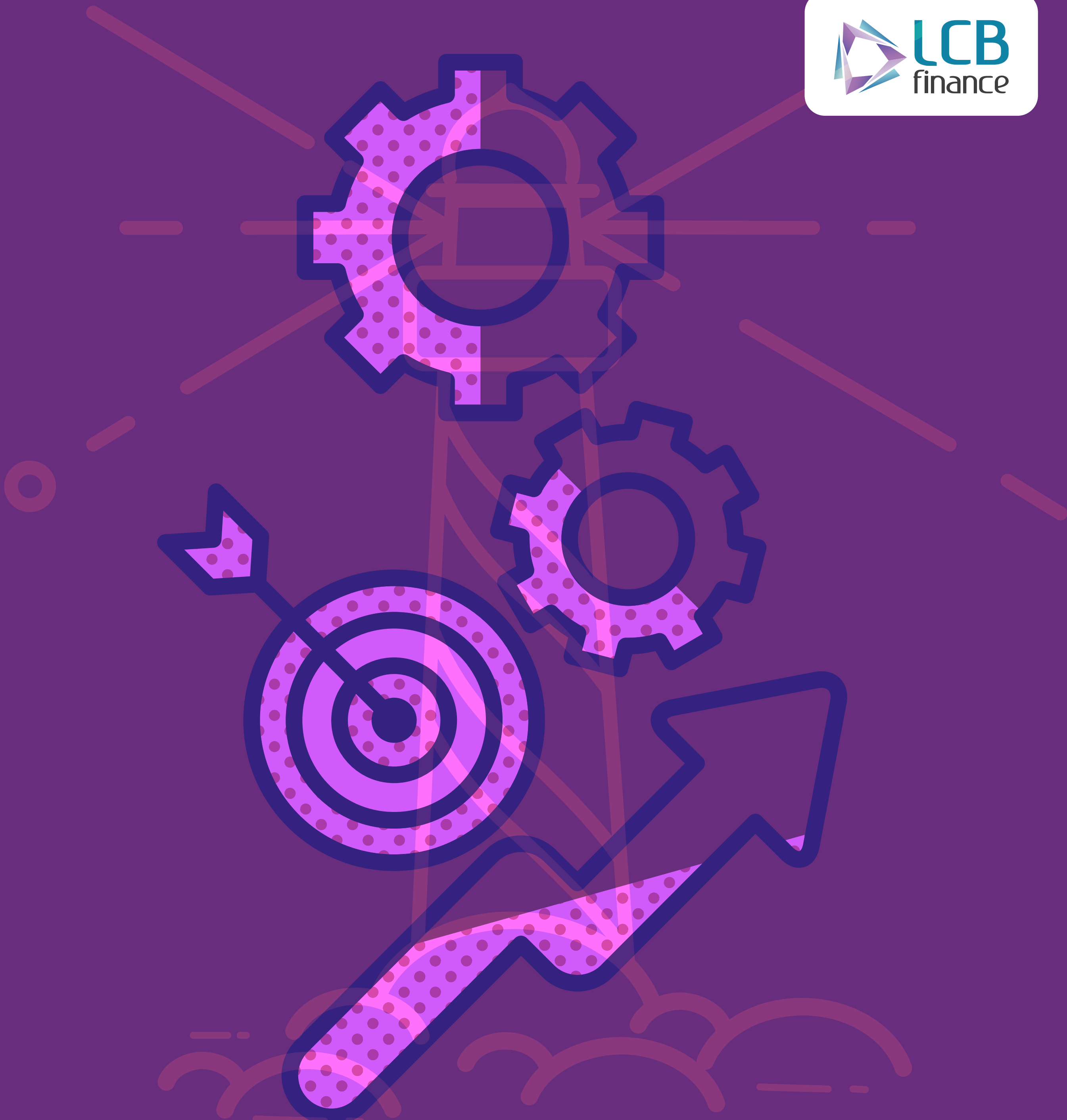


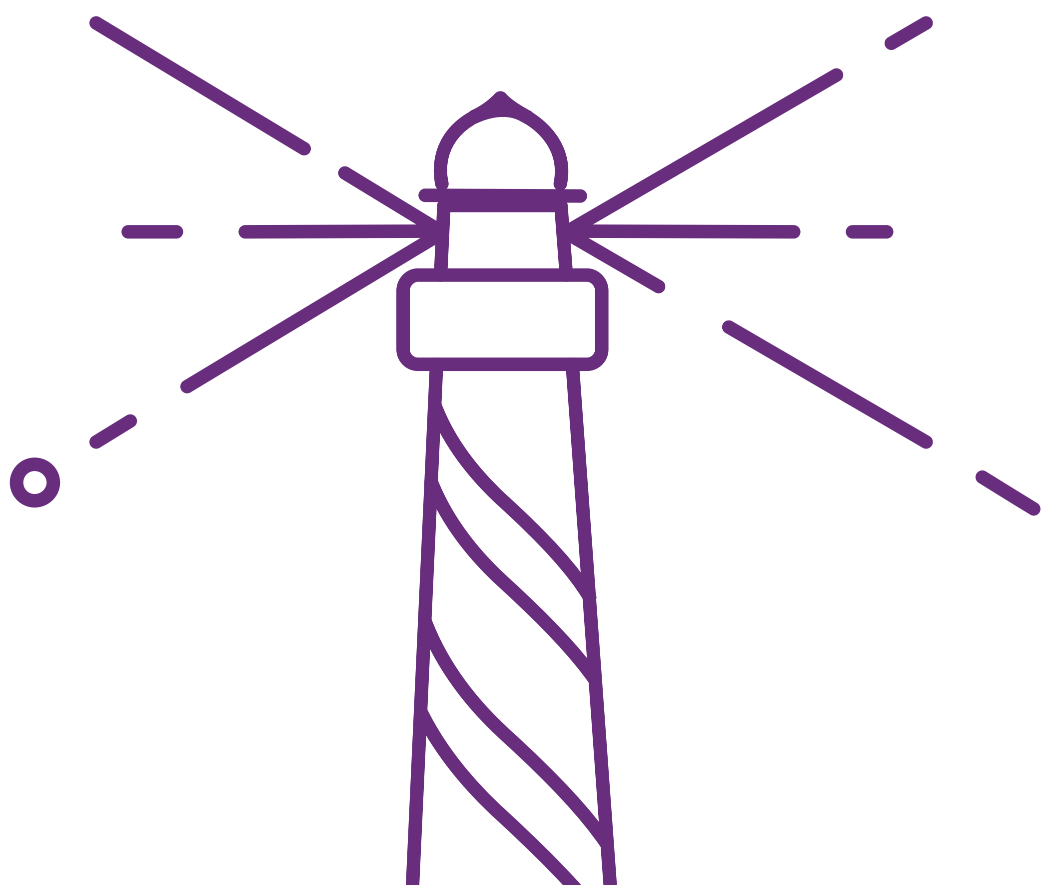
# Connective Trust Collective Growth

LCB Finance PLC / Annual Report 2021/22

# Contents

# Connective Trust Collective Growth

In the year under review we had our vision firmly set on expansion and it was made tangible through the trust and support of our stakeholders. Even in unprecedented times, the confidence that was placed in us was extraordinary and it strengthened to attain a sustainable growth. This network of trust has helped keep our engines running as we seek new ways to become better than ever. Therefore we remained true to the idea that development must continue,and that people, communities and the nation must be uplifted in order for progress to take place. Together with the values that define our Southern roots, we have exemplified our strength and stability and will carry on into the years ahead, building upon connective trust to achieve collective growth.



# Vision Statement

Financial Services will be recognized as proactive, results-oriented leaders who work in collaboration with their clients to offer excellence in operational and strategic financial management to support the achievement of our objectives.

# Mission Statement

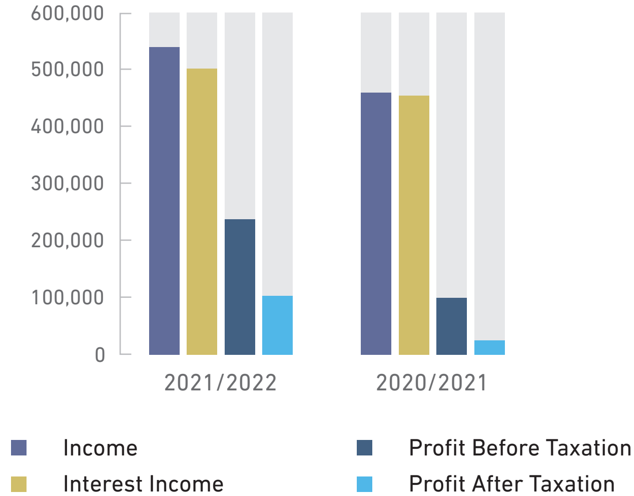
Financial Services provides excellence in client service and compliance through our unwavering commitment to our staff, our understanding of financial operations, and a continued focus on process improvement.

# Financial Highlights

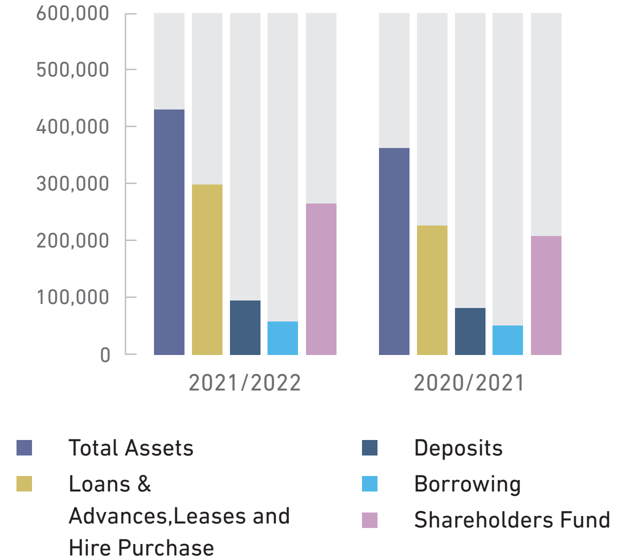
| Performance Indicators | 2021/2022 | 2020/2021 | Change |
|---|---|---|---|
| **Operating Results** | | | |
| Income | 541,564,212 | 461,375,089 | 17% |
| Interest Income | 504,110,594 | 456,255,319 | 10% |
| Profit Before Taxation | 238,518,062 | 100,289,920 | 138% |
| Profit After Taxation | 97,581,979 | 25,003,559 | 290% |
| **Financial Position** | | | |
| Total Assets | 4,356,666,078 | 3,672,881,020 | 19% |
| Loans & Advances,Leases and Hire Purchase | 3,026,957,639 | 2,305,849,876 | 31% |
| Deposits | 962,635,583 | 831,583,929 | 16% |
| Borrowing | 586,370,993 | 518,414,541 | 13% |
| Shareholders Fund | 2,680,889,259 | 2,106,938,354 | 27% |
| **Investor Information** | | | |
| Net Asset Value per share | 3.39 | 3.17 | 7% |
| Earning Per Share | 0.12 | 0.04 | 229% |
| **Statutory Ratios** | | | |
| Core Capital Adequacy Ratio to Risk Weighted Assets | 54% | 56% | -4% |
| Total Capital Adequacy Ratio to Risk Weighted Assets | 54% | 56% | -4% |
| Capital Funds to Deposits Liability Ratio | 279% | 248% | 13% |
| Liquid Asset Ratio | 24% | 33% | -27% |
| **Other Ratios** | | | |
| Return on Assets (Before Tax) | 5.47% | 2.96% | 85% |
| Return on Equity(After Tax) | 3.64% | 1.19% | 206% |
| Net Interest Margin (NIM) | 10.15% | 10.27% | -1% |
| Loan to Deposits | 3.14 | 3.44 | -9% |
| Net Non - Performing Loans Ratio (Net NPL) | 3.82% | 0.35% | 991% |

# Financial Highlights

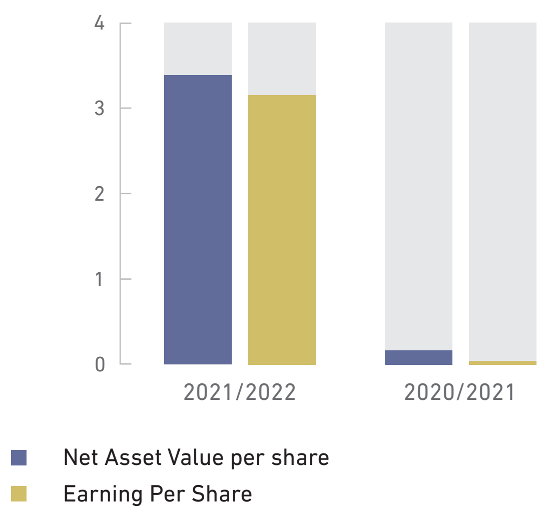
### Operating Results
Rs. '000



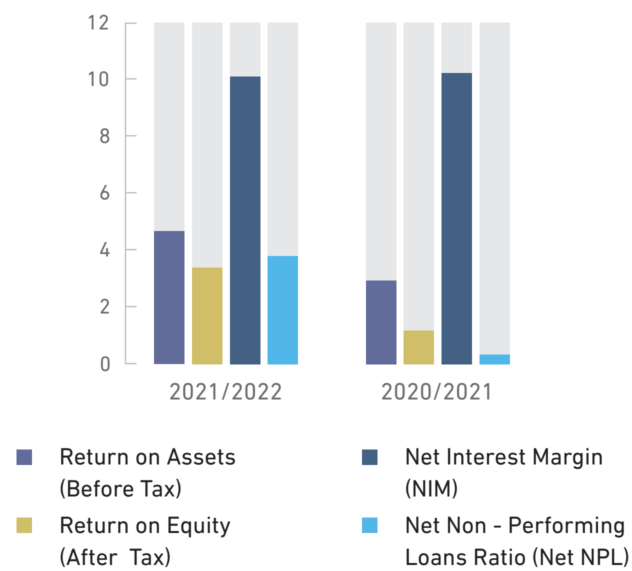

### Financial Position
Rs. '000




### Investor Information
Rs.




### Other Ratios
%



# Non Financial  Highlights

| | 2021/2022 | 2020/2021 |
|---|---|---|
| **Intellectual Capital** | | |
| Credit rating (ICRA ratings) | B+ (STABLE) | B+ (STABLE) |
| **Human Capital** | | |
| Total employees (N) | 127 | 97 |
| New Recruitment (N) | 94 | 37 |
| Staff Remunerations (Rs '000') | 106,401 | 93,716 |
| Investment In training and development (Rs '000') | 269 | 360 |
| **Social and relationship capital** | | |
| Interest to depositors (Rs '000') | 58,974 | 61,405 |
| Employees (Rs '000') | 90,155 | 85,929 |
| Community development program (N) | 2 | 3 |
| Access points ( branches) | 12 | 8 |
| **Manufactured Capital** | | |
| Branches (N) | 12 | 8 |
| New branch opening (N) | 4 | 0 |
| Fixed assets (Rs '000') | 123,231 | 102,951 |
| Depreciation and amortization (Rs '000') | 44,835 | 63,926 |
| Fixed asset addition (Rs '000') | 69,630 | 14,503 |
| Investment in technology (Rs '000') | 2,600 | 41,488 |
| **Economic Value Distributed to** | | |
| Deposit (Rs '000') | 58,974 | 61,405 |
| Employment (Rs '000') | 90,155 | 85,925 |
| Government (Rs '000') | 42,912 | 22,639 |

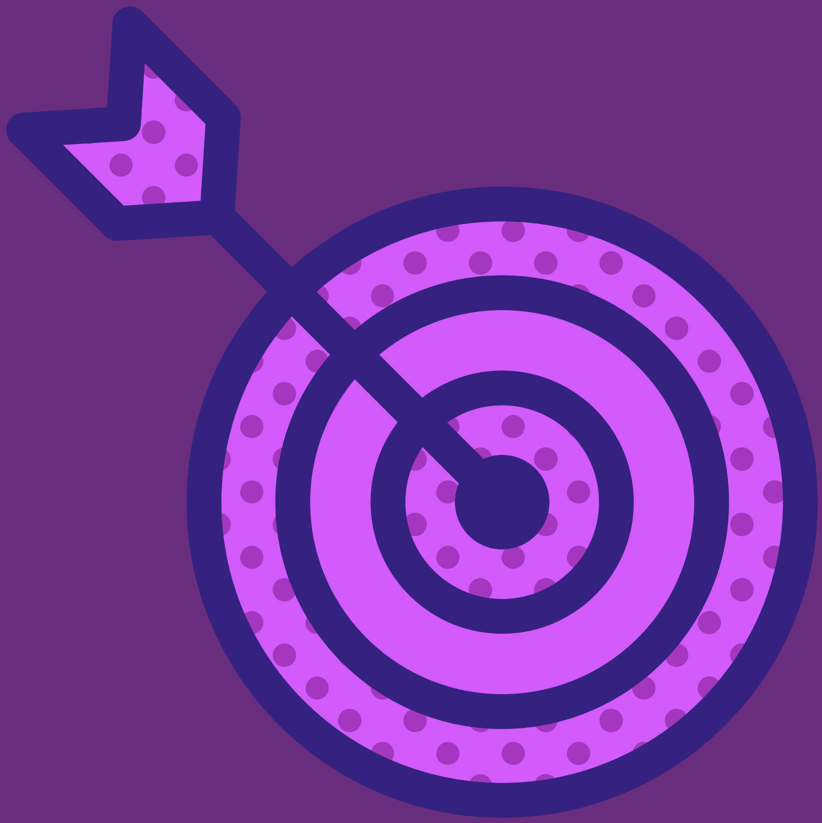
# About this Report


Lanka Credit and Business Finance PLC (LCB Finance) is pleased to present its 4th integrated annual report which provides an analysis of the financial and non-financial performance for the financial year ending 31 March 2022.

This Report provides a balanced view of all the operational aspects of the Company including the performance of six capitals; financial, manufactured, intellectual, social, natural, and human capital during the financial year. This report also presents concise information on the business environment, the Company's governance and risk management while offering an assessment of LCB's sustainable value creation during the short, medium and long term periods.

It is developed and presented in compliance with the Sri Lanka Financial Reporting Standards, the Companies Act No. 07 of 2007 and Finance Business Act No.42 of 2011. The Management and the Board of Directors undertake the responsibility for the information included in this report as such adhering to governance practices.

This report is made available to our valued shareholders in only digital, providing a comprehensive understanding of the business activities and performance of shareholder investments.



# Connective Vision Collective Achievements

# Our Milestones

## 2016 - 2020

**2016**

- Incorporation of Lanka Credit & Business Limited under the Companies Act No.07 of 2007 (Reg. No. PB5329)
- Commenced business operations in the Galle branch

**2017**

- Branch network expanded to 03 new Branches at Karandeniya, Mirissa and Pelawatta
- Branch network expanded to 03 new Branches at Karandeniya, Mirissa and Pelawatta

**2018**

- Lanka Credit and Business Limited acquired City Finance Corporation Limited with the approval of the Monetary Board of Central Bank of Sri Lanka
- Lanka Credit and Business Finance Limited was incorporated by changing the name of City Finance Corporation Limited Branch
- Addition of two branches to the branch network – Kohuwala and Rathgama

**2019**

- Relocation of the Galle branch from Pettigalawatta to Wackwella
- Addition of one more branch at Karapitiya
- Appointed as the CBSL authorised money dealer for currency exchange

**2020**

- Receipt of the South Asian Excellence Award 2019 to be the Emerging Finance Company of the year
- Addition of a branch in Negombo and relocation of the Mirissa branch to Matara
- Procured e-Finance, the new core banking system with a revamping of Company's IT infrastructure

# 2021 - 2022

**2021**

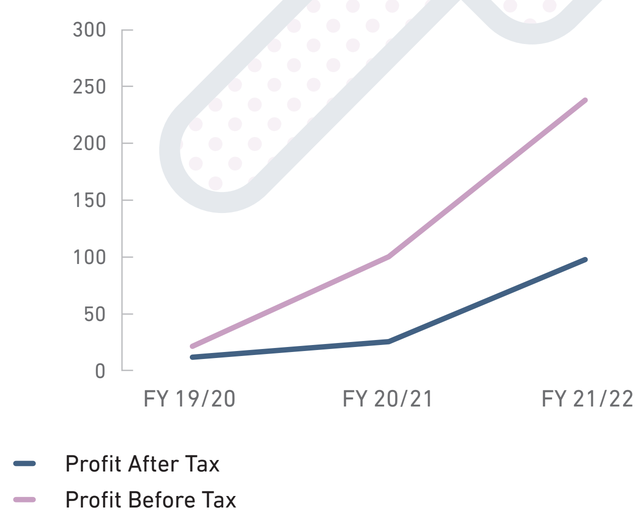
- Successful implementation of e-finance system
- Award received, Global Economics Awards 2021 Fastest Growing Financial Firm in Sri Lanka 2020/21
- Obtain SLIP system for direct customer transaction.
- Increased share capital to 2 Bn in compliance with CBSL guidelines.
- Improving ICRA rating from [SL]B stable outlook to [SL] B+ Stable outlook.
- Achieved profit before tax of 100 Mn as at 31/03/2021.
- Achieved a total asset base of 3.6 Bn within a very short period.

**2021/2022**

- Company listed it's shares on CSE during the year and become Public Listed entity.
- Award received<br>The Most Committed Finance Company to the Rural Development By South Asian Business Awards 2021
- Increased share capital to 2.5 Bn incompliance with CBSL guidelines.
- Achieved profit before tax of 238.5 Mn for the year ended 31st March 2022
- Achieved a total asset base of 4.3 Bn within a very short period.
- Expansion of Branch network from 8 to 12

# Chairman's Review

**Profitability**
Mn




## "Going forward, the Company plan to implement its strategic business plan and further expanding the branch network in expanding its business volumes during the forthcoming financial year"

I am delighted to submit the Financial Statements of Lanka Credit and Business Finance PLC (LCBF) for the financial year 2021/2022, recording a reasonable financial performance with satisfactory improvements in profitability and return.

Due to the unhealthy macro-economic factors and the uncertainties prevailing in the local and global financial environment, we as a financial institution experienced a downward trend encountering considerable impact on our operational and financial performance. However, despite these impediments, we were able to successfully accommodate the business and personal financial needs of our valued customers actively supporting them to realize their financial needs during the operating year 2021/2022.

Amidst this unhealthy economic background, and other natural disasters, we were able to make a Profit Before Tax of Rs 238 Mn during the financial year ended 31st March 2022.

We commenced the year with a centralized operating system and a branch expansion programme backed by a strategic five-year business plan in further strengthening our business activities. Further, the Company's shares were listed on the Colombo Stock Exchange and LCBF was upgraded consequent to compliance with the regulatory requirement to maintain a core capital of Rs 2.5 Bn.

Supported by these prudent measures, the Company was able to record a reasonable financial performance, successfully managing the impact of COVID-19 pandemic as well as the forex crisis, volatile interest rates, power crisis, and political uncertainties, prevailed in the Country. The Company strengthened the recovery process of non- performing advances, thereby reducing the impact on the profitability of the Company, arising out of impairment of financial assets as per SLFRS 9. Our progress was reaffirmed by the upgrade of our credit rating from "B Stable" to "B + Stable" by the rating agency ICRA Lanka, during the financial year under review.

In this milieu, I would like to submit the following summary of the financial performance of LCBF for the Financial Year 2021/2022.

The Company's Income grew by 17% to Rs.541 Mn over the previous year's Rs. 461 Mn. Likewise, the Interest expense grew by 10% compared to the previous financial year. While the Loans and Lease & HP Receivable reached Rs.3,027 Mn from the previous year's figure of Rs.2,306 Mn, the Deposit base growth reached Rs.963 Mn from the previous year's Rs.832 Mn. The total assets of the Company amounted to Rs.4,357 Mn, reflecting customer loyalty and stability of the Company.

Going forward, the Company plan to implement its strategic business plan and further expanding the branch network in expanding its business volumes during the forthcoming financial year.

With its commitment to serve the people in Sri Lanka, LCBF will continue to provide low-cost user friendly financial and other services to the customers across the nation, whilst developing the career path of its employees and providing better returns to all other stakeholders in the financial year 2022/2023.

I wish to express my sincere appreciation for the valuable advice and cooperation extended to me by my colleagues on the Board, to direct the Company on a path of sustainable growth with due compliance with the regulatory, statutory requirements and environmental concerns. I also wish to record my sincere thanks to the valued shareholders for placing their trust in investing in the Company, contributing immensely towards its growth. Further, I wish to acknowledge with pleasure the deep commitment, loyalty and dedication of the CEO / Executive Director and the staff members at all levels, who contributed towards achieving the financial results as recorded herein, during this financial year.

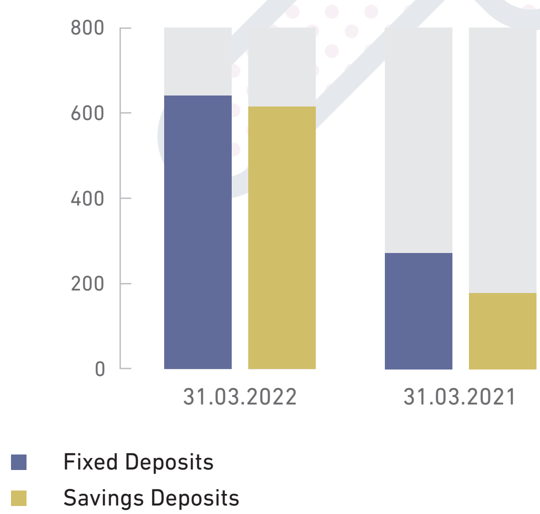
**Emeritus Professor W M Abeyrathna Bandara**
*Chairman*

**Loan and Lease Receivable**
Mn

# CEO's Review

"We aim to recruit approximately over 100 human resources in the next financial year fostering their capacities through an aggressive HR and training plan to support our business growth"

**Deposits Mobiliisation**
Mn




The beginning of the financial year 2021 seemed promising with signs of growth prospects in the macroeconomic environment. After a year of distress following the outbreak of COVID-19 in 2020, and the economy plunging record lows, it was refreshing to see indications of normalisation and progress in the operating background during the financial year. Overall, the daily activity and the business context settled into a 'new normal' further encouraged by the vaccination drive and the satisfactory performance of the key economic sectors. The government and the CBSL's debt moratorium to support those individuals and the businesses affected by the pandemic also aided this recovery in the initial half of the year.

However, the intensified COVID-19 situation towards the latter part of the year once again obstructed the progress with the Country being driven into three week-long lockdowns and movement restrictions. This was a hard hit on the already weakened economy which was struggling due to the spillover effects of the pandemic. With emerging signs of an escalating economic crisis, the key sectors showed subdued performance leading to an acute forex crisis, trade shortfalls due to export controls and debt sustainability issues with declining government reserves. Against this backdrop, the rupee value depreciated against the US dollar, and inflation continued to rise sharply while the unemployment levels remained above average impacting people's disposable income. The rapid escalation of prices of essential goods, shortages of fuel and gas as well as prolonged power cuts laid tremendous pressure on the public and by the end of the financial year, these frustrations and uncertainties culminated in public unrest.

In this milieu, the NBFI sector improved in terms of credit growth and profitability, which was mainly driven by the loans and advance portfolio. Despite some institutions encountering difficulties at an individual level, the sector remained stable with healthy levels of capital and liquidity. In general, one of the major challenges was the repayment capacity of the existing and prospective customers given the immense economic pressure on them. The collection and recoveries as well as branch operations and conduct of business activities also encountered challenges from time to time due to pandemic situation with cost management being pushed into the forefront of priorities amongst the industry players.

**Company Performance**

LCB faced the same challenges during the period with impediments to branch operations, business continuity during the lockdown period as well as difficulties in collection and recoveries. The impact of the current economic condition on the borrower's repayment capacity was a critical challenge encountered during the period.

Given the issues encountered in the recovery process during the phase, we continue to improve our recovery process by introducing attractive packages for the existing loan customers. By collecting a vast amount from the customers, we invested it for high returns in the market. In addition, we extended our deposit mobilisation campaign where we were able to increase our deposit base by 16 per cent compared to the previous financial year from the market.

All these strategies enabled us to survive without difficulties in the market during a volatile period recording a profit of Rs. 97 Mn during the year. We were able to increase interest income supported by our investment portfolio and prudential cost control measures.

The Company's revenue increased by 17 percent recording an amount of Rs. 541.5 for the financial year 2021/2022 compared to the Rs. 461.3 recorded in the previous year. The Company's Profit before Tax (PBT) grew by 138 per cent to Rs.238.5 Mn as against Rs.100.3 Mn profit before tax reported in the corresponding period of the previous year.

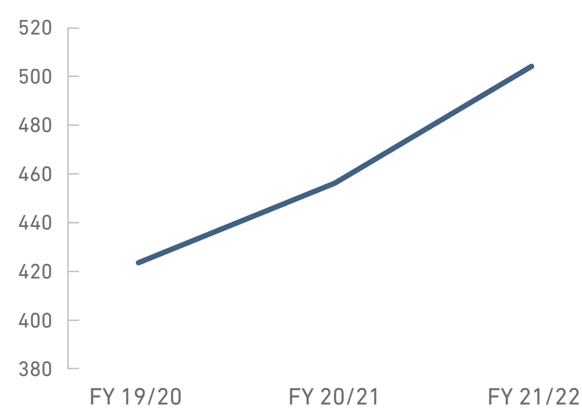
LCB Finance's profit after tax increased by 290 per cent to Rs.97.6 Mn mainly due to an Increase in Interest Income on loans and advances, penalty interest and fee and commission income by 30.3Mn, 19.4 Mn and 16.8 Mn respectively compared to the previous year. Consequently, the total asset base grew by 18.6 percent during the year under review to Rs. 4,356.66 Mn as of 31 March 2022.

We also introduced new products into our product portfolio making them more pertinent to the needs of the people. We introduced a credit product, namely the 'Top Up' facility to an already existing product which we commenced six years ago and have established a loyal customer base. We motivated these existing customers to obtain an additional facility provided under the 'Top Up' product without any security within a short period, making it a successful initiative.

In addition, we introduced a savings campaign - 'Sihina Ayojana' - investment account which is a compulsory contract account that allows the customer to have regular savings enabling him/her to receive an amount at the end of the contract period. As many of our fixed-income customers were satisfied with this product offering, we continue to promote the same during the year. We also improved our lease portfolio recording the highest achievement through lease portfolio in FY 2021/22.

**Interest Income**

Mn



# CEO's Review

### Key Milestones
The listing of the Company on the Colombo Stock Exchange (CSE) on November 26th, 2021, was a major milestone in our business. Meanwhile, we were also able to comply with the core capital requirement of the CBSL before 31st December as stipulated. We also implemented a highly centralised core banking system investing Rs. 50 Mn consolidating all our account systems before 31st December 2021. In line with our branch expansion strategy, we added 4 new branches to the existing branch network improving our business volumes, financial performance, and profitability.

Our success was reaffirmed with the recognition of the Company as the 'Most Committed Financial Institution for Rural Development' in Sri Lanka by South Asia Business Excellence awards in the year 2021. The Company's rating was also upgraded to [SL] B+ stable during the year from [SL] B stable by ICRA Lanka limited considering our asset quality and the core capital requirement. the Company's upgraded rating was a remarkable achievement for LCB finance during the period.

### Future Direction
As we pursue our growth strategy, we intend to expand our presence across the nation having obtained approval from CBSL to open 13 new branches. In the near term, we wish to increase it to 32 branches establishing our extensive presence across the island. For this purpose, we have formulated the branch opening plan including the selection of locations and the people. We aim to recruit approximately over 100 human resources in the next financial year fostering their capacities through an aggressive HR and training plan to support our business growth. In this endeavour, we will fervently work at reducing costs in every aspect of our operations with a plan to decrease the branch costs by 30 percent.

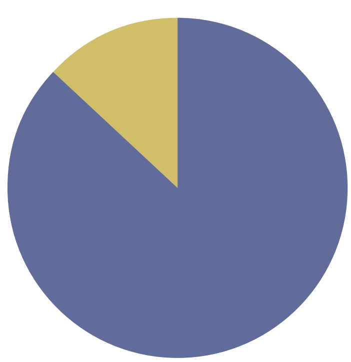
We have also planned to obtain foreign credit facility negotiating with prospective lenders overseas and are currently in the finalising stage to obtain funding. Additionally, we propose to share an ATM with a reputed commercial bank and having signed a contract on this behalf we intend to share this new technology with the customers using the well-established commercial bank network.

### Appreciation
At a time of unprecedented challenges, I am proud to see the achievement of LCB Finance with a higher rating, awards of recognition and maintaining profitability. The achievement was only possible for the invaluable contribution of the Chairman and the Board of directors, the Corporate Management, and the staff members. Therefore, I wish to extend my sincere gratitude to the Chairman and the Board of Directors for their advice and guidance in taking our Company to a new pinnacle. Moreover, I wish to thank my colleagues, the management team and the staff for their commitment and diligence in driving the Company towards success.

A special thank you to our shareholders, the customers and regulators for their trust and loyalty to us and their continued support in the expansion and growth of the Company.

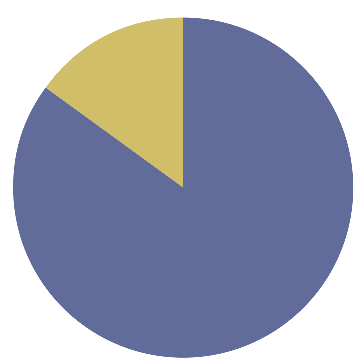
**K G Leelananda**
*Chief Executive Officer/Executive Director*

### Product Mix Loans, Lease & HP 2022
%



| | | |
|---|---|---|
| ■ | Loans and Receivables | 85% |
| ■ | Lease receivables and Hire Purchases | 15% |

### Product Mix Loans, Lease & HP 2021
%



| | | |
|---|---|---|
| ■ | Loans and Receivables | 85% |
| ■ | Lease receivables and Hire Purchases | 15% |

# Connective Synergy Collective Growth

# Capital Management Report

## Financial Capital

### Overview

The COVID-19 pandemic that continued throughout the financial year had an adverse impact on many business segments in Sri Lanka with its long-term implication of stagnant economic growth, rising inflation, unemployment, and other external factors that impacted the LCB's performance.

Nevertheless, the Company was able to mitigate these obstacles by initiating procedures to reinstate a reasonable extent of normalcy in operation via migrating into digital operations and innovative product additions. Some of these offers include the introduction of doorstep banking facilities for savings and loan recovery activities for customers, collaboration with Cargills bank SWIFT Payment system enabling efficient fund transfer, obtaining access to funding transfer via SLIPS and facilitating fund transfers from any bank or branch.

Moreover, LCB Finance became a public listed Company in November 2021 raising capital worth Rs. 500 Mn through its Initial Public Offering (IPO) which was utilised for the growth in the loan portfolio. In addition, the Company also increased their interest income by granting new facilities for customers while ensuring prudent cost management across its operations. Further, the recovery process was also strengthened by decreasing impairment charges for the year.

### Revenue

LCB Finance's revenue grew by 17 per cent to Rs.541.5 Mn in 2020/21 FY from Rs.461.3 Mn in the previous year. The Company's profit after tax increased 290 per cent to Rs.97.6 Mn during the reporting year against the Rs. 25 Mn reported in the corresponding period of the previous year. This increased revenue was mainly due to an Increase in Interest Income on loans and advances, penalty interest and fee and commission income by 30.3Mn, 19.4 Mn and 16.8 Mn respectively compared to the previous year.

| 2022 | 2021 |
|---|---|
| 541,564,211 | 461,375,089 |

### Profitability

LCB Finance's profit before tax (PBT) reported a growth of 139.6 per cent to Rs.238.5 Mn as against Rs.100.3 Mn profit before tax reported in the corresponding period of the previous year. Retained profits of the Company for the year recorded Rs.119.4 Mn vis a vis Rs. 26.73 Mn reported in 2020/2021. This growth in profitability was attributed to the increase in interest income, revenue generation and impairment reversal on loans & advances and Lease and Hire purchases receivable. As opposed to the industry sector performance during the year, the Company was able to maintain a lower NPL ratio due to the effectiveness of the recovery process. The gross NPL ratio as of 31st March 2022 remained at 13.2% and the Company's NPL Advance amount as of 31st March 2022 remained at Rs. 445 Mn as opposed to the previous year's Rs. 372Mn.

