of the Company in terms of section 158 (1) of the Companies Act No. 07 of 2007, to authorize the directors to determine their remuneration therefor. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To authorize the directors to determine contributions to charities.  | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Special resolution to approve the amendments to the Articles of Association of the Company.  | <input type="checkbox"/> | <input type="checkbox"/> |

As witness my/our hand on this .....day of .....Two Thousand and Twenty Two..

.....  
Signature of Shareholder

#### Notes:

- If you wish your Proxy to speak at the Meeting you should insert the words "to speak and" in the place indicated with an asterisk and initial such insertion.
- 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 the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxyholder should vote, the Proxy holder shall vote as he thinks fit.
- A Proxy holder need not be a member of the Company
- Instructions as to completion appear on the reverse hereof

## FORM OF PROXY (Cont...)

### INSTRUCTIONS AS TO COMPLETION

1. To be valid this Form of Proxy must be deposited at the Registered Office of the Company at No.106, Yatinuwara Vidiya, Kandy not less than 48 hours before the time appointed for the holding of the Meeting.
2. The instrument appointing a Proxy shall in the case of an individual be signed by the appointor or by his Attorney and in the case of a Company/ Corporation, the Proxy Form must be executed 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 Proxy Form is signed by an Attorney, the relevant 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 of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.

# INVESTOR FEEDBACK FORM

To request information or submit a comment/query to the Company, please complete the following and return this page to,

Chief Financial Officer  
Commercial Credit and Financial PLC  
No. 165, Kynsey Road,  
Colombo 08,  
Sri Lanka.  
E-mail: janaka@cclk.lk

Name : .....

Permanent Mailing Address : .....

Contact Numbers : .....

E-mail : .....

Name of the Company :  
(If Applicable) .....

Designation :  
(If Applicable) .....

Company Address :  
(If Applicable) .....

Comments/Queries :  
.....  
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# CORPORATE INFORMATION

## COMPANY NAME

Commercial Credit and Finance PLC

## LEGAL FORM

Incorporated as a Private Limited Liability Company under the Companies Act No. 17 of 1982 on 4 October 1982 and converted to a Public Company on 16 December 1989 and re-registered under the Companies Act No. 07 of 2007 on 8 April 2008 A Registered Finance Company under the Finance Companies Act No. 78 of 1988 and re-registered under the Finance Business Act No. 42 of 2011. A Registered Finance Leasing establishment under the Finance Leasing Act No. 56 of 2000 (as amended) The Shares of the Company were listed on Dirisavi Board of the Colombo Stock Exchange on 1 June 2011. The Stock Exchange code for the Company share is "COCR"

## REGISTRATION NUMBER

PB 269 PQ

## PLACE OF INCORPORATION

Kandy, Sri Lanka

## REGISTERED OFFICE

No. 106, Yatinuwara Veediya, Kandy

## CITY OFFICE

No. 165, Kynsey road, Colombo 08

## TELEPHONE

+94(0) 2 000 000 / +94 (0) 81 2 000 000

## FAX

+94 (0) 81 2 234 977 / +94 (0) 112327882

## E-MAIL

ccl@cclk.lk

## WEBSITE

www.cclk.lk

## BOARD OF DIRECTORS OF THE COMPANY

Mr. E. D. P. Soosaipillai - Independent Non-Executive Director (Chairman)  
Mr. R. S. Egodage - Executive Director (Chief Executive Officer)  
Ms. G. R. Egodage - Executive Director  
Mr. K. D. Vander Weele - Non-Executive Director  
Mr. P.S.R.C. Chitty - Executive Director  
Ms. T.M.L. Paktsun- Independent Non-Executive Director  
Mr. L.L.S. Wickremasinghe - Independent Non-Executive Director  
Mr. G.B. Egodage - Non-Executive Director  
Ms. G.A.M. Edwards - Independent Non-Executive Director  
Dr. R. Saravanamuttu - Independent Non-Executive Director  
Mr. D. Malfar - Non-Executive Director

## COMPANY SECRETARY

Corporate Services (Private) Limited Address  
216, de Saram Place, Colombo 10, Sri Lanka

## COMPANY AUDITORS

Ernst & Young, Chartered Accountants  
No. 201, De Saram Place, Colombo 10

## BANKERS OF THE COMPANY

Bank of Ceylon  
Cargills Bank Limited  
Commercial Bank of Ceylon PLC  
DFCC Bank  
Hatton National Bank PLC  
National Development Bank PLC  
Nations Trust Bank PLC  
Pan Asia Banking Corporation PLC  
People's Bank  
Sampath Bank PLC  
Seylan Bank PLC

## BOARD AUDIT COMMITTEE

Ms. T.M.L. Paktsun (Chairperson)  
Mr. L.L.S. Wickremasinghe  
Mr. G.B. Egodage

## BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Ms. T.M.L. Paktsun (Chairperson)  
Mr. L.L.S. Wickremasinghe  
Mr. P.S.R.C. Chitty

## BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

Mr. L.L.S. Wickremasinghe (Chairperson)  
Mr R S Egodage  
Ms. T.M.L. Paktsun  
Ms. G.A.M. Edwards  
Mr. G.B. Egodage

## BOARD REMUNERATION COMMITTEE

Mr. E. D. P. Soosaipillai (Chairperson)  
Ms. T.M.L. Paktsun  
Dr. R. Saravanamuttu

## BOARD NOMINATION COMMITTEE

Mr. E. D. P. Soosaipillai (Chairperson)  
Mr R S Egodage  
Mr. L.L.S. Wickremasinghe  
Mr. G.B. Egodage

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