ASIA ASSET FINANCE PLC
COLOMBO - 03

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2021

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ASIA ASSET FINANCE PLC

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Asia Asset Finance PLC (the "Company"), which comprise the statement of financial position as at 31st March 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 05 to 59.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31st March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our 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.

Key audit matter

Impairment of loans and receivables
The company's gross loans and receivables amount to Rs. 14 billion as at 31st March 2021 (2020: Rs. 13.83 billion) and impairment allowance for the year ended 31st March 2021 amounts to Rs. 383 million (2020: Rs. 382 million).

The company measures the impairment of loans and receivables using expected credit loss ("ECL") model as per Sri Lanka Accounting Standard - SLFRS 9 Financial Instruments ("SLFRS 9"). The application of this standard requires management to exercise significant judgments in the determination of expected credit losses, including those relating to loans and receivables. Management applies significant judgment in the determination of estimated future cash flows, probabilities of default and forward-looking economic expectations.

Due to the significance of loans and receivables and the significant estimates and judgment involved, the impairment of these loans and receivables was considered to be a key audit matter.

The impairment provision is considered separately on an individual and collective impairment basis.

In calculating the impairment provision on a collective basis, statistical models are used. The following inputs to these models require significant management judgment:

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

In assessing loans and receivables on an individual basis, significant judgments, estimates and assumptions have been made by management to:

- Determine if the loan or advance is credit impaired;
- Evaluate the adequacy and recoverability of collateral;
- Determine the expected cash flows to be collected; and
- Estimate the timing of the future cash flows.

Key areas of significant judgements, estimates and assumptions used by management related to the impact of COVID-19 in the assessment of the impairment allowance included the following:

- The probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the company);
- the determination on whether or not customer contracts have been substantially modified due to such COVID–19 related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and advances;
- Forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impact from COVID-19 that may affect future expected credit losses.

The disclosures associated with impairment of loans and receivables are set out in the financial statements in the following notes:

- Note 7 – Impairment charge for lease rentals receivables, hire purchase and loans and advances
- Note 13 - Financial assets at amortised cost – Loan and advances
- Note 14 - Financial assets at amortised cost – Lease rentals receivables and hire purchase

How our audit addressed the key audit matter

Our procedures included the following:

- We obtained an understanding of management’s process and tested controls over credit origination, credit monitoring and credit remediation.

- We assessed the appropriateness of the accounting policies and loan impairment methodologies applied, by comparing these to the requirements of SLFRS 9: Financial Instruments, including consideration of COVID-19 impact and related industry responses based on the best available information up to the date of our report.

- We test-checked the underlying calculations and data.

In addition to the above, we performed the following specific procedures:

For loans and receivables collectively assessed for impairment:

- We assessed the completeness of the underlying information in loans and receivables used in the impairment calculations by agreeing details to the company's source documents and information in IT systems.

- We also considered the reasonableness of macro-economic and other factors used by management by comparing them with publicly available data and information sources. This included assessing and challenging the reasonableness of macroeconomic scenarios considered and certain forward-looking economic data developed by the company, with particular focus on the impact of COVID-19 in light of certain available information and consensus views.

For loans and receivables individually assessed for impairment:

- We assessed the main criteria used by management for determining whether an impairment event had occurred.

- Where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held.

- Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on elevated risk industries, strategic responsive actions taken, collateral values, and the value and timing of future cashflows.

For loans and advances affected by government stimulus and debt moratorium relief measures granted:

- Assessing the appropriateness of judgements, reasonableness of calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and

- Evaluating the reasonableness of the interest income recognised on such affected loans and advances.

We also assessed the adequacy of the related financial statement disclosures.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report. The 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 do 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 identified above when it becomes available 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 whether it appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain an audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures, are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 3890.

BDO Partners

CHARTERED ACCOUNTANTS
Colombo
30th April 2021
VR/cc

ASIA ASSET FINANCE PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST MARCH, 2021

	Note	2020/2021 Rs.	2019/2020 Rs.
Interest income	4	2,626,394,467	3,043,709,078
Less: Interest expenses	5	(1,462,362,856)	(1,704,234,090)
Net interest income		**1,164,031,611**	**1,339,474,988**
Net trading loss on held for trading securities		-	(125)
Other operating income	6	328,420,134	288,910,201
Less: Operating expenses			
Personnel expenses		(268,929,048)	(310,582,828)
Provision for staff retirement benefits		(7,163,721)	(7,041,239)
General and administration expenses		(701,570,915)	(782,395,544)
Impairment charge for lease rentals receivable, hire purchase, loans and advances	7	(382,940,886)	(381,645,114)
Operating profit before value added tax on financial services		**131,847,175**	**146,720,339**
Value added tax on financial services		(45,100,000)	(53,404,047)
Profit before income tax	8	**86,747,175**	**93,316,292**
Income tax expenses	9	(41,551,058)	(23,162,926)
Profit for the year		**45,196,117**	**70,153,366**
Other comprehensive income not to be re-classified to profit or loss in subsequent periods (net of tax)			
Actuarial gain/(loss) on retirement benefit liability		4,379,407	(2,075,633)
Deferred tax effect on components of other comprehensive income	9	1,051,058	(498,152)
Other comprehensive income/(expense) for the year net of tax		**5,430,465**	**(2,573,785)**
Total comprehensive income for the year		**50,626,582**	**67,579,581**
Earnings per share - basic	32	0.36	0.57

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 59 form an integral part of these financial statements.

Colombo
30th April, 2021

BDO PARTNERS
Chartered Accountants

ASIA ASSET FINANCE PLC
STATEMENT OF FINANCIAL POSITION
AS AT 31ST MARCH, 2021

	Note	31.03.2021 Rs.	31.03.2020 Rs.
ASSETS			
Cash and cash equivalents	11	1,006,233,476	511,939,133
Investment in reverse repurchase agreements against the treasury bills and bonds at amortized cost	12	654,692,844	860,630,696
Financial assets at amortized cost - Loans and advances	13	10,198,262,863	8,913,047,650
Financial assets at amortized cost - Lease rentals receivable and hire purchase	14	2,212,534,894	3,726,488,702
Other assets	15	21,637,319	16,983,813
Income tax receivable	16	27,698,763	27,736,580
Advances, deposits and prepayments	17	252,083,662	156,189,223
Financial assets - Fair value through other comprehensive income	18	506,659	506,659
Property, plant and equipment	19	156,436,174	138,032,482
Right-of-use assets	20	217,810,352	137,210,457
Investment property	21	376,158,647	399,678,109
Deferred tax assets	9	185,422,647	225,922,647
Intangible assets	22	40,951,789	40,220,339
Total assets		15,350,430,089	15,154,586,490
LIABILITIES			
Financial liabilities - Due to banks	23	24,279,289	58,777,776
Other liabilities	24	38,147,908	96,622,133
Financial liabilities - Other borrowed funds	25	4,778,758,726	6,086,325,326
Lease liability	26	213,877,899	126,200,873
Due to customers	27	7,013,686,384	6,585,234,705
Subordinated liabilities	28	1,029,465,110	-
Retirement benefit obligation	29	30,135,378	29,972,864
Total liabilities		13,128,350,694	12,983,133,677
EQUITY			
Stated capital	30	1,791,478,691	1,791,478,691
Retained earnings		351,303,022	303,207,769
Statutory reserve fund and other reserves	31	79,297,682	76,766,353
Total equity		2,222,079,395	2,171,452,813
Total equity and liabilities		15,350,430,089	15,154,586,490
Contingent liabilities and commitments	33 & 34	643,139,968	680,417,899
Net assets value per share		17.89	17.50

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 59 form an integral part of these financial statements.

These financial statements are in compliance with the requirements of the Companies Act No.07 of 2007.

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Geethika Elwalage
Deputy General Manager - Finance

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board.

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R.J.A Gunawardena
Director/Chief Executive Officer

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Thusitha Perera
Director/Chairman of the audit committee

Colombo
30th April, 2021
VR/cc

BDO PARTNERS
Chartered Accountants

ASIA ASSET FINANCE PLC
STATEMENT OF CHANGES IN EQUITY
AS AT 31ST MARCH, 2021

	Stated capital Rs.	General reserve Rs.	Statutory reserve fund Rs.	Retained earnings Rs.	Total Rs.
Balance as at 31st March, 2019	1,640,493,541	3,000,000	70,387,374	239,007,167	1,952,888,082
Total comprehensive income for the year					
Profit for the year	-	-	-	70,153,366	70,153,366
Other comprehensive expense (net of tax)	-	-	-	(2,573,785)	(2,573,785)
Total comprehensive income for the year	-	-	-	67,579,581	67,579,581
Transactions with equity holders recognized directly in equity					
Proceeds from right issue of ordinary shares	150,985,150	-	-	-	150,985,150
Transfers to reserves	-	-	3,378,979	(3,378,979)	-
Total transactions with equity holders	**150,985,150**	**-**	**3,378,979**	**64,200,602**	**218,564,731**
Balance as at 31st March, 2020	**1,791,478,691**	**3,000,000**	**73,766,353**	**303,207,769**	**2,171,452,813**
Total comprehensive income for the year					
Profit for the year	-	-	-	45,196,117	45,196,117
Other comprehensive income (net of tax)	-	-	-	5,430,465	5,430,465
Total comprehensive income for the year	-	-	-	50,626,582	50,626,582
Transactions with equity holders recognized directly in equity					
Transfers to reserves	-	-	2,531,329	(2,531,329)	-
Total transactions with equity holders	**-**	**-**	**2,531,329**	**48,095,253**	**50,626,582**
Balance as at 31st March, 2021	**1,791,478,691**	**3,000,000**	**76,297,682**	**351,303,022**	**2,222,079,395**

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 59 form an integral part of these financial statements.

Colombo
30th April, 2021

BDO PARTNERS
Chartered Accountants

BDO PARTNERS Chartered Accountants

ASIA ASSET FINANCE PLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST MARCH, 2021

	Note	2020/2021 Rs.	2019/2020 Rs.
Cash flows from operating activities			
Profit before income tax		86,747,175	93,316,292
Adjustments for			
Depreciation and amortization	19 & 22	51,276,593	51,791,363
Amortization of right-of-use asset	20	41,018,741	29,177,605
Interest expenses on lease liability	26	20,009,922	17,234,710
Impairment of lease, hire purchase, loans and advances	7	382,940,886	381,645,114
Early termination of loans, leases and hire purchase		(29,908,552)	(51,580,552)
Non-cash items included in profit before tax (WHT and Notional tax)		37,817	(1,264,129)
Net interest margin adjustment		-	31,765,157
Interest income on commercial papers		-	(6,170,583)
Interest income on short term investment		(18,852,915)	(3,493,043)
Profit on sale of held for trading securities		-	125
Gains from sale of property, plant and equipment, investment property and real estate inventories		(8,958,592)	(182,714)
Loss on sale of vehicle stock		-	1,133,738
Provision for retirement benefit liability	29.1	7,163,721	7,041,239
Interest expense on other borrowings		695,547,058	897,277,265
Interest expense on debentures		47,070,376	-
Cash generated from operations before working capital changes		1,274,092,230	1,447,691,587
Changes in working capital			
Decrease in lease rentals receivable and hire purchase		1,592,530,924	279,318,715
Increase in loans and advances		(1,716,824,690)	(1,724,658,389)
Increase in other receivables		(126,272,144)	(472,010)
Increase in deposits and prepayments		(95,894,459)	(31,671,976)
Increase/(decrease) in deposits from customers		428,451,679	(32,110,250)
Increase/(decrease) other non-financial liabilities		63,144,462	(120,541,238)
Net cash from/(used in) operating activities before income tax payments		1,419,228,002	(182,443,561)
Taxes paid		-	(22,740,148)
Gratuity paid		(2,621,800)	(1,232,500)
Lease rent advance paid		(14,542,782)	(42,557,697)
Rent paid		(39,408,751)	-
Net cash generated from/(used in) operating activities		**1,362,654,669**	**(248,973,906)**
Cash flows from investing activities			
Acquisition of property, plant and equipment	19	(65,141,353)	(27,787,206)
Acquisition of intangible assets	20	(6,956,240)	(17,178,378)
Acquisition of investment property	21	(315,000)	(5,859,596)
Proceeds from sale of investment property		30,900,000	-
Proceeds from sale of vehicle stock		-	17,779,831
Investments in commercial papers		-	(280,000,000)
Proceeds from commercial papers		-	286,170,583
Investments in short term investments		(980,000,000)	(250,000,000)
Proceeds from short term investments		998,852,915	253,493,043
Proceeds from sale of property, plant and equipment		3,578,913	602,054
Net cash used in investing activities		**(19,080,765)**	**(22,779,669)**
Cash flows from financing activities			
Repayment of other borrowed funds	25	(4,686,113,659)	(4,421,488,570)
Proceeds from other borrowed funds	25	2,683,000,000	4,651,801,017
Proceeds from debenture issue		982,394,733	-
Proceed from right issue		-	150,985,150
Net cash generated from/(used in) financing activities		**(1,020,718,926)**	**381,297,597**
Net increase in cash and cash equivalents		322,854,978	109,544,022
Cash and cash equivalents at the beginning of the year	A	1,313,792,053	1,204,248,031
Cash and cash equivalents at the end of the year	B	1,636,647,031	1,313,792,053

At the beginning of the year			**Note A**
Cash and cash equivalents		511,939,133	643,777,198
Investment in reverse repurchase agreements against the treasury bills and bonds at amortized cost		860,630,696	691,744,740
Bank overdraft		(58,777,776)	(131,273,907)
		1,313,792,053	1,204,248,031
At the end of the year			**Note B**
Cash and cash equivalents		1,006,233,476	511,939,133
Investment in reverse repurchase agreements against the treasury bills and bonds at amortized cost		654,692,844	860,630,696
Bank overdraft		(24,279,289)	(58,777,776)
		1,636,647,031	1,313,792,053

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 59 form an integral part of these financial statements.

