LOLC FINANCE PLC

FINANCIAL STATEMENT

31 MARCH 2022

HMAJ/WDPL/TP

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF LOLC FINANCE PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of LOLC Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2022, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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

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Key audit matter	How our audit addressed the key audit matter
Impairment allowances for financial assets carried at amortised cost Impairment allowances for financial assets carried at amortised cost as stated in Note 4, 6, 7 & 26 respectively is in accordance with the accounting policies described in Note 1.4 & 2.3. Impairment allowances for financial assets carried at amortised cost is a key audit matter due to: - materiality of the reported allowance which involved complex calculations; and - significant judgements used in assumptions and estimates made by the management as reflected in note 1.4, 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.	Our audit procedures included amongst others the following: ▪ We assessed the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management ▪ We evaluated the design, implementation and operating effectiveness of internal controls over estimation of the impairment allowances, including testing of related system controls ▪ 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 For financial assets assessed on a collective basis for impairment: ▪ We tested key calculations used in the impairment allowances. ▪ 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 Leases assessed on an individual basis for impairment: ▪ We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances ▪ We checked the accuracy of the underlying individual impairment calculations ▪ 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 We assessed the adequacy of the related financial statement disclosures set out in notes 2.3, 4, 6, 7 & 26.

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Key audit matter	How our audit addressed the key audit matter
Financial reporting related IT based Internal controls A significant part of the Company's financial reporting process is primarily reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, financial reporting related IT based Internal controls is considered a key audit matter.	Our audit procedures included the following: ▪ We obtained an understanding of the Internal control environment of the processes relating to financial reporting and related disclosures. ▪ We identified and test checked relevant controls of key IT systems related to the Company's financial reporting process. ▪ We evaluated the design and operating effectiveness of IT controls, including those related to user access and change management. ▪ We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of general ledger reconciliations
Valuation of Investment Properties Investment properties are carried at fair value in accordance with its accounting policies and note disclosed in notes 2.5 and 12 respectively. This was a key audit matter due to the: - materiality of the reported Investment Properties which amounted to LKR 38 Bn as of reporting date; and - degree of assumptions, judgements and estimation uncertainties associated with the fair valuation of investment properties such as reliance on comparable market transactions and consideration of current market conditions. Key areas of significant judgments, estimates and assumptions used in the valuation of the investment properties as disclosed in note 12 included the following: - Estimate of per perch value of the investment properties - Estimate of the per square foot value of the buildings	Our audit procedures included the following; ▪ We assessed the competency, capability and objectivity of the external valuer engaged by the Group. ▪ We read the external valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of each property. ▪ We assessed the reasonableness of the significant judgements made by the valuer and valuation techniques used, per perch price and value per square foot used by the valuer in the valuation of each property. ▪ We have also assessed the adequacy of the disclosures made in notes 2.5 and 12 in the financial statements.

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Key audit matter	How our audit addressed the key audit matter
Accounting for Merger of the Company with Commercial Leasing and Finance PLC The Company merged with Commercial Leasing and Finance PLC on 31 March 2022. The Company recognised LKR 169Bn as the merger reserve to the financial statements as disclosed in note 21.5 & 37. The merger was accounted for based on the Statement of Recommended Practice for Merger Accounting for Common Control Combinations issued by CA Sri Lanka. We considered the accounting for the merger to be a key audit matter as it represents a significant transaction entered into by the Company during the year.	Our audit procedures included (among others) the following procedures: ▪ We read the relevant board resolutions and approvals from regulators and shareholders. ▪ We obtained the audited financial statements of Commercial Leasing and Finance PLC. We checked the mathematical accuracy of the calculations and the adjustments related to merger accounting. ▪ We assessed the adequacy of the disclosures included in the notes 21.5 & 37 to the financial statements.

Other information included in the Company's 2022 Annual Report

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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 for the financial statements

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

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

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

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Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- 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.

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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 1884.

29 June 2022
Colombo

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STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

	Note	Mar 22 Rs.	Mar 21 Rs.
ASSETS			
Cash and bank balances	3	12,282,959,936	13,422,689,919
Deposits with banks and other financial institutions		8,885,610,812	7,203,305,871
Investment in government securities	4	23,841,482,770	15,838,454,720
Derivative financial instruments	5.1	3,450,265,935	325,029,200
Financial assets at amortised cost			
Rentals receivable on leased assets	6	56,960,214,609	43,098,406,893
Loans and advances	7	141,614,957,527	61,466,956,726
Factoring receivable	7.6	1,418,432,849	-
Margin trading receivable	7.5	6,816,480,464	83,553,171
Investment securities	8	6,288,566,228	5,497,999,899
Investment in associate	9	1,833,660,667	-
Amount due from related companies	10	47,381,973	33,221,629
Other receivables	11	1,084,330,013	615,275,173
Inventories		428,031,504	271,727,381
Investment properties	12	38,287,958,119	21,088,740,181
Property and equipment and right-of-use assets	13	8,326,734,940	1,163,218,438
Total assets		**311,567,068,346**	**170,108,579,200**
LIABILITIES			
Bank overdraft	3	5,675,768,259	1,861,003,040
Interest bearing borrowings	14	44,309,903,398	16,437,442,429
Deposits from customers	15	159,252,382,263	107,791,136,377
Trade payables	16	1,141,928,384	144,788,204
Accruals and other payables	17	7,835,592,729	4,441,130,204
Derivative financial instruments	5.2	13,175,698	-
Amount due to related companies	18	3,719,367,746	620,861,723
Current tax payable	29.1	2,525,556,194	857,902,877
Deferred tax liability	29.2	2,974,781,275	1,733,249,164
Employee benefits	19.2	565,709,494	332,531,588
Total liabilities		**228,014,165,440**	**134,220,045,606**
SHAREHOLDERS' FUNDS			
Stated capital	20	211,581,447,542	12,762,500,000
Statutory reserve	21.1	4,444,108,028	3,596,578,755
Revaluation Reserve	21.2	1,505,632,154	328,838,183
Cash flow hedge reserve	21.3	(83,701,505)	27,607,751
Fair value through OCI reserve	21.4	140,752,964	45,445,698
Merger reserve	21.5	(169,284,516,561)	-
Retained earnings	21.6	35,249,180,283	19,127,563,207
Total equity		**83,552,902,905**	**35,888,533,594**
Total liabilities and equity		**311,567,068,346**	**170,108,579,200**
Commitments and Contingencies	36	**22,863,999,342**	**9,367,740,063**
Net asset value per share		**4.34**	**6.84**

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

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(Mr.) Buddhika Weeratunga
Head of Finance

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

....
(Mr.) Krishan Thilakaratne - Director / CEO

....
(Mr.) Conrad Dias - Chairman / Non Executive Director

The annexed notes to the financial statements on pages 11 through 85 form an integral part of these financial statements.

29 June 2022
Rajagiriya (Greater Colombo)

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LOLC Finance PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2022

	Note	Mar 22 Rs.	Mar 21 Rs.
Interest income	22	30,569,862,999	33,761,534,126
Interest expense	23	(8,979,991,819)	(12,446,790,398)
Net interest income		21,589,871,180	21,314,743,728
Net other operating income	24	11,522,271,915	10,298,438,290
Direct expenses excluding interest cost	25	(863,534,058)	(950,854,705)
Allowance for impairment & write-offs	26	(2,991,759,900)	(16,341,362,321)
Personnel expenses	27.1	(3,564,802,548)	(3,156,954,655)
Depreciation	13	(207,247,901)	(131,853,680)
General & administration expenses		(5,904,664,088)	(5,979,227,626)
Profit from operations	27	19,580,134,600	5,052,929,031
Value added tax on financial services		(1,837,501,042)	(556,145,927)
Profit before tax		17,742,633,558	4,496,783,104
Income tax (expense) / reversal	29	(792,048,095)	(130,844,548)
Profit for the year		16,950,585,463	4,365,938,556
Other comprehensive income	-		
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	19.2.b	24,422,219	19,845,167
Related tax	29	(5,861,333)	(12,619,816)
		18,560,886	7,225,351
Revaluation gain on property, plant and equipment	21.2	1,495,420,151	96,207,856
Related tax	21.2	(318,626,179)	(8,897,344)
		1,176,793,972	87,310,512
Movement in fair value (Equity investments at FVOCI)		95,307,266	10,711,224
Related tax		-	3,473,447
		95,307,266	14,184,672
Total of items that will never be reclassified to profit or loss		1,290,662,124	108,720,535
Items that are or may be reclassified to profit or loss			
Movement in fair value through OCI reserve	4.2	-	19,304,507
Movement in hedge reserve	21.3	(119,316,737)	130,492,506
Related tax	21.3	8,007,481	(25,575,150)
		(111,309,257)	104,917,356
Total of items that are or may be reclassified to profit or loss		(111,309,257)	124,221,863
Total other comprehensive income, net of tax		1,179,352,867	232,942,398
Total comprehensive income for the year		18,129,938,330	4,598,880,954
Basic earnings per share	30	3.23	0.83

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The annexed notes to the financial statements on pages 11 through 85 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2022

	Note	Stated Capital	Statutory Reserve	Revaluation Reserve	Cash flow Hegde Reserve	Fair Value Through OCI Reserve	Merger Reserve	Retained Earnings	Total Equity
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2020		**12,762,500,000**	**3,378,281,827**	**241,527,671**	**(77,309,605)**	**11,956,519**	**-**	**14,972,696,227**	**31,289,652,639**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	4,365,938,556	4,365,938,556
Other comprehensive income, net of income tax									
Remeasurements of defined benefit liability - gain / (loss)	**19.2 / 29.2**	-	-	-	-	-	-	7,225,351	7,225,351
Revaluation gain on property, plant and equipment		-	-	87,310,512	-	-	-	-	87,310,512
Revaluation gain on fair value through OCI investments		-	-	-	-	14,184,672	-	-	14,184,672
Movement in fair value through OCI reserve	**4.1.3**	-	-	-	-	19,304,507	-	-	19,304,507
Net movement of cashflow hedges	**21.3 / 29.2**	-	-	-	104,917,356	-	-	-	104,917,356
		-	-	87,310,512	104,917,356	33,489,179	-	7,225,351	232,942,398
Total comprehensive income for the year		**-**	**-**	**87,310,512**	**104,917,356**	**33,489,179**	**-**	**4,373,163,907**	**4,598,880,954**
Transactions recorded directly in equity									
Transfer to Statutory Reserve Fund		-	218,296,928	-	-	-	-	(218,296,928)	-
Total transactions recorded directly in equity		**-**	**218,296,928**	**-**	**-**	**-**	**-**	**(218,296,928)**	**-**
Balance as at 31 March 2021		**12,762,500,000**	**3,596,578,755**	**328,838,183**	**27,607,752**	**45,445,698**	**-**	**19,127,563,206**	**35,888,533,593**
Balance as at 01 April 2021		**12,762,500,000**	**3,596,578,755**	**328,838,183**	**27,607,752**	**45,445,698**	**-**	**19,127,563,206**	**35,888,533,593**
Total comprehensive income for the year									
Profit for the year				-	-	-	-	16,950,585,463	16,950,585,463
Other comprehensive income, net of income tax									
Remeasurements of defined benefit liability - gain / (loss)	**19.2 / 29.2**			-	-	-	-	18,560,886	18,560,886
Revaluation gain on property, plant and equipment				1,176,793,972	-	-	-	-	1,176,793,972
Revaluation gain on fair value through OCI investments				-	-	95,307,266	-	-	95,307,266
Net movement of cashflow hedges	**21.3 / 29.2**			-	(111,309,257)	-	-	-	(111,309,257)
		-	-	1,176,793,972	(111,309,257)	95,307,266	-	18,560,886	1,179,352,867
Total comprehensive income for the year		**-**	**-**	**1,176,793,972**	**(111,309,257)**	**95,307,266**	**-**	**16,969,146,349**	**18,129,938,330**
Transactions recorded directly in equity									
Transfer to Statutory Reserve Fund		-	847,529,273	-	-	-	-	(847,529,273)	-
Shares issued during the year		198,818,947,542	-	-	-	-	-	-	198,818,947,542
Excess of the investment and other adjustments on merger with su	37	-	-	-	-	-	(169,284,516,561)	-	(169,284,516,561)
Total transactions recorded directly in equity		**198,818,947,542**	**847,529,273**	**-**	**-**	**-**	**(169,284,516,561)**	**(847,529,273)**	**29,534,430,981**
Balance as at 31 March 2022		**211,581,447,542**	**4,444,108,028**	**1,505,632,154**	**(83,701,505)**	**140,752,964**	**(169,284,516,561)**	**35,249,180,283**	**83,552,902,905**

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The annexed notes to the financial statements on pages 11 through 85 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 March 2022

	Note	Mar 22 Rs.	Mar 21 Rs.
Cash flows from operating activities			
Profit before income tax expense		17,742,633,558	4,496,783,104
Adjustments for:			
Depreciation	13	207,247,901	131,853,680
(Profit)/ loss on sales of investment property and PPE	24	(10,787,672)	(298,765,475)
Change in fair value of derivatives - forward contracts	24	1,790,082,378	195,730,991
Provision for fall / (increase) in value of investments	24	(518,067,319)	(183,575,967)
Impairment provision for the year	26	(6,593,369,409)	5,909,098,541
Change in fair value of investment property	24	(6,925,550,077)	(3,291,066,776)
Provision for defined benefit plans	19.2	25,946,126	57,482,706
Investment income		(2,423,673,259)	(1,881,378,487)
Finance costs	23	8,979,991,819	12,446,790,398
Operating profit before working capital changes		12,274,454,046	17,582,952,715
Change in other receivables		(4,213,960,268)	(232,533,460)
Change in inventories		(147,913,565)	(269,704,259)
Change in trade and other payables		817,923,498	212,034,168
Change in amounts due to / due from related parties		21,850,967	(205,851,269)
Change in lease receivables		3,032,196,059	(1,616,750,212)
Change in loans and advances		(7,725,596,676)	20,498,634,595
Change in factoring receivables		-	3,910,200,287
Change in margin trading advances		(6,808,029,485)	(81,785,482)
Change in fixed deposits from customers		7,817,174,260	2,731,057,344
Change in savings deposits from customers		5,300,554,673	6,438,578,206
Cash (used in) / generated from operations		10,368,653,508	48,966,832,632
Finance cost paid on deposits		(8,312,826,411)	(10,070,523,876)
Gratuity paid	19.2	(22,311,473)	(23,093,102)
Income tax paid	29.1	(10,570,091)	(424,660,905)
Net cash from / (used in) operating activities		2,022,945,533	38,448,554,749
Cash flows from investing activities			
Acquisition of property, plant & equipment & investment property		(6,084,962,864)	(928,434,263)
Proceeds from sale of property, plant & equipment & investment property		299,161,584	641,820,465
Purchase of government securities		(31,393,852,407)	(14,846,086,394)
Proceeds from sale of government securities		27,628,388,944	9,594,334,231
Net proceeds from investments in term deposits		(779,142,636)	10,078,970,814
Net proceeds from investments securities		696,021,218	(2,345,513,947)
Interest received		2,423,673,259	1,881,378,487
Net cash flows used in investing activities		(206,029,660,444)	4,076,469,393
Cash flows from financing activities			
Proceeds from interest bearing loans & borrowings		218,510,687	(34,900,228,157)
Lease rentals paid	14.2	(26,703,945)	(97,521,906)
Finance cost paid on borrowings		(1,044,961,881)	(3,015,947,149)
Net cash flows from / (used in) financing activities		197,965,792,403	(38,013,697,212)
Net increase / (decrease) in cash and cash equivalents		(6,040,922,509)	4,511,326,930
Addition on merger with subsidiary		1,086,427,307	-
Cash and cash equivalents at the beginning of the year		11,561,686,879	7,050,359,949
Cash and cash equivalents at the end of the year (note 3)		6,607,191,677	11,561,686,879

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The annexed notes to the financial statements on pages 11 through 85 form an integral part of these financial statements.

1. GENERAL

1.1 REPORTING ENTITY

1.1.1 Corporate Information

LOLC Finance PLC (“the Company”) is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The registered office of the Company is at No.100/1, Sri Jayewardenepura Mawatha, Rajagiriya.

The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No. 42 of 2011. The Company has obtained registration from the Securities and Exchange Commission, as a Market Intermediary to perform the functions of a Margin Provider under section 19A of the Securities & Exchange Commission Act No.36 of 1987 as amended by Act Nos. 26 of 1991 & 18 of 2003.

1.1.2 Parent entity and Ultimate Parent Company

The Company’s immediate parent is LOLC Ceylon Holdings PLC and ultimate parent undertaking and controlling entity is LOLC Holding PLC, which is incorporated in Sri Lanka.

1.1.3 Principal Activities and Nature of Operations

The principal activities of the Company comprised of leasing, loans, margin trading, mobilization of public deposits and alternative financing.

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

1.1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility 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.

1.1.5 Number of Employees

The staff strength of the Company as at 31 March 2022 was 4,850 (Mar 2021 – 3,072).

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1.2 BASIS OF PREPARATION

1.2.1 Statement of compliance

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Companies Act, No. 7 of 2007, the Regulation of Finance Business Act No.42 of 2011 and amendments there to.

These Financial Statements include the following components:

- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the period under review;
- a Statement of Financial Position providing the information on the financial position of the Company as at the period-end;
- a Statement of Changes in Equity depicting all changes in shareholders of Changes in Equity and depicting all changes the Company;
- a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilize those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

Details of the company's accounting policies are included in Note 2.

1.2.2 Date of authorization for issue

The Financial Statements were authorized for issue by the Board of Directors on 29 June 2022.

1.2.3 Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.
Derivative financial instruments	Fair value	5
Non-derivative financial instruments at fair value through profit or loss	Fair value	8.1
Available for sale financial assets / fair value through other comprehensive income	Fair value	4.1.2
Investment property	Fair value	12
Land and buildings	Fair value	13
Net defined benefit assets / (liabilities)	Actuarially valued and recognized at the present value	19.2

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 settled the liability simultaneously.

No adjustments have been made for inflationary factors affecting the Financial Statements.

The Company presents its statement of financial position in order of liquidity.