### Assets and Liabilities

LCB Finance's total asset base grew by 18.6 percent during the year under review to Rs.4,356.66 Mn as of 31 March 2022. Loans and other advances account for 60 per cent of the total asset base, which was an improvement from the previous year.

The Company's asset base mainly increased due to the Increase in Loan and Receivable balance by Rs. 665.2 Mn compared to the previous year. During the year, the Company has collected IPO funds work Rs. 500 Mn which was fully utilised for the growth in the loan portfolio.

The Company's liabilities increased by 7 per cent to Rs. 1,676 Mn during the year, due to an Increase of due to an increase of customer and bank liability by 131 Mn and 67 Mn respectively compared to the previous year.

| | 2022 | 2021 |
|---|---|---|
| Gross NPL | 13.2% | 13.93% |
| Provision Coverage ratio | 51.43% | 76.37% |
| Return on Assets (before Tax) | 5.47% | 2.73% |

### Portfolio Performance

LCB Finance's growth in product portfolio is mainly attributed to the growth in term loans, gold loans, leases, and hire purchase products. During the year, the Company increased the Loan granting utilising IPO funds.

The Company provided Rs. 10.8 Mn Impairment provision for Factoring that resulted in a decrease in factoring portfolio and introduced a new loan category as a consumer loan for the government institution considering the lower risk level compared to the other loan categories' recoverability levels. High and default risk remains considerably low in this product category.

### Cost Management

Personnel costs increased by 14 percent mainly due to the new recruitments of the Company as well as an increase in allowances for all employees.

# Social and Relationship Capital

We encourage mutually beneficial relationships with all our stakeholders in creating long-term value and supporting individual and collective wellbeing. These supportive relationships in turn have preserved our social license to operate. Accordingly, during the year we continued to reinforce our relationships with our customers, employees, investors, suppliers, community, and the regulators building mutual respect, trust, and accountability for the future sustainability of the Company.

### Customers

Over the years, we have nurtured strong relations with our customer base acquiring a total clientele of over 25,000 by the year under review. By establishing a personalised customer communication system between our sales staff and the customers, we have provided the space to easily voice their concerns thereby addressing the matters in a timely and effective manner.

### Employees

The backbone of our success, we have nurtured relations with our human resources through training and development opportunities, rewards and recognition, a range of benefits and welfare initiatives and work-life balance programs to enhance their motivation and productivity. At present, we have a total of 127 employees of whom a majority have been with us for over three years.

### Investors

As our key business partners who directly and indirectly influence our strategic decisions, we have sustained healthy relations with our shareholders and investors frequently updating them on the Company's performance. We communicate with them on a monthly, quarterly, and annual basis sharing the Annual Report with the investors and inviting them to the Annual General Meeting of the Company.

Through prudent strategy and risk management, we remain committed to safeguarding the interests of the shareholders and the investors securing positive returns on their investments.

### Suppliers

We have sustained amicable relations with various suppliers who provide us with everything from furniture, infrastructure, software and IT, transportation, advertising, and promotions. By supplying us with all the essentials for service product and service delivery, they indirectly promote our business growth.

### Community

We understand our responsibility towards society and hence remain dedicated to supporting the communities in which we operate by uplifting their lives. This in turn has enabled us to foster mutually beneficial relations with the community. Therefore, every year, the Company supports several community projects and charities that are aimed at improving the community. During the year, we contributed a total amount of Rs 2 Mn for community upliftment that includes Donation for Sri Lanka Welfare Organisation of Visually Impaired Women and donation for cancer hospital in Karapitiya.

### Regulatory Authority/ Government

We have maintained healthy relations with our industry regulators by adhering to all the required regulatory frameworks, rules and regulations issued by the Central Bank of Sri Lanka (CBSL), and Tax authorities while timely payment of tax, return submissions and reporting to the CBSL.

# Manufactured Capital

The manufactured capital, which is the collection of physical, material, and technological infrastructure available to the Company is fundamental to our progress as it allows us to maintain our business activities and presence across the island. It is an integral part of our value creation process that enables greater efficiency, consistent business operations, and better access to the customers in facilitating business growth.

Currently, our manufactured capital includes the Company owned branch network, motor vehicles, machinery, office equipment, furniture and fittings, name boards, computer equipment and software. These together enable us to respond to the market needs by providing innovative financial solutions to the customers.

Our property, plant & equipment is aligned to meet the growth objectives of the Company where we have made the following investments during the year under review.

| Manufactured Capital | Investment during the year (LKR) |
|---|---|
| Motor Vehicles | 7,848,899 |
| Machinery | 40,704,000 |
| Office Equipment | 5,717,221 |
| Furniture and Fittings | 9,740,781 |
| Name Board | 3,910,339 |
| Computer Equipment and Software | 1,573,575 |

### Branch expansion

In our aim to reach the customer segments in the nation, we have established a branch network comprising 12 branches spread across key strategic locations in the Country. During the year, we opened 4 new branches in the areas of Kulliyapitiya, Tangalle, Deiyandara and Akuressa.

### Technology infrastructure

We have embraced technology in enhancing efficiency and reduce resource usage. In this connection, since the previous financial year, we have enhanced the IT capabilities of the Company to accommodate the following;

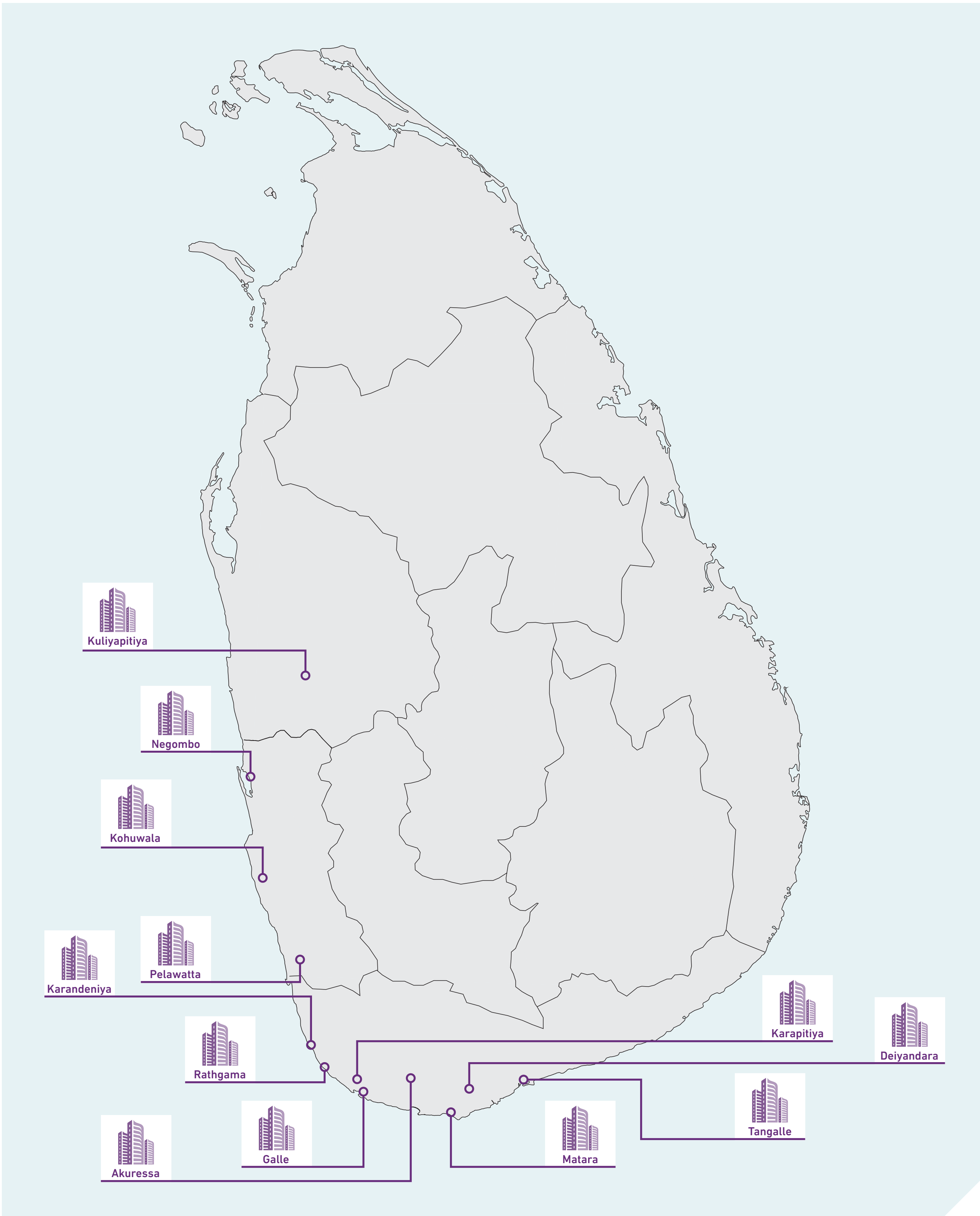
- SMS alert to customers notifying real-time account operations
- Facility to generate letters to defaulters to remind them to regularize their loan/ lease facilities indicating the default status at a given date
- Facility to upload scanned security documents and related details
- To operate the SLIPS system as per Lanka Clear operational standards
- Provide for retention of CCTV coverage for 90 days as per rules issued by the FIU
- Improved MIS operations

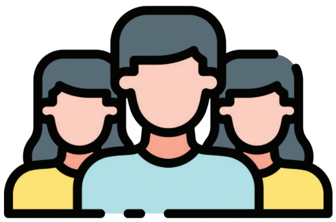
Considering the high cost of procurement and maintenance of IT infrastructure at present, we are compelled to purchase these only based on the necessity for branch expansion and routine requirements. However, we continue to provide network support to branches and departments to enhance working efficiency and productivity despite the cost and prevailing short supply of equipment.

Despite the high cost of investment in technology innovations, the management will continue to expand our customer touch-points through the purchase of necessary hardware and related equipment to sustain continues progress of the Company.

### Branch Network

| BRANCH | Branch Manager | Address | Phone | Fax | Email |
|---|---|---|---|---|---|
| Galle | Mr. K. T. D. Darshana | No :119,Wakwella Road, Galle, Sri Lanka. | +94 91 22 47 222 | +94 91 22 47 222 | lcbgalle@lcbfinance.lk |
| Karapitiya | Mr. G. K. L. Iman | No: 249/d,Golden Range, Karapitiya, Sri Lanka. | +94 91 22 45 810 | +94 91 22 45 810 | lcbkarapitiya@lcbfinance.lk |
| Matara | Mr. S. P. T. H. Subasinghe | No 68, Anagarika Dharmapala Mawatha, Matara, Sri Lanka. | +94 41 22 50 017 | +94 41 22 50 017 | lcbmatara@lcbfinance.lk |
| Rathgama | Mr. K. H. D. De Silva | No. 622, Devenigoda, Rathgama, Sri Lanka. | +94 91 22 68 160 | +94 91 22 68 160 | lcbrathgama@lcbfinance.lk |
| Kohuwala | Ms. P. N. J. Dias | No 76, S de S Jayasinghe Mawatha Kohuwala, Nugegoda, Sri Lanka. | +94 11 28 25 404 | +94 11 28 25 406 | lcbkohuwala@lcbfinance.lk |
| Karandeniya | Mr. L.G.I. Pushpa Kumara | Elpitiya Road, Maha Edanda, Karandeniya, Sri Lanka. | +94 91 22 90 255 | +94 91 22 90 255 | lcbkarandeniya@lcbfinance.lk |
| Pelawatta | Mr. M. S. T. Fernando | No. 07, Mathugama Road Pelawaththa, Sri Lanka. | +94 34 22 84 810 | +94 34 22 84 810 | lcbpelawatta@lcbfinance.lk |
| Negambo | Mr. K. G. D. C. Gamage | No. 615, Colombo Road, Kurana, Negambo, Sri Lanka. | +94 31 22 26 565 | +94 31 22 26 566 | lcbnegambo@lcbfinance.lk |
| Kuliyapitiya | Mr. C. D. B. Eramudugolla | No 33, Hettipola Road, Kuliyapitiya, Sri Lanka. | +94 37 22 86 280 | +94 37 22 86 280 | lcbkuliyapitiya@lcbfinance.lk |
| Tangalle | Mr. H.K.G. Priyankara | No 157, Hambanthota Road, Tangalle, Sri Lanka. | +94 47 22 44 000 | +94 47 22 44 000 | lcbtangalle@lcbfinance.lk |
| Deiyandara | Mr. H. V. D. A. S. Kumara | Opposite Deiyandara Hospital, Deiyandara, Sri Lanka. | +94 41 22 68 958 | +94 41 22 68 958 | lcbdeiyandara@lcbfinance.lk |
| Akuressa | Mr. D. H. T. S. Gunawardane | No 66/A, Matara Road, Akuressa, Sri Lanka. | +94 41 22 80 090 | +94 41 22 80 090 | lcbakuressa@lcbfinance.lk |


Kuliyapitiya
Negombo
Kohuwala
Pelawatta
Karandeniya
Rathgama
Karapitiya
Deiyandara
Tangalle
Akuressa
Galle
Matara



# Human Capital

Our human capital is the essence of the Company as it is they who drive the Company towards growth handling a variety of tasks related to the business operations with competency and productivity. Without this vital asset, it would be challenging to prosper in a perpetually changing environment.

At LCBF, our Human Resource Policy is formulated with a primary emphasis on encouraging a non-discriminatory, diverse, and equal opportunity culture within the organisation, maintaining significant gender representation at all levels of Company operations. With an unbiased recruitment process in place, we have implemented human resource policies and procedures to ensure that all employees are treated equally and fairly.

At present, we maintain a 57:43 male to female ratio amongst a total staff of 127 employees who are spread across management, marketing and sales, branch network, treasury, financial product services, as well as administrative and support functions of the Company. Adding further to the total cadre, the Company recruited 94 of new employees to the LCBF family during the year. A majority of the employees fall under the executive and trainee category and are between 21-30 years of age.

**Employees by Gender Breakdown**

| Male | Female | Total |
|---|---|---|
| 73 | 54 | 127 |

**Employee by Type of Employment**

| Employee Type | Number |
|---|---|
| Permanent | 43 |
| Probationers | 24 |
| Contract | 29 |
| Trainees | 31 |
| Total | 127 |

Our Human Resource Strategy aims to create value for the employees through;

- Training and Development
- Rewards & Recognition
- Industry par Remuneration
- Performance Evaluation
- Conducive work culture

Given our sincere commitment to cultivating a knowledgeable and productive workforce within a favourable work environment, the staff turnover rate remained within the industry average maintaining a rate of 31.5 percent during the year. The measures we have carried out over the years to promote the development of our employees such as frequent training, continuous feedback on their performance supporting them on their career path, and appreciation of their performance through timely rewards and recognition have contributed to staff retention.

Providing them with a range of benefits to support their welfare such as industry par remuneration, annual bonus, entitlement to EPF & ETF, and the timely address of their grievances have enabled us to sustain their motivation and determination to work for the Company.

### Unbiased Recruitment

All employees are recruited impartially without any discrimination based on gender, religion and ethnicity and selection is solely grounded on the employee's suitability for the vacant position along with qualification, experience, general conduct and the potential for efficiency and quality service delivery. Although Job positions are advertised through job sites, social media platforms and LinkedIn, we have high consideration for employee referrals in recruitment.

### Professional Development

During the year, we conducted learning and development programs focusing on all employees to enhance their existing capabilities and instil new knowledge. New recruits were oriented through an induction program to welcome them and settle them into their new job role while regular training sessions were conducted for employees on a monthly basis. A total of 5 trainings were held during the year related to tellers, recovery, Finance and Legal held by CBSL and CASL.

### Performance Evaluation

The Company's annual performance evaluation is conducted at the end of every financial year which allows the organisation to assess the employee's performance based on Key Performance Indicators thereby recognising their valuable contribution with rewards and promotions. Likewise, performance evaluation also enables the Company to identify training requirements for the employees and provide them with an avenue to develop the necessary skills and knowledge required to perform their job roles.

### Work-life balance

A healthy work-life balance enables employees to be more in control of their life at the workplace while looking after their own wellbeing. This in turn will encourage enhanced motivation for better performance. In embracing this notion, the Company has consistently promoted work-life harmony within the organisation through a favourable leave policy as well as nurturing a family-friendly work environment.

### Health and Safety

Eliminating or reducing the risks to health and safety at the workplace remains a key priority of the Company and in this connection have implemented all the necessary safety precautions to protect the employees as well as the customers from the COVID-19 pandemic. During the pandemic phase, the Company also conducted a COVID-19 Awareness program to reduce the spread of the virus within the organisation. Additionally, the Company also offer field staff personal accident cover to safeguard them from difficulties arising from unexpected incidents.

### Human Resource related Compliance

The Company adhere to all human resource related compliance including non-discrimination policy, child labour & forced labour regulations, provide maternity benefits as per the ordinance. Further, we comply with Employment of Women, Young Persons and Children Act and Labour laws related to compensation and benefit as well as the Country's Law and Shop and Office Act.

# Natural Capital

We recognise our moral obligation to deal with the environment in a sustainable manner promoting responsible business practices to minimize our impact on the environment. Therefore, our environmental strategy incorporates environmental sustainability as an important element and considers all renewable and non-renewable environmental resources and processes that support current and future prosperity of our business and all our stakeholders as natural capital.

Our Environment Policy aims to;

- Conserve energy and support deforestation through a paperless environment
- Educate our staff to facilitate more environment-friendly projects

### Environmental management initiatives

In our commitment to safeguard the natural ecosystem, one of our key priorities was the education of employees on the importance of environmentally conscious behaviour thereby initiating a culture change within the organisation. Apart from that, we have made effort to reduce the energy consumption within the office premise by communicating to the staff regarding mindful usage of A/C and lighting within office hours. Besides, we have reduced paper usage for printing only, when necessary, including both sides printing while leading more towards the e-finance platform. Shifting from manual processes to online platforms has enabled us to considerably reduce paper usage within the Company.

Further, we have also encouraged our agricultural loan customers to use natural fertilizer to minimize their impact on the environment. Promoting efficiency improvements, waste reduction and minimizing resource usage continue to be on our agenda in ensuring a healthy environment.

# Intellectual Capital

Intellectual capital, the intangible value of a business that includes tacit knowledge, systems, processes, and protocols, is vital to our business progress as it sets us apart from our competitors increasing our competitive advantage. Therefore, our intellectual capital includes our combined experience, skills and knowledge, strategies and processes, licenses, and technology as well as our reputed brand.

### Technology platform

Our investments in technology have enabled us to function uninterrupted during the pandemic and its subsequent work from home platform. The installation of an e-finance system to automate our processes has increased the efficiency of our business while improving customer service and convenience. In addition, our partnership with the Sri Lanka Interbank Payment System (SLIPS) for digital payment transfers has increased the convenience and speed of our service delivery.

The company has also established an information security policy which is implemented within LCB, and all members of the corporate management team remain responsible for this information security system.

### LCB Brand Equity

Our brand image is one of the greatest intellectual capitals as it holds our image in the public eye as a reliable, trusted and customer friendly leasing and finance Company. This has immensely contributed to acquiring our customer base over the years thereby contributing to our regional expansion and portfolio growth. We will continue to enhance our brand image through marketing and branding initiatives to sustain our market position within the non-banking finance industry.

During the year we have bestowed the South Asia Business Excellence awards 2021 for the Most Committed Finance Company to the Rural Development which is a confirmation of our reliable corporate image.

### Knowledge and capabilities

Over the years, we were nurtured a team of individuals throughout our operational divisions and branches who are skilled and knowledgeable to serve the customer base across the regions. With continuous exposure to learning and development opportunities that focus on technical and soft skill development, we have nurtured a human capital that could effectively contribute to the sustainable growth of the Company. They have not only strengthened our position in the market but have also enabled the Company to innovate and adapt to the changing circumstances during these pressing times promoting business prosperity.

### Compliance

We have adhered to all the relevant compliance measures in contributing to a stable business operation. The Company is a domiciled, public listed company incorporated in Sri Lanka and it was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto. The Company adhere to the rules, directive and guideline stipulated by the following regulatory bodies,

- Licenced Finance company by Central Bank of Sri Lanka
- Inland Revenue Department
- Colombo Stock Exchange (CSE)
- Security Exchange Commission (SEC)

**Our Products**

# Connective Progress Collective Teamwork

# Board of Directors

**Emeritus Professor W.M. Abeyrathne Bandara**
*Chairman / Non-Executive / Independent*

Emeritus Professor Abeyrathne Bandara was appointed to the LCBF Board of Directors in April, 2018. He was the Chairman of LCBL for two years prior to his appointment to the LCBF Board. Furthermore, Emeritus Professor Abeyrathne Bandara is a distinguished academic professor with over 40 years of experience in Sri Lanka's university system. He has served in both Government and private sector organizations in the financial services sector. He previously held the positions of Chairman of Pan Asia Banking Corporation Limited, Director General of the National Institute of Education, and Director of LB Finance PLC and Sanasa Development Bank PLC. At present, he acts as a Chairman on the board of United Engineering Services (Pvt) Limited. Emeritus Professor Abeyrathne holds a Master of Business Administration (MBA) from the University of Ottawa in Canada, as well as a Bachelor's Degree in Business Administration from the University of Sri Jayewardenepura. To these ends, he was honored with the title of an emeritus professor in finance by the University of Sri Jayewardenepura.

**Mr. Kandegoda Gamage Leelananda**
*Chief Executive Officer / Non-Independent*

In April, 2018, Mr. Leelananda was appointed to the LCBF Board of Directors. He was the Executive Director/Chief Executive Officer at LCBL, in April, 2016. As a pioneer member of LCBL and thereafter taking the CEO position in LCBF, Mr. Leelananda was instrumental in bringing the formerly defunct finance company, before its acquisition by LCBL, to a profitable business. Prior to joining LCBL, Mr. Leelananda worked at Sanasa Development Bank PLC since 2001, contributing towards the growth of the bank, as the Senior Deputy General Manager of the bank. He holds a Management Degree from the University of Jayewardenepura and a Diploma in Human Resource Management (HRM) from Aquinas University College. In addition, he is a Chartered Licentiate at the Chartered Institute of Sri Lanka since 1993 and has obtained a Diploma in Intermediate Banking from the Institute of Bankers of Sri Lanka (IBSL). Mr. Leelananda has successfully completed courses on Private Enterprise Development at Harvard United States of America and Management in Finance at NTUC, Singapore University. Furthermore, he has participated in the Co-operative banking system course conducted in South Korea, Netherland and Canada and was involved in a system study at Banka Italia, Italy.

**Mr. A.G. Maheen Priyantha**
*Non-Executive / Non-Independent*

Mr. Priyantha was appointed to the Board of LCBF in May, 2018. He is also a director of LCBL since April 2016. He formerly served as the Managing Director and Chairman of Maweli Traders (Pvt) Ltd., Maweli Credit and Investment (Pvt) Ltd, and has twenty years of marketing expertise. Moreover, he has served as the Managing Director in Yakkalamulla Tea Factory (Pvt) Ltd. At present, Mr. Maheen acts as a director in the board of directors of a number of companies including Maweli Traders (Pvt) Ltd, Yakkalamulla Tea Factory (Pvt) Ltd, Udumulla Tea Factory (Pvt) Ltd, Royana Holding (Pvt) Ltd, Niriella Motors (Pvt) Ltd, Binelco Marketing (Pvt) Ltd LCBL and Singhe Capital Investment Limited. Mr. Maheen holds a Degree in Human Resource Management from the National Institute of Business Management (NIBM), Sri Lanka.

**Mr. Ranjan Lal Masakorala**
*Non-Executive / Non-Independent*

Mr. Masakorala was appointed to the Board of LCBF in April, 2018. He has been serving as a director of LCBL, since April 2016. Mr. Masakorala currently serves as the Managing Director of Hotel Kabalana (Pvt) Ltd and of the Udumullagoda Tea Factory (Pvt) Ltd. He is the proprietor of 'The Villa Hotel', 'Vista Tours' and 'Uneth Car Sale'. Mr. Masakorala is also a director on the board of directors of Yakkalamulla Tea Factory (Pvt) Ltd. He has a Diploma in Management from the University of Tokyo in Japan.

# Board of Directors

**Mr. U.K. Harith Ruwan Ranasinghe**
*Non-Executive / Non-Independent*

Mr. Ranasinghe was appointed to the Board of LCBF in April, 2018 and has been a director of LCBL since June 2016. Mr. Ranasinghe served as the Chairman/CEO of Sinhaputhra Finance PLC and as a director of the board of directors of L&H Capital Partners (Pvt) Limited and Singhe Capital Investment Limited. His previous work experience includes serving as, an Assistant Superintendent and Superintendent in Sri Lanka State Plantation Corporation, the Managing Director at Thalgampala Tea Company (Pvt) Ltd and the Chairman and promoter of the 'UKG Enterprise'. He was a member of the Sri Lanka Tea Board's board of directors and audit committee. He was also a board member of the Sri Lanka Tea Research Institute and he also served as the former Secretary of the Galle Business Club and the Chairman of the Tea Factory Owner's Association of Sri Lanka. He has followed a Management Trainee Course (AOTS-LKCM) in Japan and Management Trainee Course from the National Institute of Plantation Management (NIPM).

**Mr. S.W. Subasinghe**
*Non-Executive / Independent*

Mr. Subasinghe was appointed to the Board of LCBF in April, 2018. His previous work experience includes serving as the Divisional Secretary of Galle Four Gravets, G/ Nagoda Division and also the Tawalama Division. He has also held the positions of Assistant Secretary in the Ministry of Youth Affairs and Skills Development, Project Director in the Upgrading of the Niyagama Vocational Training Center project, Director at the HRM Department of Technical Education and Training, Assistant Secretary in the Ministry of Technical Education and Vocational Training (SLAS) and a Graduate Teacher in the Department of Education. He holds a Master of Business Administration Degree from the University of Ballarat, Australia and a Post Graduate Diploma in Educational Administration from the University of La Trobe in Melbourne Australia. In addition, he has also completed a B.Sc. Management (Public Administration) Specialization Degree from the University of Sri Jayewardenepura, Sri Lanka.

**Mr. Vijitha Lokunarangoda**
*Non-Executive / Non-Independent*

Mr. Lokunarangoda was appointed to the Board of LCBF in May, 2018. Currently, he is serving as the Chairperson to Thurusaviya Fund under Ministry of Finance, and as a Director to Agriculture Sector Modernization Project under Ministry of Plantations. Also, Mr. Lokunarangoda serves as the Managing Director of the Galle Highway Express and Narangoda Group of Companies. He received the Leading Businessmen Award from the Southern Chamber of Commerce in 2019.

**Mr. Gayan Kalahara Nanyakkara**
*Non-Executive / Non-Independent*

Mr. Nanayakkara was appointed to the Board of LCBF in June, 2018. He is currently a Director of Etambagahawila Tea Factory, Mahesland Tea Factory, Wijaya Tea Factory, and Naindawa Tea Factory and has also gained experience at the management level during his tenure at Brandix Lanka Ltd and Diesel & Motor Engineering PLC (DIMO). He holds a B.Sc. Degree in Computer Science with Management from the University of Nottingham, United Kingdom.

# Board of Directors

**Mr. Ashwin Welgama Nanayakkara**
*Non-Executive / Non-Independent*

Mr. Nanayakkara was appointed to the Board of LCBF in August 2020. He has 18 years of work experience in Australia, Sri Lanka and West Africa. He previously worked for Accenture Strategy Consulting, a global firm based in Australia, along with other blue-chip Australian corporates. Prior to that he started off his career in Sri Lanka as a management trainee at HSBC where he was attached to business banking. Mr. Nanayakkara currently holds a directorship at NEM Construction (Pvt) limited. He holds a M. Sc. in Law and Accounting and a LL.B Degree from the London School of Economics , in the United Kingdom.

**Mr. Dushmantha Thotawatta**
*Non-Executive/ Independent*

Mr. Thotawatta was appointed to the Board of LCBF in August 2020. Mr. Thotawatta previously held the post of Chief Executive Officer at Lanka Sathosa Limited and also served as the Additional General Manager and Deputy General Manager of Finance at the National Water Supply and Drainage Board. In addition, he has also served as the Finance Director at Samurdhi Authority of Sri Lanka. His academic achievements include a Bachelor of Commerce (Special) Degree from the University of Sri Jayewardenepura and a Masters in Arts and Financial Economics from the University of Colombo. He is also a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.

**Mr. Kapila Indika Weerasinghe**
*Non-Executive/ Non-Independent*

Mr. Weerasinghe was appointed to the Board of LCBF in April, 2018. He has served as a director in LCBL since July 2016. He currently serves as the Managing Director and Chairman of Transline GMBH- Transport and Packaging and RKW Courier Service. Mr. Weerasinghe is a leading-businessmen in Germany and holds a Diploma in Chartered Accountancy.

**Mr. Mahesh Katulanda**
*Non-Executive/ Independent Director*

Mr. Mahesh Katulanda was appointed to the Board of LCBF in September 2021. He is the Chairman/CEO of the Office on Missing Persons and a Senior Attorney-at-Law. Mr. Katulanda previously held many leadership roles including Director - Sri Lanka Insurance (General) Limited (2014), Director - Marine Environment Protection Authority (2012-2015), Board Member of the Post Graduate Institute of Science, University of Peradeniya (2010), Director - General of National Aquatic Resource Development Agency (NARA) (2010), Director - Water Resources Board (2002-2004), Member of the Committee appointed to probe into the matters pertaining to promotions and corruption in Mahaweli Authority of Sri Lanka (2003-2004) and Vice President of the Colombo Law Society (2019-2020). He is also an EXCO Member of the Bar Association of Sri Lanka (2003-2004), (2012-2013), (2018-2020). He was sworn in as an Attorney-at-Law of the Supreme Court of Sri Lanka in December 1995. Mr. Katulanda holds an LLM in Global Business Law from La-Trobe University, Australia.

# Management Team


| No. | Full Name | Designation |
|---|---|---|
| 01 | Suminda Nalaka Anthony De Silva | DGM - Admin & Operations |
| 02 | Aruna Priyashantha Vithanage | DGM - Business Development & Fund Mobilization |
| 03 | Arachchige Don Ajith Felician Jayakody | DGM - Credit & Recoveries |
| 04 | Keerthi Kelum Wannige | AGM Finance & Strategic Planning |
| 05 | Rathnayaka Mudiyanselage Gnanaratne | Head of Compliance |
| 06 | Walpala Liyanage Iresha Dinushani | Senior Manager - Legal |
| 07 | Kurukohothanne Gedara Sajith Suranga Senevirathna | Head of IT |
| 08 | Buddhini Darshika Mathararachchi | Chief Risk Officer ( Pending CBSL Approval) |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| No. | Full Name | Designation |
|---|---|---|
| 09 | Abeygunawardana Samarasinghe Rajitha Udayakumara | Manager - Human Resources |
| 10 | Thilina Abeysiri Gunawardana | Information Security Officer |
| 11 | Athauda Arachchillge Weerasekara | Manager Audit & Investigation |
| 12 | Dunukara Mudiyanselage Wijekoon Bandara | Manager - Admin & Operations |
| 13 | Magage Piyathissa | Manager - Coperative Business Development |
| 14 | Kandiaha Sasikumar | Manager- Recoveries |
| 15 | Harshani Sirimanna | Manager Legal |
| 16 | Weerabahu Mudiyanselea Thilakarathna Bandara | Manager - Credit |

# Management Team


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| No. | Full Name | Designation |
|---|---|---|
| 17 | Himashi Jayasinghe | Legal Officer |
| 18 | Deneththi Milinda Madushan | Manager - Finance |
| 19 | Loku Deeganage Indika Pushpakumara | Branch Manager - Karandeniya |
| 20 | Ponnahannedige Nisansala Jeewanthi Dias | Branch Manager - Kohuwala |
| 21 | Katukurunde Gamage Don Chaminda Gamage | Branch Manager - Negombo |
| 22 | Mihindukulasuriya Sampath Thushara Fernando | Branch Manager - Pellwatta |
| 23 | Dahanayaka Ralalage Wijaya Dahanayaka | Manager - Deposits |
| 24 | Hewa Kekanadurage Gayan Priyankara | Acting Branch Manager - Tangalle |


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| No. | Full Name | Designation |
|---|---|---|
| 25 | Game Kankanamge Lakshitha Iman | Branch Manager - Karapitiya |
| 26 | Karunamuni Hasitha Dayan De Silva | Branch Manager - Rathgama |
| 27 | Hathurusinghe Vidana Dewage Annroshan Sujeewa Kumara | Branch Manager - Deiyandara Branch |
| 28 | Chandima Deeptha Bandara Eramudugolla | Senior Branch Manager - Kuliyapitiya |
| 29 | Shyam Prasad Thilakasiri Hasalaka Subasinghe | Branch Manager - Matara |

# Corporate Governance

An effective Corporate Governance system enables a Company to cultivate a culture of integrity, transparency and accountability driving positive performance and sustainable growth. Hence, at Lanka Credit and Business Finance, we consider Corporate Governance as a pivotal aspect in determining the Company's prudent strategic direction as it directs, controls, and monitors the performance to ensure robust and balanced progress of the Company. With this commitment, we uphold the highest standards of Corporate Governance and ethical business practices in facilitating sustainable growth of the Company thereby delivering to the interest of all stakeholders.

LCB Finance's Board and the Board appointed committees hold the responsibility for ensuring governance of the Company providing a clear direction complying with principles of good governance preserved in the Code of Best Practices for Corporate Governance issued by the Institute of Chartered Accountants, Sri Lanka, and the Finance Companies (Corporate Governance) Direction No.3 of 2008 and amendments thereto.

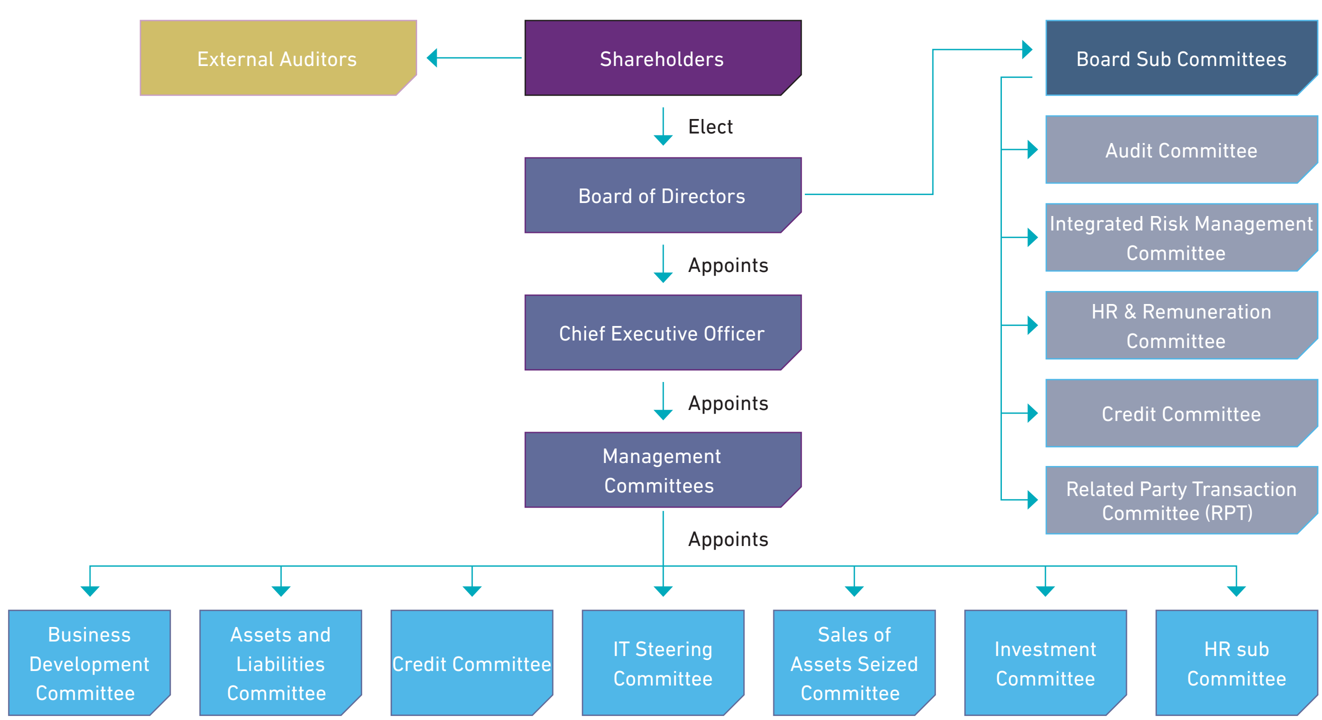
### Governance Structure

The Board of Directors holds supreme responsibility for the affairs of the Company and has set in place an appropriate governance structure to facilitate the discharge of its duties. The Board Sub Committees assist the Board in its supervision of functions in specialised areas requiring significant attention. The governance structure of the Company is aligned with its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Sub Committee and Management.