Colombo
30th April, 2021

1. CORPORATE INFORMATION

This section provides general information about Asia Asset Finance PLC.

1.1 General

Asia Asset Finance PLC is a Public Limited Liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The company has been registered with the Central Bank of Sri Lanka as a Finance company under the provisions of the Finance Business Act No. 42 of 2011 (formerly the Finance Companies Act No.78 of 1988). The company was re-registered under the Companies Act No. 07 of 2007. The registered office of the company and the principal place of business is located at No 76, Park Street, Colombo 03.

1.2 Principal activities and nature of operations

The principal activities of the company comprise granting leases, hire purchase, mortgage loans, personal loans, group personal loans, gold loans, micro finance loans, pledge loans, cheque and invoice discounting and mobilization of public deposits.

There were no significant changes in the nature of the principal activities of the company during the financial year under review.

1.3 Parent entity and ultimate parent entity

The company's immediate and ultimate parent entity as at 31st March 2021 is Muthoot Finance Limited which was incorporated in India.

1.4 Number of employees

The staff strength of the company as at 31st March 2021 was 427 (495 as at 31st March 2020).

2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

This section provides additional information about the overall basis of preparation that the directors consider is useful and relevant in understanding these financial statements:

- A summary of other significant accounting policies affecting the results and financial position of the company, including changes in accounting policies and disclosures during the year.
- Standards that have been issued which the company has not adopted.

2.1 Basis of measurement

The financial statements of the company have been prepared on the historical cost basis except for the following items in the statement of financial position:

Item	Basis of measurement
Financial assets measured at fair value through profit or loss	Fair value
Financial assets measured at fair value through other comprehensive income	Fair value
Retirement benefit obligation	Liability is recognized as the present value of the retirement obligation plus unrecognized actuarial gains less unrecognized past service cost and unrecognized actuarial losses.

2.2 Going concern

The directors have made an assessment of the company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. The assessment took into consideration the existing and potential implications of COVID 19 pandemic on the business operations and performance of the company and the measures adopted by the government to mitigate the pandemic's spread and support recovery of the economy. The Board is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.3 Statement of compliance

The financial statements of the company as at 31st March, 2021 and for the year ended 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 and the Listing Rules of the Colombo Stock Exchange.

These financial statements include the following components:

- A statement of profit or loss and other comprehensive income providing the information on the financial performance of the company for the year under review
- 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 shareholders' 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 flow and
- Notes to the financial statements comprising accounting policies and other explanatory information.

2.4 Responsibility for financial statements

The Board of Directors is responsible for the preparation and presentation of these financial statements as per the provision of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

2.5 Approval of financial statements by the Board of Directors

The financial statements of Asia Asset Finance PLC for the year ended 31st March, 2021 (including comparatives) were approved and authorized for issue on 30th April, 2021 in accordance with a resolution of the Board of Directors on 30th April, 2021.

2.6 Presentation of financial statements

The assets and liabilities in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) has been presented in note 38 (current/non-current analysis). No adjustments have been made for inflationary factors affecting the financial statements.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless it is required or permitted by any accounting standard or interpretation.

2.7 Comparative information

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

2.8 Functional and presentation currency

The financial statements have been presented in Sri Lanka Rupee (Rs.), which is the company's functional and presentation currency.

2.9 Materiality and aggregation

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

2.10 Rounding

The amounts in the financial statements have been rounded-off to the nearest Rupee, except where it is otherwise indicated as permitted by the Sri Lanka Accounting Standard- LKAS 01 on 'Presentation of Financial Statements'.

2.11 Foreign currency transactions and balances

All foreign currency transactions are translated into the functional currency which is the Sri Lanka Rupee (Rs.) at the spot exchange rate prevailing at the date of the transactions being effected. 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 ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year and the amortized 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.

2.12 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements of the company in conformity with SLFRS and LKAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a 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 judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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The company considered the impact of COVID-19 in preparing the financial statements in line with the circulars and guidelines issued by the CBSL and the CA Sri Lanka. While the specific areas of judgement may not change, the impact of COVID-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event. Further, changes to estimates were made in the measurement of company' assets where applicable.

Significant accounting judgments, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are given in the related notes.

2.12.1 Classification of financial assets and liabilities

As per SLFRS 9, the Significant Accounting Policies of the company provide scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria:

- The entity's business model for managing the financial assets is set out in Note 3.1.3.1.
- The contractual cash flow characteristics of the financial assets is set out in Note 3.1.3.2.

2.12.2 Impairment Losses on Financial assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are based on the assumptions of a number of factors and the actual results may differ, resulting in future changes to the allowance.

Refer Note 3.1.11 for more details relating to impairment loss assessment on financial assets.

2.12.3 Taxation

The company is subject to income taxes and other taxes including VAT on financial services. Significant judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

The company recognizes assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

2.12.4 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with the future tax planning strategies.

2.12.5 Retirement benefit obligation

The cost of the retirement benefit obligation of employees is determined using an actuarial valuation. The actuarial valuation is based on assumptions concerning the rate of interest, rate of salary increase, staff turnover, and retirement age and going concern of the company. Due to the long-term nature of such obligation, these estimates are subject to significant uncertainty. Further details are given in note 29 to the financial statements.

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2.12.6 Useful lives of property, plant and equipment and intangible assets

The company depreciates the property plant and equipment, using the straight line method over their estimated useful lives after taking into account their estimated residual values. The estimated useful life reflects the management's estimate of the period that the company intends to derive future economic benefits from the use of the property, plant and equipment. The residual value reflects the management's estimated amount that the company would currently obtain from the disposal of the asset, after deducting the estimated disposal, as if the asset were already of the age and in the conditions expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economic useful lives and the residual values of these assets which could then consequentially impact future depreciation charges.

2.12.7 Leases

2.12.7.1 Determination of the lease term for lease contracts with renewal and termination options (company as a lessee)

The company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The company has several lease contracts that include extension and termination options. The company applies judgment 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 an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the company reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

2.12.7.2 Estimating the incremental borrowing rate

As the company cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate ("IBR") to measure the lease liabilities. The IBR is the rate of interest that the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the company "would have to pay'', which requires estimation when no observable rates are available (or when they need to be adjusted to reflect the terms and conditions of the lease). The company estimates the IBR using observable input when available and is required to make certain entity-specific adjustments.

2.13 Changes in Accounting Policies

The company has consistently applied the Accounting Policies to all periods presented in these financial statements, except for the changes arising out of amendments to Accounting Standards as set out below:

2.14 New Accounting Standards issued during the year/changes to already existing accounting standards

The company applied for the first time the following amendments to Accounting Standards, which are effective for annual periods beginning on or after January 1, 2020. The company has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

2.14.1 Amendments to LKAS 1 and LKAS 8: Definition of Material

In November 2018, the CA Sri Lanka issued amendments to Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements" and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial Statements, which provide financial information about a specific reporting entity.' These amendments had no impact on the financial statements of, nor is there expected to be any future impact on the financial statements of the company.

2.14.2 Amendments to the conceptual framework for financial reporting

CA Sri Lanka issued a revised Conceptual Framework which included some new concepts, updated definitions and recognition criteria for assets and liabilities and clarified some important concepts. Key changes include:

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

These amendments had no impact on the financial statements of the Company.

2.14.3 Amendments to Accounting Standards issued but not yet effective

Amendments to SLFRS 16 - COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after June 01, 2020.

This amendment is not expected to have a material impact on the financial statements of the company in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Financial instruments – initial recognition, classification and subsequent measurement

3.1.1 Date of recognition

The company initially recognises loans and advances, deposits and subordinated liabilities, etc., on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the company becomes a party to the contractual provisions of the instrument.

3.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. Refer Notes 3.1.3 and 3.1.4 for further details on classification of financial instruments.

A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per SLFRS 9 and trade receivables that do not have a significant financing component as defined by SLFRS 15.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss is dealt with through the Income Statement.

Trade receivables that do not have significant financing component are measured at their transaction price at initial recognition as defined in SLFRS 15.

When the fair value of financial instruments (except trade receivables that do not have significant financing component) at initial recognition differs from the transaction price, the company accounts for the Day 1 profit or loss, as described below.

3.1.2.1 "Day 1" profit or loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the company recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is de-recognised.

3.1.3 Classification and subsequent measurement of financial assets

As per SLFRS 9, the company classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms measured at either;

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

3.1.3.1 Business model assessment

The company makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument-by- instrument basis because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the company's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the company's original expectations, the company 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.

3.1.3.2 Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

As a second step of its classification process the company assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

"Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In contrast, contractual terms that introduce a more than de minimise 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 principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the company's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Refer Notes 3.1.3.3 to 3.1.3.5. below for details on different types of financial assets recognised in the Statement of Financial Position. (SOFP)

3.1.3.3 Financial assets measured at amortised cost

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

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

Financial assets measured at amortised cost are given in Notes 3.1.3.3.1 and 3.1.3.3.2 below.

3.1.3.3.1 Loans and advances to customers

Loans and advances to customers include loans and advances, and lease and hire purchase receivables of the company.

Details of "Loans and advances to customers" are given in Notes 13 and 14.

3.1.3.3.2 Investment in reverse repurchase agreements against the treasury bills and bonds

When the company purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a financial asset in the SOFP reflecting the transaction's economic substance as a loan granted by the company. Subsequent to initial recognition, these securities issued are measured at amortised cost using the EIR with the corresponding interest income/receivable being recognised as interest income in profit or loss.

Details of "Investment in reverse repurchase agreements against the treasury bills and bonds" are given in Note 12.

3.1.3.3.3 Cash and cash equivalents

Cash and cash equivalents include cash in hand, placements with banks and loans at call and at short notice that are subject to an insignificant risk of changes in their fair value, and are used by the company in the management of its short-term commitments. They are brought to the financial statements at their face values or the gross values, where appropriate. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

3.1.3.4 Financial assets measured at FVOCI

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

3.1.3.4.1 Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and interest on principal outstanding.

3.1.3.4.2 Equity instruments designated at FVOCI

Upon initial recognition, the company elects to classify irrevocably some of its equity investments held for strategic and statutory purposes as equity instruments at FVOCI. Details of "Equity instruments at FVOCI" are given in Note 18.

3.1.3.5 Financial assets measured at FVTPL

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3.1.4 Classification and subsequent measurement of financial liabilities

As per SLFRS 9, the company classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category are,

  - Held-for-trading; or
  - Designated at fair value through profit or loss;

- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

3.1.4.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. The company does not have any financial liabilities at fair value through profit or loss.

3.1.4.2 Financial liabilities at amortised cost

Financial liabilities issued by the company that are not designated at FVTPL are classified as financial liabilities at amortised cost under "Due to banks", "Due to customers", "Other borrowings" or "Subordinated debts" as appropriate, where the substance of the contractual arrangement results in the company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in "Interest expense" in the income statement. Gains and losses too are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

3.1.4.2.1 Due to banks

Due to banks include bank overdrafts and long-term and short-term loans obtained from banks. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the statement of profit or loss. Gains and losses are recognized in the statement of profit or loss when the liabilities are de-recognized as well as through the EIR amortisation process. Details of "Due to banks" are given in Note 23.

3.1.4.2.2 Due to customers

Due to customers includes fixed deposits and savings deposits. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the statement of profit or loss. Gains and losses are recognized in the statement of profit or loss when the liabilities are de-recognized as well as through the EIR amortisation process.

Details of "Due to customers" are given in Note 27.

3.1.4.2.3 Other borrowed funds

Debt instruments and other borrowings are initially recognised at fair value net of transaction cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the repayable amount (including interest) is recognized in the statement of profit or loss over the period of the loan using the effective interest rate method.

Details of "Other borrowed funds" are given in Note 25.

3.1.4.2.4 Subordinated liabilities

Subordinated liabilities represent funds borrowed for funding purposes which are subordinated to the other claims. Subsequent to initial recognition, subordinated liabilities are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in "interest expenses" in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are de-recognised.

Details of "Subordinated liabilities" are given in Note 28.

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3.1.5 Reclassification of financial assets and liabilities

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the company changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

3.1.5.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the company reclassifies all affected assets prospectively from the first day of the first reporting period following the change in the business model (the reclassification date). Accordingly, prior periods are not restated.

3.1.5.2 Measurement of reclassification of financial assets

3.1.5.2.1 Reclassification of Financial Instruments at 'Fair value through profit or loss'

- **To Fair value through other comprehensive income**
  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognized in OCI.

- **To Amortised Cost**
  The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

3.1.5.2.2 Reclassification of Financial Instruments at 'Fair value through other comprehensive income'

- **To Fair value through profit or loss**
  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.