1.2.4 Materiality and aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

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1.2.5 Going concern basis of accounting

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. In determining the basis of preparing the financial statements for the year ended 31 March 2022, based on available information, the management has assessed the effects of the COVID-19 pandemic and macroeconomic conditions and its effects on each business segment where the company has an interest and the appropriateness of the use of the going concern basis.

Upon the recent merger, the Directors of the Company expect significant growth in assets as the synergies of the combined entity will unlock new market opportunities and would be a controlling arm of the NBFI sector as the market leader.

The management has formed reasonable judgement that the Company has adequate resources to continue its business operations for the foreseeable future monitoring its business performance and continuity by adopting risk mitigation initiatives. 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. Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.6 Comparative information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous period. Comparative information has not been reclassified or restated.

1.3 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates (the functional currency). These financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency.

There was no change in the company's presentation and functional currency during the period under review.

All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

1.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with SLFRSs/ LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimate 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 respective carrying amounts of assets and liabilities are given in the related Notes to the financial statements.

Information about critical judgments, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements is included in the following notes:

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Critical Accounting estimate / judgment	**Disclosure reference**
	Note
Fair value measurement of financial instruments / investment properties / land and buildings	1.4.1 / 12.1 / 13.1
Financial assets and liability classification	1.4.2
Impairment losses on loans and advances	1.4.3
Impairment losses on available for sale investments	1.4.4
Impairment losses on other assets	1.4.5
Defined benefit obligation	1.4.6
Provisions for liabilities and contingencies	1.4.7

1.4.1 Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant judgements used in valuation and issues that arises are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values and the fair value measurement level is included in the following notes:

Note 12 – Investment property;
Note 13 – Property, plant and equipment; and
Note 2.3 & 2.3.4 – Financial instruments;

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1.4.2 Financial assets and liability classification into categories

The Company's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets or liabilities into categories, the Company has determined that it meets the description of trading assets and liabilities set out in Note 2.3.1.b. In classifying financial assets as held to maturity, the Company has determined that it has both the positive intention and ability to hold the assets unit their maturity date as required by Note 2.3.1.b

1.4.3 Impairment losses on loans and advances

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for in the Statement of Profit or Loss and Other Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance made.

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, by categorizing them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgment on the effect of concentrations of risks and economic data.

The policy on impairment loss on loans and advances is disclosed in more detail in Note 2.3.10.

1.4.4 Impairment losses on available for sale investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances. The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged decline' in fair value below their cost requires judgment. In making this judgment, the Company evaluates, among other factors, historical price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment loss on available for sale investments is disclosed in Note 2.3.10.

1.4.5 Impairment losses on other assets

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

Specific Accounting Policies on impairment of non-financial assets are discussed in Note 2.7.

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1.4.6 Defined benefit obligation

The cost of the defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer Note 2.8.3 for the accounting policy and assumptions used.

1.4.7 Provisions for liabilities and contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

Index	Accounting policy
2.1	Basis of consolidation
2.2	Foreign currency
2.3	Financial assets and financial liabilities
2.4	Leases
2.5	Investment property
2.6	Property plant and equipment
2.7	Impairment - non-financial assets
2.8	Employee benefits
2.9	Provisions
2.10	Equity movements
2.11	Capital commitments and contingencies
2.12	Events occurring after the reporting date
2.13	Interest income and interest expense
2.14	Fees, commission and other income
2.15	Dividends
2.16	Expenditure recognition
2.17	Income tax expense
2.18	Earnings per share
2.19	Cash flow statements
2.20	Related party transactions
2.21	Operating segments
2.22	Fair value measurement
2.23	New accounting standards issued but not effective as the reporting date.

2.1 Basis of consolidation

2.1.1 Business combinations under common control

Business combinations under common control are accounted for using the book value method. The consideration transferred in the acquisition is generally measured at fair value, and the identifiable net assets acquired are measured at their carrying amounts reflected in the acquiree entity. Any excess or deficit that arises is recognized in equity and no goodwill is recognized as control is not transitory.

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2.1.2 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.2 Foreign currency transactions

Sri Lankan rupee is the functional currency of the Company. Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the period.

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

Foreign currency differences arising on retranslation are generally recognized in profit or loss. However, foreign currency differences arising from the retranslation of the available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss) are recognized in other comprehensive income.

SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.3 Financial assets and financial liabilities

2.3.1 Non-derivative financial assets

2.3.1.a Initial recognition of financial assets

Date of recognition
The Company initially recognizes loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets
The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing the instrument. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Financial Reporting Standard – SLFRS 09 on 'Financial Instruments'.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of profit or loss

'Day 1' profit or loss on employee below market loans
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 recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'.

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In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.3.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories:
- amortised cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

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

The Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test of its classification process. In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Company considers the contractual terms of the instrument.

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

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

Based on above assessments, subsequent measurement of financial assets are classified as follows.

Amortised cost

Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition measured at amortized cost using the effective interest method, less any impairment losses.

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This includes cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

- *Cash and cash equivalents*

  Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

- *Rentals receivable on leased assets*

  When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized. Amounts receivable under finance leases are included under "Rentals receivable on leased assets". Leasing balances are stated in the statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

- *Loans and advances*

  Advances and other loans to customers comprised of revolving loans and loans with fixed installment

  Loans to customers are reflected in the Statement of Financial Position at amounts disbursed less repayments and provision for impairment losses.

- *Financial guarantees*

  Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Company in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

Financial assets at fair value through other comprehensive income (FVOCI)

Instruments are measured at FVOCI, if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and interest on principal outstanding. This comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other investments are measured at fair value after initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

All financial assets other than those classified at amortized cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognized in statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of profit or loss.

Financial assets at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as amortized cost.

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Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the AFS reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

2.3.2 Non-derivative financial liabilities

Classification and subsequent measurement of financial liabilities
The Company initially recognizes non-derivative financial liabilities on the date that they are originated.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals & other payables and amounts due to related parties:

Bank overdrafts

Bank overdrafts that are repayable on demand and form an integral part of the Company’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Deposits and bank borrowings - classified as other financial liabilities carried at amortized cost

Deposits and bank borrowings are the Company’s sources of debt funding.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortized cost using the effective interest method.

2.3.3 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. Derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

The Company designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the cash flows of the respective hedge item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

These hedging relationships are discussed below.

i. Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

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If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Company does not have any fair value hedges

ii. Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

iii. Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

The Company does not have any net investment hedges.

2.3.3.a Other non-trading derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of other income.

2.3.4 Reclassification of financial assets and liabilities

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

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

2.3.5 Derecognition of financial assets and financial liabilities

Financial assets

The Company derecognizes a financial asset when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either.

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a) The Company has transferred substantially all the risks and rewards of the asset, or

b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed) and

(ii) Any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

2.3.6 Modification of financial assets and financial liabilities

Modification of financial assets

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

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

As per the Circular Nos. 4 and 5 of 2020 issued by CBSL dated May 4, 2020 and June 9, 2020 and Circular Nos. 4 and 9 of 2021 issued by CBSL dated March 12, 2021 and October 6, 2021 respectively, the Company granted payment deferrals to eligible customers affected by COVID-19, modifying the original contract. In this regard, NBFIs were allowed to charge upto a maximum of 11.5% per annum on the deferred instalments during the moratorium period of equated monthly instalments (EMI) loans. For other loans various types of interest rate concessions were given to the customers. Further, with the view of meeting the challenges faced by businesses and individuals due to the second wave of COVID-19, CBSL directed banks to extend the debt moratorium to such businesses and individuals further during the financial year 2021/22 as well. Finance Companies were expected to convert the capital and interest falling due during the moratorium period into a term loan. Repayment period of the new loans shall be minimum of two years, however, may vary based on the terms and conditions agreed with the borrower. NBFIs were allowed to recover interest at a rate not exceeding the latest auction rate for 364-days Treasury Bills, available by April 01, 2021, plus 5.5 per cent per annum and shall not exceed 11.5% per annum.

So, the Company has made an assessment in this regard and it shows there is more than 4% PV difference across all the category of the loan due to the first moratorium. Further, in our view such difference would be further increased considerable considering the second moratorium offered by CBSL. Further, the loss of other fees that the Company used to charge its customers at the time of a modification and the penal interest also considerable due to moratorium. In the absence of any prescribed guidelines within SLFRS 9, entities need to develop their own policies and methods while performing the quantitative and qualitative evaluation of such modifications. So, based on the business model and the overall lending strategy, any PV loss beyond 3% will be significant to the Company. Therefore, from the date of moratorium started, the interest accrual will be made based on the revised effective interest rate adjusting applicable costs and fees.

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Modification of financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.3.7 Offsetting of financial instruments

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 assets and settle the liabilities simultaneously.

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

2.3.8 Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

2.3.9 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair value
The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models

2.3.10 Impairment

Overview of the expected credit loss (ECL) principles
SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

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

Stage 2: If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.

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Stage 3: If a financial asset is credit impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL, with probability of default at 100%. So it is defined as credit impaired and default.

The key judgements and assumption adopted in addressing the requirements of SLFRS 9 are discussed below:

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available. Based on that, management has decided that an exposure to have significantly increased credit risk when contractual payments of a customer are more than 90 days past due and loss to take place after 180 days in accordance with the rebuttable presumption in SLFRS 9.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

While establishing significant credit deterioration, Company will consider the following criteria:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet it's obligation
- An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

As explained above, Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to stage 3. All assets which belong to stage 1 and 2 will be assessed collectively for Impairment.

Company groups smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (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.

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

- Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

- Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.

- Loss Given Default (LGD): LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

When estimating ECL, Company considers 3 scenarios (base case, best case and worst case). Each of these scenarios are associated with different loss rates. For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

Company relies on broad range of qualitative/quantitative forward-looking information as economic inputs such as the following in its Eco model.

Quantitative inputs	Qualitative inputs
- GDP growth	- Changes in Lending Policies and Procedure
- Inflation	- Changes in Bankruptcy and lending related Legislations
- Unemployment	- Credit Growth
- Interest rates	- Position of the Portfolio within the Business Cycle

In response to COVID-19 and the Company's expectations of economic impacts, key assumptions used in the Company's calculation of ECL have been revised. As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19.

Accordingly, under the collective assessment, customers operating in risk elevated industries including Tourism, Transportation and Construction were assessed for Lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been classified as stage 2 unless such exposures are individually significant and have specifically been identified as stage 1 reflecting forward looking view of the economy in relation to the business.

Further, the Company decided to increase the weightages assigned for worst case scenario while reducing the weightages assigned for base case scenario and best case scenario when assessing the probability weighted forward looking macro-economic indicators along with management overlays to qualitative indicators relating to forward looking macro-economic environment with the objective of capturing the impact of COVID-19 and uncertainties and volatilities in future outlook on the ECL computation as at the reporting date.

2.4 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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2.4.1 Finance Leases

Finance leases – Company as a lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance cost in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance leases – Company as a lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Rentals receivable on leased assets". The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

2.4.2 Operating Leases

Leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased items to the lessee are operating leases

Operating leases – Company as a lessor
Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

2.5 Investment property

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

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

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2.6 Property plant and equipment

2.6.1 Recognition and measurement

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

Items of property, plant and equipment are measured at cost/ revaluation less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site at which they are located and capitalized borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognized in other income/other expenses in profit or loss.

Cost model

The Company applies the cost model to all property, plant and equipment except freehold land, buildings and motor vehicles; and is recorded at cost of purchase together with any incidental expenses thereon less any accumulated depreciation and accumulated impairment losses.

Revaluation model

The Company revalues its land, buildings and motor vehicles which are measured at its fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. In previous financial years, motor vehicles were under cost model and from the financial year 2021/22, it was changed from the cost model to the revaluation model and has not led to a retrospective restatement due to the exemption available in paragraph 17 of LKAS 8 "Accounting Policies, Change in Accounting Estimates and Errors".

On revaluation of land, buildings and motor vehicles, any increase in the revaluation amount is credited to the revaluation reserve in shareholder's equity unless it off sets a previous decrease in value of the same asset that was recognized in the statement of profit or loss. A decrease in value is recognized in the statement of profit or loss where it exceeds the increase previously recognized in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

2.6.2 Subsequent costs

The cost of replacing a component of an item of property, plant or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

2.6.3 Depreciation

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

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The estimated useful lives for the current period are as follows:

Motor vehicles	4-8 years
Buildings	40 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.6.4 Right-of-Use Assets

Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position. Right-of-use assets of the Company include land and buildings under long term rental agreements for its use as offices and branches. The Company recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognized, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortised on the straight-line basis over the lease term.

2.7 Impairment - non-financial assets

The carrying amounts of the company’s non-financial assets, other than, deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognized in the statement of profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), if any, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.8 Employee benefits

2.8.1 Short-term employee benefits

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 if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

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2.8.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.8.3 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The Company recognizes all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in other comprehensive income. Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The obligation is not externally funded.

2.9 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.10 Equity movements

2.10.1 Ordinary shares

The company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

2.10.2 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's Board of Directors in accordance with the Articles of Association. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

2.10.3 Share issue costs

Share issue related expenses are charged against the retained earnings in the statement of equity.

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2.11 Capital commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote.

2.12 Events occurring after the reporting date

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

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

2.13 Interest income and interest expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss includes the interest on financial assets and financial liabilities measured at amortized cost, fair value through other comprehensive Income (FVOCI) and fair value through profit or loss (FVTPL) calculated on an effective interest basis.

2.13.1 Income from leases and term loans

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognized as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

2.13.2 Factoring

Revenue is derived from two sources, funding and providing sales ledger related services.

Funding **-** Discount income relating to factoring transactions is recognized at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the client's current account.

Sales Ledger Related Services **-** A service charge is levied as stipulated in the factoring agreement.

Income is accounted for on an accrual basis and deemed earned on disbursement of advances for invoices factored.

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2.14 Fees, commission and other income

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

Other fees and commission income, including account servicing fees are recognized as the related services are performed.

Collections on contracts written off and interest on overdue rentals are accounted for on cash basis.

2.15 Dividends

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

2.16 Expenditure recognition

Expenses are recognized in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the period.

2.16.1 Value Added Tax (VAT) on financial services

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognized as expense in the period it becomes due.

2.16.2 Nation Building Tax on financial services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

2.16.3 Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2.17 Income tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Note 29 represent the major components of income tax expense to the financial statements.

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2.17.1 Current tax expense

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

2.17.2 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The relevant disclosures are given in Note 29.2 to the financial statements.

2.18 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Specific disclosures are included in Note 30.1. 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, which comprise share options granted to employees. The relevant disclosures are given in 30.2 to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.19 Cash flow statements

The cash flow statement has been prepared using the indirect method and direct method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

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SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.20 Related Party Transactions

Transactions with related parties are conducted in the normal course of business. The relevant disclosures are given in Note 33 to the Financial Statements.

2.21 Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Company has three reportable segments, Conventional financial services, Islamic financial services and Factoring, which are the Company's strategic divisions. Those offer different products and services, and are managed separately based on the Company's management and internal reporting structure. For each of the strategic divisions, the Company's Board of Directors reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in Note 35. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

2.22 Fair value measurement

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the company.

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

A 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. External professional valuers are involved for valuation of significant assets such as investment properties.

Fair Value Hierarchy

The company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1
Inputs that are unadjusted quoted market prices in an active market for identical instruments

When available, the company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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Level 2
Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;
(a) quoted market in active markets for similar instruments,
(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3
Inputs that are unobservable

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

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

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

2.23 New accounting standards issued not yet effective as at reporting date

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.

SLFRS 17 Insurance Contracts

In 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, in 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.

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Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets:

Onerous Contracts – Costs of Fulfilling a Contract
In 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.

Amendments to LKAS 16 Property, Plant & Equipment: Proceeds before Intended Use
In 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.

Amendments to SLFRS 3 Business Combinations: Updating a reference to conceptual framework
In 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.

SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards –
Subsidiary as a first-time adoption

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 1 First-time Adoption of International Financial Reporting Standards (SLFRS 1). The amendment permits a subsidiary that elects to apply paragraph D16(a) of SLFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to SLFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of SLFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

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SLFRS 9 Financial Instruments – Fees in the ’10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 9 Financial Instruments (SLFRS 9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

LKAS 41 Agriculture – Taxation in fair value measurements

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to LKAS 41 Agriculture (LKAS 41). The amendment removes the requirement in paragraph 22 of LKAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of LKAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, 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.

Amendments to SLFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021

In 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, in 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 1 April 2021

**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

In 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: when determining whether a forecast transaction is highly probable to be designated as a hedged item, an entity shall assume that the interest rate benchmark on which the hedged cashflows are based is not altered as a result of the reform

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- Prospective assessments: when performing prospective assessments to evaluate whether a hedging relationship qualifies for hedge accounting, 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: 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: For hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement of risk component (or a portion) to be separately identifiable to be eligible for hedge accounting, 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 several practical expedients.

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 in the Sri Lankan context.

2.24 Financial risk management

2.24.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

2.24.2 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 established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. All the Company level risks are escalated to the parent company IRMC and the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committee oversees the reports submitted by the Enterprise Risk Management (ERM) and monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced. The Audit Committee is assisted in its oversight role by ERM. ERM undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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2.24.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers.

2.24.3.1 Management of credit risk

1) Facilities granted to customers

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit department. Credit department, reporting to the Credit Committee, is responsible for management of the Company's credit risk, including:

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

2. Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by the Chief Credit Officer, CEO and the Board of Directors as appropriate.

3. Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

4. Monitoring limiting concentrations of exposure to counterparties, geographies and industries

5. Developing and maintaining a risk grading for significant clients in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the associated risks.

6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types.

7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

2) Allowances for impairment

The Company establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of expected losses in its lease and loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortized cost, a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

3) Write-off policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status. The company generally writes off balances on its past due status reaching 12 months and if no collateral is available.

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The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2022 (March 2021: no collateral held).

The Impact of COVID 19

The sudden shock arisen from the outbreak of the COVID - 19 globally since January 2020 caused massive economic disruption leading to uncertainty in the whole world. Sri Lanka as a country exposed to this risk in the financial year 2020/21 and first half of the financial year 2021/22. As an immediate precautionary measure the Government imposed island wide curfew and travel restrictions. Since no access to office was feasible the Company immediately planned to "work from home' and facilitated the key management personnel and the key required personnel to work from home. To ensure the timely payment of Fixed Deposit Interest, the management sought assistance from the Company bankers and provided an uninterrupted service during the curfew period.

