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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | | **Group** | | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **Change**  **%** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **Change**  **%** |
| Gross income | 5 | 188 | **27,103,798** | 33,599,314 | (19.33) | **33,645,265** | 40,054,830 | (16.00) |
| Interest income | 6.1 | 189 | **24,983,445** | 31,459,108 | (20.58) | **26,821,838** | 33,282,879 | (19.41) |
| Less: Interest expense | 6.2 | 189 | **13,064,310** | 15,786,586 | (17.24) | **13,375,197** | 16,110,935 | (16.98) |
| **Net interest income** | 6 | 188 | **11,919,135** | 15,672,522 | (23.95) | **13,446,641** | 17,171,944 | (21.69) |
| Net earned premium | 7 | 190 | **-** | - | - | **5,028,549** | 5,202,030 | (3.33) |
| Fee and commission income | 8 | 191 | **1,818,675** | 1,694,014 | 7.36 | **1,198,054** | 1,165,632 | 2.78 |
| Net gains/(losses) on financial assets - FVTPL | 9 | 192 | **162,616** | 11,017 | 1,376.05 | **228,258** | 19,586 | 1,065.41 |
| Other operating income | 10 | 192 | **139,062** | 435,175 | (68.04) | **368,566** | 384,703 | (4.19) |
| **Total operating income** |  |  | **14,039,488** | 17,812,728 | (21.18) | **20,270,068** | 23,943,895 | (15.34) |
| Less: Impairment charges and other losses for loans and receivables | 11 | 193 | **1,043,837** | 4,646,683 | (77.54) | **1,352,489** | 4,901,902 | (72.41) |
| Impairment charges for right-of-use assets | 33 | 245 | **-** | 36,965 | (100.00) | **-** | 36,965 | (100.00) |
| Impairment charges for goodwill | 34 | 246 | **99,209** | 68,145 | 45.59 | **99,209** | 68,145 | 45.59 |
| **Net operating income** |  |  | **12,896,442** | 13,060,935 | (1.26) | **18,818,370** | 18,936,883 | (0.63) |
| **Less: Expenses**  Personnel expenses | 12 | 196 | **3,465,373** | 3,701,385 | (6.38) | **4,354,636** | 4,561,026 | (4.53) |
| Depreciation and amortisation | 13 | 196 | **722,994** | 717,021 | 0.83 | **647,693** | 635,998 | 1.84 |
| Benefits, claims and underwriting expenditure | 14 | 197 | **-** | - | - | **2,663,347** | 3,441,937 | (22.62) |
| Other operating expenses | 15 | 198 | **1,612,859** | 2,088,244 | (22.76) | **2,048,058** | 2,565,073 | (20.16) |
| **Total operating expenses** |  |  | **5,801,226** | 6,506,650 | (10.84) | **9,713,734** | 11,204,034 | (13.30) |
| **Operating profit before taxes on financial services** |  |  | **7,095,216** | 6,554,285 | 8.25 | **9,104,636** | 7,732,849 | 17.74 |
| Less : Tax on financial services | 16 | 198 | **1,222,628** | 2,002,460 | (38.94) | **1,273,966** | 2,030,532 | (37.26) |
| **Profit before income tax expense** |  |  | **5,872,588** | 4,551,825 | 29.02 | **7,830,670** | 5,702,317 | 37.32 |
| Less : Income tax expense | 17 | 199 | **1,839,568** | 1,609,317 | 14.31 | **2,234,336** | 2,110,568 | 5.86 |
| **Profit for the year** |  |  | **4,033,020** | 2,942,508 | 37.06 | **5,596,334** | 3,591,749 | 55.81 |
| **Profit attributable to**  Equity holders of the Company |  |  | **4,033,020** | 2,942,508 | 37.06 | **5,294,015** | 3,408,670 | 55.31 |
| Non-controlling interest | 49 | 268 | **-** | - | - | **302,319** | 183,079 | 65.13 |
| Profit for the year |  |  | **4,033,020** | 2,942,508 | 37.06 | **5,596,334** | 3,591,749 | 55.81 |
| Basic / Diluted earnings per ordinary share (Rs.) | 18 | 202 | **2.37** | 1.73 | 36.99 | **3.11** | 2.00 | 55.50 |
| Dividend per Ordinary share (Rs.) | 19 | 203 | **0.60** | 1.20 | (49.88) |  |  |  |

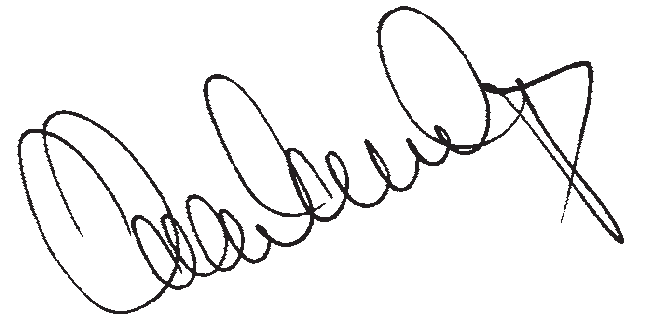
The Notes appearing on pages 179 to 307 form an integral part of the Financial Statements.

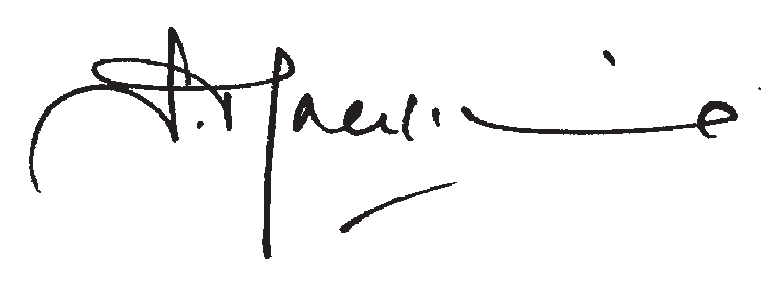
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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | | **Group** | | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **Change**  **%** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **Change**  **%** |
| **Profit for the year** |  |  | **4,033,020** | 2,942,508 | 37.06 | **5,596,334** | 3,591,749 | 55.81 |
| **Other comprehensive income, net of tax Items to be reclassified to profit or loss in subsequent years (net of tax):**  Net gains/(losses) arising from translating the Financial Statements of the foreign subsidiary | 48.4 | 267 | **-** | - | - | **141,728** | 139,129 | 1.87 |
| **Net items to be reclassified to profit or loss**  **in subsequent years** |  |  | **-** | - | - | **141,728** | 139,129 | 1.87 |
| **Items not to be reclassified to profit or loss in subsequent years (net of tax):**  **Net actuarial gains/(losses) on defined benefit plans**  Actuarial gains and losses on retirement benefit obligation | 43.2 | 260 | **107,003** | 172 | 62,111.05 | **106,891** | 1,225 | 8,625.80 |
| Deferred tax effect on actuarial gains and losses | 44.1 | 263 | **(29,961)** | (49) | (61,044.90) | **(27,690)** | (91) | (30,328.57) |
| **Financial assets - Fair value through other comprehensive income**  Gains/(losses) on re-measuring | 48.3 | 267 | **(15,263)** | (49,372) | 69.09 | **(5,512)** | (61,300) | 91.01 |
| **Net items not to be reclassified to profit or**  **loss in subsequent years** |  |  | **61,779** | (49,249) | 225.44 | **73,689** | (60,166) | 222.48 |
| **Other comprehensive income for the year, net of tax** |  |  | **61,779** | (49,249) | 225.44 | **215,417** | 78,963 | 172.81 |
| **Total comprehensive income for the year** |  |  | **4,094,799** | 2,893,259 | 41.53 | **5,811,751** | 3,670,712 | 58.33 |
| **Attributable to:**  Equity holders of the Company |  |  | **61,779** | (49,249) | 225.44 | **212,979** | 82,278 | 158.85 |
| Non-controlling interest | 49 | 268 | **-** | - | - | **2,438** | (3,315) | 173.54 |
| **Other comprehensive income for the year, net of tax** |  |  | **61,779** | (49,249) | 225.44 | **215,417** | 78,963 | 172.81 |
| **Total comprehensive income for the year** |  |  | **4,094,799** | 2,893,259 | 41.53 | **5,811,751** | 3,670,712 | 58.33 |

The Notes appearing on pages 179 to 307 form an integral part of the Financial Statements.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | | **Group** | | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **Change**  **%** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **Change**  **%** |
| **Assets**  Cash and cash equivalents | 22 | 212 | **2,703,031** | 7,164,139 | (62.27) | **3,844,694** | 7,693,032 | (50.02) |
| Balances with banks and financial institutions | 23 | 213 | **5,399,071** | 3,207,440 | 68.33 | **8,231,101** | 6,661,407 | 23.56 |
| Financial assets -Fair value through profit or loss | 24 | 214 | **109,787** | 1,031,719 | (89.36) | **1,281,753** | 1,198,592 | 6.94 |
| Loans and receivables - Amortised cost | 25 | 216 | **141,387,907** | 147,747,511 | (4.30) | **149,342,332** | 154,134,934 | (3.11) |
| Insurance and reinsurance receivables | 26 | 233 | **-** | - | - | **1,024,461** | 1,194,933 | (14.27) |
| Financial assets - Fair value through other comprehensive income | 27 | 234 | **309,118** | 324,381 | (4.71) | **735,494** | 1,455,702 | (49.47) |
| Debt instrument - Amortised cost | 28 | 236 | **6,994,206** | 4,106,963 | 70.30 | **8,593,386** | 4,813,439 | 78.53 |
| Investments in subsidiaries | 29 | 236 | **3,213,788** | 3,213,788 | - | **-** | - | - |
| Investment property | 30 | 238 | **-** | - | - | **820,664** | 1,131,652 | (27.48) |
| Other assets | 31 | 240 | **575,220** | 1,147,001 | (49.85) | **932,018** | 1,235,329 | (24.55) |
| Property, plant and equipment | 32 | 241 | **1,049,250** | 1,143,929 | (8.28) | **4,034,265** | 3,998,370 | 0.90 |
| Right-of-use assets | 33 | 245 | **2,242,444** | 1,939,450 | 15.62 | **1,591,297** | 1,639,482 | (2.94) |
| Deferred tax assets | 44 | 262 | **415,841** | 376,291 | 10.51 | **594,495** | 471,841 | 25.99 |
| Goodwill and intangible assets | 34 | 246 | **146,446** | 257,581 | (43.15) | **265,506** | 368,574 | (27.96) |
| **Total assets** |  |  | **164,546,109** | 171,660,193 | (4.14) | **181,291,466** | 185,997,287 | (2.53) |
| **Liabilities**  Due to banks | 35 | 248 | **6,439,310** | 7,938,185 | (18.88) | **9,003,873** | 10,978,046 | (17.98) |
| Due to customers | 36 | 251 | **101,502,931** | 106,701,027 | (4.87) | **103,743,716** | 107,685,592 | (3.66) |
| Debt securities issued | 37 | 252 | **13,825,553** | 18,479,260 | (25.18) | **13,684,516** | 18,338,039 | (25.38) |
| Other financial liabilities | 38 | 255 | **4,131,671** | 3,014,117 | 37.08 | **4,110,795** | 2,829,708 | 45.27 |
| Insurance liabilities and reinsurance payable | 39 | 255 | **-** | - | - | **5,015,885** | 5,065,220 | (0.97) |
| Lease liabilities | 40 | 257 | **2,286,386** | 1,909,098 | 19.76 | **1,614,660** | 1,594,245 | 1.28 |
| Current tax liabilities | 41 | 258 | **362,450** | 1,803,309 | (79.90) | **883,900** | 2,077,418 | (57.45) |
| Other liabilities | 42 | 259 | **1,069,120** | 975,694 | 9.58 | **1,156,822** | 1,052,756 | 9.89 |
| Retirement benefit obligation | 43 | 259 | **587,257** | 592,871 | (0.95) | **657,778** | 647,929 | 1.52 |
| Deferred tax liabilities | 44 | 262 | **-** | - | - | **297,568** | 418,132 | (28.83) |
| **Total liabilities** |  |  | **130,204,678** | 141,413,561 | (7.93) | **140,169,513** | 150,687,085 | (6.98) |
| **Equity**  Stated capital | 45 | 264 | **14,892,036** | 13,915,414 | 7.02 | **14,892,036** | 13,915,414 | 7.02 |
| Statutory reserve fund | 46 | 265 | **2,406,995** | 2,205,344 | 9.14 | **2,464,951** | 2,235,077 | 10.28 |
| Retained earnings | 47 | 266 | **17,159,777** | 14,227,988 | 20.61 | **20,682,106** | 16,517,824 | 25.21 |
| Other reserves | 48 | 266 | **(117,377)** | (102,114) | 14.95 | **421,319** | 285,103 | 47.78 |
| **Total equity attributable to equity holders of the Company** |  |  | **34,341,431** | 30,246,632 | 13.54 | **38,460,412** | 32,953,418 | 16.71 |
| Non-controlling interest | 49 | 268 | **-** | - | - | **2,661,541** | 2,356,784 | 12.93 |
| **Total equity** |  |  | **34,341,431** | 30,246,632 | 13.54 | **41,121,953** | 35,310,202 | 16.46 |
| **Total liabilities and equity** |  |  | **164,546,109** | 171,660,193 | (4.14) | **181,291,466** | 185,997,287 | (2.53) |
|  |  |  |  |  |  |  |  |  |
| **Contingent liabilities and commitments** | 53 | 270 | **10,998,111** | 5,316,892 | 106.85 | **11,045,100** | 5,350,615 | 106.43 |
| **Net asset value per ordinary share (Rs.)** | 54 | 271 | **20.15** | 18.58 | 8.42 | **22.56** | 20.25 | 11.45 |

We certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

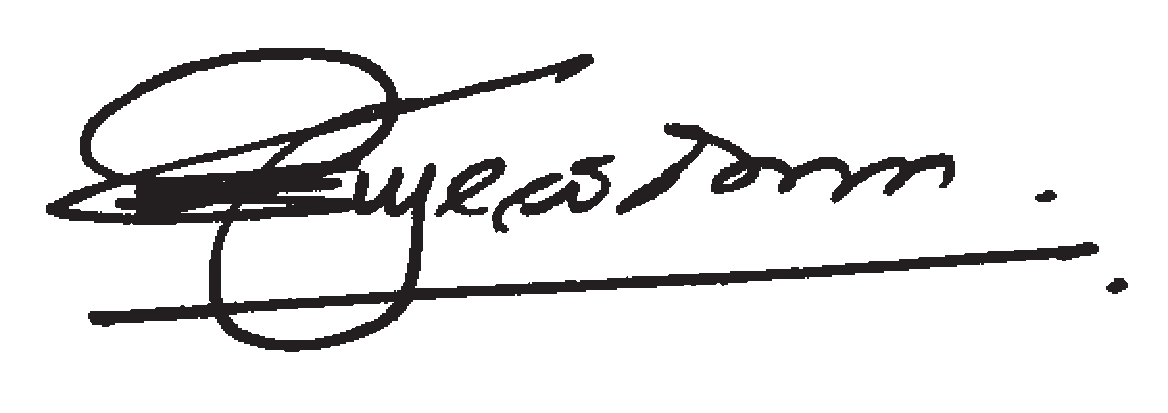




Omal Sumanasiri Shamindra Marcelline

*Chief Manager - Finance Chief Executive Officer*

The Board of Directors is responsible for these Financial Statements. Approved and signed for and on behalf of the Board by;





Sujeewa Rajapakse Rohan Pathirage

*Chairman Director*

The Notes appearing on pages 179 to 307 form an integral part of the Financial Statements. 4 June 2021

Colombo

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Company** | **Stated Capital**  **Rs. '000** | **Statutory Reserve Fund**  **Rs. '000** | **Other**  **Reserves** | **Retained Earnings**  **Rs. '000** | **Total Equity**  **Rs. '000** |
| **Fair Value**  **Reserve**  **Rs. '000** |
| **Balance as at 1 April 2019** | 13,236,073 | 2,058,219 | (52,742) | 13,361,805 | 28,603,355 |
| **Total comprehensive income for the year**  Profit for the year | - | - | - | 2,942,508 | 2,942,508 |
| Other comprehensive income (net of tax) | - | - | (49,372) | 123 | (49,249) |
| **Total comprehensive income for the year** | - | - | (49,372) | 2,942,631 | 2,893,259 |
| **Transactions with equity holders, recognised directly in equity**  Transfers to reserves | - | 147,125 | - | (147,125) | - |
| Dividend paid - Interim | - | - | - | (1,139,392) | (1,139,392) |
| - Final | 679,341 | - | - | (789,931) | (110,590) |
| **Total transactions with equity holders** | 679,341 | 147,125 | - | (2,076,448) | (1,249,982) |
|  |  |  |  |  |  |
| **Balance as at 31 March 2020** | 13,915,414 | 2,205,344 | (102,114) | 14,227,988 | 30,246,632 |
|  |  |  |  |  |  |
| **Balance as at 1 April 2020** | 13,915,414 | 2,205,344 | (102,114) | 14,227,988 | 30,246,632 |
| **Total comprehensive income for the year**  Profit for the year | - | - | - | 4,033,020 | 4,033,020 |
| Other comprehensive income (net of tax) | - | - | (15,263) | 77,042 | 61,779 |
| **Total comprehensive income for the year** | - | - | (15,263) | 4,110,062 | 4,094,799 |
| **Transactions with equity holders, recognised directly in equity**  Transfers to reserves | - | 201,651 | - | (201,651) | - |
| Dividend paid - Interim | 976,622 | - | - | (976,622) | - |
| **Total transactions with equity holders** | **976,622** | **201,651** | **-** | **(1,178,273)** | **-** |
|  |  |  |  |  |  |
| **Balance as at 31 March 2021** | 14,892,036 | 2,406,995 | (117,377) | 17,159,777 | 34,341,431 |

The Notes appearing on pages 179 to 307 form an integral part of the Financial Statements.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Group** | **Stated Capital**  **Rs. '000** | **Statutory Reserve Fund**  **Rs. '000** | **Other Reserves** | | **Retained Earnings**  **Rs. '000** | **Total**  **Rs. '000** | **Non- controlling Interest**  **Rs. '000** | **Total Equity**  **Rs. '000** |
| **Fair Value**  **Reserve**  **Rs. '000** | **Foreign currency translation**  **reserve**  **Rs. '000** |
| **Balance as at 1 April 2019** | 13,236,073 | 2,070,667 | (54,705) | 261,979 | 15,198,424 | 30,712,438 | 2,269,520 | 32,981,958 |
| **Capital gain tax** | - | - | - | - | 14 | 14 | - | 14 |
| **Balance after capital gain tax** | 13,236,073 | 2,070,667 | (54,705) | 261,979 | 15,198,438 | 30,712,452 | 2,269,520 | 32,981,972 |
| **Total comprehensive income for the year** |  |  |  |  |  |  |  |  |
| Profit for the year | - | - | - | - | 3,408,670 | 3,408,670 | 183,079 | 3,591,749 |
| Other comprehensive income (net of tax) | - | - | (61,300) | 139,129 | 4,449 | 82,278 | (3,315) | 78,963 |
| **Total comprehensive income for the year** | - | - | (61,300) | 139,129 | 3,413,119 | 3,490,948 | 179,764 | 3,670,712 |
| **Transactions with equity holders, recognised directly in equity**  Transfers to reserves | - | 164,410 | - | - | (164,410) | - | - | - |
| Dividend paid - Interim | - | - | - | - | (1,139,392) | (1,139,392) | (92,500) | (1,231,892) |
| Final | 679,341 | - | - | - | (789,931) | (110,590) | - | (110,590) |
| **Total transactions with equity holders** | 679,341 | 164,410 | - | - | (2,093,733) | (1,249,982) | (92,500) | (1,342,482) |
|  |  |  |  |  |  |  |  |  |
| **Balance as at 31 March 2020** | 13,915,414 | 2,235,077 | (116,005) | 401,108 | 16,517,824 | 32,953,418 | 2,356,784 | 35,310,202 |
|  |  |  |  |  |  |  |  |  |
| **Balance as at 1 April 2020** | 13,915,414 | 2,235,077 | (116,005) | 401,108 | 16,517,824 | 32,953,418 | 2,356,784 | 35,310,202 |
| **Total comprehensive income for the year**  Profit for the year | - | - | - | - | 5,294,015 | 5,294,015 | 302,319 | 5,596,334 |
| Other comprehensive income (net of tax) | - | - | (5,512) | 141,728 | 76,763 | 212,979 | 2,438 | 215,417 |
| **Total comprehensive income for the year** | **-** | **-** | **(5,512)** | **141,728** | **5,370,778** | **5,506,994** | **304,757** | **5,811,751** |
| **Transactions with equity holders, recognised directly in equity**  Transfers to reserves | - | 229,875 | - | - | (229,875) | - | - | - |
| Dividend paid - Interim | 976,622 | - | - | - | (976,622) | - | - | - |
| **Total transactions with equity holders** | 976,622 | 229,875 | - | - | (1,206,497) | - | - | - |
|  |  |  |  |  |  |  |  |  |
| **Balance as at 31 March 2021** | 14,892,036 | 2,464,952 | (121,517) | 542,836 | 20,682,105 | 38,460,412 | 2,661,541 | 41,121,953 |

The Notes appearing on pages 179 to 307 form an integral part of the Financial Statements.

# ACCOUNTING POLICY

The Statement of Cash Flows has been prepared by using the ‘Direct Method’ of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on ‘Statement of Cash Flows’, whereby operating activities, investing activities and financing activities are separately recognised. Cash and Cash Equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs.'000** | **2020**  **Rs.'000** | **2021**  **Rs.'000** | **2020**  **Rs.'000** |
| **Cash flows from operating activities**  Income from cash and cash equivalent | 6.1 | 189 | **73,753** | 40,471 | **103,501** | 70,219 |
| Payments to loans and receivables |  |  | **(47,647,269)** | (57,215,121) | **(50,862,600)** | (60,513,293) |
| Receipts from loans and receivables |  |  | **78,976,592** | 88,503,718 | **81,166,978** | 91,218,876 |
| Investment in balances with banks and financial institutions |  |  | **(24,145,286)** | (5,345,867) | **(26,225,019)** | (7,914,687) |
| Receipts from balances with banks and financial institutions |  |  | **22,294,433** | 5,928,374 | **25,405,664** | 9,558,349 |
| Investment in debt instrument at amortized cost |  |  | **(22,598,347)** | (13,139,128) | **(23,741,050)** | (13,845,604) |
| Receipts from debt instrument at amortized cost |  |  | **20,089,756** | 17,787,435 | **20,339,756** | 17,787,435 |
| Payment of due to customers |  |  | **(99,054,813)** | (108,586,490) | **(97,571,015)** | (106,951,511) |
| Receipts from due to customers |  |  | **83,652,942** | 115,741,329 | **83,337,190** | 115,392,706 |
| Receipt from other income |  |  | **1,711** | 5,598 | **216,256** | 270,654 |
| Investment in financial assets - fair value through profit or loss |  |  | **(8,881,716)** | (1,752,531) | **(10,028,730)** | (1,752,531) |
| Proceeds from financial assets - fair value through profit or loss | | | **9,966,264** | 755,019 | **10,173,826** | 645,911 |
| Receipt from Financial assets - fair value through OCI |  |  | **-** | - | **979,028** | (67,226) |
| Investment in Financial assets - fair value through OCI |  |  | **-** | - | **(264,333)** | - |
| Payment for personnel expenses |  |  | **(3,575,458)** | (3,589,152) | **(4,377,522)** | (4,440,214) |
| Payment for lease liabilities | 40 | 257 | **(655,969)** | (616,740) | **(409,587)** | (343,968) |
| Payment for other operating activities |  |  | **(872,388)** | (3,819,688) | **(885,891)** | (4,623,040) |
| Premium received from customers |  |  | **-** | - | **5,199,021** | 4,892,492 |
| Claims paid |  |  | **-** | - | **(2,712,682)** | (3,257,590) |
| Gratuity paid | 43 | 259 | **(10,353)** | (10,726) | **(13,148)** | (12,103) |
| Income tax paid | 41.1 | 258 | **(3,349,938)** | (3,071,709) | **(3,534,648)** | (3,339,472) |
| **Net cash generated from operating activities** | 50 | 268 | **4,263,914** | 31,614,791 | **6,294,995** | 32,775,403 |
| **Cash flows from investing activities**  Purchase of property, plant and equipment | 32 | 241 | **(104,690)** | (213,928) | **(152,324)** | (284,215) |
| Proceeds from the sale of property, plant and equipment |  |  | **54,832** | 9,976 | **210,359** | 17,612 |
| Purchase of intangible assets | 34 | 246 | **(360)** | (15,120) | **(11,661)** | (15,120) |
| Dividends received from investments |  |  | **110,673** | 113,091 | **918** | 17,280 |
| **Net cash (used in)/generated from investing activities** |  |  | **60,455** | (105,981) | **47,292** | (264,443) |
| **Cash flows from financing activities**  Payment for due to banks | 35.1 | 248 | **(3,886,355)** | (34,046,652) | **(5,315,691)** | (35,209,177) |
| Borrowing from due to banks | 35.1 | 248 | **1,000,000** | 12,950,000 | **1,500,000** | 12,950,000 |
| Payment for debt securities issued | 37.1 | 252 | **(6,589,468)** | (5,076,951) | **(6,570,514)** | (5,060,941) |
| Dividend paid to shareholders |  |  | **(1,345)** | (1,136,732) | **(1,345)** | (1,136,732) |
| Dividend paid to non-controlling interest |  |  | **-** | - | **-** | (92,500) |
| **Net cash (used in) from financing activities** |  |  | **(9,477,168)** | (27,310,335) | **(10,387,550)** | (28,549,350) |
| **Net (decrease)/increase in cash and cash equivalents** |  |  | **(5,152,799)** | 4,198,475 | **(4,045,263)** | 3,961,610 |
| Cash and cash equivalents at the beginning of the year |  |  | **7,139,456** | 2,940,981 | **6,998,078** | 3,036,468 |
| **Cash and cash equivalents at the end of the year** |  |  | **1,986,657** | 7,139,456 | **2,952,815** | 6,998,078 |
| Cash and cash equivalents |  |  | **2,703,031** | 7,164,139 | **3,844,694** | 7,693,032 |
| Bank overdraft |  |  | **(716,374)** | (24,683) | **(891,879)** | (694,954) |
| Cash and cash equivalents at the end of the year |  |  | **1,986,657** | 7,139,456 | **2,952,815** | 6,998,078 |

The Notes appearing on pages 179 to 307 form an integral part of the Financial Statements.

# CORPORATE AND GROUP INFORMATION

* 1. **Corporate Information**

People’s Leasing & Finance PLC (the ‘Company’), is a Public Limited Liability Company incorporated on 22 August 1995 and domiciled in Sri Lanka. It is a licensed finance company under the Finance Business Act No. 42 of 2011. The Company has a primary listing on the Colombo Stock Exchange on 24 November 2011. The Company was re-registered under the Companies Act No. 07 of 2007.

Its registered office and the principal place of the business is at No. 1161, Maradana Road, Colombo 08.

# Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31 March 2021 comprise People’s Leasing & Finance PLC (Parent Company), its subsidiaries (together referred to as the ‘Group’).

# Parent Entity and Ultimate Parent Entity

The Company’s parent entity is People’s Bank which is a Government owned entity.

# Number of Employees

The staff strength of the Company and Group as at 31 March 2021 is 2,343 and 3,304 respectively. (2,401 and 3,059 as at 31 March 2020).

# Group Information

**Principal Activities and Nature of Operations**

**Company**

***People’s Leasing & Finance PLC***

The principal business activities are providing finance leases, hire-purchase assets financing, term loans, Islamic finance, margin trading, share trading, issue of debt instruments, factoring, gold loans and mobilisation of public deposits.

# Subsidiaries

1. **BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES**
   1. **Statement of Compliance** The consolidated Financial Statements of the Group and Separate Financial Statements

of the Company, as at 31 March 2021 and for the year then ended, have been prepared and presented in accordance with

Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka (CA

Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011, Insurance

Industry Act No. 43 of 2000 and the Listing Rules of the

Colombo Stock Exchange. These Financial Statements, except for information on cash flows have been prepared following the accrual basis of accounting.

Sri Lanka Accounting Standards are available at 'www.casrilanka. com / www.slaasc.lk'.

The Group did not adopt any inappropriate accounting treatments, which are not

in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of the Financial Statements.

Details of the Group’s General Accounting Policies followed during the year are given in Notes 3 on page 182.

* 1. **Responsibility for Financial Statements** The Board of Directors is

responsible for these Financial Statements of the Company and the Group as per the provision of the Companies Act No. 07 of 2007 and SLFRSs and LKASs.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of the Subsidiaries** | **Principal activities** | **Country of incorporation** | **% equity interest** | |
| **2021** | **2020** |
| People’s Leasing Fleet Management Limited | Fleet management, vehicle valuation, sale of vehicles, insurance  assessment, and vehicles repairing. | Sri Lanka | 100% | 100% |
| People’s Leasing Property Development Limited | Carrying out mixed development  projects and property development activities. | Sri Lanka | 100% | 100% |
| People’s Insurance PLC | Carrying out general insurance business | Sri Lanka | 75% | 75% |
| People's Leasing Havelock Properties Limited | Construct and operate an office complex. | Sri Lanka | 100% | 100% |
| People's Micro-commerce Ltd | Providing non-bank financial services to  low income earners and micro enterprises. | Sri Lanka | 100% | 100% |
| Lankan Alliance Finance Limited | Providing leasing of movable and immovable properties and to provide loans. | Bangladesh | 51% | 51% |

The Board of Directors acknowledges their responsibility as set out in the “Annual Report of the Board of Directors on

the Affairs of the Company”, “Directors’ Responsibility for Financial Reporting” and in the certification on the Statement of Financial Position.

These financial statements include the following components:

* a Statement of Profit or Loss and Statement of Comprehensive Income

providing the information on the financial performance of the Company and the Group for the year under review;

* a Statement of Financial Position providing the

# Basis of Measurement

The Financial Statements of the Company and the Group have been prepared on the historical cost basis except for the following items in the Statement of Financial Position:

|  |  |  |
| --- | --- | --- |
| **Item** | **Basis of measurement** | **Note** |
| Financial assets -Fair value through profit or loss | Fair Value | 24 |
| Financial assets - Fair value through other comprehensive income | Fair Value | 27 |
| Investment property | Fair Value | 30 |
| Retirement benefit obligation | Liability is recognised as the present value of the  retirement benefit obligation, plus actuarial gains and losses. | 43 |

# Presentation of Financial Statements

**2.10 Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Financial Statements of the Company and the Group in conformity with SLFRSs and 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. Further, management is also required to consider key assumptions concerning the future and other key sources

of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next

information on the financial

position of the Company and the Group as at the year-end;

* a Statement of Changes in Equity depicting all changes in shareholders‘ equity during the year under review of the Company and the Group;
* a Statement of Cash Flows providing the information to the users, on the ability of the Company and the Group to generate cash and cash equivalents and the needs of entity to utilise those cash flows;and
* Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

# 2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company and the Group for

the year ended 31 March 2021 (including comparatives) were approved and authorised for issue on 4 June 2021 in accordance with the resolution of the Board of Directors on 4 June 2021.

The assets and liabilities of the

Company and the Group in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within

12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 55 (Current/ non-current analysis) on page 272. No adjustments have been made for inflationary factors affecting the Financial Statements.

# Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised

amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in

the consolidated Statement of Profit or Loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the

accounting policies of the Group.

# Functional and

**Presentation Currency**

The Financial Statements of the Group and the Company are presented in Sri Lanka Rupees (Rs.), which is the currency of primary economic environment, in which the Group operates (Group functional currency).

# Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard- LKAS

01 on "Presentation of Financial Statements".

# Materiality and Aggregation

In compliance with the Sri Lanka Accounting Standard - LKAS

01 on ‘Presentation of Financial Statements’, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, unless they are immaterial.

financial year. Actual results may

differ from these estimates.

Accounting judgments, estimates and underlying assumptions

are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

# Going Concern

The Group’s management

has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for a foreseeable future.

Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the

Group’s ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

Going Concern In determining the basis of preparing the financial statements for the year ended 31st March 2021,

based on available information, the management has assessed the existing and anticipated effects of COVID-19 on the Group Companies and the appropriateness of the use of the going concern basis.

Group evaluated the resilience of its businesses considering

a wide range of factors under multiple stress tested scenarios, relating to expected income, cost management, profitability, the ability to defer non-essential capital expenditure ,unused credit lines and the ability to continue providing services

to ensure businesses continue as least impacted as possible. Having presented the outlook for each industry of group to the holding company Board and After evaluating the above by the Management, and after due consideration of the range

and likelihood of outcomes, the Management is satisfied that

the Company have adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing and presenting these financial statements.

# Classification of financial assets

**and liabilities**

As per SLFRS 9, the Significant Accounting Policies of the Group provides scope for financial assets to be classified and subsequently measured into different categories, namely,

at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria;

* The entity’s business model for managing the financial assets as set out in Note 3.5.2 on page 184.
* The contractual cash flow characteristics of the financial assets as set out in Note 3.5.2 on page 184.

# Impairment losses on Financial

**Assets**

The measurement of impairment losses under SLFRS 9 across

all categories of financial assets requires judgement, in particular, the estimation of the amount

and timing of future cash flows and collateral values when determining impairment losses.

The Group/Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets are impaired.

# Impairment Losses on Loans and Receivables

Accordingly, the Group reviews its individually significant

loans and advances at each reporting date to assess whether an impairment loss should be provided in the Statement of Profit or Loss. In particular,

the Management’s judgement 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 hence actual results may differ, resulting in future changes to the impairment allowance made.

Details of the ‘impairment losses on loans and receivables’ are given in Note 25.7 on page 228 to the financial statements.

**Impairment charges on financial investments** Financial investments are categorised under amortised cost subject to Impairment

in accordance with SLFRS 9

-Financial Investment. The Company/Group does not have historical loss experience on debt instruments at amortised cost .Thus the Group considers

PDs published by the external sources i.e. – Bloomberg for external credit rating. LGD for debt securities issued by the Government of Sri Lanka in rupees is considered as 0%, and for all other instruments, industry average is considered as LGD.

Credit risk has not increased significantly relating to financial investments, since initial recognition. Therefore Group did not record expected credit loss in the financial statements for those investments.

**Impairment of FVOCI** Details of the ‘Impairment of FVOCI’ are given in Note 27 on page 234 to the financial statements.

**Useful Life Time of the Property, Plant and Equipment** The Group reviews the residual values, useful lives and methods of depreciation of property,

plant and equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

# Useful Life Time of the Intangible Assets

Details of the ‘useful life-time of the intangible assets’ are given

in Note 34 on page 246 to the financial statements.

**Transfer Pricing Regulation** The Company is subject to income taxes and other taxes including transfer pricing regulations. Prevailing uncertainties with respect to the interpretation of respective transfer pricing regulations,

necessitated using management judgment to determine the impact of transfer pricing regulations. Accordingly critical judgments and estimates were used in applying the regulations in aspects including but not limited to identifying associated undertakings, estimation of the respective arm’s length prices

and selection of appropriate pricing mechanism. The current tax charge is subject to such judgments. Differences between estimated income tax charge

and actual payable may arise as a result of management's

interpretation and application of transfer pricing regulation.

# Deferred Tax

Details of the 'deferred tax' are given in Note 44 on page 262 to the financial statements.

**Retirement Benefit Obligation** Details of the 'retirement benefit obligation' are given in Note

43 on page 259 to the financial statements.

# Valuation of General Insurance Contract Liabilities of Subsidiary People’s Insurance PLC

The estimates of general insurance contracts have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims Incurred, But Not yet Reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjusted estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims, inflation or loss ratios.

# 2.11 Comparative Information

|  |  |  |
| --- | --- | --- |
| **Description** | **Note** | **Page No.** |
|  |  |  |
| **Accounting policies - assets and liabilities** | | |
| Cash and cash equivalents | 22 | 212 |
| Balances with banks & financial institutions | 23 | 213 |
| Financial assets -fair value through profit or loss | 24 | 214 |
| Loans and receivables - amortised cost | 25 | 216 |
| Insurance and reinsurance receivables | 26 | 233 |
| Financial assets - fair value through other comprehensive income | 27 | 234 |
| Debt instrument - amortised cost | 28 | 236 |
| Investments in subsidiaries | 29 | 236 |
| Investment property | 30 | 238 |
| Other assets | 31 | 240 |
| Property, plant and equipment | 32 | 241 |
| Right-of-use assets | 33 | 245 |
| Goodwill and intangible assets | 34 | 246 |
| Due to banks | 35 | 248 |
| Due to customers | 36 | 251 |
| Debt securities issued | 37 | 252 |
| Other financial liabilities | 38 | 255 |
| Insurance liabilities and reinsurance payable | 39 | 255 |
| Lease liabilities | 40 | 257 |
| Current tax liabilities | 41 | 258 |
| Other liabilities | 42 | 259 |
| Retirement benefit obligation | 43 | 259 |
| Deferred tax liabilities/(assets) | 44 | 262 |

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

# GENERAL ACCOUNTING POLICIES

* 1. **Basis of Consolidation**

|  |  |  |
| --- | --- | --- |
| **Description** | **Note** | **Page No.** |
| **Accounting policies - general**  Basis of consolidation | 3.1 | 182 |
| Foreign currency transactions and balances | 3.2 | 183 |
| SLFRS 15 – revenue from contracts with customers | 3.3 | 183 |
| Changes in accounting policies | 3.4 | 183 |
| Financial instruments – initial recognition and subsequent measurement | 3.5 | 184 |
| Impairment of non–financial assets | 3.6 | 186 |
| Provisions | 3.7 | 186 |
| Borrowing costs | 3.8 | 186 |
| Income tax | 3.9 | 186 |
| Deferred tax | 3.10 | 186 |
|  |  |  |
| **Accounting policies - income and expenses** | | |
| Interest income and expenses | 6 | 188 |
| Net earned premium | 7 | 190 |
| Fee and commission income | 8 | 191 |
| Net gains/(losses) on financial assets - FVTPL | 9 | 192 |
| Other operating income | 10 | 192 |
| Impairment charges and other losses for loans and receivables | 11 | 193 |
| Personnel expenses | 12 | 196 |
| Depreciation and amortisation | 13 | 196 |
| Benefits, claims and underwriting expenditure | 14 | 197 |
| Other operating expenses | 15 | 198 |
| Tax on financial services | 16 | 198 |
| Income tax expense | 17 | 199 |
| Basic/diluted earnings per ordinary share | 18 | 202 |

The Consolidated Financial Statements of the Group for the year ended 31 March 2021 include the Company, its subsidiaries and its associate company. The financial statements of the Company’s subsidiaries and associate are prepared for the same reporting year except for People’s Insurance PLC, a subsidiary of People’s Leasing & Finance PLC, whose financial year ends on December 31. For consolidation purpose same reporting year has been used.