### Governance Framework

The Corporate Governance Framework of LCB Finance PLC complies with the following regulatory requirements.

- Companies Act No.7 of 2007
- Finance Business Act No. 42 of 2011
- The Finance Companies Directions issued by the Central Bank of Sri Lanka for Registered Finance Companies in Sri Lanka including Direction No.03 of 2008 and subsequent amendments thereto on Corporate Governance.
- The Code of Best Practice on Corporate Governance 2013 issued jointly by the Securities and Exchange Commission. The Finance Companies Direction No. 03 of 2008 and subsequent amendments thereto on Corporate Governance issued by the Central Bank of Sri Lanka for Registered Finance Companies in Sri Lanka.
- Listing Rules of Colombo Stock Exchange (CSE)



**Lanka Credit and Business Finance PLC – Report on Corporate Governance- 2021/22**

| Section | Corporate Governance Principle | | Compliance |
|---|---|---|---|
| 2(1) | Procedures carried out to ensure the board have strengthened the safety and soundness of the Finance company. | | |
| | a) | The board approval of the Finance Company's strategic objectives and corporate values.<br><br>Ensure the finance company has communicated the Finance company's strategic objectives and corporate values throughout the company. | Strategic Plan for the period 2023–2027 and Annual Business Expansion Plan for the year 2022 and has been established and approved.<br><br>Strategic objectives have been communicated throughout the Company at the Special Management meeting held on 26.02.2022 with the participation of All DGMs. AGMs, Dept Heads and all managers.<br><br>Further, the budget for 2022/2023 has been reviewed and approved by the Board of Directors at their meeting held on 25.03.2022. |
| | b) | The board approval of the overall business strategy of the finance company.<br><br>Ensure that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented.<br><br>Further ensure that the overall business strategy contains measurable goals, for at least the next three years. | Strategic Plan 2023-2027 includes the company's overall business strategy.<br><br>The Board approved Risk Management Policy is in place. Board Minute No. 5 dated 27.01.2020 and amended the above policy and approved by the board on 27.01.2021.<br><br>Strategic Plan for 2023-2027 contains measurable goals for next five years. |
| | c) | Ensure that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented. | The Board-appointed Integrated Risk Management Committee (BIRMC) is tasked with defining risk appetite, identifying, overseeing and managing the overall risk of the Company.<br><br>However, a process requires to be improved in the company where the Board members discuss new strategies of the company, the risks arising out of new strategies and further the ways and means to mitigate such risks. |
| | d) | The communication policy with all stakeholders, including depositors, creditors, shareholders and borrowers; | Communication Policy for communication with all stakeholders, including depositors, creditors, shareholders and borrowers is in place approved by the Board on 22.02.2019. |

| Section | Corporate Governance Principle | | Compliance |
|---|---|---|---|
| 2(1) | e) | Adequacy and integrity of the internal control system and Management information system | Internal Control system<br>There is a mechanism at the company to identify the accuracy of the internal control by the Board of Directors through the process over design and effectiveness of internal control over financial reporting. Further, Internal Audit Division of the company adds value to the process verifying the effectiveness of the above process.<br><br>However, Internal control systems of the company will be further strengthened going forward.<br><br>Management Information Systems<br>Company will develop a process initiated by the Internal Audit dept. or other independent body to review the accuracy of all financial/ non-financial information which is used by the Board and the Board sub committees and review the same and the Board should be satisfied with the adequacy and integrity of the management information systems of the company. |
| | f) | Identifying and designating Key Management Personnel | As per the KMP succession plan approved by the Board on 25.03.2022, the Company has identified and designated the CEO, DGM- Operations, DGM – Credit & Recovery ,DGM – Deposits mobilizations- AGM - Finance & Planning, Head of Compliance, Head of Risk, Head of Audit (to be recruited) , Head of IT ,Chief Information Security Officer as key management personnel. |
| | g) | Authority and responsibilities of the Board and Key Management Personnel | Company's Article 28 speaks of the powers and duties of Directors.<br><br>Further, Section 2 of Corporate Governance manual approved by the Board defines the Key Responsibilities of Board of Directors and approved by the Board.<br><br>Responsibilities of key management personnel are included in their respective job descriptions.<br><br>Authority of key management personal have been defined under powers delegated by the Board which are reviewed periodically to ensure that they remain relevant to the needs of the Company. |
| | h) | Ensure that the board has exercised appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with board policy; | Oversight of the affairs of the Company by its Key Management Personnel takes place at the regular Board meetings and subcommittee meetings and Key Management Personnel make regular presentations to the Board on matters under their purview. |

| Section | Corporate Governance Principle | | Compliance |
|---|---|---|---|
| 2(1) | i) | Assess the effectiveness of own governance practices | Company's Article 26 describes the general procedure for appointment and removal of new Directors to the company by the Board.<br><br>Article 31 of Company's Articles of Association speaks of the conflicts that may arise and how to avoid those conflicts of interests.<br><br>Determination of weaknesses of Board of directors' own governance practices and implementation of changes are being addressed through self-evaluation process of the Board members.<br><br>Self-evaluation forms for the year 2021/22 have been obtained by the company. |
| | j) | The succession plan for key management personnel. | Succession Plan for Key Management Personnel is in place which has been approved by the Board on 25.03.2022. |
| | k) | Ensure that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives. | The Key Management Personnel regularly make presentations and participate in discussions on their areas of responsibility at respective subcommittee meetings where progress towards corporate objectives is also reviewed, and where necessary make representations to the Board as well. |
| | l) | Ensure that the board has taken measures and processes in place to understand the regulatory environment and that the finance company maintains a relationship with regulators. | The Board has taken measures and processes in place to understand the regulatory environment and that the Company maintains a relationship with regulators.<br><br>New Directions/ Determinations / Circulars issued by the regulator are submitted to the Board for their awareness.<br><br>As an example, we have seen that the CEO has tabled and explained 'Direction No. 02 of 2022' dated 18.03.2022 Mobile Phone Based E – Money Services for the information of the Board at their meeting held on 25.03.2022.<br><br>Further Monthly compliance report has been submitted to the Board for their information by Head of Compliance and the Board noted the level of overall compliance of the Company. |
| | m) | Hiring and oversight of External Auditors | Company's Article 43(4) addresses the general procedure for appointment of external auditors by the shareholders.<br><br>Oversight of external auditors is carried out by the Board Audit Committee. |

# Corporate Governance

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| 2(2) | Ensure that the board has appointed the Chairman and the Chief Executive Officer (CEO).<br><br>Ensure that the functions and responsibilities of the Chairman and the CEO are in line with paragraph 7 of the Corporate Governance Directions. | Chairman and the Chief Executive Officer have been appointed by the Board.<br><br>Emeritus Prof W.M.A Bandara, Independent, Non- Executive Director has been appointed as the Chairman of the Company w.e.f 19.04.2018 and re appointed with board of directors approval on 28.04.2021 since he reached 70years in age during the year 2022.<br><br>The Board has appointed Mr. K.G Leelananda as the Director/CEO of the company on 29.06.2018.<br><br>Functions and responsibilities of the Chairman has defined under section 3 of Corporate Governance manual approved by the Board.<br><br>Functions and responsibilities of the CEO are in place approved by the Board on 19.04.2018. |
| 2(3) | Availability of a procedure determined by the Board to enable Directors, to seek independent professional advice at the Company's expense | A Board approved procedure is in place to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances, at the company's expense. |
| 2(4) | Avoidance of conflicts of interest | As per the company's Article 31(6), there is a procedure/ requirement in place for the Director to declare the nature of his interest and abstain from voting on any Board resolution in relation to a matter in which he/she or any of his/her close relation or a concern in which a Director has substantial interest.<br><br>We confirm that such a situation has not arisen during the financial year under review |
| 2(5) | Ensure that the board has a formal schedule of matters specifically reserved to it for decision to ensure that direction and control of the finance company is firmly under its authority. | The Board approved formal schedule of matters specifically reserved to the Board. |
| 2(6) | Disclosure of insolvency of the Director to the Department of Supervision of Non-Bank Financial Institutions. | Such a situation has not arisen during the year 2021/22. |
| 2(7) | Ensure that the board publishes, in the Finance Company's Annual Report, an annual corporate governance report setting out the compliance with these Directions. | Complied Accordingly. This report addresses the requirement. |
| 2(8) | Annual self-assessment by the Directors | The Board adopts a scheme of self-assessment to be undertaken by each Director annually and maintains records of such assessments. |
| (3) | Meetings of the Board | |
| 3(1) | Ensure that the board has met regularly and held board meetings at least twelve times a financial year at approximately monthly intervals.<br><br>Check whether consent of the board has been obtained through the circulation of written or electronic resolutions/papers. | Board members attendance evidence that they have met 12 times during the year 2021/22.<br><br>There were 37 circular resolutions passed during the year 2021/22. |

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| 3(2) | Ensure that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company. | The Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings. |
| 3(3) | Ensure that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice has been given. | Company's Articles of Association, Article 35(4) has a provision in this regard.<br><br>The Board has given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice has been given. |
| 3(4) | Ensure that the directors have met with the attendance requirements. (at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held).<br><br>Participation at the directors' meetings through an alternate director, however, to be acceptable as attendance. | All the Directors have attended at least two-thirds of the meetings during the year 2021/22. |
| 3(5) | Ensure that the board has appointed a company secretary whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations. | P.R Secretarial Services (Pvt.) Ltd, a qualified Secretary has been appointed to handle the secretariat services of the Company. They handle the secretarial services for the Board and shareholder meetings and carries out other functions specified in related laws and regulations. |
| 3(6) | Preparation of agenda for a Board meeting by the Company Secretary | As a practice, the Company Secretary prepares the agenda and is approved by the Chairman. |
| 3(7) | Directors access to advice and services of the Company Secretary | The Board approved procedure has to be in place for all directors to have access to advice and services of the Company Secretary to ensure all Board procedures, applicable laws, rules, directions and regulations are followed. |
| 3(8) | Maintenance of minutes of Board meetings and inspection thereof by the Directors | Complied with. The Company Secretary maintains meeting minutes and circulates them to all Board members which is open for inspection at any reasonable time to any Director. |
| 3(9) | Recording of Minutes of Board meetings in sufficient detail | Detailed minutes are kept covering the given criteria and the Board minutes contain the required details such as, individual views of the different members, ultimate decision of the Board, whether complies with strategies and policies of the company and further they evidence data, reports and information used by the board members in arriving at the decisions. |

# Corporate Governance

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| (4) | Composition of the Board | |
| 4(1) | Ensure that the board comprise of not less than 5 and not more than 13 directors. | The Board has consisted of nine Directors (11) up to 09.09.2021 and then this number has increased to 12 which is within the statutory limit required by the Direction. List of Directors are as follows.<br><br>W. M. A. Bandara, K. G. Leelananda, S. W. Subasinghe, K. I. Weerasinghe, R. L. Masakorala, U. K. H. R. Ranasinghe, A. G. M. Priyantha, V. Lokunarangoda, G. K. Nanayakkara, D. Thotawatte (Appointed w.e.f 24.08.2020) and A.W. Nanayakkara (Appointed w.e.f 24.08.2020), M.Katulanda (Appointed w.e.f.09.09.2021) |
| 4(2) | Ensure that the total period of service of a director other than a director who holds the position of CEO or executive director, does not exceed nine years. | Since all the Directors have been appointed during and after April 2018, there are no Directors who served for more than 9 years. |
| 4(3) | Ensure that the number of executive directors, including the CEO does not exceed one-half of the number of directors of the board | The Board consists of only one Executive Director I.e. Director/CEO, Mr. K.G Leelananda, and does not exceed one-half of the number of Directors of the Board. |
| 4(4) | Independent Non-Executive Directors and the criteria for independence | As per Director's details, up to 09.09.2021, the Board has consisted of only 03 Independent, Non- Executive Directors which is below the CSE corporate Governance requirement. However, after 09.09.2021 Board has appointed another Independent Director to comply with the requirement.<br><br>Complied with. As at 31 March 2022<br><br>Independent Directors during the year 2020/21 were, Prof M.W.A Bandara, Mr. S.W. Subasinghe ,Mr. D Thotawatte (A.w.e.f 24.08.2020) and Mr.M.Katulanda (w.e.f.09.09.2021). |
| 4(5) | Ensure whether the alternate director appointed to represent an independent non-executive director meets with the criteria for independent non-executive directors. | There are no Alternate Directors appointed by the Company during the year.<br><br>Such a requirement has not arisen during the financial period from 01 April 2021 to 31 March 2022. |
| 4(6) | Ensure non-executive directors have necessary skills, qualifications and experience especially in banking, finance to bring an objective judgment to bear on issues of strategy, performance and resources. | As per profiles of Non-Executive Directors, they have necessary skills, qualifications and experience especially in Banking and finance to bring an objective judgment to bear on issues of strategy, performance and resources. |
| 4(7) | Ensure whether the required quorum had been present and at least 50% of the directors present at the meetings were non-executive directors. | As per the company's Article 38, the quorum necessary for meetings of Directors shall be a majority of the Directors for the time being of the company subject to the provisions of the Corporate Governance Direction issued by the CBSL.<br><br>Board members attendance prepared by the Company Secretary for the year 2021/22 evidence that the required quorum has been present at all Board meetings and complied with the requirement. |
| 4(8) | Expressly identify the Independent Non-Executive Directors in all corporate communications that contain the names of Directors of the Company and disclose the details of Directors | Company had initiate actions to disclose names of Directors by expressly identifying their Independent, Non-Executive status in all corporate communications. |

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| 4(9) | Ensure the procedure for the appointment of new directors and orderly succession of appointments to the board. | Company's Article (26) speaks of the 'Appointment and Removal of Directors' of the company. |
| 4(10) | Ensure that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment. | Company's Article 26 (2) speaks of appointing directors to fill a casual vacancy.<br><br>There was one Director appointed to fill casual vacancies during the year 2021/22.<br><br>Mr. A.W Nanayakkara and Mr. D Thotawatte have been appointed w.e.f 24.08.2020, upon retirement of Mr. J. W Nanayakkara (Retired w.e.f 24.11.2019) and Mr. S.A Alahakoon ceasing to be a Director on 25.10.2019 and Mr. M. Katulanda has been appointed w.e.f. 09.09.2021. |
| 4(11) | Ensure whether the board has announced to the shareholders and notified the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation or removal of directors giving the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the board. | The Board announce the shareholders and notified the Director of the SNBFI of the CBSL, regarding the resignation or removal of directors giving the reasons for such removal or resignation.<br><br>There were no removal or resignation of Directors during the year 2021/22. |
| (5) | Criteria to assess the fitness and propriety of directors | |
| 5(1) | The age of a person who serves as director does not exceed 70 years (Amended by FBA Direction No. 05 of 2020). | There is one director is who has exceeded 70 years of age limit in financial year and we have obtained approval from CBSL to extend his service for 1 year. |
| 5(2) | Holding office as a director of more than 20 companies/societies/body corporates inclusive of subsidiaries or associate companies of the finance company. | None of the Directors holds directorships of more than 20 companies' /entities/ institutions inclusive of subsidiaries or associate companies. |
| (6) | Management functions delegated by the board | |
| 6(1) | Ensure whether the functions delegated by the board ensure that it does not hinder or reduce the ability of the Board as a whole to discharge its functions. | By Article 28 (2), the Board is empowered to delegate its powers to a Committee of Directors or to any persons it deems fit, any of its powers which it is permitted to delegate under Section 186 of the Act.<br><br>Further, Section 5 of the Corporate Governance Manual has a provision in this regard. |
| 6(2) | Periodical evaluation of the delegation process. | As per Section 5 of the Corporate Governance Manual of the company, the Board is required to review the delegation process on a periodic basis.<br><br>The Board has reviewed the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the company as required by the direction. |

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| (7) | The Chairman and CEO | |
| 7(1) | Division of Responsibilities of the Chairman and the Chief Executive Officer | Roles of the Chairman and the CEO are separate and held by two individuals appointed by the Board. Please refer point 2(2) for details of the appointments. |
| 7(2) | Chairman preferably to be an Independent Non-Executive Director and if not, appoint a Senior Director | Prof. W.M.A Bandara, who is the Chairman of the company is an Independent, Non-Executive Director, thus no such requirement has arisen to appoint a Senior Director. |
| 7(3) | Ensure that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the CEO and relationships among members of the board. | Company has a process to obtain annual declaration from the CEO, the Chairman and other members of the Board and disclose in its corporate governance report any of the relationships between the Chairman and the CEO and Board members and the nature of any relationships among members of the Board. |
| 7(4) | Ensure whether the board evaluation process covers the following; where the Chairman:<br>(a) provides leadership to the board;<br>(b) ensures that the board works effectively and discharges its responsibilities; and<br>(c) ensures that all key and appropriate issues are discussed by the board in a timely manner.<br>(Should have been conducted at least annually). | Self-evaluation process of the company evidence that the said requirements are fulfilled.<br><br>All key and appropriate issues are discussed by the Board on a timely basis. |
| 7(5) | Ensure that a formal agenda is circulated by the company secretary approved by the chairman. | Formal agenda is circulated by the Company Secretary approved by the Chairman. |
| 7(6) | Ensure that the agenda has adequate information in relation to the agenda items. Agenda papers are circulated to the directors 7 days prior to the meeting. | Board papers are sent to the members of the Board 7 days prior to the meeting.<br><br>Agenda contains adequate information in relation to agenda items. |
| 7(7) | Encourage all Directors to actively contribute and ensure that they act in the best interest of the Company | All Directors actively participate in Board affairs and act in the best interest of the Company. |
| 7(8) | Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors | The Chairman facilitates the contribution of Non-Executive Directors and ensures constructive relationships between Executive and Non – Executive Directors. |
| 7(9) | Avoidance of engaging in activities involving direct supervision of Key Management Personnel or any other executive duties by the Chairman | As per the organizational chart, and the key management personnel, they are not under the supervision of the Chairman. Organizational Chart has been further revised and approved by the Board on 25.02.2022. |
| 7(10) | Ensure that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board. | Company maintains effective communication with shareholders at the AGM of the company and views of shareholders are communicated to the Board. |
| 7(11) | MD/Chief Executive Officer functions as the apex executive-in-charge of the day-to-day operations and businesses | As per the company's organizations chart, the CEO functions as the apex executive-in-charge of the day-to-day management of the company's operations and business. |

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| (8) | Board appointed committees | | |
| 8(1) | Establishing Board committees, their functions and reporting. | | Company has established four Board committees namely Board Audit Committee (BAC), Integrated Risk Management Committee (IRMC), Board Human Resources and Remuneration Committee (BHRC) and Board Related Party Transaction Review Committee (BRPTRC-established on 27.01.2021).<br><br>Minutes of above Committees have been submitted to the main Board for their review and action.<br><br>Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings. The Company has presented a report on the performance, duties and functions of each committee in the Annual Report. |
| 8(2) | Board Audit Committee (BAC) : | | |
| | a) | the Chairman of the committee is a non-executive director and possesses qualifications and experience in accounting and/or audit. | Mr. Dushmantha Thotawatte is appointed as the chairman of the BAC w.e.f 28.08.2020. He is an Independent / Non-Executive Director.<br><br>He is a fellow member of the Institute of Chartered Accountants of Sri Lanka with a Bachelor of Commerce (Special degree) from University Sri Jaywardanaapura and Master in Financial Economics from University of Colombo. |
| | b) | Ensure that all members of the committee are non-executive directors. | All other members in the committee are Non-Executive Directors namely Mr. G.K. Nanayakkara, A.G.M Priyantha and Mr.S.W Subasinghe. |
| | c) | Ensure that the committee has made recommendations on matters in connection with:<br><br>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;<br><br>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;<br><br>(iii) the application of accounting standards; | Committee will initiate action to make recommendations on matters in connection with the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes.<br><br>Committee has made recommendations on matters in connection with the implementation of the Central Bank guidelines issued to auditors from time to time.<br><br>Further, committee has made recommendations on matters in connection with the application of accounting standards. |
| | d) | Ensure the committee has established a policy in relation to the service period, audit fee and any resignation or dismissal of the auditor; This policy should address that the engagement partner does not exceed five years, and is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. | Committee has established a policy for external auditors which addresses stipulated matters.<br><br>No resignation or dismissal of the auditor has taken place during the year. Engagement partner does not exceed five years.<br><br>Audit committee has discussed the External Auditors' Audit fee at their BAC meeting. |

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| 8(2) | e) | Ensure that the committee has obtained representations from the external auditors on their independence and evaluated the effectiveness, and that the audit is carried out in accordance with SLAS. | External Auditors are independent since they directly report to the BAC and their Report on the financial statements of the company for the year 2021/22 indicates that the audit is carried out in accordance with SLAS.<br><br>Further, committee will initiate action to evaluate the effectiveness of the independence of the External Auditor. |
| | f) | Ensure that the committee has implemented a policy on the engagement of an external auditor which does not impair the independence and objectivity in relation to the provision of non-audit services (in accordance with Sec 8 2(e) of the regulations). | The Policy is available in the Internal Audit and procedure Manual. |
| | g) | Ensure that the committee has discussed and finalized, the nature and scope of the audit, with the external auditors including<br><br>(i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting;<br>(ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and<br>(iii) the co-ordination between auditors where more than one auditor is involved. | External Auditors have discussed and finalized scope of the audit plan for the year end 2021/22 at their meeting held on 25.03.2022 with the management.<br><br>Audit Plan addresses an assessment of the company's compliance with Directions issued and the management's internal controls over financial reporting and, the preparation of financial statements in accordance with relevant accounting principles and reporting obligations.<br><br>This is not relevant since there is only one auditor involved in the audit. |
| | h) | Ensure that the committee has reviewed the financial information of the finance company by perusing the minutes, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure. The following areas should have been addressed in the review by perusing the minutes;<br><br>(i) major judgmental areas;<br>(ii) any changes in accounting policies and practices;<br>(iii) the going concern assumption;<br>(iv) the compliance with relevant accounting standards and other legal requirements, and;<br>(v) in respect of the annual financial statements the significant adjustments arising from the audit. | At present, Company has a process to submit financial information such as Profit & Loss account and the Balance sheet on a monthly basis and at the year end to the Board Audit Committee.<br><br>Committee has reviewed and recommended the draft Audited Financial Statements for the year ended 31.03.2022 at their BAC meeting held on 26.05.2022. |

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| 8(2) | i) | Ensure that the committee has met the external auditors to discuss issues, problems and reservations arising from the interim and the final audit including matters which needs to be discussed in the absence of the executive management by perusing the minutes | However, committee will initiate action to meet external auditors to discuss issues, problems and reservations arising from the interim and the final audit with regard to the FY 2021/22 in the absence of the executive management. |
| | j) | The committee has reviewed the external auditor's management letter and the management's response thereto. | The Committee has reviewed the external auditor's Management Letter and the management's response thereto. |
| | k) | Ensure that the committee has taken the following steps with regard to the internal audit function of the finance company:<br><br>(i) The internal audit charter which covers the scope and functions of the internal audit department and satisfy itself that the department has the necessary authority to carry out its work.<br><br>(ii) The resources of the internal audit department, and satisfy itself that the department has the necessary resources to carry out its work;<br><br>(iii) The internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;<br><br>(iv) Reviewed any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;<br><br>(v) The appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;<br><br>(vi) Ensure that the committee has been informed of all resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers and has provided an opportunity for them to give the reasons for their resignations | Internal Audit Procedures Manual is in place approved by the Board on 22.02.2019 which covers the scope and functions of the Internal Audit Department and satisfy itself that the department has the necessary authority to carry out its work.<br><br>The Board Audit Committee has reviewed adequacy of resources of Internal Audit Dept as and when required.<br><br>Annual Audit Plan and progress report for the year 2022 had been presented to the BAC meeting.<br><br>Further, committee has discussed results of the internal audit process at their quarterly meetings.<br><br>There were no resignations of senior staff members of the Internal Audit Dept. taken place during the year.<br><br>As per the Board approved organization chart of the company Internal audit function is Independent and they report direct to the Board Audit Committee.<br><br>Internal Audit Procedures Manual is in place approved by the Board addresses that the audit work performed with impartiality, proficiency and due professional care. |
| | l) | The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto. | No such major internal investigations reported to the committee during the year 2021/22. |

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| 8(2) | m) | The committee has had at least two meetings with the external auditors without the executive directors being present. | The Board Audit Committee has held a meeting with the external auditors without the Executive Directors being present.<br><br>However, as required by the direction, committee will initiate actions to have at least two meetings with the external auditors without Executive Directors being present |
| | n) | The Terms of reference of the committee to ensure that there is;<br><br>(i) explicit authority to investigate into any matter within its terms of reference;<br>(ii) the resources which it needs to do so;<br>(iii) full access to information; and<br>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. | Terms of Reference of the Board Audit Committee is in place which has been approved by the Board.<br><br>The Board noted the captioned paper dated 15.07.2020 recommended by the IAD. |
| | 0) | Check that the committee has met, at least four times and maintained minutes. | BAC has met 04 times during the financial year 2021/22. |
| | p) | Check that the annual report contains a report from the Audit Committee which includes the following,<br><br>(i) details of the duties and functions of the committee<br>(ii) details of the activities of the audit committee;<br>(iii) the number of audit committee meetings held in the year; and<br>(iv) details of attendance of each individual director at such meetings | Activities of BAC, No. of meetings and attendance of BAC members have been published in the Annual Report on pages 60 to 62. |
| | q) | Check that the secretary of the committee is the company secretary or the head of the internal audit function. | M/s P.R. Secretarial Services (Pvt.) Ltd has been appointed as the secretary of the BAC. |
| | r) | Ensure that the "Whistle Blower" policy covers the process of dealing with;<br><br>(i) The improprieties in financial reporting, internal control or other matters.<br>(ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and<br>(iii) Appropriate follow-up action.<br>(iv) Protection of the whistle blower | Whistleblower (Part 1) Communication Policy (Part 2) Policy procedure manual' is in place approved by the Board.<br><br>Contents of the policy will be strengthened to cover the process of dealing with the internal control and to monitor appropriate follow-up action. |

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| 8(3) | Integrated Risk Management Committee (IRMC) | | |
| | a) | Ensure that the committee consists of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee. | Integrated Risk Committee consists of one Independent Director, One non- executive director, Executive Director / CEO , Head of Compliance and Chief Risk Officer.<br><br>Members of the committee during the year 2021/22 were, Mr. S. W Subasinghe, Mr. K.G. Leelananda (ED/ CEO), Mr. A Nanayakkara (NI/ NED) Mr. Ranga Chandranath (Head of Compliance) and Mr. R.M. Gnanaratne (Chief Risk Officer) .<br><br>Head of Finance participates IRMC meetings by invitation. |
| | b) | Ensure that the committee has a documented process to capture and assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. | Committee has a documented process to capture and assess risks, i.e., credit, liquidity and strategic risks to the company on a quarterly basis through appropriate risk indicators and management information.<br><br>Board approved Risk Management Policy, Risk Appetite limits and Customer Risk Profile is in place. Committee has reviewed and recommended the Risk Management policy for the approval of Board of Directors. Chairman instructed to set CBSL imposed limits itself as risk appetite limits.<br><br>TOR of IRMC approved by the Board in place.<br><br>Risk Officer submits a Risk Report to the committee. Company assesses risk using following indicators.<br><br>**Credit Risk**<br>Classification of Loans and advances, Non- performing Loans and advances, LTV Analysis of Pawning Advances<br><br>**Liquidity Risk**<br>Liquidity risk is monitored through Assets and Liability Committee of the company and ALCO has discussed liquidity position of the company, Cost of funds, Borrowing Rate, Lending Rates (Advances), Deposit Interest Rates, Maturity Gap Analysis and investment portfolio of the company and Liquidity Stress Testing. |

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| 8(3) | b) | **Regulatory Risk**<br>Capital Adequacy Requirement<br>ALCO minutes are submitted to IRMC for their quarterly meetings. Further, Head of compliance submits a monthly compliance status report to the IRMC for their awareness.<br><br>Company has established Risk Appetite limits for categories such as Liquidity Assets Position, Capital Adequacy, Loans and Advances, Cost of Funds, Fixed Deposit and Savings Deposit composition etc.<br><br>Risk Management Policy (Version II) is in place approved by the Board at their meeting held on 27.01.2021.<br><br>However, committee will strengthen this process by identifying more risk indicators to monitor operational risk for better governance. For example, the risk indicators that can be used to measure operational risk are as follows.<br><br>➢ % of frauds detected<br>➢ % of unsatisfactory branch audits<br>➢ Branches not audited<br>➢ Cost to income ratio<br>➢ Staff turnover ratio<br>➢ Number of loss making branches<br>➢ Lack of appropriate security documents<br>➢ Number of system down time<br>➢ Outstanding annual leave of staff etc.<br><br>Currently the company has no subsidiaries or associate companies. |
| | In the case of subsidiary companies and associate companies, risk management shall be done, both on a finance company basis and group basis. | |
| | c) Ensure that the committee has reviewed specific quantitative and qualitative risk limits for all management level committees such as the Credit committee and the Asset-liability committees, and report any risk indicators periodically. | Board approved Terms of Reference of Asset and Liability Management committee and the Credit Committee is in place.<br><br>ALCO minutes are submitted to the IRMC for their quarterly meetings.<br><br>Apart from the submission of minutes the committee will have to initiate action to review the adequacy and effectiveness of management level committees which report to the IRMC such as ALCO and Credit Committee by reviewing their performance bench marking against the current TORs of such committees as required by the direction.<br><br>A Board approved TOR of Asset and Liability Management Committee is in place. |

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| 8(3) | d) | Ensure that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits. | Committee has reviewed the risk indicators which have gone beyond their limits after establishing the specific quantitative and qualitative risk limits. |
| | e) | Responsibility of the Integrated Risk Management Committee to meet at least quarterly to assess all aspects of risk management | Risk Management Committee has held 4 meetings during the year 2021/22. |
| | f) | Ensure that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks. | At the company, specific risks and the limits are identified by Risk Committee and decisions are taken collectively. |
| | g) | Ensure that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions. | Committee has to initiate action to submit a risk assessment report addressing critical risks of the company within a week of each IRMC meeting to the Board seeking the Board's views, concurrence and/or specific directions as required by the direction. |
| | h) | Ensure that the committee has establish a compliance function to assess the Finance Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically. | Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines and internal controls.<br><br>Company has appointed Mr. R.M. Gnanaratne as Head of Compliance w.e.f 20.01.2022 for the position vacant due to the resignation of mr. Ranga Chandranath<br><br>Compliance policy of the company presented by the Dept. of Compliance approved by the Board and we are in the process in amending the existing Compliance policy to include the new updations.<br><br>Head of compliance submits a monthly compliance status report to the Board and to the risk management committee.<br><br>Compliance officer will have to obtain confirmation from all operational unit Heads that they work according to approved policies on all areas of business operations of the company. |

| Section | Corporate Governance Principle | Compliance |
|---|---|---|
| 9. | Related party transactions Review committee | |
| 9(2) | Ensure that there is an established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as *"related parties" for the purposes of this Direction:*<br><br>a. A subsidiary of the finance company;<br>b. Any associate company of the finance company;<br>c. A director of the finance company;<br>d. A key management personnel of the finance company;<br>e. A relative of a director or a key management personnel of the finance company;<br>f. A shareholder who owns shares exceeding 10% of the paid up capital of the finance company;<br>g. A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest. | Company has initiated action to establish a Related party Transactions Policy which speaks on different types of related parties as per the direction and for the company to avoid any conflicts of interest that may arise from any transaction of the company with the related parties.<br><br>The Board resolve to approve and adopt the Related party Transaction Policy subject to approval of the CBSL.<br><br>Further, company has established a RPT Review Committee w.e.f 27.01.2021. |
| 9(3) | Nature of transactions with related parties to which the Corporate Governance Directions apply | Complied with. The Related Party Transactions Policy of the Company addresses all the transactions with related parties irrespective of their nature and value. Related Party Transactions Review Committee further ensures that the transactions with related parties are on an arm's length basis. |
| 9(4) | Monitoring of Related Party Transactions defined as more favorable treatment | A preventive or detective process will be implemented at the company through the core system to ensure that the company does not engage in transactions with the related parties in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the finance company carrying on the same business |

| Section | Corporate Governance Principle | | Compliance |
|---|---|---|---|
| 10 | Disclosures | | |
| 10(1) | Ensure that the board has disclosed:<br><br>(a) Annual audited financial statements and periodical financial statements (6 months ended end Sept.) are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.(RFC guideline No. 2 of 2006) | | Annual audited financial statements and periodical financial statements are prepared and published as required. |
| 10(2) | Check that the board has made the following minimum disclosures in the Annual Report: | | |
| | a) | The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. | This is been disclosed in the "Annual Report of the Board of Directors on the state of affairs of the Company appearing on pages 66 to 68 of the Annual Report |
| | b) | The report by the board on the Finance Company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. | Effectiveness of the Companies' Internal control mechanism has been certified by the Directors on pages 71 of the Annual Report under the heading "Directors' Statement on Internal Control over Financial Reporting. |
| | c) | Details of directors, including names, transactions with the finance company. | The names of the Directors are being set out on pages 28 to 33 of the Annual Report.<br><br>Transactions with the Directors are been disclosed in Note 46 on the Pages 146 to 147 Annual report. |
| | d) | Fees/remuneration paid by the finance company to the directors in aggregate. | The fees & remuneration paid to Directors are been disclosed in Note 46.1 on page 146 of the Annual Report. |

# Corporate Governance

| Section | Corporate Governance Principle | | Compliance |
|---|---|---|---|
| 10(2) | e) | Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Finance Company's capital funds. | No such accommodation are provided. |
| | f) | The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company. | Total value of short term employee benefits paid to KMPs (as per CBSL direction) during the year is Rs 5,725,000/-<br><br>Total accommodation granted. Rs 39.7 Mn<br>Term deposits/ savings deposits Rs 99.9 Mn. |
| | g) | A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance. | Details of compliances and non-compliances would be highlighted in the annual report of the Board of Directors on the affairs of the company on pages 66 to 68 of the Annual Report. |
| | h) | A statement of the regulatory and supervisory concerns on lapses in the Finance Company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the finance company to address such concerns. | There were no regulatory and supervisory concerns in the company's risk management or non-compliance with the act, rules and directions that have been communicated by the Director of the Department of supervision of Non-Bank Financial Institutions. |
| | i) | Check that the board has obtained the external auditor's certification of the compliance with the Corporate Governance directions in the annual corporate governance reports published from 17.09.2013 | Board has obtained the Corporate Governance Factual Findings Report from external auditors in this regard. |
| 11) | Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred in 10(2) (b) above. | | Board has obtained an Assurance Report from External Auditors on the effectiveness of the internal controls over financial reporting. |

# Risk Management

Risk Management is an integral part of good management and governance as it allows for identifying, analysing, and responding to risk factors that may hinder the progress of the Company. By timely identification of such risks, the Companies can prepare to minimize or mitigate the impact of risks before it occurs thereby ensuring sustainable growth.

We, at Lanka Credit and Business Finance PLC consider risk management as a significant component that impacts all our transactions including the development of financial products, and services, dispensing credit and investment activities.

**Risk Management**

Risk management is the understanding and managing of the organisation's risk environment in all business activities through the introduction of mitigation measures to contain such identified risks to acceptable levels. In this process, we take into consideration the full spectrum of risks including, liquidity, market, credit, interest, exchange, compliance, and operational risks.