- **To Amortised Cost**
  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost.

  EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

3.1.5.2.3 Reclassification of Financial Instruments at "Amortised Cost"

- **To Fair value through other comprehensive income**
  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.

- **To Fair value through profit or loss**
  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

3.1.6 De-recognition of financial assets and financial liabilities

3.1.6.1 Financial assets

The company de-recognises a financial asset (or where applicable a part thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the company neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

3.1.6.2 Financial liabilities

The company de-recognises a financial liability when its contractual obligations are discharged, cancelled or expire.

3.1.7 Modification of financial assets and financial liabilities

3.1.7.1 Financial assets

If the terms of a financial asset are modified, the company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

As per SLFRS 9, if the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

3.1.7.2 Financial liabilities

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 de-recognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

3.1.8 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the SOFP if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the company's trading activity.

3.1.9 Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The "gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any ECL allowance.

3.1.10 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 38.

3.1.11 Identification and measurement of impairment of financial assets

3.1.11.1 Overview of the ECL principles

As per SLFRS 9, the company records an allowance for expected credit losses for loans and advances to customers, debt and other financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income and loan commitments.

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

- Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

- Stage 2: If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the company records an allowance for LTECL. Refer Note 3.1.11.2 for a description on how the company determines when a significant increase in credit risk has occurred.

- Stage 3: If a financial asset is credit- impaired, it is moved to Stage 3 and the company recognises an allowance for LTECL, with probability of default at 100%. Refer Note 3.1.11.4 for a description on how the company defines credit impaired and default.

- Purchased or originated credit impaired (POCI) financial assets: Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. The company does not have POCI loans as at the reporting date.

The key judgments and assumptions adopted by the company in addressing the requirements of SLFRS 9 are discussed below:

3.1.11.2 Significant increase in credit risk

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

The company considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with the rebuttable presumption in SLFRS 9.

The company individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include, inter alia:

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or instruments.
- When the value of collateral is significantly reduced and/or realisibility of collateral is doubtful.
- When a customer is subject to litigation that significantly affects the performance of the credit facility.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants
- When the customer is deceased/insolvent.
- When the company is unable to contact or find the customer

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with significant increase in credit risk and assessed accordingly in ECL computations. The company regularly monitors the effectiveness of the criteria used to identify significant increase in credit risk to confirm that the criteria is capable of identifying significant increase in credit risk before an exposure is in default.

For debt instruments having an external credit rating, which are measured at amortised cost or at FVOCI, the company determines significant increase in credit risk based on the generally accepted investment/ non-investment grade definitions published by international rating agencies. Debt instruments are moved to stage 2 if their credit risk increases to the extent that they are no longer considered investment grade.

3.1.11.3 COVID -19 Impact on Loan and advances

The company has provided reliefs such as deferment of repayment terms of credit facilities, for the affected businesses and individuals due to COVID-19 in line with the directions issued by the CBSL. Utilization of a payment deferral program does not, all else being equal, automatically trigger a SICR. As such, key issue will be to distinguish between cases where the payment holidays provide relief from short-term liquidity constraints impacting the borrower that do not amount to a SICR. Given the high degree of uncertainty and unprecedented circumstances in the short-term economic outlook, the Management exercised judgements in the assessment of the impact of the COVID-19 outbreak on the loans and advances portfolio, relying more on the long-term outlook as evidenced by past experience and taking into consideration various relief measures including concessionary financing and payment moratorium.

The impact of the outbreak has been assessed and adjusted in these financial statements based on the available information and assumptions made as at reporting date in line with the guidelines issued by the CBSL and the CA Sri Lanka. In response to COVID-19 and expectations of economic impacts, key assumptions used in the calculation of ECL have been revised. As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19.

Accordingly, the company took steps to identify the customers showing distress signs in identifying SICR under the individual impairment assessment. Under the individual assessment, customers operating in risk elevated industries including Tourism, supplying hardware items, printing and publishing, tobacco related business, passenger transport and electronic items were assessed individually in ECL model. In addition, as expert credit judgment, the stressed the ECL parameters such as PDs and LGDs to reflect the real economic scenario that is not reflected due to the deferrals and concessions granted due to COVID-19. Early observations of payment behaviour 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.

3.1.11.4 Definition of default and credit impaired assets

The company considers loans and advances to customers be defaulted when:

- The borrower is unlikely to pay its obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or

- The borrower becomes 90 days past due on its contractual payments.

In addition, the company classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is in “default”.

In assessing whether a borrower is in default, the company reviews its individually significant loans and advances above a predefined threshold at each reporting date. The company considers non performing credit facilities/customers with one or more of indicators set out in Note 3.1.11.2 above as credit impaired.

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3.1.11.5 Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described in Note 3.1.11.2. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above.

3.1.11.6 Grouping financial assets measured on collective basis

The company calculates ECLs either on a collective or an individual basis. Asset classes where the company calculates ECL on individual basis include credit impaired facilities of individually significant customers.

Those financial assets for which, the company determines that no provision is required under individual impairment are then collectively assessed for ECL. For the purpose of ECL calculation on collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to customers are grouped into homogeneous portfolios, based on a combination of product and customer characteristics.

3.1.11.7. The Calculation of Expected Credit Loss Principle (ECL)

The company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR.

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- PD: The Probability of Default 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.

- EAD: Exposure At Default is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities and accrued financing income from missed payments.

- LGD: Loss Given Default 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 lenders would expect to receive, including realization of any collateral. The weighted average LDGs are used and the weighted average LGD is determined by dividing the total loss for the year by the total exposure of settled defaults of each year.

3.1.11.8 Forward-looking information

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

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

Quantitative drivers of credit risk	**Qualitative drivers of credit risk**
GDP growth	Status of industry business
Unemployment rate	Regulatory impact
Interest rate (AWPLR)	Government policies
Rate of inflation	
Exchange rate	

3.1.12 Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security.

3.2 Property, plant and equipment

3.2.1. Basis of recognition

Property, plant and equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

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

3.2.2. Basis of measurement

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The company applies the cost model to property, plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

3.2.3. Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The cost of day today servicing of property, plant and equipment is charged to the statement of profit or loss as incurred.

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3.2.4. Repairs and maintenance

Repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

3.2.5. De-recognition

Property, plant and equipment are derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of profit or loss in the year the asset is de-recognized.

3.2.6. Depreciation

Depreciation is recognized in the statement of profit or loss on a straight–line basis over the estimated useful lives of each part of an item of property, plant and equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives are as follows;

Building	8 years
Plant	8 years
Furniture and fittings	6 years
Office equipment	6 years
Motor vehicles	6.5 years
Computer hardware	6 years

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation methods, useful lives and residual values are re-assessed at each reporting date and adjusted, if appropriate.

3.3. Intangible assets

The company's intangible assets include the value of computer software.

3.3.1. Basis of recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the company in accordance with the Sri Lanka Accounting Standard- LKAS 38 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are stated in the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses, if any.

3.3.2. Subsequent expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3.3.3. Useful economic lives, amortization and impairment

Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight– line method to write down the cost of intangible assets to their residual values over their estimated useful economic lives at the rates as specified below;

Computer software - 8 years

3.3.4. De-recognition

Intangible assets are de-recognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

3.4 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, to be used in the production or supply of goods or services or for administrative purposes.

Investment properties are initially recognised at cost. Subsequent to initial recognition, the investment properties are stated at cost.

3.4.1 De-recognition

Investment properties are de-recognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of retirement or disposal.

3.4.2 Subsequent transfers to/from investment property

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sell.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the company as an owner occupied property becomes an investment property, the company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss. When the company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

3.5 Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, other than deferred tax assets are reviewed at each reporting date to assess whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing of an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash – generating unit 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 risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators.

Impairment losses are recognised in the income statement, except that, impairment losses in respect of property, plant and equipment previously revalued are recognised against the revaluation reserve through the statement of other comprehensive income to the extent that it reverses a previous revaluation surplus.

The company has not determined impairment as at the reporting date due to the COVID-19 pandemic, and each department functions under the business continuity plan as per the company's risk management strategy, allowing operations to function through alternate working arrangements, whilst strictly adhering to and supporting government directives.

3.6 Deferred tax assets

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 credits and unused tax losses can be utilized.

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 tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized 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 assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.7 Real estate inventories

Real estate inventories represent the purchase value of properties acquired for re-sale. Carrying value of the real estate stocks as at the reporting date represents the purchase value of properties and any subsequent expenditure incurred on developing of such properties.

3.8 Fiduciary assets

The company provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in these financial statements as they do not belong to the company.

3.9 Other assets

The company classifies all its other assets as other assets and other non-financial assets. Other assets mainly comprise advance payments, VAT receivable and sundry receivables. Advance payments are carried at historical cost.

3.10 Provisions

Provisions are recognized in the statement of financial position when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with the Sri Lanka Accounting Standard – LKAS 37 on 'Provision, Contingent Liabilities and Contingent Assets'. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

3.11 Leases

3.11.1 Right-Of-Use Assets – Company as a Lessee

a) 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.

b) 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.

c) **Depreciation**
Right-of-use assets are depreciated over the lease term of the assets as there is no reasonable certainty that the company will obtain the ownership of such assets by the end of the lease term.

3.11.2 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 has been calculated using the weighted average incremental borrowing rate.

Details of “Right-of-use asset” and “Lease liability” are given in Notes 20 and 26 respectively.

3.11.3 Finance leases - Company as a lessor
As per SLFRS 16, a lease which transfers substantially all the risks and rewards incidental to ownership of an underlying asset is classified as a finance lease. At the commencement date, the company recognises assets held under finance lease in the statement of financial position and present them as a lease receivable at an amount equal to the net investment in the lease. Net investment in the lease is arrived by discounting lease payments receivable at the interest rate implicit in the lease, i.e. the rate which causes present value of lease payments to equal to the fair value of the underlying asset and initial direct costs. The company’s net investment in lease is included in Note 14 on “Financial assets at amortised cost – Lease rentals receivable and hire purchase”, as appropriate. The finance income receivable is recognised in “interest income” over the periods of the leases so as to achieve a constant rate of return on the net investment in the leases.

3.11.4 Operating leases - Company as a lessor
As per SLFRS 16, a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. The company recognises lease payments from operating leases as income on a straight-line basis. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.12 Other liabilities
Other liabilities include related party payables, VAT on Financial Services payable, retirement benefit obligation and other amount payable. These liabilities are recorded at amounts expected to be payable at the reporting date.

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

3.13 Retirement benefit obligation
The company measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the ‘Projected Unit Credit method’ (PUC) as required by the Sri Lanka Accounting Standard- LKAS 19 on ‘Employee Benefits’.

3.13.1 Recognition of actuarial gains and losses

The company recognizes the total actuarial gains and losses that arise in calculating the company's obligation in respect of the plan in other comprehensive income during the period in which it occurs.

3.13.2 Funding arrangements

The gratuity liability is not externally funded.

3.13.3 Defined contribution plans -Employees' Provident Fund

The company and employees contribute to the Employees' Provident Fund managed by the Central Bank of Sri Lanka at 12% and 8% respectively on the gross salary of each employee.

Defined contribution plans -Employees' Trust Fund

The company contributes to the Employees' Trust Fund at 3% on the gross salary of each employee.

3.14 Dividends payable

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are recommended by and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from equity when they are declared and are payable at the discretion of the company. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date in accordance with the Sri Lanka Accounting Standard- LKAS 10 on 'Events after the Reporting period'.

3.15 Income

Income is recognized to the extent that it is probable that the economic benefits will flow to the company and revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are as follows:

3.15.1 Net interest income

3.15.1.1 Interest income and interest expense

Interest income and expense are recognised in the income statement using the effective interest rate (EIR) method.

As per SLFRS 9, the interest income and expense presented in the income statement include:

- Interest on financial assets measured at amortised cost calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

Effective Interest Rate (EIR)

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

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

When calculating the EIR for financial instruments other than credit-impaired assets, the company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs). For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is calculated using estimated future cash flows including ECLs. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR.

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

3.15.2 Net trading gain/loss on held for trading securities

Results arising from trading activities include all gains and losses from changes in fair value for financial assets 'held for trading'.

3.15.3 Net Fee and Commission Income

Fee and commission income is earned from a diverse range of services provided by the company to its customers. Fees and commission income is accounted for as follows:

- Income earned on the execution of a significant act is recognised as revenue when the act is completed and
- Income earned from the provision of services is recognised as revenue as the services are provided.

3.15.4 Other operating income

Other operating income includes gains on property, plant and equipment, hiring income, rent income, dividend income and capital gains/(losses).

3.15.4.1 Dividend income

Dividend income is recognized when the company's right to receive the income is established.

3.15.4.2 Gain or losses on disposal of property plant and equipment, Investment property and real estates

Gains or losses resulting from the disposal of property, plant and equipment, investment properties and real estates are accounted for on cash basis in the statement of profit or loss, in the period in which the sale occurs.

3.15.4.3 Other Income

Other income is recognized on an accrual basis.

3.16 Personnel expenses

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses. The provision for bonus is recognized when 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 on the amount of the obligation.

Employees are eligible for Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions in accordance with the respective statutes and regulations.