# Business Combination and Goodwill

Business combinations are accounted for using the Acquisition method as per the requirements of Sri Lanka Accounting Standard - SLFRS 03 (Business Combinations).

The Group and the Company measure goodwill as the fair value of the consideration transferred including the recognised amount of any non- controlling interest in the acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in Statement of Profit or Loss.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net amount of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes

in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from

the acquisition date, allocated to each of the Group’s cash–

generating units (CGUs) or group of CGUs, which are expected

to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Statement of Profit or Loss.

* + 1. **Common Control Business Combination** Common control business combinations are accounted using the guidelines issued under Statement of Recommended Practice (SoRP) - Merger accounting for common control business combination issued

by The Institute of Chartered Accountants of Sri Lanka.

# 3.1.3 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in Statement of Profit or Loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

# 3.1.4 Transactions Eliminated on Consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing

the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees

are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent

that there is no evidence of impairment.

# 3.2 Foreign Currency Transactions and Balances

All foreign currency transactions are translated into the functional currency which is Sri Lankan Rupees (Rs.) at the spot exchange rate at the date of the transactions were affected. In

this regard, the Group’s practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot rate of exchange at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency

at the beginning of the year adjusted for effective interest and payments during the year

and the amortised cost in foreign currency translated at the exchange rate at the reporting date.

Non–monetary items that are measured in terms of historical cost in a foreign currency

are translated using the spot exchange rates as at the date of recognition. Non-monetary

items measured at fair value in

a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

# 3.3 SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 replaces revenue recognition guidance, including LKAS 18 on “Revenue”, LKAS 11 on “Construction Contracts” and IFRIC 13 on “Customer Loyalty Programmes” and is effective for annual reporting periods beginning on or after 1 April, 2018.

SLFRS 15 provides a comprehensive framework

for determining whether, how much, and when revenue is recognised. SLFRS 15 requires new qualitative and quantitative disclosure aimed at enabling users of Financial Statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities are required to apply five-step model to determine when to recognise revenue and at what amount. The

model specifies that revenue is recognised when or as an

entity transfers control of goods and services to a customer at

the amount at which the entity expects to be entitled.

# 3.4 Changes in Accounting Policies

In these financial statements, the Group has applied Sri Lanka Accounting Standard

* Amendments to SLFRS

3: Definition of a Business, Amendments to LKAS 1 and LKAS 8: Definition of

Material, and Amendments to the conceptual framework for

financial reporting which became effective for the annual reporting periods beginning on or after 1 January 2020, for the first time. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not effective.

# 3.4.1 Amendments to SLFRS 3: Definition of a Business

In November 2018, the CA Sri Lanka issued amendments to the definition of a business in SLFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for a business, remove the assessment of whether market participants

are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

These amendments had no impact on the Consolidated Financial Statements of the Group, but may impact future periods should the Group enter into any business combinations.

**Amendments to LKAS 1 and LKAS 8: Definition of Material** In November 2018, the CA

Sri Lanka issued amendments to LKAS 1 and Sri Lanka Accounting Standard – LKAS 8 on “Accounting Policies,

Changes in Accounting Estimates and Errors” to align the definition of ‘material’ across the standards and to clarify certain aspects

of the term ‘definition’. The new definition states that, ’Information is material if

omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on

the basis of those Financial Statements, which provide financial information about a specific reporting entity.’

These amendments had no impact on the Consolidated Financial Statements of, nor is there expected to be any future impact to, the Group.

# Amendments to the conceptual framework for financial reporting

CA Sri Lanka has issued a revised Conceptual Framework which will be used in standard setting decisions with immediate effect. Key changes include:

* increasing the prominence of stewardship in the objective of financial reporting
* defining a reporting entity, which may be a legal entity, or a portion of an entity
* reinstating prudence as a component of neutrality
* revising the definitions of an asset and a liability
* removing the probability threshold for recognition and adding guidance on derecognition
* adding guidance on different measurement basis, and
* stating that profit or loss is the primary

performance indicator and that, in principle, income and expenses in other comprehensive income

should be recycled where this enhances the relevance or faithful representation of the financial statements.

These amendments had no impact on the Consolidated financial statements of the Group.

# 3.5 Financial Instruments

**– Initial Recognition and**

**Subsequent Measurement**

**3.5.1 Date of Recognition**

All financial assets and liabilities except ‘regular way trades’

are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. ‘Regular way

trades’ means purchases or sales of financial assets that requires delivery of assets within the

time frame generally established by regulation or convention in the market place. Those trades are initially recognised on the settlement date.

# 3.5.2 Classification and Subsequent Measurement of Financial Assets

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

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

The subsequent measurement of financial assets depends on their classification.

**Business model assessment** With effect from 1 April 2018, the Group makes an assessment of the objective of a business

model in which an asset is held at a portfolio level and not assessed on instrument-by- instrument basis because this best reflects

the way the business is managed and information is provided to management. The information considered includes:

* the stated policies and objectives for the portfolio and the operation of

those policies in practice. In particular, whether management’s strategy

focuses on earning contractual interest revenue, maintaining

a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

* how the performance of the portfolio is evaluated

and reported to the Group’s management;

* the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
* how managers of the business are compensated – e.g. whether compensation is based on the fair value

of the assets managed or the contractual cash flows collected; and

* the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

However, information about sales activity is not

considered in isolation, but as part of an overall assessment of how the Group’s stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

As a second step of its classification process the Group assesses the contractual terms

of financial assets to identify whether they meet the SPPI test.

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

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

In contrast, contractual terms that introduce a more than the minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

In such cases, the financial asset is required to be measured at FVTPL.

In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Group considers the contractual terms of the instrument. This includes assessing whether the financial

asset contains a contractual term that could change the timing

or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

* Contingent events that would change the amount and timing of cash flows;
* Leverage features;
* Prepayment and extension terms;
* Terms that limit the Group’s claim to cash flows from specified assets; and
* Features that modify consideration of the time value of money.

The Group holds a portfolio of long-term fixed rate loans for which the Group has the

option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in

a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Details on different types of financial assets recognised on the SOFP.

# Financial assets measured at amortised cost

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

* The asset is held within a business model whose

objective is to hold assets to collect contractual cash flows; and

* The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are given in Notes 22,23,25,26,28 and 35 to 41 on

pages 212, 213, 216, 233, 236

and 248 to 258.

# Financial assets measured at

**FVOCI**

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

comprehensive income. Financial assets measured at FVOCI are given in Notes 27 on page 234.

# Financial assets measured at

**FVTPL**

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on

a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows

and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss which are discussed in Notes 24 on page 214.

**Financial assets designated at fair value through profit or loss** As per SLFRS 9, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL when such designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss as at the end of the reporting period.

# Derecognition of Financial Assets and Financial Liabilities

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when;

* The rights to receive cash flows from the asset which have expired;
* The Group and 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;

* + The Group and

Company has transferred substantially all the risks and rewards of the asset; or

* + The Group and 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 and consideration received and any cumulative gain or loss that has been recognised in Statement

of Comprehensive Income is recognised in Statement of Profit or Loss.

When the Group and Company has transferred its rights to receive cash flows from an asset or has entered into a

pass-through arrangement,

and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized

to the extent of the group’s continuing involvement in the asset. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group

has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the

asset and the maximum amount of consideration that the group could be required to repay.

# Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged

or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially

different terms, or the terms of an existing liability are substantially modified, such an exchange

or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference

between the carrying value of the original financial liability and the consideration paid is recognised in Statement of Profit or Loss.

# Offsetting 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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross

in the Statement of Financial Position.

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

# Determination of fair

**value**

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 21 on page 205.

# Impairment of Non–

**Financial Assets**

The carrying amounts of the Group’s non financial assets, other than deferred tax assets are reviewed at each Reporting date

whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing of an asset

is required, the Group estimates the asset’s recoverable amount.

An asset’s recoverable amount

is the higher of an asset’s or cash generating unit’s fair value less costs to sell and its value in use.

Where the carrying amount of an asset or cash – generating

unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount

rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated

by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each

reporting date as to whether there is any indication that previously recognised impairment losses may have decreased. If such indication exists the Group estimates the asset’s or cash- generating unit’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss

was recognised, the reversal is limited so that the carrying amount of the asset does not

exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation/

amortisation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognised in Statement of Profit or Loss.

# Provisions

Provisions are recognised in the Statement of Financial Position when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources

embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of

the obligation in accordance with the Sri Lanka Accounting

Standard - LKAS 37 on ‘Provision, Contingent Liabilities and Contingent Assets’. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks

and uncertainties surrounding the obligation at that date. The

expense relating to any provision is presented in the Statement

of Profit or Loss net of any reimbursement.

# 3.8 Borrowing Costs

As per Sri Lanka Accounting Standard- LKAS 23 on ‘Borrowing Costs’, the Group capitalizes borrowing costs that are directly attributable to

the acquisition, construction or production of qualifying asset

as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs

are recognised in the Statement of Profit or Loss in the period in which they occur.

# Income tax

Details of the 'income tax expense' are given in Note 17 on page 199 to the financial statements.

# Deferred Tax

Details of the 'deferred tax' are given in Note 44 on page 262 to the financial statements.

# Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

# Tax on Financial Services

Details of the 'VAT, NBT

and Debt repayment Levy on financial services are given

in Note 16 on page 198 to the financial statements.

# STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following Sri Lanka Accounting Standards and interpretations were issued by The Institute of Chartered Accountants of Sri Lanka

but not yet effective as at 31 March 2021. Accordingly these accounting standards have not been applied in the preparation of the Financial Statements

for the year ended 31 March 2021. Following amendment is not expected to have a

material impact on the Financial Statements of the Company/ Group in the foreseeable future.

**IFRS 17- Insurance Contracts** SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace IFRS 4 Insurance Contracts (SLFRS 4). 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.

SLFRS 17 is effective for annual reporting periods beginning on or after 01 January 2023. Early application is permitted, if the entity is applying both Sri Lanka Accounting Standard - SLFRS

9 “Financial Instruments” and Sri Lanka Accounting Standard

* SLFRS 15 “Revenue from Contracts with Customers” on or before the date on which it first apply SLFRS 17.

|  |  |  |  |
| --- | --- | --- | --- |
| **Amendments to SLFRS 9,** | The amendment applies to annual | **Property, Plant and** | The amendments are effective |
| **LKAS 39, SLFRS 7, SLFRS 4** | reporting periods beginning on | **Equipment: Proceeds before** | for annual reporting periods |
| **and SLFRS 16 – Interest Rate** | or after 01 June 2020. Early | **Intended Use – Amendments to** | beginning on or after 1 January |
| **Benchmark Reform (Phase 1** | application of this amendment | **LKAS 16** | 2022. The Group will apply these |
| **& 2)** | was permitted. Incase entity has | In March 2021, the CA Sri Lanka | amendments to contracts for |
| The amendments to SLFRS 9 | early adopted this amendment | adopted amenments to LKAS16 | which it has not yet fulfilled all |
| & LKAS 39 provide a number | above disclosure should not | - Property, Plant and Equipment | its obligations at the beginning |
| of reliefs, which apply to all | be included under impending | — Proceeds before Intended | of the annual reporting period |
| hedging relationships that are | standard note - it may be | Use, which prohibits entities | in which it first applies the |
| directly affected by interest rate | reflected under the note "Changes | deducting from the cost of an item | amendments. The Company/ |
| benchmark reform. A hedging | in accounting policies /new and | of property, plant and equipment, | Group is currently assessing the |
| relationship is affected if the | amended standards adopted | any proceeds from selling items | potential impact on its Financial |
| reform gives rise to uncertainty | during the year". The Company/ | produced while bringing that | Statements resulting from this |
| about the timing and/or amount | Group is currently assessing the | asset to the location and condition | amendment. |
| of benchmark-based cash flows | potential impact on its Financial | necessary for it to be capable of |  |
| of the hedged item or the hedging | Statements resulting from this | operating in the manner intended | **Amendments to LKAS 1:** |
| instrument. | amendment. | by management. Instead, an entity | **Classification of Liabilities as** |
|  |  | recognises the proceeds from | **Current or Non-current** |
| IBOR reforms Phase 2 include | **Amendments to SLFRS 3** | selling such items, and the costs | In March 2021 , CA Sri Lanka |
| number of reliefs and additional | The amendments update | of producing those items, in profit | adopted amendments to |
| disclosures. Amendments | SLFRS 3 so that it refers to the | or loss. | paragraphs 69 to 76 of LKAS 1 |
| supports companies in applying | 2018 Conceptual Framework |  | which specify the requirements |
| SLFRS when changes are made | instead of the 1989 Framework. | The amendment is effective | for classifying liabilities as |
| to contractual cashflows or | They also add to SLFRS 3 a | for annual reporting periods | current or non-current. The |
| hedging relationships because of | requirement that, for obligations | beginning on or after 1 January | amendments clarify: |
| the reform. | within the scope of LKAS | 2022 and must be applied |  |
|  | 37, an acquirer applies LKAS | retrospectively to items of | * What is meant by a right to |
| These amendments to various | 37 to determine whether at | property, plant and equipment | defer settlement |
| standards are effective for | the acquisition date a present | made available for use on or | * That a right to defer must |
| the annual reporting periods | obligation exists as a result of | after the beginning of the earliest | exist at the end of the |
| beginning on or after 01 | past events. For a levy that would | period presented when the entity | reporting period |
| January 2021. The Company/ | be within the scope of IFRIC | first applies the amendment. The | * That classification is |
| Group is currently assessing the | 21 Levies, the acquirer applies | Company/Group is currently | unaffected by the likelihood |
| potential impact on its Financial | IFRIC 21 to determine whether | assessing the potential impact on | that an entity will exercise its |
| Statements resulting from this | the obligating event that gives | its Financial Statements resulting | deferral right |
| amendment. | rise to a liability to pay the levy | from this amendment. | * That only if an embedded |
|  | has occurred by the acquisition |  | derivative in a convertible |
| **Amendments to SLFRS 16** | date.Finally, the amendments | **Onerous Contracts – Costs** | liability is itself an equity |
| **- COVID – 19 Related Rent** | add an explicit statement that | **of Fulfilling a Contract –** | instrument would the terms |
| **Concessions** | an acquirer does not recognise | **Amendments to LKAS 37** | of a liability not impact its |
| The amendments provide | contingent assets acquired in a | In March 2021, the CA Sri Lanka | classification " |
| relief to lessees from applying | business combination. | adopted amendments to LKAS |  |
| SLFRS 16 guidance on lease |  | 37 to specify which costs an | The amendments are effective |
| modification accounting for rent | The amendments are effective | entity needs to include when | for annual reporting periods |
| concessions arising as a direct | for business combinations for | assessing whether a contract is | beginning on or after 1 January |
| consequence of the COVID-19 | which the date of acquisition is | onerous or loss-making. | 2022 and must be applied |
| Pandemic. | on or after the beginning of the |  | retrospectively. The Company/ |
|  | first annual period beginning | The amendments apply a | Group is currently assessing the |
| As a practical expedient, a | on or after 1 January 2022. | “directly related cost approach”. | potential impact on its Financial |
| lessee may elect not to assess | Early application is permitted if | The costs that relate directly to | Statements resulting from this |
| whether a COVID-19 related | an entity also applies all other | a contract to provide goods or | amendment. |
| rent concession from a lessor is a | updated references (published | services include both incremental |  |
| lease modification. A lessee that | together with the updated | costs and an allocation of |  |
| makes this election accounts for | Conceptual Framework) at | costs directly related to |  |
| any change in lease payments | the same time or earlier. The | contract activities. General |  |
| resulting from COVID-19 related | Company/Group is currently | and administrative costs do |  |
| rent concession the same way | assessing the potential impact on | not relate directly to a contract |  |
| it would account for the change | its Financial Statements resulting | and are excluded unless they |  |
| under SLFRS16, if the change | from this amendment. | are explicitly chargeable to the |  |
| were not a lease modification. |  | counterparty under the contract. |  |

# GROSS INCOME

**ACCOUNTING POLICY**

Income is recognised to the extent that it is probable that the economic benefits will flow to the Company/Group and revenue can be reliably measured. The specific recognition criteria, for each type of income, given under the respective income notes.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Interest income | 6.1 | 189 | **24,983,445** | 31,459,108 | **26,821,838** | 33,282,879 |
| Net earned premium | 7. | 190 | **-** | - | **5,028,549** | 5,202,030 |
| Fee and commission income | 8. | 181 | **1,818,675** | 1,694,014 | **1,198,054** | 1,165,632 |
| Net gains/(losses) on financial assets - FVTPL | 9 | 192 | **162,616** | 11,017 | **228,258** | 19,586 |
| Other operating income | 10 | 192 | **139,062** | 435,175 | **368,566** | 384,703 |
| **Total** |  |  | **27,103,798** | 33,599,314 | **33,645,265** | 40,054,830 |

# NET INTEREST INCOME

**ACCOUNTING POLICY**

**Recognition of Income and Expenses**

Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

# Interest Income and Expenses

For all financial instruments measured at amortised cost, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as ‘Interest income’ for financial assets and ‘Interest expense’ for financial liabilities. However, for a reclassified financial asset for which the Company subsequently increases its estimates

of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Under SLFRS 9, interest income and Interest expense are recorded using the Effective Interest rate method for all financial assets measured at amortised cost and all financial labilities measured at amortised cost respectively.

Revenue can be recognized only when it is probable that the economic benefit associate with the transaction will flow to the entity. However when uncertainty arise about the recoverability, revenue recognition should be ceased. With the adoption of SLFRS 9 –“Financial instrument”,

Customer default point (Uncertainty about the recoverability) has been change to 90 days past due. Accordingly interest income can be recognized only up to 90 days past due.

# Interest on Overdue Rentals

Interests from overdue rentals have been accounted for on a cash basis.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Interest income | 6.1 | 189 | **24,983,445** | 31,459,108 | **26,821,838** | 33,282,879 |
| Interest expenses | 6.2 | 189 | **13,064,310** | 15,786,586 | **13,375,197** | 16,110,935 |
| **Net interest income** |  |  | **11,919,135** | 15,672,522 | **13,446,641** | 17,171,944 |

# INTEREST INCOME

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Cash and cash equivalents |  |  | **73,753** | 40,471 | **103,501** | 70,219 |
| Balances with banks and financial institutions |  |  | **340,778** | 385,414 | **471,229** | 510,760 |
| Loans and receivables - Amortised cost | 6.1.1 | 189 | **24,190,261** | 30,280,577 | **25,589,345** | 31,530,367 |
| Debt instrument - Amortised cost |  |  | **378,653** | 752,646 | **657,763** | 1,171,533 |
| **Total interest income** |  |  | **24,983,445** | 31,459,108 | **26,821,838** | 33,282,879 |

* + 1. **Interest income - Loans and Receivables**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Lease/Ijarah receivable | **14,176,359** | 17,767,878 | **14,178,588** | 17,770,273 |
| Hire-Purchase/ Murabah receivable | **5,479** | 34,709 | **823,834** | 822,222 |
| Term loans and receivables | **10,008,423** | 12,477,990 | **10,586,923** | 12,937,872 |
| **Total** | **24,190,261** | 30,280,577 | **25,589,345** | 31,530,367 |

* 1. **Interest Expenses**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Due to banks | 6.2.1 | 190 | **671,106** | 1,736,221 | **949,639** | 2,066,943 |
| Due to customers | 6.2.1 | 190 | **10,228,458** | 11,530,604 | **10,316,632** | 11,595,328 |
| Debt securities issued | 6.2.1 | 190 | **1,935,761** | 2,281,180 | **1,916,991** | 2,264,940 |
| Lease liabilities | 6.2.1 | 190 | **228,985** | 238,581 | **191,935** | 183,724 |
| **Total interest expenses** |  |  | **13,064,310** | 15,786,586 | **13,375,197** | 16,110,935 |

* + 1. **Interest expenses - product wise**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **Due to banks**  Interest on bank overdraft |  |  | **1,272** | 2,511 | **25,769** | 31,811 |
| Interest on short term loan |  |  | **14,963** | 286,526 | **16,372** | 286,659 |
| Interest on term loan |  |  | **4,980** | 402,721 | **257,608** | 704,009 |
| Interest on securitization |  |  | **649,891** | 1,044,463 | **649,890** | 1,044,464 |
| Subtotal |  |  | **671,106** | 1,736,221 | **949,639** | 2,066,943 |
| **Due to customers**  Interest cost on deposits |  |  | **10,228,458** | 11,530,604 | **10,316,632** | 11,595,328 |
| Subtotal |  |  | **10,228,458** | 11,530,604 | **10,316,632** | 11,595,328 |
| **Debt securities issued**  Interest on debentures | 37.1 | 252 | **1,935,761** | 2,281,180 | **1,916,991** | 2,264,940 |
| Subtotal |  |  | **1,935,761** | 2,281,180 | **1,916,991** | 2,264,940 |
| **Lease liabilities**  SLFRS 16-Incremental Borrowing Cost | 40 | 257 | **228,985** | 238,581 | **191,935** | 183,724 |
| Subtotal |  |  | **228,985** | 238,581 | **191,935** | 183,724 |
| **Total interest expenses** |  |  | **13,064,310** | 15,786,586 | **13,375,197** | 16,110,935 |

1. **NET EARNED PREMIUM**

**ACCOUNTING POLICY**

**Product classification of insurance and investment contracts**

SLFRS 4 - "Insurance Contracts", requires contracts written by insurer to be classified as either ‘Insurance contracts’ or ‘Investment contracts’ depending on the level of insurance risk transferred.

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders, if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable, if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk, and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variables, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

All the products sold by the People's Insurance PLC (Subsidiary of PLC) are insurance contracts and therefore classified as insurance contracts under SLFRS 4 - Insurance Contracts. Thus, the Group does not have any investment contracts within its product portfolio as at the reporting date.

# Revenue recognition of gross written premium

Gross written premium (GWP) represents the premium charged by the Group to underwrite risks. GWP is accounted on accrual basis.

Gross written premium comprises the total premiums received/receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

Rebates that form part of the premium rate, such as no claim rebates are deducted from GWP.

# Insurance - Revenue Recognition Gross Written Premium

Non-life insurance gross written premium comprises the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

# Reinsurance Premium

Non-life gross reinsurance premium written comprises the total premium payable for the whole cover provided by contracts entered into the period and are recognised on the date on which the policy incepts. Premium includes any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

# Unearned Premium Reserve

Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 365 basis.

# Unearned Reinsurance Premium Reserve

Unearned reinsurance premium is the proportion of premium written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Gross written premium | **-** | - | **6,133,052** | 5,958,629 |
| Less: Premium ceded to reinsurers | **-** | - | **956,324** | 631,221 |
| Less: Change in reserve unearned premium | **-** | - | **148,179** | 125,378 |
| **Total** | **-** | - | **5,028,549** | 5,202,030 |

# FEE AND COMMISSION INCOME

**ACCOUNTING POLICY**

**Fee and Commission Income**

The Group earns fee and commission income from a diverse range of services it provides to its customers. Commission income is recognised on accrual basis. Fee income can be divided into the following two categories;

# Fee Income Earned from Services that are Provided over a Certain Period of Time

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

# Fee Income from Providing Transaction Services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the documents and inspection of vehicle are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Service charges | **583,452** | 642,507 | **149,021** | 201,485 |
| Other fees and commission | **1,235,223** | 1,051,507 | **1,049,033** | 964,147 |
| **Total** | **1,818,675** | 1,694,014 | **1,198,054** | 1,165,632 |

# NET GAINS/(LOSSES) ON FINANCIAL ASSETS - FVTPL

**ACCOUNTING POLICY**

This comprise all gains and losses from changes in fair value including realised and unrealised fair value changes for financial assets ‘Fair value through profit or loss’.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Net gain/(Loss) on financial assets - FVTPL Net mark-to-market (losses)/gain | **(10,455)** | 4,772 | **25,864** | 11,448 |
| Net capital gains | **173,071** | 6,245 | **202,394** | 8,138 |
| **Total** | **162,616** | 11,017 | **228,258** | 19,586 |

# OTHER OPERATING INCOME

**ACCOUNTING POLICY**

Other Operating income includes income earned on other sources, which are not directly related to the normal operations of the group and is recognized on accrual basis.

# Gain on sale of property, plant and equipment

Gains or losses resulting from the disposal of property, plant and equipment are accounted for on cash basis in the Statement of Profit or Loss, in the period in which the sale occurs.

# Hiring Income

Hiring income from vehicle on hire is recognised in the Statement of Profit or Loss based on the agreement entered between the owner and tenant for the year.

# Operating lease income

Income arising on operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the Statement of Profit or Loss in other operating income.

# Rent income from investment property

Rent income from investment property is recognised in the Statement of Profit or Loss based on the accrual basis.

# Net Trading Income from Sale of Vehicles

Revenue from the sale of imported vehicles is recognised when the significant risks and rewards of ownership of the vehicles have transferred to the buyer, usually on dispatch of the vehicles.

# Dividend Income

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

# Gain/(Loss) on sale of investment properties

Gains or losses resulting from the sale of investment properties are accounted for on cash basis in the Statement of Profit or Loss, in the period in which the sale occurs.

# Valuation income

Valuation income is recognised when they are realised or realisable.

# Insurance fee income

Insurance Policy holders are charged for policy administration services and other contract fees. These fees are recognised as income upon receipt or being due.

# Other Income

Other income is recognised on an accrual basis.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Gain on sale of property, plant and equipment | **22,823** | 6,183 | **74,774** | 6,183 |
| Hiring income | **-** | - | **24,939** | 26,583 |
| Operating leases income | **-** | - | **27,487** | 29,061 |
| Rent income from investment property | **-** | - | **72,248** | 90,284 |
| Net trading income from sale of vehicles | **4,620** | 301 | **4,620** | 301 |
| Dividend income from - FVOCI | **640** | 14,658 | **640** | 14,658 |
| - Subsidiaries | **110,000** | 406,750 | **-** | - |
| - FVTPL | **33** | 1,683 | **278** | 2,622 |
| Gain/(Loss) on sale of investment properties | **-** | - | **-** | - |
| Valuation income | **-** | - | **92,166** | 108,448 |
| Insurance fee income | **-** | - | **55,761** | 54,838 |
| Other income | **946** | 5,600 | **15,653** | 51,725 |
| **Total** | **139,062** | 435,175 | **368,566** | 384,703 |

# IMPAIRMENT CHARGES AND OTHER LOSSES FOR LOANS AND RECEIVABLES

**ACCOUNTING POLICY**

The Company and the Group recognise the changes in the impairment provisions for loans and receivables which are assessed as per the SLFRS 9 - Financial Instruments. The methodology adopted by the Company and the Group is explained in Note 25 on page 216 to these financial statements.

# Loss on disposal of collaterals including write offs

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

Recovery of written-off debts/disposal losses.

Recovery of amounts written-off as bad and doubtful debts is recognised on a cash basis

# Other receivable

This include impairment charges for other assets.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Individual impairment | 11.3/11.4 | 195 | **(148,063)** | 839,569 | **(260,794)** | 952,300 |
| Collective impairment | 11.3/11.4 | 195 | **665,766** | 2,966,327 | **971,185** | 2,940,618 |
| Other receivable | 11.1/11.2 | 194 | **18,672** | - | **55,707** | 34,346 |
| Loss on disposal of collaterals including write offs |  |  | **603,692** | 953,786 | **683,057** | 1,090,659 |
| Recovery of written-off debts/disposal losses |  |  | **(96,230)** | (112,999) | **(96,666)** | (116,021) |
| **Total** | 11.1/11.2 | 194 | **1,043,837** | 4,646,683 | **1,352,489** | 4,901,902 |

# IMPAIRMENT CHARGE/(REVERSAL) AND OTHER LOSSES FOR LOANS (DETAILED BREAKDOWN) - COMPANY

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **2021** | | | |
| **Disposal loss/Write- offs (net of**  **recovery)**  **Rs. '000** | **Charge**  **Rs. '000** | **(Reversal)**  **Rs. '000** | **Net Amount**  **Rs. '000** |
| Lease/Ijarah receivable | **293,766** | **1,519,992** | **(1,733,151)** | **80,607** |
| Hire-Purchase/ Murabah receivable | **(5,316)** | **74,128** | **(10,712)** | **58,100** |
| Term Loan and receivables | **219,012** | **3,109,114** | **(2,441,668)** | **886,458** |
| Other receivables | **-** | **18,672** | **-** | **18,672** |
| **Total** | **507,462** | **4,721,906** | **(4,185,531)** | **1,043,837** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **2020** | | | |
| **Disposal loss/Write- offs (net of**  **recovery)**  **Rs. '000** | **Charge**  **Rs. '000** | **(Reversal)**  **Rs. '000** | **Net Amount**  **Rs. '000** |
| Lease/Ijarah receivable | 586,795 | 2,524,239 | (829,916) | 2,281,118 |
| Hire-Purchase/ Murabah receivable | (9,027) | 58,737 | (11,526) | 38,184 |
| Term Loan and receivables | 263,019 | 3,065,761 | (1,001,399) | 2,327,381 |
| **Total** | 840,787 | 5,648,737 | (1,842,841) | 4,646,683 |

* 1. **Impairment charge/(reversal) and other losses for loans (Detailed breakdown) - Group**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **2021** | | | |
| **Disposal loss/Write- offs (net of**  **recovery)**  **Rs. '000** | **Charge**  **Rs. '000** | **(Reversal)**  **Rs. '000** | **Net Amount**  **Rs. '000** |
| Lease/Ijarah receivable | **293,330** | **1,519,992** | **(1,733,151)** | **80,171** |
| Hire-Purchase/ Murabah receivable | **2,437** | **194,347** | **(10,712)** | **186,072** |
| Term Loan and receivables | **290,624** | **3,181,582** | **(2,441,667)** | **1,030,539** |
| Other receivable | **-** | **55,707** | **-** | **55,707** |
| **Total** | **586,391** | **4,951,628** | **(4,185,530)** | **1,352,489** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **2020** | | | |
| **Disposal loss/Write- offs (net of**  **recovery)**  **Rs. '000** | **Charge**  **Rs. '000** | **(Reversal)**  **Rs. '000** | **Net Amount**  **Rs. '000** |
| Lease/Ijarah receivable | 720,646 | 2,524,239 | (829,916) | 2,414,969 |
| Hire-Purchase/ Murabah receivable | (9,027) | 210,150 | (11,526) | 189,597 |
| Term Loan and receivables | 263,019 | 3,089,724 | (1,089,753) | 2,262,990 |
| Other receivable | - | 34,346 | - | 34,346 |
| **Total** | 974,638 | 5,858,459 | (1,931,195) | 4,901,902 |

* 1. **Impairment charge to the income statement – Company**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **2021** | | | |
| **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Financial assets at amortised cost – Loans and receivables  - Individual impairment | **-** | **-** | **(148,063)** | **(148,063)** |
| - Collective impairment | **156,312** | **(69,899)** | **579,353** | **665,766** |
| **Total** | **156,312** | **(69,899)** | **431,290** | **517,703** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **2020** | | | |
| **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Financial assets at amortised cost – Loans and receivables  - Individual impairment | - | - | 839,569 | 839,569 |
| - Collective impairment | (18,943) | 499,561 | 2,485,709 | 2,966,327 |
| **Total** | (18,943) | 499,561 | 3,325,278 | 3,805,896 |

* 1. **Impairment charge to the income statement – Group**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **2021** | | | |
| **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Financial assets at amortised cost – Loans and receivables  - Individual impairment | **-** | **-** | **(260,794)** | **(260,794)** |
| - Collective impairment | **244,872** | **(71,348)** | **797,661** | **971,185** |
| **Total** | **244,872** | **(71,348)** | **536,867** | **710,391** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **2020** | | | |
| **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Financial assets at amortised cost – Loans and receivables  - Individual impairment | - | - | 952,300 | 952,300 |
| - Collective impairment | 9,901 | 602,968 | 2,327,749 | 2,940,618 |
| **Total** | 9,901 | 602,968 | 3,280,049 | 3,892,918 |

1. **PERSONNEL EXPENSES**

**ACCOUNTING POLICY**

Personnel expenses include salaries, bonus, terminal benefit charges and other related expenses. The provision for bonus is recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

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

Retirement benefit obligation is recognised in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability in accordance with Sri Lanka Accounting Standard - LKAS 19 - Employee Benefits.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Remuneration |  |  | **3,117,406** | 3,361,639 | **3,928,410** | 4,152,280 |
| Employee benefit - Defined contribution plans - EPF |  |  | **188,764** | 182,755 | **237,748** | 227,447 |
| Employee benefit - Defined contribution plans - ETF |  |  | **47,461** | 45,666 | **58,590** | 56,795 |
| Employee benefit - Retirement benefit obligation - Gratuity | 43 | 259 | **111,742** | 111,325 | **129,888** | 124,504 |
| **Total** |  |  | **3,465,373** | 3,701,385 | **4,354,636** | 4,561,026 |

# DEPRECIATION AND AMORTISATION

**ACCOUNTING POLICY**

**Depreciation**

Depreciation is recognised in Statement of Profit or Loss on a straight–line basis to their residual values over the estimated useful lives of

each part of an item of property, plant and equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives are as follows;

|  |  |  |
| --- | --- | --- |
| **Class of asset** | **% per annum** | **Period** |
| Freehold buildings | 2 | 50 years |
| Improvement of leasehold property | 25 | 4 years |
| Motor vehicles | 12.5 - 20 | 5 - 8 years |
| Computer hardware | 20 | 5 years |
| Office equipments | 10 - 20 | 5 -10 years |
| Furniture and fittings | 20 | 5 years |

The above rates are consistently used by all the Group entities. The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary

for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 32 on page 241.

# Amortisation of Right-of-Use Assets

The right-of-use asset is subsequently depreciated. Depreciation is over the shorter of the useful life of the asset and the lease term (Note 33 on page 245).

# Amortisation of Intangible Assets

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

|  |  |  |
| --- | --- | --- |
| **Class of asset** | **% per annum** | **Period** |
| Computer software | 20 | 5 years |

The unamortised balances of intangible assets with finite lives are reviewed for impairment annually and whenever there is an indication for impairment and recognised in Statement of Profit or Loss to the extent that they are no longer probable of being recovered from the expected future benefits.

All classes of intangible assets together with the reconciliation of carrying amounts and accumulated amortisation at the beginning and at the end of the year are given in Note 34 on page 246.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Deprecation of property, plant and equipment | 32 | 241 | **167,360** | 164,492 | **292,245** | 292,404 |
| Amortisation - Right-of-use assets | 33 | 245 | **543,769** | 538,230 | **340,349** | 332,830 |
| Amortisation of intangible assets | 34 | 246 | **11,865** | 14,299 | **15,099** | 10,764 |
| **Total** |  |  | **722,994** | 717,021 | **647,693** | 635,998 |

# BENEFITS, CLAIMS AND UNDERWRITING EXPENDITURE

**ACCOUNTING POLICY**

**Recognition of Gross Claims**

Gross claims for non-life insurance include all claims occurring during the year, whether reported or not, related external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

Claims expenses and liabilities for outstanding claims are recognised in respect of direct insurance business. The liability covers claims reported but not yet paid, incurred but not reported claims (IBNR) and the anticipated direct and indirect costs of settling those claims. The provision in respect of IBNR is actuarially valued on a quarterly basis to ensure a more realistic estimation of the future liability based on past experience and trends.

While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

# Recognition of Reinsurance Claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the re-insured business.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Net Benefits and claims | **-** | - | **2,109,279** | 2,903,951 |
| Underwritings and net acquisition costs | **-** | - | **554,068** | 537,986 |
| **Total** | **-** | - | **2,663,347** | 3,441,937 |

# OTHER OPERATING EXPENSES

**ACCOUNTING POLICY**

Other operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at the profit for the year.

# Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No.12 of 2013, the CIL was introduced with effect from April 1, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

# Directors’ Emoluments

Directors’ emoluments include fees paid to Non-Executive Directors.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Directors' emoluments | **3,863** | 6,269 | **7,919** | 13,143 |
| Auditors' remunerations | **7,385** | 7,385 | **13,321** | 13,487 |
| Non-audit fees to auditors | **1,888** | 1,641 | **2,216** | 4,912 |
| Professional fees | **12,155** | 24,119 | **24,821** | 32,069 |
| Advertising expenses | **28,473** | 43,280 | **63,059** | 68,836 |
| Legal fees | **11,666** | 16,915 | **12,042** | 17,048 |
| Deposits Insurance Premium | **151,868** | 141,843 | **151,868** | 141,843 |
| Crop Insurance Levy | **36,745** | 31,751 | **36,745** | 31,751 |
| Operational expenses arising from investment property | **-** | - | **4,465** | 7,337 |
| Office administration and establishment expenses | **1,358,816** | 1,815,041 | **1,731,602** | 2,234,647 |
| **Total** | **1,612,859** | 2,088,244 | **2,048,058** | 2,565,073 |

# TAX ON FINANCIAL SERVICES

**ACCOUNTING POLICY**

**VAT on Financial Services**

VAT on financial services is calculated in accordance with Value Added Tax(VAT) Act No. 14 of 2002 and subsequent amendments thereto. The value base for the computation of value added tax on financial services is calculated by adjusting the economic depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before income tax and emoluments payable. Emoluments payable include cash benefits, non cash benefits including terminal benefits. VAT on financial services rate applied for the current financial year is 15% (2020 - 15%).

# NBT on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services. NBT was abolished with effect from 1 December 2019.

# Debt Repayment Levy (DRL) on Financial Services

As per the Finance Act No. 35 of 2018, with effect from October 1, 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on financial services as explained above. The amount of DRL charged in determining the profit or loss for the period is given in below. DRL abolished with effect from 1 January 2020.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| VAT on financial services | **1,222,628** | 1,280,414 | **1,270,773** | 1,245,046 |
| NBT on financial services | **-** | 127,682 | **3,193** | 191,122 |
| Debt Repayment Levy | **-** | 594,364 | **-** | 594,364 |
| **Total** | **1,222,628** | 2,002,460 | **1,273,966** | 2,030,532 |

# INCOME TAX EXPENSE

**ACCOUNTING POLICY**

This Note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard – LKAS 12 on “Income Taxes”. As per Sri Lanka Accounting Standard - LKAS 12 "Income Taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation.

# Current Tax

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date and any adjustment to tax payable in respect of previous year.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto, and the Inland Revenue Act No. 24 of 2017, effective from 1 April 2018 at the rates specified below.

# Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 44 on page 262 to the Financial Statements.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company** | **Note** | **Page**  **No.** | **Tax rate** | |
| **2021** | **2020** |
| People’s Leasing & Finance PLC |  |  | **24%** | 24%-28% |
| People’s Leasing Fleet Management Limited |  |  | **24%** | 24%-28% |
| People’s Micro-commerce Ltd |  |  | **24%** | 24%-28% |
| People’s Insurance PLC |  |  | **24%** | 24% - 28% |
| People’s Leasing Property Development Limited | 17.1 | 200 | **20%-24%** | 20%-28% |
| People’s Leasing Havelock Properties Limited | 17.2 | 200 | **Exempt** | Exempt |
| Lankan Alliance Finance Limited | 17.3 | 200 | **40%** | 40% |

According to LKAS 12 “Income Taxes”, Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. It has been proposed to reduce income tax rate on companies from 28% to 24% pending formal approval from the Parliament as an amendment to the Inland Revenue Act No. 24 of 2017. As per the guideline issued by the Institute of Chartered Accountants of Sri Lanka on 23 April 2021, it is considered as substantially enacted as at the reporting date. Substantively enacted means the Bill introducing the change being taken up at the Parliament for the first reading. The Bill was placed on the order paper of the Parliament for the first reading on 26 March 2021. Accordingly, Financial Statements having a period end after 26 March 2021, should use such proposed tax rules and rates in the bill for determination of current tax and deferred tax. Therefore the tax rate of 24% was adapted for the computation of current tax and deferred tax except for following subsidiaries.

# People’s Leasing Property Development Limited (PLPDL)

Pursuant to the agreement dated 3 December 2008 entered into by People’s Leasing Property Development Limited with the Board of Investment under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition, payment and recovery of income tax shall not apply for a period of five years reckoned from the year in which PLPDL makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations whichever is earliest. PLPDL is eligible for a 10% concessionary tax rate for a period of 2 years immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate after the expiration of the 10% concessionary tax period. Non BOI income is liable for normal rate of 24% (2020 - 24%).

# People’s Leasing Havelock Properties Limited (PLHPL)

Pursuant to the agreement dated 16 December 2010 entered into by People’s Leasing Havelock Properties Limited with the Board of Investment under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition, payment and recovery of income tax shall not apply for a period of five years reckoned from the year in which PLHPL makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations whichever is earliest. PLHPL is eligible for a 10% concessionary tax rate for a period of 2 years immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate after the expiration of the 10% concessionary tax period.

# Lankan Alliance Finance Limited

According to Bangladesh Income Tax Ordinance, 1984 and amendments made thereto, tax rate applicable for Lankan Alliance Finance Limited is

40%.

# Income tax expanse

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **Statement of Profit or Loss**  Current income tax charge | 17.5 | 201 | **1,909,079** | 2,822,836 | **2,505,241** | 3,258,757 |
| Deferred tax (reversal)/charge for the year | 17.5 | 201 | **(69,511)** | (1,213,519) | **(270,905)** | (1,148,189) |
| **Income tax expense recognised in Statement of Profit or Loss** | 17.5 | 201 | **1,839,568** | 1,609,317 | **2,234,336** | 2,110,568 |
| **Statement of Comprehensive Income**  Deferred tax charge/(reversal) for other comprehensive income | 44 | 262 | **29,961** | 49 | **27,690** | 91 |
| **Income tax charge/(reversal) recognised in Statement of Comprehensive Income** |  |  | **29,961** | 49 | **27,690** | 91 |
| Effective tax rate (excluding deferred tax ) |  |  | **32.51%** | 62.02% | **31.99%** | 57.15% |
| Effective tax rate |  |  | **31.32%** | 35.36% | **28.53%** | 37.01% |

* 1. **Reconciliation of Accounting Profit and Taxable Income**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **Profit as per Statement of Profit or Loss** |  |  | **5,872,588** | 4,551,825 | **7,830,670** | 5,702,317 |
| Add: Disallowable expenses |  |  | **3,147,900** | 6,374,026 | **4,762,952** | 7,037,717 |
| Add: Lease capital recoverable |  |  | **4,992,617** | 12,008,536 | **4,992,617** | 12,008,536 |
| Less: Allowable expenses |  |  | **6,101,406** | 11,751,442 | **6,370,337** | 11,986,518 |
| Less: Exempted /allowable income |  |  | **6,711** | 1,101,388 | **62,903** | 1,255,050 |
| Statutory income |  |  | **7,904,988** | 10,081,557 | **11,152,999** | 11,507,002 |
| Less: Tax loss utilised during the year | 17.6 | 201 | **-** | - | **7,863** | 29,755 |
| Assessable income |  |  | **7,904,988** | 10,081,557 | **11,145,136** | 11,477,247 |
| Taxable income |  |  | **7,904,988** | 10,081,557 | **11,145,136** | 11,477,247 |
| Income tax expense at the statutory income | 17.7 | 201 | **1,999,971** | 2,822,836 | **2,601,127** | 3,259,538 |
| (Over)/ under provision- previous years |  |  | **(90,892)** | - | **(95,886)** | (781) |
| Current income tax charge |  |  | **1,909,079** | 2,822,836 | **2,505,241** | 3,258,757 |
| Deferred tax charged/(reversal) for the year | 44 | 262 | **(69,511)** | (1,213,519) | **(270,905)** | (1,148,189) |
| **Income tax expense recognised in statement of profit**  **or loss** |  |  | **1,839,568** | 1,609,317 | **2,234,336** | 2,110,568 |

* 1. **Tax Losses Brought Forward and Utilised during the Year**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Tax losses brought forward | **-** | - | **75,834** | 105,589 |
| Tax losses utilised during the year | **-** | - | **(7,863)** | (29,755) |
| Tax losses not utilised and carried forward | **-** | - | **67,971** | 75,834 |

* 1. **Income tax Expense at the Statutory Income**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| People's Leasing & Finance PLC | **1,999,971** | 2,822,836 | **1,999,971** | 2,822,836 |
| People’s Leasing Fleet Management Limited | **-** | - | **22,303** | 6,211 |
| People’s Micro-commerce Ltd | **-** | - | **71,377** | 40,707 |
| People’s Insurance PLC | **-** | - | **422,685** | 310,271 |
| People’s Leasing Property Development Limited | **-** | - | **4,269** | - |
| Lankan Alliance Finance Limited | **-** | - | **80,535** | 79,513 |
| **Total income tax at the statutory income** | **1,999,971** | 2,822,836 | **2,601,140** | 3,259,538 |

* 1. **Summary of the Taxes Paid during the Year**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **Direct taxes**  Income tax | **3,349,938** | 3,071,709 | **3,534,648** | 3,339,472 |
| Value added tax on financial services | **834,720** | 1,463,382 | **864,943** | 1,498,978 |
| Nation building tax on financial services | **-** | 147,494 | **-** | 150,837 |
| Crop insurance levy | **18,373** | 56,002 | **24,679** | 56,002 |
| Economic service charge | **-** | 210,539 | **-** | 250,764 |
| Debt Repayment Levy | **-** | 762,822 | **-** | 762,822 |
| Total direct taxes | **4,203,031** | 5,711,948 | **4,424,270** | 6,058,875 |
| **Indirect taxes (collected and paid)**  Value added tax | **132,211** | 281,796 | **556,156** | 892,932 |
| Nation building tax | **-** | 22,674 | **-** | 130,847 |
| Stamp duty | **133,173** | 250,144 | **141,036** | 257,991 |
| Withholding tax on dividend and interest | **-** | 605,245 | **-** | 690,842 |
| PAYE/APIT tax | **29,068** | 153,043 | **30,208** | 164,590 |
| Total indirect taxes | **294,452** | 1,312,902 | **727,400** | 2,137,202 |
| **Total taxes paid during the financial year** | **4,497,483** | 7,024,850 | **5,151,670** | 8,196,077 |

1. **BASIC / DILUTED EARNINGS PER ORDINARY SHARE**

**ACCOUNTING POLICY**

Basic earning per share (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. 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. Shares issued for no additional consideration are adjusted as if the event occured at the begining of the earlist period presented.

Basic/Diluted earnings per share is calculated as per Sri Lanka Accounting Standard - LKAS 33 - Earnings per share.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021** | **2020** | **2021** | **2020** |
| Profit attributable to equity holders of the Company (Rs.) | **4,033,021,638** | 2,942,508,328 | **5,294,013,656** | 3,408,670,499 |
| Weighted average number of ordinary shares outstanding | **1,704,602,760** | 1,704,602,760 | **1,704,602,760** | 1,704,602,760 |
| **Basic/ Diluted earnings per ordinary share (Rs.)** | **2.37** | 1.73 | **3.11** | 2.00 |

# DIVIDEND PER ORDINARY SHARE

|  |  |  |
| --- | --- | --- |
| **For the year ended 31 March** | **Company** | |
| **2021** | **2020** |
| **Dividend paid to Ordinary shares**  Out of dividend received (Rs.) | **-** | 376,792,083 |
| Out of normal profits (Rs.) | **-** | 762,600,288 |
| Total cash dividend paid (Rs.) | **-** | 1,139,392,371 |
| Cash dividend Paid (Rs.) -Interim | **-** | 1,139,392,371 |
| Scrip/Cash dividend Paid (Rs.) - Interim | **976,622,033** | 789,931,241 |
| Total dividend paid (Rs.) | **976,622,033** | 1,929,323,612 |
| Number of ordinary shares (Prior to dividend) | **1,627,703,388** | 1,611,756,419 |
|  |  |  |
| **Dividend per Ordinary share (Rs.)** | **0.60** | 1.20 |

An interim scrip dividend of Rs. 0.60 per share was paid in December 2020 to the ordinary shareholders of the Company for the year 2020/21 (interim scrip dividend 2019/20 - Rs. 0.50).

# ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS ACCOUNTING POLICY

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies

describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 9 'Financial Instruments' under the headings of the Statement of Financial Position.

# Company

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2021** | **Note** | **Page No.** | **Financial instruments recognised through profit**  **or loss (FVTPL)**  **Rs. '000** | **Financial instruments at**  **amortised**  **cost**  **(AC)**  **Rs. '000** | **Financial instruments at fair value through other**  **comprehensive income (FVOCI)**  **Rs. '000** | **Total**  **Rs. '000** |
| **Financial assets**  Cash and cash equivalents | 22 | 212 | **-** | **2,703,031** | **-** | **2,703,031** |
| Balances with banks and financial institutions | 23 | 213 | **-** | **5,399,071** | **-** | **5,399,071** |
| Financial assets -Fair value through profit or loss | 24 | 214 | **109,787** | **-** | **-** | **109,787** |
| Loans and receivables - Amortised cost | 25 | 216 | **-** | **141,387,907** | **-** | **141,387,907** |
| Financial assets - Fair Value through other comprehensive income | 27 | 234 | **-** | **-** | **309,118** | **309,118** |
| Debt Instrument - Amortised cost | 28 | 236 | **-** | **6,994,206** | **-** | **6,994,206** |
| Other financial assets | 31 | 240 | **-** | **126,949** | **-** | **126,949** |
| **Total financial assets** |  |  | **109,787** | **156,611,164** | **309,118** | **157,030,069** |
| **Financial liabilities**  Due to banks | 35 | 248 | **-** | **6,439,310** | **-** | **6,439,310** |
| Due to customers | 36 | 251 | **-** | **101,502,931** | **-** | **101,502,931** |
| Debt securities issued | 37 | 252 | **-** | **13,825,553** | **-** | **13,825,553** |
| Other financial liabilities | 38 | 255 | **-** | **4,131,671** | **-** | **4,131,671** |
| Lease liabilities | 40 | 257 | **-** | **2,286,386** | **-** | **2,286,386** |
| **Total financial liabilities** |  |  | **-** | **128,185,851** | **-** | **128,185,851** |

* 1. **Company**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2020** | **Note** | **Page No.** | **Financial instruments recognised through profit**  **or loss (FVTPL)**  **Rs. '000** | **Financial instruments at**  **amortised**  **cost**  **(AC)**  **Rs. '000** | **Financial instruments at fair value through other**  **comprehensive income (FVOCI)**  **Rs. '000** | **Total**  **Rs. '000** |
| **Financial assets**  Cash and cash equivalents | 22 | 212 | - | 7,164,139 | - | 7,164,139 |
| Balances with banks and financial institutions | 23 | 213 | - | 3,207,440 | - | 3,207,440 |
| Financial assets -Fair value through profit or loss | 24 | 214 | 1,031,719 | - | - | 1,031,719 |
| Loans and receivables - Amortised cost | 25 | 216 | - | 147,747,511 | - | 147,747,511 |
| Financial assets - Fair Value through other comprehensive income | 27 | 234 | - | - | 324,381 | 324,381 |
| Debt Instrument - Amortised cost | 28 | 236 | - | 4,106,963 | - | 4,106,963 |
| Other financial assets | 31 | 240 | - | 232,692 | - | 232,692 |
| **Total financial assets** |  |  | 1,031,719 | 162,458,745 | 324,381 | 163,814,845 |
| **Financial liabilities**  Due to banks | 35 | 248 | - | 7,938,185 | - | 7,938,185 |
| Due to customers | 36 | 251 | - | 106,701,027 | - | 106,701,027 |
| Debt securities issued | 37 | 252 | - | 18,479,260 | - | 18,479,260 |
| Other financial liabilities | 38 | 255 | - | 3,014,117 | - | 3,014,117 |
| Lease liabilities | 40 | 257 | - | 1,909,098 | - | 1,909,098 |
| **Total financial liabilities** |  |  | - | 138,041,687 | - | 138,041,687 |

* 1. **Group**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2021** | **Note** | **Page No.** | **Financial instruments recognised through profit**  **or loss**  **(FVTPL)**  **Rs. '000** | **Financial instruments at**  **amortised**  **cost (AC)**  **Rs. '000** | **Financial instruments at fair value through other**  **comprehensive income (FVOCI)**  **Rs. '000** | **Total**  **Rs. '000** |
| **Financial assets**  Cash and cash equivalents | 22 | 212 | **-** | **3,844,694** | **-** | **3,844,694** |
| Balances with banks and financial institutions | 23 | 213 | **-** | **8,231,101** | **-** | **8,231,101** |
| Financial assets -Fair value through profit or loss | 24 | 214 | **1,281,753** | **-** | **-** | **1,281,753** |
| Loans and receivables - Amortised cost | 25 | 216 |  | **149,342,332** | **-** | **149,342,332** |
| Insurance and reinsurance receivables | 26 | 233 | **-** | **1,024,461** | **-** | **1,024,461** |
| Financial assets - Fair Value through other comprehensive income | 27 | 234 | **-** | **-** | **735,494** | **735,494** |
| Debt Instrument - Amortised cost | 28 | 236 | **-** | **8,593,386** | **-** | **8,593,386** |
| **Total financial assets** |  |  | **1,281,753** | **171,035,974** | **735,494** | **173,053,221** |
| **Financial liabilities**  Due to banks | 35 | 248 | **-** | **9,003,873** | **-** | **9,003,873** |
| Due to customers | 36 | 251 | **-** | **103,743,716** | **-** | **103,743,716** |
| Debt securities issued | 37 | 252 | **-** | **13,684,516** | **-** | **13,684,516** |
| Other financial liabilities | 38 | 255 | **-** | **4,110,795** | **-** | **4,110,795** |
| Insurance liabilities and reinsurance payable | 39 | 255 | **-** | **5,015,885** | **-** | **5,015,885** |
| Lease liabilities | 40 | 257 | **-** | **1,614,660** |  | **1,614,660** |
| **Total financial liabilities** |  |  | **-** | **137,173,445** | **-** | **137,173,445** |

* 1. **Group**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2020** | **Note** | **Page No.** | **Financial instruments recognised through profit**  **or loss**  **(FVTPL)**  **Rs. '000** | **Financial instruments at**  **amortised**  **cost (AC)**  **Rs. '000** | **Financial instruments at fair value through other**  **comprehensive income (FVOCI)**  **Rs. '000** | **Total**  **Rs. '000** |
| **Financial assets**  Cash and cash equivalents | 22 | 212 | - | 7,693,032 | - | 7,693,032 |
| Balances with banks and financial institutions | 23 | 213 | - | 6,661,407 | - | 6,661,407 |
| Financial assets - Fair value through profit or loss | 24 | 214 | 1,198,592 | - | - | 1,198,592 |
| Loans and receivables - Amortised cost | 25 | 216 | - | 154,134,934 | - | 154,134,934 |
| Insurance and reinsurance receivables | 26 | 233 | - | 1,194,933 | - | 1,194,933 |
| Financial assets - Fair value through other comprehensive income | 27 | 234 | - | - | 1,455,702 | 1,455,702 |
| Debt Instrument - Amortised cost | 28 | 236 | - | 4,813,439 | - | 4,813,439 |
| **Total financial assets** |  |  | 1,198,592 | 174,497,745 | 1,455,702 | 177,152,039 |
| **Financial liabilities**  Due to banks | 35 | 248 | - | 10,978,046 | - | 10,978,046 |
| Due to customers | 36 | 251 | - | 107,685,592 | - | 107,685,592 |
| Debt securities issued | 37 | 252 | - | 18,338,039 | - | 18,338,039 |
| Other financial liabilities | 38 | 255 | - | 2,829,708 | - | 2,829,708 |
| Insurance liabilities and reinsurance payable | 39 | 255 | - | 5,065,220 | - | 5,065,220 |
| Lease liabilities | 40 | 257 |  | 1,594,245 |  | 1,594,245 |
| **Total financial liabilities** |  |  | - | 146,490,850 | - | 146,490,850 |

1. **FAIR VALUE OF ASSETS AND LIABILITIES**

**ACCOUNTING POLICY**

The following is a description of how fair values are determined for financial and non-financial assets and liabilities that are recorded at fair value using valuation techniques. These incorporate the Group’s/Company's estimate of assumptions that a market participant would make when valuing the instruments.

# Financial assets - Fair Value Through Other Comprehensive Income

Financial assets - Fair Value through other comprehensive income valued using valuation techniques or pricing models primarily consist of quoted investment securities. These quoted investment securities are valued using quoted market price in an active market of each securities.

# Financial Assets -Fair Value Through Profit or Loss

Financial assets -Fair value through profit or loss valued using valuation techniques primarily consist of quoted investments. These quoted assets are valued using quoted market price in an active market of each securities.

# Financial Assets and Liabilities Carried at Amortised Cost

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorized under level 3 in the fair value hierarchy.

# Property, Plant and Equipment Disclosed at Fair Value

Freehold land and buildings are disclosed at revalued amount, being their fair value at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

# Valuation Model

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Company uses alternative market information to validate the financial instrument’s fair value, with greater weight given to information that is considered to be more relevant and reliable.

# Valuation Framework

The Company has an established control framework with respect to the measurement of fair values of trading and investment operations and all other significant assets and liabilities. Specific controls include;

* Periodic (daily, monthly or quarterly) reviewing of fair value measurements against observable market data.
* Periodic (at least annually) reviewing of fair value measurement models against changes in market conditions, significant judgments and assumptions.

# Determination of Fair Value and Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

**Level 3:** techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data The following table shows an analysis of assets and liabilities recorded/disclosed at fair value by level of the fair value hierarchy:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Company**  **31 March 2021** | **Note** | **Page No.** | **Date of Valuation** | **Level 1**  **Rs. '000** | **Level 2**  **Rs. '000** | **Level 3**  **Rs. '000** | **Total**  **Rs. '000** |
| **Financial Assets**  **Financial assets - Fair value through other comprehensive income**  Quoted Investments | 27 | 234 | **31.03.2021** | **309,118** | **-** | **-** | **309,118** |
| **Subtotal** |  |  |  | **309,118** | **-** | **-** | **309,118** |
| **Financial assets -Fair value through profit or loss**  Quoted Investments | 24 | 214 | **31.03.2021** | **9,768** | **-** | **-** | **9,768** |
| Investment in Unit Trust | 24 | 214 | **31.03.2021** | **-** | **100,019** | **-** | **100,019** |
| **Subtotal** |  |  |  | **9,768** | **100,019** | **-** | **109,787** |
| **Total** |  |  |  | **318,886** | **100,019** | **-** | **418,905** |
| **Non financial assets disclosed at fair value** Freehold land and buildings (included under property, plant and equipment). | 32.4 | 244 |  | **-** | **-** | **864,058** | **864,058** |
| **Total** |  |  |  | **-** | **-** | **864,058** | **864,058** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Company**  **31 March 2020** | **Note** | **Page No.** | **Date of Valuation** | **Level 1**  **Rs. '000** | **Level 2**  **Rs. '000** | **Level 3**  **Rs. '000** | **Total**  **Rs. '000** |
| **Financial Assets**  **Financial assets - Fair value through other comprehensive income**  Quoted Investments | 27 | 234 | 21.03.2020 | 324,381 | - | - | 324,381 |
| **Subtotal** |  |  |  | 324,381 | - | - | 324,381 |
| **Financial assets -Fair value through profit or loss**  Quoted Investments | 24 | 214 | 21.03.2020 | 13,547 | - | - | 13,547 |
| Investment in Unit Trust | 24 | 214 | 31.03.2020 | - | 1,018,172 | - | 1,018,172 |
| **Subtotal** |  |  |  | 13,547 | 1,018,172 | - | 1,031,719 |
| **Total** |  |  |  | 337,928 | 1,018,172 | - | 1,356,100 |
| **Non financial assets disclosed at fair value**  Freehold lands and buildings (included under property, plant and equipment) | 32.4 | 244 |  | - | - | 864,058 | 864,058 |
| **Total** |  |  |  | - | - | 864,058 | 864,058 |

The following table shows an analysis of assets and liabilities recorded/disclosed at fair value by level of the fair value hierarchy:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **31 March 2021** | **Note** | **Page No.** | **Date of Valuation** | **Level 1**  **Rs. '000** | **Level 2**  **Rs. '000** | **Level 3**  **Rs. '000** | **Total**  **Rs. '000** |
| **Financial Assets**  **Financial assets - Fair value through other comprehensive income**  Quoted investments | 27 | 234 | **31.03.2021** | **309,118** | **-** | **-** | **309,118** |
| Treasury bills | 27 | 234 | **31.03.2021** | **-** | **426,376** | **-** | **426,376** |
| **Subtotal** |  |  |  | **309,118** | **426,376** | **-** | **735,494** |
| **Financial assets -Fair value through profit or loss**  Quoted investments | 24 | 214 | **31.03.2021** | **24,753** | **-** | **-** | **24,753** |
| Investment in unit trust | 24 | 214 | **31.03.2021** | **-** | **1,257,000** | **-** | **1,257,000** |
| **Subtotal** |  |  |  | **24,753** | **1,257,000** | **-** | **1,281,753** |
| **Non financial assets - Investment property**  Land and building | 30 | 238 | **31.03.2021** | **-** | **-** | **820,664** | **820,664** |
| **Subtotal** |  |  |  | **-** | **-** | **820,664** | **820,664** |
| **Total** |  |  |  | **333,871** | **1,683,376** | **820,664** | **2,837,911** |
| **Non financial assets disclosed at fair value** Freehold land and buildings (included under property, plant and equipment). | 32.4 | 244 |  | **-** | **-** | **5,964,058** | **5,964,058** |
| **Total** |  |  |  | **-** | **-** | **5,964,058** | **5,964,058** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Group**  **31 March 2020** | **Note** | **Page No.** | **Date of Valuation** | **Level 1**  **Rs. '000** | **Level 2**  **Rs. '000** | **Level 3**  **Rs. '000** | **Total**  **Rs. '000** |
| **Financial Assets**  **Financial assets - Fair value through other comprehensive income** Treasury bills |  |  | 27.03.2020 | - | 1,131,321 | - | 1,131,321 |
| Quoted Investments | 27 | 234 | 21.03.2020 | 324,381 | - | - | 324,381 |
| **Subtotal** |  |  |  | 324,381 | 1,131,321 | - | 1,455,702 |
| **Financial assets -Fair value through profit or loss**  Quoted Investments | 24 | 214 | 21.03.2020 | 27,134 | - | - | 27,134 |
| Investment in Unit Trust | 24 | 214 | 31.03.2021 |  | 1,171,458 |  | 1,171,458 |
| **Subtotal** |  |  |  | 27,134 | 1,171,458 | - | 1,198,592 |
| **Non financial assets - Investment property**  Land and building | 30 | 238 | 21.03.2020 | - | - | 1,131,652 | 1,131,652 |
| **Subtotal** |  |  |  | - | - | 1,131,652 | 1,131,652 |
| **Total** |  |  |  | 351,515 | 2,302,779 | 1,131,652 | 3,785,946 |
| **Non financial assets disclosed at fair value** Freehold land and buildings (included under property, plant and equipment). | 32.4 | 244 |  | - | - | 5,914,058 | 5,914,058 |
| **Total** |  |  |  | - | - | 5,914,058 | 5,914,058 |

There were no material transfers between level 1 and level 2 during the 2019/2020 and 2020/2021. Valuation was carried out for lands and buildings by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard - SLFRS 13 - Fair Value Measurement.

The following table show total fair value gains/losses recognised in Statement of Profit or Loss during the year relating to assets and liabilities held at the respective year ended.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **Financial Assets**  **Financial assets -Fair value through profit or loss**  Quoted Investments | **162,616** | 11,017 | **228,258** | 19,586 |
| **Total** | **162,616** | 11,017 | **228,258** | 19,586 |

# Level 3 fair value measurement

**Reconciliation**

The following note shows a reconciliation from the beginning balances to the ending balances of fair value measurements in level 3 of the fair value hierarchy. The Company has disclosed fair value of following non financial assets except investment property which is accounted for fair value in the Financial Statements.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Note** | **Page No.** | **Company** | | | **Group** | | |
| **Investment**  **property**  **Rs. '000** | **Freehold**  **Land**  **Buildings**  **Rs. '000** | **Total**  **Rs. '000** | **Investment**  **property**  **Rs. '000** | **Freehold**  **Land**  **Buildings**  **Rs. '000** | **Total**  **Rs. '000** |
| Balance as at 1 April 2020 |  |  | **-** | **864,058** | **864,058** | **1,131,652** | **4,782,406** | **5,914,058** |
| Additions |  |  | **-** | **-** | **-** | **-** | **-** | **-** |
| Disposals / transfers |  |  | **-** | **-** | **-** | **(310,988)** | **310,988** | **-** |
| Depreciation of buildings |  |  | **-** | **-** | **-** | **-** | **(63,805)** | **(63,805)** |
| Fair value disclosed during the year |  |  | **-** | **-** | **-** | **-** | **113,805** | **113,805** |
| **Balance as at 31 March 2021** | 32.4 | 244 | **-** | **864,058** | **864,058** | **820,664** | **5,143,394** | **5,964,058** |
| Balance as at 1 April 2019 |  |  | - | 795,585 | 795,585 | 1,131,596 | 4,563,989 | 5,695,585 |
| Additions |  |  | - | 6,659 | 6,659 | - | 12,455 | 12,455 |
| Disposals / transfers |  |  | - | - | - | 56 | - | 56 |
| Depreciation of buildings |  |  | - | (361) | (361) | - | (60,521) | (60,521) |
| Fair value disclosed during the year |  |  | - | 62,175 | 62,175 | - | 266,483 | 266,483 |
| **Balance as at 31 March 2020** | 32.4 | 244 | - | 864,058 | 864,058 | 1,131,652 | 4,782,406 | 5,914,058 |

# Unobservable Inputs Used in Measuring Fair Value

The table below sets out information about significant unobservable inputs used at 31 March 2021 and 31 March 2020 in measuring non financial instruments categorised as level 3 in the fair value hierarchy. The Company has disclosed fair value of following non financial assets except investment property which is accounted for fair value in the Financial Statements.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Type of instrument** | **Date of Valuation** | **Fair value Rs. ‘000** | **Valuation Technique** | **Significant unobservable**  **inputs** | **Weighted average range of estimates for unobservable inputs** | **Fair value measurement sensitivity to unobservable inputs** |
| **Company**  **As at 31 March 2021** Property, plant and equipment Freehold lands | 31.12.2019 | 821,458 | MCM | Estimated price per perch | Rs. 60,000 - 6,000,000 | \* |
| Freehold buildings | 31.12.2019 | 42,600 | MCM | Estimated price per sq.ft | Rs. 1,000 - 4,000 | \* |
| Income basis | Estimated rental value per sq.ft. | Rs. 20 - 60 | \* |
| **As at 31 March 2020** Property, plant and equipment Freehold lands | 31.12.2019 | 821,458 | MCM | Estimated price per perch | Rs. 60,000 - 6,000,000 | \* |
| Freehold buildings | 31.12.2019 | 42,600 | MCM | Estimated price per sq.ft | Rs. 1,000 - 4,000 | \* |
| Income basis | Estimated rental value per sq.ft. | Rs. 20 - 60 | \* |
| **Group**  **As at 31 March 2021** Investment Property Freehold lands | 31.12.2020 | 261,075 | MCM | Estimated price per perch | Rs. 600,000 - 13,000,000 | \* |
| Freehold buildings | 31.12.2020 | 559,589 | MCM | Estimated price per sq.ft | Rs. 200 - 300 | \* |
| Income basis | Estimated rental value per sq.ft. | Rs. 14,500 | \* |
| Property, plant and equipment Freehold lands | 31.12.2019 | 3,025,383 | MCM | Estimated price per perch | Rs. 50,000 - 13,000,000 | \* |
| Freehold buildings | 31.12.2019 | 2,118,011 | MCM | Estimated price per sq.ft | Rs. 500 - 11,000 | \* |
| Income basis | Estimated rental value per sq.ft. | Rs. 15 - 250 | \* |
| **As at 31 March 2020** Investment Property Freehold lands | 31.12.2019 | 360,014 | MCM | Estimated price per perch | Rs. 600,000 - 13,000,000 | \* |
| Freehold buildings |  | 771,638 | MCM | Estimated price per sq.ft | Rs. 200 - 300 | \* |
| Income basis | Estimated rental value per sq.ft. | Rs. 14,500 | \* |
| Property, plant and equipment Freehold lands | 31.12.2019 | 2,876,444 | MCM | Estimated price per perch | Rs. 50,000 - 13,000,000 | \* |
| Freehold buildings | 31.12.2019 | 1,905,962 | MCM | Estimated price per sq.ft | Rs. 500 - 11,000 | \* |
| Income basis | Estimated rental value per sq.ft. | Rs. 15 - 250 | \* |

MCM - Market comparable method

\* Significant increases / (decreases) in any of these inputs in isolation would result in a significantly higher / (lower) fair value.

# 21.7 Fair value of assets and liabilities not carried at fair value

Set out below is a comparison, by class, of the carrying amount and fair values of the Group's/Company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair value of non-financial assets and non-financial liabilities.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March**  **Company** | **2021** | | | | | **2020** | | | | |
| **Level 1**  **Rs. '000** | **Level 2**  **Rs. '000** | **Level 3**  **Rs. '000** | **Total fair**  **Value Rs. '000** | **Carrying amount Rs. '000** | **Level 1**  **Rs. '000** | **Level 2**  **Rs. '000** | **Level 3**  **Rs. '000** | **Total fair**  **Value Rs. '000** | **Carrying amount Rs. '000** |
| **Financial Assets**  Cash and cash equivalents | **-** | **2,703,031** | **-** | **2,703,031** | **2,703,031** | - | 7,164,139 | - | 7,164,139 | 7,164,139 |
| Balances with banks and financial institutions | **-** | **5,900,872** | **-** | **5,900,872** | **5,399,071** | - | 3,205,140 | - | 3,205,140 | 3,207,440 |
| Loans and receivables - Amortised cost (Gross) | **-** | **163,635,284** | **-** | **163,635,284** | **150,655,845** | - | 155,825,013 |  | 155,825,013 | 156,497,746 |
| Debt instrument - Amortised cost | **-** | **6,984,078** | **-** | **6,984,078** | **6,994,206** | - | 4,114,978 | - | 4,114,978 | 4,106,963 |
| Other financial assets | **-** | **126,949** | **-** | **126,949** | **126,949** | - | 232,692 | - | 232,692 | 232,692 |
| **Total** | **-** | **179,350,214** | **-** | **179,350,214** | **165,879,102** | - | 170,541,962 | - | 170,541,962 | 171,208,980 |
| **Financial Liabilities**  Due to banks | **-** | **6,936,408** | **-** | **6,936,408** | **6,439,310** | - | 8,057,554 | - | 8,057,554 | 7,938,185 |
| Due to customers | **-** | **102,019,672** | **-** | **102,019,672** | **101,502,931** | - | 106,798,094 | - | 106,798,094 | 106,701,027 |
| Debt Securities issued | **-** | **14,675,439** | **-** | **14,675,439** | **13,825,553** | - | 18,759,201 | - | 18,759,201 | 18,479,260 |
| Other Financial liabilities | **-** | **4,131,671** | **-** | **4,131,671** | **4,131,671** | - | 3,014,117 | - | 3,014,117 | 3,014,117 |
| Lease liabilities | **-** | **2,282,213** | **-** | **2,282,213** | **2,286,386** |  | 1,904,947 |  | 1,904,947 | 1,909,098 |
| **Total** | **-** | **130,045,403** | **-** | **130,045,403** | **128,185,851** | - | 138,533,913 | - | 138,533,913 | 138,041,687 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March**  **Group** | **2021** | | | | | **2020** | | | | |
| **Level 1**  **Rs. '000** | **Level 2**  **Rs. '000** | **Level 3**  **Rs. '000** | **Total fair**  **Value Rs. '000** | **Carrying amount Rs. '000** | **Level 1**  **Rs. '000** | **Level 2**  **Rs. '000** | **Level 3**  **Rs. '000** | **Total fair**  **Value Rs. '000** | **Carrying amount Rs. '000** |
| **Financial Assets**  Cash and cash equivalents | **-** | **3,844,694** | **-** | **3,844,694** | **3,844,694** | - | 7,693,032 | - | 7,693,032 | 7,693,032 |
| Balances with banks and financial institutions | **-** | **8,239,912** | **-** | **8,239,912** | **8,231,101** | - | 6,593,797 | - | 6,593,797 | 6,661,407 |
| Loans and receivables - Amortised cost (Gross) | **-** | **169,138,423** | **-** | **169,138,423** | **159,224,528** | - | 158,483,419 | - | 158,483,419 | 163,304,880 |
| Insurance and reinsurance receivables | **-** | **1,024,461** | **-** | **1,024,461** | **1,024,461** | - | 1,194,933 | - | 1,194,933 | 1,194,933 |
| Debt instrument - Amortised cost | **-** | **8,620,175** | **-** | **8,620,175** | **8,593,386** | - | 4,821,454 | - | 4,821,454 | 4,813,439 |
| **Total** | **-** | **190,867,665** | **-** | **190,867,665** | **180,918,170** | - | 178,786,635 | - | 178,786,635 | 183,667,691 |
| **Financial Liabilities**  Due to banks | **-** | **9,739,721** | **-** | **9,739,721** | **9,003,873** | - | 11,097,415 | - | 11,097,415 | 10,978,046 |
| Due to customers | **-** | **104,256,546** | **-** | **104,256,546** | **103,743,716** | - | 106,796,726 | - | 106,796,726 | 107,685,592 |
| Debt Securities issued | **-** | **14,522,493** | **-** | **14,522,493** | **13,684,516** | - | 18,616,227 | - | 18,616,227 | 18,338,039 |
| Other Financial liabilities | **-** | **4,110,795** | **-** | **4,110,795** | **4,110,795** | - | 2,829,708 | - | 2,829,708 | 2,829,708 |
| Insurance liabilities and reinsurance payable | **-** | **5,015,885** | **-** | **5,015,885** | **5,015,885** | - | 5,065,220 | - | 5,065,220 | 5,065,220 |
| Lease liabilities |  | **1,609,725** |  | **1,609,725** | **1,614,660** |  | 1,590,805 |  | 1,590,805 | 1,594,245 |
| **Total** | **-** | **139,255,165** | **-** | **139,255,165** | **137,173,445** | - | 145,996,101 | - | 145,996,101 | 146,490,850 |

# Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The valuation techniques used to establish the Group’s fair values are consistent with those used to calculate the fair values of financial instruments carried at fair value. The fair values calculated are for disclosure purposes only and do not have any impact on the Group’s reported financial performance or position. The fair values calculated by the Group may be different from the actual amount that will be received / paid on the settlement or maturity of the financial instrument. As certain categories of financial instruments are not traded there is a significant level of management judgment involved in calculating the fair values.