**Risk Governance Framework**

A robust governance framework acts as a guideline for the Company to identify risks and implement an effective risk management strategy to minimise and eliminate risks. Therefore, the Company's risk management framework has been established to ensure that risks are identified and managed with a consistent approach across all business operations and risk types and that all decisions are in line with the risk appetite of the Company.

The Board of Directors, the Board appointed Audit Committee and the Integrated Risk Management Committee exercise the overall control of the risk management process and are responsible for ensuring effective risk management of the Company.

| Board Committees | |
|---|---|
| **Board** | The Board of Directors been responsible for the establishment and overseeing the risk management mechanisms and orderly implementation of the risk framework in the Company. Board approves the policies procedures, strategies covering all operations of the company. The Board appointed committees ensure compliance with the Directives of the Board across the company and report to the Board areas of noncompliance for necessary action if observed |
| **Board Integrated Risk Management Committee (BIRMC)** | BIRMC is the Board subcommittee responsible for overseeing the risk management function of the company in line with the directions of the regulatory authoritys and those of the Board of Directors.<br><br>The Committee interacts with the Chief Executive officer/ Executive<br><br>Director to meet it terms of reference which is Risk management |
| **Board Audit Committee** | This committee looks into Operational Risk arising out of violation of Regulatory Directives and systems and procedures stipulated in Board approved operational Manuals and procedural in house circulars by any staff member across the company. The Board of Directors functions through the Head of Internal Audit who reports Direct to the Board Audit Committee the audit findings and implement related Directive of the committee as appropriate and follow up compliance and rectification of shortcomings observed |
| **Board related party Transaction Monitoring Committee** | This committee oversight the all related party transaction and give recommendation and approval for it |
| **Board HR Remuneration Committee** | HR and Remuneration committee give recommendation approval for the corporate management remuneration and review the HR policies regularly. |

# Risk Management

| Management Committees | |
|---|---|
| **Assets & Liability Management Committee (ALCo)** | Asset and Liability Committee (ALCO) is the formal Management Committee established to manage various risks that arise due to mismatches of contractual maturities of the assets and liabilities (Gap Analysis) of the Company and other operational risks related to liquidity, Interest rate risks, Exchange, Segment wise credit exposures. The investment committee functions under ALCO to evaluate and make recommendation to ALCO on matters relating to investments. |
| **Credit Committee** | The Committee is responsible for formulating credit policies and procedures relating to Credit Administration of the company subject to the approval of the Board of Directors.<br><br>The committee also approve credit which exceeds the authority delegated to CEO/ executive Director for Credit Administration |

**Risk Categorisation and Risk Management Strategies**

### Credit Risk

A credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments. In the first instance, the risk is that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs.

### Risk Management

We concentrate on lending to credit worthy borrowers through effective evaluation of credit applications strengthening the collateral cover by adopting a prudent loan to value ratio and effective credit supervision.

Stressed macroeconomic conditions in 2022 have an impact on the credit risk of the company. Since importers continued to be stymied by the restriction of non-essential imports, while the ban on the import of chemical fertilisers had a direct impact on some of the agriculture sector customers. At the same time, construction sector, Transport sector and consumer sector customers appeared to be under stress due to the prolonged economic downturn attributed. For the mitigation of Credit risk arise due to the above stress situation the management has decided to reduce 50% monthly Credit disbursement and further limit to disburse to stress sectors while increasing interest rates.

### Liquidity Risk

Liquidity risk is the risk that a Company may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

### Risk Management

The Assets and Liabilities Management Committee monitors the liquidity position of the Company on a regular basis and recommends to the Management the necessary corrective measures. Also, the Company maintained the liquid assets above the required minimum requirement of the CBSL.

### Market Risk

Market risk refers to the risk of losses in the Company's trading book due to changes in equity prices, interest rates, credit spreads, foreign exchange rates, commodity prices, and other indicators whose values are set in a public market.

### Risk Management

The Assets and Liabilities Management Committee identify, measure, monitor, and control exposure to market risk considering its complexity, and risk profile.

### Operational Risk

Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems, or policies such as employee errors, system failures, fraud or criminal activity and any other event that disrupts business processes.

### Risk Management

Operational risk management is carried out by the Assets and Liabilities Management Committee through a continual cyclic process which includes risk assessment, risk decision making, and implementation of risk controls, which result in adoption, acceptance, mitigation, or avoidance of risk.

### Compliance Risk

Compliance risk is exposure to legal penalties, financial penalties, and material loss that a Company faces when it fails to act in accordance with regulatory directions, industry laws and regulations, internal policies and procedures or prescribed best practices.

### Risk Management

Compliance Risk Mitigation is under the purview of the Head of Compliance who, considering the possibilities of the occurrence of compliance violations in the Company initiate processes to develop and implement across the Company, through Board-approved policies, procedures and guidelines to mitigate or prevent the exposure of the Company to such risks.

### Legal Risk

Legal risk is the potential for losses due to regulatory or legal action. Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the Company.

### Risk Management

Head of Legal monitors the legal activities of the Company and advises the management on legal risk management, evaluating responses to such risks professionally, taking into consideration, among others, court determinations against the Company due to weak documentation, or occurrence of acts of misconduct of employees resulting in loss to customers and the Company etc.

### Strategic Risk

Strategic risk is the risk which arises due to failed business decisions, or lack thereof. Strategic risk is often a major factor in determining a Company's worth, particularly observable if the Company experiences a sharp decline in a short period of time.

### Technology Risk

Technology risk arises from the use of computer systems in the day-to-day conduct of the Company's operations, reconciliation of books of accounts, and storage and retrieval of information and reports. The risk can occur due to the choice of faulty or unsuitable technology and the adoption of untried or obsolete technology as well as virus attacks, hacking etc.

### Mitigation

Head of IT identifies risks, evaluates, prioritises, and coordinates with Management to eliminate or control the probability or impact due to unforeseen circumstances such as system failures, natural calamities, virus attacks/ hacking etc using all available technical solutions or through manual intervention. He is responsible for maintaining the offsite back facility to meet any contingency.

# Audit Committee Report

The Board Audit Committee is a sub-committee of the Board of Directors chaired by an independent non-executive director and comprising exclusively of non-executive directors to assist the Board in fulfilling its oversight responsibility on financial reporting, internal controls, internal audit and external audit related affairs of the Company.

### Committee Composition

The Audit Committee is comprised of three Non-Executive Directors of whom one is an Independent Directors. The Committee is chaired by Independent Director Mr.Dushmantha Thotawatte, who is fellow member of the Institute of Chartered Accountants with considerable experience in the field of Auditing and Finance.

The following members served in the Board appointed Audit Committee during the twelve months period ended 31st March 2021.

Mr. D.Thoawatte ( IND/NED) Mr. S.W.Subasinghe (IND/NED)
Mr.G.K.Nanayakkara (NED)
(IND - Independent Director, NED - Non-Executive Director)

Brief Profiles of the members are given under the Board of Directors in the Annual Report.

The Head of Internal Audit functions as the Secretary to the Audit Committee.

### Meetings

The Audit Committee met 4 times during the year. The attendance of the members at Audit Committee Meetings was as follows:

| Member | No. of Meetings |
|---|---|
| Mr. Dushmantha Thoawatte | 4/4 |
| Mr. S.W.Subasinghe | 4/4 |
| Mr.G.K.Nanayakkara | 4/4 |

Audit Committee Meetings to review the distribution of profits to shareholders

The Chairman, Executive Director and other Directors and other senior management team members also attended these meetings by invitation as and when required. On the invitation of the Audit Committee, Company's External Auditor, M/s. E&Y attended one Committee meetings during the year. Proceedings of the Audit Committee meetings are reported regularly to the Board of Directors.

### Audit Committee Charter

The terms of reference of the Audit Committee are clearly defined in the Audit Committee charter which is reviewed and revised annually. The Charter was approved in September 2018 and will be reviewed annually. This process ensures that new developments and concerns are adequately addressed.

### Role of The Audit Committee:

The functions of the Committee are geared to assist the Board of Directors in fulfilling effectively its oversight responsibility on financial reporting, internal controls, internal audit & external audit related affairs of the Company. The Committee has been empowered to:

- Examine internally any matter within the scope of the charter relating to the financial and other related affairs of the Company
- Make recommendations on matters connected with engagement, re-engagement, removal of external auditors, service period and audit fees. The Committee periodically reviews the independence, objectivity and effectiveness of the audit process in conformity with applicable standards and best practices.
- Monitor and follow-up the Internal Audit programme and External audit plan, review the External Auditors management letter and Internal Audit reports, and follow up on findings and recommendations.
- Review risk management measures and examine the adequacy, efficiency and effectiveness of the Internal Control System over financial reporting.

  Ensure that efficient and sound financial reporting system is in place to provide accurate, appropriate and timely information to the Board and other stakeholders.
- Review the quality and appropriateness of Accounting Policies, emerging accounting issues and disclosures according to Sri Lanka Accounting Standards.
- Review the compliance of financial reporting obligations under Finance Business Act No. 42 of 2011, Rules and Directions issued by the Central Bank of Sri Lanka, Companies Act No. 7 of 2007, Sri Lanka Accounting & Auditing Standards Monitoring Board Act No. 15 of 1995. Review and recommend Interim and Annual Financial Statements prepared for approval of the Board and submission to shareholders.

  Review the policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines.

Performance of the Head of Internal Audit was evaluated by the committee.

Audit committee has discharged its duties during 2021/22 within the scope of the charter as stated below.

### Financial Reporting

The Committee assisted the Board of Directors to discharge its responsibility for the preparation of the quarterly and annual Financial Statements to reflect true and fair view of the affairs of the Company in accordance with the Company's accounting records and in conformity with the Sri Lanka Accounting Standards, the Sri Lanka Financial Reporting Standards, Finance Business Act no 42 of 2011, the Companies Act No.7 of 2007, Sri Lanka Accounting & Auditing Standards Monitoring Board Act no.15 of 1995, rules and regulations of CBSL Directions.

The Committee reviewed the Company's interim and annual financial statements prior to submission to the Board and recommended their issue to shareholders.

The Audit Committee reviewed the profit reconciliation based on CBSL directions and LKAS/SLFRS and impact to the prudential ratios with regard to dividend declarations, in compliance with relevant regulations.

The Audit Committee reviewed the internal controls on financial reporting system to ensure the reliability and integrity of information provided. The review included the extent of compliance with LKAS/SLFRS and applicable laws & regulations, review of critical accounting policies and practices and any changes thereto, going concern assumptions, major judgmental areas and material audit judgments.

The Committee reviewed the progress of the implementation of SLFRS 9 in the preparation of financial statements for the financial year. The company obtained the service of leading accounting advisory services firms Ms/ EY in the implementation of SLFRS 9.

### External Audit

The Audit Committee is empowered by the Board to recommend the appointment of the External Auditor in compliance with the relevant statutes, the service period, Audit fee and any resignation or dismissal of the auditor. The committee is satisfied that there is no conflict of interests between the Company and the Auditor. The Committee is thus satisfied that there is no cause to compromise the independence and objectivity of the Auditor. The Committee reviewed the effectiveness of the audit process in accordance with applicable standards and best practices. The Audit Committee ensured that the engagement of an audit partner shall not exceed five years and that the audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term as per section 8 (2) c) of Direction No.3 of 2008 issued under the Finance Business Act no 42 of 2011.

The annual Financial Statements 2021/22 was reviewed and recommended for the approval of the Board. The External Auditor's Engagement and Management Letters and Management's responses thereto were also reviewed. The Committee also met with the External Auditor at one meeting without the presence of management to discuss whether there have been any irregularities, constraints, reservations or any other unsatisfactory matters arising from the audit which the auditor wished to discuss with the Audit Committee.

The letter of representation issued by the Board to the External Auditor and Independence confirmation letter issued by the External Auditor have been reviewed by the Audit Committee.

The Committee assisted the Board of Directors in engaging the External Auditor for non-audit services in compliance with the statutes and ensured that engagement in non-audit services does not impair the external auditor's independence and objectivity. Policy on engagement of the external auditor to provide non-audit services had been reviewed and approved by the Committee.

The Audit Committee has recommended to the Board of Directors that Messrs. E&Y be appointed as External Auditor of the Company for the financial year 2018/19 on ward up to 5 years.

### Internal Control

The Audit Committee, through the internal audit process, had reviewed the effectiveness of internal controls and procedures and is of the view that adequate controls and procedures are in place to provide reasonable assurance to the Board that the assets of the Company are safeguarded and the financial statements present a true and fair view.

Additionally, the Committee assessed the effectiveness of the company's internal controls over financial reporting as at 31st March 2022, as required by Finance Companies (Corporate Governance) Direction 03 of 2008 and 05 of 2021, based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Controls" issued by Institute of Chartered Accountants of Sri Lanka.

# Audit Committee Report

**Internal Audit**

The committee ensured that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. During the year, the Audit Committee reviewed the adequacy of the scope, functions and resources of the Internal Audit Division, the results of the internal audit process and their evaluation of the company's internal control system. The Audit Committee also reviewed and approved the adequacy of coverage of the internal audit programme.

Executive summary of audit carried out at branches by the Internal Audit Department has been reviewed by the Audit committee and issue instructions to strengthen the weak area of internal control of the branch.

**Regulatory Compliance**

The Audit Committee closely scrutinizes the compliance of mandatory statutory requirements and systems and procedures in place to ensure the compliance of such requirements.

Audit Committee reviewed the information requirement of Companies Act No 07 of 2007, Finance Business Act No.42 of 2011 and other reporting requirements under SEC, CSE and CBSL regulations.

**Committee Evaluation**

An annual evaluation of the Committee is carried out by the Board with contributions from individual Committee Members.

**Dushmantha Thotawatte**
*Chairman*
*Audit Committee*

Colombo
4th June 2022

# Integrated Risk Management Committee Report

The Integrated Risk Management Committee (IRMC) was established to assist the Board in performing its oversight function in relation to different types of risk faced by the Company in its business operations and ensures adequacy and effectiveness of the risk management framework of the Company.

### Composition of the committee

The Board Integrated Risk Management Committee (BIRMC) comprises three members who are Directors.

| Members of the Board | Position |
|---|---|
| Mr. S.W. Subhasinghe - Chairman to the Committee | Independent Non-Executive Director |
| Mr. Aswin Nanayakkara | Non-Executive Director |
| Mr.K.G. Leelananda | Executive Director/CEO |

Permanent members of the Management Level Risk committee are as follows.

| Members of the Management | Position |
|---|---|
| Mr. Ranga Chandranath (Resigned w.e.f 13-01-2022) | Head of Compliance |
| Mr.R.M Gnanarathna (up to w.e.f 19-01-2022) | Chief Risk Officer |
| Mr.R.M Gnanarathna (Appointed w.e.f. 20-01-2022) | Head of Compliance |
| B D Mathararachchi (Appointed w.e.f 29-03-2022) | Chief Risk Officer |

### Committee Functions

The Board of Directors of LCB Finance PLC is accountable to design the control environment and set up the Risk Appetite levels to mitigate and effectively manage risks associated with Finance Business. It has delegated the oversight of risk management to the BIRMC and Audit Committees. The BIRMC reviews significant risks and the related risk management and mitigation and reports back to Board any improvements needed, while Audit Committee focuses predominantly on the financial risks and reviews the effectiveness of the risk process as a third line of defense. Each and every department is responsible for identifying, assessing and managing the risks in their respective area. The combined assurance process optimizes assurance coverage and ensures that significant risks are adequately addressed, enabling an effective control environment and ensuring the integrity of information used for decision making and reporting.

Risks and opportunities are identified by the BIRMC throughout the year and assessed on the basis of likelihood of occurrence and potential impact to the Company and mitigations action need to be taken.

### Roles and responsibilities

The approved Terms of Reference for the BIRMC stipulates authority, structure, responsibilities and tasks of the BIRMC. Accordingly, the primary responsibilities of the BIRMC includes,

- Assessing all risks such as credit, market, liquidity, operational and strategic risks of the Company on a monthly basis through appropriate risk indicators and management information.
- Reviewing the adequacy and effectiveness of ALCO (Assets and Liability Committee) to address specific risks and manage those risks within quantitative and qualitative risk limits specified by the Committee
- Taking prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Company's policies, regulatory and supervisory requirements.
- Taking appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective measures as recommended by the Committee and/or as directed by the Central Bank Corporate Governance Directions.
- Meeting at least quarterly to assess all aspects of risk management including the updated Business Continuity Plan.
- Approving in principle, all policies relating to risk management and submit it for the approval of the Board
- Establishing protective risk management culture within the Company.
- Periodically reviewing the risk exposures of the Company to be in line with its risk and business strategies and objectives.

In addition to the above, the Committee may perform such other functions, which are necessary or appropriate for the discharge of its duty.

# Integrated Risk Management Committee Report

**Meetings**

The appointed Board Integrated Risk Management Committee met during the financial year to evaluate and address risks faced by the organization. During the year the Committee met three times on a quarterly basis. The attendance of members at meetings is stated as follows

| Member | No. of Meeting |
|---|---|
| Mr. S.W. Subhasinghe | 4/4 |
| Mr. Aswin Nanayakkara | 4/4 |
| Mr.K.G. Leelananda | 4/4 |
| Mr. Ranga Chandranath | 3/4 |
| Mr.R.M Gnanarathna | 4/4 |
| B D Matararachchi | 1/4 |

The discussions and conclusions reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice. Critical issues are taken for discussion at the Board level.

**Conclusion**

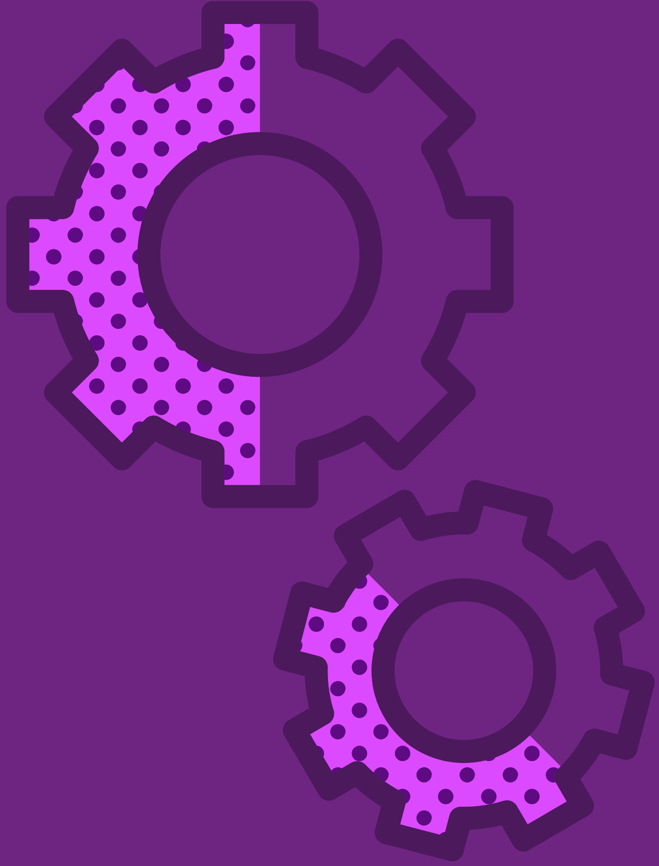
The members of the Integrated Risk Management Committee Collectively evaluated the performance of the newly –set-up committee. The committee is on the view that Lanka Credit and Business Finance PLC is on the right path towards meeting the challenges of risk management and compliance, safeguarding the interest of the stakeholders and towards sustainable operations.

**Mr. S.W. Subhasinghe**

*Chairman, Board Integrated Risk Management Committee*

Colombo

16th June 2022



# Connective Systems Collective Quality

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

The Directors of Lanka Credit and Business Finance PLC (formerly City Finance Corporation Limited) have pleasure in presenting to the shareholders their Annual Report together with the Audited Financial Statements for the year ended 31st March 2022. The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards.

### General
Lanka Credit and Business Finance PLC (formally known as City Finance Corporation Limited) (the "Company) was restructured as a result of an investment made by Lanka Credit and Business Limited under the guidance of the Central Bank of Sri Lanka in May 2018. The Company is a domiciled, public limited liability company incorporated in Sri Lanka and it was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto.

The registered office and the principle place of business of the Company is located at No.76, S De S Jayasinghe Mawatha, Kohuwala, Nugegoda.

### Principle Activities
The Company provides a comprehensive range of financial services encompassing accepting deposits and providing credit facilities such as finance lease, hire purchase, vehicle loan facilities, mortgage loans, gold loans, revolving loans business/personal loans and other credit facilities.

### Financial Statement
The financial statements of the Company are prepared in accordance with Sri Lanka Accounting Standards comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) set by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the directions issued under the said Finance Business Act.

Consequent to the Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 16-06-2022.

The Financial Statements for the year ended 31 March 2022 was completed and was duly signed by the Head of Finance, Chief Executive Officer and Chairman of the Company.

### Auditors' Report
The Auditors of the Company are Messrs. Ernst & Young, Chartered Accountants. Messrs. Ernst & Young carried out the audit on the Financial Statements of the Company for the year ended 31st March 2022. The Auditors express a clean opinion of the financial position of the Company as at 31st March 2022 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Changes in Accounting Policies
The significant accounting policies adopted and changes in accounting policies in the preparation of the Financial Statements are given on pages are as set out in the Financial Statements.

### Financial Results & Appropriations
#### Interest Income
Total interest income of the Company for the year ended 31 March 2022 was Rs. 504.11 Mn (Rs.456.25 Mn in 2021). Components of interest income are given in Note 7 to the Financial Statements.

#### Profit and Appropriations
The Company has recorded Rs 238.5 Mn in profit before tax and Rs .97.58 Mn in profit after tax in 2022 (Profit for the year was Rs. 25 Mn in 2021) .The Company's Total Comprehensive Income (net of tax) for the year is Rs.97.59 Mn (Total Comprehensive income was Rs. 24.43 Mn in 2021).

#### Taxation
The Income Tax rate applicable to the Company's operations is 12% (2021:24%). The Company is also liable for VAT on financial services at 15% until 31st December 2021 after that 18% (2020/21: 15%), and Crop insurance levy at 1% on PAT.

The Company has also provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 (Income Taxes).

#### Dividends
The Board of Directors of the company recommend to declare Dividends as 0.06 per share for the year ended 31st March 2022.

#### Reserves
A summary of the Company's reserves is given below.

| | 2022<br>Rs. '000 | 2021<br>Rs. '000 |
|---|---|---|
| Statutory Reserve Fund | 45,949 | 41,070 |
| Retained Earnings | 119,450 | 26,735 |

## Donations

The total amount of donations made during the year under review is Rs. 339,600/-

## Stated Capital

The Stated Capital of the Company as at 31st March 2022 was Rs. 2,539,133,400 represented by 790,168,780 Voting Shares.

## Auditors

The Auditors of the Company during the year were Messrs Ernst & Young, Chartered Accountants.

Audit fees paid to Ernst & Young for the year ended 31st March 2022 by the Company amounted to Rs. 1,581,000 (2021: Rs. 1,6201,695).

The Auditors have expressed their willingness to continue in office. A resolution to reappoint the Auditors and to authorize the Directors to determine their remuneration will be proposed at the Annual General Meeting.

## Directors

The names of the Directors who held office as at the end of the accounting period are given below:

### Executive Director

Mr. K. G. Leelananda

### Non-Executive Directors

Mr. A. G. M. Priyantha
Mr. R. L. Masakorala
Mr. U. K. H. R. Ranasinghe
Mr. K. I. Weerasinghe
Mr. G. K. Nanayakara
Mr. V. Lokunarangoda
Mr. A. W. Nanayakkara

### Independent Non-Executive Directors

Prof. W. M. A. Bandara
Mr. S. W. Subasinghe
Mr. D. Thotawatte
Mr. M. Katulanda

## Interest Register

The Company maintains an interests register in terms of the Companies Act, which is deemed to form part and parcel of this annual report and available for inspection upon request.

The relevant interests of Directors in the shares of the Company as at 31st March 2022 as recorded in the interests register are given in this report under Directors' shareholding.

## Directors' Interest in Shares

| Name of the Director | No. of Directorates/equivalent positions held in companies/ societies/ bodies corporate |
|---|---|
| 1. Prof. W. M. A. Bandara | United Engineering Services (Private) Limited (Chairman) |
| 2. Mr. K. G. Leelananda | Lanka Credit and Business Limited |
| 3. Mr. S. W. Subasinghe | NIL |
| 4. Mr. K. I. Weerasinghe | Lanka Credit and Business Limited |
| | Transline GMBH- Transport and Packaging–(Managing Director) |
| | RKW Courier Service –(Chairman) |
| 5. Mr. R. L. Masakorala | Hotel Kabalana Pvt Ltd-(Managing Director) |
| | Udumulla Tea Factory Pvt Ltd- (Managing Director) |
| | Lanka Credit and Business Limited-(Director) |
| | The Villa Hotel-(Proprietor) |
| | Vista Tours -(Proprietor) |
| | Uneth Car Sale –(Proprietor) |
| | Niriella Motors Private Limited-(Director) |
| | Binelco Marketing Private Limited (-Director) |
| 6. Mr. U. K. H. R. Ranasinghe | L & H Capital Partners (Pvt) Ltd |
| | Sinhaputhra Finance PLC, |
| | Singhe Capital Investment Limited, |
| | Lanka Credit and Business Limited |
| 7. Mr. A. G. M. Priyantha | Maweli Trasers Pvt Ltd -(Director) |
| | Yakkalamulla Tea Factory Pvt Ltd-(Director) |
| | Udumulla Tea Factory Pvt Ltd -(Director) |
| | Royana Holding Pvt Ltd -(Director) |
| | Lanka Credit and Business Limited-(Director) |
| | Singhe Capital Investment Limited-(Director) |
| | Niriella Motors Private Limited-(Director) |
| | Binelco Marketing Private Limited (-Director) |
| 8. Mr. G. K. Nanayakkara | Etambagahawila Tea Factory –(Director) |
| | Mahesland Tea Factory –(Director) |
| | Wijaya Tea Factory-(Director) |
| | Naindawa Tea Factory-(Director) |
| 9. Mr. V. Lokunarangoda | Thurusaviya Fund under Ministry of Finance –(Chairperson) |
| | Agriculture Sector Modernization Project under Ministry of Plantations –(Director) |
| | Galle Highway Express-(Managing Director) |
| | Narangoda group of companies-(Managing Director) |
| 10. Mr. D. Thotawatte | NIL |
| 11. Mr. A. W. Nanayakkara | NEM Construction Pvt Ltd- (Director) |

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

**Related Parties' Transactions with the Company**

All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the interests register in due compliance with the provisions of the Companies Act, LKAS 24.

Transactions of related parties (as defined in LKAS 24 - Related Parties Disclosure) with the Company are set out in Note 46 to the Financial Statements.

**Directors' responsibility for Financial Reporting**

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of the state of its affairs.

**Appointments during the financial year**

Mr. M. Katulanda - Appointed w.e.f. 09.09.2021

**Resignations during the financial year**

NIL

**Board sub committees**

The Board of Directors of the Company has formed three committees in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and as per the recommended best practices on Corporate Governance. The following Directors served as members of the Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Credit Committee.

**The Board Audit Committee as at 31st March 2022**

| | |
|---|---|
| Mr. Dushmantha Thotawatta | Chairman |
| Mr. S. W. Subasinghe | Member |
| Mr. G. K. Nanayakkara | Member |

**The Board HR Remuneration Committee as at 31st March 2022**

| | |
|---|---|
| Mr. S. W. Subasinghe | Chairman |
| Mr. D. Thotawatte | Member |
| Mr. K. G. Leelananda | Member |

**The Board Credit Committee as at 31st March 2022**

| | |
|---|---|
| Mr. V. Lokunarangoda | Chairman |
| Mr. R. L. Masakorala | Member |
| Mr. U. K. H. R. Ranasinghe | Member |

**Integrated Risk Management Committee as at 31st March 2022**

| | |
|---|---|
| Mr. S. W. Subasinghe | Chairman |
| Mr. K. G. Leelananda | Member |
| Mr. A. W. Nanayakkara | Member |

**Board related party Transaction Monitoring Committee**

| | |
|---|---|
| Mr. Dushmantha Thotawatte | Chairman |
| Mr. S. W. Subasinghe | Member |
| Mr.U. K. H. R. Ranasinghe | Member |

**The Remuneration and Other Benefits of the Directors**

**Director's fees and other emoluments were**

Executive Director - Rs. 11,191,500/=
Non - Executive Directors - Rs. 5,725,000/=

**Annual General Meeting**

The Virtual Annual General Meeting will be held on 15th July 2022 at 10.00 am at No. 76, S. De S. Jayasinghe Mawatha, Kohuwela via Online platform.

**Prof. W. M. A. Bandara**
*Chairman*

**Mr. K. G. Leelananda**
*CEO/Executive Director*

**P.R. Secretarial Services (Pvt) Ltd**
*Company Secretaries*

01st June 2022
Colombo

# Independent Assurance Report

EY
Building a better working world

Ernst & Young
Chartered Accountants
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Email: eysl@lk.ey.com
ey.com

PNS/CR

**TO THE BOARD OF DIRECTORS OF LANKA CREDIT AND BUSINESS FINANCE PLC**

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

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

### Management's responsibility

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

### Our Independence and Quality Control

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

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

### Our responsibilities and compliance with SLSAE 3051

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

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

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

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

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**Summary of work performed**

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

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

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

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

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

**Our conclusion**

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

Ernst & Young

16 June 2022
Colombo

# Director's Statement on Internal Control Over Financial Reporting

### RESPONSIBILITY

In line with the section 10(2)(b) of the Finance Company Direction, No.03 of 2008 as amended by the Direction No.06 of 2013, the Board of Directors presents this report on Internal Control over Financial Reporting.

The Board of Directors ('the Board') is responsible for the adequacy and effectiveness of the Internal Control over Financial Reporting in place at the Lanka Credit and Business Finance PLC ('the Company').

The Board has established the Board Integrated Risk Management Committee and an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes development of the effective system of Internal Control over Financial Reporting which is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over financial reporting is in place is sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in implementation of the policies and procedures on risk and controls, by identifying and assessing the risks faced by the Company and design, operation and monitoring of suitable Internal Controls over Financial reporting are checked by the Internal Audit Department of the Company and reported to the Board Audit Committee for suitability of design and effectiveness on an ongoing basis.

In adopting Sri Lanka Accounting Standards comprising SLFRSs and LKAs, progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosures are being made whilst further strengthening of processes specially pertaining to Financial Statements risk management disclosures, related party disclosures and management information system will take place.

Board has given due consideration for requirements of SLFRS 9' "Financial Instruments" which was applicable for financial reporting period beginning from 1 April 2018. The Board will continuously take steps to strengthen the processes and controls around Management Information Systems and information required for validation and compliance in line with SLFRS 9.

Financial services sector is facing major challenges during the COVID -19 outbreak resulting many impacts to its credit growth and internal control environment. There has been risk on collections and credit culture deteriorations, which could increase the provisioning requirements for the financial institutions. As per directions of CBSL, moratorium schemes were introduced to provide relief to the public. The impact on the moratorium of the interest subsidy also had been adjusted in the financial statements.

### Confirmation

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the Preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and Regulatory requirements of the Central Bank of Sri Lanka.

### Review of The Statement by External Auditors

The External Auditors have reviewed the process adopted by the Directors on the system of internal controls over financial reporting for the year ended 31 March 2022. The matters addressed by the External Auditors in this respect, are being looked into.

By order of the Board

**W. M. A. Bandara**
*Chairman*

**K. G. Leelananda**
*CEO/ Executive Director*

# Independent Auditor's Report

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Ernst & Young
Chartered Accountants
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**TO THE SHAREHOLDERS OF LANKA CREDIT AND BUSINESS FINANCE PLC**
**Report on the Audit of the Financial Statements**

### Opinion

We have audited the accompanying Financial Statements of Lanka Credit and Business Finance PLC (the "Company"), which comprise the statement of financial position as at 31 March 2022 including Income Statements, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

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

### Basis for Opinion

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

### Key Audit Matters

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

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

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

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

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| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Allowances for Impairment on financial assets at amortized cost of loans and receivables, lease rentals receivables and hire purchase<br><br>As at 31 March 2022, Loans and receivables and Lease rentals receivables and Hire Purchases net of impairment allowances amounted to LKR 3,026 Mn and is disclosed in notes 21 & 22. These collectively contributed 69% to the Company's total assets<br><br>Impairment allowances for Loan, Lease and Hire Purchase receivables is a key audit matter due to: | Our audit procedures included amongst others the following:<br>➢ We assessed the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management<br>➢ We evaluated the design, implementation and operating effectiveness of internal controls over estimation of the impairment allowances, including testing of related system controls<br>➢ We checked the completeness, accuracy and classification of the underlying data used in the computation of impairment allowances by agreeing details to relevant source documents and accounting records of the Company |
| ➢ materiality of the reported allowance which involved complex calculations; and<br>➢ significant judgements used in assumptions and estimates made by the management as reflected in note 03, which in the current year was influenced by the need to assess the change in current economic conditions on forward looking information and the continuing impact of COVID-19 debt moratorium relief measures | **For loans and receivables, lease rentals receivables and hire purchase assessed on a collective basis for impairment:**<br>➢ We tested key calculations used in the impairment allowances.<br>➢ We assessed whether significant judgements used in assumptions and estimate made by the management in the underlying methodology and management overlays were reasonable. We also evaluated the reasonableness of forward looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios. Our procedures were based on the best available information up to the date of our report |
| | **For loans and receivables, lease rentals receivables and hire purchases assessed on an individual basis for impairment:**<br>➢ We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances<br>➢ We checked the accuracy of the underlying individual impairment calculations<br>➢ We evaluated the reasonableness of key inputs used in the provision for credit impairment made with the particular focus on current economic conditions. Such evaluations were carried out considering value and timing of cash flow forecasts particularly relating to elevated risk industries, status of recovery action and collateral values<br>We assessed the adequacy of the related Financial Statements disclosures set out in notes 21 & 22. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Financial reporting related IT based Internal controls**<br>A significant part of the Company's financial reporting process is primarily reliant on E - financials IT system with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets.<br>Accordingly, financial reporting related IT based Internal controls is considered a key audit matter | Our audit procedures included the following :<br>➢ We obtained an understanding of the Internal control environment of the processes relating to financial reporting and related disclosures.<br>➢ We identified and test checked relevant controls of key IT systems related to the Company's financial reporting process.<br>➢ We evaluated the design and operating effectiveness of IT controls, including those related to user access and change management.<br>➢ We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of general ledger reconciliations |

### Other Information included in the 2022 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2022 annual report, but does not include the financial statements and our auditor's report thereon. The Company's 2022 annual report is expected to be made available after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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 appears to be materially misstated.

### Responsibilities of management and those charged with governance in the Financial Statement

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.

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working world

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

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

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

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 2965.

Ernst & Young

16 June 2022
Colombo

# Income Statement

| Year ended | Note | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|---|
| Income | 7 | 541,564,212 | 461,375,089 |
| Interest Income | 8 | 504,110,594 | 456,255,319 |
| Less: Interest expenses | 9 | (96,549,031) | (108,199,704) |
| **Net interest income** | | 407,561,563 | 348,055,615 |
| Fee and commission income | 10 | 45,836,522 | 29,024,159 |
| Less: Fee and commission expenses | | - | - |
| **Net fee and commission income** | | 45,836,522 | 29,024,159 |
| Net Other Operating Income/(Expense) | 11 | (8,382,904) | (23,904,388) |
| **Total Operating Profit** | | 445,015,181 | 353,175,385 |
| Impairment(Charge)/Reversal on Loan and Receivables | 12 | 61,695,234 | (22,885,058) |
| **Net Operating Income** | | 506,710,415 | 330,290,327 |
| **Less : Operating Expenses** | | | |
| Personnel Costs | 13 | (106,401,014) | (93,716,366) |
| Depreciation and Amortization | 14 | (44,834,695) | (41,129,767) |
| Other Operating expenses | 15 | (75,542,910) | (73,210,778) |
| | | (226,778,619) | (208,056,913) |
| **Operating Profit before Tax on Financial Services** | | 279,931,795 | 122,233,416 |
| Taxes on Financial Services | 16 | (41,413,734) | (21,943,495) |
| **Profit before tax** | | 238,518,062 | 100,289,920 |
| Less: Income tax (expense)/Reversal | 17 | (140,936,083) | (75,286,361) |
| Profit for the Year | | 97,581,979 | 25,003,559 |
| Basic earnings per share (Rs.) | 18 | 0.12 | 0.04 |
| Dividend per share (Rs.) | | | |

The accounting policies and notes on page 81 to 148 form an integral part of the Financial Statements.