3.17 General and administrative expense

General and administration expenses are recognized in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency have been charged to the statement of profit or loss in arriving at the profit for the year.

3.18 Income tax expense

Current tax

Current tax assets and liabilities for the current and prior years 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 by the reporting date.

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

3.19 Earnings Per Share (EPS) - basic

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

3.20 Contingent liabilities and commitments

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 readily measured as defined in the Sri Lanka Accounting Standard- LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'. Contingent Liabilities are not recognized in the statement of financial position but are disclosed unless its occurrence is remote.

Details of the commitments and contingencies are given in note 33 and 34 to the financial statements.

3.21 Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in the financial statements, where necessary.

3.22 Statement of cash flows

The statement of cash flows has been prepared by using 'The Indirect Method' in accordance with the Sri Lanka Accounting Standard – 'LKAS 7' – 'Statement of Cash Flows', whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognized. Cash and cash equivalents mainly comprise cash in hand, balances at banks and bank overdrafts.

3.23 Segment reporting

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

Segment results that are reported to the senior management personnel and the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The relevant disclosures are given in note 39 to the financial statements.

3.24 Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

The company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

An analysis of fair value measurement of financial and non-financial assets and liabilities is provided in note 38 to the financial statements.

	Note	2020/2021 Rs.	2019/2020 Rs.
4. INTEREST INCOME			
Interest on leases		730,671,271	1,180,119,244
Interest on hire purchase		-	25,375
Interest on loans		771,593,649	973,380,883
Overdue interest		168,483,795	119,095,322
Interest on treasury bills in reverse repurchase agreements		41,466,484	74,315,066
Interest on bank deposits		48,171,828	35,549,481
Interest on commercial papers		-	6,170,583
Interest on gold loans		866,007,440	655,053,124
		2,626,394,467	3,043,709,078
5. INTEREST EXPENSES			
Interest on fixed deposits		696,842,484	788,668,229
Interest on other borrowings		698,440,074	898,331,151
Interest on right of use asset-leased liability		20,009,922	17,234,710
Interest on debentures		47,070,376	-
		1,462,362,856	1,704,234,090
6. OTHER OPERATING INCOME			
Documentation charges and service charges		260,531,587	213,023,375
Gains from disposal of property, plant and equipment, investment property and real estate inventories		8,958,592	-
Profit on settled contracts		31,186,640	51,580,552
Dividend income		320,000	280,000
Operating lease income		-	2,656,940
Insurance commission income		24,236,945	20,778,315
Sundry income		3,170,870	580,537
Rent income		15,500	-
Money gram income		-	10,482
		328,420,134	288,910,201
7. IMPAIRMENT CHARGE FOR LEASE RENTALS RECEIVABLE, HIRE PURCHASE, LOANS AND ADVANCES			
Lease rentals receivable and hire purchase	**14.2.5**	(71,963,484)	115,717,822
Loans and advances	**13.3**	454,904,370	265,927,292
		382,940,886	381,645,114

8. PROFIT BEFORE INCOME TAX

Stated after charging all expenses including the following :

	2020/2021 Rs.	2019/2020 Rs.
Included in personnel cost,		
Directors' remuneration	14,732,000	16,994,200
Salaries and bonus	182,992,514	188,620,945
Defined contribution plan costs - EPF and ETF	27,148,707	28,545,964
Other staff related expenses	44,055,827	76,421,719
Included in general and administration expenses,		
Depreciation and amortization	51,276,593	51,791,363
Depreciation on right of use asset	41,018,741	29,177,605
Auditors' remuneration - External audit current year	2,031,700	1,847,000
- Non-audit	2,009,000	1,290,000
Advertising and business promotion	31,879,573	20,545,618
Professional and legal fees	16,081,026	17,874,394

	Note	2020/2021 Rs.	2019/2020 Rs.
9. INCOME TAX EXPENSES			
Major components of income tax expense for the year ended 31st March are as follows:			
Statement of profit or loss			
Current income tax	9.1		
Current income tax charge		-	-
Deferred tax	9.2		
Deferred taxation		41,551,058	23,162,926
Income tax expense reported in the profit or loss		41,551,058	23,162,926
Statement of other comprehensive income			
Deferred tax			
Deferred taxation (reversal)/expense		(1,051,058)	498,152
Income tax expenses/(reversal) reported in the other comprehensive income		(1,051,058)	498,152

9.1 Reconciliation of accounting profit and taxable income

	2020/2021 Rs.	2019/2020 Rs.
Accounting profit (profit before income tax)	86,747,175	93,316,292
Add : Disallowable expenses	548,550,813	551,980,141
Less : Allowable expenses	(614,650,324)	(833,211,772)
Less : Exempt income	(39,414,136)	(51,860,552)
Add : Adjusted business profit from leasing business	33,734,361	248,088,180
Statutory income	14,967,889	8,312,289
Tax loss brought forward and utilized	(14,967,889)	(8,312,289)
Taxable income / (loss)	-	-
Income tax expense	-	-
Effective income tax rate	-	-

	Statement of financial position	
	31.03.2021 Rs.	31.03.2020 Rs.
9.2 Deferred tax assets		
Balance at the beginning of the year	225,922,647	249,583,725
(Charge)/reversal for the year		
Statement of profit or loss	(41,551,058)	(23,162,926)
Statement of other comprehensive income	1,051,058	(498,152)
Balance at the end of the year	185,422,647	225,922,647

9.3 Deferred tax assets and liabilities relate to the following:

	31.03.2021 Rs.	31.03.2020 Rs.
Deferred tax liability		
Lease rental receivable	(22,235,694)	-
Property, plant and equipment	(16,432,676)	(18,466,531)
Right-of-use assets	(943,789)	(2,642,300)
	(39,612,159)	(21,108,831)
Deferred tax assets		
Retirement benefit obligation	7,232,491	7,193,487
Carried forward tax loss and unused tax credit	157,647,568	119,742,197
Transitional adjustment	57,247,020	68,696,425
Lease rental receivable	-	34,663,144
Provision for impairment of loans and receivables	2,907,727	16,736,225
	225,034,806	247,031,478
Net deferred tax asset	185,422,647	225,922,647

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9. INCOME TAX EXPENSES (CONTD.)

Deferred tax has been determined based on the effective tax rate of 24%.

The carrying amount of deferred tax assets is reviewed by the management at each reporting date and recognized to the extent of probable taxable profits in 3 years time as recommended by IR Act No. 24 of 2017.

10. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

10.1 As at 31st March, 2021

Assets	FVTOCI Rs.	FVTPL Rs.	Amortized cost Rs.	Total Rs.
Cash and cash equivalents	-	-	1,006,233,476	1,006,233,476
Investment in reverse repurchase agreements against the treasury bills and bonds at amortized cost	-	-	654,692,844	654,692,844
Loans and advances at amortized cost	-	-	10,198,262,863	10,198,262,863
Lease rentals receivable and hire purchase at amortized cost	-	-	2,212,534,894	2,212,534,894
Financial assets - fair value through OCI	506,659	-	-	506,659
Total financial assets	**506,659**	**-**	**14,071,724,077**	**14,072,230,736**

Liabilities	Financial liabilities at amortized cost Rs.	Total Rs.
Due to customers	7,013,686,384	7,013,686,384
Subordinated liabilities	1,029,465,110	1,029,465,110
Due to banks	24,279,289	24,279,289
Other borrowed funds	4,778,758,726	4,778,758,726
Total financial liabilities	**12,846,189,509**	**12,846,189,509**

10.2 As at 31st March, 2020

Assets	FVTOCI Rs.	FVTPL Rs.	Amortized cost Rs.	Total Rs.
Cash and cash equivalents	-	-	511,939,133	511,939,133
Investment in reverse repurchase agreements against the treasury bills and bonds at amortized cost	-	-	860,630,696	860,630,696
Loans and advances at amortized cost	-	-	8,913,047,650	8,913,047,650
Lease rentals receivable and hire purchase at amortized cost	-	-	3,726,488,702	3,726,488,702
Financial assets - fair value through OCI	506,659	-	-	506,659
Total financial assets	**506,659**	**-**	**14,012,106,181**	**14,012,612,840**

Liabilities	Financial liabilities at amortized cost Rs.	Total Rs.
Due to customers	6,585,234,705	6,585,234,705
Due to banks	58,777,776	58,777,776
Other borrowed funds	6,086,325,326	6,086,325,326
Total financial liabilities	**12,730,337,807**	**12,730,337,807**

FVTOCI - Fair value through other comprehensive income
FVTPL - Fair value through profit or loss

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		Note	31.03.2021 Rs.	31.03.2020 Rs.
11.	**CASH AND CASH EQUIVALENTS**			
	Cash in hand		79,452,195	75,502,668
	Cheque in hand		12,416,189	12,309,508
	Cash at banks		687,310,215	424,126,957
	Short term investments		227,054,877	-
			1,006,233,476	511,939,133
12.	**INVESTMENT IN REVERSE REPURCHASE AGREEMENTS AGAINST TREASURY BILLS AND BONDS**			
	Reverse repurchase agreements against treasury bills and bonds		654,692,844	860,630,696
			654,692,844	860,630,696
13.	**FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES**			
	Gross loans and advances	**13.1**	**11,572,708,799**	**9,819,980,963**
	Stage 1		7,079,074,428	5,791,952,342
	Stage 2		717,054,715	542,827,585
	Stage 3		3,776,579,656	3,485,201,037
	Less: Allowance for impairment		**1,374,445,936**	**906,933,313**
	Stage 1	**13.2.1**	130,393,979	58,249,662
	Stage 2	**13.2.2**	20,305,792	29,179,872
	Stage 3	**13.2.3**	1,223,746,165	819,503,779
	Net loans and advances		**10,198,262,863**	**8,913,047,650**
13.1	**Loans and advances - Analysis by product**			
	Mortgage loans		1,551,415,934	1,614,042,596
	Pledge loans		135,919,742	458,818,439
	Personal and corporate loans		1,873,944,468	1,915,381,361
	Group personal loans		471,975,259	651,155,230
	Cheque and invoice discounting		12,445,717	11,810,284
	Micro finance loans		758,544,284	782,987,172
	Sale and lease back loans		1,000,001	1,000,001
	Project financing loans		144,966,622	115,072,724
	Gold loans		6,622,496,772	4,269,713,156
			11,572,708,799	9,819,980,963
13.2	**Movement in allowance for impairment during the year (Under SLFRS 9)**			
13.2.1	**Movement in stage 1 impairment**			
	Balance at the beginning of the year		58,249,662	179,587,839
	Charge/(write back) to the income statement		72,144,317	(121,338,177)
	Balance at the end of the year		130,393,979	58,249,662
13.2.2	**Movement in stage 2 impairment**			
	Balance at the beginning of the year		29,179,872	32,390,823
	Write back to the income statement		(8,874,080)	(3,210,951)
	Balance at the end of the year		20,305,792	29,179,872
13.2.3	**Movement in stage 3 impairment**			
	Balance at the beginning of the year		819,503,779	627,887,880
	Charge to the income statement		391,634,133	394,483,287
	Other adjustment/(write-off) during the year		12,608,253	(198,860,521)
	Interest reversals on impaired loans and advances		-	(4,006,867)
	Balance at the end of the year		1,223,746,165	819,503,779
13.2.4	**Movement in total impairment**			
	Balance at the beginning of the year		906,933,313	839,866,542
	Charge to the income statement		454,904,370	269,934,159
	Other adjustment/(write-off) during the year		12,608,253	(198,860,521)
	Interest reversals on impaired loans and advances		-	(4,006,867)
	Balance at the end of the year		1,374,445,936	906,933,313

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	Note	31.03.2021 Rs.	31.03.2020 Rs.

13. FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES (CONTD..)

13.3 Impairment charge to the income statement

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Loans and advances to customers			
Stage 1		72,144,317	(121,338,177)
Stage 2		(8,874,080)	(3,210,951)
Stage 3		391,634,133	390,476,420
		454,904,370	265,927,292

14. FINANCIAL ASSETS AT AMORTISED COST – LEASE RENTALS RECEIVABLE AND HIRE PURCHASE

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Gross lease rental receivables and hire purchase		**2,429,521,147**	**4,014,813,440**
Stage 1		2,033,132,303	2,787,829,382
Stage 2		63,409,091	452,754,414
Stage 3		332,979,753	774,229,644
Less: Allowance for impairment		**216,986,253**	**288,324,738**
Stage 1	14.2.1	20,657,455	95,808,518
Stage 2	14.2.2	4,257,410	32,169,730
Stage 3	14.2.3	192,071,388	160,346,489
Net lease rentals receivable and hire purchase		**2,212,534,894**	**3,726,488,702**

14.1 Lease rentals receivable and hire purchase

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Lease rentals receivables	14.1.1	2,204,274,974	3,711,805,061
Hire purchases	14.1.2	8,259,920	14,683,641
		2,212,534,894	3,726,488,702

14.1.1 Lease rentals receivables

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Gross rentals receivable		2,679,231,862	5,205,084,441
Less: Unearned income		(369,939,895)	(1,433,988,222)
Pre-paid rentals		(1,488,469)	(2,377,814)
Lease capitalized charges		92,091,153	213,353,270
Allowance for impairment losses		(195,619,677)	(270,266,614)
		2,204,274,974	3,711,805,061

14.1.2 Hire purchase receivables

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Gross rentals receivable		29,626,496	32,894,899
Less: Unearned income		-	(153,134)
Allowance for impairment losses		(21,366,576)	(18,058,124)
		8,259,920	14,683,641

14.2 Movement in allowance for impairment during the year (Under SLFRS 9)

14.2.1 Movement in stage 1 impairment

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year		95,808,518	87,045,635
Charge/(write back) to the income statement		(75,151,063)	8,762,883
Balance at the end of the year		20,657,455	95,808,518

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		31.03.2021 Rs.	31.03.2020 Rs.
14.	**FINANCIAL ASSETS AT AMORTISED COST – LEASE RENTALS RECEIVABLE AND HIRE PURCHASE (CONTD….)**		
14.2.2	**Movement in stage 2 impairment**		
	Balance at the beginning of the year	32,169,730	11,147,399
	Charge/(write back) to the income statement	(27,912,320)	21,022,331
	Balance at the end of the year	4,257,410	32,169,730
14.2.3	**Movement in stage 3 impairment**		
	Balance at the beginning of the year	160,346,489	74,413,881
	Charge to the income statement	31,099,899	88,628,030
	Other adjustments	625,000	-
	Interest reversals on impaired loans and advances	-	(2,695,422)
	Balance at the end of the year	192,071,388	160,346,489
14.2.4	**Movement in total impairment**		
	Balance at the beginning of the year	288,324,737	172,606,915
	Charge/(write back) to the income statement	(71,963,484)	118,413,244
	Other adjustments	625,000	-
	Interest reversals on impaired loans and advances	-	(2,695,422)
	Balance at the end of the year	216,986,253	288,324,737
14.2.5	**Impairment charge to the income statement**		
	Lease receivable and hire purchases		
	Stage 1	(75,151,063)	8,762,883
	Stage 2	(27,912,320)	21,022,331
	Stage 3	31,099,899	85,932,608
		(71,963,484)	115,717,822
14.3	**Age analysis of lease and hire purchase**		
14.3.1	**Lease and hire purchase receivable not later than 1 year**		
	Gross rentals receivable	399,314,242	823,289,824
	Less: Unearned income	(7,365,976)	(36,331,161)
	Pre-paid rentals	(1,488,469)	(192,920)
	Lease capitalized charges	22,308,098	42,083,600
	Allowance for impairment losses	(91,035,991)	(75,475,914)
		321,731,904	753,373,429
14.3.2	**Lease and hire purchase receivable later than 1 year and not later than 5 years**		
	Gross rentals receivable	2,309,544,116	4,022,532,885
	Less: Unearned income	(362,573,919)	(1,007,839,791)
	Lease capitalized charges	69,783,055	171,271,001
	Allowance for impairment losses	(125,950,262)	(212,848,822)
		1,890,802,990	2,973,115,274

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	31.03.2021 Rs.	31.03.2020 Rs.
15. OTHER ASSETS		
Other receivables	21,637,319	16,983,813
	21,637,319	16,983,813

	31.03.2021 Rs.	31.03.2020 Rs.
16. INCOME TAX RECEIVABLE		
Balance at the beginning of the year	27,736,580	3,732,303
Income tax expense for the year	-	-
	27,736,580	3,732,303
Income tax paid	-	8,900,107
Add : Tax credits		
WHT and notional tax	-	1,264,129
ESC paid	-	13,840,041
Less: WHT reversal	(37,817)	-
Balance at the end of the year	27,698,763	27,736,580

	31.03.2021 Rs.	31.03.2020 Rs.
17. ADVANCES, DEPOSITS AND PREPAYMENTS		
Advances, deposits and prepayments	252,083,662	156,189,223
	252,083,662	156,189,223

18. FINANCIAL ASSETS - FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	31.03.2021 Number of shares	31.03.2021 Directors' valuation* Rs.	31.03.2020 Number of shares	31.03.2020 Directors' valuation* Rs.
Unquoted cumulative redeemable preference shares				
Platinum Reality Investment Limited	25,000	6,500,000	25,000	6,500,000
Less : Impairment loss		(6,500,000)		(6,500,000)
		-		-
Unquoted ordinary shares				
Finance Houses Consortium (Private) Limited	45,000	200,000	45,000	200,000
Credit Information Bureau of SL (CRIB)	67	306,659	67	306,659
	45,067	506,659	45,067	506,659

*The Directors' valuation of non-quoted securities based on cost of investment less impairment amounts to Rs.506,659/- (2020 - Rs.506,659/-).

19. PROPERTY, PLANT AND EQUIPMENT

19.1 Gross carrying amounts

Freehold assets	Balance as at 01.04.2020 Rs.	Additions Rs.	Disposals/ transfers Rs.	Balance as at 31.03.2021 Rs.
Plant	25,930,613	-	-	25,930,613
Motor vehicle	66,794,137	-	(6,794,576)	59,999,561
Office equipment	158,207,240	48,975,297	(626,600)	206,555,937
Computers	49,658,639	8,018,740	-	57,677,379
Furniture and fittings	25,194,299	8,147,316	-	33,341,615
	325,784,928	65,141,353	(7,421,176)	383,505,105

19.2 Accumulated depreciation

	Balance as at 01.04.2020 Rs.	Charge for the year Rs.	Disposals/ transfers Rs.	Balance as at 31.03.2021 Rs.
Plant	14,045,750	3,232,468	-	17,278,218
Motor vehicle	48,708,450	4,939,097	(5,447,689)	48,199,858
Office equipment	80,883,786	26,363,718	(287,629)	106,959,875
Computers	26,425,058	7,394,746	-	33,819,804
Furniture and fittings	17,689,402	3,121,774	-	20,811,176
	187,752,446	45,051,803	(5,735,318)	227,068,931

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19. PROPERTY, PLANT AND EQUIPMENT (CONTD….)

19.3 Net book value

	31.03.2021 Rs.	31.03.2020 Rs.
Plant	8,652,395	11,884,863
Motor vehicle	11,799,703	18,085,687
Office equipment	99,596,062	77,323,454
Computers	23,857,575	23,233,581
Furniture and fittings	12,530,439	7,504,897
	156,436,174	138,032,482

19.4 During the financial year, the company acquired property, plant and equipment to the aggregate value of Rs.65,141,353/- (2020 - Rs.27,787,206/-). Cash payments amounting to Rs.65,141,353/- (2020 -Rs.27,787,206/-) was made during the year for the purchases of property, plant and equipment.

19.5 Property, plant and equipment include fully depreciated assets having a gross carrying amount of Rs. 43,962,104/- (2020- Rs.31,728,603/-).

19.6 Temporarily idle property, plant and equipment

There were no property, plant and equipment idling as at 31st March, 2021 and 31st March, 2020.

19.7 Title restriction on property, plant and equipment

There was no restriction on the title of property, plant and equipment as at 31st March, 2021 and 31st March, 2020.

19.8 Property, plant and equipment pledged as securities for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities as at 31st March, 2021 and 31st March, 2020.

20. RIGHT - OF - USE ASSET ON LEASE

	31.03.2021 Rs.	31.03.2020 Rs.
Cost		
Balance at the beginning of the year	166,388,062	-
Day 1 impact from application of SLFRS 16	-	139,021,582
Restated balance as at the beginning of the year	166,388,062	139,021,582
Additions to/renewal of operating lease during the year	121,618,636	27,366,480
Balance at the end of the year	288,006,698	166,388,062
Accumulated amortization		
Balance at the beginning of the year	29,177,605	-
Amortization for the year	41,018,741	29,177,605
Balance at the end of the year	70,196,346	29,177,605
Net book value at the end of the year	**217,810,352**	**137,210,457**

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21. INVESTMENT PROPERTY

	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	399,678,109	393,818,513
Acquisitions during the year	-	5,255,136
During the year improvements	315,000	604,460
Disposals during the year	(23,834,462)	-
Balance at the end of the year	376,158,647	399,678,109

Fair value of the investment property for the purpose of disclosure in note 21.2 was ascertained by valuations carried out by independent valuers as required by LKAS 40.

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21. INVESTMENT PROPERTY (CONTD..)

21.2 Fair value of the investment property

Location of the land	Valuer's name and report date	Total extent	31.03.2021 Fair value Rs.	31.03.2021 Cost Rs.	31.03.2020 Fair value Rs.	31.03.2020 Cost Rs.
Lot 05, Dangahahena Land, Anamaduwa Road, Andigama.	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	39.04 P (0.09965 Ha)	12,000,000	1,250,000	12,000,000	1,250,000
No. 25/20, Kalyani Mawatha, Mabola, Wattala.	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	26.93 P (0.06811 Ha)	48,700,000	12,453,317	48,700,000	12,453,317
Lot no. 01 at Andiambalama, Kimbulapitiya.	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	14.00 P (0.03541 Ha)	-	-	4,900,000	3,674,840
Gonapola Land (No. 358, Horana-Colombo Road, Kumbuka Gonapola).	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	02 R - 10 P (0.2051 Ha)	-	-	31,800,000	19,844,621
Manipay Land (No 55 Nachchimar Kovil Road, Manipay).	V. Selvanayakam AIV (Incorporated Valuer) - valuation report dated 08th April, 2019.	02 R - 25 P (0.2655 Ha)	13,000,000	9,000,000	13,000,000	9,000,000
No. 21, 14th Lane, I.Jothipala Mawatha, Malabe.	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	10.00 P (0.0253 Ha)	16,200,000	12,865,866	16,200,000	12,865,866
Lot 1-46 Plan no: 3393 at Tembiligaha, Pallegama, Gampola.	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	02 A - 02 R - 15 P (1.0494 Ha)	20,500,000	15,064,221	20,500,000	15,064,221
Lot no: 1 in Plan no: 5644 at Lenadora, Dambulla.	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	01A - 02R - 02.60 P (0.6136 Ha)	47,800,000	16,644,799	47,800,000	16,644,799
Oslo Furnitures Industries (Pvt) Ltd, Welagane, Maspotha, Kurunegala.	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	01 R - 35 P (0.1897 Ha)	52,500,000	46,344,684	52,500,000	46,344,684
Sandiyakalikuda & Mundalamakadu of Puttalam Rd, Mundalama.	D. Jayawardene (Incorporated Valuer) - valuation report dated 25th March, 2019.	05 A - 03 R - 30 P (2.4028 Ha)	50,400,000	35,300,000	50,400,000	35,300,000
Karukottiheevu, Thamputtai 02, Akkaraipattu.	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	10 A - 01 R - 05 P (4.1602 Ha)	115,000,000	95,236,734	115,000,000	95,236,734
Galapitamillahena, Polarambegama, Kegalle.	D. Jayawardene (Incorporated Valuer) - valuation report dated 25th March, 2020.	6A - 01 R - 00 P (2.5293 Ha)	25,000,000	25,374,000	25,000,000	25,374,000

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21. INVESTMENT PROPERTY (CONTD..)

21.2 Fair value of the investment property (contd….)

Location of the land	Valuer's name and report date	Total extent	31.03.2021 Fair value Rs.	31.03.2021 Cost Rs.	31.03.2020 Fair value Rs.	31.03.2020 Cost Rs.
No. 95, Mallattawela, Wellawaya	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019	11.80 P (0.0435 Ha)	10,100,000	5,255,135	9,000,000	5,255,135
Lot No: 153B in Plan no: 4813/99 at Udangawa, Ambanpola.	D. Jayawardene (Incorporated Valuer) - valuation report dated 05th April, 2021.	130 P (0.3288 Ha)	13,000,000	12,103,871	13,000,000	12,103,871
Lot No: 1 in Plan no: 1520 & Lot no: 1 in Plan no: 1522, "EVERTON ESTATE", Pothupitiya Road, Rakwana	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	73 A - 03 R - 17.5 P (29.8898 Ha)	62,000,000	27,357,721	62,000,000	27,357,721
No. 723/53, "Lake Terrace" Jayasinghe Mawatha, Korathota Road, Athurugiriya.	D. Jayawardene (Incorporated Valuer) - valuation report dated 05th April, 2021.	23.52 P (0.05949 Ha)	7,500,000	6,016,123	7,150,000	6,016,123
"Kopiwatta" Lot No:A, Plowatta Road, Minuwangoda.	D. Jayawardene (Incorporated Valuer) - valuation report dated 05th April, 2021.	01 A - 0 R - 01.49 P (0.4085 Ha)	55,000,000	55,892,177	54,000,000	55,892,177
			548,700,000	376,158,647	582,950,000	399,678,109

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22. INTANGIBLE ASSETS

22.1 Gross carrying amounts

	Balance as at 01.04.2020 Rs.	Additions Rs.	Disposals / transfers Rs.	Balance as at 31.03.2021 Rs.
Cost				
Computer software	62,550,865	6,956,240	(14,443,039)	55,064,066
	62,550,865	6,956,240	(14,443,039)	55,064,066

22.2 Amortization

	Balance as at 01.04.2020 Rs.	Charge for the year Rs.	Disposals / transfers Rs.	Balance as at 31.03.2021 Rs.
Computer software	22,330,526	6,224,790	(14,443,039)	14,112,277
	22,330,526	6,224,790	(14,443,039)	14,112,277