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

# Balances with Banks and Financial Institutions

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity. The estimated fair value of balances with banks and financial institutions with maturity of more than three months represents the discounted amount of future cash flows expected to be received.

# Loan and Receivables

The fair value of loans and advances to customers with a maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads. The estimated fair value of loans and advances with maturity of more than one year represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

# Debt instrument - Amortised cost

Debt instruments at amortised cost represent the market price of the treasury bills and treasury bond at the reporting date. Market price is published by the Central Bank of the Sri Lanka each reporting date.

# Due to Customers

The estimated fair value of deposits with no maturity period (Savings Deposits) is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits (Fixed Deposits) without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar risk and remaining maturity.

# Due to Banks and Debt Securities Issued

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

The fair value of fixed rate borrowings with a maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads. The estimated fair value of fixed rates borrowing with maturity of more than one year represents the discounted amount of future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

# Lease liabilities

Estimated fair value of the lease liability represents the discounted amount of lease payment expected to be received in the future. Expected cash flows are discounted using incremental borrowing rate at the reporting date.

# CASH AND CASH EQUIVALENTS ACCOUNTING POLICY

Cash and cash equivalents include cash in hand, placements with banks and loans at call and at short notice that are subject to an insignificant

risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. They are brought to financial statements at their face values or the gross values, where appropriate. There were no cash and cash equivalent held by the Group companies that were not available for use by the Group.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

# Securities Purchased Under Reverse Repurchase Agreements

Securities purchased under agreements to re-sell at a specified future date are recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within ‘Cash and cash equivalents’, reflecting the transaction’s economic substance as alone by the Group. The difference between the purchase and resale prices is recorded in ‘Interest income’ and is accrued over the life of the agreement using the EIR.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Cash in hand |  |  | **922,568** | 656,002 | **939,766** | 669,272 |
| Current account with banks | 22.1 | 213 | **1,573,040** | 1,172,669 | **1,788,506** | 1,675,364 |
| Savings Account with banks |  |  | **207,403** | 206,434 | **338,985** | 214,422 |
| Saving deposit in foreign currency |  |  | **20** | 19 | **20** | 19 |
| Securities under reverse repurchase agreement |  |  | **-** | 5,129,015 | **777,417** | 5,133,955 |
| **Total** |  |  | **2,703,031** | 7,164,139 | **3,844,694** | 7,693,032 |
|  |  |  |  |  |  |  |
| **Fair value** |  |  | **2,703,031** | 7,164,139 | **3,844,694** | 7,693,032 |

# Balance with banks

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Local banks | **1,573,040** | 1,172,669 | **1,788,506** | 1,675,364 |
| **Total** | **1,573,040** | 1,172,669 | **1,788,506** | 1,675,364 |

1. **BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS**

**ACCOUNTING POLICY**

Balances with banks and financial institutions include fixed deposits and deposits in foreign currency. Balances with banks and financial institutions are carried at amortised cost in the statement of financial position.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **Fixed deposits**  Local currency | **5,399,071** | 3,207,440 | **8,230,653** | 6,644,819 |
| Foreign currency | **-** | - | **448** | 16,588 |
| **Total** | **5,399,071** | 3,207,440 | **8,231,101** | 6,661,407 |
|  |  |  |  |  |
| **Fair value** | **5,900,872** | 3,205,140 | **8,239,912** | 6,593,797 |

# FINANCIAL ASSETS -FAIR VALUE THROUGH PROFIT OR LOSS

**ACCOUNTING POLICY**

The Group classifies financial assets as financial assets recognised through profit or loss (FATPL) when they have been purchased primarily for short term profit making through trading activities. FATPL are recorded and measured at fair value and changes in fair value are recognised in the Net gains/(losses) on financial assets - FVTPL in the Statement of Profit or Loss.

SLFRS 9 requires financial instruments to be classified based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. FATPL include quoted equity securities that have been acquired principally for short term profit making and are recorded at fair value using the market prices published by the Colombo Stock Exchange.

Further as per SLFRS 9, financial assets recognised through profit or loss includes all financial assets other than those classified under FVOCI and amortised cost.

Dividend income or expense is recorded in ‘Net trading income’ according to the terms of the contract, or when the right to receive the payment has been established.

The Group evaluates its portfolio of FVTPL, to determine if the intention to sell them in the near future is still appropriate. When the Group can not sell these financial assets due to inactive markets and the management intention to sell them in the foreseeable future significant changes, the Group may choose to reclassify these financial assets.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Quoted equity securities | 24.1/24.2 | 214/216 | **9,768** | 13,547 | **24,753** | 27,134 |
| Investment in unit trust | 24.3 | 216 | **100,019** | 1,018,172 | **1,257,000** | 1,171,458 |
| **Total** |  |  | **109,787** | 1,031,719 | **1,281,753** | 1,198,592 |
|  |  |  |  |  |  |  |
| **Fair value** |  |  | **109,787** | 1,031,719 | **1,281,753** | 1,198,592 |

# Quoted equity securities

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March**  **Company** | **2021** | | | **2020** | | |
| **No. of Shares** | **Total Cost Rs. '000** | **Market Value Rs. '000** | **No. of Shares** | **Total Cost Rs. '000** | **Market Value Rs. '000** |
| **Bank, finance and insurance** Commercial Bank of Ceylon PLC - Non voting | **-** | **-** | **-** | 114,885 | 9,877 | 6,721 |
| Seylan Bank PLC - Voting | **-** | **-** | **-** | 109,406 | 7,449 | 3,665 |
| Seylan Bank PLC - Non voting | **-** | **-** | **-** | 143,028 | 4,403 | 3,161 |
| **Subtotal** |  | **-** | **-** |  | 21,729 | 13,547 |
| **Diversified holdings**  John Keells Holdings PLC | **65,780** | **10,310** | **9,768** | - | - | - |
| **Subtotal** |  | **10,310** | **9,768** |  | - | - |
|  |  |  |  |  |  |  |
| **Total** |  | **10,310** | **9,768** |  | 21,729 | 13,547 |
| Mark to market gains/(losses) |  | **(542)** |  |  | (8,182) |  |
| Market value of equity securities |  | **9,768** |  |  | 13,547 |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March**  **Group** | **2021** | | | **2020** | | |
| **No. of Shares** | **Total Cost Rs. '000** | **Market Value Rs. '000** | **No. of Shares** | **Total Cost Rs. '000** | **Market Value Rs. '000** |
| **Shares listed In Sri lanka Bank, finance and insurance**  Commercial Bank of Ceylon PLC- voting | **-** | **-** | **-** | 120,000 | 12,083 | 7,212 |
| Commercial Bank of Ceylon PLC - Non voting | **-** | **-** | **-** | 114,885 | 9,877 | 6,721 |
| Seylan Bank PLC - Voting | **-** | **-** | **-** | 109,406 | 7,449 | 3,665 |
| Seylan Bank PLC - Non voting | **-** | **-** | **-** | 143,028 | 4,403 | 3,161 |
| **Subtotal** |  | **-** | **-** |  | 33,812 | 20,759 |
| **Beverage food and tobacco**  Ceylon Tobacco Company PLC | **-** | **-** | **-** | 5,000 | 5,400 | 5,000 |
| **Subtotal** |  | **-** | **-** |  | 5,400 | 5,000 |
| **Diversified holdings**  John Keells Holdings PLC | **65,780** | **10,310** | **9,768** | - | - | - |
| **Subtotal** |  | **10,310** | **9,768** |  | - | - |
| **Manufacturing**  Piramal Glass Ceylon PLC | **1,350,000** | **14,985** | **14,985** | - | - | - |
| **Subtotal** |  | **14,985** | **14,985** |  | - | - |
| **Shares Listed In Bangaladesh Pharmaceuticals, biotechnology and life Sciences**  Indo-Bangla Pharmaceuticals | **-** | **-** | **-** | 3,530 | 65 | 151 |
| Silva Pharmaceuticals | **-** | **-** | **-** | 9,653 | 204 | 399 |
| Silco Pharmaceuticals | **-** | **-** | **-** | 8,022 | 162 | 399 |
| **Subtotal** |  | **-** | **-** |  | 431 | 949 |
| **Diversified holdings**  VFS Tread Ltd. | **-** | **-** | **-** | 8,515 | 156 | 426 |
| **Subtotal** |  | **-** | **-** |  | 156 | 426 |
| Total |  | **25,295** | **24,753** |  | 39,799 | 27,134 |
| Mark to market gains/(losses) |  | **(542)** |  |  | (12,665) |  |
| Market value of equity securities |  | **24,753** |  |  | 27,134 |  |

* 1. **Industry/sector composition of equity securities – Company and Group**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March**  **Industry/Sector** | **2021** | | | **2020** | | |
| **Total Cost Rs. '000** | **Market Value Rs. '000** | **%** | **Total Cost Rs. '000** | **Market Value Rs. '000** | **%** |
| **Company**  Bank, finance and insurance | **-** | **-** | **-** | 21,729 | 13,547 | 100.00% |
| Diversified holdings | **10,310** | **9,768** | **100.00%** | - | - | - |
| **Total** | **10,310** | **9,768** | **100.00%** | 21,729 | 13,547 | 100.00% |
| Mark to market gains/(losses) | **(542)** |  |  | (8,182) |  |  |
| Market value of equity securities | **9,768** |  |  | 13,547 |  |  |
| **Group**  Bank, finance and insurance | **-** | **-** | **-** | 33,812 | 20,759 | 76.51% |
| Beverage food and tobacco | **-** | **-** | **-** | 5,400 | 5,000 | 18.43% |
| Pharmaceuticals, biotechnology and life sciences | **-** | **-** | **-** | 431 | 949 | 3.50% |
| Diversified holdings | **10,310** | **9,768** | **39.46%** | 156 | 426 | 1.57% |
| Manufacturing | **14,985** | **14,985** | **60.54%** | - | - | - |
| **Total** | **25,295** | **24,753** | **100.00%** | 39,799 | 27,134 | 100.00% |
| Mark to market gains/(losses) | **(542)** |  |  | (12,665) |  |  |
| Market value of equity securities | **24,753** |  |  | 27,134 |  |  |

Sensitivity analysis of financial assets - FVTPL - equity is given in Note 59.4.3 on page 303.

# Investment in Unit Trust

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | | **Group** | | |
| **2021**  **No. of Units** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **No. of Units** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| NDB Wealth Money Market Plus Fund | **-** | **-** | 760,585 | **16,281,952** | **387,382** | 760,585 |
| Guardian Money Market Fund | **-** | **-** | 257,587 | **-** | **-** | 410,873 |
| CAL Investment | **4,976,560** | **100,019** | - | **24,153,997** | **485,447** | - |
| JB Vantage Money Market Fund | **-** | **-** | - | **13,749,775** | **384,171** | - |
| **Total** |  | **100,019** | 1,018,172 |  | **1,257,000** | 1,171,458 |

1. **LOANS AND RECEIVABLES - AMORTISED COST**

**ACCOUNTING POLICY**

Financial assets classified as loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

* Those that the Group and Company intends to sell immediately or in the near term and those that, upon initial recognition, designates as at fair value through profit or loss
* Those that the Group and Company, upon initial recognition, designates as FVOCI
* Those for which the Group and Company may not recover substantially all of its initial investment, other than because of credit deterioration

‘Loans and receivables' are measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in ‘Interest income’ in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss in ‘impairment charges for loans and receivables and other losses’.

# Leasing

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

# Group/Company as a Lessee

Leases that do not transfer to the Group/Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Profit or Loss on a straight line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

# Group/Company as a Lessor

Leases where the Group/Company does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. 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.

# Receivables on Lease, Hire Purchase and Islamic Finance

As per SLFRS 16, a lease which transfers substantially all the risks and rewards incidental to ownership of an underlying asset is classified as a finance lease. At the commencement date, the Group recognises assets held under finance lease in the Statement of Financial Position and

present them as a lease receivable at an amount equal to the net investment in the lease. Net investment in the lease is arrived by discounting lease payments receivable at the interest rate implicit in the lease, i.e. the rate which causes present value of lease payments to equal to the fair value of the underlying asset and initial direct costs. The finance income receivable is recognised in “interest income” over the periods of the leases so as to achieve a constant rate of return on the net investment in the leases.

# ‘Day 1’ Difference for Staff Loans

All staff loans granted at below market interest rates were recognised at fair value. The difference between the fair value and the amount disbursed were treated as ‘day 1’ difference and amortised as staff cost over the loan period by using effective interest rate (EIR). The staff loans were subsequently measured at amortised costs. Refer Note 31.1.1 on page 241.

# Renegotiated Loans and Receivables

Where possible, the Group/Company seeks to restructure loans and receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new receivable conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the receivable is no longer considered past due. Management continually reviews renegotiated loans and receivables to ensure that all criteria are met and that future payments are likely to occur. The receivable continue to be subject to any criteria are met and that future payments are likely to occur. The loans and receivables continue to be measured at amortised cost using original EIR and subject to an individual or collective impairment assessment.

# Impairment Allowance for Loans and Receivable to Customers

Details on the Impairment allowance for loans and receivable to customers desclosed in the note 25.7 on page 228.

# Reversals of Impairment

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

# Written off of Loans and Receivables

Loans and receivables are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Loans and receivables | 25.1.2 | 219 | **150,655,845** | 156,497,746 | **159,224,528** | 163,304,880 |
| (Less):  Individual impairment charges | 25.8 | 230 | **1,168,174** | 1,316,237 | **1,168,174** | 1,428,968 |
| Collective impairment charges | 25.8 | 230 | **8,099,764** | 7,433,998 | **8,714,022** | 7,740,978 |
| **Net loans and receivables** |  |  | **141,387,907** | 147,747,511 | **149,342,332** | 154,134,934 |
| **Fair value** |  |  | **163,635,284** | 155,825,013 | **169,138,423** | 158,483,419 |

# Analysis

* + 1. **Analysis by stage wise**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company - As at 31 March 2021** | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Loans and receivables | 91,721,453 | 30,256,132 | 28,678,260 | 150,655,845 |
| (Less):  Individual impairment charges | - | - | 1,168,174 | 1,168,174 |
| Collective impairment charges | 831,484 | 1,113,374 | 6,154,906 | 8,099,764 |
| **Net loans and receivables** | 90,889,969 | 29,142,758 | 21,355,180 | 141,387,907 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company - As at 31 March 2020** | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Loans and receivables | 85,842,549 | 38,427,765 | 32,227,432 | 156,497,746 |
| (Less):  Individual impairment charges | - | - | 1,316,237 | 1,316,237 |
| Collective impairment charges | 675,172 | 1,183,272 | 5,575,553 | 7,433,997 |
| **Net loans and receivables** | 85,167,377 | 37,244,493 | 25,335,642 | 147,747,512 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Group - As at 31 March 2021** | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Loans and receivables | 92,517,093 | 35,084,515 | 31,622,920 | 159,224,528 |
| (Less):  Individual impairment charges | - | - | 1,168,174 | 1,168,174 |
| Collective impairment charges | 995,233 | 1,262,265 | 6,456,524 | 8,714,022 |
| **Net loans and receivables** | 91,521,860 | 33,822,250 | 23,998,222 | 149,342,332 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Group - As at 31 March 2020** | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Loans and receivables | 88,207,562 | 41,813,456 | 33,283,862 | 163,304,880 |
| (Less):  Individual impairment charges | - | - | 1,428,968 | 1,428,968 |
| Collective impairment charges | 749,718 | 1,333,159 | 5,658,101 | 7,740,978 |
| **Net loans and receivables** | 87,457,844 | 40,480,297 | 26,196,793 | 154,134,934 |

* + 1. **Analysis by product**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **By product**  Lease/Ijarah receivable | 25.5.1/25.6.1 | 223/226 | **78,141,725** | 85,815,366 | **78,131,430** | 85,815,366 |
| Hire-Purchase/ Murabah receivable | 25.5.2/25.6.2 | 224/227 | **224,793** | 336,375 | **3,143,356** | 3,355,778 |
| Term Loan and receivables | 25.5.3/25.6.3 | 225/228 | **70,780,167** | 68,728,321 | **75,611,414** | 71,615,697 |
| Related party receivables | 25.2 | 220 | **1,509,160** | 1,617,684 | **-** | - |
| Commercial Paper |  |  | **-** | - | **155,245** | - |
| Debentures | 25.3 | 221 | **-** | - | **2,183,083** | 2,518,039 |
| **Gross total** |  |  | **150,655,845** | 156,497,746 | **159,224,528** | 163,304,880 |
| **Fair value** |  |  | **163,635,284** | 155,825,013 | **169,138,423** | 158,483,419 |

* + 1. **Analysis by Currency**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Sri Lankan Rupee | **150,655,845** | 156,497,746 | **154,452,244** | 160,611,510 |
| Bangladesh Taka | **-** | - | **4,772,284** | 2,693,370 |
| **Gross total** | **150,655,845** | 156,497,746 | **159,224,528** | 163,304,880 |

**25.1.4 Analysis by Industry**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Agriculture, forestry and fishing | **30,661,009** | 30,535,229 | **31,237,276** | 31,148,829 |
| Arts, entertainment and recreation | **1,406,139** | 1,198,406 | **1,406,139** | 1,198,406 |
| Construction and infrastructure development | **10,972,649** | 11,861,226 | **9,780,857** | 10,905,103 |
| Consumption | **7,819,767** | 8,982,853 | **7,819,767** | 9,017,339 |
| Education | **1,888,245** | 1,790,145 | **1,888,245** | 1,790,145 |
| Financial services | **7,268,787** | 4,881,761 | **9,848,580** | 7,836,750 |
| Health care, social services and support services | **12,134,882** | 18,588,699 | **13,531,028** | 20,017,178 |
| Information technology and communication | **1,536,108** | 1,419,850 | **1,536,108** | 1,419,850 |
| Manufacturing | **9,094,435** | 9,267,973 | **10,625,482** | 11,378,906 |
| Professional, scientific and technical activities | **10,814,474** | 8,042,772 | **10,814,474** | 8,042,772 |
| Tourism | **3,666,967** | 4,337,271 | **3,679,932** | 4,352,849 |
| Transportation and storage | **33,506,084** | 35,230,788 | **33,611,307** | 35,265,304 |
| Wholesale and retail trade | **18,498,319** | 18,168,984 | **19,034,510** | 18,606,628 |
| Other | **1,387,980** | 2,191,789 | **2,072,495** | 2,324,821 |
| **Gross total** | **150,655,845** | 156,497,746 | **156,886,200** | 163,304,880 |

**25.2 Related Party Receivables**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| People’s Leasing Property Development Limited | **599,301** | 614,680 | **-** | - |
| People’s Leasing Fleet Management Limited | **-** | 17,654 | **-** | - |
| People’s Leasing Havelock Properties Limited | **830,096** | 809,822 | **-** | - |
| People’s Micro-commerce Ltd. | **2,700** | 112,505 | **-** | - |
| People’s Insurance PLC | **49,908** | 35,868 | **-** | - |
| Lankan Alliance Finance Limited | **27,155** | 27,155 | **-** | - |
| **Total** | **1,509,160** | 1,617,684 | **-** | - |

**25.3 Debentures**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Rate** | **Maturity**  **date** | **Group** | | | |
| **2021** | | **2020** | |
| **No. of Debentures** | **Carrying**  **Value**  **Rs. '000** | **No. of Debentures** | **Carrying**  **Value**  **Rs. '000** |
| Sampath Bank PLC | 9.90% | 18-Nov-20 | **-** | **-** | 500,000 | 51,802 |
| 12.50% | 20-Mar-23 | **1,000,000** | **100,401** | 1,000,000 | 106,634 |
| 13.90% | 24-Feb-24 | **1,000,000** | **101,152** | 1,000,000 | 101,138 |
| Siyapatha Finance PLC | 13.33% | 8-Aug-24 | **1,500,000** | **162,632** | 1,500,000 | 162,626 |
| National Savings Bank | 11.00% | 10-Sep-22 | **1,000,000** | **105,941** | 1,000,000 | 105,970 |
| National Development Bank PLC | 9.40% | 24-Jun-20 | **-** | **-** | 282,800 | 26,057 |
| 13.95% | 30-Mar-24 | **2,000,000** | **200,163** | 2,000,000 | 227,961 |
| DFCC Bank PLC | 9.40% | 10-Jun-20 | **-** | **-** | 332,100 | 35,764 |
| 12.75% | 9-Nov-23 | **1,000,000** | **104,925** | 1,000,000 | 104,996 |
| 13.00% | 29-Mar-25 | **844,500** | **84,538** | 844,500 | 95,536 |
| 13.50% | 28-03-2024 | **1,000,000** | **100,143** | 1,000,000 | 113,627 |
| 11.00% | 12-Jun-25 | **1,190,000** | **128,912** | - | - |
| Seylan Bank PLC | 12.85% | 29-Mar-23 | **750,000** | **75,051** | 750,000 | 79,883 |
| MTD Walkers PLC | 11.75% | 30-Sep-19 | **-** | **-** | 254,784 | 26,954 |
| Commercial Credit & Finance PLC | 10.40% | 10-Dec-20 | **1,000,000** | **26,954** | 1,000,000 | 103,189 |
| Sanasa Development Bank PLC | 10.30% | 31-Dec-20 | **-** | **-** | 500,000 | 51,280 |
| Commercial Bank PLC | 10.75% | 8-Mar-21 | **-** | **-** | 2,000,000 | 212,104 |
| 12.00% | 27-Oct-21 | **421,900** | **44,316** | 421,900 | 44,345 |
| 12.00% | 22-Jul-23 | **881,700** | **90,106** | 881,700 | 90,135 |
| Hatton National Bank PLC | 11.25% | 28-Mar-21 | **-** | **-** | 2,000,000 | 222,954 |
| 13.00% | 1-Nov-23 | **193,300** | **20,332** | 193,300 | 20,339 |
| 12.30% | 22-Sep-24 | **413,300** | **43,900** | 413,300 | 43,914 |
| Nations Trust Bank PLC | 12.65% | 8-Nov-21 | **2,000,000** | **209,851** | 2,000,000 | 209,619 |
| 12.80% | 23-Dec-24 | **2,000,000** | **206,568** | 2,000,000 | 206,634 |
| Hayleys PLC | 12.50% | 31-Jul-23 | **1,000,000** | **101,978** | 1,000,000 | 102,012 |
| LOLC PLC | 10.25% | 24-Feb-26 | **3,000,000** | **302,819** | - | - |
| Subtotal |  |  |  | **2,210,684** |  | 2,545,473 |
| Less: Allowance for expected credit losses |  |  |  | **(27,601)** |  | (27,434) |
| **Total** |  |  |  | **2,183,083** |  | 2,518,039 |

Total allowance for expected credit loss stemmed from 12 months ECL since all investments under this category are investment grade instruments.

# 25.4 Movement in Gross Loan and Receivables during the Year (Under SLFRS 9) Movement in gross loan and receivables 2021 - Company

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Gross carrying amount as at 1 April 2020 | **85,842,549** | **38,427,765** | **32,227,432** | **156,497,746** |
| New assets originated or purchased | **45,437,659** | **5,359,775** | **5,802,633** | **56,600,067** |
| Assets derecognised or repaid (excluding write offs) | **(34,540,620)** | **(15,262,704)** | **(12,491,832)** | **(62,295,156)** |
| Transfers to Stage 2 and 3 | **(15,480,507)** | **13,868,554** | **1,611,953** | **-** |
| Transfers to Stage 1 and 3 | **7,993,476** | **(15,696,865)** | **7,703,389** | **-** |
| Transfers to Stage 1 and 2 | **2,468,896** | **3,559,607** | **(6,028,503)** | **-** |
| Amounts written off | **-** | **-** | **(146,812)** | **(146,812)** |
| **Gross carrying amount as at 31 March 2021** | **91,721,453** | **30,256,132** | **28,678,260** | **150,655,845** |

**Movement in gross loan and receivables 2020 - Company**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Gross carrying amount as at 1 April 2019 | 114,902,936 | 26,640,117 | 15,109,188 | 156,652,241 |
| New assets originated or purchased | 45,583,126 | 16,938,239 | 7,026,238 | 69,547,603 |
| Assets derecognised or repaid (excluding write offs) | (49,915,849) | (13,501,435) | (6,284,814) | (69,702,098) |
| Transfers to Stage 2 and 3 | (26,572,169) | 16,957,385 | 9,614,784 | - |
| Transfers to Stage 1 and 3 | 1,608,186 | (9,125,199) | 7,517,013 | - |
| Transfers to Stage 1 and 2 | 236,319 | 518,658 | (754,977) | - |
| Amounts written off | - | - | - | - |
| **Gross carrying amount as at 31 March 2020** | 85,842,549 | 38,427,765 | 32,227,432 | 156,497,746 |

**Movement in gross loan and receivables 2021 - Group**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Gross carrying amount as at 1 April 2020 | **88,207,562** | **41,813,456** | **33,283,862** | **163,304,880** |
| New assets originated or purchased | **52,415,185** | **6,131,991** | **6,371,434** | **64,918,610** |
| Assets derecognised or repaid (excluding write offs) | **(41,520,185)** | **(15,048,355)** | **(12,283,610)** | **(68,852,150)** |
| Transfers to Stage 2 and 3 | **(16,130,403)** | **14,368,752** | **1,761,651** | **-** |
| Transfers to Stage 1 and 3 | **7,366,941** | **(15,816,240)** | **8,449,299** | **-** |
| Transfers to Stage 1 and 2 | **2,177,993** | **3,634,911** | **(5,812,904)** | **-** |
| Amounts written off | **-** | **-** | **(146,812)** | **(146,812)** |
| **Gross carrying amount as at 31 March 2021** | **92,517,093** | **35,084,515** | **31,622,920** | **159,224,528** |

**Movement in Gross Loan and Receivables 2020 - Group**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| Gross carrying amount as at 1 April 2019 | 118,132,249 | 28,664,658 | 15,435,958 | 162,232,865 |
| New assets originated or purchased | 51,127,542 | 19,378,635 | 7,714,983 | 78,221,160 |
| Assets derecognised or repaid (excluding write offs) | (55,248,912) | (14,943,943) | (6,956,290) | (77,149,145) |
| Transfers to Stage 2 and 3 | (27,728,058) | 17,695,031 | 10,033,027 | - |
| Transfers to Stage 1 and 3 | 1,678,142 | (9,522,145) | 7,844,003 | - |
| Transfers to Stage 1 and 2 | 246,599 | 541,220 | (787,819) | - |
| Amounts written off | - | - | - | - |
| **Gross carrying amount as at 31 March 2020** | 88,207,562 | 41,813,456 | 33,283,862 | 163,304,880 |

* 1. **Remaining Contractual Maturity Analysis -Company**
     1. **Lease/Ijarah Receivable**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | | **2020** | | | |
| **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** | **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** |
| **Gross rentals receivable** | **43,999,315** | **52,294,393** | **53,075** | **96,346,783** | 49,584,958 | 59,717,444 | 19,500 | 109,321,902 |
| Less: Unearned income | **9,942,866** | **8,256,450** | **3,185** | **18,202,501** | 12,002,025 | 11,498,996 | 1,241 | 23,502,262 |
| **Net rentals receivable** | **34,056,449** | **44,037,943** | **49,890** | **78,144,282** | 37,582,933 | 48,218,448 | 18,259 | 85,819,640 |
| Less : Rentals received in advance |  |  |  | **2,557** |  |  |  | 4,274 |
| **Lease/Ijarah receivable before impairment provision** |  |  |  | **78,141,725** |  |  |  | 85,815,366 |
| **Less : Allowance for impairment losses**  Individual Impairment  Stage 1 |  |  |  | **-** |  |  |  | - |
| Stage 2 |  |  |  | **-** |  |  |  | - |
| Stage 3 |  |  |  | **-** |  |  |  | 61,413 |
| Total individual impairment |  |  |  | **-** |  |  |  | 61,413 |
| Collective Impairment  Stage 1 |  |  |  | **407,512** |  |  |  | 324,980 |
| Stage 2 |  |  |  | **646,288** |  |  |  | 632,661 |
| Stage 3 |  |  |  | **2,164,642** |  |  |  | 2,394,313 |
| Total collective impairment |  |  |  | **3,218,442** |  |  |  | 3,351,954 |
| **Total net rentals receivable** | **34,056,449** | **44,037,943** | **49,890** | **74,923,283** | 37,582,933 | 48,218,448 | 18,259 | 82,401,999 |

* + 1. **Hire-Purchase/ Murabah receivable**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | | **2020** | | | |
| **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** | **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** |
| **Gross rentals receivable** | **230,888** | **11,686** | **-** | **242,574** | 310,678 | 34,553 | - | 345,231 |
| Less: Unearned income | **17,085** | **522** | **-** | **17,607** | 6,612 | 1,783 | - | 8,395 |
| **Net rentals receivable** | **213,803** | **11,164** | **-** | **224,967** | 304,066 | 32,770 | - | 336,836 |
| Less : Rentals received in advance |  |  |  | **174** |  |  |  | 461 |
| **Hire-Purchase/ Murabah receivable before impairment provision** |  |  |  | **224,793** |  |  |  | 336,375 |
| **Less: Allowance for impairment losses**  Individual Impairment  Stage 1 |  |  |  | **-** |  |  |  | - |
| Stage 2 |  |  |  | **-** |  |  |  | - |
| Stage 3 |  |  |  | **-** |  |  |  | - |
| Total individual impairment |  |  |  | **-** |  |  |  | - |
| Collective Impairment  Stage 1 |  |  |  | **137** |  |  |  | 200 |
| Stage 2 |  |  |  | **671** |  |  |  | 1,034 |
| Stage 3 |  |  |  | **182,224** |  |  |  | 123,874 |
| Total collective impairment |  |  |  | **183,032** |  |  |  | 125,108 |
| **Total net rentals receivable** | **213,803** | **11,164** | **-** | **41,761** | 304,066 | 32,770 | - | 211,267 |

* + 1. **Term Loan and receivables**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | | **2020** | | | |
| **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** | **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** |
| Motor Loans | **12,293,886** | **27,878,428** | **39,835** | **40,212,149** | 13,395,016 | 21,440,497 | - | 34,835,513 |
| Short and medium loans | **6,074,667** | **5,810,178** | **69,797** | **11,954,642** | 6,534,786 | 7,511,149 | 64,677 | 14,110,612 |
| Clean Basis Loan Stock | **817,416** | **117,173** | **-** | **934,589** | 780,035 | 185,292 | - | 965,327 |
| Self E Cash Loan | **1,951,463** | **677,058** | **-** | **2,628,521** | 1,914,075 | 900,925 | - | 2,815,000 |
| Fast Track Loan | **1,228,751** | **522,933** | **-** | **1,751,684** | 5,190,508 | 824,658 | 181,583 | 6,196,749 |
| Trading Murabah | **309,166** | **78,721** | **-** | **387,887** | 647,923 | 129,116 | - | 777,039 |
| Musharakah | **937,696** | **1,574,502** | **-** | **2,512,198** | 611,187 | 1,008,473 | 1,033 | 1,620,693 |
| Factoring receivable | **2,611,936** | **-** | **-** | **2,611,936** | 3,142,703 | - | - | 3,142,703 |
| Margin trading | **4,832,679** | **-** | **-** | **4,832,679** | 2,265,923 | - | - | 2,265,923 |
| Staff loans | **191,822** | **507,272** | **24,555** | **723,649** | 171,683 | 506,130 | 28,429 | 706,242 |
| Sundry loans | **2,151,099** | **80,820** | **-** | **2,231,919** | 1,295,043 | - | - | 1,295,043 |
| Less: Prepaid Rentals | **(1,686)** | **-** | **-** | **(1,686)** | (2,523) | - | - | (2,523) |
| **Loan receivable before impairment provision** | **33,398,895** | **37,247,085** | **134,187** | **70,780,167** | 35,946,359 | 32,506,240 | 275,722 | 68,728,321 |
| **Less: Allowance for impairment losses**  Individual Impairment  Stage 1 |  |  |  | **-** |  |  |  | - |
| Stage 2 |  |  |  | **-** |  |  |  | - |
| Stage 3 |  |  |  | **1,168,174** |  |  |  | 1,254,824 |
| Total individual impairment |  |  |  | **1,168,174** |  |  |  | 1,254,824 |
| Collective Impairment  Stage 1 |  |  |  | **423,835** |  |  |  | 349,992 |
| Stage 2 |  |  |  | **466,415** |  |  |  | 549,577 |
| Stage 3 |  |  |  | **3,808,040** |  |  |  | 3,057,366 |
| Total collective impairment |  |  |  | **4,698,290** |  |  |  | 3,956,935 |
| **Total net receivable** | **33,398,895** | **37,247,085** | **134,187** | **64,913,703** | 35,946,359 | 32,506,240 | 275,722 | 63,516,562 |

* 1. **Remaining Contractual Maturity Analysis -Group**
     1. **Lease/Ijarah receivable**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | | **2020** | | | |
| **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** | **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** |
| **Gross rentals receivable** | **43,996,067** | **52,284,615** | **53,076** | **96,333,758** | 49,584,958 | 59,717,444 | 19,500 | 109,321,902 |
| Less: Unearned income | **9,941,699** | **8,254,887** | **3,185** | **18,199,771** | 12,002,025 | 11,498,996 | 1,241 | 23,502,262 |
| **Net rentals receivable** | **34,054,368** | **44,029,728** | **49,891** | **78,133,987** | 37,582,933 | 48,218,448 | 18,259 | 85,819,640 |
| Less : Rentals received in advance |  |  |  | **2,557** |  |  |  | 4,274 |
| **Lease/Ijarah receivable before impairment provision** |  |  |  | **78,131,430** |  |  |  | 85,815,366 |
| **Less: Allowance for impairment losses**  Individual Impairment  Stage 1 |  |  |  | **-** |  |  |  | - |
| Stage 2 |  |  |  | **-** |  |  |  | - |
| Stage 3 |  |  |  | **-** |  |  |  | 61,413 |
| Total individual impairment |  |  |  | **-** |  |  |  | 61,413 |
| Collective Impairment  Stage 1 |  |  |  | **407,512** |  |  |  | 324,980 |
| Stage 2 |  |  |  | **646,288** |  |  |  | 632,661 |
| Stage 3 |  |  |  | **2,164,642** |  |  |  | 2,394,313 |
| Total collective impairment |  |  |  | **3,218,442** |  |  |  | 3,351,954 |
| **Total net rentals receivable** | **34,054,368** | **44,029,728** | **49,891** | **74,912,988** | 37,582,933 | 48,218,448 | 18,259 | 82,401,999 |

* + 1. **Hire-Purchase/ Murabah receivable**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | | **2020** | | | |
| **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** | **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** |
| **Gross rentals receivable** | **2,090,271** | **2,176,206** | **-** | **4,266,477** | 2,244,239 | 2,342,823 | - | 4,587,062 |
| Less: Unearned income | **570,783** | **552,164** | **-** | **1,122,947** | 636,855 | 593,968 | - | 1,230,823 |
| **Net rentals receivable** | **1,519,488** | **1,624,042** | **-** | **3,143,530** | 1,607,384 | 1,748,855 | - | 3,356,239 |
| Less : Rentals received in advance |  |  |  | **174** |  |  |  | 461 |
| **Hire-Purchase/ Murabah receivable before impairment provision** |  |  |  | **3,143,356** |  |  |  | 3,355,778 |
| **Less : Allowance for impairment losses**  Individual Impairment  Stage 1 |  |  |  | **-** |  |  |  | - |
| Stage 2 |  |  |  | **-** |  |  |  | - |
| Stage 3 |  |  |  | **-** |  |  |  | 33,824 |
| Total individual impairment |  |  |  | **-** |  |  |  | 33,824 |
| Collective Impairment  Stage 1 |  |  |  | **91,775** |  |  |  | 45,524 |
| Stage 2 |  |  |  | **99,142** |  |  |  | 126,381 |
| Stage 3 |  |  |  | **396,782** |  |  |  | 203,824 |
| Total collective impairment |  |  |  | **587,699** |  |  |  | 375,729 |
| **Total net rentals receivable** | **1,519,488** | **1,624,042** | **-** | **2,555,657** | 1,607,384 | 1,748,855 | - | 2,946,225 |

* + 1. **Term Loan and receivables**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | | **2020** | | | |
| **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** | **Within**  **one year**  **Rs. '000** | **1-5**  **years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Total**  **Rs. '000** |
| Motor loans | **12,293,886** | **27,878,428** | **39,835** | **40,212,149** | 13,395,016 | 21,440,497 | - | 34,835,513 |
| Short and medium loans | **8,700,465** | **8,015,627** | **69,797** | **16,785,889** | 9,422,162 | 7,511,149 | 64,677 | 16,997,988 |
| Clean basis loan stock | **817,416** | **117,173** | **-** | **934,589** | 780,035 | 185,292 | - | 965,327 |
| Self E cash loan | **1,951,463** | **677,058** | **-** | **2,628,521** | 1,914,075 | 900,925 | - | 2,815,000 |
| Fast track loan | **1,228,751** | **522,933** | **-** | **1,751,684** | 5,190,508 | 824,658 | 181,583 | 6,196,749 |
| Trading murabah | **309,166** | **78,721** | **-** | **387,887** | 647,923 | 129,116 | - | 777,039 |
| Musharakah | **937,696** | **1,574,502** | **-** | **2,512,198** | 611,187 | 1,008,473 | 1,033 | 1,620,693 |
| Factoring receivable | **2,611,936** | **-** | **-** | **2,611,936** | 3,142,703 | - | - | 3,142,703 |
| Margin trading | **4,832,679** | **-** | **-** | **4,832,679** | 2,265,923 | - | - | 2,265,923 |
| Staff loans | **191,822** | **507,272** | **24,555** | **723,649** | 171,683 | 506,130 | 28,429 | 706,242 |
| Sundry loans | **2,151,099** | **80,820** | **-** | **2,231,919** | 1,295,043 | - | - | 1,295,043 |
| Less: prepaid rentals | **(1,686)** | **-** | **-** | **(1,686)** | (2,523) | - | - | (2,523) |
| **Loan receivable before impairment provision** | **36,024,693** | **39,452,534** | **134,187** | **75,611,414** | 38,833,735 | 32,506,240 | 275,722 | 71,615,697 |
| **Less: Allowance for impairment losses**  Individual Impairment  Stage 1 |  |  |  | **-** |  |  |  | - |
| Stage 2 |  |  |  | **-** |  |  |  | - |
| Stage 3 |  |  |  | **1,168,174** |  |  |  | 1,333,731 |
| Total individual impairment |  |  |  | **1,168,174** |  |  |  | 1,333,731 |
| Collective Impairment  Stage 1 |  |  |  | **495,946** |  |  |  | 379,214 |
| Stage 2 |  |  |  | **516,835** |  |  |  | 574,117 |
| Stage 3 |  |  |  | **3,895,100** |  |  |  | 3,059,964 |
| Total collective impairment |  |  |  | **4,907,881** |  |  |  | 4,013,295 |
| **Total net receivable** | **36,024,693** | **39,452,534** | **134,187** | **69,535,359** | 38,833,735 | 32,506,240 | 275,722 | 66,268,671 |

* 1. **Impairment Allowance for Loans and Receivable to Customers**

**ACCOUNTING POLICY**

As per SLFRS 9, the Group records an allowance for expected credit losses for loans and advances.