As the banking and NBFI sectors are the backbone of any economy, any significant economic downturn will directly affect banks and NBFI. Due to difficult operating conditions, the performance of the banking sector and the NBFIs in particular will be more challenging, affecting the quality of the asset and the recovery of profitability. Relief measures for affected businesses and individuals in line with the directions issued by the CBSL (The six-month moratorium) are expected to mitigate the impact on individuals and businesses. Further Fitch Ratings, the outlook for the country, banking and NBFI sector in Sri Lanka is negative for 2021. The liquidity position of the financial sector will be affected by the debt moratorium, although this is counteracted to some extent by the lowering of liquidity requirements for financial institutions. The need to strengthen the capital of NBFIs will be felt even more, as it must have the financial capacity to detect crises like this. Stress testing will also be important because of the uncertainty.

The Company has assessed the probable impact stemming from Covid – 19 outbreak and the key assessments are listed below.

- Based on the available information and management's best judgement, it is determined the appropriateness of the Going concern assumptions in preparing Financial Statements for the year ended 31 March 2022.
- Despite the challenging environment of having difficulties in collecting the company dues and the difficulties in getting funding lines from banks and other financial institutions, the Company was able to maintain a stable liquidity position and safeguard the interest of the stakeholders.
- The unutilized Overdraft facilities, the available excess investment and already negotiated funding lines and were used as a cushion to absorb any sudden liquidity shocks.
- A more prudent cost control mechanism was in place which ensured an effective cost structure in the Company.

There is a considerable degree of judgement involved in making the above assessments. The underline assumptions are also subject to certain level of uncertainty and are mostly out of the control of the Company. Hence the actual economic conditions are likely to be different from the anticipated events. The effect of those differences may have significant impact on accounting judgement and estimates included in these Financial Statements.

The Management evaluated the key assumptions used in the above estimates and judgements under probable stress scenarios such as, retention ratio of Fixed Deposits, Deposit renewal ratio, Ratio of Rental Collection and Re-imposing of CBSL liquid asset requirement.

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4) Credit quality by class of financial assets at amortized cost *(In Rs'mn)*

	Leases		**Mortgage Loans**		**Other Loans and Advances**		**Margin Trading**		**Factoring Receivables**		**Total**	
	Mar-22	**Mar-21**	**Mar-22**	**Mar-21**	**Mar-22**	**Mar-21**	**Mar-22**	**Mar-21**	**Mar-22**	**Mar-21**	**Mar-22**	**Mar-21**
Carrying amount	**56,960**	**43,098**	**4,506**	**1,784**	**137,109**	**59,683**	**6,816**	**84**	**1,418**	**-**	**206,810**	**104,649**
Assets at amortized cost												
Individually impaired - Gross amount	805	1,221	248	288	2,437	3,945	-	-	611	-	**4,101**	**5,454**
Less : Allowance for impairment	(279)	(466)	(37)	(175)	(716)	(1,979)	-	-	(342)	-	**(1,375)**	**(2,620)**
Carrying amount	**526**	**755**	**211**	**113**	**1,721**	**1,966**	**-**	**-**	**269**	**-**	**2,727**	**2,834**
Portfolio subject to collective impairment - Gross amount	58,872	45,832	4,370	1,671	140,676	64,779	6,892	84	1,164	-	**211,973**	**112,366**
Less : Allowance for impairment	(2,438)	(3,489)	(75)	-	(5,288)	(7,061)	(75)	-	(15)	-	**(7,890)**	**(10,550)**
Carrying amount	**56,434**	**42,343**	**4,295**	**1,671**	**135,388**	**57,718**	**6,816**	**84**	**1,149**	**-**	**204,083**	**101,815**

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An estimate made at the time of borrowing / at the time of impairment evaluation, of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below;

(In Rs'mn)	**Mar-22**	**Mar-21**
Against individually impaired customers :		
Property	2,348	1,898
Vehicles	615	936

(In Rs'mn)	**Mar-22**	**Mar-21**
Against Collectively impaired customers :		
Vehicles	125,845	56,096
Others	74,593	65,029

Details of non-financial assets obtained by the Company by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements during the period and held at the end of the period are shown below;

(In Rs'mn)	**Mar-22**	**Mar-21**
Property	-	-
Vehicles	646	936

Income from individually impaired customers recognized in the statement of profit or loss;

(In Rs'mn)	**Mar-22**	**Mar-21**
Leases	13	-
Mortgage Loan	173	38
Other loans & advances	503	415

The Company's policy is to pursue timely realization of the collateral in an orderly manner. Properties acquired by foreclosure has been considered as investment properties of the Company.

Age analysis of facilities considered for collective impairment as of 31 March 2022.

Rs' Mn

Category	**Leases**	**Mortgage Loans**	**Other Loans and Advances**	**Factoring Receivable**	**Margin Trading**	**Total**
Not due / current	22,976	1,802	86,307	1,050	6,892	**119,027**
Overdue:						
Less than 30 days	8,194	774	12,065	100	-	**21,133**
31 - 60 days	5,811	531	16,414	5	-	**22,760**
61 - 90 days	3,340	77	4,564	9	-	**7,990**
91 - 120 days	10,081	110	7,538	-	-	**17,728**
121 - 150 days	1,661	32	3,094	-	-	**4,788**
151 - 180 days	1,368	50	2,636	-	-	**4,054**
above 180 days	5,442	994	8,058	-	-	**14,493**
Total	**58,871**	**4,370**	**140,676**	**1,164**	**6,892**	**211,973**

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Age analysis of facilities considered for collective impairment as of 31 March 2021.

Rs' Mn

Category	Leases	Mortgage Loans	Other Loans and Advances	Margin Trading	Total
Not due / current	11,717	492	24,319	84	**36,612**
Overdue:					
Less than 30 days	5,323	143	4,841	-	**10,307**
31 - 60 days	3,509	19	3,776	-	**7,304**
61 - 90 days	2,411	23	1,331	-	**3,765**
91 - 120 days	16,264	179	10,821	-	**27,264**
121 - 150 days	781	11	1,041	-	**1,833**
151 - 180 days	478	3	771	-	**1,252**
above 180 days	5,349	801	17,879	-	**24,029**
Total	**45,832**	**1,671**	**64,779**	**84**	**112,366**

Sensitivity Analysis of Allowance for Impairment Losses as at 31 March 2022 and 31 March 2021.

Sensitivity effect on impairment allowance Increase ***Rs' Mn***

Changed criteria	Changed factor	Mar-22	Mar-21
Probability of default (PD)	Increase by 1%	230	316
Loss given default (LGD)	Increase by 10%	1,589	1,947

Analysis of total impairment for expected credit losses As at 31st March 2022

Rs' Mn

	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortized cost				
Rentals receivable on leased assets	382	661	1,674	**2,717**
Loans and advances	1,727	1,223	3,166	**6,116**
Factoring receivable	15	-	342	**357**
Margin trading receivable	75	-	-	**75**
Other financial assets	1,531	-	-	**1,531**
Commitments and Contingencies	-	2	-	**2**
Total impairment for expected credit losses	**3,730**	**1,886**	**5,182**	**10,798**

As at 31st March 2021

Rs' Mn

	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortized cost				
Rentals receivable on leased assets	324	1,604	2,027	**3,954**
Loans and advances	1,613	2,125	5,478	**9,216**
Factoring receivable	-	-	-	**-**
Other financial assets	223	-	-	**223**
Commitments and Contingencies	-	17	-	**17**
Total impairment for expected credit losses	**2,160**	**3,746**	**7,505**	**13,411**

5) Concentrations of credit risk

The Company monitors concentrations of credit risk by sector to which the lending was made. The analysis is provided in Note 7.7.1 to the financial statements.

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2.24.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

2.24.4.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements and debt covenants agreed with the fund providers. The treasury manages the liquidity position as per the treasury policies and procedures and regulatory requirements.

The treasury receives information from the business regarding the liquidity profile of the financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at the ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Company relies on deposits from customers and bank borrowings as its primary sources of funding. The deposits from customers and banks largely have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

With the onset of COVID 19 pandemic in this year, the Company introduced more rigour to the processes already in place to manage its liquid assets. While closely monitoring any developments related to the pandemic, it has continued to keep its risk management measures under review to readily respond to changing circumstances. The Company is comfortable with its existing buffer of liquid assets. The actions taken will help to maintain existing liquidity position while mitigating any disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

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	Carrying amounts	Gross nominal outflow / (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31st March 2022							
Bank overdraft	5,676	8,196	8,196	-	-	-	-
Borrowings	44,310	48,523	14,516	10,609	11,962	10,916	519
Deposits from customers	197,974	153,120	55,901	74,503	18,966	3,749	-
Trade payables	3,775	3,775	3,775	-	-	-	-
Accruals and other payables	5,237	5,237	3,766	203	-	215	1,052
Derivative liabilities	13	13	13	-	-	-	-
Amount due to related companies	3,719	3,719	3,719	-	-	-	-
Total liabilities	**260,704**	**222,584**	**89,888**	**85,316**	**30,928**	**14,881**	**1,571**
As at 31st March 2021							
Bank overdraft	1,861	1,861	1,861	-	-	-	-
Borrowings	16,437	16,480	10,847	1,080	4,540	7	7
Deposits from customers	107,791	104,358	34,003	52,109	16,096	2,150	-
Trade payables	145	145	145	-	-	-	-
Accruals and other payables	4,245	4,245	4,245	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
Amount due to related companies	621	621	621	-	-	-	-
Total liabilities	**131,101**	**127,710**	**51,722**	**53,189**	**20,636**	**2,157**	**7**

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The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) is reflected below

In Rs' mn

	Carrying amount	Gross nominal inflow / (outflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31st March 2022							
Cash and cash equivalents	15,890	19,497	15,890	-	-	-	-
Deposits with banks and other financial institutions	9,789	7,997	7,997	-	-	-	-
Investment in government securities	29,167	25,445	11,391	1,495	6,844	728	4,985
Derivative assets	4,414	5,811	2,697	3,114	-	-	-
Financial assets at amortized cost							
Rentals receivable on leased assets	56,960	77,011	11,417	18,051	38,580	8,948	14
Loans and advances	141,615	167,142	31,198	43,840	68,231	23,491	383
Factoring receivable	3,550	1,775	1,586	1	189	-	-
Margin trading receivables	6,816	6,892	6,892	-	-	-	-
Investment securities	6,289	6,289	4,211	-	-	-	2,078
Investment in associates	1,834	-	-	-	-	-	-
Amount due from related companies	47	47	47	-	-	-	-
Other receivables	147	147	147	-	-	-	-
	276,518	**318,051**	**93,473**	**66,501**	**113,844**	**33,166**	**7,461**
As at 31st March 2021							
Cash and cash equivalents	13,423	13,423	13,423	-	-	-	-
Deposits with banks and other financial institutions	7,203	7,270	4,536	2,734	-	-	-
Investment in government securities	15,838	23,684	971	10,060	7,097	732	4,825
Derivative assets	325	2,844	2,610	233	-	-	-
Financial assets at amortized cost							
Rentals receivable on leased assets	43,098	64,858	9,891	17,980	31,548	5,431	9
Loans and advances	61,467	79,461	24,542	21,521	24,835	8,054	509
Factoring receivable	-	-	-	-	-	-	-
Margin trading receivables	84	84	84	-	-	-	-
Investment securities	5,498	5,498	4,317	-	-	-	1,181
Amount due from related companies	33	33	33	-	-	-	-
Other receivables	142	142	142	-	-	-	-
	147,112	**197,297**	**60,548**	**52,528**	**63,479**	**14,217**	**6,524**

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Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31st March 2022 **(In Rs Mn)**

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	625	-	-	-	-	625
Total	**625**	**-**	**-**	**-**	**-**	**625**
Commitments						
Unutilized loan facilities & letter of credit	11,929	-	-	-	-	11,929
Forward exchange contracts - (commitment to purchase)	10,308	-	-	-	-	10,308
Allowance for ECL / impairment	2	-	-	-	-	2
Total	**22,239**	**-**	**-**	**-**	**-**	**22,239**

As at 31st March 2021 **(In Rs Mn)**

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	403	-	-	-	-	403
Total	**403**	**-**	**-**	**-**	**-**	**403**
Commitments						
Unutilized loan facilities & letter of credit	6,103	-	-	-	-	6,103
Forward exchange contracts - (commitment to purchase)	2,844	-	-	-	-	2,844
Allowance for ECL / impairment	17	-	-	-	-	17
Total	**8,964**	**-**	**-**	**-**	**-**	**8,964**

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2.24.5 Market risk

The Company is exposed to the market risk due to changes in market, such as Foreign exchange rates, Interest rate, and equity prices.

Company is exposed to foreign currency risk mainly due to the foreign currency borrowings. The Company manages its exposure to the foreign exchange rates by entering in to forward rate contracts with the banks and placing deposit / maintaining financial assets in the same currency. In this way the Company eliminates substantial exposure on foreign currency risk.

The Company ensures the mix of variable and fixed rate borrowings to manage any exposure due to interest rate movement in the market. These are monitored by the treasury division.

The economic fallout of the COVID-19 pandemic resulted in sharp losses in equity market indexes and subsequent closure of the exchange for trading. However, equities have retraced slightly and management is monitoring the equity price movements.

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows.

Sensitivity analysis as at 31st March 2022 *In Rs'Mn*

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.12.22
Interest earning assets						
Deposits with banks and other financial institutions	8,625	260	-	-	-	8,886
Investment in government securities & others	11,265	1,647	7,799	45	3,086	23,841
Financial assets at amortized cost	-	-	-	-	-	-
Rentals receivable on leased assets	4,203	16,264	29,025	7,454	15	56,960
Loans and advances	27,875	32,556	59,657	21,189	339	141,615
Factoring receivable	1,267	1	151	-	-	1,418
Margin trading receivables	6,816	-	-	-	-	6,816
Total interest earning assets	**60,052**	**50,728**	**96,631**	**28,688**	**3,439**	**239,537**
Interest bearing liabilities						
Bank overdraft	5,676	-	-	-	-	5,676
Interest bearing borrowings	14,500	10,762	11,579	7,002	467	44,310
Deposits from customers	71,395	68,992	15,587	3,278	-	159,252
Total interest bearing liabilities	**91,571**	**79,754**	**27,166**	**10,280**	**467**	**209,238**
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(31,519)	(29,027)	69,465	18,408	2,972	30,299
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualized effect	(315)	(290)	695	184	30	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualized effect	315	290	(695)	(184)	(30)	

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Sensitivity analysis as at 31st March 2021

In Rs'Mn

Item	**Up to 3 Months**	**3 to 12 Months**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**	**Total as at 31.03.21**
Interest earning assets						
Deposits with banks and other financial institutions	4,518	2,685	-	-	-	7,203
Investment in government securities & others	714	7,469	4,265	-	3,391	15,838
Financial assets at amortized cost	-	-	-	-	-	-
Rentals receivable on leased assets	7,080	10,865	21,019	4,126	9	43,098
Loans and advances	19,646	16,438	18,678	6,378	327	61,467
Factoring receivable	-	-	-	-	-	-
Margin trading receivables	84	-	-	-	-	84
Total interest earning assets	**32,042**	**37,457**	**43,961**	**10,504**	**3,727**	**127,691**
Interest bearing liabilities						
Bank overdraft	1,861	-	-	-	-	1,861
Interest bearing borrowings	10,681	1,807	3,937	7	6	16,437
Deposits from customers	42,009	49,502	14,112	2,168	-	107,791
Total interest bearing liabilities	**54,551**	**51,309**	**18,049**	**2,175**	**6**	**126,090**
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(22,509)	(13,852)	25,912	8,329	3,721	1,601
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualized effect	(225)	(139)	259	83	37	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualized effect	225	139	(259)	(83)	(37)	

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2.24.6 Capital Management

The Company's capital management is performed primarily considering regulatory capital. The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No.01 of 2003, Finance Companies (Capital Adequacy Requirements) Direction No.03 of 2018 and Finance Companies (Minimum Core Capital) Direction No.01 of 2011 in respect of regulatory capital.

The Company's regulatory capital consists of tier 1 capital, which includes ordinary share capital, retained earnings and statutory reserves. Other negative reserves are included under prudence basis. Tier II capital includes unsecured subordinated debentures, which is included in the capital base consequent to obtaining the approval of CBSL.

The Company's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Company recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company's regulatory capital under the CBSL guidelines is as follows;

In Rs'mn

Capital element	As at 31.03.2022	As at 31.03.2021
Ordinary share capital	211,581	12,762
Statutory reserve	4,444	3,596
Retained earnings	35,165	19,128
(-) Investment property revaluation	(16,302)	(8,244)
Other negative reserves and adjustments	(169,919)	-
Tier I capital	**64,969**	**27,243**
Subordinated debt	1,000	1,933
Provisions allowances & adjustments	(316)	1,730
Tier II capital	**684**	**3,633**
Total capital	**65,653**	**30,906**

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2.25 Financial assets and liabilities

2.25.1 Accounting classifications and fair values

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities.