# Statement of Comprehensive Income

| Year ended | Note | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|---|
| Profit for the year | | 97,581,979 | 25,003,559 |
| **Other comprehensive income/ (expenses)** | | | |
| Other comprehensive income that will not to be reclassified to profit or loss: | | | |
| Actuarial gain/(loss) on defined benefit plan | 36.2 | 13,941 | (749,914) |
| Deferred tax effect on actuarial gain/(loss) | 31 | (1,952) | 179,979 |
| | | 11,989 | 51,254 |
| **Other comprehensive income for the year, net of tax** | | 11,989 | (569,935) |
| **Total comprehensive income for the year, net of tax** | | 97,593,968 | 24,433,624 |
| **Attributable to :** | | | |
| Equity holders of the parent company | | 97,593,968 | 24,433,624 |
| | | 97,593,968 | 24,433,624 |

The accounting policies and notes on page 81 to 148 form an integral part of the Financial Statements.

# Statement of Financial Position

| As at | Note | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|---|
| **Assets** | | | |
| Cash and Cash Equivalent | 19 | 229,434,047 | 218,507,168 |
| Financial Investment at amortised Cost | 20 | 746,819,780 | 662,295,154 |
| Financial assets at amortised Cost - Loans and Receivables | 21 | 2,634,321,859 | 1,969,102,470 |
| Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases | 22 | 392,635,779 | 336,747,406 |
| Other Financial Assets | 23 | 16,919,514 | 7,763,678 |
| Financial Assets Measured at Fair value through Profit or Loss | 24 | 19,508,717 | 100,463,534 |
| Financial Investment at Fair value through Other Comprehensive Income | 25 | 315,813 | 315,813 |
| Other Non Financial Assets | 26 | 55,345,017 | 37,862,474 |
| Investment Property | 27 | - | - |
| Property, Plant and Equipment | 28 | 84,108,889 | 39,025,049 |
| Right of Use Assets | 29 | 73,443,343 | 52,982,570 |
| Intangible Assets | 30 | 39,121,865 | 42,186,213 |
| Deferred Tax Asset | 31 | 64,691,455 | 205,629,491 |
| **Total Assets** | | 4,356,666,078 | 3,672,881,020 |
| **Liabilities** | | | |
| Financial Liabilities at amortised Cost - Due to Banks | 32 | 586,370,993 | 518,414,541 |
| Financial Liabilities at amortised Cost - Due to customers | 33 | 962,635,583 | 831,583,929 |
| Other Financial Liabilities | 34 | 81,104,539 | 175,135,322 |
| Other Non Financial Liabilities | 35 | 40,778,035 | 36,498,714 |
| Retirement Benefits Liabilities | 36 | 4,887,670 | 4,310,160 |
| **Total Liabilities** | | 1,675,776,819 | 1,565,942,666 |
| **Equity** | | | |
| Stated Capital | 37 | 2,539,133,400 | 2,039,133,400 |
| Reserves | 38 | 45,949,200 | 41,070,101 |
| Retained Earnings | 39 | 95,806,659 | 26,734,853 |
| **Total Equity** | | 2,680,889,259 | 2,106,938,354 |
| **Total Equity and Liabilities** | | 4,356,666,078 | 3,672,881,020 |
| Net asset Value per share | 37.4 | 3.39 | 3.17 |

These Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007.

keerthi

**Kelum Wannige**
*Head of Finance*

The board of directors is responsible for these Financial Statements. Signed for and on behalf of the board by:

**K. G. Leelananda**
*Director/CEO*

**Emeritus Professor W. M. Abeyrathne Bandara**
*Chairman*

The accounting policies and notes on page 81 to 148 form an integral part of the Financial Statements.

16 June 2022
Colombo

# Statement of Changes of Equity

| Year ended | Stated Capital Rs. '000 (Note 37) | Retained Earnings Rs. '000 (Note 39) | Statutory Reserve Rs. '000 (Note 38) | Total Equity Rs. '000 |
|---|---|---|---|---|
| Adjusted Balance as at 01 April 2020 | 3,231,604,341 | (1,788,052,934) | 39,819,924 | 1,483,371,331 |
| Net Profit / (loss) for the Year | - | 25,003,559 | - | 25,003,559 |
| Other Comprehensive Income Net of Tax | - | (569,935) | - | (569,935) |
| Transfer to Statutory Reserve Fund | - | (1,250,178) | 1,250,178 | - |
| **Total Comprehensive Income for the Year, Net of Tax** | - | 23,183,446 | 1,250,178 | 24,433,624 |
| **Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners** | | | | |
| Shares issue during the year | 599,133,400 | - | - | 599,133,400 |
| Capital Reduction from existing capital | (1,791,604,341) | 1,791,604,341 | - | - |
| **Total Transactions with Equity Holders** | (1,192,470,941) | 1,791,604,341 | - | 599,133,400 |
| **Balance as at 31 March 2021** | 2,039,133,400 | 26,734,853 | 41,070,102 | 2,106,938,355 |
| Prior year adjustment to opening profit | - | - | - | - |
| **Adjusted Balance as at 01 April 2021** | 2,039,133,400 | 26,734,853 | 41,070,102 | 2,106,938,355 |
| Net Profit / (loss) for the Year | - | 97,581,979 | - | 97,581,979 |
| Other Comprehensive Income Net of Tax | - | 11,989 | - | 11,989 |
| Transfer to Statutory Reserve Fund | - | (4,879,099) | 4,879,099 | - |
| **Total Comprehensive Income for the Year, Net of Tax** | - | 92,714,869 | 4,879,099 | 97,593,966 |
| **Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners** | | | | |
| Shares issue during the year | 500,000,000 | - | - | 500,000,000 |
| Shares issue Cost | - | (23,643,063) | - | (23,643,063) |
| **Total Transactions with Equity Holders** | 500,000,000 | (23,643,063) | - | 476,356,937 |
| **Balance as at 31 March 2022** | 2,539,133,400 | 95,806,659 | 45,949,200 | 2,680,889,258 |

The accounting policies and notes on page 81 to 148 form an integral part of the Financial Statements.

# Statement of Cash Flows

| Year ended | Note | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|---|
| **Cash Flows Used in Operating Activities** | | | |
| Profit before tax from continuing operations | | 238,518,062 | 100,289,920 |
| **Adjustments for** | | | |
| Depreciation and Amortization | | 44,834,695 | 41,129,767 |
| Provision/(Reversal) for Defined Benefit Plans | | 1,186,501 | 1,337,130 |
| Loss/(Profit)on sale of Investment Property | | - | 45,300,000 |
| Fair Value (gain) / loss from share Investment | | 10,813,684 | |
| Impairment release/(Charges) for loans receivable and Lease & HP | | (61,771,515) | (303,694,156) |
| Impairment release/(Charges) for Cash & Bank Balances | | 76,281 | 217,985 |
| Write off balances | | - | 326,361,229 |
| Operating Profit before Working Capital Changes | | 233,657,708 | 210,941,875 |
| **Working Capital Adjustments** | | | |
| (Increase) / Decrease Lease rentals receivables and Hire Purchases | | (80,457,144) | (156,024,954) |
| (Increase) / Decrease Loan Receivables | | (578,879,103) | (360,385,171) |
| (Increase) / Decrease Other Financial assets | | (9,155,836) | 2,235,724 |
| (Increase) / Decrease Other Non Financial assets | | (17,482,541) | 12,216,365 |
| Increase / (Decrease) in Other Liabilities | | (89,751,464) | 85,302,195 |
| Increase / (Decrease) in Due to Customers | | 131,051,653 | (180,651,714) |
| **Cash Flow from/(used in) Operating Activities** | | (411,016,727) | (386,365,679) |
| Gratuity Paid | | (595,050) | (315,313) |
| **Net Cash from Operating Activities** | | (411,611,777) | (386,680,991) |
| **Cash Flows from / (Used in) Investing Activities** | | | |
| Acquisition of Property, Plant & Equipment | 28.1 | (69,630,765) | (14,503,182) |
| Acquisition of Intangible Assets | 30 | (2,600,000) | (41,488,747) |
| Net Investment Acquisition | | (2,279,890) | (424,379,008) |
| Proceeds from Sales of Investment property and PPE | | - | 311,000,000 |
| Net Cash Flows from/(Used in) Investing Activities | | (74,510,655) | (169,370,937) |
| **Cash Flows from (used in) Financing Activities** | | | |
| Proceeds from Issuance of Share Capital | 37 | 500,000,000 | 599,133,400 |
| Share Issue Cost | | (23,643,063) | - |
| Net Proceeds from Interest Bearing Loans & Borrowings | 32.2 | 51,048,930 | 5,026,960 |
| Payment of Capital portion of Lease Liabilities | 29.2 | (12,127,180) | (9,137,052) |
| Net Cash used in Financing Activities | | 515,278,687 | 595,023,308 |
| **Net Increase in Cash and Cash Equivalents** | | 29,156,255 | 38,971,379 |
| **Cash and Cash Equivalents at the beginning of the year** | | 169,923,889 | 130,952,510 |
| **Cash and Cash Equivalents at the end of the year** | | 199,080,144 | 169,923,889 |

The accounting policies and notes on page 81 to 148 form an integral part of the Financial Statements.

# Notes to the Financial Statements

## 1. Corporate Information

### 1.1 General

Lanka Credit and Business Finance PLC (formally known as City Finance Corporation Limited) (the "Company) was restructured as a result of an investment made by Lanka Credit and Business Limited under the guidance of the Central Bank of Sri Lanka in May 2018. The Company is a domiciled, public listed company incorporated in Sri Lanka and it was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto.

The registered office and the principle place of business of the Company is located at No.76, S De S Jayasinghe Mawatha, Kohuwala, Nugegoda.

### 1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing accepting deposits and providing credit facilities such as finance lease, hire purchase, vehicle loan facilities, mortgage loans, gold loans, revolving loans business/personal loans and other credit facilities.

### 1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking /ultimate parent and the controlling party is the Lanka Credit and Business Limited, which is incorporated in Sri Lanka.

### 1.4 Approval of Financial Statements by Directors

The Financial Statements of the Lanka Credit and Business Finance PLC for the year ended 31 March 2022 was authorized for issue in accordance with a Resolution of the Board of Directors on 16th June 2022.

### 1.5 Directors' Responsibility Statement

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards comprising LKASs and SLFRSs (hereafter "SLFRS").

## 2. Basis of Preparation

### 2.1 Statement of Compliance

The Financial Statements of the Company, which comprise Statement of Financial Position, Income Statement and Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Accounting policies and Notes to the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs &LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007.

### 2.2 Basis of Measurement

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following items in the Statement of Financial Position.

- Financial Assets at fair value through profit or loss at fair value (Note 24)
- Financial Assets at fair value through other comprehensive income (applicable from 1stApril 2018) at fair value (Note 25)
- Investment properties, which is measured at cost at the time of acquisition subsequently, measured at fair value, which reflects market conditions at the reporting date (Note 27)
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation based on actuarial valuation (Note 36)

### 2.3 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees, which is also the Company's functional and presentation currency.

### 2.4 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non- current) is presented in the Note 43.

### 2.5 Materiality and Aggregation

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

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an Accounting Standard or interpretations and as specifically disclosed in the accounting policies.

### 2.6 Comparative Information

The comparative information is re-classified whenever necessary to conform to the current year's presentation as set out in the Financial Statements.

### 2.7 Statement of Cash Flow

The cash flow statement has been prepared by using the indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby operating, investing and financial activities have been separately recognized. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

For the purpose of the cash flow statement, Cash and cash equivalents include cash in hand, balances with banks net of unfavorable bank balances and securities purchased under repurchase agreement (less than three months).

### 2.8 Events after the Reporting Date

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorized for issue.

No circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the financial statements, which is disclosed in Note 45 to the Financial Statements.

## 3. Significant Accounting Judgments, Estimates And Assumptions

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expenses, assets and liabilities and the accompanying disclosures as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments and 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 next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond Company's control and are reflected in the assumptions if and when they occur.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the Financial Statements of the Company are as follows.

### 3.1 Going Concern

The Directors has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and does not intend either to liquidate or to cease operations. Therefore, the Financial Statements continue to be prepared on the going concern basis. The management has assessed the existing and anticipated effects on COVID 19 in concluding the appropriateness of the use of going concern basis. The impact on COVID 19 is as disclosed in note 3.9.

### 3.2 Impairment losses on loans and receivables

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 and the assessment of a significant increase in credit risk. These estimates driven by a number of factors, changes which can result in different levels of allowances.

Accordingly, the Company reviews its individually significant loans and advances at each financial reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgment was required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates were based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics.

As per SLFRS 09, the Company's expected credit loss (ECL) calculations are output of complex models with a number of underlying assumptions regarding the choice of variable inputs and their independencies. The elements of the ECL models that are considered accounting judgements and estimates include.

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their fair values when their ECL is assessed on a collective basis.
- Development of ECLs, models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of default (PDs), Exposure at default (EADs) and loss given default (LGDs).
- Selection of forward –looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.
- It is the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary.

### 3.3 Fair Value of Financial Instruments

The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in Note 40 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 40 to the Financial Statements.

### 3.4 Taxation

The Company is subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

The Company has adopted the requirements of the New Inland Revenue Act and 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. Judgment 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 future tax-planning strategies.

Further, 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 future tax-planning strategies.

### 3.5 Defined Benefit Plans

The cost of Defined Benefit Pension Plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate; future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate for the Company. The sensitivity of assumptions used in actuarial valuations are set out in Note 36 to the Financial Statements.

### 3.6 Useful Life-time of the Property, Plant, Equipment and Intangible Assets

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

### 3.7 Provisions, Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 44 to the Financial Statements.

## 4. Summary of Significant Accouting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

### 4.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

#### 4.1.1 Date of Recognition

All financial assets and liabilities are initially recognized on the trade date. i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trade means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

#### 4.1.2 Initial measurement of Financial Instruments

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

#### 4.1.3 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Income Statement over the tenor of the financial instrument using effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the Income Statement when the inputs become observable, or when the instrument is derecognized.

#### 4.1.4 Measurement categories of Financial Assets and Financial Liabilities

On initial recognition, a financial asset is classified as measured at,

- Amortized cost,
- Fair value through other comprehensive income (FVOCI) or
- Fair value through profit or loss. (FVPL)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

**a) Financial Assets at Amortized cost:**

The Company only measures loans, receivables, and other financial investments at amortized cost if both of the following conditions are met:

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

Financial Assets consist of cash and bank balances, securities purchased under repurchase agreements, placement with banks, lease rentals receivable & stock out on hire, loan receivables, and other financial assets.

The details of the above conditions are outlined below.

**Business model assessment**
The Company determines its business model at the level that best reflect how it manages groups of financial assets to achieve its business objective.

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

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

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 realized 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.

**The SPPI test**
As a second step of its classification process, the Company assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms of that introduce a more than de minimize exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

**b) Equity instruments at FVOCI**

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

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

Previous years, the Company has recorded its non- quoted equity investments as FVPL. However current year onwards it has recorded as FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 24 to the Financial Statements.

**c) Debt issued and other borrowed funds**

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortized Cost in the form of term loans, short term loans and Reverse Repo.

### 4.1.5 Classification and Subsequent Measurement of Financial Liabilities

Financial liabilities, other than loan commitments and financial guarantees, are classified as,

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
  a) Financial liabilities held for trading
  b) Financial liabilities designated at fair value through profit or loss

(ii) Financial liabilities at amortized cost, when they are held for trading and derivative instruments or the fair value designation is applied.

The subsequent measurement of financial liabilities depends on their classification.

**i. Financial Liabilities at Fair Value through Profit or Loss (FVTPL)**

Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognized in Income Statement.

**ii. Financial Liabilities at Amortized Cost**

Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortized cost under 'bank overdraft', 'due to other customers', 'debt issued and other borrowed funds' and 'other payables' 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 assets for a fixed number of own equity shares at amortized cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortization is included in 'interest expenses' in the Income Statement. Gains and losses are recognized in the Income Statement when the liabilities are de recognized as well as through the EIR amortization process.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortized Cost in the form of term loans, short term loans and debentures.

### 4.1.6 Reclassifications of Financial assets and Financial Liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2018.

### 4.1.7 De recognition of Financial Assets and Financial Liabilities

**a) De recognition of Financial Assets**

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

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

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

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

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for de recognition if either:

- The Company has transferred substantially all the risks and rewards of the asset or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

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

On der recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset de recognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**b) De recognition - Financial Liabilities**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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 de recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

**Determination of Fair Value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability the principal or the most advantageous market must be accessible by the Company.

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

A 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.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

**Level 1** — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

**Level 2** — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

**Level 3** — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 39 to the Financial Statements.

#### 4.1.8 Impairment of Financial Assets

##### *4.1.8.1 Expected Credit Loss Principles*

**a. Overview of the expected credit loss (ECL) principles**

The Company recognizes expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 40.4.

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

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform as assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

**Stage 1:** When loans are first recognized, the Company recognizes allowance based on 12 month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

**Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage3.

**Stage 3:** Loans considered credit-impaired. The Company records an allowance for the LTECLs.

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

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

**b. The Calculation of Expected Credit Loss (ECL)**

The Company calculates ECLs based on four probability-weighted scenarios to measure the 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 calculations 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 de recognized and is still in the portfolio.

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

**LGD:** The 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 lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method is summarized below

**Stage 1:** The 12mECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from default events on a financial instrument that are possible with in the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

**Stage2:** When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

**Stage 3:** For loans considered credit-impaired, the Company recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

**c. Loan Commitments:**

When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For factoring receivables and revolving loans that include both a loan and an undrawn commitment. ECLs are calculated and presented with the loan.

**d. Financial Guarantee contracts:**

The Company's liability under each guarantee is measured at the higher of the initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability – weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognized within provisions.

**e. Debt instruments measured at fair value through OCI**

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognized in OCI is recycled to the profit or loss upon de recognition of the assets.

**f. Debt factoring and revolving loans**

The Company's product offering includes debt factoring and revolving loan facilities, in which the Company has the right to cancel and/or reduce the facilities within a short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behavior, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12months.

The ongoing assessment of whether a significant increase in credit risk has occurred for debt factoring and revolving loan facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in utilization.

**g. Forward looking information**

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

- GDP growth
- Unemployment rate
- Central Bank base rates
- Inflation

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

*4.1.8.2 Reversals of impairment*

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognized in the income statement.

*4.1.8.3 Renegotiated Loans*

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan reinitiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. De recognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1January 2018, when the loan has been renegotiated or modified but not de recognized, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 42.4.1. The Company also considers whether the assets should be classified as Stage3.

If modifications are substantial, the loan is de recognized as explained in Note 4.1.7(a).

*4.1.8.4 Write-off of Financial Assets at Amortized Cost*

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

*4.1.8.5 Collateral Valuation*

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letter of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral.

Other financial assets which do not have readily determinable market value are valued using models. Non- financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

*4.1.8.6 Collateral repossessed*

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

*4.1.8.7 Offsetting Financial Assets and Liabilities*

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

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

## 4.2 Leases

The Company applied Sri Lanka Accounting Standard -SLFRS 16 (Leases) with effect from 1 April 2019.

At the commencement date of a lease, the Company recognise a liability to make future lease payments (i.e., the lease liabilities) and an asset representing the right to use of the underlying asset during the lease term (i.e., the right-of-use asset), the interest expense on the lease liabilities and the depreciation expense on the right-of-use asset are recognized separately in line with the requirements of SLFRS 16-Leases.

Further the lease liabilities will be remeasured upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The Company will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

For the contracts entered on or after the effective date of transition, the Company assesses at the inception of a contract, whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the use of the identified asset and the right to direct how and for what purpose the identified asset is used. After the assessment of whether a contract is, or contains, a lease, the Company determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16. Accordingly, the right to use of an identifying asset is a separate lease component if the lessee can benefit from the use of underlying asset either on its own or together with other resources readily available to the lessee and the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

**(a) Separating components of a contract**

The Company determines, the right to use an underlying asset is a separate lease component if both of the following criteria are met.

- The lessee can benefit from use of the asset either on its own or together with other resources that are available to the lessee.
- The underlying asset is neither dependent on, nor highly interrelated with, the other underlying assets in the contract.

For contracts in which the Company becomes the lessee, the consideration in the contract is allocated to each lease component on the basis of the relative standalone price of the lease component and the aggregate standalone price of the non-lease components. On the other hand, when the Company is the lessor, the guidance given in Sri Lanka Accounting Standard – SLFRS 15 on "Revenue from Contracts with Customers" (SLFRS 15) is applied to allocate transaction price to separate components.

**(b) Determination of lease term**

All lease liabilities are to be measured with reference to the estimate of lease term. Accordingly, the Company determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option. In this assessment, the Company considers all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

The Company reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, only upon the occurrence of a significant event or significant change in circumstances that are within the control of the Company as a lessee. In addition, as per SLFRS 16, the Company revises lease term only if there is a change in the non-cancellable period of lease.

**(c) Amortization of Right to Use Asset**

Company amortized it's Right to Use Assets over the lease period of the respective asset

## 4.3 Property, Plant & Equipment

### 4.3.1 Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

### 4.3.2 Measurement

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

#### 4.3.3 Cost Model
An item of property, plant & equipment that qualifies or recognition as an asset is initially measured at its costs. Costs include expenditure that is directly attributable to the acquisition of the asset and cost is incurred subsequently to add to or replace a part of it.

The cost of self- constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to 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.

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

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

Changes in the expected useful life are accounted by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

#### 4.3.4 Subsequent Cost
The subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured. The costs of the day to day servicing o property, plant and equipment are charged to the Statement of Comprehensive Income.

#### 4.3.5 Repairs and Maintenance
Repairs and maintenance are charged to the 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.

#### 4.3.6 Borrowing Costs
As per Sri Lanka Accounting Standard- LKAS 23 on 'Borrowing Costs', the company capitalizes the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognized in the profit or loss in the period in which they occur.

#### 4.3.7 De-recognition
Property, plant and equipment is 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 recognized in 'Other operating income' in the income statement in the year the asset is de recognized.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

The rates of depreciations based on the estimated useful lives are as follows:

| Category of Asset | Rate of Depreciation (per annum) |
|---|---|
| Office Equipment | 25% |
| Computer Equipment | 20% |
| Office furniture & Fittings | 20% |
| Motor vehicles | 25% |
| Name Board | 50% |
| Machinery | 25% |
| Computer Software | 25% |
| Computer Software-<br>E-finance system | 10% |

#### 4.3.9 Change in Estimates
The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

### 4.4 Intangible Assets
The Company's intangible assets include the value of computer software.

#### 4.4.1 Basis of Recognition
An intangible asset is recognized 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. The cost of intangible assets acquired in business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses if any.

#### 4.4.2 Subsequent Expenditure
Subsequent expenditure on Intangible Asset 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.

#### 4.4.3 Useful Economic life, Amortization and Impairment
The useful lives of intangible assets are assessed to be either finite or indefinite.

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 financial year–end. 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 recognized in the income statement in the expense category consistent with the function of the intangible asset.

#### 4.4.4 Amortization
Amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual value over their estimated useful life as follows:

| The Class of Intangible Assets | Useful Life | Amortization Method |
|---|---|---|
| Computer software | 4 Years | Straight line method |
| Computer software (new e-finance system) | 10 Years | Straight line method |

The residual value of the intangible asset is zero.

The unamortized balances of Intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognized in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

#### 4.4.5 De recognition
Intangible assets are de recognized 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 recognized in the profit or loss in the year the asset is de recognized.

### 4.5 Impairment of Non-Financial Assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Income Statement.

### 4.6 Investment Property

Investment properties are properties held either to earn rental income or for capital appreciation or both, Investment properties are initially measured at cost and the fair value model is used for subsequent measurement in accordance with Sri Lanka Accounting Standard (LKAS 40) – Investment Property. The cost of the investment property comprises of its purchase price and any directly attributable expenditure.

Fair valuations of the properties are carried out by independent valuer/valuers having appropriate professional qualifications, the difference between the carrying amount of the item and its fair value is recognized directly to the Income Statement, if it is a gain or a decline in value

### 4.7 Dividend Payable

Dividends on ordinary shares are recognized as a liability and deducted in equity when they are recommended and declared by the Board of Directors and approved by the shareholders.

### 4.8 Retirement Benefit Obligations

#### 4.8.1 Defined Benefit Plan -Gratuity

All the employees of the company are eligible for gratuity under the Payment of Gratuity Act No.12 of 1983, at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

The 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 projected unit credit actuarial cost method as required by Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The item is stated under other liabilities in the Statement of Financial Position.

**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.

**Interest Cost**

Interest cost is the expected increase due to interest at the end of the year. (The benefits are one year closer to settlement).

**Funding Arrangements**

The Gratuity liability is not externally funded.

#### 4.8.2 Defined Contribution Plans

The Company also contributes defined contribution plans. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability. The Company contributes to the following Schemes:

**Employees' Provident Fund**

The Company and employees contribute 12% and 8% respectively of the employee's total earnings (as defined in the Employees' Provident Fund) to the Employees' Provident Fund.

**Employees' Trust Fund**

The Company contributes 3% of the employee's total earnings (as defined in the Employees' Trust Fund) to the Employees' Trust Fund.

### 4.9 Statutory Reserve Fund

The reserves recorded in the equity on the Company's Statement of Financial Position includes the 'Statutory reserve fund' which has been created in accordance with the Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. Accordingly, 5% of the net profit for the period is transferred to the Statutory reserve fund during the financial year.

### 4.10 Provisions

Provisions are recognized 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 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 obligations at that date.

The expense relating to any provision is presented in the income statement net of any reimbursement.

### 4.11 Recognition of Interest Income Interest Expense

#### 4.11.1 Interest Income Interest Expense

Under both SLFRS 9 and LKAS 39, interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The EIR (and therefore, the amortized cost of the asset/liability) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognizes interest income/expense using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset/liability are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income/interest expense. The adjustment is subsequently amortized through Interest income/Interest expense in the income statement.

When a financial asset becomes credit-impaired (as set out in Note '40.4.1 and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognized using the contractual interest rate under net interest income.

#### 4.11.2 Interest Income on Overdue Rentals

Interest from overdue rentals has been accounted for on cash received basis.

### 4.12 Fee and Commission Income and Expenses

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Company's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Company first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

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

**a) Fee Income earned from services that are provided over a certain period of time**

Fees earned for the provision of services over a period of time are accrued over that period.

**b) Fee Income from providing transaction services**

Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

### 4.13 Other operating income

**(a) Dividend Income**

Dividend income is recognized when the right to receive income is established. Usually, this is the ex- dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

**(b) Recovery of Bad Debts Written Off**

Recovery of amounts written off as bad and doubtful debts is recognized when received.

**(c) Other Income**

Other income is recognized on an accrual basis.

### 4.14 Personnel Expenses
Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay all employee benefits relating to employee services in the current and prior periods and the obligation can be estimated reliably.

### 4.15 Taxes
As per Sri Lanka Accounting Standard –LKAS 12(Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognized in the Income Statement, except to the extent it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or in other comprehensive income.

#### 4.15.1 Current tax
Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantially enacted on the reporting date and any adjustment to the tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year 2018 adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017(Inland Revenue Act No.10 of 2006 and amendments thereto up to 31 March 2018) and the amendment thereto, at the rate specified in Note 17 to the Financial Statements.

#### 4.15.2 Deferred tax
Deferred tax is recognized using the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of current tax liabilities and deferred tax liabilities / (assets) are given in Note 17 and Note 30 to the Financial Statements respectively.

#### 4.15.3 Value Added Tax (VAT) on Financial Services
VAT on financial services is calculated in accordance with the Value Added Tax (VAT) Act No.14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax, adjusted for the economic depreciation and emoluments payable to employees including cash, non-cash benefits and provisions relating to terminal benefits.

#### 4.15.4 Nation Building Tax (NBT) on Financial Services
NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

As per Notice published by the Department of Inland Revenue dated November 29, 2019, NBT was abolished with effect from December 1, 2019.

#### 4.15.5 Debt Repayment Levy
As per the provisions of the Finance Act No.35 of 2018, Debt repayment levy has been imposed for a limited period from 01 October 2018 to 31 December 2021.

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25Cof the Value Added Tax (VAT) Act No. 14 of2002.

As per notice published by the Department of Inland Revenue dated January 20, 2020, DRL was abolished with effect from January 1, 2020

#### 4.15.6 Withholding Tax (WHT) on Dividends
Withholding tax on dividends distributed by the Company that arise from the distribution of dividends of the company is recognized at the time of liability to pay the related dividend is recognized. At present, the rate of 14 % is deducted at source.

As per Notice dated February 18, 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective January 1, 2020.

#### 4.15.7 Economic Service Charge (ESC)
As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.5% on liable gross turnover of the Company and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

ESC is not payable on turnover on which income tax is payable.

As per Notice published dated January 1, 2020 by the Department of Inland Revenue, ESC was abolished with effect from January 1, 2020.

### 4.16 Regulatory provisions
#### 4.16.1 Statutory Reserve Fund
The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) ii of the said Direction.

#### 4.16.2 Deposit Insurance and Liquidity Support Scheme
In terms of the Finance Companies Direction No.2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments thereto, all Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No.1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October 2010.The said Scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 1 of 2013.

The deposits to be insured shall include demand, time and savings deposit liabilities and exclude the following.

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Silence
- Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Finance Companies Act (Corporate Governance) Direction No.3 of 2008 for Registered Finance Companies
- Deposit liabilities held as collateral against any accommodation granted
- Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.

Registered Finance Companies are required to pay a premium of 0.15% on total amount of eligible deposits as at end of the month with in a period of 15 days from the end of the respective month.

#### 4.16.3 Crop Insurance Levy (CIL)
In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No.30 of 1988, Finance Business Act No.42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 01 April2013.

### 4.17 Earnings per Share (EPS)
Basic EPS is calculated by dividing the net profit or loss attributable to ordinary equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares if any.

### 4.18 Segment Reporting

The Company's segmental reporting is based on the following operating segments identified based on products and services;

- Leasing
- Hire Purchase
- Term Loans
- Others

A segment is a distinguishable component of a Company that is engaged in providing products and services.
(Business segment, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the financial statements of the Company.

### 4.19 Commitments and Contingencies

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits 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'.

**Financial guarantees and undrawn loan commitments**

Currently the Company has issued financial guarantees. The company has established a policy to recognize and measure its financial guarantees and undrawn loan commitments, Accordingly, the financial guarantees are initially recognized in the Financial Statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and - under LKAS 39 - the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or - under SLFRS 9 - an ECL provision.

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

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under LKAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

Currently the company has a commitment to settle the City Finance Fixed Deposits (FD) liability to its customers. It is required to settle the final 45% commencing from 30 September 2020.of these instruments are disclosed in Note44.

## 5. Changes in Accounting Policies

The Company applied for the first-time certain standards and amendments, if applicable, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### 5.1 Amendments to SLFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021

On 4 December 2020, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued COVID-19-Related Rent Concessions - amendment to SLFRS 16 Leases. 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 the COVID-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, On 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 01 April 2021.

However, the amendments to Sri Lanka Accounting Standard - SLFRS 16 (Leases): COVID-19 Related Rent Concessions also did not have a material impact on the Financial Statements of the Company.

## 5.2 Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2

- **IBOR reform Phase 1**

On 15 January 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform (Phase 1). A summary of Phase 1 amendments are as follows:

**Highly Probable Requirement:**
According to SLFRS 9 and LKAS 39, when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. By the Phase 1 amendments, when determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

**Prospective assessments:**
A hedging relationship qualifies for hedge accounting only if there is an economic relationship between the hedged item and the hedging instrument (described in SLFRS 9) or the hedge is expected to be highly effective in achieving off-setting (described in LKAS 39). An entity must demonstrate such prospective assessments on a regular basis. By the Phase 1 amendments, when performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

**LKAS 39 retrospective assessment:**
To apply hedge accounting under LKAS 39, an entity must demonstrate that the actual results of the hedge are within a range of 80% - 125%. This requirement is commonly known as the 'LKAS 39 retrospective assessment. By the Phase 1 amendments, an entity is not required to undertake the LKAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.

**Separately identifiable risk components:**
While there are some differences between SLFRS 9 and LKAS 39 regarding designation of risk components, both Standards require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. An entity may designate an item in its entirety or a component of an item as a hedged item in a hedging relationship. SLFRS 9 and LKAS 39 require the component to be separately identifiable to qualify as a hedged item. By the Phase 1 amendments, for hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

- **IBOR reform Phase 2**

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to Interest Rate Benchmark Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients.

A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.

Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021.

The requirements under phase 1 amendments have to be applied retrospectively. However, the reliefs only apply to hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements. It follows that it is not possible to apply the reliefs retrospectively to hedge relationships that were not previously designated as such.

The requirements under phase 2 amendments have to be applied retrospectively. Hedge relationships are not designated retrospectively. However, discontinued hedging relationships must be reinstated if, and only if,

The hedging relationship was discontinued solely due to changes required by the Reform, and, therefore, the entity would not have been required to discontinue that hedging relationship if the Phase 2 Amendments had been applied at that time and;

At the date of initial application of the Phase 2 Amendments, that discontinued hedge relationship continues to meet all the qualifying criteria for hedge accounting, after taking account of the Phase 2 Amendment.

The Company is in the process of assessing potential impact of implementation of the aforementioned amendments.

The Company has applied all relevant accounting standards which have been issued up to 31 March 20022 in the preparation of the Financial Statements for the year ended 31st March 2022

## 6. Sri Lanka Accounting Standards Issued but not Effective as at Reporting Date

The new and amended standards and interpretations that are issued, but not yet effective, upto the date of issuance of Financial Statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

### 6.1 Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka

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

### 6.2 SLFRS 17 Insurance Contracts

On 8 January 2020, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued SLFRS 17 Insurance Contracts (SLFRS 17). SLFRS 17 was amended by Amendments to SLFRS 17 - Insurance Contracts, issued on 28 June 2021. SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted; provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

The Financial Statements of the Company is not expected to have a material impact from SLFRS 17 - Insurance Contracts.