# Individual Impairment

The Group will separately assess significant customer exposure to determine where there are any signs of impairment. In particular, management judgment was required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates were based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made. Loans with objective evidence of loss have been classified as Stage 3. Loans with a individually significant amount but not impaired will be collectively assessed for impairment in stage 1 or stage 2 according to the below specified criteria to determine whether significant credit deterioration has occurred since its inception.

# Collective Impairment

A collective impairment provision is established for:

* groups of homogeneous loans and advances that are not considered individually significant; and
* groups of assets that are individually significant but that were not found to be individually impaired.

As per SLFRS 9, the Group’s Expected Credit Loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

* The Group’s criteria for qualitatively assessing whether there has been a significant increase in credit risk and if so allowances for financial assets measured on a Life time expected credit loss (LTECL) basis;
* The segmentation of financial assets when their ECL is assessed on a collective basis;
* Development of ECL models, including the various statistical formulas and the choice of inputs
* Determination of associations between macro-economic inputs, such as GDP growth, inflation, interest rates, exchange rates and unemployment and the effect on Probability of Default (PDs), Exposure At Default (EAD) and Loss Given Default (LGD);
* Selection of forward-looking macro-economic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Group has established a policy to perform an assessment of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. SLFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition.

# Stage 1

Loans and receivables 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 Group records an allowance for LTECL.

# Stage 3

If a loan is credit impaired, it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%.

# Significant Increase in Credit Risk

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

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

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

# Definition of Default and Credit Impaired Assets

The Group considers loans and advances to other customers be defaulted when:

1. The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
2. The borrower becomes 90 days past due on its contractual payments.

# Calculation of Expected Credit Loss (ECL)

The Group computes ECL using several components including three main components; a probability of default (PD), a loss given default (LGD), and the exposure at default (EAD) under the collective assessment. These parameters are generally derived from internally developed statistical models and historical data are then adjusted to reflect forward-looking information.

1. PD – The probability of default represents the likelihood of a borrower defaulting on its financial obligation (as per “definition of default and credit impaired” above) either over the next 12 months (12mPD) or over the remaining lifetime (Lifetime PD) of the obligation.

# Two Types of PDs are Used for Calculating ECLs:

* + 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
  + Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for “Stage 2” and “Stage 3” exposures

1. Loss given Default (“LGD”) – This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.
2. Exposure at Default (“EAD”) – This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.
3. Discount Rate – This is used to discount an expected loss to a present value at the reporting date using the effective interest rate (EIR) at initial recognition
4. Economic Factor Adjustment (EFA)-When incorporate forward looking information, an entity should consider forecasted macroeconomic factors to assessing the expected credit loss.

# Forward-looking Information

The Group incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group also obtained experienced credit judgement to formulate a base case and a worst case scenario. The base case represents a most-likely outcome and is aligned with information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk both quantitative and qualitative for various portfolio segments. Quantitative economic factors are based on economic data and forecasts published by CBSL and supranational organisations such as IMF.

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

# Revolving Facilities

Group offers revolving facilities such as Fast track, and calculates only the 12-month ECL (12mECL) allowance on these facilities. The EAD is arrived by taking the maximum of either sanction limit adjusted for Credit Conversion Factor (CCF) and the gross carrying amount of the loan (utilised amount). EAD of Stage 3 contracts are limited to the gross carrying amount which is the utilised amount since the Group freeze the limits of those contracts up to the utilised amount. The expected 12-month default probabilities are applied to EAD and multiplied by the expected LGD and EFA and discounted by an approximation to the original EIR.

# Analysis of Impairment by Product Wise

A reconciliation of the allowance for impairment losses for loans and receivables, by class, is as follows:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Company** | **2021** | | | | | | | | |
| **Lease**  **Rs. '000** | **Hire**  **Purchase Rs. '000** | **Ijarah**  **Rs. '000** | **Term**  **Loans**  **Rs. '000** | **Re-finance**  **loans Rs. '000** | **Murabah**  **Rs. '000** | **Trading**  **Murabah Rs. '000** | **Factoring**  **Rs. '000** | **Total**  **Rs. '000** |
| **At 1 April 2020** | **3,170,385** | **112,933** | **242,982** | **4,217,079** | **15,622** | **12,176** | **145,538** | **833,520** | **8,750,235** |
| Charge/(Reversal) for the year | **(140,595)** | **61,754** | **(54,330)** | **364,494** | **4,525** | **(3,831)** | **(5,155)** | **290,841** | **517,703** |
| **At 31 March 2021** | **3,029,790** | **174,687** | **188,652** | **4,581,573** | **20,147** | **8,345** | **140,383** | **1,124,361** | **9,267,938** |
| **Individual impairment**  Stage 1 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Stage 2 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Stage 3 | **-** | **-** | **-** | **712,308** | **2,403** | **-** | **3,791** | **449,672** | **1,168,174** |
| **Total Individual impairment** | **-** | **-** | **-** | **712,308** | **2,403** | **-** | **3,791** | **449,672** | **1,168,174** |
| **Collective impairment**  Stage 1 | **381,601** | **124** | **25,911** | **400,833** | **-** | **13** | **2,363** | **20,639** | **831,484** |
| Stage 2 | **606,640** | **646** | **39,648** | **459,226** | **-** | **25** | **1,674** | **5,515** | **1,113,374** |
| Stage 3 | **2,041,549** | **173,917** | **123,093** | **3,009,206** | **17,744** | **8,307** | **132,555** | **648,535** | **6,154,906** |
| **Total Collective impairment** | **3,029,790** | **174,687** | **188,652** | **3,869,265** | **17,744** | **8,345** | **136,592** | **674,689** | **8,099,764** |
|  |  |  |  |  |  |  |  |  |  |
| **Total** | **3,029,790** | **174,687** | **188,652** | **4,581,573** | **20,147** | **8,345** | **140,383** | **1,124,361** | **9,267,938** |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Company** | **2020** | | | | | | | | |
| **Lease**  **Rs. '000** | **Hire Purchase Rs. '000** | **Ijarah**  **Rs. '000** | **Term Loans Rs. '000** | **Re-finance**  **loans Rs. '000** | **Murabah**  **Rs. '000** | **Trading Murabah Rs. '000** | **Factoring**  **Rs. '000** | **Total**  **Rs. '000** |
| At 1 April 2019 | 1,626,579 | 72,613 | 92,465 | 2,815,266 | 14,206 | 3,866 | 129,608 | 189,736 | 4,944,339 |
| Charge/(Reversal) for the year | 1,543,806 | 40,320 | 150,517 | 1,401,813 | 1,416 | 8,310 | 15,930 | 643,784 | 3,805,896 |
| **At 31 March 2020** | 3,170,385 | 112,933 | 242,982 | 4,217,079 | 15,622 | 12,176 | 145,538 | 833,520 | 8,750,235 |
| **Individual impairment**  Stage 1 | - | - | - | - | - | - | - | - | - |
| Stage 2 | - | - | - | - | - | - | - | - | - |
| Stage 3 | 61,413 | - | - | 494,801 | 2,403 |  |  | 757,620 | 1,316,237 |
| **Total Individual impairment** | 61,413 | - | - | 494,801 | 2,403 | - | - | 757,620 | 1,316,237 |
| **Collective impairment**  Stage 1 | 301,497 | 88 | 23,483 | 268,660 | 110 | 112 | 5,323 | 75,899 | 675,172 |
| Stage 2 | 583,738 | 788 | 48,923 | 535,113 | 4,426 | 246 | 10,038 | - | 1,183,272 |
| Stage 3 | 2,223,737 | 112,057 | 170,576 | 2,918,505 | 8,683 | 11,817 | 130,178 | - | 5,575,553 |
| **Total Collective impairment** | 3,108,972 | 112,933 | 242,982 | 3,722,278 | 13,219 | 12,176 | 145,538 | 75,900 | 7,433,998 |
|  |  |  |  |  |  |  |  |  |  |
| Total | 3,170,385 | 112,933 | 242,982 | 4,217,079 | 15,622 | 12,176 | 145,538 | 833,520 | 8,750,235 |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Group** |  |  |  | **2021** |  |  |  |  |  |
| **Lease**  **Rs. '000** | **Hire**  **Purchase Rs. '000** | **Ijarah**  **Rs. '000** | **Term**  **Loans**  **Rs. '000** | **Re-finance**  **loans Rs. '000** | **Murabah**  **Rs. '000** | **Trading**  **Murabah Rs. '000** | **Factoring**  **Rs. '000** | **Total**  **Rs. '000** |
| **At 1 April 2020** | **3,170,385** | **397,378** | **242,982** | **4,352,345** | **15,622** | **12,175** | **145,539** | **833,520** | **9,169,946** |
| Charge/(Reversal) for the year | **(140,595)** | **181,976** | **(54,330)** | **436,960** | **4,525** | **(3,830)** | **(5,156)** | **290,841** | **710,391** |
| Exchange rate variance | **-** | **-** | **-** | **1,859** | **-** | **-** | **-** | **-** | **1,859** |
| **At 31 March 2021** | **3,029,790** | **579,354** | **188,652** | **4,791,164** | **20,147** | **8,345** | **140,383** | **1,124,361** | **9,882,196** |
| **Individual impairment**  Stage 1 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Stage 2 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Stage 3 | **-** | **-** | **-** | **712,308** | **2,403** | **-** | **3,791** | **449,672** | **1,168,174** |
| **Total Individual impairment** | **-** | **-** | **-** | **712,308** | **2,403** | **-** | **3,791** | **449,672** | **1,168,174** |
| **Collective impairment**  Stage 1 | **381,601** | **91,762** | **25,911** | **472,944** | **-** | **13** | **2,363** | **20,639** | **995,233** |
| Stage 2 | **606,640** | **99,117** | **39,648** | **509,646** | **-** | **25** | **1,674** | **5,515** | **1,262,265** |
| Stage 3 | **2,041,549** | **388,475** | **123,093** | **3,096,266** | **17,744** | **8,307** | **132,555** | **648,535** | **6,456,524** |
| **Total Collective impairment** | **3,029,790** | **579,354** | **188,652** | **4,078,856** | **17,744** | **8,345** | **136,592** | **674,689** | **8,714,022** |
| **Total** | **3,029,790** | **579,354** | **188,652** | **4,791,164** | **20,147** | **8,345** | **140,383** | **1,124,361** | **9,882,196** |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Group** |  |  |  |  | **2020** |  |  |  |  |
| **Lease**  **Rs. '000** | **Hire**  **Purchase Rs. '000** | **Ijarah**  **Rs. '000** | **Term**  **Loans**  **Rs. '000** | **Re-finance**  **loans Rs. '000** | **Murabah**  **Rs. '000** | **Trading**  **Murabah Rs. '000** | **Factoring**  **Rs. '000** | **Total**  **Rs. '000** |
| **At 1 April 2019** | 1,626,579 | 200,117 | 92,465 | 3,020,451 | 14,206 | 3,866 | 129,608 | 189,736 | 5,277,028 |
| Charge/(Reversal) for the year | 1,543,806 | 197,261 | 150,517 | 1,331,894 | 1,416 | 8,310 | 15,930 | 643,784 | 3,892,918 |
| **At 31 March 2020** | 3,170,385 | 397,378 | 242,982 | 4,352,345 | 15,622 | 12,176 | 145,538 | 833,520 | 9,169,946 |
| **Individual impairment**  Stage 1 | - | - | - | - | - | - | - | - | - |
| Stage 2 | - | - | - | - | - | - | - | - | - |
| Stage 3 | 61,413 | 33,824 | - | 573,707 | 2,403 | - | - | 757,621 | 1,428,968 |
| **Total individual impairment** | 61,413 | 33,824 | - | 573,707 | 2,403 | - | - | 757,621 | 1,428,968 |
| **Collective impairment**  Stage 1 | 301,497 | 45,412 | 23,483 | 297,882 | 110 | 112 | 5,323 | 75,899 | 749,718 |
| Stage 2 | 583,738 | 126,135 | 48,923 | 559,653 | 4,426 | 246 | 10,038 | - | 1,333,159 |
| Stage 3 | 2,223,737 | 192,007 | 170,576 | 2,921,103 | 8,683 | 11,817 | 130,178 | - | 5,658,101 |
| **Total collective impairment** | 3,108,972 | 363,554 | 242,982 | 3,778,638 | 13,219 | 12,176 | 145,538 | 75,899 | 7,740,978 |
| **Total** | 3,170,385 | 397,378 | 242,982 | 4,352,345 | 15,622 | 12,176 | 145,538 | 833,520 | 9,169,946 |

# Movement in Provision for Impairment during the Year Movement in impairment 2021 - Company

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| ECL allowance as at 1 April 2020 | **675,172** | **1,183,272** | **6,891,791** | **8,750,235** |
| New assets originated or purchased | **362,358** | **108,938** | **263,483** | **734,779** |
| Assets derecognised or repaid (excluding write offs) | **360,808** | **(366,251)** | **(275,162)** | **(280,605)** |
| Transfers to Stage 2 and 3 | **(761,572)** | **289,030** | **472,542** | **-** |
| Transfers to Stage 1 and 3 | **126,562** | **(620,498)** | **493,936** | **-** |
| Transfers to Stage 1 and 2 | **26,289** | **293,663** | **(319,952)** | **-** |
| Impact on year end ECL of exposures transferred between stages during the year | **(227,219)** | **(22,819)** | **141,534** | **(108,504)** |
| Changes to models and inputs used for ECL calculations | **269,086** | **248,039** | **(272,310)** | **244,815** |
| Amounts written off | **-** | **-** | **(72,782)** | **(72,782)** |
| **Balance as at 31 March 2021** | **831,484** | **1,113,374** | **7,323,080** | **9,267,938** |

**Movement in impairment 2020 - Company**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| ECL allowance as at 1 April 2019 | 694,115 | 683,710 | 3,566,514 | 4,944,339 |
| New assets originated or purchased | 331,309 | 612,170 | 1,115,561 | 2,059,040 |
| Assets derecognised or repaid (excluding write offs) | (155,897) | (195,393) | (1,008,966) | (1,360,256) |
| Transfers to Stage 2 and 3 | (1,767,220) | 444,409 | 1,322,811 | - |
| Transfers to Stage 1 and 3 | 15,466 | (1,069,877) | 1,054,411 | - |
| Transfers to Stage 1 and 2 | 4,385 | 23,816 | (28,201) | - |
| Impact on year end ECL of exposures transferred between stages during the year | 1,259,054 | 253,065 | 790,015 | 2,302,134 |
| Changes to models and inputs used for ECL calculations | 293,960 | 431,372 | 79,646 | 804,978 |
| **Balance as at 31 March 2020** | 675,172 | 1,183,272 | 6,891,791 | 8,750,235 |

**Movement in impairment 2021 - Group**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| ECL allowance as at 1 April 2020 | **749,718** | **1,333,159** | **7,087,069** | **9,169,946** |
| New assets originated or purchased | **482,566** | **212,977** | **205,397** | **900,940** |
| Assets derecognised or repaid (excluding write offs) | **395,853** | **(411,288)** | **(198,112)** | **(213,547)** |
| Transfers to Stage 2 and 3 | **(880,310)** | **299,071** | **581,239** | **-** |
| Transfers to Stage 1 and 3 | **125,361** | **(738,941)** | **613,580** | **-** |
| Transfers to Stage 1 and 2 | **71,935** | **311,982** | **(383,917)** | **-** |
| Impact on year end ECL of exposures transferred between stages during the year | **(271,960)** | **(25,867)** | **147,364** | **(150,463)** |
| Changes to models and inputs used for ECL calculations | **322,070** | **281,172** | **(283,528)** | **319,714** |
| Amounts written off | **-** | **-** | **(144,394)** | **(144,394)** |
| **Balance as at 31 March 2021** | **995,233** | **1,262,265** | **7,624,698** | **9,882,196** |

**Movement in impairment 2020 - Group**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Stage 1**  **Rs. '000** | **Stage 2**  **Rs. '000** | **Stage 3**  **Rs. '000** | **Total**  **Rs. '000** |
| ECL allowance as at 1 April 2019 | 739,817 | 730,191 | 3,807,020 | 5,277,028 |
| New assets originated or purchased | 339,960 | 643,192 | 1,006,966 | 1,990,118 |
| Assets derecognised or repaid (excluding write offs) | (161,955) | (238,824) | (989,970) | (1,390,749) |
| Transfers to Stage 2 and 3 | (1,869,471) | 470,122 | 1,399,349 | - |
| Transfers to Stage 1 and 3 | 16,361 | (1,131,780) | 1,115,419 | - |
| Transfers to Stage 1 and 2 | 4,639 | 25,194 | (29,833) | - |
| Impact on year end ECL of exposures transferred between stages during the year | 1,375,954 | 388,352 | 600,612 | 2,364,918 |
| Changes to models and inputs used for ECL calculations | 304,413 | 446,712 | 82,478 | 833,603 |
| Amounts written off | - | - | 95,028 | 95,028 |
| **Balance as at 31 March 2020** | 749,718 | 1,333,159 | 7,087,069 | 9,169,946 |

1. **INSURANCE AND REINSURANCE RECEIVABLES**

**ACCOUNTING POLICY**

**Insurance - Product Classification**

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders, if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable, if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

# Insurance Receivables

Insurance receivables satisfy the contractual cash flow characteristic test (SPPI test) as the return solely represent capital and interest. Even though there were no interest charge for insurance receivables, they satisfy the SPPI test as they are considered to be short term and credit risk doesn’t exist to charge interest. Upon completion of the SPPI test, the management elected the business model of hold to collect the contractual cash flows and measure the instrument at amortised cost as these are short term in nature. Since these are short term balances without a financing component, amortised cost will be equal to carrying value. Based on the three stages; performing (stage 1), under-performing (stage 2), nonperforming (stage 3), the Company provides ECL on 12 months ECL and lifetime ECL weighted among several scenarios.

# De-recognition due to substantial Modification of Terms and Conditions

Group de-recognises premium receivables, when the terms and conditions have been re-negotiated to the extent that, substantially, it becomes a new insurance contract, with the difference recognised as a separate asset or liability. The newly recognised insurance contracts are classified as stage 1 for ECL measurement purposes.

When assessing whether or not to de-recognise a insurance premium receivable, amongst others, Group considers the following factors:

* Loss of insurable interest
* Change in counterparty

# Assessment of Impairment of Insurance Receivables

The Group assessed the impairment provision based on the ECL method.

# Reinsurance Receivable

The Company cedes insurance risk to reinsurance in the normal course of business. Reinsurance receivables represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer’s policies and are in accordance with the related reinsurance contract.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

According to the characteristics relating to reinsurance receivables, the instruments qualify the contractual cash flow characteristic test (SPPI test) as the return solely represent capital and interest. Even though there were no interest charge for reinsurance receivables, they satisfy the SPPI test as they are considered to be short-term and credit risk doesn’t exist to charge interest. Upon completion of the SPPI test, the management elected the business model of hold to collect the contractual cash flows and measure the instrument at amortised cost as these are short-term in nature. Since these are short-term balances without a financing component, the amortised cost will be equal to carrying value.

# Assessment of Impairment of Reinsurance Receivables

Reinsurance receivables of the Company are not qualified for ECL model based on SLFRS 4 - Insurance Contracts, section 20. Impairment losses will be recognised on reinsurance receivables, if and only if, there is no objective evidence, as a result that occurred after initial recognition of the reinsurance assets, that the Company may not receive all amounts due to it under the terms of the contract; and that event has a reliably mesurable impact on the amounts that the Company will receive from the reinsurer.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Reinsurance receivables | **-** | - | **277,279** | 518,059 |
| Insurance Receivables | **-** | - | **747,182** | 676,874 |
| **Total** | **-** | - | **1,024,461** | 1,194,933 |
| **Fair value** | **-** | - | **1,024,461** | 1,194,933 |

# FINANCIAL ASSETS - FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

**ACCOUNTING POLICY**

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its financial investments held for strategic purpose, as equity instruments at FVOCI when they are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Unrealised gains and losses were recognised in Equity through OCI in the “Fair value reserve”. When these financial investments were disposed, the cumulative gain or loss previously recognised in fair value reserve transfered to retained earnings. Dividend earned while holding financial assets - FVOCI were recognised in the Income Statement as “Other Operating Income” when the right to receive the payment had been established. Equity instruments at FVOCI are not subject to an impairment assessment.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Equity securities | 27.1 | 235 | **309,118** | 324,381 | **309,118** | 324,381 |
| Treasury bills |  |  | **-** | - | **426,376** | 1,131,321 |
| **Total** |  |  | **309,118** | 324,381 | **735,494** | 1,455,702 |
| **Fair value** |  |  | **309,118** | 324,381 | **735,494** | 1,455,702 |

# 27.1 Equity Securities - Company and Group

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **2021** | | | **2020** | | |
| **No of Shares** | **Cost of**  **Investment**  **Rs. '000** | **Market Value**  **Rs. '000** | **No of Shares** | **Cost of**  **Investment**  **Rs. '000** | **Market Value**  **Rs. '000** |
| **Quoted Investments** People's Merchant Finance PLC |  |  | **25,014,002** | **237,633** | **180,100** | 25,014,002 | 237,633 | 217,622 |
| Sanasa Development Bank PLC |  |  | **2,271,260** | **213,853** | **129,008** | 2,271,260 | 213,853 | 106,749 |
|  |  |  |  | **451,486** | **309,108** |  | 451,486 | 324,371 |
| **Unquoted Investments**  Credit Information Bureau of Sri Lanka | 27.2.1 | 235 | **100** | **10** | **10** | 100 | 10 | 10 |
| Lanka Credit and Business Finance Limited | 27.2.2 | 235 | **50,000,000** | **50,000** | **-** | 50,000,000 | 50,000 | - |
| **Total** |  |  |  | **501,496** | **309,118** |  | 501,496 | 324,381 |

* 1. **Reconciliation of Fair Value Measurement for Unquoted Equity Securities Under level 3 Hierarchy**
     1. **Credit Information Bureau of Sri Lanka**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 1 April | **10** | 10 | **10** | 10 |
| Remeasurement recognised in OCI | **-** | - | **-** | - |
| Balance as at 31 March | **10** | 10 | **10** | 10 |

* + 1. **Lanka Credit and Business Finance Limited**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Investment as at 1 April | **50,000** | 50,000 | **50,000** | 50,000 |
| Remeasurement recognised in OCI | **-** | - | **-** | - |
| Investment as at 31 March | **50,000** | 50,000 | **50,000** | 50,000 |
| Less: provision | **50,000** | 50,000 | **50,000** | 50,000 |
| **Balance as at 31 March** | **-** | - | **-** | - |

1. **DEBT INSTRUMENT - AMORTISED COST**

**ACCOUNTING POLICY**

As per SLFRS 9, “Financial investments” are measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

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

After initial measurement, these are subsequently measured at amortised cost (gross carrying amount using the EIR, less provision for impairment). EIR is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in “Interest Income” while the losses arising from impairment are recognised in “impairment charges for loans and other losses” in the Income Statement.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Treasury bills | **6,319,142** | 4,106,963 | **6,319,142** | 4,106,963 |
| Treasury bonds | **675,064** | - | **1,539,558** | - |
| Unquoted preference shares | **-** | - | **734,686** | 706,476 |
| **Total** | **6,994,206** | 4,106,963 | **8,593,386** | 4,813,439 |
| **Fair value** | **6,984,078** | 4,114,978 | **8,620,175** | 4,821,454 |

# INVESTMENTS IN SUBSIDIARIES

**ACCOUNTING POLICY**

Investments in subsidiaries are stated at cost, net of any impairment losses which are charged to the Statement of Profit or Loss in the Company’s Financial Statements and it is in accordance with the Sri Lanka Accounting Standard LKAS 27 on ‘Separate Financial Statements’.

Subsidiaries are entities that are controlled by the Company. Subsidiaries are consolidated from the date the Company obtained control of the subsidiary and continue to be consolidated until the date when such control is lost. The Company controls an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Intra-group balances and transactions, income, expenses and any unrealised gains arising from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

Non-controlling interests represent the portion of equity in subsidiaries not attributable directly or indirectly, to the Company.

Non-controlling interests are presented in the consolidated Statement of Financial Position, with equity, but separately from the equity of the owner's of the Company. The profit or loss and each component of other comprehensive income is separately attributed to non controlling interest and presented separately in the consolidated statement of profit or loss. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in a deficit balance. Changes in the proportion held by non-controlling interests

are accounted for using the parent entity extension method, whereby the difference between the fair value of consideration paid or received and amount by which the non controlling interest are adjusted.

All subsidiaries of the Company have been incorporated in Sri Lanka other than Lankan Alliance Finance Limited which is incorporated in Bangladesh. A list of subsidiaries with their changes in the proposion held by principal activities are given in the Note 1.2 on page 179.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March**  **Company** | **2021** | | | **2020** | | |
| **Holding**  **%** | **Cost**  **Rs. '000** | **Directors'/**  **market valuation Rs. '000** | **Holding**  **%** | **Cost**  **Rs. '000** | **Directors' market valuation**  **Rs. '000** |
| People’s Leasing Fleet Management Limited | **100.00** | **175,000** | **332,983** | 100.00 | 175,000 | 304,841 |
| People’s Leasing Property Development Limited | **100.00** | **550,000** | **1,013,914** | 100.00 | 550,000 | 1,104,209 |
| People’s Leasing Havelock Properties Limited | **100.00** | **600,000** | **626,158** | 100.00 | 600,000 | 616,910 |
| People’s Micro-commerce Ltd | **100.00** | **150,000** | **367,437** | 100.00 | 150,000 | 304,808 |
| People’s Insurance PLC | **75.00** | **600,000** | **4,590,000** | 75.00 | 600,000 | 2,955,000 |
| Lankan Alliance Finance Limited | **51.00** | **1,138,788** | **1,482,658** | 51.00 | 1,138,788 | 1,440,838 |
| **Total** |  | **3,213,788** | **8,413,150** |  | 3,213,788 | 6,726,606 |

Subsidiaries are not quoted in the Colombo stock exchange except People's Insurance PLC. The directors' valuation of investment in subsidiaries has been carried out on net asset basis. People's Insurance PLC has been valued at market value basis.

The following table summaries the information relating to the Group's subsidiaries that have a material non-controlling interest (NCI).

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **2021** | | | **2020** | | |
| **People's**  **Insurance**  **PLC** | **Lankan Alliance Finance Limited** | **Total** | **People's**  **Insurance**  **PLC** | **Lankan Alliance Finance Limited** | **Total** |
| Non-controlling interest (NCI) percentage | **25%** | **49%** |  | 25% | 49% |  |
| Net operating income | **Rs. '000** | **Rs. '000** | **Rs. '000** | Rs. '000 | Rs. '000 | Rs. '000 |
| **5,294,873** | **361,819** | **5,656,692** | 5,252,053 | 381,416 | 5,633,469 |
| Less : Operating expenses | **3,728,072** | **303,451** | **4,031,523** | 4,437,888 | 182,443 | 4,620,331 |
| Profit before income tax | **1,566,801** | **58,368** | **1,625,169** | 814,165 | 198,973 | 1,013,138 |
| Less : Income tax expense | **363,208** | **55,468** | **418,676** | 320,626 | 77,147 | 397,773 |
| Profit after tax | **1,203,593** | **2,900** | **1,206,493** | 493,539 | 121,826 | 615,365 |
| Profit allocated to Non-controlling interest (NCI) | **300,898** | **1,421** | **302,319** | 123,384 | 59,695 | 183,079 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | **2020** | | |
| **People's**  **Insurance**  **PLC**  **Rs. '000** | **Lankan Alliance Finance Limited Rs. '000** | **Total**  **Rs. '000** | **People's**  **Insurance**  **PLC**  **Rs. '000** | **Lankan Alliance Finance Limited Rs. '000** | **Total**  **Rs. '000** |
| Cash and cash equivalents | **1,045,082** | **42,604** | **1,087,686** | 350,478 | 43,773 | 394,251 |
| Balances with banks & financial institutions | **2,815,391** | **505,607** | **3,320,998** | 3,162,759 | 702,633 | 3,865,392 |
| Loans and receivables | **2,558,607** | **4,735,863** | **7,294,470** | 2,728,813 | 2,732,523 | 5,461,336 |
| Insurance and reinsurance receivables | **1,643,629** | **-** | **1,643,629** | 1,840,239 | - | 1,840,239 |
| Financial assets - Fair value through other comprehensive income | **426,376** | **-** | **426,376** | 1,131,321 | - | 1,131,321 |
| Debt Instrument at amortised cost | **864,494** | **691,274** | **1,555,768** | - | 666,840 | 666,840 |
| Property, plant and equipment & intangible assets | **182,322** | **147,778** | **330,100** | 224,164 | 184,843 | 409,007 |
| Other assets | **1,597,954** | **204,811** | **1,802,765** | 661,596 | 153,468 | 815,064 |
| **Total assets** | **11,133,855** | **6,327,937** | **17,461,792** | 10,099,370 | 4,484,080 | 14,583,450 |
| Due to banks | **3,020** | **105,449** | **108,469** | 359,447 | - | 359,447 |
| Due to customers | **-** | **2,944,262** | **2,944,262** | - | 1,487,573 | 1,487,573 |
| Other financial liabilities | **691,728** | **273,396** | **965,124** | 714,002 | 284,807 | 998,809 |
| Other liabilities | **482,995** | **97,658** | **580,653** | 242,858 | 91,413 | 334,271 |
| Insurance liabilities and reinsurance payable | **5,089,039** | **-** | **5,089,039** | 5,132,753 | - | 5,132,753 |
| Total liabilities | **6,266,782** | **3,420,765** | **9,687,547** | 6,449,060 | 1,863,793 | 8,312,853 |
| Net assets value | **4,867,073** | **2,907,172** | **7,774,245** | 3,650,310 | 2,620,287 | 6,270,597 |
| Carrying amount of Non-controlling interest (NCI) | **1,216,768** | **1,424,514** | **2,641,283** | 912,578 | 1,283,941 | 2,196,518 |
|  |  |  |  |  |  |  |
| Cash flows from operating activities | **360,314** | **2,920** | **363,234** | 249,203 | 55,222 | 304,425 |
| Cash flows from investing activities | **(163,440)** | **1,492** | **(161,948)** | 197,202 | (1,912) | 195,290 |
| Cash flows from financing activities | **(18,428)** | **(301,060)** | **(319,488)** | 53,078 | 85,248 | 138,326 |
| Net increase in cash and cash equivalents | **178,446** | **(296,648)** | **(118,202)** | 499,483 | 138,558 | 638,041 |

# INVESTMENT PROPERTY

**ACCOUNTING POLICY**

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 properties are initially recognised at cost. Subsequent to initial recognition the investment properties are stated at fair values, which reflect market conditions at the Statement of Financial Position date. Gains or losses arising from changes in fair value are included in the Statement of Profit or Loss in the year in which they arise.

Where Group companies occupy a significant portion of the investment property of a another Group/Company, such investment properties are treated as property, plant and equipment in the Consolidated Financial Statements, and accounted for as per Sri Lanka Accounting Standard - LKAS 16 - "Property, Plant and Equipment".

# Derecognition

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

# Subsequent Transfers to/from Investment Property

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

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

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

If the property occupied by the Company as an owner occupied property becomes an investment property, the Company, accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

For a transfer from owner occupied property and inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Statement of Profit or Loss. When the Company/Group completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Statement of Profit or Loss.

# Fair Value of Investment Property

Investment property of the Group and Company is reflected at fair value. When current market prices of similar assets are available, such evidences are considered in estimating fair values of these assets. In the absence of such information, the Group and Company determines within a reasonable fair value estimates, amounts that can be attributed as fair values, taking into consideration of the discounted cash flow projections based on the estimates, derived from the evidence such as current market rents for similar properties and using discount rates that reflect uncertainty in the amount and timing of cash flows.

# Determining Fair Value

External and independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment property portfolio every year. In financial periods within that period the fair value is determined by the board of directors.

The fair values are based on market values, being the value in use or estimated amount for which a property could be sold in an orderly transaction between market participants at the measurement date.

# Owner Occupied Properties and Investment Property:

In determining if a property qualifies as Investment Property the Group/Company makes a judgment whether the property generates independent cash flows rather than cash flows that are attributable not only to the property but also other assets. Judgment is also applied in determining if ancillary services are significant, so that a property does not qualify as investment property.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 1 April | **-** | - | **1,131,652** | 1,131,596 |
| Addition during the year | **-** | - | **-** | 56 |
| Transfer during the year | **-** | - | **(310,988)** | - |
| **Balance as at 31 March** | **-** | - | **820,664** | 1,131,652 |

Land and building at No. 7 and 9, Havelock Road, Colombo 7 is rented to People's Bank, People's Insurance PLC and People's Leasing & Finance PLC by the People's Leasing Havelock Properties Limited. In the Group Financial Statements, such property have separated and part rented to People's Bank has been classified as Investment Property to the Group. Basis for the separation is based on the number of Sq.ft. rented. During the year, People's Bank vacated part of the rented area and such area has been transfed to as property, plant and equipment during the year.

Market valuation of the above investment property was carried out as at 31 December 2020 by Mr K T D Tissera, FRICS (Eng), who is independent valuer not connected with the Company/Group.

Rent income recoginised in respect to the above investment property is disclosed in Note 10 on page 192.

Direct operational expenses recoginised in respect to the above investment property is disclosed in Note 15 on page 198.

# 31. OTHER ASSETS

**ACCOUNTING POLICY**

The Company and the Group classify all their other assets as other financial assets and other non financial assets. Other non financial assets mainly comprises of advance payments, VAT recoverable, inventory and sundry receivables. Advance payments are carried at historical cost.

# Deferred Expenses

**Deferred Acquisition Costs (DAC)**

Costs of acquiring new businesses including commission, underwriting, marketing and policy issuance expenses which vary with and directly related to production of new businesses are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, deferred acquisition costs (DAC) are amortised over the period on the basis unearned premium is amortised.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

DAC are derecognised when the related contracts are either expired or cancelled.

An impairment review of DAC is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. DACs are also considered in the liability adequacy test for each reporting period.