22.3 Net book value

	31.03.2021 Rs.	31.03.2020 Rs.
Computer software	40,951,789	40,220,339
	40,951,789	**40,220,339**

23. FINANCIAL LIABILITIES - DUE TO BANKS

	31.03.2021 Rs.	31.03.2020 Rs.
Due to banks - bank overdrafts	24,279,289	58,777,776
	24,279,289	58,777,776

24. OTHER LIABILITIES

	31.03.2021 Rs.	31.03.2020 Rs.
Accrued expenses and other payables	38,147,908	96,622,133
	38,147,908	96,622,133

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	Note	31.03.2021 Rs.	31.03.2020 Rs.
25. FINANCIAL LIABILITIES - OTHER BORROWED FUNDS			
Securitized borrowings	**25.1**	4,323,450,984	5,031,560,902
Bank loans	**25.2**	455,307,742	1,054,764,424
		4,778,758,726	6,086,325,326

25.1 Securitized borrowings

	As at 01.04.2020 Rs.	Loans obtained Rs.	Interest for the period Rs.	Repayments Rs.	As at 31.03.2021 Rs.
Hatton National Bank PLC					
Securitization Loan 16	91,098,364	-	7,764,424	98,862,788	-
Securitization Loan 17	109,357,643	-	974,188	110,331,831	-
Securitization Loan 18	53,321,616	-	7,381,839	60,703,455	-
Securitization Loan 19	148,654,723	-	10,367,515	159,022,238	-
Securitization Loan 20	200,453,050	-	4,239,258	204,692,308	-
Securitization Loan 21	23,555,742	-	290,411	23,846,153	-
Securitization Loan 22	529,240,442	-	63,426,003	311,676,823	280,989,622
Securitization Loan 23	177,767,632	-	4,567,699	182,335,331	-
Securitization Loan 24	803,800,380	-	58,172,469	734,949,376	127,023,473
Securitization Loan 25	516,261,644	-	50,657,170	362,609,373	204,309,441
Securitization Loan 26	336,230,748	-	27,208,788	295,919,469	67,520,067
Securitization Loan 27	280,916,045	-	17,332,658	298,248,703	-
Securitization Loan 28	465,783,708	-	40,718,789	334,554,214	171,948,283
Securitization Loan 29	289,589,642	-	30,850,034	183,112,637	137,327,039
Securitization Loan 30	522,473,733	-	55,067,905	323,947,564	253,594,074
Securitization Loan 31	178,469,892	-	22,661,796	81,079,162	120,052,526
Securitization Loan 32	304,585,898	191,000,000	66,034,323	128,002,266	433,617,955
Securitization Loan 33	-	655,000,000	57,463,000	109,772,882	602,690,118
Securitization Loan 34	-	1,000,000,000	72,138,402	-	1,072,138,402
Securitization Loan 35	-	500,000,000	15,185,264	-	515,185,264
Securitization Loan 36	-	337,000,000	54,720	-	337,054,720
	5,031,560,902	2,683,000,000	612,556,656	4,003,666,573	4,323,450,984

25.2 Bank loans

	As at 01.04.2020 Rs.	Loans obtained Rs.	Interest for the period Rs.	Repayments Rs.	As at 31.03.2021 Rs.
DFCC Vardhana Bank 02	62,499,989	-	4,381,273	54,381,277	12,499,985
Sampath Bank Loan 02	131,944,445	-	8,823,469	125,490,135	15,277,779
Nations Trust Bank Loan 01	32,750,000	-	1,264,091	34,014,091	-
DFCC Vardhana Bank 03	140,624,990	-	11,732,793	74,232,805	78,124,978
HNB Bank Loan 02	100,000,000	-	5,509,605	105,509,605	-
Nations Trust Bank Loan 02	88,500,000	-	6,531,889	73,431,889	21,600,000
DFCC Vardhana Bank 04	121,875,000	-	10,978,674	48,478,674	84,375,000
Sampath Bank Loan 03	154,350,000	-	13,392,210	63,192,210	104,550,000
HNB Bank Loan 03	222,220,000	-	20,376,400	103,716,400	138,880,000
	1,054,764,424	-	82,990,404	682,447,086	455,307,742

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25. FINANCIAL LIABILITIES - OTHER BORROWED FUNDS (CONTD…)

25.3 Loan details

Bank	Approved facility	Purpose	Term of the loan	Security	Security amount Rs.
HNB - Securitization loan 22	Rs.600 Mn	Working capital requirements	36 monthly instalments	Hire purchase and finance lease agreements	Rs. 389.3 Mn
HNB - Securitization loan 24	Rs.1000 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 169 Mn
HNB - Securitization loan 25	Rs.600 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 270.8 Mn
HNB - Securitization loan 26	Rs.347.6 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 91.8 Mn
HNB - Securitization loan 28	Rs.500 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 230.7 Mn
HNB - Securitization loan 29	Rs.300 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 188 Mn
HNB - Securitization loan 30	Rs.500 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 339.9 Mn
HNB - Securitization loan 31	Rs.171.6 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 157.6 Mn
HNB - Securitization loan 32	Rs.491 Mn	Working capital requirements	22 monthly instalments	Gold loan receivable agreements	RS. 595.3 Mn
HNB - Securitization loan 33	Rs.655 Mn	Working capital requirements	23 monthly instalments	Mortgage bond over Gold loan receivable	RS. 834 Mn
HNB - Securitization loan 34	Rs.1000 Mn	Working capital requirements	36 monthly instalments	Mortgage bond over Gold loan receivable	RS. 1,586.3 Mn
HNB - Securitization loan 35	Rs.500 Mn	Working capital requirements	24 monthly instalments	Mortgage bond over Gold loan receivable	RS. 725 Mn
HNB - Securitization loan 36	Rs.337 Mn	Working capital requirements	24 monthly instalments	Mortgage bond over Lease & Group personal loan receivable	RS. 484.5 Mn
DFCC Vardhana Bank 02	Rs.200 Mn	Working capital requirements	48 monthly instalments	Promissory note	Rs. 200 Mn
Sampath Bank PLC 02	Rs.550 Mn	Working capital requirements	36 monthly instalments	Loan agreement for Rs.550 Mn.	Rs. 550 Mn
DFCC Vardhana Bank 03	Rs.250 Mn	Working capital requirements	48 monthly instalments	Promissory note	Rs. 250 Mn

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25. FINANCIAL LIABILITIES - OTHER BORROWED FUNDS (CONTD…)

Bank	Approved facility	Purpose	Term of the loan	Security	Security amount Rs.
DFCC Vardhana Bank 04	Rs.150 Mn	Working capital requirements	3 monthly instalments	Promissory note	Rs. 150 Mn
Sampath Bank Loan 03	Rs.200 Mn	Working capital requirements	3 monthly instalments	Loan agreement for Rs.200 Mn.	Rs. 200 Mn
Nations Trust Bank Loan 02	Rs.200 Mn	Working capital requirements	36 monthly instalments	Mortgage bond over loan recoverable consisting of business loan, corporate loan and mortgage loans	Rs. 200 Mn
HNB Bank Loan 03	Rs.250 Mn	Working capital requirements	36 monthly instalments	Mortgage bond over loan recoverable consisting of business loan, corporate loan, mortgage & Gold loans	Rs. 300 Mn

26. LEASE LIABILITY

	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	126,200,873	-
Day 1 impact from application of SLFRS 16	-	149,077,968
Restated balance at the beginning of the year	126,200,873	149,077,968
Additions/renewal operating lease during the year	121,618,637	17,310,094
Accretion of interest	20,009,922	17,234,710
Payments made during the year	(39,408,751)	(42,557,697)
Transferred from advances and prepayment	(14,542,782)	(14,864,202)
Balance at the end of the year	213,877,899	126,200,873
Weighted average incremental borrowing rate for the year, (%)	**10%**	**15%**

26.1 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 2021 by 1% would have (decreased)/increased the lease liability by approximately Rs. 5.9 Mn with a similar (decrease/increase) in Right-of-use asset. Had the company increased/(decreased) the incremental borrowing rate by 1%, the company's profit before tax for the year would have (decreased)/increased by approximately Rs. 0.18 Mn.

27. DUE TO CUSTOMERS

	31.03.2021 Rs.	31.03.2020 Rs.
Fixed deposits	7,013,686,384	6,585,234,705
	7,013,686,384	6,585,234,705

28. SUBORDINATED LIABILITIES

The subordinated liabilities of the company comprises of one billion (Rs. 1,000,000,000) rated, unsecured, subordinated, redeemable debentures issued in October 2020. Those debentures are listed in the Colombo stock exchange. ICRA Lanka Ltd upgraded the credit rating of the above debentures to (SL) A- with stable outlook from (SL) A-(negative outlook) by the end of the financial year 2020/2021.

	31.03.2021		31.03.2020	
	Number	Rs.	Number	Rs.
Balance at the beginning of the year	-	-	-	-
Debenture issued during the year				
Type A Debenture	4,613,000	476,486,467	-	-
Type B Debenture	5,387,000	552,978,643	-	-
Balance at the end of the year	10,000,000	1,029,465,110	-	-

28.1 Interest rate of the debentures

Instrument type	Interest frequency	Coupon rate (% p.a)	Interest yield as at last trade date	Yield to maturity of last trade done	Interest rate of comparable Government security
Fixed rate					
Type A - 3 Year tenor	Annually	10.28%	N/A	N/A	7.05%
Floating rate					
Type B - 3 Year tenor	Annually	9%	N/A	N/A	7.05%

28.2 Market price and issue prices of debentures recorded during the year ended 31st March 2021 are as follows;

Instrument type	Issued price Rs.	Highest price Rs.	Lowest price Rs.	Last traded price Rs.	Last traded date
Type A - 3 Year tenor	100	Not traded during the year	Not traded during the year	Not traded during the year	N/A
Type B - 3 Year tenor	100				N/A

28.3 Categories

Instrument type	Allotment date	Rate	Number	Transaction cost Rs.	Value Rs.
Fixed rate					
Type A debenture	5th October 2020	10.28%	4,613,000	8,398,103	461,300,000
Floating rate					
Type B debenture	5th October 2020	1 Yr TB Rate + 3.75%	5,387,000	9,207,164	538,700,000
			10,000,000	17,605,267	1,000,000,000

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29. RETIREMENT BENEFIT OBLIGATION

	31.03.2021 Rs.	31.03.2020 Rs.
Retirement benefit obligations - gratuity		
Balance at the beginning of the year	29,972,864	22,088,492
Amount charged for the year	2,784,314	9,116,872
Payments made during the year	(2,621,800)	(1,232,500)
Balance at the end of the year	30,135,378	29,972,864

29.1 Amount recognized in the statement of profit or loss

	31.03.2021 Rs.	31.03.2020 Rs.
Current service cost for the year	2,997,286	4,611,505
Interest cost for the year	4,166,435	2,429,734
	7,163,721	7,041,239

29.2 Amount recognized in other comprehensive income

	31.03.2021 Rs.	31.03.2020 Rs.
Actuarial (gain)/loss for the year	(4,379,407)	2,075,633
	(4,379,407)	2,075,633

29.3 Messrs. Actuarial and Management Consultants (Pvt) Ltd, Actuaries, carried out an actuarial valuation of the retirement benefit obligation for Asia Asset Finance PLC as at 31st March, 2021. The valuation method used by the Actuary to value the liability is the 'Projected Unit Credit Actuarial Cost Method' recommended by LKAS 19. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

Actuarial assumptions	31.03.2021 Rs.	31.03.2020 Rs.
Discount rate	7.5%	10%
Salary increment rate	5%	10%
Staff turnover	32%	33%
Retirement age	55 years	55 years
Mortality	67/70 Mortality Table (Institute of Actuaries, London)	

29.4 Sensitivity analysis

In order to illustrate the significance of the salary increment rates and discount rates assumed in the valuation, the sensitivity analysis is as follows:

	31.03.2021 Rs.	31.03.2020 Rs.
Discount rate		
Effect on retirement benefit obligation due to 1% increase	29,348,805	28,929,457
Effect on retirement benefit obligation due to 1% decrease	30,967,981	31,096,299
Salary increment rate		
Effect on retirement benefit obligation due to 1% increase	30,908,506	30,994,362
Effect on retirement benefit obligation due to 1% decrease	29,391,753	29,006,336

30. STATED CAPITAL

	31.03.2021		31.03.2020	
	Number	Rs.	Number	Rs.
30.1 Fully paid ordinary shares	124,195,533	1,791,478,691	124,195,533	1,791,478,691
30.1.1 Ordinary shares movements				
Balance at the beginning of the year	124,195,533	1,791,478,691	109,097,018	1,640,493,541
Share issued during the year	-	-	15,098,515	150,985,150
Balance at the end of the year	124,195,533	1,791,478,691	124,195,533	1,791,478,691

30.2 Rights of shareholders

The holders of ordinary shares confer their rights to receive dividends as declared from time to time and are entitled to one vote per share at the meeting.

All shares rank equally with regard to the company's residual assets.

31. STATUTORY RESERVE FUND AND OTHER RESERVES

	31.03.2021	31.03.2020
	Rs.	Rs.
Statutory reserve fund	76,297,682	73,766,353
General reserve	3,000,000	3,000,000
	79,297,682	76,766,353

31.1 Statutory reserve fund

Statutory reserve fund is a capital reserve which contains profits transferred as required by Section 3 (b) (i) of Finance Companies (Capital Funds) Direction No. 1 of 2003.