As at 31st March 2022	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	12,283	**12,283**	**12,283**	
Deposits with banks & other financial institutions	-	-	8,886	**8,886**	**8,886**	
Investment in government securities & others	-	-	23,841	**23,841**	**18,391**	Level 1
Derivative assets	3,450	-	-	**3,450**	**3,450**	Level 2
Investment securities	5,993	294	1	**6,289**	**6,289**	Level 1 / 3
Financial assets at amortized cost						
Rentals receivable on leased assets	-	-	56,960	**56,960**	**57,595**	Level 2
Loans and advances	-	-	148,431	**148,431**	**146,754**	Level 2
Amount due from related companies	-	-	47	**47**	**47**	
Other financial assets	-	-	255	**255**	**255**	
Total financial assets	**9,443**	**294**	**250,705**	**260,443**	**253,950**	
Bank overdraft	-	-	5,676	**5,676**	**5,676**	
Interest bearing borrowings	-	-	44,310	**44,310**	**43,737**	Level 2
Deposits from customers	-	-	159,252	**159,252**	**157,835**	Level 2
Trade payables	-	-	1,142	**1,142**	**1,142**	
Accruals and other payables	-	-	7,542	**7,542**	**7,542**	
Derivative liabilities	13	-	-	**13**	**13**	Level 2
Amount due to related companies	-	-	3,719	**3,719**	**3,719**	
Total financial liabilities	**13**	**-**	**221,642**	**221,655**	**219,665**	

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

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As at 31st March 2021	**Fair value through profit or loss**	**Fair value through other comprehensive income**	**Amortized cost / Not measured at fair value**	**Total Carrying amount**	**Fair value**	**Fair value measurement level**
Cash and cash equivalents	-	-	13,423	**13,423**	**13,423**	
Deposits with banks & other financial institutions	-	-	7,203	**7,203**	**7,203**	
Investment in government securities & others			15,898	**15,898**	**15,511**	Level 1
Derivative assets	325	-	-	**325**	**325**	Level 2
Investment securities	5,298	199	1	**5,498**	**5,498**	Level 1 / 3
Financial assets at amortized cost						
Rentals receivable on leased assets	-	-	43,098	**43,098**	**45,903**	Level 2
Loans and advances	-	-	61,551	**61,551**	**68,907**	Level 2
Amount due from related companies	-	-	33	**33**	**33**	
Other financial assets	-	-	298	**298**	**298**	
Total financial assets	**5,623**	**199**	**141,445**	**147,267**	**157,102**	
Bank overdraft	-	-	1,861	**1,861**	**1,861**	
Interest bearing borrowings	-	-	16,437	**16,437**	**16,884**	Level 2
Deposits from customers	-	-	107,791	**107,791**	**109,751**	Level 2
Trade payables	-	-	145	**145**	**145**	
Accruals and other payables	-	-	4,490	**4,490**	**4,490**	
Derivative liabilities	-	-	-	**-**	**-**	Level 2
Amount due to related companies	-	-	621	**621**	**621**	
Total financial liabilities	**-**	**-**	**131,345**	**131,345**	**133,751**	

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

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2.25.2 Valuation technique

Level 2 fair value – market comparison technique

- Derivative assets and liabilities / Forward exchange contracts – fair value is based on broker quotes of similar contracts and the quotes reflect the actual transaction in similar instrument.

Level 2 fair value – discounted cash flows

Financial instruments not measured at fair value

For the purpose of disclosing fair value of the financial instruments not measured at fair value (carried at amortized cost) discounted cash flows have been used to derive the fair value.

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3. CASH AND CASH EQUIVALENTS

		Mar 22 Rs.	Mar 21 Rs.
3.1	**Favourable cash & cash equivalents balance**		
	Cash in hand and at bank	12,282,959,936	13,422,689,919
3.2	**Unfavourable cash & cash equivalent balances**		
	Bank overdraft	(5,675,768,259)	(1,861,003,040)
	Total cash and cash equivalents for the purpose of cash flow statement	**6,607,191,677**	**11,561,686,879**

4. INVESTMENT IN GOVERNMENT SECURITIES

	Mar 22 Rs.	Mar 21 Rs.
Financial instruments - measured at amortized cost		
Investment In Government Securities (Note 4.1)	23,841,482,770	15,838,454,720

4.1 Financial instruments - measured at amortized cost

	Mar 22		Mar 21	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Investment in Government Standing Deposit Facilities	7,758,177,941	7,758,177,941	720,085,055	720,085,055
Investment in Treasury Bills	928,649,750	909,729,900	-	-
Investment in Treasury Bonds	16,685,566,604	11,253,966,794	15,341,814,808	14,294,855,235
Allowance for impairment (ECL)	(1,530,911,525)	(1,530,911,525)	(223,445,144)	(223,445,144)
	23,841,482,770	18,390,963,110	15,838,454,720	14,791,495,147

4.2 Fair value adjustments recognized in other comprehensive income - (net of transfers to P&L)

	Mar 22 Rs.	Mar 21 Rs.
Investment in Treasury Bills	-	19,452,325
Investment in Treasury Bonds	-	(147,818)
Net Change in Fair Value	-	19,304,507

5. DERIVATIVE FINANCIAL INSTRUMENTS

		Mar 22 Rs.	Mar 21 Rs.
	Net derivative assets / (liabilities)		
	Derivative assets (note 5.1)	3,450,265,935	325,029,200
	Derivative liabilities (note 5.2)	13,175,698	-
	Net derivative assets / (liabilities)	3,437,090,237	325,029,200
5.1	**Derivative assets**		
	Forward exchange contracts	3,450,265,935	325,029,200
5.2	**Derivative liabilities**		
	Forward exchange contracts	13,175,698	-
5.3	**Change in fair value during the year - gain / (loss)**		
	Recognized in profit or loss	1,790,082,378	195,730,991
	Recognized in OCI	(358,134,304)	29,547,979
		1,431,948,073	225,278,970

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6. RENTALS RECEIVABLE ON LEASED ASSETS

	Mar 22 Rs.	Mar 21 Rs.
Rentals receivable	84,592,969,340	69,495,392,564
Unearned income	(20,948,611,569)	(17,423,862,969)
Net rentals receivable (note 6.1)	63,644,357,771	52,071,529,595
Deposits received from lessees	(3,966,847,378)	(5,018,670,599)
Allowance for ECL / impairment (note 6.2)	(2,717,295,784)	(3,954,452,103)
	56,960,214,609	43,098,406,893

6.a Analysis of rentals receivable on leased assets on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
As at 31 March 2022				
Rentals receivable on leased assets	40,304,034,392	13,126,414,535	6,247,061,465	59,677,510,393
Impairment for expected credit losses (Note 6.b)	(382,310,013)	(661,030,801)	(1,673,954,970)	(2,717,295,784)
Net rentals receivable on leased assets	39,921,724,379	12,465,383,735	4,573,106,495	56,960,214,609
As at 31 March 2021				
Rentals receivable on leased assets	22,959,371,851	17,523,176,187	6,570,310,958	47,052,858,996
Impairment for expected credit losses (Note 6.b)	(323,812,191)	(1,604,127,397)	(2,026,512,515)	(3,954,452,103)
Net rentals receivable on leased assets	22,635,559,660	15,919,048,789	4,543,798,443	43,098,406,893

6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2021	323,812,191	1,604,127,397	2,026,512,515	3,954,452,103
Net charge to profit or loss	(50,070,200)	(1,096,254,082)	(915,656,823)	(2,061,981,104)
Addition on merger with subsidiary	108,568,022	153,157,485	563,099,278	824,824,785
Balance as at 31 March 2022	382,310,013	661,030,801	1,673,954,970	2,717,295,784
Balance as at 01 April 2020	377,284,929	268,109,638	948,333,260	1,593,727,828
Net charge to profit or loss	(53,472,738)	1,336,017,759	1,078,179,255	2,360,724,276
Balance as at 31 March 2021	323,812,191	1,604,127,397	2,026,512,515	3,954,452,103

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6. RENTALS RECEIVABLE ON LEASED ASSETS (Contd...)

6.1 Net Rentals Receivable

	Mar 22 Rs.	Mar 21 Rs.
Receivable -more than one year		
Rentals receivable	39,371,375,934	41,419,405,943
Unearned income	(10,862,694,620)	(8,346,517,400)
	28,508,681,314	33,072,888,543
Receivable within one year		
Rentals receivable	41,406,649,904	25,089,976,182
Unearned income	(10,085,916,949)	(9,077,345,569)
	31,320,732,956	16,012,630,613
Overdue		
Rentals receivable	3,814,943,502	2,986,010,439
	63,644,357,771	52,071,529,595

6.2 Allowance for ECL / impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	3,954,452,103	1,593,727,828
Provision / (reversal) for the year	(2,061,981,104)	2,360,724,276
Addition on merger with subsidiary	824,824,785	-
Balance at the end of the year	2,717,295,784	3,954,452,103

6.2.1 Individually significant clients - impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	465,550,368	540,756,922
Provision / (reversal) for the year	(272,450,235)	(75,206,555)
Addition on merger with subsidiary	86,129,065	-
Balance at the end of the year	279,229,198	465,550,368

6.2.2 Individually non-significant clients - impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	3,488,901,735	1,052,970,905
Provision / (reversal) for the year	(1,789,530,870)	2,435,930,830
Addition on merger with subsidiary	738,695,721	-
Balance at the end of the year	2,438,066,587	3,488,901,735

7. LOANS AND ADVANCES

	Mar 22 Rs.	Mar 21 Rs.
Mortgage Loans (note 7.1)	4,505,565,976	1,785,291,302
Sundry Loans (note 7.2)	119,331,422,448	48,814,742,050
Gold Loan (note 7.3)	15,511,144,393	9,490,382,659
Credit Cards (note 7.4)	2,266,824,709	1,376,540,715
	141,614,957,527	61,466,956,726

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7. LOANS AND ADVANCES (Contd...)

7.a Analysis of loans and receivables on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2022				
Loans and advances :				
Mortgage Loans	3,183,897,469	192,134,700	1,241,548,142	4,617,580,311
Speed Draft	40,436,570,597	2,675,677,169	1,760,550,332	44,872,798,097
Group Loans	9,502,592,784	1,503,467,838	1,763,519,495	12,769,580,118
Sundry Loans	52,165,208,919	8,216,509,027	6,718,714,210	67,100,432,155
Gold Loan	14,916,562,199	643,842,821	150,242,442	15,710,647,462
Credit Cards	2,336,414,128	205,331,083	118,181,436	2,659,926,647
Gross loans and advances	122,541,246,096	13,436,962,637	11,752,756,057	147,730,964,790
Impairment for expected credit losses (note 7.b)	(1,726,845,258)	(1,222,778,787)	(3,166,383,218)	(6,116,007,263)
Net loans and advances	120,814,400,837	12,214,183,851	8,586,372,838	141,614,957,527
Balance as at 31 March 2021				
Loans and advances :				
Mortgage Loans	677,509,401	193,308,656	1,089,461,677	1,960,279,733
Speed Draft	4,981,838,892	2,130,741,394	2,081,493,675	9,194,073,961
Group Loans	7,476,890,460	2,236,400,314	2,193,720,356	11,907,011,130
Sundry Loans	20,441,516,499	8,103,161,541	7,946,057,624	36,490,735,664
Gold Loan	9,452,595,740	-	74,441,741	9,527,037,481
Credit Cards	1,360,544,757	162,105,378	80,803,363	1,603,453,499
Gross loans and advances	44,390,895,749	12,825,717,283	13,465,978,435	70,682,591,468
Impairment for expected credit losses (note 7.b)	(1,612,677,843)	(2,124,934,155)	(5,478,022,744)	(9,215,634,742)
Net loans and advances	42,778,217,907	10,700,783,128	7,987,955,692	61,466,956,726

7.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2021	1,612,677,843	2,124,934,155	5,478,022,744	9,215,634,742
Net charge to profit or loss	(579,654,767)	(1,360,496,710)	(3,741,168,858)	(5,681,320,334)
Addition on merger with subsidiary	693,822,182	458,341,341	1,429,529,332	2,581,692,856
Balance as at 31 March 2022	1,726,845,258	1,222,778,787	3,166,383,218	6,116,007,263
Balance as at 01 April 2020	530,520,480	551,143,320	4,082,679,170	5,164,342,970
Net charge to profit or loss	1,082,157,363	1,573,790,835	1,395,343,573	4,051,291,771
Balance as at 31 March 2021	1,612,677,843	2,124,934,155	5,478,022,744	9,215,634,742

7.1 Mortgage Loans

	Mar 22 Rs.	Mar 21 Rs.
Rentals receivable	6,132,712,489	2,661,454,238
Unearned income	(1,515,132,178)	(701,174,505)
Net rentals receivable (note 7.1.1)	4,617,580,311	1,960,279,733
Allowance for ECL / impairment (note 7.1.2)	(112,014,335)	(174,988,431)
	4,505,565,976	1,785,291,302

7.1.1 Net rentals receivable - Mortgage Loans

	Mar 22 Rs.	Mar 21 Rs.
Receivable -more than one year		
Installments receivable	2,846,919,277	1,658,413,051
Unearned income	(688,362,950)	(456,643,992)
	2,158,556,326	1,201,769,059
Receivable within one year		
Installments receivable	2,459,872,779	605,313,436
Unearned income	(826,769,228)	(244,530,514)
	1,633,103,551	360,782,922
Overdue		
Installments receivable	825,920,433	397,727,751
	4,617,580,311	1,960,279,733

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7. LOANS AND ADVANCES (Contd...)

7.1.2 Allowance for ECL / impairment - Mortgage Loans

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	174,988,431	57,283,409
Provision / (reversal) for the year	(95,784,409)	117,705,022
Addition on merger with subsidiary	32,810,313	-
Balance at the end of the year	112,014,335	174,988,431

7.1.2.a Individually significant clients - impairment

Balance at the beginning of the year	174,988,431	39,952,497
Provision / (reversal) for the year	(138,000,854)	135,035,934
Balance at the end of the year	36,987,577	174,988,431

7.1.2.b Individually non-significant clients - impairment

Balance at the beginning of the year	-	17,330,912
Provision / (reversal) for the year	42,216,444	(17,330,912)
Addition on merger with subsidiary	32,810,313	-
Balance at the end of the year	75,026,757	-

7.2 Sundry Loans

	Mar 22 Rs.	Mar 21 Rs.
Total receivable	140,226,171,077	67,901,863,005
Unearned income	(15,483,360,706)	(10,310,042,250)
Net receivable (note 7.2.1)	124,742,810,370	57,591,820,755
Allowance for ECL / impairment (note 7.2.2)	(5,411,387,922)	(8,777,078,705)
	119,331,422,448	48,814,742,050

7.2.1 Net receivable - Sundry Loans

Receivable -more than one year		
Installments receivable	81,724,693,584	32,297,921,100
Unearned income	(8,285,403,696)	(5,247,659,068)
	73,439,289,888	27,050,262,032
Receivable within one year		
Installments receivable	51,387,934,922	30,435,873,388
Unearned income	(7,197,957,010)	(5,062,383,182)
	44,189,977,912	25,373,490,207
Overdue		
Installments receivable	7,113,542,570	5,168,068,517
	124,742,810,370	57,591,820,755

7.2.2 Allowance for ECL / impairment - Sundry Loans

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	8,777,078,705	4,929,281,555
Provision / (reversal) for the year	(5,912,980,441)	3,847,797,150
Addition on merger with subsidiary	2,547,289,658	-
Balance at the end of the year	5,411,387,922	8,777,078,705

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7. LOANS AND ADVANCES (Contd...)

7.2.2.a Individually significant clients - impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	1,979,461,820	2,209,519,108
Provision / (reversal) for the year	(1,593,407,656)	(230,057,288)
Addition on merger with subsidiary	329,421,736	-
Balance at the end of the year	715,475,900	1,979,461,820

7.2.2.b Individually non-significant clients - impairment

Balance at the beginning of the year	6,797,616,885	2,719,762,447
Provision for the year	(4,319,572,785)	4,077,854,437
Addition on merger with subsidiary	2,217,867,922	
Balance at the end of the year	4,695,912,022	6,797,616,885

7.3 Gold loans

	Mar 22 Rs.	Mar 21 Rs.
Gross amount outstanding at year end	15,710,647,462	9,527,037,481
Allowance for ECL / impairment (note 7.3.1)	(199,503,068)	(36,654,822)
Balance at the end of the year	15,511,144,393	9,490,382,659

7.3.1 Allowance for ECL / impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	36,654,822	110,150,336
Provision / (reversal) for the year	161,255,362	(73,495,514)
Addition on merger with subsidiary	1,592,884	-
Balance at the end of the year	199,503,068	36,654,822

7.3.1.a Individually significant clients - impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	-	5,284,102
Provision / (reversal) for the year	-	(5,284,102)
Addition on merger with subsidiary	928,015	-
Balance at the end of the year	928,015	-

7.3.1.b Individually non-significant clients - impairment

Balance at the beginning of the year	36,654,822	104,866,234
Provision for the year	161,255,362	(68,211,412)
Addition on merger with subsidiary	664,869	-
Balance at the end of the year	198,575,053	36,654,822

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7. LOANS AND ADVANCES (Contd...)

7.4 Credit Card

	Mar 22 Rs.	Mar 21 Rs.
Gross amount outstanding at year end	2,659,926,647	1,603,453,499
Allowance for ECL / impairment (note 7.4.1)	(393,101,938)	(226,912,784)
Balance at the end of the year	2,266,824,709	1,376,540,715

7.4.1 Allowance for ECL / impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	226,912,784	67,627,670
Provision / (reversal) for the year	166,189,154	159,285,114
Balance at the end of the year	393,101,938	226,912,784
Individually non-significant clients - impairment		
Balance at the beginning of the year	226,912,784	67,627,670
Provision for the year	166,189,154	159,285,114
Balance at the end of the year	393,101,938	226,912,784

7.5 Margin Trading Receivables

	Mar 22 Rs.	Mar 21 Rs.
Gross amount outstanding at year end	6,891,582,656	83,553,171
Allowance for ECL / impairment (note 7.5.1)	(75,102,192)	-
Net balance on margin trading	6,816,480,464	83,553,171

7.5.1 Allowance for ECL / impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	-	-
Provision / (reversal) for the year	75,102,192	-
Balance at the end of the year	75,102,192	-
Individually non-significant clients - impairment		
Balance at the beginning of the year	-	-
Provision for the year	75,102,192	-
Balance at the end of the year	75,102,192	-

7.6 Factoring Receivables

	Mar 22 Rs.	Mar 21 Rs.
Gross receivable	1,775,221,728	-
Allowance for ECL / impairment (note 7.6.1)	(356,788,879)	-
	1,418,432,849	-

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7. LOANS AND ADVANCES (Contd...)