# Reinsurance Commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Other financial assets - Insurance Commission |  |  | **126,949** | 232,692 | **-** | - |
| Non financial assets | 31.1 | 240 | **448,271** | 914,309 | **932,018** | 1,235,329 |
| **Total** |  |  | **575,220** | 1,147,001 | **932,018** | 1,235,329 |

# 31.1 Non Financial Assets

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Advance payments |  |  | **105,693** | 145,383 | **68,320** | 124,859 |
| Dividend receivable |  |  | **-** | 310,000 | **-** | - |
| Inventories |  |  | **58,380** | 49,596 | **65,708** | 57,920 |
| Prepaid Expense |  |  | **72,367** | 67,914 | **81,759** | 76,409 |
| Unamortised cost on staff loans (Day 1 difference) | 31.1.1 | 241 | **78,624** | 123,264 | **78,924** | 123,264 |
| Deferred expenses |  |  | **-** | - | **210,104** | 244,874 |
| Other non financial assets |  |  | **133,207** | 218,152 | **427,203** | 608,003 |
| **Total** |  |  | **448,271** | 914,309 | **932,018** | 1,235,329 |

**31.1.1 Unamortised cost on staff loans (Day 1 difference)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 1 April | **123,264** | 128,906 | **123,264** | 129,509 |
| Charge for the year | **(44,640)** | (5,642) | **(44,340)** | (6,245) |
| **Balance as at 31 March** | **78,624** | 123,264 | **78,924** | 123,264 |

1. **PROPERTY, PLANT AND EQUIPMENT**

**ACCOUNTING POLICY**

**Basis of Recognition**

Property, Plant and Equipment are tangible items that are held for use in supply of services, or for administrative purposes, and are expected to be used during more than one year.

Property, Plant and Equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be measured reliably.

# Basis of Measurement

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

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

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

# Subsequent Costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of day to day servicing of property, plant and equipment are charged to the Statement of Profit or Loss as incurred.

# Repairs & Maintenance

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

# Derecognition

Property, Plant and Equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in ‘Other operating income' in the Statement of Profit or Loss in the year the asset is derecognised.

# Depreciation

Depreciation is recognised in Statement of Profit or Loss on a straight–line basis over the estimated useful lives of each part of an item of property, plant and equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

# Useful Lives of Property, Plant and Equipment

The Group and Company depreciates the property, plant and equipment, using the straight-line method, over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management’s estimate of the period that the Group

and Company intends to derive future economic benefits from the use of the Group’s property, plant and equipment. The residual value reflects management’s estimated amount that the Group/Company would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected

level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges.

The estimated useful lives are as follows;

|  |  |  |
| --- | --- | --- |
| **Class of asset** | **% per annum** | **Period** |
| Freehold buildings | 2 | 50 years |
| Improvement of leasehold property | 25 | 4 years |
| Motor vehicles | 12.5 - 20 | 5 - 8 years |
| Computer hardware | 20 | 5 years |
| Office equipments | 10 - 20 | 5 -10 years |
| Furniture and fittings | 20 | 5 years |

The above rates are consistently used by all the Group entities. The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary

for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

# Property, Plant and Equipment - Company

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Freehold Land and Buildings**  **Rs. '000** | **Improvement of Leasehold properties**  **Rs. '000** | **Motor Vehicles**  **Rs. '000** | **Computer Hardware**  **Rs. '000** | **Office**  **Equipments**  **Rs. '000** | **Furniture and**  **fittings**  **Rs. '000** | **Total**  **Rs. '000** |
| **Cost**  Balance as at 1 April 2020 | **573,840** | **56,872** | **278,163** | **766,212** | **704,670** | **450,446** | **2,830,203** |
| Additions | **-** | **-** | **-** | **33,922** | **54,104** | **16,664** | **104,690** |
| Disposals | **-** | **-** | **(52,440)** | **(39,869)** | **(74,924)** | **(7,129)** | **(174,362)** |
| **Balance as at 31 March 2021** | **573,840** | **56,872** | **225,723** | **760,265** | **683,850** | **459,981** | **2,760,531** |
| **(Less): Accumulated depreciation**  Balance as at 1 April 2020 | **2,763** | **56,794** | **85,461** | **586,278** | **556,502** | **398,476** | **1,686,274** |
| Charge for the year | **471** | **78** | **15,841** | **63,242** | **64,589** | **23,139** | **167,360** |
| Disposals | **-** | **-** | **(26,047)** | **(36,647)** | **(73,604)** | **(6,055)** | **(142,353)** |
| **Balance as at 31 March 2021** | **3,234** | **56,872** | **75,255** | **612,873** | **547,487** | **415,560** | **1,711,281** |
| **Net book value at 31 March 2021** | **570,606** | **-** | **150,468** | **147,392** | **136,363** | **44,421** | **1,049,250** |
| **Cost**  Balance as at 1 April 2019 | 567,181 | 56,872 | 209,509 | 709,456 | 655,397 | 435,471 | 2,633,886 |
| Additions | 6,659 | - | 75,277 | 59,573 | 56,334 | 16,085 | 213,928 |
| Disposals | - | - | (6,623) | (2,817) | (7,061) | (1,110) | (17,611) |
| **Balance as at 31 March 2020** | 573,840 | 56,872 | 278,163 | 766,212 | 704,670 | 450,446 | 2,830,203 |
| **(Less): Accumulated depreciation**  Balance as at 1 April 2019 | 2,402 | 56,774 | 74,507 | 525,167 | 502,580 | 374,170 | 1,535,600 |
| Charge for the year | 361 | 20 | 14,859 | 63,928 | 60,081 | 25,243 | 164,492 |
| Disposals | - | - | (3,905) | (2,817) | (6,159) | (937) | (13,818) |
| **Balance as at 31 March 2020** | 2,763 | 56,794 | 85,461 | 586,278 | 556,502 | 398,476 | 1,686,274 |
| **Net book value at 31 March 2020** | 571,077 | 78 | 192,702 | 179,934 | 148,168 | 51,970 | 1,143,929 |

* 1. **Property, Plant and Equipment - Group**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Freehold Land and Buildings**  **Rs. '000** | **Improvement of Leasehold properties**  **Rs. '000** | **Motor Vehicles**  **Rs. '000** | **Computer Hardware**  **Rs. '000** | **Office**  **Equipments**  **Rs. '000** | **Furniture and**  **fittings**  **Rs. '000** | **Total**  **Rs. '000** |
| **Cost**  Balance as at 1 April 2020 | **3,226,454** | **58,583** | **693,357** | **881,755** | **999,658** | **530,039** | **6,389,846** |
| Additions | **-** | **-** | **9,440** | **37,085** | **81,547** | **24,252** | **152,324** |
| Disposals | **(55)** | **-** | **(191,976)** | **(39,869)** | **(74,924)** | **(22,599)** | **(329,423)** |
| Transfers | **310,988** | **-** | **-** | **-** | **-** | **-** | **310,988** |
| Exchange rate variance | **-** | **-** | **-** | **899** | **445** | **293** | **1,637** |
| **Balance as at 31 March 2021** | **3,537,387** | **58,583** | **510,821** | **879,870** | **1,006,726** | **531,985** | **6,525,372** |
| **(Less): Accumulated depreciation**  Balance as at 1 April 2020 | **317,912** | **57,271** | **205,642** | **658,593** | **706,349** | **445,709** | **2,391,476** |
| Charge for the year | **63,805** | **78** | **44,373** | **74,400** | **75,807** | **33,782** | **292,245** |
| Disposals | **-** | **-** | **(74,643)** | **(33,611)** | **(73,604)** | **(11,980)** | **(193,838)** |
| Transfers | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Exchange rate variance | **-** | **-** | **-** | **627** | **499** | **98** | **1,224** |
| **Balance as at 31 March 2021** | **381,717** | **57,349** | **175,372** | **700,009** | **709,051** | **467,609** | **2,491,107** |
| **Net book value at 31 March 2021** | **3,155,670** | **1,234** | **335,449** | **179,861** | **297,675** | **64,376** | **4,034,265** |
| **Cost**  Balance as at 1 April 2019 | 3,213,999 | 58,583 | 610,767 | 812,177 | 940,383 | 507,409 | 6,143,318 |
| Additions | 12,455 | - | 108,867 | 72,378 | 67,848 | 22,667 | 284,215 |
| Disposals | - | - | (26,277) | (3,959) | (9,051) | (1,110) | (40,397) |
| Exchange rate variance | - | - | - | 1,159 | 478 | 1,073 | 2,710 |
| **Balance as at 31 March 2020** | 3,226,454 | 58,583 | 693,357 | 881,755 | 999,658 | 530,039 | 6,389,846 |
| **(Less): Accumulated depreciation**  Balance as at 1 April 2019 | 257,391 | 57,251 | 176,593 | 585,965 | 644,807 | 404,010 | 2,126,017 |
| Charge for the year | 60,521 | 20 | 44,843 | 75,584 | 69,209 | 42,227 | 292,404 |
| Disposals | - | - | (15,794) | (3,959) | (8,105) | (1,110) | (28,968) |
| Exchange rate variance | - | - | - | 1,003 | 438 | 582 | 2,023 |
| **Balance as at 31 March 2020** | 317,912 | 57,271 | 205,642 | 658,593 | 706,349 | 445,709 | 2,391,476 |
| **Net book value at 31 March 2020** | 2,908,542 | 1,312 | 487,715 | 223,162 | 293,309 | 84,330 | 3,998,370 |

* 1. **Fully Depreciated Property, Plant and Equipment**

The initial cost of fully depreciated property, plant and equipment, which are still in use as at reporting date is as follows.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Improvement of leasehold properties | **53,282** | 53,282 | **53,282** | 53,282 |
| Motor vehicles | **37,971** | 37,971 | **37,971** | 37,971 |
| Computer hardware | **440,942** | 440,942 | **490,175** | 482,058 |
| Office equipment | **397,383** | 397,383 | **431,160** | 428,485 |
| Furniture and fittings | **327,178** | 327,178 | **338,727** | 338,371 |
| **Total** | **1,256,756** | 1,256,756 | **1,351,315** | 1,340,167 |

# Group Freehold lands & buildings

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Location** | **Address** | **Date of** | **Method of** | **Land** | **Number of** | **Building** | **2021** | **2021** | **2020** |
|  |  | **Valuation** | **Valuation** | **Extent** | **Building** | **Area** | **Cost** | **Revaluation** | **Revaluation** |
|  |  |  |  | **(perches)** |  | **(Sq.Ft)** | **Rs. '000** | **Rs. '000** | **Rs. '000** |

**People's Leasing & Finance PLC**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Vehicle yards**  Makola | No. 496, Makola North, Makola | 31.12.2019 | MCM | 90 | 1 | 11,600 | **7,632** | 49,000 | 49,000 |
| Mabima | No. 225/D, Nayagala Road, Heiyantuduwa, Mabima | 31.12.2019 | MCM | 330.75 | 1 | 820 | **22,532** | 75,000 | 75,000 |
| Meegahamulla | Kandepalla, Beligamuwa, Galewala | 31.12.2019 | MCM | 260 | 1 | 1,836 | **27,558** | 24,000 | 24,000 |
| Monaragala | No. 10, Pothuwil Road, Monaragala | 31.12.2019 | MCM | 125.9 | 1 | 1,376 | **46,905** | 50,000 | 50,000 |

**Administrative purpose**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Bandarawela | No. 35/2D, Welimada Road, Bandarawela | 31.12.2019 | MCM | 8.3 | 1 | 5,194 | **31,257** | 45,000 | 45,000 |
| Jaffna | No. 10, Mahathma Gandhi Road, Jaffna | 31.12.2019 | MCM | 44.72 | - | - | **45,764** | 155,063 | 155,063 |
| Matara | No. 367, Anagarila Darmapala Mawatha Matara | 31.12.2019 | MCM | 40 | - | - | **93,599** | 100,000 | 100,000 |
| Kandy | No. 296, Senanayaka Road, Kandy | 31.12.2019 | MCM | 47.1 | - | - | **142,711** | 183,700 | 183,700 |
| Anuradhapura | No. 50, Maithripala Senanayake Road, Anuradhapura | 31.12.2019 | MCM | 40.51 | - | - | **155,882** | 182,295 | 182,295 |
| **Subtotal** |  |  |  |  | 5 |  | **573,840** | 864,058 | 864,058 |

**People's Leasing Property Development Limited**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Colombo 08 | No. 1161, Maradana Road, Colombo 08 | 31.12.2020 | MCM | 104.9 | 2 | 127,621 | **1,532,414** | 2,500,000 | 2,450,000 |
| **Subtotal** |  |  |  |  | 2 |  | **1,532,414** | 2,500,000 | 2,450,000 |
| **People's Leasing Havelock Properties Limited** | | | | | | | | | |
| Colombo 05\* | No. 07, Havelock Road, Colombo 05 | 31.12.2020 | MCM | 111.45 | 1 | 84,024 | **2,059,690** | 2,600,000 | 2,600,000 |
| **Subtotal** |  |  |  |  | 1 |  | **2,059,690** | 2,600,000 | 2,600,000 |
| **Total** |  |  |  |  | 8 |  | **4,165,944** | 5,964,058 | 5,914,058 |

MCM : Market Comparable Method

\* Land and building cost of Rs.628,556,600 is clasified as investment property and Rs. 1,431,133,056 is clasified as property, plant and equipment in the group financial statements.

Market valuation of the above Land & Buildings was carried out by Mr K T D Tissera, FRICS (Eng), who is independent valuer not connected with the Company. Investment method, Contractor’s Test method and Comparison method have been used for the valuation. Freehold land and buildings of the Company are considered under Level 3 of fair value hierarchy

# Temporarily Idle Property, Plant and Equipment

There were no property, plant and equipment of the Group/Company idle as at 31 March 2021 and 31 March 2020.

# Property, Plant and Equipment Retired from Active Use

There were no property, plant and equipment of the Group/Company retired from active use as at 31 March 2021 and 31 March 2020.

# Title Restriction on Property, Plant and Equipment

There were no restriction on the title of property, plant and equipment of the Group/Company as at 31 March 2021 and 31 March 2020.

# Property, Plant and Equipment Pledged as Security for Liabilities

There were no items of property, plant and equipment of the Group/Company pledged as securities for liabilities other than disclosed in Note 57 on page 275 (asset pledged) to the Financial Statements.

# Compensation from Third Parties for Items of Property, Plant and Equipment

There were no compensation received during the year from third parties for items of property, plant and equipment of the Group/Company that were impaired, lost or given up (2020 : Nil).

# Unobservable Input Used in Measuring Fair Value

Significant unobservable input used in measuring non-financial assets categorised as level 3 in fair value hierarchy disclosed in to Note - 21.6 on page 206 to the Financial Statements.

# RIGHT OF USE ASSETS

**ACCOUNTING POLICY**

**SLFRS 16 – Leases**

**Measurement Basis**

Right-of-use assets are recognised at the commentsment of the lease at the present value of the lease payment (Refer note 40 on page 257) plus any prepaid lease rental.

# Amortisation

The Company/Group amortised right-of-use assets, using the straight line method over their estimated useful lives.

Prepaid lease rentals paid to acquire land use rights are amortised over the lease term in accordance with the pattern of benefits provided. Leasehold property comprising of land use rights and is amortised on a straight line basis over the remaining lease term.

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **Cost**  Balance as at 1 April | **2,522,565** | 91,985 | **2,017,197** | 91,985 |
| Effect of adoption of SLFRS 16 | **-** | 2,080,315 | **-** | 1,547,546 |
| Transfer from other asset (Prepaid rentals) | **50,600** | 143,322 | **50,600** | 170,723 |
|  | **2,573,165** | 2,315,622 | **2,067,797** | 1,810,254 |
| Additions | **858,510** | 206,943 | **292,305** | 206,943 |
| Disposals | **(69,214)** | - | **(69,214)** | - |
| Transfers | **(13,347)** | - | **-** | - |
| **Balance as at 31 March** | **3,349,114** | 2,522,565 | **2,290,888** | 2,017,197 |
| **(Less): Accumulated amortisation**  Balance as at 1 April | **583,115** | 7,920 | **377,715** | 7,920 |
| Amortisation | **543,769** | 538,230 | **340,349** | 332,830 |
| Transfer | **(1,741)** | - | **-** | - |
| Disposal | **(18,473)** | - | **(18,473)** | - |
| Impairment | **-** | 36,965 | **-** | 36,965 |
| **Balance as at 31 March** | **1,106,670** | 583,115 | **699,591** | 377,715 |
| **Net book value at 31 March** | **2,242,444** | 1,939,450 | **1,591,297** | 1,639,482 |

# GOODWILL AND INTANGIBLE ASSETS

**ACCOUNTING POLICY**

The Group’s intangible assets include the goodwill and customer list which acquired in business combination and value of computer software.

# Basis of Recognition

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

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

# Subsequent Expenditure

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

# Useful Economic Lives, Amortisation and Impairment

The useful economic lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates in accordance with LKAS 8. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss in the expense category consistent with the function of the intangible asset.

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

|  |  |  |
| --- | --- | --- |
| **Class of asset** | **% per annum** | **Period** |
| Computer software | 20 | 5 years |

The unamortised balances of intangible assets with finite lives are reviewed for impairment annually and whenever there is an indication for impairment and recognised in Statement of Profit or Loss to the extent that they are no longer probable of being recovered from the expected future benefits.

Goodwill that arises upon the acquisition of subsidiary is included in intangible assets. Goodwill is initially measured at cost. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount

of goodwill is included in the carrying amount of the investment, and an impairment loss in such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

Goodwill with infinite useful lives are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

# Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the Statement of Profit or Loss in the year the asset is derecognised.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Company** | | | **Group** | | |
| **Computer software Rs. '000** | **Goodwill**  **Rs. '000** | **Total**  **Rs. '000** | **Computer software Rs. '000** | **Goodwill**  **Rs. '000** | **Total**  **Rs. '000** |
| **Cost**  Balance as at 1 April 2020 | **199,914** | **308,545** | **508,459** | **222,221** | **417,099** | **639,320** |
| Additions | **360** | **-** | **360** | **11,661** | **-** | **11,661** |
| Disposals | **421** | **-** | **421** | **421** | **-** | **421** |
| **Balance as at 31 March 2021** | **199,853** | **308,545** | **508,398** | **233,461** | **417,099** | **650,560** |
| **(Less): Accumulated amortisation** |  |  |  |  |  |  |
| Balance as at 1 April 2020 | **163,153** | **87,725** | **250,878** | **183,021** | **87,725** | **270,746** |
| Amortisation | **11,865** | **-** | **11,865** | **15,099** | **-** | **15,099** |
| Impairment | **-** | **99,209** | **99,209** | **-** | **99,209** | **99,209** |
| **Balance as at 31 March 2021** | **175,018** | **186,934** | **361,952** | **198,120** | **186,934** | **385,054** |
| **Net book value at 31 March 2021** | **24,835** | **121,611** | **146,446** | **35,341** | **230,165** | **265,506** |
| **Cost**  Balance as at 1 April 2019 | 184,794 | 308,545 | 493,339 | 206,765 | 417,099 | 623,864 |
| Additions | 15,120 | - | 15,120 | 15,120 | - | 15,120 |
| Exchange rate variance | - | - | - | 336 | - | 336 |
| **Balance as at 31 March 2020** | 199,914 | 308,545 | 508,459 | 222,221 | 417,099 | 639,320 |
| **(Less): Accumulated amortisation** |  |  |  |  |  |  |
| Balance as at 1 April 2019 | 148,854 | 19,580 | 168,434 | 171,944 | 19,580 | 191,524 |
| Amortisation | 14,299 | - | 14,299 | 10,764 | - | 10,764 |
| Impairment | - | 68,145 | 68,145 | - | 68,145 | 68,145 |
| Exchange rate variance | - | - | - | 313 | - | 313 |
| **Balance as at 31 March 2020** | 163,153 | 87,725 | 250,878 | 183,021 | 87,725 | 270,746 |
| **Net book value at 31 March 2020** | 36,761 | 220,820 | 257,581 | 39,200 | 329,374 | 368,574 |

Intangible assets include fully amortised software amounting to Rs. 139,001,271 for the Company and Rs. 139,902,771 for the Group as at 31 March 2021 (Rs. 136,106,914 for Company and Rs. 136,401,914 for Group as at 31 March 2020), which are still in use as at the reporting date.

# Impairment Tests for Goodwill

The Group undertakes an annual test for impairment, based on value in use computation using cash flow projections based on financial budgets approved by the senior management. The discount rate of 15.98% (2020 - 17.86%) and the projected growth rate based on GDP are the key assumptions used for this purpose. The discount rate was estimated based on an average percentage of cost of equity of the Company.

Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the units to exceed their recoverable amount.

There were no restrictions existed on the title of the intangible assets of the Group/Company as at the reporting date. Further, there were no items pledged as securities for liabilities. There were no capitalised borrowing costs related to the acquisition of intangible assets during the year 2021 (2020 - Nil).

# DUE TO BANKS

**ACCOUNTING POLICY**

Due to banks include bank overdrafts and long term and short term loans obtained from banks. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. EIR is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in ‘interest expenses’ in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognise as well as through the EIR amortisation process.

Company has not had any defaults of principal, interest or other breaches with regard to Due to Banks during 2021 or 2020.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Overdrafts | **716,374** | 24,683 | **891,879** | 694,954 |
| Short term loans | **-** | 500,127 | **105,449** | 500,127 |
| Long term loans | **-** | 456,546 | **2,283,609** | 2,826,136 |
| Asset backed securities | **5,722,936** | 6,956,829 | **5,722,936** | 6,956,829 |
| **Total** | **6,439,310** | 7,938,185 | **9,003,873** | 10,978,046 |
| **Fair value** | **6,936,408** | 8,057,554 | **9,739,721** | 11,097,415 |

# Movement of due to banks

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 1 April | **7,938,185** | 27,273,933 | **10,978,046** | 30,475,326 |
| Amount borrowed during the year | **1,000,000** | 12,950,000 | **1,500,000** | 12,950,000 |
| Repayments during the year | **(3,886,355)** | (34,046,652) | **(5,315,691)** | (35,209,177) |
| Interest expenses during the year | **671,106** | 1,736,221 | **949,639** | 2,066,943 |
| **Subtotal** | **5,722,936** | 7,913,502 | **8,111,994** | 10,283,092 |
| Overdrafts | **716,374** | 24,683 | **891,879** | 694,954 |
| **Balance as at 31 March** | **6,439,310** | 7,938,185 | **9,003,873** | 10,978,046 |

* 1. **Long Details Long Term Loans**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Name of the borrower** | **Granted**  **date** | **Facility amount Rs. '000** | **Period** | **Interest Rate** | **Security status** |
| Commercial Bank of Ceylon PLC | 14.07.2015 | 2,000,000 | 04 years | 7.25% - 10.5% | Secured |
| Commercial Bank of Ceylon PLC | 08.09.2016 | 1,000,000 | 04 years | 14.00% | Secured |
| Sampath Bank PLC | 31.12.2014 | 2,000,000 | 05 years | 7.00% - 8.5% | Secured |
| Axis Bank | 27.03.2017 | 150,000 | 04 years | AWPLR+1.25% | Secured |
| Axis Bank | 27.03.2017 | 250,000 | 04 years | AWPLR+1.25% | Secured |
| People's Bank | 26.05.2015 | 4,250,000 | 04 years | 8.50% | Secured |
| People's Bank | 27.11.2015 | 2,000,000 | 04 years | 10.00% | Secured |
| People's Bank | 15.03.2016 | 2,000,000 | 04 years | AWPLR+1.75% | Secured |
| People's Bank | 02.06.2016 | 2,500,000 | 04 years | 06 month  SLIBOR+1.75% | Secured |
| Bank of Ceylon | 07.07.2016 | 3,000,000 | 04 years | 11.50% | Secured |
| RAK Bank | 27.04.2017 | 5,355,000 | 03 years | 13.50% | Secured |
| MCB Bank | 26.09.2017 | 500,000 | 04 years | AWPLR+1.5% | Secured |

**Asset Backed Securities**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Name of the borrower** | **Granted**  **date** | **Facility amount Rs. '000** | **Period** | **Interest Rate\*** | **Security status** |
| Bank of Ceylon | 30.09.2016 | 2,146,200 | 04 years | 13.81% | Secured |
| Deutsche Bank PLC | 03.07.2015 | 3,000,000 | 04 years | 8.82% | Secured |
| Deutsche Bank PLC | 28.10.2016 | 1,769,900 | 04 years | 14.47% | Secured |
| Deutsche Bank PLC | 25.02.2016 | 4,250,700 | 04 years | 11.75% | Secured |
| Hatton National Bank PLC | 29.06.2018 | 2,000,000 | 05 years | 12.27% | Secured |
| Hatton National Bank PLC | 13.03.2019 | 2,000,000 | 05 years | 13.08% | Secured |
| People's Bank | 18.08.2016 | 3,000,000 | 04 years | 13.32% | Secured |
| People's Bank | 09.02.2018 | 1,000,000 | 02 years | 11.71% | Secured |
| People's Bank | 10.09.2018 | 2,000,000 | 02 years | 13.15% | Secured |
| People's Bank | 23.05.2019 | 1,000,000 | 03 years | 11.16% | Secured |

\* The interest rate for each securitization is given as the weighted average interest rate

Details of the securities disclosed in Note 57 on page 275 - 'Asset pledged' to the Financial Statements.

# Contractual Maturity Analysis

* + 1. **Remaining Contractual Maturity Analysis of Due to bank -Company**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March 2021** | **Within one**  **year Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Overdrafts | **716,374** | **-** | **-** | **716,374** |
| Asset backed securities | **2,249,108** | **3,473,828** | **-** | **5,722,936** |
| **Total** | **2,965,482** | **3,473,828** | **-** | **6,439,310** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March 2020** | **Within one**  **year Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Overdrafts | 24,683 | - | - | 24,683 |
| Short term loans | 500,127 | - | - | 500,127 |
| Long term loans | 456,546 | - | - | 456,546 |
| Asset backed securities | 2,588,636 | 4,368,193 | - | 6,956,829 |
| **Total** | 3,569,992 | 4,368,193 | - | 7,938,185 |

* + 1. **Remaining Contractual Maturity Analysis of Due to bank -Group**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March 2021** | **Within one**  **year Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Overdrafts | **891,879** | **-** | **-** | **891,879** |
| Short term loans | **105,449** | **-** | **-** | **105,449** |
| Long term loans | **936,819** | **1,346,790** | **-** | **2,283,609** |
| Asset backed securities | **2,249,108** | **3,473,828** | **-** | **5,722,936** |
| **Total** | **4,183,255** | **4,820,618** | **-** | **9,003,873** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March 2020** | **Within one**  **year Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Overdrafts | 694,954 | - | - | 694,954 |
| Short term loans | 500,127 | - | - | 500,127 |
| Long term loans | 1,479,347 | 1,346,789 | - | 2,826,136 |
| Asset backed securities | 2,588,636 | 4,368,193 | - | 6,956,829 |
| **Total** | 5,263,064 | 5,714,982 | - | 10,978,046 |

1. **DUE TO CUSTOMERS**

**ACCOUNTING POLICY**

Due to customers include fixed deposits and savings deposits. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. EIR is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in ‘interest expenses’ in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised.

Deposits of Rs. 8.1 billion (2020 Rs.8.2 billion) held as collateral for Loans against deposits were included in Due to customers.

In compliance with the Finance Companies (Insurance of Deposit Liabilities) Direction No. 02 of 2010 all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme, as a safety net measure that will safeguard customer rights and confidence. The company has paid Rs. 151.87 million as the premium for the above insurance scheme during the year. (2020 - Rs. 141.84 million).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Fixed Deposits | **92,999,765** | 99,930,391 | **95,378,121** | 100,929,548 |
| Savings Deposits | **8,503,166** | 6,770,636 | **8,365,595** | 6,756,044 |
| **Total** | **101,502,931** | 106,701,027 | **103,743,716** | 107,685,592 |
| **Fair value** | **102,019,672** | 106,798,094 | **104,256,546** | 106,796,726 |

# Remaining Contractual Maturity Analysis of Due to Customers - Company

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | |
| **Within one**  **year**  **Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Fixed Deposits | **74,108,732** | **18,891,033** | **-** | **92,999,765** |
| Savings Deposits | **8,288,671** | **50,466** | **164,029** | **8,503,166** |
| **Total** | **82,397,403** | **18,941,499** | **164,029** | **101,502,931** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2020** | | | |
| **Within one**  **year**  **Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Fixed Deposits | 74,874,182 | 25,056,209 | - | 99,930,391 |
| Savings Deposits | 6,573,515 | 53,391 | 143,730 | 6,770,636 |
| **Total** | 81,447,697 | 25,109,600 | 143,730 | 106,701,027 |

* 1. **Remaining Contractual Maturity Analysis of Due to Customers - Group**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | |
| **Within one**  **year**  **Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Fixed Deposits | **76,487,088** | **18,891,033** | **-** | **95,378,121** |
| Savings Deposits | **8,151,100** | **50,466** | **164,029** | **8,365,595** |
| **Total** | **84,638,188** | **18,941,499** | **164,029** | **103,743,716** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2020** | | | |
| **Within one**  **year**  **Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Fixed Deposits | 75,873,339 | 25,056,209 | - | 100,929,548 |
| Savings Deposits | 6,558,923 | 53,391 | 143,730 | 6,756,044 |
| **Total** | 82,432,262 | 25,109,600 | 143,730 | 107,685,592 |

1. **DEBT SECURITIES ISSUED**

**ACCOUNTING POLICY**

Debt Securities issued represent the funds borrowed by the Company and Group for long term and short term liquidity fund requirements. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. EIR is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in ‘interest expenses’ in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** |  |  | **Company** | | **Group** | |
| **Note** | **Page**  **No.** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Promissory Notes |  |  | **-** | 17,087 | **-** | 17,087 |
| Listed Debentures | 37.2 | 253 | **13,825,553** | 18,462,173 | **13,684,516** | 18,320,952 |
| **Total** | 37.1 | 252 | **13,825,553** | 18,479,260 | **13,684,516** | 18,338,039 |
| **Fair value** |  |  | **14,675,439** | 18,759,201 | **14,522,493** | 18,616,227 |

# Movement of debt securities issued

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 1 April | **18,479,260** | 21,275,031 | **18,338,039** | 21,134,040 |
| Amount borrowed during the year | **-** | - | **-** | - |
| Redemption of debt securities issued | **(4,500,657)** | (3,338,413) | **(4,500,657)** | (3,338,413) |
| Interest expenses on debt securities issued | **1,935,761** | 2,281,180 | **1,916,991** | 2,264,940 |
| Interest paid on debt securities issued | **(2,088,811)** | (1,738,538) | **(2,069,857)** | (1,722,528) |
| **Balance as at 31 March** | **13,825,553** | 18,479,260 | **13,684,516** | 18,338,039 |

* 1. **Listed debentures**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Issued date** | **Maturity date** | **Face value**  **Rs. '000** | **Interest**  **rate** | **Repayment term** | **Type** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
|  |  |  |  |  |  |  |  |  |  |
| **Senior, unsecured,redeemable,'AA(-) rated** | | | | | | | | | |
| 13-Nov-2015 | 12-Nov-2020 | 3,824,220 | 9.95% | Annually | Type B | **-** | 3,961,709 | **-** | 3,961,709 |
| 16-Nov-2016 | 16-Nov-2020 | 659,350 | 12.25% | Semi Annually | Type B | **-** | 686,167 | **-** | 686,167 |
| 16-Nov-2016 | 16-Nov-2021 | 6,798,610 | 12.60% | Semi Annually | Type C | **7,108,347** | 7,104,422 | **7,108,347** | 7,104,422 |
| 18-Apr-2018 | 18-Apr-2022 | 704,600 | 12.40% | Annually | Type A | **784,097** | 783,316 | **784,097** | 783,316 |
| 18-Apr-2018 | 18-Apr-2023 | 5,295,400 | 12.80% | Annually | Type B | **5,933,109** | 5,926,559 | **5,792,072** | 5,785,338 |
|  |  | 17,282,180 |  |  |  | **13,825,553** | 18,462,173 | **13,684,516** | 18,320,952 |

* + 1. **Utilisation of Funds Raised via Capital Market**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Objective as per**  **Prospectus** | **Amount allocated as per Prospectus in Rs.'000** | **Proposed date of utilisation as per**  **Prospectus** | **Amount allocated**  **from proceeds in**  **Rs.'000 (A)** | **% of total proceeds** | **Amounts utilised in Rs. (B)** | **% of utilisation against allocation (B/A)** | **Clarification if not fully utilised including**  **where the funds**  **are invested** |
| **Issue of listed, senior, unsecured, redeemable, rated debentures during the year 2016** | | | | | | | |
| The funds raised through this Debenture Issue will be utilized to finance working capital requirements to match the medium to long term lending of PLC and to minimize the interest rate risk. | 6,000,000 | Within the next 12 months from the date of allotment | 6,000,000 | 100 | 6,000,000 | 100 | N/A |
| **Issue of listed, senior, unsecured, redeemable, rated debentures during the year 2017** | | | | | | | |
| The funds raised through this Debenture Issue will be utilized to finance the budgeted lending portfolio and working capital requirements | 8,000,000 | Within the next 12 months from the date of allotment | 8,000,000 | 100 | 8,000,000 | 100 | N/A |
| **Issue of listed, senior, unsecured, redeemable, rated debentures during the year 2019** | | | | | | | |
| The funds raised through this Debenture Issue utilized to repay the short term facilities obtained to settle the debentures matured on the 26th March 2018 and for Company’s working capital requirements. | 6,000,000 | Within the next 12 months from the date of allotment | 6,000,000 | 100 | 6,000,000 | 100 | N/A |

* + 1. **Maturity Analysis of Debt Securities Issued**

**Remaining Contractual Maturity Analysis of Debt Securities Issued - Company**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | |
| **Within one**  **year**  **Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Listed Debentures | **7,835,316** | **5,990,237** | **-** | **13,825,553** |
| **Total** | **7,835,316** | **5,990,237** | **-** | **13,825,553** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2020** | | | |
| **Within one**  **year**  **Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Promissory Notes | 17,087 | - | - | 17,087 |
| Listed Debentures | 5,696,827 | 12,765,346 | - | 18,462,173 |
| **Total** | 5,713,914 | 12,765,346 | - | 18,479,260 |

**Remaining Contractual Maturity Analysis of Debt Securities Issued - Group**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | |
| **Within one**  **year**  **Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Listed Debentures | **7,820,059** | **5,864,457** | **-** | **13,684,516** |
| **Total** | **7,820,059** | **5,864,457** | **-** | **13,684,516** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2020** | | | |
| **Within one**  **year**  **Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Promissory Notes | 17,087 | - | - | 17,087 |
| Listed Debentures | 5,693,924 | 12,627,028 | - | 18,320,952 |
| **Total** | 5,711,011 | 12,627,028 | - | 18,338,039 |

1. **OTHER FINANCIAL LIABILITIES**

**ACCOUNTING POLICY**

Other financial liabilities includes amount payable to suppliers, insurance payable, dividend payable and other payables. These liabilities are non interest bearing and recorded at amounts expected to be payable as at the reporting date.

All other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost.

# Amount payable to suppliers

Amount payable to suppliers includes obligation to pay for vehicle suppliers in the ordinary course of business.

# Insurance payable

Insurance payable includes premium amount payble to insurance companies in relation to vehicles.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Amount payable to suppliers | **2,923,795** | 2,079,540 | **2,981,030** | 2,378,782 |
| Insurance payable | **619,168** | 645,306 | **-** | - |
| Other payables | **588,708** | 289,271 | **1,129,765** | 450,926 |
| **Total** | **4,131,671** | 3,014,117 | **4,110,795** | 2,829,708 |

# INSURANCE LIABILITIES AND REINSURANCE PAYABLE

**ACCOUNTING POLICY**

**Insurance Liabilities**

**Provision for Net Unearned Premium**

Provision for unearned premiums represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income. At each reporting date, the Group reviews its unexpired risk and a liability adequacy test

is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for liability adequacy.

As required by SLFRS 4 - Insurance Contracts, the Group performs a liability adequacy test (LAT) in respect of non-life contract liabilities with the assistance of an external actuary.

# Provision for Gross Outstanding Claims

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries.

The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are de-recognised when the contract expires, is discharged or is cancelled.

# Provision for Gross Incurred But Not Reported Claims

Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation.

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder method, Bornheutter-Ferguson method and Frequency/Severity method.

The main assumption underlying these techniques is that a company’s past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium.

# Reinsurance Liabilities

Reinsurance liabilities represent balances due to insurance companies. Reinsurance assets or liabilities are de-recognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** |  |  | **Company** | | **Group** | |
| **Note** | **Page No.** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Insurance Liabilities | 39.1 | 256 | **-** | - | **4,717,294** | 5,026,503 |
| Reinsurance payables |  |  | **-** | - | **298,591** | 38,717 |
| **Total** |  |  | **-** | - | **5,015,885** | 5,065,220 |

# Insurance Liabilities

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Provision for net unearned premiums | **-** | - | **3,509,920** | 1,462,009 |
| Provision for gross outstanding claims |  |  | **587,614** | 773,189 |
| Provision for gross incurred but not reported claim | **-** | - | **619,760** | 688,820 |
| **Total** | **-** | - | **4,717,294** | 5,026,503 |

The LAT was carried out by M/S. NMG Financial Services Consulting Pte Limited, Singapore.