### 6.3 Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets : Onerous Contracts – Costs of Fulfilling a Contract

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

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

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

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

### 6.4 Amendments to LKAS 16 Property, Plant & Equipment : Proceeds before Intended Use

On 25 March 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued LKAS 16 Property, Plant and Equipment - Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

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

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

### 6.5 Amendments to SLFRS 3 Business Combinations: Updating a reference to conceptual framework

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

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

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

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

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

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

## 7. Income

| Year ended 31 March | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Interest Income (Note 8) | 504,110,594 | 456,255,319 |
| Fee and Commission Income (Note 10) | 45,836,522 | 29,024,159 |
| Other Operating Income (Note 11) | (8,382,904) | (23,904,388) |
| | 541,564,212 | 461,375,089 |

## 8. Interest Income

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Interest Income on Loans and Receivables (Note 8.1) | 371,014,154 | 340,695,691 |
| Interest Income on Lease rentals receivables and Hire Purchases (Note 8.2) | 42,392,025 | 52,349,578 |
| Interest Income on Financial Investments | 62,203,880 | 54,109,986 |
| Penalty Interest | 28,500,535 | 9,100,064 |
| | 504,110,594 | 456,255,319 |

### 8.1 Interest Income on Loans and Receivables

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Interest Income on Term Loans | 311,614,006 | 288,391,250 |
| Interest Income on Housing Loans | 40,535,903 | 37,815,685 |
| Interest Income on Gold Loans | 18,864,245 | 14,488,756 |
| Interest Income on Factoring | - | - |
| | 371,014,154 | 340,695,691 |

### 8.2 Interest Income on Lease rentals receivables and Hire Purchases

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Interest Income on Lease rentals receivables | 37,823,587 | 40,547,614 |
| Interest Income on Hire Purchase | 4,568,438 | 11,801,964 |
| | 42,392,025 | 52,349,578 |

## 9. Interest Expense

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Due to Banks | 37,574,478 | 46,794,005 |
| Due to Customers (Note 9.1) | 58,974,553 | 61,405,699 |
| | 96,549,031 | 108,199,704 |

### 9.1 Due to Customers

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Interest Expense on Fixed deposits | 43,326,791 | 54,410,978 |
| Interest Expense on Savings | 15,647,762 | 6,994,721 |
| | 58,974,553 | 61,405,699 |

## 10. Net Fee and Commission Income

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Documentation and processing fees | 45,836,522 | 29,024,159 |
| | 45,836,522 | 29,024,159 |

## 11. Net Other Operating Income/(Expense)

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Gain/(loss) from disposal of Investment property (Note 11.1) | - | (45,300,000) |
| Consumer Loan Commission Income | - | 373,500 |
| Dividend Income | 561,832 | 320,000 |
| Other income | 1,868,948 | 20,702,112 |
| Fair Value gain/(loss) from share Investment | (10,813,684) | - |
| | (8,382,904) | (23,904,388) |

### 11.1 Gain/(loss) from disposal of Investment property

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Sales Proceeds | - | 311,000,000 |
| Cost | - | (356,300,000) |
| Gain/(Loss) | - | (45,300,000) |

## 12. Impairment Charges/(Reversal) for Loans and Other Losses

### 12.1 Collective

| | Note | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|---|
| Loans and Receivables | 21.2 | **(93,678,871)** | 20,834,545 |
| Lease rentals receivables and Hire Purchases | 22.2 | **27,688,681** | 1,026,042 |
| Other Financial Assets | | **76,281** | 217,985 |
| | | **(65,913,909)** | 22,078,572 |

### 12.2 Individual

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Loans and Receivables | **7,338,585** | 1,637,250 |
| Lease Rentals Receivable & Hire Purchases | **(3,119,911)** | (1,330,763) |
| Other Sundry Receivable | **-** | 500,000 |
| | **4,218,674** | 806,487 |
| Total Impairment charges/ (Reversal) for Loans and Advances and Cash, Bank & Other assets | **(61,695,235)** | 22,885,058 |

### 12.3 The table below shows the Allowances for Impairment charges for financial instruments for the year 2021/2022 recorded in the income statement.

| | Stage 01 Rs. | Stage 02 Rs. | Stage 03 Rs. | Individually Rs. | Total Rs. |
|---|---|---|---|---|---|
| Loans and Receivables | 9,616,127 | (8,666,101) | (94,628,897) | 7,338,585 | (86,340,286) |
| Lease rentals receivables and Hire Purchases | 12,009,136 | 3,918,429 | 11,761,116 | (3,119,911) | 24,568,770 |
| Write off | - | - | - | - | - |
| Financial Investment | 76,281 | - | - | - | 76,281 |
| | 21,701,544 | (4,747,672) | (82,867,781) | 4,218,674 | (61,695,235) |

The table below shows the allowances for Impairment charges for financial instruments for the year 2020/2021 recorded in the income statement.

| | Stage 01 Rs. | Stage 02 Rs. | Stage 03 Rs. | Individually Rs. | Total Rs. |
|---|---|---|---|---|---|
| Loans and Receivables | (3,319,537) | 13,439,851 | (24,242,116) | 1,637,250 | (12,484,553) |
| Lease rentals receivables and Hire Purchases | 3,004,019 | 5,174,953 | (297,983,310) | (1,330,763) | (291,135,101) |
| Write off | - | - | - | 325,786,726 | 325,786,726 |
| Other Debtors | 217,985 | - | - | 500,000 | 717,985 |
| | (97,533) | 18,614,804 | (322,225,426) | 326,593,212 | 22,885,058 |

### 13. Personnel Costs

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Salaries and Other Related Expenses | 90,423,178 | 78,742,636 |
| Defined Contribution Plan cost EPF and ETF | 7,566,335 | 7,186,601 |
| Directors' emoluments | 7,225,000 | 6,450,000 |
| Provision for Gratuity | 1,186,501 | 1,337,130 |
| | 106,401,014 | 93,716,366 |

### 14. Depreciation and Amortization

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Depreciation of Property Plant & Equipment | 22,704,785 | 22,242,769 |
| Amortization of intangible assets | 5,665,548 | 2,638,335 |
| Depreciation of Leased Assets | 16,464,362 | 16,248,663 |
| | 44,834,695 | 41,129,767 |

### 15. Other Operating Expenses

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Audit and Non Audit Fee | 1,581,000 | 1,621,695 |
| Professional & Legal Expenses | 6,419,459 | 6,706,645 |
| Office Administration & Establishment Expenses | 35,143,064 | 31,230,985 |
| Advertising & Business Promotion Expenses | 15,940,139 | 8,068,701 |
| Other Operating Expenses | 8,025,853 | 16,685,129 |
| Interest Expenses on Leased Assets (Note 28) | 8,433,395 | 8,897,625 |
| | 75,542,910 | 73,210,779 |

### 16. Taxes on Financial Services

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Value Added Tax on Financial Services | 41,413,734 | 21,943,495 |
| | 41,413,734 | 21,943,495 |

## 17. Taxation

### 17.1 The major components of income tax expense for the years ended 31 March are as follows.

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| (A) Statement of Profit or Loss | | |
| **Current Income Tax** | | |
| Income Tax for the year | - | - |
| | | |
| Deferred Tax | | |
| Deferred Taxation Charge/ (Reversal) (Refer Note 31) | 140,936,083 | 75,286,361 |
| | 140,936,083 | 75,286,361 |
| | | |
| (B) Other Comprehensive Income | | |
| Deferred Tax | | |
| Deferred Taxation Charge/ (Reversal) (Refer Note 31) | 1,952 | - |
| | 1,952 | - |
| (C) Total Tax Expense for the year | 140,938,035 | 75,286,361 |

### 17.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 March 2021 and 2020 is as follows.

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| **Accounting Profit Before Income Taxation** | 238,518,061 | 100,289,920 |
| | | |
| **Adjustments** | | |
| Non-taxable Income/ Losses | 10,251,852 | 44,980,000 |
| Disallowable Expenses | 35,381,783 | 101,922,521 |
| Allowable Expenses | (181,464,721) | (378,072,144) |
| Loss on PPE disposal | - | - |
| Gain on Investment Property disposal | - | - |
| Total Statutory Income | 102,686,977 | (130,879,704) |
| IPO tax Relief | 51,343,489 | - |
| Claim on Carried Forward Tax Losses | - | - |
| Taxable Income | NIL | NIL |
| Income Tax Rate (%) | 24% | 24% |
| Income Tax | - | - |
| Deferred Taxation Charge/(Reversal) (Note 30) | 140,938,035 | 75,286,361 |
| Total Tax Expense (Note 17.1 (A)) | 140,938,035 | 75,286,361 |
| | | |
| Effective tax rate | 59% | 75% |

As a result of our shares been listed on the Colombo Stock Exchange in November 2021 company eligible for tax benefits as follows in terms of the Inland Revenue (Amendment) Act No 10 of 2021,

i. Income tax payable calculated shall be reduced by 50% for the year of assessment 20021/2022

ii. Gains and profits for 3 Years of assessment from 01.04. 2022 will be taxable at the reduces rate of 14 %

### 18. Earnings Per Ordinary Share

The Company presents basic Earnings per Share (EPS) data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity share holders of the Company by the weighted average number of ordinary shares outstanding during the year.

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| 18.1 Weighted Average Number of Ordinary Shares for Basic/Diluted EPS as at 01 April | 6,651,699,935 | 4,739,271,722 |
| Add : Weighted Average Number of shares issued under private placement | 1,912,428,213 | 1,912,428,213 |
| Weighted Average Number of Ordinary Shares for Basic/Diluted EPS as 31 March | 8,564,128,148 | 6,651,699,935 |
| Weighted Average Number of Ordinary Shares for Basic/Diluted EPS as 31 March (After consolidation of shares) | 790,168,780 | 665,168,780 |
| Profit Attributable to Ordinary share holders | 97,581,978 | 25,003,559 |
| Basic/Diluted Earnings per Ordinary Share (Rs.) | 0.1235 | 0.0376 |

### 19. Cash and Cash Equivalent

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Cash in hand | 24,009,276 | 22,155,868 |
| Balances with banks | 89,148,104 | 133,241,054 |
| Securities purchased under repurchase agreement maturing with in 3months | 116,283,149 | 63,114,003 |
| Cash and Cash Equivalent before impairment | 229,440,529 | 218,510,925 |
| Less: Allowance for Impairment | (6,482) | (3,758) |
| Cash and Cash Equivalent after impairment | 229,434,047 | 218,507,168 |

#### 19.1 Cash And Cash Equivalent - Cash Flow Purpose

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Cash and Cash Equivalent before impairment | 229,440,529 | 218,510,925 |
| Bank Overdraft | (30,360,385) | (48,587,036) |
| | 199,080,144 | 169,923,890 |

## 20. Financial Investments at Amortised Cost

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Fixed Deposit & Commercial Papers | 747,107,564 | 662,509,381 |
| Less: Allowance for Impairment | (287,784) | (214,227) |
| | 746,819,780 | 662,295,154 |

## 21. Financial Assets at Amortised Cost - Loans and Receivables

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Term Loans | 2,397,994,236 | 1,719,661,182 |
| Housing Loans | 248,365,798 | 363,188,451 |
| Gold Loans | 114,119,012 | 84,543,985 |
| Factoring Loans | 26,347,000 | 29,737,000 |
| Staff Loans | 17,584,622 | 28,400,946 |
| | 2,804,410,668 | 2,225,531,564 |
| Less : Allowance for Impairment Losses (Note 21.1) | (170,088,809) | (256,429,094) |
| | 2,634,321,859 | 1,969,102,470 |

### 21.1 Analysis of Loans and Receivables on Maximum Exposure to credit Risk as at 31 March 2022

| | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs. |
|---|---|---|---|---|
| Individually Impaired Loans and Receivables | - | - | 221,478,391 | 221,478,391 |
| Loans and Receivables subject to Collective Impairment | 1,858,844,562 | 261,172,603 | 462,915,111 | 2,582,932,276 |
| Allowance for Impairment Losses | (59,765,520) | (19,372,801) | (90,950,487) | (170,088,809) |
| | 1,799,079,042 | 241,799,802 | 593,443,014 | 2,634,321,858 |

### Analysis of Loans and Receivables on Maximum Exposure to credit Risk as at 31 March 2021

| | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs. |
|---|---|---|---|---|
| Individually Impaired Loans and Receivables | - | - | 101,579,530 | 101,579,530 |
| Loans and Receivables subject to Collective Impairment | 1,009,323,847 | 499,322,377 | 615,305,810 | 2,123,952,033 |
| Allowance for Impairment Losses | (50,149,393) | (28,038,902) | (178,240,799) | (256,429,094) |
| | 959,174,454 | 471,283,475 | 538,644,541 | 1,969,102,470 |

### 21.2 Allowance for Impairment Losses

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| **Movement of collective Impairment Allowance for Loans and Advances** | | |
| As at 01 April | 248,449,127 | 227,614,583 |
| Net Impairment Charge / (Reversal) for the year | (93,678,871) | 20,834,545 |
| Write off during the year | - | - |
| Balance as at 31 March | 154,770,256 | 248,449,127 |
| | | |
| **Movement in Individual Impairment Allowance for Loans and Advances** | | |
| As at 01 April | 7,979,967 | 41,299,064 |
| Net Impairment Charge / (Reversal) for the year | 7,338,585 | 1,637,250 |
| Write off during the year | - | (34,956,347) |
| Balance as at 31 March | 15,318,553 | 7,979,967 |
| | | |
| Individual Impairment | 15,318,552 | 7,979,967 |
| Collective Impairment | 154,770,256 | 248,449,127 |
| | 170,088,809 | 256,429,094 |

### 21.3 Movement in Allowance for Impairment Losses

| | Stage 01 Rs. | Stage 02 Rs. | Stage 03 Rs. | Total Rs. |
|---|---|---|---|---|
| Balance as at 01 April 2021 | 50,149,393 | 28,038,902 | 178,240,799 | 256,429,094 |
| Charge/(Reversal) to Income Statement (Note 12.3) | 9,616,127 | (8,666,101) | (87,290,311) | (86,340,285) |
| Balance as at 31 March 2022 | 59,765,520 | 19,372,801 | 90,950,488 | 170,088,809 |

## 22. Financial Assets at Amortised Cost - Lease Rentals Receivable & Hire Purchase

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| **Gross rentals receivables** | 592,084,186 | 490,477,277 |
| | | |
| -Lease Rentals Receivables | 553,041,085 | 424,591,890 |
| -Amounts Receivable from Hire Purchases | 39,043,101 | 65,885,387 |
| | 592,084,186 | 490,477,277 |
| Less: Unearned Income | (146,459,661) | (125,309,895) |
| **Net rentals receivables** | 445,624,525 | 365,167,382 |
| Less : Allowance for Impairment Losses (Note 22.1) | (52,988,746) | (28,419,976) |
| Total net rentals receivable | 392,635,779 | 336,747,406 |

## 22. Financial Assets at Amortised Cost - Lease Rentals Receivable & Hire Purchase (Contd.)

### 22.1 Analysis of Lease Rental Receivable & Stock Out on Hire on Maximum Exposure to credit Risk as at 31 March 2022

| | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs. |
|---|---|---|---|---|
| Individually Impaired Lease Rentals Receivables & Hire Purchases | | | 15,747,327 | 15,747,327 |
| Lease Rentals Receivable & Hire Purchases subject to Collective Impairment | 259,919,729 | 85,139,408 | 87,818,061 | 429,877,198 |
| Allowance for Impairment Losses | (17,883,245) | (11,406,969) | (23,698,532) | (52,988,746) |
| | 239,036,484 | 73,732,439 | 79,866,856 | 392,635,779 |

### Analysis of Lease Rental Receivable & Stock Out on Hire on Maximum Exposure to credit Risk as at 31 March 2021

| | Stage 01<br>Rs. | Stage 02<br>Rs. | Stage 03<br>Rs. | Total<br>Rs. |
|---|---|---|---|---|
| Individually Impaired Lease Rentals Receivables & Hire Purchases | | | 40,495,596 | 40,495,596 |
| Lease Rentals Receivables & Hire Purchases subject to Collective Impairment | 198,162,069 | 82,221,087 | 44,288,630 | 324,671,786 |
| Allowance for Impairment Losses | (5,874,109) | (7,488,540) | (15,057,327) | (28,419,976) |
| | 192,287,960 | 74,732,547 | 69,726,899 | 336,747,406 |

### 22.2 Allowance for Impairment Losses

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| **Movement In Individual Impairment Allowance For - Lease Rentals Receivable & Hire Purchase** | | |
| As at 01 April | 3,988,409 | 295,749,873 |
| Net Impairment Charge / (Reversal) for the year | (3,119,911) | (1,330,763) |
| Write off during the year | - | (290,430,702) |
| Balance as at 31 March | 868,498 | 3,988,409 |
| **Movement in Collective Impairment Allowance for- Lease Rentals Receivable & Hire Purchase** | | |
| As at 01 April | 24,431,568 | 23,805,204 |
| Net Impairment Charge / (Reversal) for the year | 27,688,680 | 1,026,042 |
| Write off during the year | - | (399,678.07) |
| Balance as at 31 March | 52,120,248 | 24,431,568 |
| Individual Impairment | 868,498 | 3,988,409 |
| Collective Impairment | 52,120,248 | 24,431,568 |
| | 52,988,746 | 28,419,976 |

22.3 As at 31 March 2022

| | Within one year Rs. | 1 - 5 years Rs. | Over 5 years Rs. | Total Rs. |
|---|---|---|---|---|
| Gross rentals receivables | 13,573,665 | 569,251,649 | 9,258,872 | 592,084,186 |
| | | | | |
| -Lease Rentals Receivables | 9,574,902 | 536,242,668 | 9,258,872 | 555,076,442 |
| -Amounts Receivable from Hire Purchases | 3,998,763 | 33,008,981 | - | 37,007,744 |
| | 13,573,665 | 569,251,649 | 9,258,872 | 592,084,186 |
| Less: Unearned Income | (1,401,292) | (141,783,865) | (3,274,504) | (146,459,661) |
| **Net rentals receivables** | 12,172,373 | 427,467,784 | 5,984,368 | 445,624,525 |
| | | | | 445,624,525 |
| Less : Allowance for Impairment Losses | | | | (52,988,746) |
| Total net rentals receivable | | | | 392,635,779 |

As at 31 March 2021

| | Within one year Rs. | 1 - 5 years Rs. | Over 5 years Rs. | Total Rs. |
|---|---|---|---|---|
| Gross rentals receivables | 7,884,231 | 482,593,046 | - | 490,477,277 |
| | | | | |
| -Lease Rentals Receivables | 1,954,283 | 422,637,607 | - | 424,591,890 |
| -Amounts Receivable from Hire Purchases | 5,929,948 | 59,955,439 | - | 65,885,387 |
| | 7,884,231 | 482,593,046 | - | 490,477,277 |
| Less: Unearned Income | (38,979,578) | (86,330,317) | - | (125,309,895) |
| **Net rentals receivables** | (31,095,347) | 396,262,729 | - | 365,167,382 |
| | | | | 365,167,382 |
| Less : Allowance for Impairment Losses | | | | (28,419,976) |
| Total net rentals receivable | | | | 336,747,406 |

22.4 Movement in Allowance for Expected Credit Loss (ECL)

| | Stage 01 Rs. | Stage 02 Rs. | Stage 03 Rs. | Total Rs. |
|---|---|---|---|---|
| Balance as at 01 April 2021 | 5,874,109 | 7,488,540 | 15,057,327 | 28,419,976 |
| Charge/(Reversal) to Income Statement (Note 12.3) | 12,009,136 | 3,918,429 | 8,641,205 | 24,568,770 |
| Balance as at 31 March 2022 | 17,883,245 | 11,406,969 | 23,698,532 | 52,988,746 |

## 23. Other Financial Assets

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Amount due from Holding Company | 7,585,645 | 7,585,645 |
| Prov. For Amount due from Holding Company | (7,585,645) | (7,585,645) |
| Other Receivables | 16,919,514 | 7,763,678 |
| | 16,919,514 | 7,763,678 |

### 24. Financial Assets Measured at Fair Value Through Profit of Loss

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Unit Trust | - | 100,463,534 |
| Investment in Shares | 19,508,717 | - |
| | 19,508,717 | 100,463,534 |

### 25. Fair Value Through Other Comprehensive Income

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Investment in CRIB | 315,813 | 315,813 |
| | 315,813 | 315,813 |

### 26. Other Non Financial Assets

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| WHT Receivable | 4,281,407 | 5,250,682 |
| Advance & Prepayments | 39,716,499 | 23,451,084 |
| Stationary and Gift stock | 5,371,950 | 3,185,547 |
| Other Non financial assets | 5,218,521 | 5,218,521 |
| NBT on Financial Services | 756,640 | 756,640 |
| | 55,345,017 | 37,862,474 |

### 27. Investment Property

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Balance as at 1st April | - | 356,300,000 |
| Disposals | - | (356,300,000) |
| Balance as at 31st March | - | - |

Investment Properties includes bare lands and land and buildings acquired by the company from clients who defaulted on accommodations granted and purchased properties. These properties were held by the Company for capital appreciation and rental purposes. During the year 2020/21 land were sold out.

### 27.1 Measurement of fair values

#### 1) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 March 2020.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

#### 2) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

| Valuation Technique | Significant unobservable inputs | Interrelationship between key unobservable input and fair value measurement |
|---|---|---|
| Market comparison method - value derived based on recent transactions of similar properties | Per perch value was derived based on similar property values. The value of a perch in the property portfolio is **depicted in note no.2.1 below** | The estimated fair value would increase (decrease) if:<br>- Per perch value was higher / (lesser) |
| Depreciated replacement cost method | Value per square feet determined based on similar properties value and depreciated for period used. **(Note 2.1)** | The estimated fair value would increase (decrease) if:<br>- Depreciation rate was lesser / (higher)<br>- Square feet value was higher / (lesser) |

*2.1) Value*

| Property | Lot Nos | Value per perch | Extent (purchase) | Value |
|---|---|---|---|---|
| 01. No.24, Piriwana, Dehiwela, Mount Lavinia. | 1,2 | 1,600,000 | 16.50 | 26,400,000 |
| | 3,4,6,7,8,9,10,11,14,15,17,18,19,20,22,23,24 | 1,500,000 | 141.45 | 212,175,000 |
| | 5,12,16 | 1,400,000 | 27.65 | 38,710,000 |
| | Total Land value | | | 277,285,000 |
| | Value of the building (39,820 sqf X 1,845.71 average per sqf ) | | | 73,496,000 |
| | Total | | | 350,781,000 |
| | **Market value** | | | 350,000,000 |
| 03. Nawagamuwa, Kaduwela | 1,2,3,4,5,6,7,8 | 100,000 | 63.3 | 6,333,000 |
| | **Market value** | | | 6,300,000 |
| | | Total value of the property | | 356,300,000 |

## 28. Property, Plant and Equipment

### 28.1 Gross Carrying Amounts

| Cost | Balance As at 01.04.2021 Rs. | Additions Rs. | Disposals Rs. | Balance As at 31.03.2022 Rs. |
|---|---|---|---|---|
| Freehold Assets | | | | |
| Motor Vehicles | 36,959,266 | 7,848,899 | - | 44,808,165 |
| Machinery | 4,664,407 | 40,704,000 | (5,087,579) | 40,280,828 |
| Office Equipment | 10,155,894 | 5,717,221 | - | 15,873,115 |
| Furniture and Fittings | 25,064,117 | 9,740,781 | - | 34,804,898 |
| Fixture & Fittings | 393,069 | 135,950 | - | 529,019 |
| Name Board | 9,601,489 | 3,910,339 | - | 13,511,828 |
| Computer Equipment and Software | 16,112,878 | 1,573,575 | - | 17,686,453 |
| **Total Value of Depreciable Assets** | 102,951,120 | 69,630,765 | (5,087,579) | 167,494,306 |

### 28.2 Depreciation

| | Balance As at 01.04.2021 Rs. | Charge for the Period Rs. | Disposals Rs. | Balance As at 31.03.2022 Rs. |
|---|---|---|---|---|
| Motor Vehicles | 25,910,781 | 8,145,701 | - | 34,056,482 |
| Machinery | 3,803,685 | 2,275,836 | (3,245,440) | 2,834,081 |
| Office Equipment | 7,120,888 | 2,403,035 | - | 9,523,923 |
| Furniture and Fittings | 14,918,890 | 4,830,744 | - | 19,749,634 |
| Fixture & Fittings | 198,296 | 85,480 | - | 283,776 |
| Name Board | 6,857,802 | 1,868,849 | - | 8,726,651 |
| Computer Equipment and Software | 5,115,729 | 3,095,141 | - | 8,210,870 |
| | 63,926,071 | 22,704,786 | (3,245,440) | 83,385,417 |

### 28.3 Net Book Values

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| **At Cost** | | |
| Motor Vehicles | 10,751,683 | 11,048,485 |
| Machinery | 37,446,747 | 860,722 |
| Office Equipment | 6,349,192 | 3,035,006 |
| Furniture and Fittings | 15,055,264 | 10,145,228 |
| Fixture & Fittings | 245,243 | 194,773 |
| Name Board | 4,785,177 | 2,743,687 |
| Computer Equipment and Software | 9,475,583 | 10,997,149 |
| **Total Carrying Amount of Property, Plant & Equipment** | 84,108,889 | 39,025,049 |

28.4 During the Financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs.69,630,765 (2021/22 - 14,503,182).

28.5 Cost of fully depreciated assets of the company as at 31 March 2022 is Rs.38,150,181 (2021/22 - 11,896,687/-).

## 29. Right of Use Assets

Set out below are the carrying amounts of right-of-use-assets recognised and movements during the year.

### 29.1 Cost

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Balance as at 01 April | 84,506,112 | 84,506,112 |
| Additions and Improvements | 36,925,134 | - |
| Cost as at 31 March | 121,431,246 | 84,506,112 |
| **Accumulated Amortisation** | | |
| Balance as at 01 April | (31,523,542) | (15,274,879) |
| Charge for the year (Note 14) | (16,464,361) | (16,248,663) |
| Accumulated Amortisation as at 31 March | (47,987,903) | (31,523,542) |
| Net Book Value as at 31 March | 73,443,343 | 52,982,570 |

### 29.2 Lease Liability

Set out below are the carrying amounts of Lease Liabilities (Included under Other Financial Liabilities in Note 34) and movements during the year

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Balance as at 01 April | 54,926,127 | 64,063,179 |
| Additions | 30,005,134 | - |
| Accretion of Interest (Note 15) | 8,433,395 | 8,897,625 |
| Payments | (20,560,576) | (18,034,676) |
| Balance as at 31 March | 72,804,080 | 54,926,127 |

### 29.3 Maturity Analysis of Lease Liability

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| **As at 31 March** | | |
| Less than 01 year | 15,235,635 | 12,251,524 |
| 02 to 05 years | 38,457,243 | 42,674,603 |
| More than 05 years | 19,111,202 | - |
| | 72,804,080 | 54,926,127 |

## 29. Right of use Assets (Contd.)

### 29.4 Reconciliation of Operating Lease Commitments

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| Operating Lease Commitments as at 31 March | 54,926,127 | 64,063,178 |
| Impact on discounting | (12,127,181) | (9,137,051) |
| New branches opening during the period | 30,005,134 | - |
| Lease Liability as at 31 March | 72,804,080 | 54,926,127 |

* The Present value of operating lease commitments as at 31 March 2022 has been calculated using weighted average incremental borrowing rate of 15% for the Company.

### 29.5 Sensitivity of Right-of use Assets /Lease Liability to Key Assumptions

**Sensitivity to Discount Rates**

1% increase/(Decrease) in discount rate as at 31 March 2022 would have impact the lease liability by approximately Rs.482,247/ (Rs. 339,872) respectively with a similar increase/(decrease) in the Right- of-use Assets. The impact on company's profit before tax for the year would (decrease)/increase by approximately (Rs.74,873)/Rs. 39,339 respectively.

## 30. Intangible Assets

| | 31.03.2022<br>Rs. | 31.03.2021<br>Rs. |
|---|---|---|
| **Computer Software** | | |
| **Cost** | | |
| Cost as at 01 April | 47,323,536 | 5,834,789 |
| Transfers | - | - |
| Additions and Improvements | 2,600,000 | 41,488,747 |
| **Cost as at end of the year** | 49,923,536 | 47,323,536 |
| **Amortisation & impairment** | | |
| Cost as at 01 April | (5,137,323) | (2,498,988) |
| Charge for the year | (5,664,348) | (2,638,335) |
| Amortisation as at end of the year | (10,801,671) | (5,137,323) |
| Net book value as at end of the year | 39,121,865 | 42,186,213 |

**Nature and Amortization Method**

Intangible Assets represent acquisition of computer software from third parties. These software are amortized over the estimated useful life of 4 years on a straight line basis.

## 31. Deferred Taxation

**Deferred Tax Assets, Liabilities and Income Tax relates to the followings**

| | Statement of Financial Position | | Recognized in Statement of Other Comprehensive Income | | Recognized in Statement of Profit or Loss | |
|---|---|---|---|---|---|---|
| | 31.03.2022 Rs. | 31.03.2021 Rs. | 31.03.2022 Rs. | 31.03.2021 Rs. | 31.03.2022 Rs. | 31.03.2021 Rs. |
| Deferred Tax Liability | | | | | | |
| Capital Allowances for Tax Purposes | | | | | | |
| - Property Plant & Equipment | 736,765 | 86,373 | - | - | 650,392 | 1,280,691 |
| - Intangible Assets | 2,312,223 | 2,286,840 | - | - | 25,383 | 1,950,711 |
| Fair value gain on Investment Property | - | - | - | - | - | (19,376,685) |
| | 3,048,988 | 2,373,213 | - | - | 675,776 | (16,145,283) |
| **Deferred Tax Assets** | | | | | | |
| Capital Allowances for Tax Purposes - Leased Assets | 727,632 | (466,453) | - | - | 1,194,085 | (1,913,509) |
| Provision for Impairment on Financial Assets | 4,091,630 | 44,679,635 | - | - | (40,588,005) | (73,446,698) |
| Defined Benefit Plans | 931,235 | 1,034,438 | (1,952) | 179,979 | (101,252) | 143,699 |
| Defined Benefit Plan- Other Comprehensive Income | 1,952 | - | - | - | 1,952 | - |
| Brought Forward Tax Losses | 61,987,994 | 162,755,084 | - | - | (100,767,090) | (16,215,135) |
| | 67,740,443 | 208,002,704 | (1,952) | 179,979 | (140,260,310) | (91,431,644) |
| **Deferred income tax charge/ (reversal)** | | | (1,952) | 179,979 | 140,936,086 | 75,286,361 |
| **Net Deferred Tax Liability/ (Asset)** | (64,691,455) | (205,629,491) | | | | |

Deferred Tax asset is recognised by considering the brought forward tax losses and temporary difference of impairment provision for loans and advances. The Company is listed as Public listed company on 31st December 2021. Also the company is planning to expand its business operations through opening new branches covering all geographical segments. Based on that management of the Company believes that Company will be able to generate more and adequate profits with in the next 5 years. Accordingly the differed tax assets could be set off against the income tax lability arising in future periods.

## 32. Due to Banks

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Bank Overdrafts | 30,360,385 | 48,587,036 |
| Securitised Borrowings and Other Bank Facilities (Note 32.1) | 556,010,608 | 469,827,505 |
| | 586,370,993 | 518,414,541 |

## 32. Due to Banks (Contd.)

### 32.1 Due to Banks

| | 31.03.2022 | | | 31.03.2021 | | |
|---|---|---|---|---|---|---|
| | Amount repayable within 1 year Rs. | Amount repayable after 1 year Rs. | Total Rs. | Amount repayable within 1 year Rs. | Amount repayable after 1 year Rs. | Total Rs. |
| Bank Overdrafts | 30,360,385 | - | 30,360,385 | 48,587,036 | - | 48,587,036 |
| Term Loan facilities from Banks | 221,172,181 | 334,838,427 | 556,010,608 | 130,758,526 | 339,068,979 | 469,827,505 |
| | 251,532,566 | 334,838,427 | 586,370,993 | 179,345,562 | 339,068,979 | 518,414,541 |

### 32.2 Term Loan facilities from Banks

| | As at 01.04.2021 Rs. | Loans Transferred Rs. | Loans Obtained Rs. | Interest Recognized Rs. | Repayments Capital Rs. | Repayments Interest Rs. | As at 31.03.2022 Rs. | Period Rs. | Security Rs. |
|---|---|---|---|---|---|---|---|---|---|
| **Direct Bank Borrowings Term Loans** | | | | | | | | | |
| LOLC PLC | - | - | - | - | - | - | - | | |
| Term Loan 01 - Sampath Bank PLC | 128,880,715 | - | 50,000,000 | 10,836,060 | (66,086,675) | (9,427,741) | 114,202,359 | 5 Years | Personal Guarantee |
| Term Loan 02 - Sampath Bank PLC | 17,232,681 | - | - | 1,045,497 | (10,008,000) | (1,045,497) | 7,224,681 | 5 Years | Personal Guarantee |
| Term Loan 03 - Sampath Bank PLC | - | - | - | - | - | - | - | | |
| Sri Lanka Saving Bank Ltd | 154,167 | - | - | 1,964 | (154,167) | (1,964) | - | 3 years | Personal Guarantee |
| Sri Lanka Saving Bank Ltd | 96,217,057 | - | - | 6,300,232 | (96,217,057) | (6,300,232) | - | | |
| Term Loan 01 Cargills Bank | 72,319,480 | - | - | 5,663,578 | (24,630,958) | (6,772,599) | 46,579,501 | 5 years | Personal Guarantee |
| Term Loan 02 Cargills Bank | 150,881,698 | - | - | 7,820,038 | (49,860,463) | (9,567,365) | 99,273,908 | 5 years | FD Against |
| Pan Asia Bank | - | - | 300,000,000 | 3,232,675 | (11,269,841) | (3,232,675) | 288,730,159 | 3 years | Loan / Lease Portfolio Mortgage |
| Sampath Bank PLC | 4,141,707 | - | - | 234,130 | (4,141,707) | (234,130) | - | 4 years | |
| Bank Overdrafts | 48,587,036 | - | - | - | - | - | 30,360,385 | | |
| | 518,414,541 | - | 350,000,000 | 35,134,174 | (262,368,867) | (36,582,203) | 586,370,993 | | |

| | As at 01.04.2020 | Loans Transferred | Loans Obtained | Interest Recognized | Repayments Capital/ Capital Write off | Repayments Interest/ Interest Write-off | As at 31.03.2021 | Period | Security |
|---|---|---|---|---|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | Rs. |
| **Direct Bank BorrowingsTerm Loans** | | | | | | | | | |
| LOLC PLC | - | - | - | - | - | - | | | |
| Term Loan 01 - Sampath Bank PLC | 183,662,000 | - | - | 14,116,410 | (51,600,000) | 128,880,715 | 5 Years | Personal Guarantee | |
| Term Loan 02 - Sampath Bank PLC | 25,814,000 | - | - | 2,356,612 | (8,340,000) | (2,597,931) | 17,232,681 | 5 Years | Personal Guarantee |
| Term Loan 03 - Sampath Bank PLC | - | - | - | - | - | - | - | | |
| Sri Lanka Saving Bank Ltd | 4,781,945 | - | - | 327,251 | (4,627,778) | (327,251) | 154,167 | 3 years | Personal Guarantee |
| Sri Lanka Saving Bank Ltd | - | - | 100,000,000 | 2,777,256 | (3,782,943) | (2,777,256) | 96,217,057 | | |
| Term Loan 01 Cargills Bank | 78,332,900 | - | 3,891,475 | 8,476,426 | (10,927,816) | (7,453,504) | 72,319,480 | 5 years | Property Mortgage |
| Term Loan 02 Cargills Bank | 163,150,000 | - | 8,881,389 | 16,386,663 | (22,670,926) | (14,865,428) | 150,881,698 | 5 years | Property Mortgage |
| Commercial Bank of Ceylon PLC | - | - | - | - | - | - | - | | |
| Hatton National Bank PLC | 3,120 | - | - | - | (3,120) | - | - | 5 years | Personal Guarantee |
| Reverse Repo | - | - | - | - | - | - | - | | |
| Sampath Bank PLC | 9,056,580 | - | - | 917,077 | (4,914,873) | (917,077) | 4,141,707 | 4 years | Motor Vehicle |
| Bank Overdraft | 7,101,160 | - | - | - | - | - | 48,587,036 | | |
| | 471,901,705 | - | 112,772,864 | 45,357,694 | (106,867,457) | (46,236,141) | 518,414,541 | | |

## 33. Financial Liabilities at Amortised Cost- Due to Customers

| | 31.03.2022 | 31.03.2021 |
|---|---|---|
| | Rs. | Rs. |
| Fixed Deposits | 643,984,165 | 618,181,876 |
| Savings Deposits | 273,266,346 | 179,453,834 |
| Interest Payable | 45,385,072 | 33,948,219 |
| | 962,635,583 | 831,583,929 |

### 34. Other Financial Liabilities

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Lease Creditors (Note 29.4) | 72,804,080 | 54,926,127 |
| Other Payables (Note 34.1) | 4,823,556 | 115,726,682 |
| Provisions and accruals (Note 34.2) | 3,476,902 | 4,482,512 |
| | 81,104,539 | 175,135,322 |

### 34.1 Other Payables

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Long Term Investment Payable | - | 100,000,000 |
| Other Payables | 4,823,557 | 15,726,682 |
| | 4,823,557 | 115,726,682 |

### 34.2 Accrued Expenses

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Salary Payable | 148,212 | 175,752 |
| Professional fee Payable | 1,918,781 | 1,083,805 |
| Other Expenses Payable | 1,409,909 | 3,222,955 |
| | 3,476,902 | 4,482,512 |

### 35. Other Non Financial Liabilities

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Payable - EPF | 795,856 | 827,083 |
| Payable - ETF | 116,323 | 121,007 |
| Payable - PAYE Tax | (58,114) | (58,114) |
| Payable for VAT on Financial Services | 12,514,909 | 1,006,258 |
| Other Payable | 24,752,668 | 33,482,408 |
| Other Tax | 2,656,393 | 1,120,071 |
| | 40,778,035 | 36,498,714 |

## 36. Retirement Benefit Obligations

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Balance at the beginning of the year | 4,310,160 | 2,538,429 |
| Past Service Cost | (247,366) | - |
| Current Service Cost | 1,089,054 | 1,086,587 |
| Payments made during the year | (595,050) | (315,313) |
| Interest Charged/(Reversed) for the year | 344,813 | 250,543 |
| (Gain)/loss arising from changes in the assumption | (13,941) | 749,914 |
| Balance at the end of the year | 4,887,670 | 4,310,160 |

### 36.1 Expenses on Defined Benefit Plan

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Current Service Cost for the year | 1,089,054 | 1,086,587 |
| Interest Charge for the year | 344,813 | 250,543 |
| Past Service Cost | (247,366) | - |
| | 1,186,501 | 1,337,130 |

### 36.2 Amount Recognized in the Other Comprehensive Income

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| (Gain)/Loss arising from changes in the assumption (Note 36) | (13,941) | 749,914 |
| | (13,941) | 749,914 |

Actuarial valuation of Retiring Gratuity Obligation as at 31 March 2022 was carried out by Messrs. Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19-'Employee Benefits'.