7.6.a Analysis of factoring receivable on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2022				
Factoring receivable	1,163,734,294	450,293	611,037,141	1,775,221,728
Impairment for expected credit losses	(14,673,150)	(34,010)	(342,081,718)	(356,788,879)
Net factoring receivable	1,149,061,144	416,283	268,955,422	1,418,432,849
Balance as at 31 March 2021				
Factoring receivable	-	-	-	-
Impairment for expected credit losses	-	-	-	-
Net factoring receivable	-	-	-	-

7.6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2021	-	-	-	-
Net charge to profit or loss	-	-	-	-
Addition on merger with subsidiary	14,673,150	34,010	342,081,718	356,788,879
Balance as at 31 March 2022	14,673,150	34,010	342,081,718	356,788,879
Balance as at 01 April 2020	102,904,248	58,646,296	749,897,789	911,448,332
Net charge to profit or loss	(102,904,248)	(58,646,296)	(749,897,789)	(911,448,332)
Balance as at 31 March 2021	-	-	-	-

7.6.1 Allowance for ECL / impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	-	911,448,332
Provision / (reversal) for the year	-	(911,448,332)
Addition on merger with subsidiary	356,788,879	-
Balance at the end of the year	356,788,879	-

7.6.1.a Individually significant clients - impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	-	-
Provision / (reversal) for the year	-	-
Addition on merger with subsidiary	342,081,719	-
Balance at the end of the year	342,081,719	-

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7. LOANS AND ADVANCES (Contd...)

7.6.1.b Individually non-significant clients - impairment

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	-	911,448,332
Provision / (reversal) for the year	-	(911,448,332)
Addition on merger with subsidiary	14,707,160	-
Balance at the end of the year	14,707,160	-

7.7 Portfolio Analysis

7.7.1 Sectorwise exposure of the lending portfolio - before impairment provision.

	Mar 22 Rs.	Mar 21 Rs.
Agriculture	31,986,891,420	22,900,607,286
Manufacturing	14,274,816,278	9,754,777,265
Economics and Social	8,213,636,481	4,609,662,386
Trade	38,175,306,947	18,625,189,899
Factoring	1,775,221,728	-
Margin Trading	6,891,582,656	83,553,171
Tourism	1,655,324,955	1,892,189,151
Services	46,159,207,633	18,196,522,192
Transportation	30,427,109,070	19,017,350,889
Construction	17,297,635,819	8,919,295,289
Mining and Quarrying	1,092,660,288	791,226,923
Others	18,125,886,293	13,028,629,185
	216,075,279,567	117,819,003,635

7.7.2 Product wise analysis of portfolio

Lease receivables	56,713,068,754	44,107,687,952
Loans & Advances	135,026,563,001	63,056,052,081
Factoring receivables	1,775,221,728	-
Margin trading receivables	6,891,582,656	83,553,171
Alternative finance portfolio - Ijarah receivables	2,964,441,639	2,945,171,044
Alternative finance portfolio - Other receivables (Murabaha, Musharakah	12,704,401,789	7,626,539,388
Gross portfolio	216,075,279,567	117,819,003,635
Less : Allowance for ECL / impairment	(9,265,194,118)	(13,170,086,845)
Net portfolio	206,810,085,449	104,648,916,790

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7. LOANS AND ADVANCES (Contd...)

	Mar 22	Mar 21
	Rs.	Rs.
7.7.3 Net portfolio		
Rentals receivable on leased assets (note 6)	56,960,214,609	43,098,406,893
Loans and advances (note 7)	############	61,466,956,726
Margin trading receivable (note 7.5)	6,816,480,464	83,553,171
Factoring receivable (note 7.6)	1,418,432,849	-
	############	############

8. INVESTMENT SECURITIES

	Mar 22	Mar 21
	Rs.	Rs.
Investment securities measured at amortised cost (note 8.2)	966,218	537,175
Investment securities measured at FVTPL – debt / equity investments (note 8.1 / 8.2.2)	5,993,197,046	5,298,367,026
Investment securities measured at FVOCI – equity investments (note 8.2.3)	294,402,964	199,095,698
	6,288,566,228	5,497,999,899

8.1 Investment securities measured at FVTPL – debt / equity investments

Equity shares

Name of the company	Original Cost	Balance as at 01 April 2021	Investments during the year	Fair value - recognized in profits	Disposal during the year	Addition on merger with subsidiary	Balance as at 31 March 2022
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Expo Lanka Holdings PLC	1,653,174	4,104,383	-	14,976,002	-	-	19,080,384
LOLC Myanmar Micro Finance Co. Ltd (note 8.1.a)	861,125,000	981,415,880	-	(56,845,617)	-	857,693,139	1,782,263,402
Seylan Bank PLC	1,421,868	-	-	-	-	2,941,677	2,941,677
Sampath Bank PLC	469,738	-	-	-	-	330,618	330,618
ACL Cables PLC	1,653,448	-	-	-	-	3,149,636	3,149,636
Access Engineering PLC	269,990	-	-	-	-	150,000	150,000
Aitken Spence Hotel Holdings PLC	403,468	-	-	-	-	133,000	133,000
Cemical Industries Colombo PLC (N	-	-	-	-	-	900	900
Commercial Bank of Ceylon PLC	713,656	-	-	-	-	345,563	345,563
Commercial Bank of Ceylon PLC (N	125,982	-	-	-	-	305,474	305,474
Softlogic Finance PLC	1,233,775	-	-	-	-	224,660	224,660
Nations Lanka Finance PLC	181,666	-	-	-	-	56,700	56,700
Colombo Dockyard PLC	106,682	-	-	-	-	45,000	45,000
Piramal Glass Ceylon PLC	603,484	-	-	-	-	1,762,500	1,762,500
Laugfs Gas PLC	798,342	-	-	-	-	247,250	247,250
Nestle Lanka PLC	171,819	-	-	-	-	81,120	81,120
Nations Trust Bank PLC	1,528,176	-	-	-	-	826,830	826,830
Swisstek (Ceylon) PLC	602,195	-	-	-	-	1,180,812	1,180,812
Peoples Leasing & Finance PLC	2,443,373	-	-	-	-	1,516,249	1,516,249
Renuka Agri Foods PLC	790,758	-	-	-	-	663,000	663,000
Seylan Bank PLC (NV)	455,040	-	-	-	-	295,832	295,832
Union Bank of Colombo Limited	17,500	-	-	-	-	5,460	5,460
United Motors Lanka PLC	495,407	-	-	-	-	300,000	300,000
The Lanka Hospitals Corporation PI	502,566	-	-	-	-	501,000	501,000
Merchant Bank of Sri Lanka	79,874	-	-	-	-	27,500	27,500
Total equity shares	**877,846,981**	**985,520,263**	**-**	**(41,869,615)**	**-**	**872,783,920**	**1,816,434,567**

Name of the company	Original Cost	Balance as at 01 April 2020	Investments during the year	Fair value - recognized in profits	Disposal during the year	Addition on merger with subsidiary	Balance as at 31 March 2021
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Expo Lanka Holdings PLC	1,653,174	2,000,000	-	47,967,311	(45,862,928)	-	4,104,383
LOLC Myanmar Micro Finance Co. Ltd (note 8.1.a)	430,225,000	981,022,426	-	393,454	-	-	981,415,880
Total equity shares	**1,653,174**	**983,022,427**	**-**	**48,360,764**	**(45,862,928)**	**-**	**985,520,263**

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8. INVESTMENT SECURITIES (Contd…)

	Mar 22 Rs.	Mar 21 Rs.
Investment in Unit Trusts		
Original cost	3,550,000,000	4,100,000,000
Carrying amount at the beginning of the year	4,120,231,452	1,736,603,949
Investments during the year	16,150,000,000	4,100,000,000
Adjustment for change in fair value - recognized in profits	243,004,216	76,740,190
Disposal during the year	(16,950,701,454)	(1,793,112,687)
Carrying amount at the end of the year	3,562,534,214	4,120,231,452
Trading Gold Stock		
Original cost	227,866,473	123,186,237
Carrying amount at the beginning of the year	192,615,311	49,650,736
Investments during the year	104,680,236	84,489,562
Adjustment for change in fair value - recognized in profits	316,932,718	58,475,013
Carrying amount at the end of the year	614,228,265	192,615,311
Total investments held for trading	**5,993,197,046**	**5,298,367,026**

8.1.a Valuation technique - LOLC Myanmar Micro Finance Company Ltd

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

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input
Residual Income Approach	As at 31st March 2022, value per share was derived based on cost of equity (16.11%), terminal growth (2%), exchange rate (MMK/LKR 0.1682) and forecasted cash flows. 'As at 31st March 2021, value per share was derived based on cost of equity (20.02%), terminal growth (2%), exchange rate (MMK/LKR 0.1424) and forecasted cash flows.	The estimated fair value would increase (decrease) if: - Cost of equity was lesser / (higher) - Terminal growth was higher / (lesser) - Exchange rate was higher / (lesser) - Forecasted cashflows were higher / (lesser)

8.2.1 Investment securities measured at amortised cost

	Mar 22 Rs.	Mar 21 Rs.
Credit Information Bureau Ltd	537,175	537,175
Equity Investments Lanka Limited	168,750	-
Credit Information Bureau of Sri Lanka	60,293	-
Finance Houses Consortium (Pvt) Ltd.	200,000	-
Impairment for expected credit losses (Note 8.2.1.a)	-	-
	966,218	537,175

8.2.1.a Analysis of investment securities measured at amortised cost on Exposure to Credit Risk

	Stage 01	Stage 02	Stage 03	Total
Balance as at 31 March 2022	Rs.	Rs.	Rs.	Rs.
Investment securities measured at amortised cost	537,175	-	-	537,175
Impairment for expected credit losses (note 8.2.1.b)	-	-	-	-
Net Investment securities measured at amortised cost	537,175	-	-	537,175
Balance as at 31 March 2021	Rs.	Rs.	Rs.	Rs.
Investment securities measured at amortised cost	537,175	-	-	537,175
Impairment for expected credit losses (note 8.2.1.b)	-	-	-	-
Net Investment securities measured at amortised cost	537,175	-	-	537,175

8.2.2 Investment securities measured at FVOCI – equity investments

	Mar 22 Rs.	Mar 21 Rs.
LOLC Asia (Pvt) Ltd		
Carrying amount at the beginning of the year	199,095,698	188,384,474
Adjustment for change in fair value - recognized in OCI	95,307,266	10,711,224
Carrying amount at the end of the year	294,402,964	199,095,698
Total	294,940,139	199,632,873

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9. INVESTMENT IN ASSOCIATE

	Ownership interest %	No. of shares	Mar 22 Cost Rs.	Mar 22 Carrying value Rs.	Mar 21 Cost Rs.	Mar 21 Carrying value Rs.
Commercial Insurance Brokers (Private) Limited	40.00	240,000	800,000	226,752,441	-	-
LOLC Development Finance PLC	44.33	105,499,048	1,265,987,676	1,606,908,226	-	-
Total			1,266,787,676	1,833,660,667	-	-

The principal activities of the equity accounted investees are as follows;
Commercial Insurance Brokers (Private) Limited - Insurance Brokering
LOLC Development Finance PLC - Leasing/ Loans/ Deposit mobilisation

9.1 Summarised financial information

Summarised financial information to the carrying amount of the interest in the associate recognised in the Financial Statements is as follows:

	Commercial Insurance Brokers (Private) Limited		LOLC Development Finance PLC	
	Mar 22 Rs.	Mar 21 Rs.	Mar 22 Rs.	Mar 21 Rs.
Original cost of investment	800,000	-	1,265,987,676	-
Add: Share of profit applicable to the Company				
Addition on merger with subsidiary	207,096,665	-	189,178,027	-
Total comprehensive income :	24,855,776	-	151,742,523	-
Profit or loss for the period recognised in income statement, net of tax (note 9.	12,114,359	-	172,173,881	-
Profit or loss and other comprehensive income, net of tax (note 9.2.a)	12,741,417	-	(20,431,357)	-
Dividend received	(6,000,000)	-	-	-
Carrying amount at the end of the year	226,752,441	-	1,606,908,226	-

9.2 Summarised financial information in respect of the associate is set out below:

9.2.a Summarised Income Statement

	Commercial Insurance Brokers (Private) Limited		LOLC Development Finance PLC	
	Mar 22 Rs.	Mar 21 Rs.	Mar 22 Rs.	Mar 21 Rs.
Revenue	204,239,311	-	5,452,004,858	-
Expenses	(168,455,721)	-	(4,889,749,683)	-
Income tax	(5,497,692)	-	(173,863,836)	-
Profit from continuing operations, net of tax	30,285,898	-	388,391,339	-
Company's share of profit from continuing operations, net of tax	12,114,359	-	172,173,881	-
Other comprehensive income, net of tax	31,853,542	-	(46,089,234)	-
Company's share of other comprehensive income from continuing operations, net of tax	12,741,417	-	(20,431,357)	-
Share of results of equity accounted investee recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income	24,855,776	-	151,742,523	-

9.2.b Summarised Statement of Financial Position

	Commercial Insurance Brokers (Private) Limited		LOLC Development Finance PLC	
	Mar 22 Rs.	Mar 21 Rs.	Mar 22 Rs.	Mar 21 Rs.
Non-current assets	499,034,216	-	8,213,487,515	-
Current assets	229,873,313	-	13,709,673,493	-
Non-current liabilities	(120,431,041)	-	(5,322,652,796)	-
Current liabilities	(26,714,925)	-	(13,444,376,981)	-
Net assets	581,761,563	-	3,156,131,232	-
Company's share of net assets	232,704,625	-	1,399,112,975	-
Goodwill	(5,952,184)	-	207,795,251	-
Carrying amount of interest in associate	226,752,441		1,606,908,226	

The Company recognises the share of net assets of the associate under the Equity Method to arrive at the Directors' valuation. The maturity analysis of investment in associate is given in Note 28.

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10. AMOUNTS DUE FROM RELATED COMPANIES

	Relationship	Mar 22 Rs.	Mar 21 Rs.
Ceylon Graphene Technologies	Fellow subsidiary	1,666	-
LOLC Tea	Fellow subsidiary	3,879	-
Creations Constructions Engineering Pvt Ltd	Fellow subsidiary	-	1,452,902
Leapstitch Technologies Pvt Ltd	Fellow subsidiary	-	741,400
LOLC Factors Ltd	Fellow subsidiary	1,340,551	-
LOLC Asset Holding Co/ LOLC Life Assurance Co.	Fellow subsidiary	10,000	10,000
LOLC Insurance - General Ltd	Fellow subsidiary	27,817,558	19,127,538
LOLC Securities Ltd	Fellow subsidiary	7,899,885	1,375,214
Browns Investments	Fellow subsidiary	-	500,000
Eden Hotel Lanka PLC	Fellow subsidiary	2,694	6,227
Commercial Leasing and Finance PLC	Fellow subsidiary	-	2,293,346
Green Paradise	Fellow subsidiary	1,010	1,236
Sun & Fun Resorts Ltd.	Fellow subsidiary	283,131	2,777
Excel Restaurants (Pvt) Ltd	Fellow subsidiary	-	278,415
LOLC Insurance - Life Ltd	Fellow subsidiary	7,829,887	7,402,974
LOLC Advance Technologies (Pvt) Ltd	Fellow subsidiary	2,191,711	20,000
LOLC GEO Tec Pvt Ltd	Fellow subsidiary	-	9,600
		47,381,973	33,221,629

11. OTHER RECEIVABLES

	Mar 22 Rs.	Mar 21 Rs.
Financial Assets		
Staff loans	20,860,217	67,165,559
Other receivables	659,041,878	644,661,843
Provision on other receivable	(424,450,113)	(422,604,534)
	255,451,982	289,222,869
Non Financial Assets		
VAT receivable	250,542,628	253,412,014
Prepaid staff cost	30,696,082	28,338,439
Miscellaneous receivables	547,639,321	44,301,851
	828,878,030	326,052,304
Total Other receivables	1,084,330,013	615,275,173

12. INVESTMENT PROPERTIES

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	21,088,740,181	15,963,885,792
Additions to Investment Properties from foreclosure of contracts	332,511,900	1,096,066,038
Additions and improvements		
Improvements	19,321,953	27,135,432
Additions	5,074,889,173	710,586,143
Transfers to property, plant and equipment	(492,800,000)	-
Addition on merger with subsidiary	5,361,501,000	-
Disposals	(21,756,165)	-
Change in fair value	6,925,550,077	3,291,066,776
Balance at the end of the year	38,287,958,119	21,088,740,181

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- 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 are held by the Company for capital appreciation.

- The company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs.96,960,937 during the current year (2021/22 - Rs.93,830,720) from these properties.

- During the year company has incurred expenses amounting to Rs.30,969,572 for maintenance of the investment property. (2021/22 - Rs.17,787,750)

- Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'.

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12. INVESTMENT PROPERTIES (Contd...)

12.1 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 2022. The fair value has been determine based on valuation perform by Mr. W M Chandrasena, FIV (SL) Marics (UK) Chartered Valuation Surveyor.