# LEASE LIABILITIES

**ACCOUNTING POLICY**

The Company recognises lease liabilities measured at present value of lease payments to be made over the lease term at the commencement date of the lease. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments.

The Group applied modified retrospective approach in accordance with SLFRS 16 on 1 April 2019 when adopting the standards and used 12.45% as a weighted average incremental borrowing rate in order to record the right-of-use assets and lease liabilities.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 1 April | **1,909,098** | - | **1,594,245** | - |
| Effect of adoption of SLFRS 16 | **-** | 2,080,315 | **-** | 1,547,546 |
|  | **1,909,098** | 2,080,315 | **1,594,245** | 1,547,546 |
| Additions/renewal of lease agreements during the year | **858,510** | 206,943 | **292,305** | 206,943 |
| Accretion of interest | **228,985** | 238,581 | **191,935** | 183,724 |
| Payments to lease creditors | **(655,969)** | (616,741) | **(409,587)** | (343,968) |
| Early termination of lease agreements during the year | **(54,238)** | - | **(54,238)** | - |
| **Balance as at 31 March** | **2,286,386** | 1,909,098 | **1,614,660** | 1,594,245 |

# Sensitivity analysis of Lease liability

The impact arising from the possible changes in the incremental borrowing rate on the lease liability disclosed in Risk Management Disclosure

59.4.1 on page 298.

# Remaining Contractual Maturity Analysis of Lease Liability - Company

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | |
| **Within one**  **year**  **Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Lease Liability | **404,863** | **1,509,462** | **372,061** | **2,286,386** |
| **Total** | **404,863** | **1,509,462** | **372,061** | **2,286,386** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2020** | | | |
| **Within one**  **year**  **Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Lease Liability | 415,531 | 1,157,562 | 336,005 | 1,909,098 |
| **Total** | 415,531 | 1,157,562 | 336,005 | 1,909,098 |

**Remaining Contractual Maturity Analysis of Lease Liability - Group**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | | |
| **Within one**  **year Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Lease Liability | **236,269** | **1,038,946** | **339,446** | **1,614,661** |
| **Total** | **236,269** | **1,038,946** | **339,446** | **1,614,661** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2020** | | | |
| **Within one**  **year Rs. '000** | **1-5 years**  **Rs. '000** | **Over**  **5 years**  **Rs. '000** | **Total**  **Rs. '000** |
| Lease Liability | 239,223 | 975,782 | 379,240 | 1,594,245 |
| **Total** | 239,223 | 975,782 | 379,240 | 1,594,245 |

1. **CURRENT TAX LIABILITIES**

**ACCOUNTING POLICY**

The Company and it's subsidiaries are subject to income taxes and other taxes including VAT and NBT on financial services. Significant judgment is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Current tax liability | 41.1 | 258 | **362,450** | 1,803,309 | **883,900** | 2,077,418 |
| **Total** |  |  | **362,450** | 1,803,309 | **883,900** | 2,077,418 |

# Current Tax Liability

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 1 April | **1,803,309** | 2,238,257 | **2,077,418** | 2,323,647 |
| Provision for the year | **1,999,971** | 2,822,836 | **2,601,127** | 3,259,538 |
| Under/(Over) provision in respect of previous year | **(90,892)** | - | **(95,886)** | (781) |
| Payment of income tax | **(3,349,938)** | (3,071,709) | **(3,534,648)** | (3,339,472) |
| **Tax credits**  WHT /Other Credit | **-** | (44,991) | **13** | (18,416) |
| Economic Service Charge | **-** | (141,084) | **(164,124)** | (147,098) |
| **Balance as at 31 March** | **362,450** | 1,803,309 | **883,900** | 2,077,418 |

* 1. **Economic Service Charge (ESC)**

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.5% on “Exempt Turnover” and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years. As per Notice published dated January 1, 2020 by the Department of Inland Revenue, ESC was abolished with effect from January 01, 2020.

# Withholding Tax (WHT) on Fixed Deposits and Saving Accounts

As per Section 137 of the Inland Revenue Act No. 10 of 2006 and amendments thereto, a company made Fixed Deposit and Savings Accounts interest income on which WHT had been deducted at 10% per annum at the time of payment or credited to the account. This tax deduction can be claimed as tax credit to the income tax payments. As per Section 84 of the Inland Revenue Act No. 24 of 2017, WHT on interest or discount paid to a person rate was reduced to 5% with effect from 1 April 2018. As per Notice dated February 18, 2020 published by the Department of Inland Revenue, requirement to deduct WHT has been removed effective January 1, 2020.

# OTHER LIABILITIES ACCOUNTING POLICY

Other liabilities include VAT on financial services payable,Value Added Tax (VAT) payable, other tax payable and other payable. These Non-

Financial Liabilities should be measured at amounts that would rationally be paid to settle the present obligation or amount to transfer it to a third party on the balance sheet date.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| VAT on financial services payable | **351,885** | - | **367,928** | - |
| Value Added Tax (VAT) payable | **19,590** | 10,502 | **61,394** | 62,173 |
| W H T payable | **7,192** | 123,135 | **7,370** | 123,355 |
| Crop Insurance Levy payable | **18,372** | - | **16,132** | - |
| Amount payable to customers | **320,699** | 401,960 | **321,655** | 409,602 |
| Stamp Duty payable | **61,790** | 53,008 | **64,295** | 55,087 |
| Other payable | **289,592** | 387,089 | **318,048** | 402,539 |
| **Total** | **1,069,120** | 975,694 | **1,156,822** | 1,052,756 |

# RETIREMENT BENEFIT OBLIGATION

**ACCOUNTING POLICY**

**Employee Benefits**

**Retirement Benefit Obligation - Gratuity**

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

The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future gratuity increases. Due to the long term nature of such obligation, these estimates are subjected to significant uncertainty. All assumptions are reviewed at each reporting date.

# Recognition of Actuarial Gains and Losses

The Group/Company recognises the total actuarial gains and losses that arise in calculating the Company’s obligation in respect of the plan in Statement of Comprehensive Income during the period in which it occurs.

# Funding Arrangements

The gratuity liability is not externally funded.

# Defined Contribution Plans -Employees’ Provident Fund & Defined Contribution Plans - Employees’ Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits)

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

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

The Group/Company contributes to the Employees’ Trust Fund at 3% on the gross salary of each employee.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 1 April |  |  | **592,871** | 492,444 | **647,929** | 536,753 |
| Amount recognised in Statement of Profit or Loss | 43.1 | 260 | **111,742** | 111,325 | **129,888** | 124,504 |
| Amount recognised in Statement of Comprehensive  Income | 43.2 | 260 | **(107,003)** | (172) | **(106,891)** | (1,225) |
| Benefits paid during the year |  |  | **(10,353)** | (10,726) | **(13,148)** | (12,103) |
| **Balance as at 31 March** |  |  | **587,257** | 592,871 | **657,778** | 647,929 |

# Amount recognised in Statement of Profit or Loss

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Current service cost | **52,455** | 57,157 | **69,823** | 70,335 |
| Net interest on the net defined benefit liability | **59,287** | 54,168 | **60,065** | 54,169 |
| Total amount recognised in Statement of Profit or Loss | **111,742** | 111,325 | **129,888** | 124,504 |

* 1. **Amount recognised in Statement of Comprehensive Income**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Losses/(Gains) due to changes in assumptions | **(38,363)** | (2,410) | **(42,779)** | (1,716) |
| Experience Losses/(Gains) arising during the year | **(68,640)** | 2,238 | **(64,111)** | 491 |
| Total actuarial (losses)/gain recognised in Statement of Comprehensive Income | **(107,003)** | (172) | **(106,890)** | (1,225) |

An actuarial valuation of the retirement benefit obligation was carried out as at 31 March 2021 by Messrs Actuarial & Management Consultants (Private) Limited, a firm of professional actuaries (31 March 2020 by Messrs Smiles Global (Private) Limited). The valuation method used by the actuaries to value the liability is the 'Projected Unit Credit (PUC)', the method recommended by the Sri Lanka Accounting Standard, LKAS 19 - 'Employee Benefits'.

|  |  |  |
| --- | --- | --- |
| **As at 31 March** | **2021** | **2020** |
| **Company /Group Actuarial assumptions** Discount rate | **7.87%** | 10.00% |
| Future salary increment rate | **6.00%** | 9.00% |
| Mortality | **A1967/70 ultimate mortality** | A1967/70 ultimate mortality |
| Disability | **Standard RI rates** | Standard RI rates |
| Retirement age | **55 Years** | 55 Years |

Expected average working life of the active participants is 10.68 years for the year ended 31 March 2021. (8.87 - 2020)

# Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Statement of Comprehensive Income and the Statement of Financial Position is the effect of the assumed changes in discount rate & salary increment rate on the employment benefit obligation for the year.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **%** | **2021** | | **2020** | |
| **Effect on Statement of Comprehensive**  **Income- increase/ (reduction) in results for the year**  **Rs. '000** | **Effect on employee benefit obligation- increase/ (reduction)**  **in the liability**  **Rs. '000** | **Effect on Statement of Comprehensive**  **Income- increase/ (reduction) in results for the year**  **Rs. '000** | **Effect on employee benefit obligation- increase/ (reduction)**  **in the liability**  **Rs. '000** |
| Increase/ (decrease) in discount rate | 1 | **37,667** | **(37,667)** | 33,376 | (33,376) |
|  | -1 | **(42,606)** | **42,606** | (37,348) | 37,348 |
| Increase/ (decrease) in future salary increment rate | 1 | **(42,735)** | **42,735** | (38,666) | 38,666 |
|  | -1 | **38,416** | **(38,416)** | 35,140 | (35,140) |

# Analysis of retirment benefit obligation by Maturity Profile

Following note analysed the defined benefit obligation by expected future working life time of each individual employee. The expected future working life considers the probability of an exit due to withdrawal, death or disability prior to retirement date.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Within the next 12 months | **90,630** | 48,003 | **92,778** | 51,911 |
| Between 1-5 years | **197,715** | 67,487 | **223,127** | 83,388 |
| Beyond 5 years | **298,912** | 477,381 | **341,873** | 512,630 |
| **Total** | **587,257** | 592,871 | **657,778** | 647,929 |

# DEFERRED TAX LIABILITIES / (ASSETS)

**ACCOUNTING POLICY**

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

* Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
* In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

* Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
* In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at

each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Profit or Loss. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax

liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Recognised under assets | **(415,841)** | (376,291) | **(594,495)** | (471,841) |
| Recognised under liabilities | **-** | - | **297,568** | 418,132 |
| Deferred tax liability/(Asset) | **(415,841)** | (376,291) | **(296,927)** | (53,709) |

Net deferred tax assets/liabilities of one entity cannot set-off against another entity's assets/liabilities since there is no legally enforceable right to set-off. Therefore net deferred tax assets and liabilities of different entities are separately recognised in the Statement of Financial Position.

Revised income tax rates proposed to the Inland Revenue Act, No. 24 of 2017 by Circular No. PN/IT/2020-03 (Revised), be implemented with effect from January 01, 2020. On 23 April 2021, CA Sri Lanka issued Guideline on Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12 Income Tax to provide an interpretation on the application of tax rates which is substantively enacted in the measurement of current tax and deferred tax for financial reporting period ending 31 March 2021. Due to revised income tax rates from 28%

to 24% deferred tax asset decreased by Rs. 69.3 million for the Company. For the group deferred tax asset decreased by Rs. 99.0 million and deferred tax liability decreased by Rs. 49.5 million.

# Movement in Deferred Tax

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 01 April | **(376,291)** | 837,179 | **(53,709)** | 1,094,389 |
| Charge for the year relating to Statement of Profit or Loss | **(69,511)** | (1,213,519) | **(270,905)** | (1,148,189) |
| Deferred Tax charge relating to components of Statement of Comprehensive  Income | **29,961** | 49 | **27,690** | 91 |
| **Balance as at 31 March** | **(415,841)** | (376,291) | **(296,924)** | (53,709) |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2021** | **Company** | | | | | **Group** | | | | |
| **Deferred Tax**  **Assets**  **Rs. '000** | **Deferred Tax Liabilities**  **Rs. '000** | **Statement of**  **Profit or Loss**  **Rs. '000** | **Statement of**  **Comprehensive**  **Income**  **Rs. '000** | **Statement of Changes in**  **Equity Rs. '000** | **Deferred Tax**  **Assets**  **Rs. '000** | **Deferred Tax Liabilities**  **Rs. '000** | **Statement of**  **Profit or Loss**  **Rs. '000** | **Statement of**  **Comprehensive**  **Income**  **Rs. '000** | **Statement of Changes in**  **Equity Rs. '000** |
| Retirement benefit obligation | **166,597** | **-** | **(30,564)** | **29,961** | **29,961** | **171,164** | **-** | **18,973** | **27,690** | **27,690** |
| Carry forward tax losses | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **268** | **-** | **-** |
| Impairment allowances for loan receivables | **1,786,426** | **465,774** | **172,933** | **-** | **-** | **2,078,889** | **465,774** | **59,002** | **-** | **-** |
| Deffered tax on transitional Adjustment | **214,911** | **-** | **35,818** | **-** | **-** | **228,423** | **-** | **38,071** |  | **-** |
| Accelerated depreciation allowance for tax purpose (Lease) | **-** | **1,244,197** | **(243,171)** | **-** | **-** | **-** | **1,244,197** | **(243,171)** | **-** | **-** |
| Accelerated depreciation allowance for tax purpose (PPE) | **-** | **32,685** | **28,197** | **-** | **-** | **-** | **224,050** | **92,393** | **-** | **-** |
| Deferred Tax on SLFRS 16 | **26,701** | **36,138** | **(32,724)** | **-** | **-** | **26,701** | **36,138** | **(37,787)** | **-** | **-** |
| Fair value gains/losses - investment property | **-** | **-** | **-** | **-** | **-** | **51,899** | **289,990** | **(198,654)** | **-** | **-** |
|  | **2,194,635** | **1,778,794** | **(69,511)** | **29,961** | **29,961** | **2,557,076** | **2,260,149** | **(270,905)** | **27,690** | **27,690** |
| Deferred tax effect on Profit or Loss and Other Comprehensive Income for the year |  |  | **(69,511)** | **29,961** |  |  |  | **(270,905)** | **27,690** |  |
| Recognised under equity |  |  |  |  | **29,961** |  |  |  |  | **27,690** |
| Recognised under assets |  | **(415,841)** |  |  |  |  | **(594,495)** |  |  |  |
| Recognised under liabilities |  | **-** |  |  |  |  | **297,568** |  |  |  |
| **Net deferred tax liability/ (assets) as at 31 March 2021** |  | **(415,841)** |  |  |  |  | **(296,927)** |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2020** | **Company** | | | | | **Group** | | | | |
| **Deferred Tax**  **Assets**  **Rs. '000** | **Deferred Tax Liabilities**  **Rs. '000** | **Statement of**  **Profit or Loss**  **Rs. '000** | **Statement of**  **Comprehensive**  **Income**  **Rs. '000** | **Statement of Changes in**  **Equity Rs. '000** | **Deferred Tax**  **Assets**  **Rs. '000** | **Deferred Tax Liabilities**  **Rs. '000** | **Statement of**  **Profit or Loss**  **Rs. '000** | **Statement of**  **Comprehensive**  **Income**  **Rs. '000** | **Statement of Changes in**  **Equity Rs. '000** |
| Retirement benefit obligation | 166,020 | - | (28,087) | 49 | 49 | 176,625 | - | (36,483) | 91 | 91 |
| Carry forward tax losses | - | - | - | - | - | 227 | - | 13,158 | - | - |
| Impairment allowances for loan receivables | 1,933,299 | 439,714 | (589,257) | - | - | 1,998,246 | 440,392 | (660,265) | - | - |
| Deffered tax on transitional Adjustment | 250,729 | - | - | - | 250,729 | 266,494 | - | - |  | 266,494 |
| Accelerated depreciation allowance for tax purpose (Lease) | - | 1,487,393 | (596,118) | - | - | - | 1,487,393 | (596,118) | - | - |
| Accelerated depreciation allowance for tax purpose (PPE) | - | 4,488 | (57) | - | - | - | 131,656 | 11,659 | - | - |
| Deferred Tax on SLFRS 16 | - | 42,162 | - | - | - | 5,763 | 42,162 | 36,399 | - | - |
| Fair value gains/losses - freehold building | - | - | - | - | - | - | - | 42,155 | - | - |
| Fair value gains/losses - investment property | - | - | - | - | - | 41,073 | 333,116 | 41,306 | - | - |
|  | 2,350,048 | 1,973,757 | (1,213,519) | 49 | 250,778 | 2,488,428 | 2,434,719 | (1,148,189) | 91 | 266,585 |
| Deferred tax effect on Profit or Loss and Other Comprehensive Income for the year |  |  | (1,213,519) | 49 |  |  |  | (1,148,189) | 91 |  |
| Recognised under equity |  |  |  |  | 250,778 |  |  |  |  | 266,585 |
| Recognised under assets |  | (376,291) |  |  |  |  | (471,841) |  |  |  |
| Recognised under liabilities |  | - |  |  |  |  | 418,132 |  |  |  |
| **Net deferred tax liability as at**  **31 March 2020** |  | (376,291) |  |  |  |  | (53,709) |  |  |  |

Deferred tax assets/liabilities have been calculated at the rate specific to each company.

# STATED CAPITAL ACCOUNTING POLICY

**Capital**

The Company maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements of the Central Bank of Sri lanka. The adequacy of the Company’s capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Sri lanka .

The Company has complied in full with all its externally imposed capital requirements over the reported period.

# Capital Management

The primary objectives of the Company’s capital management policy are to ensure that the Company complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Company manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company/Group 2021** | | **Company/Group 2020** | |
| **Number** | **Rs. '000** | **Number** | **Rs. '000** |
| Balance as at 1 April | **1,627,703,388** | **13,915,414** | 1,579,862,482 | 13,236,073 |
| Scrip Dividend | **76,899,372** | **976,622** | 47,840,906 | 679,341 |
| **Balance as at 31 March** | **1,704,602,760** | **14,892,036** | 1,627,703,388 | 13,915,414 |

During the year 2021 the Company issued scrip dividend shares 76,899,372 of Rs. 12.70. (For the financial year 2020 - Shares 47,840,906 of Rs. 14.20).

# Rights, Preferences and Restrictions of Classes of Capital

The ordinary shares of the Company are quoted in the Colombo Stock Exchange. The holders of ordinary shares have the right to receive dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Company.

# Regulatory Capital

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **2021** | | **2020** | |
| **Actual**  **Rs. '000** | **Required**  **Rs. '000** | **Actual**  **Rs. '000** | **Required**  **Rs. '000** |
| Tier 1 Capital / Core capital | **33,109,148** | **2,000,000** | 29,269,430 | 2,000,000 |
| Tier 1 Capital Ratio | **17.72%** | **7.00%** | 15.12% | 7.00% |
| Total Capital Ratio | **18.58%** | **11.00%** | 15.99% | 11.00% |

As per Finance Business Act Directions No 3 of 2018, regulatory capital consists of Tier 1 capital, which comprises stated capital, statutory reserved fund, retained earnings including current year profit, general & other reserves less goodwill, other intangible assets, other comprehensive income losses, deferred tax assets, shortfall of the cumulative impairment to total provisions and interest in suspense and 50% of investment in banking and financial companies.

Even though Finance Business Act Direction No. 2 of 2017 required every Licensed Finance Company to maintain minimum core capital at not less than Rs. 2.5 billion by 1 January 2021, through the letter dated 31 March 2020 issued by the Central Bank of Sri Lanka with the subject

of “Regulatory measures taken by the Central Bank of Sri Lanka to provide flexibility to Licensed Finance Companies to support business and individual affected by the outbreak of Coronavirus Disease (COVID-19)”, concessions were granted to defer the enhancement of minimum core capital requirement of Rs. 2.5 billion until 1 January 2022. Futher such letter has defer the maintenance of capital adequacy requirements which will be to meet the minimum capital requirements by 01.07.2020 and 01.07.2021 in terms of the Finance Business Act Direction No. 3 of 2018 – Capital Adequacy Requirements, until 01.07.2021 and 01.07.2022 respectively.

# STATUTORY RESERVE FUND

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 1 April | **2,205,344** | 2,058,219 | **2,235,077** | 2,070,667 |
| Transfer during the year | **201,651** | 147,125 | **229,874** | 164,410 |
| **Balance as at 31 March** | **2,406,995** | 2,205,344 | **2,464,951** | 2,235,077 |

**People's Leasing & Finance PLC**

According to the Paragraph 3 (a) of Finance Companies (Capital Funds) Direction No.1 of 2003, every finance company shall maintain reserve fund and as per Paragraph 3 (b) (i) of the said direction, so long the capital funds are not less than twenty five (25) per cent of total deposit liabilities, a sum equal to not less than five (5) per cent of the net profits shall be transferred to reserve fund each year.

Since the capital funds are not less than twenty five (25) per cent of total deposit liabilities, company has transferred five (5) per cent of the net profits to reserve fund.

# Lankan Alliance Finance Limited

As per Financial regulation 1994 of Bangladesh, every Non-Banking Financial Institution is required to transfer at least 20% of it's current years profit to the fund until such reserve fund equal to its paid up share capital and share premium (if any). In conformity with the above requirement the Company transferred 20% of net profit to statutory reserve before declaration of dividend.

# RETAINED EARNINGS

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 1 April | **14,227,988** | 13,361,805 | **16,517,824** | 15,198,424 |
| Capital Gain Tax | **-** | - | **-** | 14 |
| Profit for the year | **4,033,020** | 2,942,508 | **5,294,015** | 3,408,670 |
| Comprehensive income | **77,042** | 123 | **76,764** | 4,449 |
| Transfers to reserves | **(201,651)** | (147,125) | **(229,875)** | (164,410) |
| Dividend paid | **(976,622)** | (1,929,323) | **(976,622)** | (1,929,323) |
| **Balance as at 31 March** | **17,159,777** | 14,227,988 | **20,682,106** | 16,517,824 |

1. **OTHER RESERVES**

**ACCOUNTING POLICY**

**Equity Reserves**

The reserves recorded in equity (Statement of Comprehensive Income) on the Statement of Financial Position include;

* Fairvalue reserve

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income (Refer Note 48.3 on page 267).

* "Foreign currency translation reserve

As at the reporting date, the assets and liabilities of the Lankan Alliance Finance Limited a subsidiary of the Company was translated into the presentation currency (Sri Lankan Rupee) at the exchange rate ruling at the reporting date and the Statement of Profit or Loss and Statement of Other Comprehensive Income was translated at the average exchange rate for the period. The exchange differences arising on the translation of these Financial Statement is taken to foreign currency translation reserve through Statement of other comprehensive income (Refer Note 48.4 on page 267).

# Current Year 2021

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Note** | **Page No.** | **Company** | | | **Group** | | |
| **Opening balance at**  **01-04-2020**  **Rs. '000** | **Movement/**  **transfers**  **Rs. '000** | **Closing balance at 31-03-2021**  **Rs. '000** | **Opening balance at**  **01-04-2020**  **Rs. '000** | **Movement/**  **transfers**  **Rs. '000** | **Closing balance at 31-03-2021**  **Rs. '000** |
| Fair value reserve | 48.3 | 267 | (102,114) | (15,263) | **(117,377)** | (116,005) | (5,512) | **(121,517)** |
| Foreign currency translation reserve | 48.4 | 267 | - | - | **-** | 401,108 | 141,728 | **542,836** |
| **Total** |  |  | (102,114) | (15,263) | **(117,377)** | 285,103 | 136,216 | **421,319** |

* 1. **Previous year 2020**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Note** | **Page No.** | **Company** | | | **Group** | | |
| **Opening balance at 01-04-2019**  **Rs. '000** | **Movement/**  **transfers**  **Rs. '000** | **Closing balance at 31-03-2020**  **Rs. '000** | **Opening balance at 01-04-2019**  **Rs. '000** | **Movement/**  **transfers**  **Rs. '000** | **Closing balance at 31-03-2020**  **Rs. '000** |
| Fair value reserve | 48.3 | 267 | (52,742) | (49,372) | (102,114) | (54,705) | (61,300) | (116,005) |
| Foreign currency translation reserve | 48.4 | 267 | - | - | - | 261,979 | 139,129 | 401,108 |
| **Total** |  |  | (52,742) | (49,372) | (102,114) | 207,274 | 77,829 | 285,103 |

* 1. **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.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 01 April | **(102,114)** | (52,742) | **(116,005)** | (54,705) |
| Net fair value gains/(losses) on remeasuring financial investments | **(15,263)** | (49,372) | **(5,512)** | (61,300) |
| **Balance as at 31 March** | **(117,377)** | (102,114) | **(121,517)** | (116,005) |

# Foreign currency translation reserve

The foreign currency translation reserve comprises cumulative foreign currency differences arising from the translation of the Financial Statements of foreign subsidiary until the subsidiary is derecognised.

|  |  |  |
| --- | --- | --- |
|  | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 01 April | **401,108** | 261,979 |
| Net gains/(losses) arising from translating the Financial Statements | **141,728** | 139,129 |
| **Balance as at 31 March** | **542,836** | 401,108 |

# NON -CONTROLLING INTEREST

**ACCOUNTING POLICY**

Non controlling interest are initialy measured at their proportionate share of the fair value of acquiree's identifiable net assets at the date of acquisition. Subsequently, the profit or loss and each component of other comprehensive income attributable to NCI and dividend paid

are adjusted to this balance. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Non controlling interest represents 25% of net assets of the Subsidiary, People's Insurance PLC and 49% of net assets of the subsidiary, Lankan Alliance Finance Limited.

|  |  |  |
| --- | --- | --- |
|  | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Balance as at 01 April | **2,356,784** | 2,269,520 |
| Profit for the year | **302,319** | 183,079 |
| Other comprehensive income | **2,438** | (3,315) |
| Dividend paid for the year | **-** | (92,500) |
| **Balance as at 31 March** | **2,661,541** | 2,356,784 |

# RECONCILIATION FOR THE NET CASH FROM OPERATING ACTIVITIES

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **Cash flows from operating activities**  Profit before income tax |  |  | **5,872,588** | 4,551,825 | **7,830,670** | 5,702,317 |
| Adjustment for: |  |  |  |  |  |  |
| Non-cash items included in profit before income tax | 50.1 | 269 | **1,787,723** | 5,562,638 | **1,865,920** | 5,707,098 |
| Change in operating assets | 51 | 269 | **1,879,170** | 2,348,793 | **(571,331)** | 33,870 |
| Change in operating liabilities | 52 | 269 | **(4,411,470)** | 18,639,660 | **(2,289,908)** | 20,229,961 |
| Dividend income from investments | 10 | 192 | **(110,673)** | (423,091) | **(918)** | (17,280) |
| Interest expense on due to banks | 6.2 | 189 | **671,106** | 1,736,221 | **949,639** | 2,066,943 |
| Interest expense on debt securities issued | 6.2 | 189 | **1,935,761** | 2,281,180 | **1,916,991** | 2,264,940 |
| Net unrealised gains/(losses) arising from translating the Financial Statements of foreign subsidiary | 48.4 | 267 | **-** | - | **141,728** | 139,129 |
| Benefits paid on retirement benefit obligation | 43 | 259 | **(10,353)** | (10,726) | **(13,148)** | (12,103) |
| Income tax paid | 17.8 | 202 | **(3,349,938)** | (3,071,709) | **(3,534,648)** | (3,339,472) |
| **Net cash from operating activities** |  |  | **4,263,914** | 31,614,791 | **6,294,995** | 32,775,403 |

* 1. **Non-cash items included in profit before income tax**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Depreciation of property, plant and equipment | **13** | 196 | **167,360** | 164,492 | **292,245** | 292,404 |
| Amortisation of right-of-use assets | **13** | 196 | **543,769** | 538,230 | **340,349** | 332,830 |
| Amortisation of intangible assets | **13** | 196 | **11,865** | 14,299 | **15,099** | 10,764 |
| Impairment charges for right-of-use assets | **33** | 245 | **-** | 36,965 | **-** | 36,965 |
| Impairment charges for goodwill | **34** | 246 | **99,209** | 68,145 | **99,209** | 68,145 |
| Impairment losses of loans and receivables | **11** | 193 | **1,043,837** | 4,646,683 | **1,296,782** | 4,867,556 |
| Charge for retirement benefit obligation | **12** | 196 | **111,742** | 111,325 | **129,888** | 124,504 |
| Gain/(Loss) on sale of property, plant and equipment | **10** | 192 | **(22,823)** | (6,183) | **(74,774)** | (6,183) |
| Net trading income from sale of vehicles | **10** | 192 | **(4,620)** | (301) | **(4,620)** | (301) |
| Net gain/(Loss) on financial assets - FVTPL | **9** | 192 | **(162,616)** | (11,017) | **(228,258)** | (19,586) |
| **Total** |  |  | **1,787,723** | 5,562,638 | **1,865,920** | 5,707,098 |

1. **CHANGE IN OPERATING ASSETS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Net (increase)/decrease in other balances with bank & financial institutions | **(2,191,631)** | 197,093 | **(1,569,694)** | 714,016 |
| Net (increase)/decrease in financial assets - FVTPL | **1,084,548** | (997,512) | **145,097** | (1,106,620) |
| Net (increase)/decrease in Loans and receivables | **5,339,059** | (685,991) | **3,500,440** | (2,046,352) |
| Net (increase)/decrease in insurance and reinsurance receivables | **-** | - | **170,472** | (309,538) |
| Net (increase)/decrease in financial assets - FVOCI | **-** | (248,102) | **714,696** | (1,391,351) |
| Net (increase)/decrease in debt instrument at amortised cost | **(2,887,243)** | 3,895,662 | **(3,779,947)** | 4,278,506 |
| Net (increase)/decrease in other assets | **534,437** | 187,643 | **247,605** | (104,791) |
| **Total** | **1,879,170** | 2,348,793 | **(571,331)** | 33,870 |

1. **CHANGE IN OPERATING LIABILITIES**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Net increase/(decrease) in due to customers | **(5,198,096)** | 18,332,371 | **(3,941,876)** | 18,762,396 |
| Net increase/(decrease) in other financial liabilities | **1,117,554** | 535,224 | **1,281,087** | 366,256 |
| Net increase/(decrease) in insurance and reinsurance payables | **-** | - | **(49,335)** | 184,347 |
| Net increase/(decrease) in other liabilities | **(330,928)** | (227,935) | **420,216** | 916,962 |
| **Total** | **(4,411,470)** | 18,639,660 | **(2,289,908)** | 20,229,961 |

1. **CONTINGENT LIABILITIES AND COMMITMENTS**

**ACCOUNTING POLICY**

**Commitments and Contingencies**

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard- LKAS 37 -

‘Provisions, Contingent Liabilities and Contingent Assets’. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Contingent liabilities | 53.1 | 270 | **697,502** | 689,290 | **744,491** | 707,179 |
| Commitments | 53.2 | 271 | **10,300,609** | 4,627,602 | **10,300,609** | 4,643,436 |
| **Total** |  |  | **10,998,111** | 5,316,892 | **11,045,100** | 5,350,615 |

# Contingent Liabilities

In the normal course of business, the Group and Company makes various irrecoverable commitments and incur certain contingent liabilities with legal recourse to its customers and would be a party to litigation due to its operations. Even though these obligations may not be recognised in the Statement of Financial Position, they do contain operational risk and therefore form a part of the overall risk profile of the Group and Company. However no material losses are anticipated as a result of these transactions.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March** | **Note** | **Page No.** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Litigation against the Company | 53.1.1 | 270 | **182,451** | 287,415 | **182,451** | 287,415 |
| Guarantees - Related parties | 53.1.2 | 270 | **300,000** | 300,000 | **300,000** | 300,000 |
| Guarantees - Others | 53.1.3 | 270 | **164,098** | 32,798 | **164,098** | 32,798 |
| Assessment received from Inland Revenue Department | 53.1.4 | 270 | **50,953** | 67,938 | **97,942** | 85,827 |
| Pending bill retirements |  |  | **-** | 1,139 | **-** | 1,139 |
| **Total** |  |  | **697,502** | 689,290 | **744,491** | 707,179 |

# 53.1.1 Litigation against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Pending legal claims where the Company had already made provisions for possible losses in its Financial Statements or has a reasonable security to cover the damages are not included below as the Company does not expect cash outflows from such claims.

As of the date of the Statement of Financial Position, forty one (41) clients have filed cases against the Company. The Company's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or future operations of the Company.

# Guarantees - Related parties

Guarantee provided by the Company for Micro Commerce Ltd in order to obtain overdraft facility from a bank, The Company assure Bank that Micro Commerce Ltd is unable to make its loan repayments, the Company commits to repay the loan on behalf of the subsidiary.

# Guarantees - Other

Guarantee provided by the Company with the request of Fixed deposits customers to third party and assure to make the obligation at the time of customer is unable to settle the payment.

# 53.1.4 Assessment received from Inland Revenue Department

Assessment (VATFS/BFSU/2014/579 and 580) received by the Company from the Inland Revenue Department for Year of Assessment 2010/11 is Rs. 50,953,390/- heard and concluded in favour of Inland Revenue Department . This decision has been appealed by the Company at the court of Appeal with reasonable grounds. The tax consultants are appearing for and on behalf of the Company.

# 53.2 Commitments

The Group/Company has commitments for acquisition of property, plant and equipment, intangible assets and un-utilised facilities incidental to the ordinary course of business as at 31 March as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
|  |  |  |  |  |
| **Capital Commitments** | | | | |
| Approved and contracted for | **-** | - | **-** | 4,534 |
| Approved but not contracted for | **1,485,544** | - | **1,485,544** | 11,300 |
| Subtotal | **1,485,544** | - | **1,485,544** | 15,834 |
|  |  |  |  |  |
| **Un-utilised facilities** | | | | |
| Margin trading | **6,646,678** | 1,106,598 | **6,646,678** | 1,106,598 |
| Fast track | **828,677** | 2,132,016 | **828,677** | 2,132,016 |
| Factoring | **1,339,710** | 1,388,988 | **1,339,710** | 1,388,988 |
| Subtotal | **8,815,065** | 4,627,602 | **8,815,065** | 4,627,602 |
| **Total** | **10,300,609** | 4,627,602 | **10,300,609** | 4,643,436 |

In the computation of Expected Credit Loss company consider un utilised amount of revolving facility. Therefore allowance for un utilised facility is included in Note 25.7 on page 228.