### 36.3 Assumptions

#### 36.3.1 Financial Assumptions

| | 31.03.2022 | 31.03.2021 |
|---|---|---|
| Discount Rate | 14.00% | 8.00% |
| Salary Increment Rate | 10% p.a. | 6% p.a. |

#### 36.3.2 Demographic Assumptions

| | 31.03.2022 | 31.03.2021 |
|---|---|---|
| Staff Turnover | 27% | 25% |
| Retirement Age | 54 years | 57 years |
| Mortality | A1967/70 Mortality table | A1967/70 Mortality table |

Expected average future working life of the active participants is 3.18 year (2020: 3.47 years)

## 36. Retirement Benefit Obligations (Contd.)

### 36.4 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement. The sensitivity of the Statement of Financial position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment on the profit or loss and Retiring Gratuity obligation for the year.

| Increase/ (Decrease) in Discount Rate | Increase/ (Decrease) in Salary Increment Rate | 2022 | | 2021 | |
|---|---|---|---|---|---|
| | | Sensitivity Effect on Statement of Comprehensive Income | Sensitivity Effect on Defined Benefit Obligation | Sensitivity Effect on Statement of Comprehensive Income | Sensitivity Effect on Defined Benefit Obligation |
| 1% | - | (159,662) | 159,662 | (123,557) | 123,557 |
| -1% | - | 168,691 | (168,691) | 130,879 | (130,879) |
| - | 1% | 191,856 | (191,856) | 147,808 | (147,808) |
| - | -1% | (183,986) | 183,986 | (141,872) | 141,872 |

### 36.5 Maturity Profile of the Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at the reporting date is given below;

| | 31.03.2022 Years | 31.03.2021 Years |
|---|---|---|
| Weighted Average Duration of the Defined Benefit Obligation | 3.79 | 3.15 |
| Average Time to Benefit Payout | 3.18 | 3.47 |
| (Maturity Profile of Defined Benefit Obligation)-Present Value of Expected benefit Payments | | |
| within the next 12 months | 566,156 | 465,615 |
| between 2 to 5 years | 3,664,766 | 3,180,810 |
| between 6 to 10 years | 548,249 | 539,429 |
| beyond 10 years | 108,499 | 124,306 |
| | 4,887,670 | 4,310,160 |

## 37. Stated Capital

### 37.1 Issued and Fully Paid-Ordinary Shares

| | 31.03.2022 | | 31.03.2021 | |
|---|---|---|---|---|
| | No. of Shares | Rs. | No. of Shares | Rs. '000 |
| At the Beginning of the Year | 665,168,780 | 2,039,133,400 | 5,024,986,008 | 3,231,604,341 |
| New share issued during the Year | 125,000,000 | 500,000,000 | 1,626,713,927 | 599,133,400 |
| Capital Reduction from existing capital | - | - | - | (1,791,604,341) |
| At the End of the Year | 790,168,780 | 2,539,133,400 | 6,651,699,935 | 2,039,133,400 |
| At the End of the Year ( After consolidation of shares) | 790,168,780 | 2,539,133,400 | 665,168,780 | 2,039,133,400 |

### 37.2 Rights of Shareholders

The holders of ordinary shares have the right to receive dividends as declared from time to time and are entitled to one vote per share at meetings. All shares rank equally with regard to the Company's residual assets.

### 37.3 Capital Reduction

The company had brought forward losses of Rs. 1,798,965,375 as at 31st March 2019. The aforementioned losses adversely affected the company's ability to pay dividends to its shareholders since, in terms of the companies Act No. 7 of 2007, the "solvency test" requirements had to be satisfied prior to any dividend distribution in the future. The capital reduction was effected to improve the solvency margin of the company. Although this procedure reduced the stated capital attributable to the shareholders the number of ordinary shares held by each shareholder remain unchanged.

### 37.4 Net Asset Value per Share

| As at 31st March | 2022 | 2021 |
|---|---|---|
| Equity Holders Funds | 2,680,889,258 | 2,106,938,354 |
| Total No of Shares | 790,168,780 | 665,168,780 |
| Net Asset Value per ordinary share | 3.39 | 3.17 |

## 38. Reserves

| | Statutory Reserve Rs. | Total Rs. |
|---|---|---|
| As at 31 March 2021 | 41,070,101 | 41,070,101 |
| Transfers During the Year | 4,879,099 | 4,879,099 |
| As at 31 March 2022 | 45,949,200 | 45,949,200 |

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 5% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) ii of the said Direction.

## 39. Retained Earnings

| | 31.03.2022 Rs. | 31.03.2021 Rs. |
|---|---|---|
| Balance as at 01 April | 26,734,853 | (1,788,052,934) |
| Dividend Paid | - | - |
| Profit for the Year | 97,581,979 | 25,003,559 |
| Other Comprehensive Income not to be Reclassified to Profit or Loss | 11,989 | (569,935) |
| Transfers During the Year (Note 4.33) | (4,879,099) | (1,250,178) |
| Share Issue Cost | (23,643,063) | - |
| Capital Reduction from existing capital | - | 1,791,604,341 |
| Balance as at 31 March | 95,806,659 | 26,734,853 |

Retained earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future losses or dividends payable.

## 40. Fair Value of Asset and Liabilities

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are not already recorded at fair value in the financial statements.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by Valuation techniques.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities in the active Market.

Level 2: Valuation technique using observable inputs: Quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar assets and liabilities in active markets are valued using models where all significant inputs are observable.

Level 3: Valuation techniques with significant unobservable inputs: assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

Key methodologies and assumptions used are as follows.

**Assets for which fair value approximates carrying value**

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value.

**Equity instruments at fair value through OCI**

Equity instruments at fair value through OCI primarily consist of unquoted equity securities. Unquoted equity securities are carried at cost since it is the most reasonable value available to represent the price of such securities.

**Fixed Rate Financial Instruments**

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices.

**Variable rate Financial Instruments**

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorized.

| | | 31-Mar-22 Rs. | | | | | 31-Mar-21 Rs. | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Fair value measurement using | | | | | Fair value measurement using | | | |
| Financial Assets | Carrying value | Level 01 | Level 02 | Level 03 | Total | Carrying value | Level 01 | Level 02 | Level 03 | Total |
| Financial Assets Measured at Fair value through Profit or Loss | 19,508,717 | - | 19,508,717 | - | 19,508,717 | 100,463,534 | - | 100,463,534 | - | - |
| Financial Investment as Fair Value through Other Comprehensive Income | 315,813 | - | - | 315,813 | 315,813 | 315,813 | - | - | 315,813 | 315,813 |
| Total Financial Assets | 19,824,530 | - | 19,508,717 | 315,813 | 19,824,530 | 100,779,347 | - | 100,463,534 | 315,813 | 315,813 |

Set out below is the comparison, by class, of the carrying amounts of Fair Values of the Company's Financial Instruments that are not carried at Fair Value in the Financial Statements. This table does not include the Fair Values of Non- Financial Assets and Non-Financial Liabilities.

| | | 31-Mar-22 Rs. | | | | | 31-Mar-21 Rs. | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Fair value measurement using | | | | | Fair value measurement using | | | |
| Financial Assets | Carrying value | Level 01 | Level 02 | Level 03 | Total | Carrying value | Level 01 | Level 02 | Level 03 | Total |
| Financial Investment at amortised Cost | 746,819,780 | - | 746,819,780 | - | 746,819,780 | 662,295,154 | - | 662,295,154 | - | 662,295,154 |
| Financial assets at amortised Cost - Loans and Receivables | 2,634,321,859 | - | 2,973,161,482 | - | 2,973,161,482 | 1,969,102,470 | - | 1,575,188,399 | - | 1,575,188,399 |
| Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases | 392,635,779 | - | 510,381,939 | - | 510,381,939 | 336,747,406 | - | 288,613,665 | - | 288,613,665 |
| | 3,773,777,418 | - | 4,230,363,201 | - | 4,230,363,201 | 2,968,145,030 | - | 2,526,097,218 | - | 2,526,097,218 |
| Financial Liabilities | | | | | | | | | | |
| Due to Customers | 962,635,583 | - | 654,584,559 | - | 654,584,559 | 831,583,929 | - | 856,531,447 | - | 856,531,447 |
| | 962,635,583 | - | 654,584,559 | - | 654,584,559 | 831,583,929 | - | 856,531,447 | - | 856,531,447 |

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

## 40. Fair Value of Asset and Liabilities (Contd.)

**Variable rate Financial Instruments (Contd.)**

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | Rs. | Rs. | Rs. | Rs. |
| **Financial Assets** | | | | |
| Cash and Cash Equivalent | 229,434,047 | 229,434,047 | 218,507,168 | 218,507,168 |
| Financial Investment at amortised Cost | 746,819,780 | 746,819,781 | 662,295,154 | 533,931,081 |
| Other Financial Assets | 16,919,514 | 16,919,514 | 7,763,678 | 7,763,678 |
| Total Financial Assets | 993,173,341 | 993,173,342 | 888,566,000 | 760,201,928 |
| **Financial Liabilities** | | | | |
| Financial Liabilities at amortised Cost - Due to Banks | 586,370,993 | 586,370,993 | 518,414,541 | 518,414,541 |
| Other Financial Liabilities | 81,104,539 | 81,104,539 | 175,135,322 | 175,135,322 |
| | 667,475,532 | 667,475,531 | 693,549,863 | 693,549,863 |

The management of company believes that the Fair value of the financial assets which matured within 1 year are equal to its amortized cost.

It has taken the amortized cost of deposits liability of City Finance Corporation Limited as the fair value of it , Since the Company has started to settle the Fixed Deposits of the City Finance corporation within next year.

## 41. Assets Pledged

The following assets have been pledged as security for liabilities.

| | 2022 | 2021 |
|---|---|---|
| Nature of Assets | Rs. | Rs. |
| Motor Vehicle | - | 18,000,000 |
| Loan Lease Portfolio | 450,000,000 | - |
| Fixed Deposit Investment | 155,000,000 | 155,000,000 |

## 42. Risk Management

### 42.1 Introduction

Risk is inherent in the financial business and such risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company is mainly exposed to Credit Risk, Interest Rate Risk, Liquidity Risk, Operational Risk, Regulatory & Compliance Risk, Reputation Risk and Environmental Risk.

### 42.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC), which is a sub-committee of the Board, oversees the risk management function in line with the Board approved policies and strategies. Integrated Risk Management committee shall develop the policy and operations for Company-wide risk management. The Committee comprises of Executive and Non-Executive Directors. Meeting of BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

Risk appetite of the Company is defined in both qualitative and quantitative terms. These risk appetite parameters are dynamic and subject to changes in line with the changing business strategies of the Company and changing market conditions. Risk appetite of the Company is defined through the Risk tolerance limits approved by the Board of Directors.

The BIRMC was set up to fulfil the requirement set out in the Finance Companies Direction No. 3 of 2008 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No. 42 of 2011.

The said Committee consists of such number of members, as the Board may determine from time to time. The Committee currently consists of membership of 3 Directors, Director and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

In addition to the BIRM Committee, Risk Management function is managed by Risk Management Department (RMD). RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Department works closely with the Risk Committee to ensure that procedures are compliant with the overall framework. RMD is also responsible for monitoring compliance with risk principles, policies and limits across the Company. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

Above committees closely monitors any developments related to face for the economic crisis and reviews measures undertaken by the company in response to resulting risk. These actions has helped the company mitigating any adverse effect on its asset liability position that may arise due to the continuously evolving nature of the economic crisis.

## 42. Risk Management (Contd.)

### 42.3 Risk measurement & Reporting System and Risk Mitigation

Prudent management of risk exposures relevant to the Company's business operations would be ensured through a mechanism of "Three Lines of Defense". These levels consist of management of risk by the relevant risk-assuming function, independent risk management & compliance functions and internal & external audit functions.

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk. Tabulated below is the Risk Console that is used in identification of Key Risks and Risk Measures taken by the company together with mitigates suggested.

| Financial Risks | | Risk Measures | Mitigates |
|---|---|---|---|
| | | | ➢ Board approved credit policies/ procedures/ framework and annual review |
| | | | ➢ Delegated authority levels/ segregation of duties |
| | | | ➢ Setting Prudential limits on maximum exposure |
| | **1.Default Risk** | ➢ Probability of Default | ➢ Overall NPL Ratio setting based on risk appetite |
| | Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations | ➢ Loss Given Default | ➢ Credit Limit Exposures (for Asset Type and Sector) that takes account of NPL / Infection ratios and movement in NPL ratios |
| | | ➢ Sector / Asset / Client / Branch Concentrations of Lending Portfolio | ➢ Concentration limits for clients/ groups, asset types |
| | **2. Concentration Risk** | ➢ Concentrations in Repossessed assets | ➢ Monitoring of exposures against the limits |
| | Credit Exposure being concentrated to few sectors/ groups (insufficient diversification) | ➢ Macro Credit Portfolio risk measures such as | ➢ Trend analysis reported to BIRMC |
| Credit Risk | | a) Provision Coverage | Strict compliance with CBSL Guidelines |
| | | b) Net NPL as a % of Equity Funds | |
| Interest rate risk | | ➢ Net Interest Yield and Movement in Net Interest Yield | |
| | | ➢ Lending to Borrowing Ratio | |
| | | ➢ Tracking of Movements in Money Market rates | |
| | | ➢ Marginal Cost of funds / Risk based Pricing | |
| | | ➢ Gaps in asset Liability Re-Pricing | ➢ Setting of Marginal Pricing with Risk Premiums for Different classes of Lending assets |
| | Adverse effect on Net Interest Income | ➢ Cumulative Gaps as a % of Cumulative Liabilities | ➢ Setting of Lending to Borrowing ratios |
| | | | ➢ Gaps limits for structural liquidity, |
| | | | ➢ Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets |
| Liquidity Risk | Inability to meet obligations as they fall due | ➢ Gaps in dynamic liquidity flows<br>➢ Stocks of high quality liquid assets | ➢ Volatile Liability Dependency measures<br>➢ Balance sheet ratios |

### 42.4 Credit Risk

Credit risk is the risk of financial loss to the Company, if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit facilities given to customers and investments in debt securities. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate credit risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

Stressed macroeconomic conditions in 2022 have an impact on the Credit risk of the company. Since importers continued to be stymied by the restriction of non-essential imports, while the ban on the import of chemical fertilisers had a direct impact on some of the agriculture sector customers. At the same time, construction sector ,Transport sector and consumer sector customers appeared to be under stress due to the prolonged economic downturn attributed.For the mittigation of Credit risk arise due to the above stress situation the management has decided to reduce 50% monthly Credit disbursement and further limit to disburse to stress sectors while increasing interest rates.

**Management of Credit Risk**

In credit risk management, the rigorous credit screening process adopted has been a core competency of the Company. The multiple layers of approving lines ensure that credit risk is mitigated in all aspects.

At the initial level, the credit facilities are preliminary screened at the branch level and a credit evaluation is done. Then based on the exposure the facility is escalated upwards for approval along with a credit risk assessment. In determining the borrower's credit risk the industry in which he performs, succession, integrity, past payment records inter alia are considered. In assessing the facility the equity contribution, security cover and guarantors are taken in to consideration.

Post approval pre-disbursement stage is covered by the Credit Administration department under which security documentation and disbursement is done. Post disbursement monitoring is efficiently carried out by both the branch network and the recoveries department based on the repayment pattern.

Early warnings signals captured through trigger lists done by credit risk management is also shared with respective departments to aid the post disbursement monitoring. Further timely reviews of facilities also ensure that any early warning signs are captured and required corrective steps are taken to arrest any unexpected default.

**42. Risk Management (Contd.)**

*42.4.1 Impairment Assessment*

The methodology of the impairment assessment is explained in Note 4.1.8 under Accounting policies. The references below should be read in conjunction with those Accounting policies.

*42.4.1. (a) Definition of default and cure*

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

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

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

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

*42.4.1.(b) Significant increase in credit risk*

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

*42.4.1.(b) Significant increase in credit risk*

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

*42.4.1 (c) Analysis of the total allowance for expected credit losses is as follows.*

| As at 31st March | 2022 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | Rs. | Rs. | Rs. | Rs. |
| Cash and Cash Equivalent | 294,266 | - | - | 294,266 |
| Term loan Personal Guarantees | 14,811,945 | 6,835,311 | 34,126,900 | 55,774,156 |
| Term loan property mortgage | 37,589,350 | 10,515,481 | 41,553,679 | 89,658,510 |
| Gold Loans | 298,719 | 13,264 | 684,836 | 996,819 |
| Factoring Loans | - | - | 10,807,708 | 10,807,708 |
| Government Undertake Loan | 7,065,506 | 2,008,745 | 3,777,365 | 12,851,616 |
| Lease rentals receivables and Hire Purchases | 17,883,245 | 11,406,969 | 23,698,532 | 52,988,746 |
| Sundry Debtors | - | - | 500,000 | 500,000 |
| Total allowance for expected credit losses | 77,943,031 | 30,779,770 | 115,149,020 | 223,871,821 |

The methodology used in the determination of expected credit losses is explained in Note 4.1.8 to Financial Statements.

*42.4.1(d) Movement of the total allowance for expected credit losses during the period*

| | 31-Mar-22 |
|---|---|
| | Rs. |
| Balance as at 01st April 2020 | 285,567,056 |
| Transfer during the year | - |
| Net Charge/(Reversal) Profit and loss | (61,695,234) |
| Interest income accrued on impaired loans & receivables | - |
| Recovered during the year | - |
| Balance as at 31 Mar 2021 | 223,871,822 |

*42.4.1(e) Sensitivity Analysis : Impact of staging of loans on collective allowance for expected credit losses*

The following table illustrates the impact of staging of loans by comparing the allowance, if all performing financial assets were in stage 1 or if all such assets were in stage 2 to the actual expected credit loss recorded on these assets.

| | Stage 1 and 2 Actual ECL | ECL - If all performing loans in Stage 1 | Impact of staging |
|---|---|---|---|
| | Rs. | Rs. | Rs. |
| Total allowance for expected credit losses | 108,722,801 | 91,994,056 | (16,728,745) |

| | Stage 1 and 2 Actual ECL | ECL - If all performing loans in Stage 2 | Impact of staging |
|---|---|---|---|
| | Rs.000 | Rs.000 | Rs.000 |
| Total allowance for expected credit losses | 108,722,801 | 167,736,613 | 59,013,812 |

The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

**42. Risk Management (Contd.)**

*42.4.1(f)* A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 90 days past due. Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

| As at 31st March | 2022 | | |
|---|---|---|---|
| | 31- 60 Days Rs | 61- 90 Days Rs | Total Rs |
| Factoring receivables | - | - | - |
| Gold loan receivables | 1,040,322 | 1,069,074 | 2,109,396 |
| Term loan Personal Guarantees | 46,112,916 | 21,623,761 | 67,736,677 |
| Term loan property mortgage | 76,561,906 | 71,866,031 | 148,427,937 |
| Government Undertake | 38,375,836 | 4,522,757 | 42,898,593 |
| Lease rentals receivables and Hire Purchases | 47,728,931 | 37,410,477 | 85,139,408 |
| | 209,819,911 | 136,492,100 | 346,312,011 |

*42.4.1(g) Overview of rescheduled / restructured loans and advances (except individually impaired loans and advances)*

| As at 31st March | 2022 | | | | | | Net Carrying Value |
|---|---|---|---|---|---|---|---|
| | Gross Carrying Value | | | Allowance for ECL | | | |
| | Stage 2 | Stage 3 | Total | Stage 2 | Stage 3 | Total | |
| Term loan property mortgage | - | 59,276,851 | 59,276,851 | - | 20,919,645 | 20,919,645 | 38,357,206 |
| Term loan Personal Guarantees | - | 16,662,203 | 16,662,203 | - | 2,145,217 | 2,145,217 | 14,516,986 |
| | - | 75,939,054 | 75,939,054 | - | 23,064,862 | 23,064,862 | 52,874,192 |

| As at 31st March | 2021 | | | | | | Net Carrying Value |
|---|---|---|---|---|---|---|---|
| | Gross Carrying Value | | | Allowance for ECL | | | |
| | Stage 2 | Stage 3 | Total | Stage 2 | Stage 3 | Total | |
| Term loan property mortgage | - | 53,715,682 | 53,715,682 | - | 8,057,352 | 8,057,352 | 45,658,330 |
| Term loan Personal Guarantees | - | 30,046,895 | 30,046,895 | - | 13,521,103 | 13,521,103 | 16,525,792 |
| | - | 83,762,577 | 83,762,577 | - | 21,578,455 | 21,578,455 | 62,184,122 |

*42.4.1(h) Sensitivity of Impairment Provision on Loans and Advances to Customers*

The Company has estimated the impairment provision on Loan and advances to customers as at 31st March 2022,subject to various assumptions. The Changes to such assumption may lead to changes in the Impairment provision recorded in the Financial Position.

The following table demonstrates the sensitivity of Impairment provision of the company as at 31st March 2022 to feasible changes in PD LGD and forward looking macro economic information.

| | Sensitivity effect on statement of financial position Increase/Decrease in Impairment Provision | | | | Sensitivity Impact of Income statement |
|---|---|---|---|---|---|
| | Stage 01 | Stage 02 | Stage 03 | Total | |
| PD/LGD | | | | | |
| PD 1% Increment across all Buckets | 604,955 | 221,602 | - | 826,557 | (826,557) |
| PD 1% Decrease across all Buckets | (604,955) | (221,602) | - | (826,557) | 826,557 |
| LGD 5% Increment | 3,024,774 | 1,108,010 | 5,063,745 | 9,196,530 | (9,196,530) |
| LGD 5% Decrease | (3,024,774) | (1,108,010) | (5,063,745) | (9,196,530) | 9,196,530 |
| Probability Weighted forward looking Macro Economic Indicators | | | | | |
| Best Case 10%Increase,Worst case 5% decrease and best case 5% Decrease | (586,656) | (199,868) | - | (786,524) | 786,524 |
| Best Case 10% decrease, Worst case 5% decrease and best case 5% Decrease | 586,656 | 199,868 | - | 786,524 | (786,524) |

### *42.4.1(i) Sensitivity of Impairment Provision on Lease and Hire Purchases to Customers*

The Company has estimated the impairment provision on Lease and Hire Purchases to customers as at 31st March 2022, subject to various assumptions. The Changes to such assumption may lead to changes in the Impairment provision recorded in the Financial Position.

The following table demonstrates the sensitivity of Impairment provision of the company as at 31st March 2022 to feasible changes in PD LGD and forward looking macro economic information.

| | Sensitivity effect on statement of financial position Increase/Decrease in Impairment Provision | | | | Sensitivity Impact of Income statement |
|---|---|---|---|---|---|
| | Stage 01 | Stage 02 | Stage 03 | Total | |
| PD/LGD | | | | | |
| PD 1% Increment across all Buckets | 110,867 | 72,389 | - | 183,256 | (183,256) |
| PD 1% Decrease across all Buckets | (110,867) | (72,389) | - | (183,256) | 183,256 |
| LGD 5% Increment | 554,333 | 361,945 | 655,224 | 1,571,502 | (1,571,502) |
| LGD 5% Decrease | (554,333) | (361,945) | (655,224) | (1,571,502) | 1,571,502 |
| Probability Weighted forward looking Macro Economic Indicators | | | | | |
| Best Case 10%Increase,Worst case 5% decrease and best case 5% Decrease | (109,753) | (145,575) | - | (255,328) | 255,328 |
| Best Case 10% decrease, Worst case 5% decrease and best case 5% Decrease | 109,753 | 145,575 | - | 255,328 | (255,328) |

## 42. Risk Management (Contd.)

### 42.4.2 Credit Quality by Class of Financial Assets

| | 31-Mar-22 | | | | | 31-Mar-21 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Neither Past Due nor Individually Impaired | Past Due Not Individually Impaired | Individually Impaired | Total | Percentage | Neither Past Due nor Individually Impaired | Past Due Not Individually Impaired | Individually Impaired | Total | Percentage |
| | Rs. | Rs. | Rs. | Rs. | | Rs. | Rs. | Rs. | Rs. | |
| **Assets** | | | | | | | | | | |
| Cash and bank balances | 229,434,047 | - | - | 229,434,047 | 5.68% | 219,256,527 | - | - | 219,256,527 | 7.28% |
| Financial instruments at amortised cost | 746,819,780 | - | - | 746,819,780 | 18.49% | 662,295,154 | - | - | 662,295,154 | 22.00% |
| Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases | 206,383,718 | 223,493,480 | 15,747,327 | 445,624,525 | 11.03% | 198,162,069 | 98,089,741 | 40,495,596 | 336,747,406 | 11.18% |
| Financial assets at amortised Cost - Loans and Receivables | 1,627,387,873 | 981,891,404 | 195,131,391 | 2,804,410,668 | 69.42% | 1,009,323,847 | 858,199,093 | 101,579,530 | 1,969,102,470 | 65.40% |
| Other Financial Assets | 16,919,514 | - | - | 16,919,514 | 0.42% | 7,763,678 | - | - | 7,763,678 | 0.26% |
| Financial Investment as Fair Value through Other Comprehensive Income | 315,813 | - | - | 315,813 | 0.01% | 315,813 | - | - | 315,813 | 0.01% |
| Allowance for impairment | | | | (223,077,555) | -6% | | | | (285,067,056) | -9% |
| Financial Assets Measured at Fair value through Profit or Loss | 19,508,718 | - | - | 19,508,718 | 0.48% | 100,463,534 | - | - | 100,463,534 | 3.34% |
| **Total** | 2,846,769,462 | 1,205,384,884 | 210,878,718 | 4,039,955,510 | 100% | 2,197,580,622 | 956,288,834 | 142,075,126 | 3,010,877,527 | 100% |

### *42.4.2.1 Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets*

| | Past due | | | | |
|---|---|---|---|---|---|
| | Less than 30 days | 31 to 60 days | 61 to 90 days | More than 90 days | Total |
| | 2022 | 2022 | 2022 | 2022 | 2022 |
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases | 50,536,011 | 47,728,931 | 37,410,477 | 103,565,388 | 239,240,807 |
| Financial assets at amortised Cost - Loans and Receivables | 231,456,689 | 162,090,980 | 99,081,623 | 684,393,502 | 1,177,022,794 |
| | 281,992,700 | 209,819,911 | 136,492,100 | 787,958,890 | 1,416,263,601 |

### 42.4.3 Maximum Exposure to Credit Risk

The following tables shows the maximum exposure to credit risk by class of financial assets. It further shows the net exposure to credit risk.

| As at 31 March | | 2022 | | 2021 | |
|---|---|---|---|---|---|
| | Note | Maximum Exposure To Credit Risk Rs. | Net Exposure Rs. | Maximum Exposure To Credit Risk Rs. | Net Exposure Rs. |
| **Financial Assets** | | | | | |
| Cash and Cash Equivalent | 19 | 229,434,047 | 229,434,047 | 219,256,527 | 219,256,527 |
| Financial Investment at amortised Cost | 20 | 746,819,780 | 746,819,780 | 662,295,154 | 662,295,154 |
| Financial assets at amortised Cost | | | | | |
| Loans & Receivables | 21 | 2,634,321,859 | 1,373,339,367 | 1,969,102,470 | 1,712,673,376 |
| Lease rentals receivables and Hire Purchases | 22 | 392,635,779 | 392,635,779 | 336,747,406 | 308,327,429 |
| Other Financial assets | 23 | 16,919,514 | 16,919,514 | 7,763,678 | 7,763,678 |
| Financial Assets Measured at Fair value through Profit or Loss | 24 | 19,508,717 | 19,508,717 | 100,463,534 | 100,463,534 |
| Financial Investment as Fair Value through Other Comprehensive Income | 25 | 315,813 | 315,813 | 315,813 | 315,813 |
| **Total Financial Assets** | | 4,039,955,509 | 2,778,973,017 | 3,295,944,582 | 3,011,095,512 |

### 42.4.4 Offsetting financial assets and liabilities

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed.

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Gross amount Rs. | Amount subject to netting but do not qualify for offsetting Rs. | Net amount Rs. | Gross amount Rs. | Amount subject to netting but do not qualify for offsetting Rs. | Net amount Rs. |
| **Financial Assets** | | | | | | |
| Securities sold under repurchase agreements | - | - | - | 9,204,000 | - | 9,204,000 |
| | - | - | - | 9,204,000 | - | 9,204,000 |

**42. Risk Management (Contd.)**

*42.4.5 Analysis of Risk Concentration*

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position.

| As at 31 March 2022 | Manufacturing | Tourism | Agriculture | Trade |
|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. |
| Cash and Cash Equivalent | - | - | - | - |
| Financial Investment at amortised Cost | - | - | - | - |
| Financial assets at amortised Cost - Loans and Receivables | 66,918,817 | 111,292,739 | 157,020,227 | 735,493,297 |
| Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases | 59,047,042 | - | 197,503,913 | 21,589,349 |
| Other Financial Assets | - | - | - | - |
| Financial Assets Measured at Fair value through Profit or Loss | - | - | - | - |
| Financial Investment as Fair Value through Other Comprehensive Income | - | - | - | - |
| Allowance for Impairment | | | | |
| **Total** | 125,965,859 | 111,292,739 | 354,524,140 | 757,082,646 |

| As at 31 March 2021 | Manufacturing | Tourism | Agriculture | Trade |
|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. |
| Cash and bank balances | - | - | - | - |
| Financial Investment at amortised Cost | - | - | - | - |
| Financial assets at amortised Cost - Loans and Receivables | 14,940,453 | 18,278,516 | 55,117,860 | 1,096,202,052 |
| Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases | - | - | - | - |
| Other Financial Assets | - | - | - | - |
| Financial Investments | - | - | - | - |
| | - | - | - | - |
| Allowance for Impairment | | | | |
| **Total** | 14,940,453 | 18,278,516 | 55,117,860 | 1,096,202,052 |

| Construction | Transport | Services | Government | Financial Institutions | Consumers | Others | Total |
|---|---|---|---|---|---|---|---|
| Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | | Rs. |
| - | - | - | - | 229,434,047 | - | - | 229,434,047 |
| - | - | - | - | 746,819,780 | - | - | 746,819,780 |
| 337,592,460 | 21,755,913 | 522,143,978 | - | - | - | 852,193,237 | 2,804,410,668 |
| 22,315,879 | 22,370,152 | 21,327,708 | - | - | - | 101,470,482 | 445,624,525 |
| - | - | - | - | - | - | 16,919,513 | 16,919,513 |
| - | - | - | - | 19,508,717 | - | - | 19,508,717 |
| - | - | - | - | 315,813 | - | - | 315,813 |
| | | | | (223,077,555) | | | (223,077,555) |
| 359,908,339 | 44,126,065 | 543,471,686 | - | 773,000,803 | - | 970,583,232 | 4,039,955,508 |

| Construction | Transport | Services | Government | Financial Institutions | Consumers | Others | Total |
|---|---|---|---|---|---|---|---|
| Rs. | Rs. | Rs. | Rs. | Rs. | Rs. | | Rs. |
| - | - | - | - | 219,256,527 | - | - | 219,256,527 |
| - | - | - | - | 662,295,154 | - | - | 662,295,154 |
| 284,008,663 | 10,405,537 | 38,282,400 | - | - | - | 451,866,989 | 1,969,102,470 |
| - | - | - | - | - | - | 336,747,406 | 336,747,406 |
| - | - | - | - | - | - | 7,763,678 | 7,763,678 |
| - | - | - | - | 100,463,534 | - | - | 100,463,534 |
| - | - | - | - | 315,813 | - | - | 315,813 |
| | | | | | | | (285,067,056) |
| 284,008,663 | 10,405,537 | 38,282,400 | - | 982,331,028 | - | 796,378,073 | 3,010,877,526 |

## 42. Risk Management (Contd.)

### 42.5 Interest Rate Risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

The fluctuation of interest rates is an external factor which is beyond the control of the Company. Though the Company is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

**Management of Interest Rate Risk**

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing brands. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing.

Asset liability management encompasses the complete set of techniques used to manage interest rate risk within the broad risk management framework. Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of the Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

In setting the Tolerance levels for Interest rate risk, the following metrics are used.

- Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.
- Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.
- Setting the Lending to Borrowing ratio in order to maintain gearing at the desired levels

#### 42.5.1 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Income Statement & Equity.

| | Rs'000 | | |
|---|---|---|---|
| Currency of Borrowings/ Advance | Increase (Decrease) in basis points 2022 | Sensitivity of Profit or Loss 2022 | Sensitivity of Equity 2022 |
| Long Term Loans linked to AWPLR | 1/ (-1) | 4,588/(4,588) | 0.16% |
| | 0.5 / (0.5) | 2,294/(2,294) | 0.08% |
| | 0.25 / (0.25) | 1,147/(1,147) | 0.04% |

| Currency of Borrowings/ Advance | Rs'000 | | |
|---|---|---|---|
| | Increase (Decrease) in basis points 2021 | Sensitivity of Profit or Loss 2021 | Sensitivity of Equity 2021 |
| Long Term Loans linked to AWPLR | 1/ (-1) | 1,461/(1,461) | 0.07% |
| | 0.5 / (0.5) | 730.5/(730.5) | 0.03% |
| | 0.25 / (0.25) | 365.25/(365.25) | 0.02% |

The base ratio considers in the Interest Rate Sensitivity Analysis is the existing Loan rates. Since only 82%(2021-28%) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

| As at 31 March 2022 | Up to 03 Months Rs. | 03-12 Months Rs. | 01-03 Years Rs. | 03-05 Years Rs. | Over 05 Years Rs. | Non Interest Bearing Rs. | Total Rs. |
|---|---|---|---|---|---|---|---|
| Financial Assets | 205,424,771 | - | - | - | - | 24,009,276 | 229,434,047 |
| Cash and cssh Equivalants | 406,480,643 | 340,339,138 | - | - | - | - | 746,819,781 |
| Financial Investment at amortised Cost | 265,168,554 | 874,939,963 | 590,312,013 | 738,209,010 | 159,692,319 | - | 2,628,321,859 |
| Financial Investment at amortised Cost-Loans and Receivable | 3,476,592 | 13,069,480 | 147,144,085 | 223,313,942 | 5,631,680 | - | 392,635,779 |
| Lease receivables & Hire Purchase | - | - | - | - | - | 16,919,513 | 16,919,513 |
| Other Financial Assets | - | - | - | - | - | 19,508,717 | 19,508,717 |
| Financial Assets Measured at Fair value through Profit or Loss | - | - | - | - | - | 315,813 | 315,813 |
| Financial Investment as Fair Value through Other Comprehensive Income | 879,385,322 | 1,228,348,581 | 737,207,576 | 982,635,949 | 165,323,999 | 60,753,319 | 4,053,654,746 |
| Total Financial Assets | | | | | | | |
| Financial Liabilities | | | | | | | |
| Due to Bank | 92,707,171 | 160,163,887 | 321,331,637 | 12,168,298 | - | - | 586,370,994 |
| Due to customers | 541,414,560 | 333,933,438 | 77,287,586 | 10,000,000 | - | - | 962,635,584 |
| Other Financial Liabilities | - | - | - | - | - | 81,104,538 | 81,104,538 |
| Total Financial Liabilities | 634,121,731 | 494,097,325 | 398,619,223 | 22,168,298 | - | 81,104,538 | 1,630,111,115 |
| **Interest Sensitivity Gap** | 246,428,829 | 734,251,256 | 338,836,875 | 939,354,654 | 165,323,999 | (20,351,219) | 2,403,844,394 |

## 42. Risk Management (Contd.)

### 42.5 Interest Rate Risk (Contd.)

| As at 31 March 2021 | Up to 03 Months Rs. | 03-12 Months Rs. | 01-03 Years Rs. | 03-05 Years Rs. | Over 05 Years Rs. | Non Interest Bearing Rs. | Total Rs. |
|---|---|---|---|---|---|---|---|
| Financial Assets | | | | | | | |
| Cash and csh Equivalants | 197,104,416 | - | - | - | - | 21,402,752 | 218,507,168 |
| Financial Investment at amortised Cost | 284,206,643 | 378,088,511 | - | - | - | - | 662,295,154 |
| Financial Investment at amortised Cost-Loans and Receivable | 334,582,201 | 707,754,728 | 611,315,088 | 266,899,201 | 48,551,252 | - | 1,969,102,470 |
| Lease receivables & Hire Purchase | 34,292,194 | 88,556,668 | 126,124,517 | 87,774,027 | - | - | 336,747,406 |
| Other Financial Assets | - | - | - | - | - | 7,763,678 | 7,763,678 |
| Financial Assets Measured at Fair value through Profit or Loss | 100,463,534 | - | - | - | - | - | 100,463,534 |
| Financial Investment as Fair Value through Other Comprehensive Income | - | - | - | - | - | 315,813 | 315,813 |
| **Total Financial Assets** | 950,648,988 | 1,174,399,907 | 737,439,605 | 354,673,229 | 48,551,252 | 29,482,243 | 3,295,195,224 |
| **Financial Liabilities** | | | | | | | |
| Due to Bank | 154,167 | 69,961,423 | - | 448,298,950 | - | - | 518,414,541 |
| Due to customers | 422,570,786 | 310,011,381 | 9,753,913 | 89,247,848 | - | - | 831,583,928 |
| Other Financial Liabilities | - | - | - | - | - | 175,135,322 | 175,135,322 |
| **Total Financial Liabilities** | 422,724,953 | 379,972,805 | 9,753,913 | 537,546,798 | - | 175,135,322 | 1,525,133,791 |
| **Interest Sensitivity Gap** | 527,924,036 | 794,427,102 | 727,685,692 | (182,873,569) | 48,551,252 | (145,653,079) | 1,770,061,433 |

### 42.6 Liquidity Risk

Liquidity is generally defined as the ability of a financial institution to meet its debt obligations without incurring unacceptably large losses. Liquidity risk refers to the non-availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments.