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 as of March 2022 ranges from Rs.470,000 to Rs.37,500,000 in the Colombo area and Rs.30,000 to Rs.4,750,000 outside the Colombo area. As of December 2020, per perch values were ranges from Rs.104,000 to Rs.30,000,000 in the Colombo area and Rs.18,000 to Rs.4,026,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: - Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for year used.	The estimated fair value would increase (decrease) if: - Depreciation rate was lesser / (higher) - Square feet value was higher / (lesser)

13. PROPERTY, PLANT AND EQUIPMENT

Company	Land	Building	Leasehold Motor Vehicles	Freehold Motor Vehicles	Other equipment and software	Right-of use assets	Total
Cost/Valuation	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Balance as at 01 April 2021	180,500,000	166,004,048	273,915,000	1,158,782,292	79,369,609	-	1,858,570,950
Additions	-	787,866	54,961,000	-	77,060,750	857,942,122	990,751,738
Addition on merger with subsidiary	2,387,650,000	1,167,850,000	-	173,470,000	1,235,162,989	895,381,325	5,859,514,314
Disposals	-	-	-	(10,300,000)	-	-	(10,300,000)
Revaluation	160,300,000	251,569,667	(790,000)	419,242,708	-	-	830,322,375
Transfers from investment properties	414,200,000	78,600,000	-	-	-	-	492,800,000
Transfers / Adjustment	-	(2,957,533)	(149,125,000)	149,125,000	-	-	(2,957,533)
Balance as at 31 March 2022	3,142,650,000	1,661,854,049	178,961,000	1,890,320,000	1,391,593,349	1,753,323,447	10,018,701,844
Accumulated Depreciation							
Balance as at 01 April 2021	-	1,624,811	119,527,979	518,128,780	56,070,941	-	695,352,512
Charge for the year	-	6,390,309	12,066,610	16,203,108	39,678,880	391,301,138	465,640,045
Depreciation on disposals	-	-	-	(5,031,930)	-	-	(5,031,930)
Addition on merger with subsidiary	-	-	-	-	891,494,335	309,609,718	1,201,104,053
Revaluation	-	(7,511,072)	(63,595,589)	(593,991,115)	-	-	(665,097,776)
Transfers to investment properties	-	-	-	-	-	-	-
Balance as at 31 March 2022	-	504,048	67,999,000	(64,691,157)	987,244,157	700,910,856	1,691,966,904
Carrying Amount							
As at 31 March 2022	**3,142,650,000**	**1,661,350,000**	**110,962,000**	**1,955,011,157**	**404,349,192**	**1,052,412,591**	**8,326,734,940**

Company	Land	Building	Leasehold Motor Vehicles	Freehold Motor Vehicles	Other equipment and software	Total
Cost/Valuation	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Balance as at 01 April 2020	141,719,000	117,874,547	670,050,000	1,050,694,286	65,844,416	2,046,182,249
Additions	-	-	-	-	19,195,193	19,195,193
Disposals	-	-	-	(293,696,994)	-	(293,696,994)
Revaluation	38,781,000	48,129,502	-	-	-	86,910,502
Transfers / Adjustment	-	-	(396,135,000)	401,785,000	(5,670,000)	(20,000)
Balance as at 31 March 2021	180,500,000	166,004,048	273,915,000	1,158,782,292	79,369,609	1,858,570,950
Accumulated Depreciation						
Balance as at 01 April 2020	-	7,598,696	131,404,103	527,717,804	28,255,083	694,975,686
Charge for the year	-	3,323,469	26,671,472	74,042,879	27,815,858	131,853,679
Depreciation on disposals	-	-	-	(122,179,499)	-	(122,179,499)
Revaluation	-	(9,297,354)	-	-	-	(9,297,354)
Transfers / Adjustment	-	-	(38,547,596)	38,547,596	-	(0)
Balance as at 31 March 2021	-	1,624,811	119,527,979	518,128,780	56,070,941	695,352,512
Carrying Amount						
As at 31 March 2021	**180,500,000**	**164,379,237**	**154,387,021**	**640,653,512**	**23,298,668**	**1,163,218,438**

13. PROPERTY, PLANT AND EQUIPMENT (Contd...)

Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amount to Rs.110,962,000 as at 31 March 2022 (31 March 2021 - Rs.154,387,021) are purchased under finance leases and have been pledged as security for the related finance lease liabilities.

Assets given under operating leases

The motor vehicles of the company represents assets given under operating leases under short term and long term basis.

An analysis of the rentals to be received on such operating leases are as follows.

	Mar 22 Rs.	Mar 21 Rs.
Receivable within one year	118,546,500	84,642,860
Receivable within 1-5 years	214,124,965	9,552,385
Total	332,671,465	94,195,245

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31 March 2022 and 31 March 2021.

Fully depreciated property, plant and equipment

There were motor vehicles amount to Rs.1,508,000 and office equipment amount to Rs.47,504,368 in property, plant and equipment fully depreciated as at 31 March 2022 and same property, plant and equipment were fully depreciated as at 31 March 2021 also.

13.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of property, plant and equipment 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 2022.

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

The Company has decided to change its accounting policies relating to Motor Vehicles (both leasehold and free hold) from Cost Model to Revaluation Model as per LKAS 16 with effect from 31st March 2022. Management has voluntarily changed the aforementioned accounting policy with the view that it will provide more relevant and reliable information in financial statements to economic users.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of land and buildings, 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 as of March 2022 ranges from Rs.470,000 to Rs.37,500,000 in the Colombo area and Rs.30,000 to Rs.4,750,000 outside the Colombo area. As of December 2020, per perch values were ranges from Rs.104,000 to Rs.30,000,000 in the Colombo area and Rs.18,000 to Rs.4,026,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: - Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for year used.	The estimated fair value would increase (decrease) if: - Depreciation rate was lesser / (higher) - Square feet value was higher / (lesser)

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13. PROPERTY, PLANT AND EQUIPMENT (Contd...)

13.2 The carrying amount of revalued land and buildings if they were carried at cost less depreciation and impairment, would be as follows;

	Mar 22 Rs.	Mar 21 Rs.
Cost	1,991,063,382	259,593,547
Accumulated depreciation and impairment	(23,001,276)	(10,922,165)
Carrying value	1,968,062,106	248,671,381

14. INTEREST BEARING BORROWINGS

	Mar 22 Rs.	Mar 21 Rs.
Short-term loans	14,650,000,000	1,060,000,000
Long-term borrowings (note 14.1)	19,661,065,288	12,109,298,395
Lease liability (note 14.2)	1,199,460,769	23,023,094
Debentures (note 14.3)	7,500,000,000	2,500,000,000
Total borrowings	43,010,526,058	15,692,321,489
Interest payable	1,299,377,340	745,120,940
Liability recognized in statement of financial position	44,309,903,398	16,437,442,429

14.1 Long-term borrowings

Balance at the beginning of the year	12,109,298,395	27,198,582,182
Loans obtained during the year	195,810,660	1,853,000,000
Loans transferred on merger with subsidiary	11,783,769,930	-
Repaid during the year	7,355,956,233	(16,942,283,787)
Balance at the end of the year	19,661,065,288	12,109,298,395
Long-term borrowings - current	10,897,159,784	10,940,948,395
Long-term borrowings - non-current (note 14.1.a)	8,763,905,504	1,168,350,000
	19,661,065,288	12,109,298,395

14.1.a Analysis of non-current portion of long-term borrowings

Repayable within 1-3 years	4,117,066,969	1,168,350,000
Repayable after 3 years	4,646,838,535	-
	8,763,905,504	1,168,350,000

14.2 Lease liability

Finance leases (note 14.2.1)	40,073,153	23,023,094
Obligation on lease liablity - right of use assets (note 14.2.2)	1,159,387,616	-
	1,199,460,769	23,023,094

14.2.1 Finance leases

Gross lease rentals payable at the beginning of the year	24,296,631	121,818,537
Lease obtained during the year	52,398,695	-
Lease rentals paid during the year	(26,703,945)	(97,521,906)
Gross lease rentals payable at the end of the year	49,991,381	24,296,631
Less: Interest in suspense	(9,918,228)	(1,273,537)
Balance at the end of the year / present value of minimum lease payments	40,073,153	23,023,094

14.2.1.1 Analysis of finance leases

Repayable within one year (note 14.2.1.a)	6,849,194	23,023,094
Repayable within 1-5 years (note 14.2.1.b)	33,223,960	-
	40,073,154	23,023,094

14.2.1.a Repayable within one year

Gross lease rentals payable	10,307,940	24,296,631
Less: interest in suspense	(3,458,746)	(1,273,537)
	6,849,194	23,023,094

14.2.1.b Repayable within 1-5 years

Gross lease rentals payable	39,683,441	-
Less: interest in suspense	(6,459,482)	-
	33,223,960	-

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14. INTEREST BEARING BORROWINGS (Contd...)	Mar 22 Rs.	Mar 21 Rs.
14.2.2 Obligation on lease liablity of right-of use assets		
Balance at the beginning of the year	-	-
Addition during the year	583,030,088	-
Accretion of interest	74,489,762	-
Payments during the year	576,357,528	-
Transferred on merger with subsidiary	604,463,763	
Balance at the end of the year	1,159,387,616	-

14.2.2.1 Maturity analysis of obligation on lease liablity

Less than 01 year	112,804,548	-
01 to 05 years	702,526,277	-
More than 05 years	344,056,791	-
	1,159,387,616	-

Sensitivity of Right-of-Use Assets / Lease Liability to Key Assumptions

Sensitivity to Discount Rates 1% increase/(decrease) in discount rate as at 31st March 2022 would have (decreased)/increased the lease liability by approximately Rs 24.9 Mn with a similar (decrease)/increase in the right-of-use asset. Had the Company increased/(decreased) the discount rate by 1%, the Company's profit before tax for the year would have (decreased)/increased by approximately Rs 1.7 Mn.

Sensitivity to Lease Term had the lease term of all existing lease agreements been increased by further one year, lease liability of the Company as at 31st March 2022 would have increased by Rs 277 Mn with a similar increase in the right-of-use assets. Further, this would reduce the profit before tax of the Company by Rs 10.2 Mn.

14.3 Debentures	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	2,500,000,000	2,500,000,000
Transferred on merger with subsidiary	5,000,000,000	-
Balance at the end of the year	7,500,000,000	2,500,000,000

The company issued rated unsecured subordinated redeemable debentures, thirty four million (34,110,193) totaling to Rs.2.5Bn in July 2018 with a five year maturity duration, incurring transaction costs and during the year as a result of the merger, fifty million (50,000,000) debentures totaling to Rs.5Bn had been issued in September 2020 transfered to the Company. These debentures are listed in the Colombo Stock Exchange. The amortization of the transaction cost is included in the interest payable amount.

15. DEPOSITS FROM CUSTOMERS	Mar 22 Rs.	Mar 21 Rs.
Customer deposits	155,929,957,835	105,108,361,141
Interest / profit payable		
Interest payable on deposits	3,170,194,369	2,471,949,127
Profits payable to alternative finance deposit holders	152,230,059	210,826,109
	3,322,424,428	2,682,775,236
Deposit liability recognized in statement of financial position	159,252,382,263	107,791,136,377

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15. DEPOSITS FROM CUSTOMERS (Contd…)

15.1 Analysis of customer deposits based on nature

	Mar 22 Rs.	Mar 21 Rs.
Fixed deposits - conventional	122,273,175,771	80,225,049,271
Fixed deposits - alternative finance - Mudharabah	3,177,560,799	3,241,560,004
Fixed deposits - alternative finance - Wakala	8,211,680,811	7,576,034,386
Fixed deposits - foreign currency	2,797,620,406	1,796,317,339
Fixed deposit bonds	4,176,036	4,322,336
Savings deposits - conventional	5,103,504,297	2,938,364,396
Savings deposits - alternative finance	1,033,581,299	789,855,390
Savings deposits - foreign currency	13,328,658,416	8,536,858,019
Total deposits	155,929,957,835	105,108,361,141

15.2 Deposits based on maturity

Deposits maturing within one year	137,064,806,877	88,827,775,215
Deposits maturing after one year	18,865,150,958	16,280,585,926
	155,929,957,835	105,108,361,141

16. TRADE PAYABLES

Creditors for lease equipment and approved facilities to be disbursed	1,141,928,384	144,788,204

17. ACCRUALS AND OTHER PAYABLES

	Mar 22 Rs.	Mar 21 Rs.
Excess payments received from clients	763,519,687	234,761,384
Insurance payable	381,074,621	407,952,887
VAT / other tax payable	244,341,865	61,676,928
Other miscellaneous creditors	5,408,566,906	3,266,477,725
Payable on matured deposits	1,001,198,999	441,562,699
Stamp duty payable	34,579,214	11,282,360
Allowance for impairment (ECL) - Undrawn credit facilities	2,311,437	17,416,220
	7,835,592,729	4,441,130,204

18. AMOUNTS DUE TO RELATED COMPANIES

	Relationship	Mar 22 Rs.	Mar 21 Rs.
LOLC Holding PLC	Parent	3,627,826,427	495,464,521
LOLC Factors Ltd	Fellow subsidiary	104,755	51,133,300
LOLC Information Technology Services Limited	Fellow subsidiary	62,435,438	43,861,815
Brown & Co. Ltd	Fellow subsidiary	-	4,000,000
LOLC Motors Ltd	Fellow subsidiary	12,272,550	12,248,814
LOLC Development Finance PLC	Fellow subsidiary	8,195	177,689
LOLC Corporate services Ltd	Fellow subsidiary	1,190,000	605,657
LOLC Property 1-4	Fellow subsidiary	2,895,875	13,369,927
LOLC Life Insurance	Fellow subsidiary	358,161	-
LOLC General Insurance	Fellow subsidiary	12,276,345	-
		3,719,367,746	620,861,723

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19. EMPLOYEE BENEFITS

19.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

	Mar 22 Rs.	Mar 21 Rs.
Employees' Provident Fund		
Employers' contribution	182,952,644	152,704,329
Employees' contribution	121,968,430	101,802,886
Employees' Trust Fund	45,738,157	38,164,717

19.2 Defined benefit plan

Movement in the present value of the defined benefit obligation

	Mar 22 Rs.	Mar 21 Rs.
Defined benefit obligation at the beginning of the year	332,531,588	298,141,984
Transferred on merger with subsidiary	229,543,253	-
Expense included in Personnel Expenses (note 19.2.a)	50,368,345	77,327,873
Remeasurement Component	(24,422,219)	(19,845,167)
	255,489,379	57,482,706
Benefits paid	(22,311,473)	(23,093,102)
Defined benefit obligation at end of the year	**565,709,494**	**332,531,588**

19.2.a Expense included in Personnel Expenses

	Mar 22 Rs.	Mar 21 Rs.
Current Service Cost	42,170,878	44,532,255
Interest Cost	26,602,527	32,795,618
(Gain) / loss recognised during the year (due to plan amendment)	(18,405,060)	-
	50,368,345	**77,327,873**

19.2.b Actuarial gains and losses recognised in other comprehensive income

	Mar 22 Rs.	Mar 21 Rs.
Cumulative loss at the beginning of the year	176,579,230	196,424,397
(Gain) / loss recognised during the year	(24,422,219)	(19,845,167)
Cumulative loss at end of the year	**152,157,011**	**176,579,230**

Acturial valuation for defined benefit obligation was carried out as at 31 March 2022 by Mr. P.S. Goonatilleke, a Fellow of the Society of Actuaries (USA). The valuation method used by the actuaries to value the obligation is the "Projected Unit Credit Actuarial Cost Method", a method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

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19. EMPLOYEE BENEFITS (Contd…)

19.2 Defined benefit plan (Contd…)

19.2.c Key assumptions used in the above valuation are as follows:

	Mar 22	Mar 21
Discount Rate	15.00%	8.00%
Salary Increment Rate	12.50%	6.50%
Retirement Age	60	55
Staff Turnover	2.5% - 15.0%	2.5% - 15.0%

The Defined Benefit Plan entitles a retired employee to receive a payment equal to half of the last drawn monthly salary multiplied by the number of completed years of service under the Payment of Gratuity Act No. 12 of 1983. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service. The obligation is not externally funded.

Current weighted average duration of the defined benefit obligation is 10.4 years.
Assumptions regarding future mortality are based on published statistics and mortality tables.

19.2.d Sensitivity analysis of the defined benefit obligation

The effect on the defined benefit obligation at the year end, as a result of changes in the actuarial assumptions used, is shown below.

	Mar 22 Rs.	Mar 21 Rs.
The defined benefit obligation under current assumptions	565,709,494	332,531,588
The defined benefit obligation if the discount rate increased by 100 basis points	489,926,544	307,531,582
The defined benefit obligation if the discount rate reduced by 100 basis points	589,545,097	361,065,787
The defined benefit obligation if the salary increment rate increased by 1%	594,778,970	362,210,258
The defined benefit obligation if the salary increment rate reduced by 1%	485,153,483	306,175,782
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(75,782,950)	(25,000,006)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	23,835,604	28,534,199
The change in the defined benefit obligation if the salary increment rate increased by 1%	29,069,477	29,678,670
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(80,556,011)	(26,355,806)

19.2.e Maturity analysis of the payments

The following payments are expected on employee benefit liabilities in future years.

	Mar 22	Mar 21
Within the next 12 months	51,403,113	35,164,212
Between 1 and 2 years	71,962,635	35,248,634
Between 2 and 5 years	249,899,929	143,891,468
Between 5 and 10 years	646,935,870	330,038,215
Total expected payments	**1,020,201,547**	**544,342,529**

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20. STATED CAPITAL

	Mar 22		Mar 21	
	Number of shares	Rs.	Number of shares	Rs.
Balance at the beginning of the year	5,250,000,000	12,762,500,000	5,250,000,000	12,762,500,000
Issue of shares	14,001,334,334	198,818,947,542	-	-
Balance at the end of the year	19,251,334,334	211,581,447,542	5,250,000,000	12,762,500,000

Rights, preference and restrictions of classes of capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to have one vote per individual present at meetings of the shareholders or one vote per share in case of a poll. They are entitled to participate in any surplus assets of the Company in winding up. There are no preferences or restrictions on Ordinary Shares.

21. RESERVES

	Mar 22 Rs.	Mar 21 Rs.
Statutory reserve (note 21.1)	4,444,108,028	3,596,578,755
Revaluation reserve (note 21.2)	1,505,632,154	328,838,183
Cash flow hedge reserve (note 21.3)	(83,701,505)	27,607,751
Fair value reserve (note 21.4)	140,752,964	45,445,698
Merger reserve (note 21.5)	(169,284,516,561)	-
Retained earnings (note 21.6)	35,249,180,283	19,127,563,207
	(128,028,544,637)	23,126,033,594

21.1 Statutory reserve

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	3,596,578,755	3,378,281,827
Transferred during the year	847,529,273	218,296,928
Balance at the end of the year	4,444,108,028	3,596,578,755

The reserve is created according to Direction No.1 of 2003 issued under the Finance Business Act No.42 of 2011. The Company transferred 5% (2020/21 - 5%) of its annual net profit after tax to this reserve in compliance with this direction.

21.2 Revaluation Reserve

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	328,838,183	241,527,671
Transferred during the year	1,495,420,151	96,207,856
Related tax	(318,626,179)	(8,897,344)
Balance at the end of the year	1,505,632,154	328,838,183

This reserve is created from the excess arising from the revaluation of land and buildings of the company.

21.3 Cash flow hedge reserve

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	27,607,751	(77,309,605)
Gain / (loss) arising from cash flow hedge recognized in OCI	(119,316,737)	130,492,506
Related tax - current tax - expense / (reversal) - note 29	85,952,233	(7,091,515)
Related tax - deferred tax - expense / (reversal) - note 29	(77,944,752)	(18,483,635)
Balance at the end of the year	(83,701,505)	27,607,751

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The cash flow hedge reserve is maintained to recognise the change in the fair value of, the derivative (forward exchange contract) designated under the hedge relationship and the hedge item (portion of a foreign currency borrowing). The objective of the hedge is to mitigate the risk arising on the movement in foreign exchange rates and the resulting cash flows.