31.2 General reserve

General Reserve represents the amounts set aside by the directors for general application.

32. EARNINGS PER SHARE

32.1 Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

32.2 The following reflects the income and share data used in the basic earnings per share computation.

	31.03.2021	31.03.2020
Amounts used as the numerator:	Rs.	Rs.
Net profit attributable to ordinary shareholders for basic earnings per share	45,196,117	70,153,366

	31.03.2021	31.03.2020
Number of ordinary shares used as the denominator for basic earnings per share	Number	Number
Weighted average number of ordinary shares in issue	124,195,533	124,097,289
Basic earnings per share	0.36	0.57

33. CAPITAL COMMITMENTS

In the normal course of business, the company makes various commitments and incurs contingent liabilities. No material losses are anticipated as a result of these transactions.

33.1 Commitments	Note	31.03.2021 Rs.	31.03.2020 Rs.
Promissory note to DFCC Bank PLC Loans	33.1.1	600,000,000	600,000,000
Undrawn commitments	33.1.2	13,339,617	80,417,899
Capital commitments	33.1.3	23,704,301	-
Bank guarantee		6,096,050	-
		643,139,968	680,417,899

33.1.1 Promissory notes

The related loan balances on issued promissory notes are as follows as at the reporting date.

	Promissory note value Rs	Loan outstanding as at 31.03.2021 Rs.
Promissory notes to DFCC Bank PLC	600,000,000	174,999,963
	600,000,000	174,999,963

33.1.2 Undrawn commitments

Undrawn commitments consist of facilities granted to customers where the company reserves the right to unconditionally cancel or recall the facility at its discretion.

33.1.3 Capital commitments

Capital commitements amounting to Rs. 23,704,301 includes the cost committed to implement a customer digital onboarding mechanism using mobile based interface to provide a cutting edge digital experience to the customers. Further, the said mobile interface will be fully integrated with the Core banking solution to provide a real-time banking experience and transaction details.

34. CONTINGENT LIABILITIES

The company does not have significant contingent liabilities as at the reporting date.

35. ASSETS PLEDGED

The following assets have been pledged as securities for liabilities.

		Carrying amount pledged		
Nature of assets	Nature of liabilities	31.03.2021 Rs.	31.03.2020 Rs.	Included under
Lease and hire purchase loan receivables	People's Bank - Securitization loan 16	-	91,098,364	Lease rentals receivables and hire purchase
Micro finance & Group personal loan receivable	HNB - Securitization loan 17	-	109,357,643	Loan and advances
Lease and hire purchase agreements	People's Bank - Securitization loan 18	-	53,321,616	Lease rentals receivables and hire purchase
Gold loan receivable agreements	People's Bank - Securitization loan 19	-	148,654,723	Loan and advances
Lease and hire purchase agreements	NSB Bank - Securitization loan 20	-	200,453,050	Lease rentals receivables and hire purchase

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35. ASSETS PLEDGED (CONTD….)

Nature of assets	Nature of liabilities	Carrying amount pledged 31.03.2021 Rs.	31.03.2020 Rs.	Included under
Lease and hire purchase agreements	NSB Bank - Securitization loan 21	-	23,555,742	Lease rentals receivables and hire purchase
Lease and hire purchase agreements	HNB - Securitization loan 22	280,989,622	529,240,442	Lease rentals receivables and hire purchase
Gold loan receivable agreements	HNB - Securitization loan 23	-	177,767,632	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 24	127,023,473	803,800,380	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 25	204,309,441	516,261,644	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 26	67,520,067	336,230,748	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 27	-	280,916,045	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 28	171,948,283	465,783,708	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 29	137,327,039	289,589,642	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 30	253,594,074	522,473,733	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 31	120,052,526	178,469,892	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 32	433,617,955	304,585,898	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 33	602,690,118	-	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 34	1,072,138,402	-	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 35	515,185,264	-	Loan and advances
Mortgage bond over lease & Group personal loan receivable portfolio	HNB - Securitization loan 36	337,054,720	-	Lease rentals receivables and hire purchase / Loan and advances
Mortgage bond over corporate loans and micro finance loan portfolio	Nation Trust bank Loan 01	-	32,750,000	Loan and advances
Mortgage bond over corporate loans and micro finance loan portfolio	HNB Bank Loan 02	-	100,000,000	Loan and advances
Mortgage bond over corporate loans and micro finance loan portfolio	Nation Trust bank Loan 02	21,600,000	88,500,000	Loan and advances
Mortgage bond over business loans, corporate loan, mortgage loan and gold loan portfolio	HNB Bank Loan 03	138,880,000	222,220,000	Loan and advances

36. MATURITY ANALYSIS

An analysis of the total assets employed and the total liabilities as at the year end, based on the remaining balance at the reporting date to the respective contractual maturity dates is given below:

Assets	Less than 3 months Rs.	3-12 months Rs.	1-3 years Rs.	Over 3 years Rs.	Total Rs.
Cash and cash equivalents	1,006,233,476	-	-	-	1,006,233,476
Investment in reverse repurchase agreements against the treasury bills and bonds at amortized cost	654,692,844	-	-	-	654,692,844
Financial assets at amortized cost - Loans and advances	6,681,052,251	886,752,348	1,482,139,291	1,148,318,973	10,198,262,863
Financial assets at amortized cost - Lease rentals receivable and hire purchase	349,418,111	593,057,530	1,197,875,674	72,183,579	2,212,534,894
Other assets	21,637,319	-	-	-	21,637,319
Income tax receivable	-	27,698,763	-	-	27,698,763
Deposits and prepayments	2,699,363	232,545,130	16,839,169	-	252,083,662
Financial assets - Fair value through other comprehensive income	-	-	-	506,659	506,659
Right-of-use assets	-	-	-	217,810,352	217,810,352
Property, plant and equipment	-	-	-	156,436,174	156,436,174
Investment property	-	-	-	376,158,647	376,158,647
Deferred tax asset	-	-	185,422,647	-	185,422,647
Intangible assets	-	-	-	40,951,789	40,951,789
As at 31.03.2021	8,715,733,364	1,740,053,771	2,882,276,781	2,012,366,173	15,350,430,089
As at 31.03.2020	5,511,059,866	2,214,775,294	4,122,849,017	3,305,902,313	15,154,586,490
Liabilities					
Financial liabilities - Due to banks	24,279,289	-	-	-	24,279,289
Other liabilities	38,147,908	-	-	-	38,147,908
Financial liabilities - Other borrowed funds	1,195,944,973	2,461,262,067	1,121,551,686	-	4,778,758,726
Lease liability	-	-	-	213,877,899	213,877,899
Subordinated liabilities	-	93,965,320	935,499,790	-	1,029,465,110
Due to customers	1,527,968,258	4,764,999,010	679,801,063	40,918,053	7,013,686,384
Retirement benefit obligation	-	-	-	30,135,378	30,135,378
As at 31.03.2021	2,786,340,428	7,320,226,397	2,736,852,539	284,931,330	13,128,350,694
As at 31.03.2020	2,323,275,854	7,396,495,348	3,002,455,554	260,906,921	12,983,133,677
Net amount					
As at 31.03.2021	5,929,392,936	(5,580,172,626)	145,424,242	1,727,434,843	2,222,079,395
As at 31.03.2020	3,187,784,012	(5,181,720,054)	1,120,393,463	3,044,995,392	2,171,452,813

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37. CURRENT/NON-CURRENT ANALYSIS

	31.03.2021			31.03.2020		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
Assets	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	1,006,233,476	-	1,006,233,476	511,939,133	-	511,939,133
Investment in reverse repurchase agreements against the treasury bills and bonds at amortized cost	654,692,844	-	654,692,844	860,630,696	-	860,630,696
Financial assets at amortized cost - Loans and advances	7,567,804,599	2,630,458,264	10,198,262,863	5,529,717,087	3,383,330,563	8,913,047,650
Financial assets at amortized cost - Lease rentals receivable and hire purchase	942,475,641	1,270,059,253	2,212,534,894	761,939,982	2,964,548,720	3,726,488,702
Other assets	21,637,319	-	21,637,319	16,983,813	-	16,983,813
Income Tax Receivable	27,698,763	-	27,698,763	27,736,580	-	27,736,580
Advances, deposits and prepayments	235,244,493	16,839,169	252,083,662	16,887,869	139,301,354	156,189,223
Financial assets - Fair value through other comprehensive income	-	506,659	506,659	-	506,659	506,659
Right-of-use assets	-	217,810,352	217,810,352	-	137,210,457	137,210,457
Property, plant and equipment	-	156,436,174	156,436,174	-	138,032,482	138,032,482
Investment property	-	376,158,647	376,158,647	-	399,678,109	399,678,109
Deferred tax asset	-	185,422,647	185,422,647	-	225,922,647	225,922,647
Intangible assets	-	40,951,789	40,951,789	-	40,220,339	40,220,339
Total assets	10,455,787,135	4,894,642,954	15,350,430,089	7,725,835,160	7,428,751,330	15,154,586,490
Liabilities						
Financial liabilities - Due to banks	24,279,289	-	24,279,289	58,777,776	-	58,777,776
Other liabilities	38,147,908	-	38,147,908	96,622,133	-	96,622,133
Financial liabilities - Other borrowed funds	3,657,207,040	1,121,551,686	4,778,758,726	4,156,947,597	1,929,377,729	6,086,325,326
Lease liability	-	213,877,899	213,877,899	-	126,200,873	126,200,873
Subordinated liabilities	93,965,320	935,499,790	1,029,465,110	-	-	-
Due to customers	6,292,967,268	720,719,116	7,013,686,384	5,407,423,696	1,177,811,009	6,585,234,705
Retirement benefit obligation	-	30,135,378	30,135,378	-	29,972,864	29,972,864
Total liabilities	10,106,566,825	3,021,783,869	13,128,350,694	9,719,771,202	3,263,362,475	12,983,133,677
Net balance	349,220,310	1,872,859,085	2,222,079,395	(1,993,936,042)	4,165,388,855	2,171,452,813

38. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AND FAIR VALUE HIERARCHY

38.1 Determination of fair value and fair value hierarchy

As at 31st March, 2021, the company held the following assets carried at fair value on the statement of financial position. The company uses the following hierarchy for determining and disclosing the fair value of those assets by valuation technique:

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

38.1.1 Assets measured at fair value

	31.03.2021			
		Level 1	Level 2	Level 3
	Rs.	Rs.	Rs.	Rs.
Financial assets - Fair value through other comprehensive income	506,659	-	-	506,659
Total assets at fair value	506,659	-	-	506,659

	31.03.2020			
		Level 1	Level 2	Level 3
	Rs.	Rs.	Rs.	Rs.
Financial assets - Fair value through other comprehensive income	506,659	-	-	506,659
Total assets at fair value	506,659	-	-	506,659

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39. FINANCIAL REPORTING BY SEGMENT

	Finance lease		Hire purchase		Gold loan		Loans and advances		Investment		Other		Total	
	31.03.2021 Rs.	31.03.2020 Rs.	31.03.2021 Rs.	31.03.2020 Rs.	31.03.2021 Rs.	31.03.2020 Rs.	31.03.2021 Rs.	31.03.2020 Rs.	31.03.2021 Rs.	31.03.2020 Rs.	31.03.2021 Rs.	31.03.2020 Rs.	31.03.2021 Rs.	31.03.2020 Rs.
Interest income	730,671,271	1,180,119,244	-	25,375	866,007,440	655,053,124	940,077,444	1,092,476,205	89,638,312	116,035,130	-	-	2,626,394,467	3,043,709,078
Other income	41,491,853	48,800,702	-	93,937	260,168,882	182,956,799	7,890,730	50,176,795	320,000	280,000	18,548,669	6,601,968	328,420,134	288,910,201
Total revenue	772,163,124	1,228,919,946	-	119,312	1,126,176,322	838,009,923	947,968,174	1,142,653,000	89,958,312	116,315,130	18,548,669	6,601,968	2,954,814,601	3,332,619,279
Segmental result	34,454,793	54,103,855	-	5,253	50,251,263	36,893,833	42,299,414	50,305,907	4,014,042	5,120,836	827,663	290,655	131,847,175	146,720,339
Value added tax on financial services													45,100,000	53,404,047
Profits from operations													86,747,175	93,316,292
Income tax charge for the year													(41,551,058)	(23,162,926)
Net profit for the year													45,196,117	70,153,366
Segment assets	2,204,274,974	3,711,805,061	8,259,920	14,683,641	6,561,591,532	4,203,492,692	3,636,671,331	4,709,554,957	654,692,844	860,630,696	-	-	13,065,490,601	13,500,167,048
Unallocated assets	-	-	-	-	-	-	-	-	-	-	2,284,939,488	1,654,419,442	2,284,939,488	1,654,419,442
Total assets	2,204,274,974	3,711,805,061	8,259,920	14,683,641	6,561,591,532	4,203,492,692	3,636,671,331	4,709,554,957	654,692,844	860,630,696	2,284,939,488	1,654,419,442	15,350,430,089	15,154,586,490
Segment liabilities	2,167,276,753	3,500,144,267	8,121,279	13,846,326	6,451,456,809	3,963,794,059	3,575,630,684	4,440,998,790	643,703,983	811,554,364	-	-	12,846,189,509	12,730,337,807
Unallocated liabilities	-	-	-	-			-	-	-	-	282,161,185	252,795,870	282,161,185	252,795,870
Total liabilities	2,167,276,753	3,500,144,267	8,121,279	13,846,326	6,451,456,809	3,963,794,059	3,575,630,684	4,440,998,790	643,703,983	811,554,364	282,161,185	252,795,870	13,128,350,694	12,983,133,677

In determining segment results, expenses have been allocated on proportionate basis on interest income and the segment liabilities have been proportionately allocated based on the segment assets.

40. EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the financial statements.

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41. RELATED PARTY DISCLOSURES

During the current period there were no non-recurrent related party transactions which exceeds 10% of the equity or 5% of the total assets, whichever is lower, in the company. During the current period there were no recurrent related party transactions exceeds 10% of the gross revenue/income .

The company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Details of significant related party disclosures are as follows:

41.1 Parent and ultimate controlling party

The parent and ultimate parent of the company as at 31st March, 2021 is Muthoot Finance Limited.

41.2 Transactions with related entities

41.2.1 Muthoot Finance Limited

Relationship - Ultimate parent

Transactions during the year	2020/2021 Rs.	2019/2020 Rs.
Expenses incurred for Muthoot Finance Limited	3,511,514	3,194,246

41.3 Transactions with key management personnel of the company

The key managerial personnel of the company are the members of its board of directors and the parent company. Following transactions were entered between the company and its key management personnel and their close family members.

41.3.1 Key management personnel compensation	2020/2021 Rs.	2019/2020 Rs.
Short-term employment benefits paid - Directors	14,732,000	16,994,200

41.3.2 Other transactions with key management personnel

Items in the statement of financial position	31.03.2021 Rs.	31.03.2020 Rs.
Assets - Loan and receivables	30,238,851	22,429,377
Liabilities - Due to customers	19,578,371	78,118,463

Items in the statement of profit or loss	2020/2021 Rs.	2019/2020 Rs.
Interest income	3,379,883	2,897,291
Interest expense	1,493,793	11,007,355

Accommodation outstanding as a percentage of the Company's Capital Fund (%)

Loan and receivables	1.36%	1.03%

41.3.3 Share transactions with key management personnel

Number of ordinary shares held at the year end	-	1,400,000

42. RISK MANAGEMENT

As a financial institution, the company is exposed to various types of risks including credit, market, liquidity and operational risks which are inherent in the company's activities. Managing these risks is critical for the sustainability of the company and plays a pivotal role in all activities of the company. The company has developed a culture within the organization, which shapes and influences and the risk decisions taken by the management and the employees. The adequacy and the effectiveness of the risk management decisions taken by the company's management will be reviewed regularly through its committees and reported to the "Integrated risk management committee" for reference and guidance. The company believes successful risk management will enable it to be resilient to any unfavorable event caused by internal or external factors.

42.1 Risk management committees

42.1.1 Assets and liability committee (ALCO)

ALCO is chaired by the Chief Executive Officer and its representatives are, Chief Operating Officer, General Manager, Deputy General Manager-Finance, Assistant Manager-treasury, Senior Manager-Finance, Senior Manager-Compliance and Assistant General Manager-Fixed Deposits . The committee meeting is held once a month to monitor and manage the assets and liabilities of the company and also overall liquidity position to keep the company's liquidity at healthy levels whilst satisfying regulatory requirements.

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42. RISK MANAGEMENT (CONTD….)

42.1 Risk management committees (contd….)

42.1.2 Integrated risk management committee (IRM)

The IRM committee, has the responsibility to monitor the overall risk process within the company and it is responsibile for the development of the risk strategy and implementing principles, frameworks, policies and limits. The committee reports to the board on a periodical basis.

42.2 Credit risk

Credit risk is the likelihood that a borrower or counterparty will not honor its obligations in accordance with the terms of agreement. i.e. the risk of default which is one of the most vulnerable risks faced by any financial institution. Credit risk is inherent to all financial institutions where the main business is lending. The main aim of the "credit risk management" is to minimize the risk and to maximize the risk adjusted rate of return of the financial institution.

42.2.1 Company's approach to credit risk

The company caters to mainly the small and medium corporate sector and to the retail sector. Therefore, the company has adopted a process where the credit evaluation is not restricted to its finances but also to qualitative factors, giving the company an opportunity to evaluate customer's operations, product feasibility, management structure etc.

In order to mitigate the risk of exposing into high risk sectors, the company has imposed sector restrictions and exposure ceilings. Effective management of portfolio ensures that the company avoids the risk of concentration of exposures. Further, the company is continuously conducting environment analysis and periodic reviews to monitor credit exposures, portfolio performance and to identify emerging credit risks.

The recoveries department consistently monitors portfolio delinquency and the collections. A monthly report is submitted to the chief executive officer on the performance of individual marketer.

The credit policy of the company recommends an innovative approach in evaluating a borrower without hindering the credit quality. The company has introduced exposure ceilings, delegated authority levels for credit approval, internal risk rating model and risk based pricing through the credit policy.

During the early stages of COVID - 19 pandemic, the company conducted an in-depth analysis on the probable industries which would get affected and the scale of impact it may have on company's lending portfolio. The spread of COVID – 19 in Sri Lanka stressed the importance of diversification of the company's lending portfolio across a wide range of industries which in turn would ensure the resilience of the company in an economic shock of this nature. The company is comfortable with the existing composition of its loan portfolio and continuous monitoring activities are being carried out to avoid accumulation of exposures to risky economic segments.

42.2.2 Analysis of credit quality - Maximum exposure to credit risk by class of financial assets

			Subject to		
	Carrying amount	Not subject to ECL	12-month ECL (Stage 1)	Life time ECL - not credit impaired (Stage 2)	Life time ECL - credit impaired (Stage 3)
As at 31st March 2021	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	1,006,233,476	1,006,233,476	-	-	-
Investment in reverse repurchase agreements against the treasury bills and bonds at amortized cost	654,692,844	654,692,844	-	-	-
	1,660,926,320	1,660,926,320	-	-	-
Loans and advances at amortized cost					
Gross loans and advances	11,572,708,799	-	7,079,074,428	717,054,715	3,776,579,656
Less : Impairment charge	1,374,445,936	-	130,393,979	20,305,792	1,223,746,165
Net carrying amount	10,198,262,863	-	6,948,680,449	696,748,923	2,552,833,491
Lease rentals receivable and hire purchase at amortized cost					
Gross lease rentals receivable and hire purchase	2,429,521,147	-	2,033,132,303	63,409,091	332,979,753
Less : Impairment charge	216,986,253	-	20,657,455	4,257,410	192,071,388
Net carrying amount	2,212,534,894	-	2,012,474,848	59,151,681	140,908,365
Financial assets - fair value through other comprehensive income					
Gross carrying amount	7,006,659	7,006,659			
Less : Impairment charge	6,500,000	6,500,000			
Net carrying amount	506,659	506,659			

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42. RISK MANAGEMENT (CONTD….)

42.2.2 Analysis of credit quality - Maximum exposure to credit risk by class of financial assets (contd….)

As at 31st March 2020	Carrying amount Rs.	Not subject to ECL Rs.	Subject to: 12-month ECL (Stage 1) Rs.	Subject to: Life time ECL - not credit impaired (Stage 2) Rs.	Subject to: Life time ECL - credit impaired (Stage 3) Rs.
Cash and cash equivalents	511,939,133	511,939,133	-	-	-
Investment in reverse repurchase agreements against the treasury bills and bonds at amortized cost	860,630,696	860,630,696	-	-	-
	1,372,569,829	1,372,569,829	-	-	-
Loans and advances at amortized cost					
Gross loans and advances	9,819,980,963	-	5,791,952,342	542,827,585	3,485,201,036
Less : Impairment charge	906,933,313	-	58,249,662	29,179,872	819,503,779
Net carrying amount	8,913,047,650	-	5,733,702,680	513,647,713	2,665,697,257
Lease rentals receivable and hire purchase at amortized cost					
Gross lease rentals receivable and hire purchase	4,014,813,440	-	2,787,829,382	452,754,414	774,229,644
Less : Impairment charge	288,324,738	-	95,808,518	32,169,730	160,346,489
Net carrying amount	3,726,488,702	-	2,692,020,864	420,584,684	613,883,155
Financial assets - Fair value through Other comprehensive income					
Gross carrying amount	7,006,659	7,006,659	-	-	-
Less : Impairment charge	6,500,000	6,500,000	-	-	-
Net carrying amount	506,659	506,659	-	-	-

42.2.3 Impairment assessment

Details of the company's impairment method are disclosed in Note 3.1.11.

42.2.4 Concentration of credit risk

The company's concentration of risk in relation to the lending portfolio is managed by the industry sector which is detailed below:

	31.03.2021 Rs.	31.03.2020 Rs.
Manufacturing	305,203,819	328,068,438
Transport	100,672,193	138,269,834
Services	579,422,370	666,011,973
Agro-business and fisheries	179,312,866	186,986,891
Construction	124,223,827	163,498,090
Commercial trading	607,643,263	776,365,660
Others	12,105,751,608	11,575,593,517
Total lending portfolio	14,002,229,946	13,834,794,403
Loans and advances	4,950,212,027	5,550,267,807
Gold Loans	6,622,496,772	4,269,713,156
Lease	2,399,894,651	3,982,071,675
Hire purchase	29,626,496	32,741,765
Total receivables	14,002,229,946	13,834,794,403

42. RISK MANAGEMENT (CONTD..)

42.2.5 Capital Management

The Company's capital management is performed primarily considering regulatory capital. The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company. The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No.01 of 2003, Finance Companies (Capital Adequacy Requirements) Direction No.03 of 2018 and Finance Companies (Minimum Core Capital) Direction No.01 of 2011 in respect of regulatory capital. The Company's regulatory capital consists of tier 1 capital, which includes ordinary share capital, retained earnings and statutory reserves. Other negative reserves are included under prudence basis. Tier II capital includes unsecured subordinated debentures, which is included in the capital base consequent to obtaining the approval of CBSL. The Company's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

	Minimum requirement %	31.03.2021 %	31.03.2020 %
Tier 1 Capital Ratio	7.50	16.75	16.15
Total Capital	10.50	16.75	16.15

	31.03.2021 Rs.	31.03.2020 Rs.
Available liquid asset	1,434,071	1,223,476
Required liquid asset	430,125	706,428

42.3 Market risk

Market risk is identified by the company as the possibility of loss to the company caused by changes in the market variables. Market risk mainly includes interest rate risk, liquidity risk, foreign exchange risk and country risk.

42.3.1 Interest rate risk

Interest rate risk is the potential negative impact on the net interest income based on rate fluctuations and impact to the profitability of the company. The movements in interest rates expose to fluctuations in Net Interest Income (NII) and have the potential to impact the underlying value of interest earning assets and interest-bearing liabilities and off-balance sheet items. The main types of IRR to which the AAF is exposed to are repricing risk, yield curve risk and basis risk. The company does not have variable interest rates and all facilities granted are on fixed interest rates. The global outbreak of COVID-19 pandemic has resulted in consecutive reductions in policy rates and monetary easing policies by the Central Bank of Sri Lanka to encourage banks and finance companies to reduce lending rates.

When all borrowings and lending are done on fixed rates the net interest margin is affected due to the following reasons:

Maturity mismatch/GAP

One of the major concerns in financial business is the maturity mismatch, where the average loan period is over 2 years whilst the average deposit period is less than one year. Hence, where the interests are on an increasing trend the company's net interest margin will reduce.

Please refer note 36 to the financial statements for the maturity analysis.

Re-Investment risk

These are uncertainties with regard to interest rate at which the future cash flows could be re-invested. On an increasing trend, this would be beneficial for Asia Asset Finance PLC.

Net interest position

When the market rates are on a downward trend and the company's earning assets are higher than its liabilities, the risk of net interest position falling is high.

42.3.2 Liquidity risk

Liquidity is the ability to efficiently accommodate deposit as also reduction in liabilities and to fund the loan growth and possible funding of the off-balance sheet claims. Liquidity risk arises through maturity mismatch of loans and deposits.

Management has evaluated the possible impact from COVID – 19 on the company's operations and forecast cash flows and is of the view that the negative impacts from same would not pose any additional stress on the company's ability to maintain its regulatory capital margins which is well above the regulatory requirements. Further, the company has increased its liquidity buffers on a prudent basis and maintained a strong excess liquidity position.

42.3.3 Foreign exchange (FOREX) and country risk

FOREX is the risk that finance companies may suffer loss as a result of adverse exchange rate movements. Country risk is the risk that arises due to cross border transactions. The uncertainty caused by the COVID 19 pandemic could lead to increased pressure on the local currency resulting in higher foreign exchange risk. However, since Asia Asset Finance PLC does not have any foreign borrowings or foreign transactions the company concludes that COVID 19 impact on FOREX is not substantial on the company to conduct in-depth analysis. However, there is a slight impact when budgeting for this cost. The above risks are triggered by the treasury operations.

43. COMPARATIVE INFORMATION

Comparative figures have been re-classified where necessary in line with presentation requirements for the current year.