An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

**Management of Liquidity Risk**

The Company's risk for managing liquidity risk and oversight of the implementation is administered by ALCO. Finance Department manages the Company's liquidity position on a day to day basis.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. A key element of these systems is monitoring and assessing the firm's current and future fund requirement including debt obligations and planning for any unexpected funding needs, regardless of whether they arise from firm-specific factors, or from systemic (economy-wide) factors.

The key elements of the Company's liquidity strategy are as follows.

Company assesses available lines of credit, GAP analysis and volatile liability dependency ratio in order to assess the liquidity risk. In setting the Tolerance levels for Liquidity risk, the following metrics are used.

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.
- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.
- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 year as a percentage of total lending assets).

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more sensitive market conditions.

Management of the Company has been maintaining a stable liquidity position to meet strongly any liquidity shock will arise due to any economic crises since the COVID 19 pandemic period and closely monitoring the position on daily basis and taking necessary measures to ensure the safeguard of the entity. The company introduced more rigor to the processes already in place to manage its liquid assets. These actions taken will help to maintain suitable liquidity position while ensuring the interest of company's stakeholders despite of disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

### 42.6.1 Statutory Liquid Asset Ratio

Statutory Liquid Asset Calculation is performed based on the following calculations as prescribed in section 2, 3 & 4 of the Finance Companies (Liquid Assets) Direction No.04 of 2013 and Direction No.07 of 2020.

The Company's liquid asset ratio is 21.87% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction). Liquid assets are maintained with Sri Lanka Government securities.

**42.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities**

The table below summarizes the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 March 2022.

| As at 31 March 2022 | Up to 03 Months Rs. | 03-12 Months Rs. | 01-03 Years Rs. | 03-05 Years Rs. | Over 05 Years Rs. | Total Rs. |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 228,268,809 | - | - | - | - | 228,268,809 |
| Financial Investment at amortised Cost | 407,679,513 | 357,899,131 | - | - | - | 765,578,644 |
| Financial assets at amortised Cost - Loans and Receivables | 268,799,925 | 936,544,074 | 705,125,066 | 1,059,760,678 | 317,207,428 | 3,287,437,171 |
| Lease receivables & Hire Purchase | 3,553,901 | 14,654,375 | 188,546,651 | 356,902,143 | 8,866,221 | 572,523,291 |
| Other Financial Assets | 16,919,513 | - | - | - | - | 16,919,513 |
| Financial Assets Measured at Fair value through Profit or Loss | 19,508,717 | - | - | - | - | 19,508,717 |
| Financial Investment as Fair Value through Other Comprehensive Income | - | - | - | - | 315,813 | 315,813 |
| **Total Financial Assets** | 944,730,378 | 1,309,097,580 | 893,671,717 | 1,416,662,821 | 326,389,462 | 4,890,551,958 |
| **Financial Liabilities** | | | | | | |
| Due to bank | 109,650,425 | 209,696,692 | 431,938,094 | 21,467,656 | - | 772,752,867 |
| Due to customers | 545,636,361 | 361,116,690 | 105,621,429 | 15,030,500 | - | 1,027,404,980 |
| Other Financial Liabilities | 11,419,964 | 18,444,357 | 42,382,683 | 16,236,900 | 24,956,928 | 113,440,832 |
| **Total Financial Liabilities** | 666,706,750 | 589,257,739 | 579,942,206 | 52,735,056 | 24,956,928 | 1,913,598,679 |
| Net Financial Asset/Liabilities | 278,023,628 | 719,839,841 | 313,729,511 | 1,363,927,765 | 301,432,534 | 2,976,953,279 |

| As at 31 Mar 2021 | Up to 03 Months Rs. | 03-12 Months Rs. | 01-03 Years Rs. | 03-05 Years Rs. | Over 05 Years Rs. | Total Rs. |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 219,260,284 | - | - | - | - | 219,260,284 |
| Financial Investment at amortised Cost | 285,436,482 | 398,633,726 | - | - | - | 684,070,208 |
| Financial assets at amortised Cost - Loans and Receivables | 466,523,600 | 991,386,654 | 879,566,107 | 378,595,806 | 68,869,821 | 2,784,941,988 |
| Lease receivables & Hire Purchase | 50,491,249 | 130,102,984 | 187,948,543 | 127,978,495 | - | 496,521,271 |
| Other Financial Assets | 7,763,678 | - | - | - | 7,763,678 | 15,527,356 |
| Financial Assets Measured at Fair value through Profit or Loss | 100,484,219 | - | - | - | - | 100,484,219 |
| Financial Investment as Fair Value through Other Comprehensive Income | - | - | - | - | 315,813 | 315,813 |
| **Total Financial Assets** | 1,129,959,512 | 1,520,123,363 | 1,067,514,650 | 506,574,301 | 76,949,312 | 4,301,121,139 |
| **Financial Liabilities** | | | | | | |
| Due to bank | 46,442,299 | 170,627,987 | 241,091,392 | 83,197,226 | - | 541,358,904 |
| Due to customers | 425,082,179 | 327,523,767 | 12,094,852 | 124,946,987 | - | 889,647,786 |
| Other Financial Liabilities | 4,803,669 | 18,999,419 | 132,678,252 | 12,064,350 | 15,726,682 | 184,272,373 |
| **Total Financial Liabilities** | 476,328,147 | 517,151,173 | 385,864,497 | 220,208,563 | 15,726,682 | 1,615,279,063 |
| Net Financial Asset/Liabilities | 653,631,365 | 1,002,972,190 | 681,650,153 | 286,365,738 | 61,222,630 | 2,685,842,077 |

### 43. Maturity Analysis

An analysis of interest bearing assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is as follows. The estimated maturity profiles may differ, due to Covid-19 related events.

| As at 31 March 2022 | Up to 03 Months Rs. | 03-12 Months Rs. | 01-03 Years Rs. | 03-05 Years Rs. | Over 05 Years Rs. | Total Rs. |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 229,434,047 | - | - | - | - | 229,434,047 |
| Financial Investment at amortised Cost | 406,480,643 | 340,339,138 | - | - | - | 746,819,781 |
| Financial assets at amortised Cost - Loans and Receivables | 265,168,554 | 874,939,963 | 590,312,013 | 738,209,010 | 159,692,319 | 2,634,321,859 |
| Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases | 3,476,592 | 13,069,480 | 147,144,085 | 223,313,942 | 5,631,680 | 392,635,779 |
| Other Financial Assets | 16,919,513 | - | - | - | - | 16,919,513 |
| Financial Assets Measured at Fair value through Profit or Loss | 19,508,717 | - | - | - | - | 19,508,717 |
| Financial Investment as Fair Value through Other Comprehensive Income | - | - | - | - | 315,813 | 315,813 |
| **Total Assets** | 940,988,066 | 1,228,348,581 | 737,456,098 | 961,522,952 | 165,639,812 | 4,033,955,509 |
| **Liabilities** | | | | | | |
| Due to bank | 92,707,171 | 160,163,887 | 321,331,637 | 12,168,298 | - | 586,370,993 |
| Due to customers | 541,414,560 | 333,933,438 | 77,287,586 | 10,000,000 | - | 962,635,584 |
| Other Financial Liabilities | 8,756,662 | 11,252,252 | 29,827,651 | 9,224,157 | 22,043,816 | 81,104,538 |
| **Total Liabilities** | 642,878,393 | 505,349,577 | 428,446,874 | 31,392,455 | 22,043,816 | 1,628,516,993 |

| As at 31 March 2021 | Up to 03 Months Rs. | 03-12 Months Rs. | 01-03 Years Rs. | 03-05 Years Rs. | Over 05 Years Rs. | Total Rs. |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 218,507,168 | - | - | - | - | 218,507,168 |
| Financial Investment at amortised Cost | 284,206,643 | 378,088,511 | - | - | - | 662,295,154 |
| Financial assets at amortised Cost - Loans and Receivables | 334,582,201 | 707,754,728 | 611,315,088 | 266,899,201 | 48,551,252 | 1,969,102,470 |
| Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases | 34,292,194 | 88,556,668 | 126,124,517 | 87,774,027 | - | 336,747,406 |
| Other Financial Assets | - | - | - | - | 7,763,678 | 7,763,678 |
| Financial Assets Measured at Fair value through Profit or Loss | 100,463,534 | - | - | - | - | 100,463,534 |
| Financial Investment as Fair Value through Other Comprehensive Income | - | - | - | - | 315,813 | 315,813 |
| Total Assets | 972,051,740 | 1,174,399,907 | 737,439,605 | 354,673,229 | 56,630,743 | 3,295,195,224 |
| **Liabilities** | | | | | | |
| Due to bank | 154,167 | 69,961,423 | - | 448,298,950 | - | 518,414,541 |
| Due to customers | 423,104,367 | 310,011,381 | 9,753,913 | 88,714,267 | - | 831,583,929 |
| Other Financial Liabilities | - | - | - | - | - | - |
| **Total Liabilities** | 423,258,534 | 379,972,805 | 9,753,913 | 537,013,217 | - | 1,349,998,470 |

## 44. Commitments and Contingencies

| | 2022 Rs. | | | | | 2021 Rs. | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | On Demand | With in 01 year | 1-5 years | More than 5 years | Total | On Demand | With in 01 year | 1-5 years | More than 5 years | Total |
| Commitments | | | | | | | | | | |
| City Finance Deposits (Note) | 80,263,540 | - | - | - | 80,263,540 | 80,263,540 | - | - | - | 80,263,540 |
| | 80,263,540 | - | - | - | 80,263,540 | 80,263,540 | - | - | - | 80,263,540 |

In addition to that, the company has given Letter of guarantees to its customers amounting to 116.1 Mn

### 44.1 Capital commitments

The Company has no commitments for acquisition of Property, Plant & Equipment and Intangible assets incidental to the ordinary course of business.

### 44.2 Litigation filed by the Company/ against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigation against the Company as at 31 Mar 2022 which would have a material impact on the Financial Statements.

## 45. Events After The Reporting Period

There have been no material events occurring after the Reporting date that require adjustments to or disclosure in the Financial Statements

## 46. Related Party Transactions

The Company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with the parties who are defined as Sri Lanka Accounting Standard No.24 Related Party Disclosure, details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

### 46.1 Parent and Ultimate Controlling Party

The Company is 83.76% owned by LCB Limited. Hence, LCB Limited is the parent company and the ultimate controlling party.

### 46.1 Transactions with Key Managerial Personnel

According to Sri Lanka Accounting Standard-LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all of the three activities mentioned in the above definition (i.e. planning, directing and controlling the activities of the entity). Such KMPs include Parent Comapny, the Board of Directors of the Company, Managing Director and the KMPs of the Lanka Credit and Business Finance Ltd.

| Short Term Employee Benefits | 2022/2021 Rs. | 2021/2020 Rs. |
|---|---|---|
| Remuneration and other expenses of directors | 5,725,000 | 6,450,000 |
| Total | 5,725,000 | 6,450,000 |

### 46.2 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)

#### 46.2.1 Loans and advances granted to KMPs are detailed below.

| | 31-Mar-22<br>Rs. | 31-Mar-21<br>Rs. |
|---|---|---|
| Loans granted during the year | - | 10,000,000 |
| Loans held at the end of the year | - | 39,707,075 |
| Interest receivable on loan | - | 638,192 |
| Interest received on Loans | - | 1,329,599 |

#### 46.2.2 Deposits and Borrowings from KMPs are detailed below.

| | 31-Mar-22<br>Rs. | 31-Mar-21<br>Rs. |
|---|---|---|
| Term/Savings deposits accepted during the year | 30,000,000 | 29,000,000 |
| Term/Savings deposits held at the end of the year | 41,506,770 | 99,998,955 |
| Interest payable on Term/Savings deposits | - | 212,478 |
| Interest paid on Term/Savings deposits | 1,433,446 | 6,002,418 |

No borrowing through debt instruments were made or no investments were made by key management personnel during the year 31 Mar 2022. (31 March 2021- Nil)

### 46.3 Transactions, Arrangements and Agreements involving with Related Entities of KMPs

#### 46.3.1 Due from Related party

| | 31-Mar-22<br>Rs. | 31-Mar-21<br>Rs. |
|---|---|---|
| Lanka Credit and Business Ltd | 7,585,645 | 7,585,645 |
| Provision | (7,585,645) | (7,585,645) |
| | - | - |

The detailed movement of the transactions made with the Lanka Credit and Business Ltd is shown below.

The transactions made with the Parent Company is as follows.

| | 31-Mar-22<br>Rs. | 31-Mar-21<br>Rs. |
|---|---|---|
| Cash Investments made during the year | - | 460,369,700 |
| Expenses incurred by LCB Finance Company Limited on behalf of the parent. | - | - |
| Total Assets transferred | - | - |
| Total Liabilities transferred | - | - |
| Net assets Transferred from LCB Limited | - | - |

## 47. Capital

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

**Capital Management**

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

**Regulatory Capital**

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka (CBSL)sets and monitors capital requirements for licensed finance companies. Accordingly finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 11% and a minimum core capital adequacy ratio (Tier I) of 7%. The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.

LCB Finance Company PLC is in compliance with the minimum core capital set requirement out in terms of Section 2.1 of Finance Business Act Direction No. 02 of 2017 following the decision by CBSL to defer the requirement of Rs 2.0 Bn until 31.03.2021 through its letter. However the company fulfilled this regulatory requirement by 28th February 2021.

# Investor Information

### Share Holder Base

The Total Number of Ordinary voting shares 790,168,780 as at 31st March 2022

### Top 20 shareholders

**Lanka Credit and Business Finance Ltd- As at 31 March 2022**

| | Shareholder Name | Number of shares | Shareholding % |
|---|---|---|---|
| 1 | Lanka Credit And Business Limited | 569,538,406 | 72.1% |
| 2 | Helios Ventures (Pvt) Ltd | 27,582,752 | 3.5% |
| 3 | Nation Lanka Finance Plc | 13,850,000 | 1.8% |
| 4 | Kapila Indika | 12,500,000 | 1.6% |
| 5 | Merchant Bank Of Sri Lanka & Finance Plc/Maweli Finance (Pvt) Ltd | 9,800,000 | 1.2% |
| 6 | Victor Rajamanner | 6,000,000 | 0.8% |
| 7 | People's Leasing & Finance Plc | 5,000,000 | 0.6% |
| 8 | Wimalaratnege Aruni Indika | 3,071,268 | 0.4% |
| 9 | Ajith Priyadarshana | 2,632,500 | 0.3% |
| 10 | Aspic Corporation Limited | 2,440,228 | 0.3% |
| 11 | Ranasinghage | 2,311,500 | 0.3% |
| 12 | Weththinige | 1,757,500 | 0.2% |
| 13 | Shashika Lakshan | 1,757,500 | 0.2% |
| 14 | People's Leasing & Finance Plc/Mr.r.kannan | 1,339,000 | 0.2% |
| 15 | Merchant Bank of Sri Lanka & Finance Plc/T.v.t. Kamanika | 1,300,000 | 0.2% |
| 16 | Merihagalle Kankanamalage Rohan | 1,273,110 | 0.2% |
| 17 | Illamperuma Arachchige Dineth | 1,255,670 | 0.2% |
| 18 | Kushan Darshana | 1,250,000 | 0.2% |
| 19 | Kankanamge Dinith Yasantha | 1,200,000 | 0.2% |
| 20 | Dassanayake Mudiyanselage Theshan | 1,143,423 | 0.1% |
| | Others | 123,165,923 | 15.6% |
| | Total | 790,168,780 | 100% |

# Capital Adequacy

Capital Adequacy is one of the Key measures which shows the financial strength and the stability of a finance company. By having a healthy capital adequacy ratio, LCB Finance PLC can create confidence among its investors and create a positive image among prospective investors. Central bank of Sri Lanka issued a new direction (Finance Business Act Direction No. 03 of 2018) to be effect from 01st July 2018. New Capital adequacy framework has introduced a more risk sensitive approach covering credit risk and operational risk. Market risk was not considered under this framework because the sector exposure to market risk was considered to be minimal.

In accordance with Finance Business Act Direction No. 03 of 2018, every finance company shall at all times maintain the minimum capital adequacy ratios of Tier I - 7% and Tier II - 11% in relation to total risk weighted assets. Tier I, Tier II and Risk weighted assets are defined under this new capital adequacy framework as follows.

**Tier I -Core Capital**

Tier I capital represents core capital of the company. Core capital includes shareholder's equity and reserves

$$\text{Tier I Ratio} = \frac{\text{Tier I Capital}}{\text{Total Risk Weighted Amount}}$$

**Tier II-Supplementary Capital**

Tier II capital represents supplementary capital such as instruments containing characteristics of equity and debt, revaluation gains and general provisioning/impairment allowances.

$$\text{Total Capital ratio} = \frac{\text{Total Capital}}{\text{Total Risk Weighted Amount}}$$

**Risk Weighted Assets**

Risk weighted assets are a measure of company's assets and off balance sheet exposures, weighted according to their risks, with each asset class assigned a different risk weightage.

As at 31 March 2022, the Company maintained a Tier I ratio of 54.04% and a Tier II ratio also 54.04% because LCB Finance has no any debt capital as at 31 march 2022 .Finaly Tier 1 ratio is above the minimum regulatory requirements (Tier I - 7%) set by CBSL.

| Item | Amount Rs. '000 |
|---|---:|
| Tier 1 Capital | 2,676,786 |
| Total Capital | 2,676,786 |
| Total Risk Weighted Amount | 4,953,104 |
| Risk Weighted Amount for Credit Risk | 4,431,943 |
| Risk Weighted Amount for Operational Risk | 521,160 |
| Tier 1 Capital % | 54.04 |
| Total Capital Ratio % | 54.04 |

# Glossary of Terms

## A

### Accounting Policies
Principles, bases, conventions, rules and practices that are applied in recording transactions and in preparing and presenting Financial Statements.

### Accrual Basis
The system of accounting wherein revenue is recognized at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

### Allowance for Impairment
"A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss."

### Amortized Cost
The systematic allocation of the depreciable amount of an intangible asset over its useful life. The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any deduction (directly or through the use of an allowance account) for impairment or uncollectability.

### Asset and Liability Committee (ALCO)
The committee that is responsible for managing assets and liabilities of the Company.

### Average Weighted Deposit Rate (AWDR)
AWDR is calculated by the Central Bank on a monthly basis based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates. Average weighted prime lending rate (AWPLR) is calculated by the Cenral Bank weekly based on commercial bank's lending rates offered to their prime customers during the week.

## B

### Basis Point (BP)
One hundred of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

## C

### Capital Adequacy Ratio
The relationship between capital and risk weighted assets as prescribed by the Central Bank of Sri Lanka.

### Cash Equivalents
Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Cash Flows
Inflows and outflows of cash and cash equivalents.

### Cash Generating Unit (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### Collectively Assessed Impairment
Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

### Contractual Maturity
Contractual Maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

### Commercial Paper (CP)
An unsecured, short-term debt instrument issued by a company, typically for the financing of accounts receivable, inventories and meeting short-term liabilities.

### Commitments
Credit facilities approved but not yet disbursed to the customers as at the date of the Statement of Financial Position.

### Contingencies
A condition or situation existing at reporting date, where the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or nonoccurrence of one or more uncertain future events.

# Glossary of Terms

### Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and other stakeholders.

### Cost Method
A method of accounting where by the investment is recorded at cost. The income statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee rising subsequent to the date of acquisition.

### Cost/Income Ratio
Operating expenses excluding impairment charge as a percentage of net operating income (net of interest expenses).

### Credit Ratings
An evaluation of a corporate's ability to repay its obligation or the likelihood of non-defaulting, carried out by an independent rating agency.

### Credit Risk
Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

### Customer Deposits
Money deposited by account holders. Such funds are recorded as liabilities.

## D

### Deferred Taxation
Sum set aside for income tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

### Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

### Derecognition
Removal of a previously recognized financial asset or liability from an entities Statement of Financial Position.

### Discount Rate
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

## E

### Earnings Per Share (EPS)
Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.Indicates the proportion of current year's earnings attributable to an ordinary share in issue.

### Effective Interest Rate (EIR)
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

### Effective Tax Rate
Provision for taxation including deferred tax divided by the profit before taxation.

### Equity Method
This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's shareof the profit or loss and other comprehensive income of the investee.

### Events after the Reporting Period
Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

### Exposure
A claim, contingent claim or position which carries a risk of financial loss.

### Equity Instrument
Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities

### Equity
Total of shareholders' funds: share capital + statutory reserves + other reserves.

### Expected Credit Loss
The amount expected to be lost on an exposure over the life of the asset. ECL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

### Exposure at default
A claim, contingent or position which carries a risk of financial loss.

# F

### Fair Value
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Fair Value Through Profit or Loss
A financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as fair value through profit or loss.

### Finance Lease
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers all risks and rewards of the ownership to the lessee.

### Financial Asset
Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

### Financial Liabilities
A contractual obligation to deliver cash or another financial asset to an other entity.

# G

### Global Reporting Initiative (GRI)
GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisation to become more sustainable and contribute to sustainable development.

### Gearing
Long-term borrowings divided by the total funds available for shareholders.

### Going Concern
The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the forseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its opeartions.

### Gross Dividend
The portion of profits distributed to the shareholders including the tax with held.

### Guarantees
A promise made by a third party (Guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual Obligations.

# H

### Hire Purchase
A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

# I

### Impairment
The value of an asset when the recoverable amount is less than its carrying amount.

### Impaired Loan
Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

### Impairment Allowance for Loan and Receivable
Amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

### Individualy Assessed Impairment
When the impairment is measured on an individual basis for non- homogeneous groups of lending facilities that are considered as individually significant.

### Intangible Assets
An intangible asset is an identifiable non-monetary asset without physical substance.

# Glossary of Terms

**Integrated Reporting**
A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long- term in its economic, social and environmental context

**Interest Cover**
Earnings before interest and taxes for the year divided by total interest expenses. This provides the number of times interest expenses is covered before interest and tax; the ability to cover interest expenses.

**Interst in Suspense**
Interest suspended on non-performing accommodations. (Leases, hire purchases, loans and other advances)

**Interest Margin**
Net interest income expressed as a percentage of average total assets.

**Interest Rate Risk**
The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

**Interst Spread**
The difference between the average yield a financial institution receives from loans and other interest-accruing activities and the average rate it pays on deposits and Borrowings.

**Invstment Properties**
Property (land or a building – or part of a building – or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

**Investment Securites**
Securities acquired and held for yield and capital growth purposes which are usually held to maturity.

## K

**Key Management Personnel (KMP)**
People having authority and responsibility for planning, directing and controlling the activities of an entity, either directly or indirectly. (The Board of Directors and Corporate Management).

## L

**Liquid Assets**
Assets that are held in cash or can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills and Bonds.

**Liquidity Risk**
The risk that an entity will encounter due to difficulty in meeting obligations associated with financial liabilities.

**Loans Payable**
Loan payable are financial liabilities, other than short-term trade payable on normal credit terms.

**Loans and Receivables**
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

**Loss Given Defualt**
The estimated ratio (percentage) of the loss of an exposure to the amount outstanding at default upon default of counter party.

**Loan to Value Ratio (LTV)**
The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower

## M

**Market Capitalization**
Number of ordinary shares in issue multiplied by the market value of a share as at date.

**Market Risk**
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates,credit spreads and other asset prices.

**Materiality**
The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

# N

### Net Assets Value Per Share (NAV)
Total net asset value of a Company divided by the total number of ordinary shares in issue.

### Net Interst Income
Difference between revenue generated from interest bearing assets and interest incurred on interest bearing liabilities.

### Net Interst Margin (NIM)
Net interest income as a percentage of average assets.

### Non Performing Loans/Advances (NPL)
A sum of borrowed money upon which the debtor has not made scheduled payments above 180 days.

### NPL Ratio
Total Non-Performing Accommodations (net of interest in suspense and other adjustments) divided by total accommodations (net of interest in suspense and other adjustments).

# O

### Operational Risk
The losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

# P

### Parent
An entity that controls one or more subsidiaries.

### Probability of Defult (PD)
The probability that an obligor will default on an obligation within a given period of time.

### Projected Unit Credit Method (PUC)
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

### Provision
The amount of an expense that an entity elects to recognize now, before it has precise information about the exact amount of the expense.

# R

### Related Parties
Parties where one party has the ability to control the other party or exercise a significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Related Party Transaction
Is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged or not.

### Repurchase Agreement
Contracts to sell and subsequently repurchase securities at a specified price at a specified future date.

### Return on Average Assets (ROA)
Profit before tax divided by total average assets.

### Return of Equity
Profit after tax divided by total average equity.

### Risk Wighted Asset
On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by relevant factors weighted by risk.

# S

### Shareholders' Fund
This consists of issued and fully paid up ordinary shares and reserves.

### Statutory Reverse Fund
A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 01 of 2003.

### Specific Impairment Provision
Impairment is measured individually for loans that are individually significant to the Company.

# Glossary of Terms

## T

**Tier I Capital – Core Capital**
Representing permanent shareholders' equity (paid-up shares) and reserves created or increased by appropriations of retained earnings or other surplus, i.e., retained profits and other reserves.

**Tier II Capital**
Supplementary capital representing revaluation reserves, general provisions and debt instruments such as subbordinated term debts and other hybrid capital instruments which combine certain characteristics of equity and debt.

## U

**Useful Life**
Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity

## V

**Value Added**
Value of wealth created by providing financial and other related services less the cost of providing such services. The value added is allocated among employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

## Y

**Yeild**
Rate or return on an investment in percentage terms taking into account annual income.

# Notice of Annual General Meeting

**LANKA CREDIT AND BUSINESS FINANCE PLC**
(Company Registration - PQ 00251997)
No. 76, S. De S. Jayasinghe Mawatha, Kohuwela

**NOTICE OF THE VIRTUAL 60TH ANNUAL GENERAL MEETING**

NOTICE IS HEREBY GIVEN that the Virtual 60th Annual General Meeting of **LANKA CREDIT AND BUSINESS FINANCE PLC** will be held on **29th July 2022 at 10.30 a.m** at No. 76, S. De S. Jayasinghe Mawatha, Kohuwela via online platform for the following purposes;

**AGENDA**

1. To receive and consider the Annual Report of the Board of Directors together with the Audited Financial Statements of the Company for the year ended 31st March 2022 together with the report of the Auditors thereon.
2. To consider, and if thought fit, to pass the following as an ordinary resolution:

   "IT IS HEREBY RESOLVE THAT the age limit referred to in section 210 of the Companies act 07 of 2007 shall not apply to Emeritus Prof. W. M. A. Bandara, who is presently 71 (seventy-one) years of age and that he be re - elected as a director of the Company for a further period of one year or until the conclusion of the next Annual General Meeting whichever occurs first".
3. To declare a final dividend at Rs. 0.06 per share for the year 2021/2022 as recommended by the Directors.
4. To appoint M/s. Earnest & Young, Charted Accountants as the new Auditors to the Company for the ensuing year and to authorize the Directors to determine their remuneration.

By order of the Board of Directors of
**LANKA CREDIT AND BUSINESS FINANCE PLC**

**P.R. SECRETARIAL SERVICES (PRIVATE) LIMITED**
*Secretaries*
At Colombo, this 7th July 2022

**Note:**

- In compliance with the government regulations on social distancing no shareholder will be permitted to be physically present at the venue.
- Shareholders who wish to participate at the Virtual Annual General Meeting are kindly requested to register the participation for the meeting by completing the enclosed Online Registration Form and have it emailed to dinushanilaw@gmail.com 24 hours prior to the commencement of the meeting (Between 8.30 a.m. to 4.30 p.m.).
- Proxyholders who wish to participate at the Virtual Annual General Meeting are kindly requested to register the participation for the meeting by completing the enclosed Online Registration Form together with the Form of Proxy and have both forms emailed to prsecs@gmail.com or deposited at P. R. Secretarial Services (Private) Limited, No. 59, Gregory's Road, Colombo 7, 48 hours prior to the commencement of the meeting (Between 8.30 a.m. to 4.30 p.m.).
- A Shareholder entitled to attend and vote at the meeting, is entitled to appoint a Proxy to attend and vote instead of him/her.
- A Proxy need not be a Shareholder of the Company.
- A Shareholder wishing to vote by Proxy at the meeting may use the Form of Proxy form enclosed herewith.
- For security reasons, Shareholders and Proxy holders are kindly advised to have with them their National Identity Card or similar for of acceptance identity when joining the meeting.

# Online Registration of Shareholder Details

**(Annex. 01)**

To: Lanka Credit and Business Finance PLC
No. 76, S. De S. Jayasinghe Mawatha,
Kohuwala

| | | |
|---|---|---|
| 01 | Full name of the Shareholders | |
| 02 | Shareholder's Address | |
| 03 | Shareholder's NIC/ Passport No./ Company Registration No. | |
| 05 | Shareholder's Contact Number | |
| 06 | Name of the Proxyholder (if appointed) | |
| 07 | Proxy holder's NIC No. / Passport No. / Co. Reg No. | |
| 08 | Proxy Holder's Contact Number | |
| 09 | Shareholder's/ Proxy Holder's E-mail | |
| 10 | Shareholder's Signature | |

**Notes;**

1. All of the above information is mandatory, in order to participate at the meeting.
2. Online registration form is required to be forwarded to prsecs@gmail.com on or before 28th July 2022 by 4.30 pm.
3. In the case of a corporate shareholder, the form must be signed under its Common Seal or by its authorized attorney.

# Form of Proxy

I/We.........................................................................................................................................of...............................................................................

.....................being a Shareholder/s* of the above named Company, hereby appoint (1)...........................................................of.....................

.......................................................................failing him/her.

| | | | |
|---|---|---|---|
| (2) Prof. W. M. A. Bandara | or failing him | (8) Mr. A. G. M. Priyantha | or failing him |
| (3) Mr. K. G. Leelananda | or failing him | (9) Mr. V. Lokunarangoda | or failing him |
| (4) Mr. S. W. Subasinghe | or failing him | (10) Mr. G. K. Nanayakkara | or failing him |
| (5) Mr. K. I. Weerasinghe | or failing him | (11) Mr. D. Thotawatte | or failing him |
| (6) Mr. R. L. Masakorala | or failing him | (12) Mr. A. W. Nanayakkara | or failing him |
| (7) Mr. U. K. H. R. Ranasinghe | or failing him | (13) Mr. M. Katulanda | |

as my/our* Proxy to represent me/us* and vote and speak for me/us* on my/our* behalf at the **Virtual 60th Annual General Meeting** of Lanka Credit and Business Finance PLC to be held on **29th July 2022 at 10.30 am** at No. 76, S. De S. Jayasinghe Mawatha, Kohuwela **via online platform** and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

I/WE INDICATE MY/OUR VOTE ON THE RESOLUTIONS BELOW AS FOLLOWS;

| | For | Against |
|---|---|---|
| 1. To receive and consider the Annual Report of the Board of Directors together with the Financial Statements of the Company for the year ended 31st March 2022 together with the report of the Auditors thereon. | ☐ | ☐ |
| 2. To consider, and if thought fit, to pass the following as an ordinary resolution:<br>"IT IS HEREBY RESOLVE THAT the age limit referred to in section 210 of the Companies act 07 of 2007 shall not apply to Emeritus Prof. W. M. A. Bandara, who is presently 71 (seventy-one) years of age and that he be re - elected as a director of the Company for a further period of one year or until the conclusion of the next Annual General Meeting whichever occurs first". | ☐ | ☐ |
| 3. To declare a final dividend at Rs. 0.06 per share for the year 2021/2022 as recommended by the Directors. | ☐ | ☐ |
| 4. To re-appoint M/s. Earnest & Young Charted Accountants Charted Accountants as the Auditors to the Company for the ensuing year and to authorize the Directors to determine their remuneration. | ☐ | ☐ |

Signed this ...............day of..............................2022.

..........................................

Signature of shareholder

**Note:**

i) Please delete the inappropriate words.

ii) Instructions for completion of Proxy are noted below.

iii) A proxy need not to be a shareholder of the Company.

iv) Please mark "X" in appropriate cages, to indicate your instructions as to voting.

# Form of Proxy

**Instructions as to completion**

1. Kindly perfect the Form of Proxy by filing in legibly your full name, National Identity Card/ Passport/ Company Registration Number, your address and your instructions as to voting and by signing in the space provided and filing in the date of signature. Please ensure that all details are legible.
2. Please mark “X” in appropriate cages, to indicate your instructions as to voting on each resolution. If no indication is given, the Proxy holder in his/her discretion will vote as he/her thinks fit.
3. The completed Form of Proxy should be deposited at the Secretaries’ Office of the Company at No. 59, Gregory’s Road, Colombo 07, Sri Lanka or email to prsecs@gmail.com not less than 48 hours before the appointed time for the holding the Annual General Meeting (Between 8.30 a.m. to 4.30 p.m.) and no registration of proxies will be accommodated at the venue on the date of the Annual General Meeting.
4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy, please insert the relevant details (1) overleaf and initial against this entry.
5. Article No.20 of the Articles of Association of the Company provides that “Any Corporation which is a member of the Company may by resolution of its directors or other governing body, authorize such person as it thinks fit to act as its representative at any meeting of the Company and the person so authorized shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company.
6. Article No. 21 of the Articles of Association of the Company provides that in the case of joint holders of a share, the senior who tenders a vote, whether in person or by proxy or by attorney or by representative shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of shareholders in respect of the joint holding.
7. In the case of a Company/Corporation, the Proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association/ Act of Incorporation, or
8. In the case of a Proxy signed by an Attorney, a certified copy of the Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

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www.optimadesigns.lk

LCB finance