The hedging instrument are forward exchange contracts and as at 31 March 2022, there were assets with fair value of Rs.3,450,265,935 and liabilities with fair value of Rs.13,175,698.

The portion of the foreign currency loan that is subject to hedge accounting is to be settled during the financial years 2020/21 - 2021/22 and the derivative will be rolled over until that date.

The hedge is considered to be effective and is in effect at the reporting date and therefore no reclassification to profit or loss was made.

21. RESERVES (Contd...)

21.4 Fair Value Reserve

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	45,445,698	11,956,519
Investment in government securities measured at FVOCI	-	19,304,507
Investment securities measured at FVOCI – equity investments	95,307,266	14,184,672
Balance at the end of the year	140,752,964	45,445,698

21.5 Merger Reserve

The merger reserve comprises the cost of the merge with Commercial Leasing and Finance PLC in excess of the carrying amounts of the identifiable assets and liabilities of the acquiree as at 31st March 2022.

Balance at the beginning of the year	-	-
Total cost on Common Control Transaction	(198,818,947,542)	-
Carrying amount of identifiable net assets merged (note 37)	29,534,430,981	-
Balance at the end of the year	(169,284,516,561)	-

21.6 Retained Earnings

Balance at the beginning of the year	19,127,563,207	14,972,696,228
Profit for the year	16,950,585,463	4,365,938,556
Premeasurements of defined benefit liability - gain / (loss)	18,560,886	7,225,351
Transfer to statutory reserve fund	(847,529,273)	(218,296,928)
Balance at the end of the year	35,249,180,283	19,127,563,207

22. INTEREST INCOME

	Mar 22 Rs.	Mar 21 Rs.
Interest on leases	10,551,278,839	11,501,641,597
Interest on loans	11,217,759,011	14,503,508,333
Income from factoring portfolio	-	585,437,376
Interest from credit cards	356,619,107	263,237,066
Interest on margin trading	567,663,888	1,193,616
Income from operating lease and hire	308,632,840	265,091,620
Interest on overdue rentals and others	5,144,236,055	4,760,046,031
Interest income on government securities	2,121,806,104	1,503,773,383
Interest income on term deposits	301,867,155	377,605,104
	30,569,862,999	33,761,534,126

23. INTEREST EXPENSE

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	Mar 22 Rs.	Mar 21 Rs.
Interest on fixed deposits	6,864,919,204	8,216,179,370
Interest on savings deposits	182,550,142	190,911,890
Finance cost amortization of RTU assets	74,489,762	-
Profit distributed to alternative finance deposit holders	712,269,078	948,525,678
Interest on foreign currency deposits	100,801,752	75,226,311
Finance lease interest	1,854,773	8,494,307
Interest on loans & bank overdraft	1,043,107,108	3,007,452,842
	8,979,991,819	12,446,790,398

24. NET OTHER OPERATING INCOME

	Mar 22 Rs.	Mar 21 Rs.
Sundry income	965,476,710	718,876,804
Service charges	2,494,300	3,058,654
Arrangement and documentation fees	271,252,969	270,713,966
Collections from contracts written off	2,919,629,915	5,035,954,870
Fair value change in investment properties (Note 12)	6,925,550,077	3,291,066,776
Change in fair value of derivatives - forward contracts (note 5.3)	1,790,082,378	195,730,991
Net exchange (gain) / loss	(1,905,487,684)	251,780,762
Adjustment for increase / (decrease) in value of investments (note 8.1 / 8.2.2)	518,067,319	183,575,967
Interest income from staff loan	24,418,259	36,204,079
Disposal gain / (loss) on shares	-	12,709,946
Disposal gain / (loss) on government securities	-	229,232,991
Disposal gain / (loss) on PPE	10,787,672	69,532,484
	11,522,271,915	10,298,438,290

25. DIRECT EXPENSES EXCLUDING INTEREST COST

	Mar 22 Rs.	Mar 21 Rs.
Insurance expenses factored to accommodations	828,425,784	943,170,683
VAT on general expenses	35,108,274	7,684,022
	863,534,058	950,854,705

26. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS

	Mar 22 Rs.	Mar 21 Rs.
Impairment provision / (reversal) for lease rentals receivable (Note 6.2)	(2,061,981,104)	2,360,724,276
Impairment provision / (reversal) for mortgage loan (Note 7.2.2)	(95,784,409)	117,705,022
Impairment provision / (reversal) for receivables from sundry loans (Note 7.3.2)	(5,912,980,441)	3,847,797,150
Impairment provision / (reversal) for credit card receivables (Note 7.4)	166,189,154	159,285,114
Impairment provision / (reversal) for receivables from Gold loans (Note 7.4.1)	161,255,362	(73,495,514)
Impairment provision / (reversal) for margin trading receivables (Note 7.5.1)	75,102,192	-
Impairment provision / (reversal) for factoring receivables (Note 7.6.1)	-	(911,448,332)
Impairment provision / (reversal) for other financial assets	1,072,984,259	238,654,181
Impairment provision / (reversal) for insurance receivable	1,845,579	169,876,646
Written-off during the year	9,585,129,309	10,432,263,780
	2,991,759,900	16,341,362,321

Comparison between provision for impairment as per SLFRS 09 and Central Bank (CBSL) requirement

	Impairment charge to profit or loss Rs.	Written-off during the year Rs.	Charge / (reversal) to profit or loss net Rs.	Provision impact / (reversal) as per CBSL Rs.
Rentals receivable on leased assets	1,151,595,549	3,213,576,653	(2,061,981,104)	(3,183,104,867)
Loans and advances	690,232,321	6,371,552,656	(5,681,320,334)	(4,798,746,499)
Margin trading	75,102,192	-	75,102,192	75,102,192
Factoring receivable	-	-	-	(0)
Other financial assets	1,072,984,259	-	1,072,984,259	-
Insurance receivable	1,845,579	-	1,845,579	1,845,579
	2,991,759,900	9,585,129,309	(6,593,369,409)	(7,904,903,595)

27. PROFIT FROM OPERATIONS

	Mar 22 Rs.	Mar 21 Rs.
Profit from operations is stated after charging all expenses including the following,		
Directors' emoluments	40,913,600	36,150,500
Audit fees and expenses - Audit Services	3,645,000	3,518,000
- Audit Related Services	1,298,000	1,187,000
Depreciation on property, plant and equipment	207,247,901	131,853,680

27.1 Personnel expenses

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- Salaries, wages & other related cost	3,285,743,402	2,888,757,737
- Defined contribution plans - EPF & ETF	228,690,801	190,869,046
- Defined benefit plan cost	50,368,345	77,327,873
	3,564,802,548	3,156,954,655

28. MATURITY OF ASSETS AND LIABILITIES

28.1 An analysis of the total assets of the Company as at the year end based on the remaining year at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.2022	Total as at 31.03.2021
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	12,282,959,936	-	-	-	-	12,282,959,936	13,422,689,919
Deposits with banks and other financial institutions	8,625,373,035	260,237,777	-	-	-	8,885,610,812	7,203,305,871
Investment in government securities	11,265,053,853	1,647,371,388	7,798,671,453	44,529,471	3,085,856,604	23,841,482,770	15,838,454,720
Derivative assets	1,899,622,155	1,550,643,780	-	-	-	3,450,265,935	325,029,200
Financial assets at amortized cost							
Rentals receivable on leased assets	6,165,949,041	16,496,971,851	29,441,086,077	7,558,898,959	14,604,464	59,677,510,393	47,052,858,996
(-) Allowance for ECL / impairment	-	-	-	-	-	(2,717,295,784)	(3,954,452,103)
Loans and advances	31,657,522,881	33,225,592,662	60,897,718,559	21,609,656,980	340,473,708	147,730,964,790	70,682,591,468
(-) Allowance for ECL / impairment	-	-	-	-		(6,116,007,263)	(9,215,634,742)
Factoring receivable	1,585,541,687	1,113,112	188,566,929	-	-	1,775,221,728	-
(-) Allowance for ECL / impairment	-	-	-	-	-	(356,788,879)	-
Margin trading receivable	6,891,582,656	-	-	-	-	6,891,582,656	83,553,171
(-) Allowance for ECL / impairment	-	-	-	-	-	(75,102,192)	-
Investments securities	4,210,933,644	-	-	-	2,077,632,584	6,288,566,228	5,497,999,899
Investment in associate	-	-	-	-	1,833,660,667	1,833,660,667	-
Amount due from related companies	47,381,973	-	-	-	-	47,381,973	33,221,629
Other receivables	722,504,917	346,964,674	11,465,200	3,368,116	27,105	1,084,330,013	615,275,173
Inventories	-	428,031,504	-	-	-	428,031,504	271,727,381
Investment properties	-	-	38,287,958,119	-	-	38,287,958,119	21,088,740,181
Property plant and equipment	-	-	-	-	8,326,734,940	8,326,734,940	1,163,218,438
Total Assets as at 31 March 2022	**85,354,425,780**	**53,956,926,748**	**136,625,466,337**	**29,216,453,526**	**15,678,990,072**	**311,567,068,346**	**170,108,579,200**
Total Assets as at 31 March 2021	**54,175,920,249**	**40,173,342,428**	**70,418,804,184**	**12,336,334,568**	**6,174,264,615**	**170,108,579,200**	

28.2 An analysis of the total liabilities of the Company as at the year end based on the remaining year at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.2022	Total as at 31.03.2021
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank overdraft	5,675,768,259	-	-	-	-	5,675,768,259	1,861,003,040
Interest bearing borrowings	14,500,143,939	10,762,088,749	11,579,089,502	7,001,511,916	467,069,292	44,309,903,398	16,437,442,429
Deposits from customers	71,395,160,329	68,992,070,977	15,586,965,264	3,278,185,694	-	159,252,382,263	107,791,136,377
Trade payables	1,141,928,384	-	-	-	-	1,141,928,384	144,788,204
Accruals and other payables	6,364,815,765	203,409,004	-	215,416,035	1,051,951,925	7,835,592,729	4,441,130,204
Derivative liabilities	13,175,698	-	-	-	-	13,175,698	-
Amount due to related companies	3,719,367,746	-	-	-	-	3,719,367,746	620,861,723
Current tax payable	-	2,525,556,194	-	-	-	2,525,556,194	857,902,877
Deferred tax liability	-	-	2,974,781,275	-	-	2,974,781,275	1,733,249,164
Employee benefits	-	-	-	565,709,494	-	565,709,494	332,531,588
Stated capital	-	-	-	-	211,581,447,542	211,581,447,542	12,762,500,000
Statutory reserve	-	-	-	-	4,444,108,028	4,444,108,028	3,596,578,755
Revaluation Reserve	-	-	-	-	1,505,632,154	1,505,632,154	328,838,183
Cash flow hedge reserve	-	-	-	-	(83,701,505)	(83,701,505)	27,607,751
Fair value reserve	-	-	-	-	140,752,964	140,752,964	45,445,698
Merger reserve	-	-	-	-	(169,284,516,561)	(169,284,516,561)	-
Retained earnings	-	-	-	-	35,249,180,283	35,249,180,283	19,127,563,207
Total Liabilities & Equity as at 31 March 2022	**102,810,360,119**	**82,483,124,924**	**30,140,836,040**	**11,060,823,139**	**85,071,924,123**	**311,567,068,346**	**170,108,579,200**
Total Liabilities & Equity as at 31 March 2021	**57,705,202,760**	**52,891,710,247**	**19,782,208,586**	**2,744,381,832**	**36,985,075,774**	**170,108,579,200**	

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29. INCOME TAX EXPENSE

The major components of income tax expense for the year ended are as follows:

	Mar 22 Rs.	Mar 21 Rs.
Current tax - recognized in P&L		
Current tax charge	-	322,309,197
Deferred Tax		
Deferred tax expense / (reversal) (note 29.2)	792,048,095	(191,464,649)
Income tax expense reported in statement of profit or loss	792,048,095	130,844,548
Current tax - expense / (reversal) - recognized in OCI		
	(85,952,233)	7,091,515
Deferred tax charge / (reversal) recognized in OCI		
Property, plant and equipment	318,626,179	8,897,344
Defined benefit plans	5,861,333	12,619,816
Fair value change in derivatives recognized in hedge reserve	77,944,752	18,483,635
Investment in LOLC Asia Pvt Ltd	-	(3,473,447)
	402,432,263	36,527,348
Total income tax expense / (reversal) recognized in OCI	316,480,030	43,618,863

29.1 Current tax payable

	Mar 22 Rs.	Mar 21 Rs.
Tax payable at the beginning of the year	857,902,877	960,254,585
Current tax expense for the year - recognized in P&L	85,952,233	315,217,682
Current tax expense for the year - recognized in OCI	(85,952,233)	7,091,515
Addition on merger with subsidiary	1,678,223,409	-
Tax paid during the year	(10,570,091)	(424,660,905)
Tax payable	2,525,556,194	857,902,877

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

	Mar 22		Mar 21	
	%	Rs.	%	Rs.
Accounting profit before income tax		17,742,633,558		4,496,783,104
Tax effect at the statutory income tax rate of 24%	24%	4,258,232,054	24%	1,079,227,945
Tax effect of other allowable credits	-34%	(6,086,521,907)	-70%	(3,131,859,423)
Tax effect of non deductible expenses	10%	1,828,289,853	53%	2,374,940,675
Deferred tax adjustment	4%	792,048,095	-4%	(191,464,649)
Income tax expense	**4%**	792,048,095	3%	130,844,548

29.2 Deferred Taxation

	Mar 22 Rs.	Mar 21 Rs.
Balance at the beginning of the year	1,733,249,164	1,888,186,465
Deferred tax expense / (reversal) - recognized in P&L	792,048,095	(191,464,649)
Deferred tax expense / (reversal) - recognized in OCI	402,432,263	36,527,348
Addition on merger with subsidiary	47,051,752	-
Balance at the end of the year	2,974,781,275	1,733,249,164

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29. INCOME TAX EXPENSE (Contd…)

Recognized deferred tax assets and liabilities are attributable to the following.

Deferred tax is measured using a tax rate of 24% (2020/21 -24%) on temporary differences.

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	**Balance as at 01 April 2021**	**Recognized in P&L - expense / (reversal)**	**Recognized in OCI - expense / (reversal)**	**Addition on merger with subsidiary**	**Balance as at 31 March 2022**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Recognized in P&L / Equity (retained earnings)					
Lease receivables	1,590,276,362	(150,616,893)	-	71,659,432	1,511,318,901
Finance lease liability	31,219,811	(25,389,148)	-	(4,486,117)	1,344,545
Property plant and equipment	146,613,606	12,498,469	-	80,664,909	239,776,983
Cost of acquisition of subsidiary (Note 29.2.b)	(859,067,322)	(167,892,942)	-	(295,738,240)	(1,322,698,505)
Defined benefit plans	(37,428,566)	(6,733,649)	-	(55,090,381)	(99,252,596)
Forward exchange contracts (net)	31,235,760	437,627,252	-	-	468,863,012
Investment property	795,515,045	692,555,008	-	142,637,310	1,630,707,363
Provision for Impairment - SLFRS 9	-	-	-	(166,695,242)	(166,695,242)
Tax Losses	-	-	-	(126,588,575)	(126,588,575)
Recognized in OCI					
Available for sale financial assets	3,018,739	-	-	-	3,018,739
Property plant and equipment	27,473,496	-	318,626,179	400,688,655	746,788,331
Defined benefit plans	(42,379,015)	-	5,861,333	-	(36,517,683)
Forward exchange contracts (net)	46,771,248	-	77,944,752	-	124,716,000
Net deferred tax liability / (asset)	1,733,249,164	792,048,095	402,432,263	47,051,752	2,974,781,275

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	**Balance as at 01 April 2020**	**Recognized in P&L - expense / (reversal)**	**Recognized in OCI - expense / (reversal)**	**Balance as at 31 March 2021**
Recognized in P&L	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Lease receivables	2,245,845,340	(655,568,978)	-	1,590,276,362
Finance lease liability	107,587,413	(76,367,602)	-	31,219,811
Property plant and equipment	126,628,832	19,984,774	-	146,613,606
Investment in unit trust - unrealized	52,334,885	(52,334,885)	-	-
Cost of acquisition of subsidiary (Note 29.2.b)	(1,096,683,888)	237,616,566	-	(859,067,322)
Defined benefit plans	(28,480,924)	(8,947,642)	-	(37,428,566)
Forward exchange contracts (net)	16,189,320	15,046,440	-	31,235,760
Investment property	466,408,368	329,106,677	-	795,515,045
Recognized in OCI				
Available for sale financial assets	3,018,739	-	-	3,018,739
Property plant and equipment	18,576,152	-	8,897,344	27,473,496
Defined benefit plans	(54,998,831)	-	12,619,816	(42,379,015)
Forward exchange contracts (net)	28,287,613	-	18,483,635	46,771,248
Investment in LOLC Asia Pvt Ltd	3,473,447	-	(3,473,447)	-
Net deferred tax liability / (asset)	1,888,186,465	(191,464,649)	36,527,348	1,733,249,164

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29. INCOME TAX EXPENSE (Contd…)

29.2.a Temporary differences

Temporary differences - taxable / (deductible)	**Mar 22 Rs.**	**Mar 21 Rs.**
Recognized in P&L / Equity (retained earnings)		
Lease receivables	6,297,162,088	6,626,151,509
Finance lease liability	5,602,273	130,082,545
Property plant and equipment	999,070,764	610,890,024
Investment in unit trust - unrealized	-	-
Cost of acquisition of subsidiary	(5,511,243,769)	(3,579,447,176)
Defined benefit plans	(413,552,483)	(155,952,358)
Forward exchange contracts (net)	1,953,595,882	130,149,000
Investment property	16,307,073,634	7,955,150,453
Provision for Impairment - SLFRS 9	(1,666,952,418)	-
Tax Losses	(1,265,885,747)	-
Recognized in OCI		
Available for sale financial assets	12,578,079	12,578,079
Property plant and equipment	3,111,618,044	114,472,902
Defined benefit plans	(152,157,011)	(176,579,230)
Forward exchange contracts (net)	519,650,000	194,880,200
Net taxable / (deductible) temporary difference	20,196,559,335	11,862,375,948

29.2.b Cost of acquisition of subsidiary and unrecognized deferred tax assets

During the financial year 2017/18, the Company paid Rs.12,291,200,000 to acquire 100% of LOLC Micro Credit Limited and during the financial year 2021/22, the Company paid purchase consideration of Rs.198,818,947,542 to acquire 100% of Commercial Leasing and Finance PLC.

Since this was inline with the Central Bank of Sri Lanka's consolidation program, the Company is able to claim the purchase consideration as a qualifying payment in calculating the income tax liability.

During the year Rs.7,370,312,588 was claimed keeping inline with the requirements of the Inland Revenue Act. The Company expects to claim the remaining amount over the future year based on the profitability of the Company.

On a prudent basis the management has decided to evaluate the recoverability of this claim based on the projected taxable profits for the future years and expects to recover Rs.5,511,243,769 over such year and a deferred tax asset of Rs.1,322,698,505 was recognized during the year.

The management will annually re-evaluate the recoverability of this claim and adjust the deferred tax asset accordingly.

Unrecognized deferred tax asset	**Mar 22 Rs.**	**Mar 21 Rs.**
Remaining amount to be claimed at the beginning of the year	7,898,903,094	8,567,361,793
Consideration paid to acquire subsidiary	198,818,947,542	-
Previous year adjustment	371,477,494	3,018,795
Amount claimed during the year	(7,370,312,588)	(671,477,494)
Remaining amount to be claimed in future years	199,719,015,542	7,898,903,094
Tax rate	24%	24%
Deferred tax asset on remaining amount	47,932,563,730	1,895,736,742
Recognized deferred tax asset	(1,322,698,505)	(859,067,322)
Unrecognized deferred tax asset	46,609,865,225	1,036,669,420

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30. EARNINGS PER SHARE

30.1 Basic earnings per share

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the Basic Earnings Per Share computation.

	Mar 22 Rs.	Mar 21 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	16,950,585,463	4,365,938,556

	Mar 22 No.	Mar 21 No.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	5,250,000,000	5,250,000,000
Effects of new shares issued during the year	-	-
Weighted average number of ordinary shares in issue applicable to basic	5,250,000,000	5,250,000,000
Basic earnings per share (Rs.)	**3.23**	**0.83**

30.2 Diluted earnings per share

There were no potential dilution at the year end. Therefore, diluted earnings/ (loss) per share is the same as basic earnings/ (loss) per share shown above.

31. COMPARATIVE FIGURES

Comparative information has been reclassified to conform to the current year presentation, where necessary. No information has been restated.

32. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged Rs.	Carrying Amount Pledged Rs.
Lease portfolio	Short term borrowing	27,065,754,655	12,878,371,845

These financial assets are pledged against the borrowings made. The lender has the right over the lease receivables in the event of non payment.

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33. RELATED PARTY DISCLOSURES

33.1 Parent and Ultimate Controlling Party

The Company's immediate parent is LOLC Private Ltd and ultimate parent undertaking and controlling entity is LOLC Holding PLC.

33.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly the KMP include members of the Board of Directors and identified senior management personnel of the Company and its ultimate Parent Company LOLC Holding PLC. Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Company.

33.2.1 Compensation of KMPs

	Mar 22 Rs.	Mar 21 Rs.
Short term employment benefits	117,818,470	80,403,266
Total	117,818,470	80,403,266

The short term employment benefits include only the directors fees and emoluments paid to Directors & KMPs. This is also included under Note 27.1

33.2.2 Transactions, arrangements and agreements involving KMPs, and their close family members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner. The transactions are carried out on an arms length basis. The details of the transactions are as follows :

	Mar 22 Rs.	Mar 21 Rs.
Deposits held with the Company	45,458,944	66,963,802
Interest paid / charged	3,787,226	5,023,593
Interest payable	902,066	3,354,951
Loans granted (excluding Directors)	60,220,736	15,614,635
Capital outstanding on facilities granted to KMPs (excluding Directors)	67,431,302	22,390,080
Accommodation outstanding as a percentage of the Company's Capital Funds	0.10%	0.12%

No impairment losses have been recorded against balances outstanding with KMP and CFM.

33.3 Transactions with related parties

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures, on an arms length basis. Details of related party transactions are reported below. (For information regarding outstanding balances (receivables / payables) at 31 March 2022 and 31 March 2021, refer notes no.10 and 17 accordingly).

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33. RELATED PARTY DISCLOSURES (Contd...)

Relationship	**Description of Transactions**	**Nature**	**Mar 22 Rs.**	**Mar 21 Rs.**
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	Transaction value	106,714,854	(159,645,919)
	Reimbursement of expenses	Expense	255,889,572	1,075,971,892
	Asset hire charges	Expense	230,207,742	229,924,735
	Royalty	Expense	515,505,134	562,570,272
	Fund transfer interest	Expense	10,459,198	172,735,406
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	Deposits	148,825,360	73,127,592
	Interest paid/charge	Expense	2,810,459	1,446,233
	Interest payable	Expense	569,203	618,778
	Investments held by the company	Investment	3,683,574,592	1,180,511,578
	Interest income from investment	Income	-	21,505,272
	Consideration on merge with subsidiary	Transaction value	198,818,947,542	-
	IT service fee	Expense	506,429,266	403,743,888
	Factoring related transactions	Transaction value	-	6,996,796,638
	Yard fee	Expense	7,200,000	15,000,000
	Services / Maintenance fee	Expense	103,267,878	87,814,302
	Loan / lease granted	Disbursements	2,668,055,482	1,639,064,914
	Capital outstanding on facilities granted	Lending facilities	2,475,299,631	1,334,413,520
	Rental collections	Collections	453,801,391	1,232,711,415
	Interest income	Income	153,904,001	419,097,015
	Rent Income	Income	1,161,600	36,000,000
	Franchise fee income	Income	268,539,389	256,097,307
Other Related Parties	Services / Maintenance fee	Expense	388,109,246	784,443,309
	Deposits held with the company	Deposits	176,269,125	145,335,153
	Interest paid / charge	Expense	8,904,386	11,496,185
	Interest payable	Expense	1,967,120	2,059,138
	Capital outstanding on facilities granted	Lending facilities	455,838,000	454,500,000
	Rental collections	Collections	53,737,445	164,750,296
	Interest income	Income	55,237,112	153,035,378
Accommodation outstanding as a percentage of the Company's Capital Funds			4.52%	5.91%

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All of the above transactions (including borrowing / lending / investing transactions) with related parties are on arm's length basis and are on terms that are generic to non-related parties.

34. EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date, which would require adjustments to or disclosure in the financial statements except the following;

Surcharge Tax Act No 14 of 2022

The Surcharge Tax Act No 14 of 2022 (Act) was certified by the Speaker and published as a Supplement to Part II of the Gazette of the Democratic Socialist Republic of Sri Lanka on 08 April 2022. As per the said Act, Surcharge Tax is payable by company or each company of a group of companies (holding and subsidiaries) subject to the taxable income threshold specified in the Act. The Group of companies will meet the chargeability threshold when the aggregate taxable income of all subsidiaries and holding company (excluding the companies with nil taxable income due to losses or unrelieved losses) exceed Rs.2 Bn for Y/A commencing from 1 April 2020. Such Group of companies will be liable for Surcharge tax at a rate of 25% on the taxable income of each subsidiary and holding company excluding gains and profits from dividends received from a subsidiary which is part of such taxable income for Y/A commencing from 1 April 2020.

LOLC Finance PLC is not liable to pay surchage tax as the LOLC group meet the chargeability threshold referred to above.

As per the Statement of Alternative Treatment (SoAT) issued by CA Sri Lanka on 22 April 2022, Surcharge Tax expense which is deemed to be an expenditure for the year of assessment which commenced on 1 April 2020, shall be recorded as an adjustment to the opening retained earnings reported in the Statement of Changes in Equity on 1 January 2021. Such adjustment will be incorporated in the Financial Statements for the next reporting period. As the law imposing the surcharge tax was enacted after the reporting period end, the financial statements for the year ended 31 March 2022 do not reflect the tax liability that would arise in consequence for the Group.

35. OPERATING SEGMENTS

	Operating Segment			
	SME Finance	**Development Finance**	**Alternative Financial Services**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
For the year ended 31 March 2022				
Total revenue - Interest income & other income	22,704,063,181	16,689,491,745	2,698,579,988	42,092,134,914
Inter segmental revenue	-	-	-	-
External revenue	22,704,063,181	16,689,491,745	2,698,579,988	42,092,134,914
Net interest cost	(4,793,602,516)	(3,440,207,015)	(746,182,288)	(8,979,991,819)
Profit before operating expenses	**17,910,460,665**	**13,249,284,730**	**1,952,397,700**	**33,112,143,095**
Operating expenses	(5,490,093,084)	(3,930,815,306)	(1,119,340,205)	(10,540,248,595)
Allowance for impairment & write-offs	(1,487,669,198)	(1,380,505,801)	(123,584,901)	(2,991,759,900)
Value added tax on financial services	(474,293,740)	(1,190,694,544)	(172,512,758)	(1,837,501,042)
Results from operating activities	**10,458,404,642**	**6,747,269,080**	**536,959,836**	**17,742,633,558**
For the year ended 31 March 2021				
Total revenue - Interest income & other income	22,812,651,912	18,672,232,927	2,575,087,577	44,059,972,416
Inter segmental revenue	-	-	-	-
External revenue	22,812,651,912	18,672,232,927	2,575,087,577	44,059,972,416
Net interest cost	(6,597,915,256)	(4,882,347,613)	(966,527,529)	(12,446,790,398)
Profit before operating expenses	**16,214,736,656**	**13,789,885,314**	**1,608,560,048**	**31,613,182,018**
Operating expenses	(5,358,239,674)	(3,987,215,280)	(873,435,713)	(10,218,890,666)
Allowance for impairment & write-offs	(6,418,198,424)	(9,698,721,884)	(224,442,013)	(16,341,362,321)
Value added tax on financial services	(443,795,924)	(15,592,223)	(96,757,780)	(556,145,927)
Results from operating activities	**3,994,502,633**	**88,355,928**	**413,924,542**	**4,496,783,104**
Depreciation				
For the year ended 31 March 2022	173,486,832	33,761,069	-	207,247,901
For the year ended 31 March 2021	85,363,651	46,490,029	-	131,853,680
Capital expenditure - Property Plant and equipment				
For the year ended 31 March 2022	829,356,436	161,395,303	-	990,751,738
For the year ended 31 March 2021	12,427,198	6,767,995	-	19,195,193
As at 31-03-2022				
Total assets	240,705,781,714	46,788,813,425	24,346,204,679	311,567,068,346
Total liabilities	161,910,583,094	46,788,813,425	19,588,500,393	228,014,165,440
As at 31-03-2021				
Total assets	100,215,006,936	54,333,822,097	16,008,560,682	170,108,579,200
Total liabilities	67,209,098,642	54,333,822,097	13,125,935,383	134,220,045,606

36. COMMITMENTS AND CONTINGENCIES

	Mar 22	Mar 21
	Rs.	Rs.
36.1 Contingent liabilities		
Guarantees issued to banks and other institutions - backed by deposits	624,696,822	403,443,000
36.2 Commitments		
Forward exchange contracts - (commitment to purchase)	10,307,825,961	2,843,557,800
Unutilised loan facilities	11,929,165,122	6,103,323,043
Allowance for ECL / impairment	2,311,437	17,416,220
	22,863,999,342	9,367,740,063

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On the commitment to purchase the foreign currencies the company will receive USD 34,207,005, EUR 1,220,000, GBP 2,230,000 and AUD 2,360,000.

37. AMALGAMATION OF COMMERCIAL LEASING AND FINANCE PLC (CLC) WITH LOLC FINANCE PLC (LOFC) IN TERMS OF THE PROVISIONS OF THE COMPANIES ACT, NO. 7 OF 2007 (LOFC / "THE COMPANY")

Pursuant to the Initial Corporate Disclosure made on Colombo Stock Exchange dated on 24th January 2022, LOLC Finance PLC (LOFC - The Company) has expressed its interest in proposed amalgamation of Commercial Leasing & Finance PLC (CLC) under Master Plan for Consolidation of Non-Bank Financial Institution imposed by Central Bank of Sri Lanka (CBSL). Accordingly, the company has received the principal approval from both Central Bank of Sri Lanka and Securities and Exchange Commission of Sri Lanka and other relevant regulatory authorities to take effect the Amalgamation on the proposed effective date of 31 March 2022.

Accordingly, Board has sought the approval from Shareholders through an Extraordinary General Meeting in compliance to the requirement imposed under Companies Act No 07 of 2007 and Securities and Exchange Commission Act and accordingly relevant approval was received on 14th March 2022.

In terms of Section 08 of the Listing Rules of the Colombo Stock Exchange (CSE), subsequent communication made in terms of Rule 5.11.2 of the Listing Rules of the CSE "the value and/ or the consideration, for the purpose of amalgamation; the share exchange ratio is based on the Market Price of a share of CLC and LOFC, as at end of Trading Five (5) Market days, prior to the dated fixed for both shareholders meeting".

Accordingly, amalgamation was executed on following manner;

	Value (Rs.)
Existing No of shares of CLC	6,432,072,002
Number of new shares of LOFC issued to existing CLC shareholders	14,001,334,334
Price per share of LOFC on 31st March 2022 (effective date of Amalgamation)	14.20
Total cost to LOFC on Common Control Transaction	198,818,947,542
Net assets of CLC on 31.3.2022	29,534,430,981
Excess of consideration over and above the net asset value	169,284,516,561
Proportion of the share exchange : 21,768 of new LOFC shares for every 10,000 shares of CLC	

The carrying amounts of the identifiable assets and liabilities of the acquiree as at 31st March 2022, which the date of merger is as follows;

	31-Mar-22 **Rs.**
ASSETS	
Cash and cash equivalents	3,606,895,329
Investment securities	8,935,689,563
Leases, advances and other loans	83,324,051,210
Trade and other receivables	1,180,649,822
Investment properties	5,361,501,000
Property, plant and equipment	4,658,410,261
Total assets	**107,067,197,185**
LIABILITIES	
Bank overdrafts	2,520,468,022
Interest bearing loans & borrowings	27,647,289,723
Deposits from customers	38,721,313,426
Trade and other payables	6,688,876,620
Provision for taxation	1,725,275,161
Retirement benefit obligations	229,543,253
Total liabilities	**77,532,766,204**
Carrying amount of identifiable net assets	**29,534,430,981**

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Results of the merger of above entity are as follows;	
Total cost to LOFC on Common Control Transaction	198,818,947,542
Carrying amount of identifiable net assets merged	(29,534,430,981)
Resulting excess	**169,284,516,561**

Generally, the excess of Rs.169.3 billion would have been recognized as goodwill on amalgamation and would have been reflected as an asset of the amalgamated entity. However, as this transaction was between two subsidiaries of the LOLC Group, it is considered as a transaction under common control, hence not within the scope of the accounting standard SLFRS 03 – Business Combination. For transactions under common control such as this, the Statement of Recommended Practice (SORP) issued by the Institute of Chartered Accountants of Sri Lanka applies which requires any excess to be recognized in equity. Hence, the excess of Rs.169.3 billion was reflected as a negative reserve within equity ("Merger Reserve").

37. AMALGAMATION OF COMMERCIAL LEASING AND FINANCE PLC (CLC) WITH LOLC FINANCE PLC (LOFC) IN TERMS OF THE PROVISIONS OF THE COMPANIES ACT, NO. 7 OF 2007 (LOFC / "THE COMPANY") (Contd...)

The break up of the equity value of the entity is as follows.

Description	**Amount (Rs.)**
Stated capital	211,581,447,542
Statutory reserve	4,444,108,028
Revaluation reserve	1,505,632,154
Cash flow hedge reserve	(83,701,505)
Fair value through OCI reserve	140,752,964
Merger reserve	(169,284,516,561)
Retained earnings	35,249,180,283
Total equity	**83,552,902,905**

As reflected above it is noted that the entity has sufficient positive reserves and the large Merger Reserve overshadows the other positive reserves.

As a result of this negative Merger Reserve, the net assets of the company as at 31.3.2022 is reflected less than half of the stated capital as at that date.

Description	**Amount (Rs.)**
Stated Capital immediately after the amalgamation	211,581,447,542
Net assets as of 31st March 2022	83,552,902,905

Section 220 (1) of the Companies Act No 2007 requires that “if at any time it appears to a director of a company that the net assets of the company are less than half of its stated capital, the Board shall within twenty working days of that fact becoming known to the director, call an Extraordinary General Meeting of shareholders of the company, to be held not later than forty working days from that date of calling of such meeting to notify this matter.”

Section 220 (2) of the Companies Act also requires “The notice calling a meeting under this section shall be accompanied by a report prepared by the board, which advises shareholders of—

(a) the nature and extent of the losses incurred by the company;

(b) the cause or causes of the losses incurred by the company;

(c) the steps, if any, which are being taken by the board to prevent further such losses or to recoup the losses incurred.

As per this section, the company appears to be facing serious loss of capital situation. However, as the cause for the said serious loss of capital is due to the negative Merger Reserve referred to above and not due to operational losses, the Board of Directors are in the processes of taking necessary actions to comply with the requirements of the Companies Act No.7 of 2007.

The company has retained earnings of Rs.35.3 billion as at 31st March 2022. The profits made by the company over the past years are as follows.

Year ended	**Profit for the year (Rs.)**
31.03.2022	16,950,585,463
31.03.2021	4,365,938,557
31.03.2020	3,779,684,187
31.03.2019	5,962,868,027
31.03.2018	2,191,174,142

Further, having reviewed the financial position, the Management is confident that there will not be any impact on the Company's ability to continue as a going concern due to following :

- Capital adequacy and the liquidity ratios of the company being well above the CBSL minimum requirements
- The current serious loss of capital position triggered by amalgamation accounting is expected to be recovered within the next 1-2 year with the profits of the Company.

Consolidated financial statements

As at the year end, since the subsidiary is merged with the parent, a separate consolidated statement of financial position is not presented as the parent's statement of financial position includes the financial position of the subsidiary as at 31st March 2022 with consolidation adjustments.

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