# NET ASSETS VALUE PER ORDINARY SHARE

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **As at 31 March** | **Company** | | **Group** | |
| **2021** | **2020** | **2021** | **2020** |
| Total equity attributable to equity holders of the Company (Rs. '000) | **34,341,431** | 30,246,632 | **38,460,412** | 32,953,418 |
| Total number of shares | **1,704,602,760** | 1,627,703,388 | **1,704,602,760** | 1,627,703,388 |
| Net assets value per share (Rs.) | **20.15** | 18.58 | **22.56** | 20.25 |

1. **CURRENT/NON CURRENT ANALYSIS**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March**  **Company** | **2021** | | | **2020** | | |
| **Within**  **12 months**  **Rs. '000** | **After 12 months**  **Rs. '000** | **Total**  **Rs. '000** | **Within**  **12 months**  **Rs. '000** | **After 12 months**  **Rs. '000** | **Total**  **Rs. '000** |
| **Assets**  Cash and cash equivalents | **2,703,031** | **-** | **2,703,031** | 7,164,139 | - | 7,164,139 |
| Balances with banks and financial institutions | **5,399,071** | **-** | **5,399,071** | 3,207,440 | - | 3,207,440 |
| Financial assets -Fair value through profit or loss | **109,787** | **-** | **109,787** | 1,031,719 | - | 1,031,719 |
| Loans and receivables - Amortised cost | **60,898,074** | **80,489,833** | **141,387,907** | 65,360,573 | 82,386,938 | 147,747,511 |
| Financial assets - Fair value through other comprehensive income | **309,108** | **10** | **309,118** | 324,371 | 10 | 324,381 |
| Debt instrument - Amortised cost | **6,994,206** | **-** | **6,994,206** | 4,106,963 | - | 4,106,963 |
| Investments in subsidiaries | **-** | **3,213,788** | **3,213,788** | - | 3,213,788 | 3,213,788 |
| Other assets | **414,337** | **160,883** | **575,220** | 981,430 | 165,571 | 1,147,001 |
| Property, plant and equipment | **-** | **1,049,250** | **1,049,250** | - | 1,143,929 | 1,143,929 |
| Right-of-use assets | **-** | **2,242,444** | **2,242,444** | - | 1,939,450 | 1,939,450 |
| Deferred tax assets | **-** | **415,841** | **415,841** | - | 376,291 | 376,291 |
| Goodwill and intangible assets | **-** | **146,446** | **146,446** | - | 257,581 | 257,581 |
| **Total assets** | **76,827,614** | **87,718,495** | **164,546,109** | 82,176,635 | 89,483,558 | 171,660,193 |
| **Liabilities**  Due to banks | **2,965,482** | **3,473,828** | **6,439,310** | 3,569,992 | 4,368,193 | 7,938,185 |
| Due to customers | **82,397,403** | **19,105,528** | **101,502,931** | 81,447,697 | 25,253,330 | 106,701,027 |
| Debt securities issued | **7,835,316** | **5,990,237** | **13,825,553** | 5,713,914 | 12,765,346 | 18,479,260 |
| Other financial liabilities | **4,131,671** | **-** | **4,131,671** | 3,014,117 | - | 3,014,117 |
| Lease liabilities | **2,286,386** | **-** | **2,286,386** | 1,909,098 | - | 1,909,098 |
| Current tax liabilities | **362,450** | **-** | **362,450** | 1,803,309 | - | 1,803,309 |
| Other liabilities | **1,069,120** | **-** | **1,069,120** | 975,694 | - | 975,694 |
| Retirement benefit obligation | **90,630** | **496,627** | **587,257** | 48,003 | 544,868 | 592,871 |
| **Total liabilities** | **101,138,458** | **29,066,220** | **130,204,678** | 98,481,824 | 42,931,737 | 141,413,561 |
| **Net assets** | **(24,310,844)** | **58,652,275** | **34,341,431** | (16,305,189) | 46,551,821 | 30,246,632 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March**  **Group** | **2021** | | | **2020** | | |
| **Within**  **12 months**  **Rs. '000** | **After 12 months**  **Rs. '000** | **Total**  **Rs. '000** | **Within**  **12 months**  **Rs. '000** | **After 12 months**  **Rs. '000** | **Total**  **Rs. '000** |
|  |  |  |  |  |  |  |
| **Assets** | | | | | | |
| Cash and cash equivalents | **3,844,694** | **-** | **3,844,694** | 7,693,032 | - | 7,693,032 |
| Balances with banks and financial institutions | **8,231,101** | **-** | **8,231,101** | 6,661,407 | - | 6,661,407 |
| Financial assets -Fair value through profit or loss | **1,281,753** | **-** | **1,281,753** | 1,198,592 | - | 1,198,592 |
| Loans and receivables - Amortised cost | **63,738,250** | **85,604,082** | **149,342,332** | 66,973,007 | 87,161,927 | 154,134,934 |
| Reinsurance and insurance receivables | **1,024,461** | **-** | **1,024,461** | 1,194,933 | - | 1,194,933 |
| Financial assets - Fair value through other comprehensive income | **735,484** | **10** | **735,494** | 1,455,692 | 10 | 1,455,702 |
| Debt instrument - Amortised cost | **7,636,956** | **956,430** | **8,593,386** | 4,157,713 | 655,726 | 4,813,439 |
| Investment properties | **-** | **820,664** | **820,664** | - | 1,131,652 | 1,131,652 |
| Other assets | **771,135** | **160,883** | **932,018** | 1,069,758 | 165,571 | 1,235,329 |
| Property, plant and equipment | **-** | **4,034,265** | **4,034,265** | - | 3,998,370 | 3,998,370 |
| Right-of-use assets | **-** | **1,591,297** | **1,591,297** | - | 1,639,482 | 1,639,482 |
| Deferred tax assets | **-** | **594,495** | **594,495** | - | 471,841 | 471,841 |
| Goodwill and intangible assets | **-** | **265,506** | **265,506** | - | 368,574 | 368,574 |
| **Total assets** | **87,263,834** | **94,027,632** | **181,291,466** | 90,404,134 | 95,593,153 | 185,997,287 |
|  |  |  |  |  |  |  |
| **Liabilities** | | | | | | |
| Due to banks | **4,183,255** | **4,820,618** | **9,003,873** | 5,263,064 | 5,714,982 | 10,978,046 |
| Due to customers | **84,638,188** | **19,105,528** | **103,743,716** | 82,432,262 | 25,253,330 | 107,685,592 |
| Debt securities issued | **7,820,059** | **5,864,457** | **13,684,516** | 5,711,011 | 12,627,028 | 18,338,039 |
| Other financial liabilities | **4,110,795** | **-** | **4,110,795** | 2,829,708 | - | 2,829,708 |
| Insurance and reinsurance payable | **-** | **5,015,885** | **5,015,885** | - | 5,065,220 | 5,065,220 |
| Lease liabilities | **-** | **1,614,660** | **1,614,660** | - | 1,594,245 | 1,594,245 |
| Current tax liabilities | **883,900** | **-** | **883,900** | 2,077,418 | - | 2,077,418 |
| Other liabilities | **1,156,822** | **-** | **1,156,822** | 1,052,756 | - | 1,052,756 |
| Retirement benefit obligation | **92,778** | **565,000** | **657,778** | 51,911 | 596,018 | 647,929 |
| Deferred tax liabilities | **-** | **297,568** | **297,568** | - | 418,132 | 418,132 |
| **Total liabilities** | **102,885,797** | **37,283,716** | **140,169,513** | 99,418,130 | 51,268,955 | 150,687,085 |
| **Net assets** | **(15,621,963)** | **56,743,916** | **41,121,953** | (9,013,996) | 44,324,198 | 35,310,202 |

1. **FINANCIAL REPORTING BY SEGMENT**

**ACCOUNTING POLICY**

The group’s segmental reporting is based on the Business Segments.

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the Financial Statements of the Group. Inter-segment transfers are accounted for at competitive fair market prices charged to intercompany counterparts for similar services. Such

services are eliminated on consolidation.

As per the provision of Sri Lanka Reporting Standard -SLFRS- 8, the operating segment of the group has been identify based on the product and services offered by the group of which level of risk and rewards are significantly differ from one another.

Top management of the Group consider the operating results and condition of its business segments in their decision making process and performance evaluation. Types of products and services from which each operating segment derives its revenues described as follows;

# Lease and Hire-purchase

This segment includes Leasing and Hire Purchase products offered to the customers.

# Loans

This segment includes Loan products offered to the customers.

# Islamic

This segment includes Ijarah, Murabah, Musharakah and Trading Murabah products offered to the customers.

# Insurance business

Insurance business segment includes general insurance

# Other business

This segment include all other business activities that group engaged other than above segments.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Lease & HP** | | **Loan** | | **Islamic** | | **Insurance** | | **Other** | | **Eliminations** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| Interest income | **14,076,446** | 17,074,973 | **10,175,781** | 12,902,498 | **1,180,184** | 1,477,951 | **718,734** | 782,716 | **872,270** | 1,308,340 | **(201,577)** | (263,599) | **26,821,838** | 33,282,879 |
| Net earned premium | **-** | - | **-** | - | **-** | - | **5,198,693** | 5,357,949 | **-** | - | **(170,144)** | (155,919) | **5,028,549** | 5,202,030 |
| Fee and commission income | **1,147,474** | 1,082,308 | **829,502** | 817,833 | **96,205** | 93,681 | **-** | - | **209,887** | 191,201 | **(1,085,014)** | (1,019,391) | **1,198,054** | 1,165,632 |
| Net gains/(losses) on financial Assets - FVTPL | **-** | - | **-** | - | **-** | - | **65,631** | 8,622 | **162,627** | 10,964 | **-** | - | **228,258** | 19,586 |
| Other operating income | **90,553** | 237,426 | **65,460** | 179,408 | **7,592** | 20,551 | **61,820** | 78,649 | **311,463** | 352,332 | **(168,322)** | (483,663) | **368,566** | 384,703 |
| **Gross income** | **15,314,473** | 18,394,707 | **11,070,743** | 13,899,739 | **1,283,981** | 1,592,183 | **6,044,878** | 6,227,936 | **1,556,247** | 1,862,837 | **(1,625,057)** | (1,922,572) | **33,645,265** | 40,054,830 |
| Interest expenses | **7,114,388** | 8,425,432 | **5,142,949** | 6,366,577 | **596,477** | 729,277 | **-** | - | **722,960** | 853,246 | **(201,577)** | (263,597) | **13,375,197** | 16,110,935 |
| Total Operating income | **8,200,085** | 9,969,275 | **5,927,794** | 7,533,162 | **687,504** | 862,906 | **6,044,878** | 6,227,936 | **833,287** | 1,009,591 | **(1,423,480)** | (1,658,975) | **20,270,068** | 23,943,895 |
| Impairment charges and other losses for loans and receivables | **670,935** | 2,768,746 | **693,649** | 1,929,504 | **(67,802)** | 169,306 | **-** | - | **55,707** | 34,346 | **-** | - | **1,352,489** | 4,901,902 |
| Net operating income | **7,529,150** | 7,200,529 | **5,234,145** | 5,603,658 | **755,306** | 693,600 | **6,044,878** | 6,227,936 | **777,580** | 975,245 | **(1,423,480)** | (1,658,975) | **18,917,579** | 19,041,993 |
| Depreciation and amortisation | **343,502** | 354,765 | **316,567** | 292,987 | **21,563** | 27,591 | **97,289** | 90,245 | **57,405** | 39,359 | **(188,633)** | (168,949) | **647,693** | 635,998 |
| **Segment result** | **4,037,333** | 3,648,381 | **2,918,564** | 2,756,857 | **338,494** | 315,792 | **1,570,221** | 1,053,624 | **410,271** | 369,475 | **(170,247)** | (411,280) | **9,104,636** | 7,732,849 |
| Less: Tax on financial services |  |  |  |  |  |  |  |  |  |  |  |  | **1,273,966** | 2,030,532 |
| Less: Income tax expense |  |  |  |  |  |  |  |  |  |  |  |  | **2,234,336** | 2,110,568 |
| **Profit for the year** |  |  |  |  |  |  |  |  |  |  |  |  | **5,596,334** | 3,591,749 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **As at 31 March** | | | | | | | | | | | | | | |
| Segment assets | **82,140,914** | 90,379,077 | **75,700,016** | 74,640,489 | **5,156,381** | 7,029,126 | **11,133,855** | 10,099,370 | **13,727,137** | 10,026,879 | **(6,566,842)** | (6,177,654) | **181,291,461** | 185,997,287 |
| **Total assets** | **82,140,914** | 90,379,077 | **75,700,016** | 74,640,489 | **5,156,381** | 7,029,126 | **11,133,855** | 10,099,370 | **13,727,137** | 10,026,879 | **(6,566,842)** | (6,177,654) | **181,291,461** | 185,997,287 |
| Segment liabilities | **64,265,746** | 73,522,577 | **59,226,490** | 60,719,375 | **4,034,271** | 5,718,132 | **6,266,782** | 6,449,060 | **10,739,894** | 8,156,777 | **(4,363,675)** | (3,878,836) | **- 140,169,508** | 150,687,085 |
| **Total liability** | **64,265,746** | 73,522,577 | **59,226,490** | 60,719,375 | **4,034,271** | 5,718,132 | **6,266,782** | 6,449,060 | **10,739,894** | 8,156,777 | **(4,363,675)** | (3,878,836) | **140,169,508** | 150,687,085 |

# ASSETS PLEDGED

The following assets have been pledged as securities for liabilities.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Nature of Assets** | **Carrying Amount Pledged** | | | | | |
| **Nature of**  **Liabilities** | **Company** | | **Group** | | **Included under** |
| **31 March**  **2021**  **Rs. '000** | **31 March**  **2020**  **Rs. '000** | **31 March**  **2021**  **Rs. '000** | **31 March**  **2020**  **Rs. '000** |
| Rentals receivables on lease | Securitisation | **10,701,499** | 13,674,060 | **10,701,499** | 13,674,060 | Loans and receivables |
| Term loan | **-** | - | **-** | - | Loans and receivables |
| Short term loans | **17,408,077** | 14,644,573 | **17,408,077** | 14,644,573 | Loans and receivables |
| Rentals receivables on hire- purchase | Securitisation | **-** | - | **-** | - | Loans and receivables |
| Term loan | **-** | - | **1,037,255** | 1,037,255 | Loans and receivables |
| Short term loans | **2,340** | 12,362 | **49,045** | 59,067 | Loans and receivables |
| Rentals receivables on loans | Securitisation | **1,315,592** | 3,920,262 | **1,315,592** | 3,920,262 | Loans and receivables |
| Short term loans | **3,754,149** | 6,866,971 | **3,754,149** | 6,866,971 | Loans and receivables |
| Fixed deposits | Bank guarantee for assessment | **-** | - | **14,000** | - | Contingent liabilities and commitments |
| Fixed deposits | Overdrafts | **-** | - | **75,000** | 75,000 | Balances with banks and financial institutions |
| Freehold lands and buildings | Term loan | **-** | - | **3,818,007** | 3,818,007 | Property, plant and equipment |

# RELATED PARTY DISCLOSURE

**ACCOUNTING POLICY**

The Company and the Group out transactions in the ordinary course of business with the parties who are defined as related parties in the Sri Lanka Accounting Standards – LKAS 24 (Related Party Disclosure), the details of which are reported below:

# Parent and ultimate controlling party

The immediate Parent of the Company is People's Bank which is a Government owned entity.

# Transactions with Key Management Personnel (KMP) and their Family Members

As per the Sri Lanka Accounting Standard - LKAS -24) - “Related Party Disclosures”, the KMPs include those who are having authority

and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Board of Directors of the Company, Immediate parent Company and members of the Corporate Management of the Company have been classified as KMPs of the Company.

The Company carries out transactions with KMPs & their close family members in the ordinary course of its business on an arms length basis at commercial rates.

Close family members of KMPs are those family members who may be expected to influence, or be influenced by, those KMPs in their dealing with the entity.

# Remuneration to Key Management Personnel

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **(a) Remuneration to Board of Directors**  Short term employees benefits | **3,863** | 6,269 | **7,919** | 13,143 |
| **Total** | **3,863** | 6,269 | **7,919** | 13,143 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
|  |  |  |  |  |
| **(b) Remuneration to Corporate Management** | | | | |
| Short term employees benefits | **153,815** | 181,362 | **213,700** | 199,122 |
| Post employment benefits | **14,351** | 8,051 | **16,235** | 8,051 |
| **Total** | **168,166** | 189,413 | **229,935** | 207,173 |

In addition to the above, the Company has also provided non cash benefits such as Company maintained vehicles to KMPs in line with the approved employment terms of the Company.

# Share Transactions with Key management Personnel

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Company** | | **Group** | |
| **2021** | **2020** | **2021** | **2020** |
| No. of ordinary shares held | **1,147,720** | 945,947 | **1,326,220** | 1,285,009 |
| Cash dividend paid (Rs. '000) | **-** | 607 | **-** | 820 |
| Scrip dividend (No. of shares) | **51,773** | 28,001 | **51,773** | 28,001 |

* + 1. **Transactions, Arrangements and Agreements Involving Key Management Personnel (KMPs), their Close Family Members (CFMs) and other related entities**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Company** | **Board of Directors** | | **Corporate Management** | | **Total** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **For the year ended 31 March**  **(a) Items in Statement of Profit or Loss**  Interest income | **26** | - | **5,488** | 502 | **5,514** | 502 |
| Interest expense | **9,179** | 9,487 | **37,140** | 29,376 | **46,319** | 38,864 |
| **As at 31 March**  **(b) Items in Statement of Financial Position**  **Assets**  Loans and receivables - Amortised cost | **-** | - | **10,317** | 2,272 | **10,317** | 2,272 |
|  | **-** | - | **10,317** | 2,272 | **10,317** | 2,272 |
| **Liabilities**  Due to customers | **59,748** | 79,438 | **351,430** | 238,619 | **411,178** | 318,057 |
|  | **59,748** | 79,438 | **351,430** | 238,619 | **411,178** | 318,057 |

* 1. **Net accommodation and Net accommodation as a Percentage of Capital funds**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **%** | **2020**  **%** |
| People's Bank | **-** | - | **-** | - |
| People’s Leasing Property Development Limited | **599,301** | 614,680 | **1.75** | 2.03 |
| People’s Leasing Fleet Management Limited | **-** | 24,630 | **-** | 0.08 |
| People’s Leasing Havelock Properties Limited | **830,096** | 809,822 | **2.42** | 2.68 |
| People’s Micro-Commerce Ltd. | **2,700** | 152,095 | **-** | 1.00 |
| People’s Insurance PLC | **49,908** | 35,868 | **0.15** | 0.12 |
| Lankan Alliance Finance Limited | **27,155** | 39,152 | **0.08** | 0.13 |
| Board of Directors | **-** | - | **-** | - |
| Corporate management | **10,317** | 7,497 | **0.03** | 0.02 |
| **Total net accommodation** | **1,519,477** | 1,683,744 | **4.42** | 6.06 |

* 1. **Transactions with Related Entities**

**Transactions with Government of Sri Lanka and Government Related Entities**

The immediate parent of the Company is People's Bank which is Government owned entity. The Company enters into transactions, arrangements and agreements with Government of Sri Lanka and its related entities. There were no individually or collectively significant transactions with the Government of Sri Lanka and Government related entities, other than taxes paid to government disclosed in Note 17.8 to the financial statements on page 202.

# Transactions with State Owned Enterprises (SOE)

The financial dealings with SOE other than People's Bank are as follows .Transactions with people's bank are disclosed in note 58.4.1 to the financial statements on page 278.

|  |  |  |
| --- | --- | --- |
|  | **Company** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **For the year ended 31 March**  **(a) Items in Statement of Profit or Loss**  Interest income | **4,391** |  |
| 5,433 |
| Interest expenses | **561,100** | 804,036 |
| **As at 31 March**  **(b) Items in Statement of Financial Position**  **Assets**  Loans and receivables - Amortised cost | **26,802** | 32,929 |
| **Total** | **26,802** | 32,929 |
| **Liabilities**  Due to banks | **-** | 268,026 |
| Due to customer | **4,288,972** | 4,480,813 |
| **Total** | **4,288,972** | 4,748,838 |

Further, transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities:

* Investments in Treasury Bills, Treasury Bonds
* Payments of statutory rates and taxes
* Payments for utilities mainly comprising of telephone, electricity and water
* Payments for employment retirement benefits - ETF
* Payment of incidentals such as RMV charges and CRIB fees that are paid based on standard rates.

# Company

The Company had the under mentioned financial dealings during the financial year with the following related entities

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Parent** | | **Subsidiaries** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **For the year ended 31 March** |  |  |  |  |
| **(a) Items in Statement of Profit or Loss** | | | | |
| Interest income | **755,692** | 1,132,518 | **131,352** | 188,265 |
| Interest expense | **118,748** | 443,451 | **126,096** | 157,142 |
| Fee and Commission income | **-** | - | **715,240** | 680,264 |
| Other operating income | **-** | - | **110,000** | 475,829 |
| Depreciation and amortisation | **22,928** | 22,371 | **231,555** | 229,687 |
| Other operating expenses | **-** | - | **195,950** | 190,996 |
| **As at 31 March**  **(b) Items in Statement of Financial Position**  **Assets**  Cash and cash equivalents | **1,755,592** | 6,290,427 | **-** | - |
| Balances with banks and financial institutions | **5,399,071** | 2,801,890 | **-** | - |
| Loans and receivables - Amortised cost | **-** | - | **1,509,160** | 1,676,247 |
| Financial assets - Amortised cost | **6,319,142** | 7,976,782 | **-** | - |
| Investments in subsidiaries | **-** | - | **3,213,788** | 3,213,788 |
| Other assets | **-** | - | **168,802** | 262,509 |
| Right-of-use asset | **134,618** | 155,122 | **798,632** | 515,374 |
| **Total** | **13,608,423** | 17,224,221 | **5,690,382** | 5,667,918 |
| **Liabilities**  Due to banks | **1,398,943** | 1,644,494 | **-** | - |
| Due to customers | **1,128,019** | 763,397 | **703,477** | 503,009 |
| Debt securities issued | **-** | - | **141,037** | 141,222 |
| Other financial liabilities | **-** | - | **685,294** | 703,566 |
| Other liabilities | **3,018** | 3,179 | **11,109** | 9,260 |
| Lease liabilities | **149,204** | 163,090 | **835,759** | 547,991 |
| **Total** | **2,679,184** | 2,574,160 | **2,376,676** | 1,905,048 |
| **(c) Transactions**  Building rent paid | **36,231** | 35,322 | **-** | - |
| Cash and cash equivalents - Repo investments | **4,950,000** | 25,122,245 | **-** | - |
| Cash and cash equivalents - Repo settlements | **10,117,940** | 23,236,534 | **-** | - |
| Balances with banks and financial institutions - FD investments | **24,145,286** | 2,610,079 | **-** | - |
| Balances with banks and financial institutions - FD withdrawals | **22,294,433** | 4,060,829 | **-** | - |
| Loans and receivables- Amortised cost - Granings | **-** | - | **537,481** | 608,624 |
| Loans and receivables - Repayments - Amortised cost | **-** | - | **663,796** | 507,911 |
| Financial assets - Amortised cost - Investments | **22,598,347** | 13,164,970 | **-** | - |
| Financial assets - Amortised cost - Settlements | **20,089,756** | 17,787,216 | **-** | - |
| Due to banks - Borrowings | **1,000,000** | 4,800,000 | **-** | - |
| Due to banks - Repayment | **1,575,922** | 7,625,383 | **-** | - |
| Due to customers - Investments | **516,030** | 287,153 | **702,487** | 470,485 |
| Due to customers - Withdrawals | **186,774** | 11,779 | **441,997** | 320,485 |
| Dividend paid | **732,467** | 1,446,993 | **-** | - |
| Dividend received | **-** | - | **110,000** | 406,750 |
| Insurance premium paid in respect of customers introduced by People's Leasing  & Finance PLC | **-** | - | **3,397,566** | 3,595,939 |
| **Total** | **107,504,629** | 99,859,099 | **5,853,327** | 5,910,194 |
| **(d) Off- Balance Sheet Items**  Guarantees | **-** | - | **300,000** | 300,000 |
| **Total** | **-** | - | **300,000** | 300,000 |

# Group

The group had the under mentioned financial dealings during the financial year with the following related entities.

|  |  |  |
| --- | --- | --- |
|  | **Parent** | |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| **For the year ended 31 March**  **(a) Items in Statement of Profit or Loss**  Interest income | **800,369** |  |
| 1,196,187 |
| Interest expenses | **113,534** | 437,704 |
| Net earned premiums | **404,434** | 232,100 |
| Fee and commission income | **33,601** | 49,207 |
| Other operating income | **132,221** | 146,318 |
| Benefits, claims and underwriting expenditure | **74,736** | 162,557 |
| Other operating expenses | **35,323** | 44,303 |
| **As at 31 March**  **(b) Items in Statement of Financial Position**  **Assets**  Cash and cash equivalents | **2,054,940** | 6,517,002 |
| Balances with banks and financial institutions | **6,137,065** | 3,555,637 |
| Insurance and reinsurance receivables | **184,548** | 273,277 |
| Financial assets - Amortised cost | **6,319,142** | 4,106,963 |
| Other assets | **10,166** | 28,528 |
| **Total** | **14,705,861** | 14,481,407 |
| **Liabilities**  Due to banks | **1,524,537** | 2,143,641 |
| Debt Securities issued | **1,128,019** | 763,397 |
| Other liabilities | **10,940** | 13,103 |
| **Total** | **1,535,477** | 2,156,744 |

# 58.5 Transactions exceeding 10% of the gross income of the Company.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Name of the Related party** | **Relationship** | **Nature of the transaction** | **Transaction value** | | **Transaction value as a % of**  **gross income** | | **Terms and conditions** |
| **2021**  **Rs. '000** | **2020**  **Rs. '000** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
| People's Bank | Parent | Repo investments | **4,950,000** | 25,122,245 | **18.26%** | 74.77% | Normal terms/ arm's lengths |
| Repo settlements | **10,117,940** | 23,236,534 | **37.33%** | 69.16% | Normal terms/ arm's lengths |
| FD withdrawals | **22,294,433** | 4,060,829 | **82.26%** | 12.09% | Normal terms/ arm's lengths |
| Tbill investments | **22,598,347** | 13,164,970 | **83.38%** | 39.18% | Normal terms/ arm's lengths |
| Tbill settlements | **20,089,756** | 17,787,216 | **74.12%** | 52.94% | Normal terms/ arm's lengths |
| Borrowings | **1,000,000** | 4,800,000 | **3.69%** | 14.29% | Normal terms/ arm's lengths |
| Repayment of borrowings | **1,575,922** | 7,625,383 | **5.81%** | 22.70% | Normal terms/ arm's lengths |
| People's Insuarance PLC | Subsidiary | Insurance premium | **3,397,566** | 3,595,939 | **12.54%** | 10.70% | Normal terms/ arm's lengths |

1. **RISK MANAGEMENT**
   1. **Introduction**

Risk is inherent in the Group’s activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company’s continuing profitability, sustainability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is primarily exposed to credit risk, liquidity risk and market risk. It is also subject to various operating risks. Detailed risk analysis is given in risk management section.

# Risk Management Structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board has appointed a subcommittee, Integrated Risk Management (IRM) Committee, which has the responsibility to monitor the overall risk process within the Company.

The IRM Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The IRM Committee is responsible for managing risk decisions and monitoring risk levels and reports on a periodical basis to the Board.

The Risk Management and Control Unit is responsible for monitoring compliance with risk principles, policies and limits across the Company.

# Assets and Liabilities Committee (ALCO)

ALCO is chaired by the Chief Executive Officer. Other permanent members of the ALCO include, Senior Deputy General Managers-Operations, Deputy General Manager-Risk & Control, Deputy General Manager- Recoveries & Administration, Deputy General Manager-Marketing, Head of Deposits, Head of Finance, Head of Treasury and the Committee Secretary. The Committee meetings should be held at least once a month to

monitor and manage the assets and liabilities of the Company and also overall liquidity position to keep the Company’s liquidity at healthy levels, whilst satisfying regulatory requirements. The Chairman of ALCO upon a request of any permanent member may convene a special meeting of the Committee when an issue arises that cannot wait until the next regularly scheduled meeting.

# Integrated Risk Management Operating Committee

Integrated Risk Management Operating Committee (“IRMOC” or “the Committee”) has been formed as a management level committee to further strengthen the Risk Governance Structure of the Company and support the Board, Board Sub-Committees and the Corporate Management in managing the risks associated with the business operations of the Company in an integrated manner.

The TOR of the Committee clearly set out the authority, constitution, meeting frequency, accountability and responsibilities, quorum, reporting and other procedures of the Committee. This TOR has been adopted by the Board in March 2019.

IRMOC is chaired by the Head of Risk. The members of the Committee include the members of Corporate Management, Chief Managers- Operations and Senior Managers (except the Senior Managers attached to Branches). All business managers that involved in the operations of the Company can be recognised as “Risk Owners” as they negotiate to assume risk exposures with potential customers within the Board approved Risk Management policies and Risk Tolerance limits. Accordingly, Members of Senior Management involved in business operations can be considered as Senior Risk Owners. Therefore, At IRMOC, it is mandatory to have a higher level of involvement by the Senior Risk Owners of the Company.

The Committee shall focus on reviewing assumed risks at the front-line, specifically focusing on Credit Risk, Operational Risk and Compliance Risk.

The IRMOC shall meet at least quarterly or more frequently as and when required. The Committee met four (04) times quarterly during the year under review. The IRMOC is accountable to the Integrated Risk Management Committee (IRMC). The Committee submitted the highlights of the Minutes of IRMOC Meetings to the IRMC for seeking the Committee’s views, concurrence and or specific directions.

The impact of COVID-19 on the business/operations and risk management of the Company

COVID-19’s impact on individuals, communities and organizations is rapidly increasing. In addition to the effects on the supply and demand dynamics, COVID-19 has already disrupted the financial markets. Since the outbreak, bond yields, oil and equity prices have sharply fallen on the global market. The disruption and implications of COVID-19 are also being experienced in our economy. Rapidly changing social norms, restrictions on transportation, slowdown in the level of economic activity, possible disruptions in the supply chain, and high degrees of volatility in the markets. With ongoing shocks to supply and demand following the lockdown of some parts of the country, there is potential for further market disruption.

# Operational Risk

The spread of COVID-19 has resulted in work disruptions like never before.. The pandemic has led to some branches closing temporarily as some employees are required to work remotely. The additional operational cost of procuring logistics to equip staff work remotely is expected to impact revenue. Company could also experience delays in orders for laptops, servers and networking equipment which may further impact productivity. Since the scare of COVID-19, there has been a global spike in malware and fraud incidents. A timely intervention is required by Company to strengthen the cyber security landscape and protect sensitive data.

# 59.2 Credit Risk

Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and group and by monitoring exposures in relation to such limits.

# Credit Risk -Impairment Provision as per ECL for Financial Assets

Locally, the spread of COVID-19 will negatively impact many firms, mainly through potential disruptions in manufacturing supply chains, domestic consumption, tourism and exports, posting downside risks to their earnings prospects. This will in turn impact the capacity of such firms to meet contractual obligations that leads to an increase in NPLs.

Expected Credit Loss at 31 March 2021 was estimated based on a range of forecast economic conditions prevailing as at that date. As the situation continues to evolve and timelines for a normalization of economic activity remains yet an unknown, the impact to our core markets and the Company’s financial results cannot be reasonably estimated or reliably measured based on reasonable and supportable information that is available at the current stage.

In view of the current economic status of the country due to the spread of COVID-19 virus, following adjustments were made in respect to the impairment provision during the year ended 31 March 2021.

* EFA scenarios were adjusted by decreasing the best case and increasing the worst case.
* An additional impairment was made in respect of the facilities for which a second moratorium was granted. This was made based on the probability of default resulted in the first moratorium.
* Further, specific adjustment was made in respect of the certain impacted industirs such as tourism and passenger transport by moving up one age bucket from the existing age bucket.

# Impairment Assessment

For accounting purposes, the Company uses a collective and individual model for the recognition of losses on impaired financial assets.

# Individually Assessed Allowances

The Company determines the allowances appropriate for each individually significant leases, hire purchases and loans on an individual basis, including any overdue payments of interests or credit rating downgrades. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance if it is in a financial difficulty projected receipts and the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date.

# Collectively Assessed Allowances

Allowances are assessed collectively for losses on leases, hire purchases and loans and for held to maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. Detailed Note on impairment method has disclosed in note 25 on page 216.

# 59.2.1 Maximum Exposure to Credit Risk

**Credit Quality by Class of Financial Assets**

The Company manages the credit quality of financial assets using internal credit evaluation system. The tables below show the credit quality by the class of asset for all financial assets exposed to credit risk, based on the Company’s internal credit evaluation system. The amounts presented are gross of impairment allowances.

# Definition of Past Due

The Company considers that any amounts uncollected one day or more beyond their contractual due date as ‘past due’.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2021**  **Company** | **Neither past**  **due nor impaired Rs. '000** | **Past due but not impaired** | | | | **Individually**  **impaired**  **Rs. '000** | **Total**  **Rs. '000** |
| **1-30 Days**  **Rs. '000** | **31-60 days**  **Rs. '000** | **61-90 days**  **Rs. '000** | **Over 90 days**  **Rs. '000** |
| Cash and cash equivalents (excluding cash in hand) | **1,780,463** | **-** | **-** | **-** | **-** | **-** | **1,780,463** |
| Balances with banks and financial institutions | **5,399,071** | **-** | **-** | **-** | **-** | **-** | **5,399,071** |
| Financial assets -Fair value through profit or loss | **109,787** | **-** | **-** | **-** | **-** | **-** | **109,787** |
| Loans and receivables - Amortised cost | **76,540,202** | **15,174,455** | **20,580,873** | **9,682,055** | **26,709,922** | **1,968,338** | **150,655,845** |
| Financial assets - Fair value other comprehensive income | **309,118** | **-** | **-** | **-** | **-** | **-** | **309,118** |
| Debt instrument - Amortised cost | **6,994,206** | **-** | **-** | **-** | **-** | **-** | **6,994,206** |
| Other financial assets | **126,949** | **-** | **-** | **-** | **-** | **-** | **126,949** |
| **Total** | **91,259,796** | **15,174,455** | **20,580,873** | **9,682,055** | **26,709,922** | **1,968,338** | **165,375,439** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2020**  **Company** | **Neither past**  **due nor impaired Rs. '000** | **Past due but not impaired** | | | | **Individually**  **impaired**  **Rs. '000** | **Total**  **Rs. '000** |
| **1-30 Days**  **Rs. '000** | **31-60 days**  **Rs. '000** | **61-90 days**  **Rs. '000** | **Over 90 days**  **Rs. '000** |
| Cash and cash equivalents (excluding cash in hand) | 6,508,137 | - | - | - | - | - | 6,508,137 |
| Balances with banks and financial institutions | 3,207,440 | - | - | - | - | - | 3,207,440 |
| Financial assets -Fair value through profit or loss | 1,031,719 | - | - | - | - | - | 1,031,719 |
| Loans and receivables - Amortised cost | 13,989,178 | 72,124,229 | 26,852,168 | 11,575,597 | 30,259,094 | 1,697,480 | 156,497,746 |
| Financial assets - Fair value other comprehensive income | 324,381 | - | - | - | - | - | 324,381 |
| Debt instrument - Amortised cost | 4,106,963 | - | - | - | - | - | 4,106,963 |
| Other financial assets | 232,692 | - | - | - | - | - | 232,692 |
| **Total** | 29,400,510 | 72,124,229 | 26,852,168 | 11,575,597 | 30,259,094 | 1,697,480 | 171,909,078 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2021**  **Group** | **Neither past**  **due nor impaired Rs. '000** | **Past due but not impaired** | | | | **Individually**  **impaired**  **Rs. '000** | **Total**  **Rs. '000** |
| **1-30 Days**  **Rs. '000** | **31-60 days**  **Rs. '000** | **61-90 days**  **Rs. '000** | **Over 90 days**  **Rs. '000** |
| Cash and cash equivalents (excluding cash in hand) | **2,904,928** | **-** | **-** | **-** | **-** | **-** | **2,904,928** |
| Balances with banks and financial institutions | **8,231,101** | **-** | **-** | **-** | **-** | **-** | **8,231,101** |
| Financial assets -Fair value through profit or loss | **1,281,753** | **-** | **-** | **-** | **-** | **-** | **1,281,753** |
| Loans and receivables - Amortised cost | **75,265,407** | **17,251,686** | **24,716,058** | **10,368,457** | **29,925,440** | **1,697,480** | **159,224,528** |
| Insurance and reinsurance receivables | **1,024,461** | **-** | **-** | **-** | **-** | **-** | **1,024,461** |
| Financial assets - Fair value other comprehensive income | **735,494** | **-** | **-** | **-** | **-** | **-** | **735,494** |
| Debt instrument - Amortised cost | **8,593,386** | **-** | **-** | **-** | **-** | **-** | **8,593,386** |
| **Total** | **98,036,530** | **17,251,686** | **24,716,058** | **10,368,457** | **29,925,440** | **1,697,480** | **181,995,651** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2020**  **Group** | **Neither past**  **due nor impaired Rs. '000** | **Past due but not impaired** | | | | **Individually**  **impaired**  **Rs. '000** | **Total**  **Rs. '000** |
| **< 3**  **Rs. '000** | **3.1 to 6.0**  **Rs. '000** | **6.1 to 12.0**  **Rs. '000** | **> 12**  **Rs. '000** |
| Cash and cash equivalents (excluding cash in hand) | 7,023,760 | - | - | - | - | - | 7,023,760 |
| Balances with banks and financial institutions | 6,661,407 | - | - | - | - | - | 6,661,407 |
| Financial assets - Held-for-trading | 1,198,592 | - | - | - | - | - | 1,198,592 |
| Loans and receivables - Amortised cost | 59,572,933 | 28,634,629 | 29,228,859 | 12,584,597 | 31,473,652 | 1,810,210 | 163,304,880 |
| Insurance and reinsurance receivables | 1,194,933 | - | - | - | - | - | 1,194,933 |
| Financial assets - Fair value other comprehensive income | 1,455,702 | - | - | - | - | - | 1,455,702 |
| Debt instrument - Amortised cost | 4,813,439 | - | - | - | - | - | 4,813,439 |
| **Total** | 81,920,766 | 28,634,629 | 29,228,859 | 12,584,597 | 31,473,652 | 1,810,210 | 185,652,713 |

# Analysis of Risk Concentration

The following table shows the risk concentration by industry for the components of the statement of financial position.

# Industry Analysis

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **31 March 2021**  **Company** | **Financial Services\* Rs. '000** | **Agriculture Rs. '000** | **Manufacturing**  **Rs. '000** | **Tourism Rs. '000** | **Transport Rs. '000** | **Construction Rs. '000** | **Traders Rs. '000** | **Services**  **Rs. '000** | **Industry**  **Rs. '000** | **Others Rs. '000** | **Total Rs. '000** |
| Cash and cash equivalents | **2,703,031** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,703,031** |
| Balances with banks and financial institutions | **5,399,071** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **5,399,071** |
| Financial assets -Fair value through profit or loss | **100,019** | **-** | **-** | **-** | **-** | **-** | **-** | **9,768** | **-** | **-** | **109,787** |
| Loans and receivables - Amortised cost | **7,268,787** | **30,661,009** | **9,094,435** | **3,666,967** | **33,506,084** | **10,972,649** | **18,498,319** | **24,837,601** | **2,942,247** | **9,207,747** | **150,655,845** |
| Less - Impairment charges | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **9,267,938** |
| Net loans and receivables | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **141,387,907** |
| Financial assets - Fair value other comprehensive income | **309,108** | **-** | **-** | **-** | **-** | **-** | **-** | **10** | **-** | **-** | **309,118** |
| Debt instrument - Amortised cost | **6,994,206** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **6,994,206** |
| Other financial assets | **126,949** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **126,949** |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **31 March 2020**  **Company** | **Financial Services\* Rs. '000** | **Agriculture Rs. '000** | **Manufacturing**  **Rs. '000** | **Tourism Rs. '000** | **Transport Rs. '000** | **Construction Rs. '000** | **Traders Rs. '000** | **Services**  **Rs. '000** | **Industry**  **Rs. '000** | **Others Rs. '000** | **Total Rs. '000** |
| Cash and cash equivalents | 7,164,139 | - | - | - | - | - | - | - | - | - | 7,164,139 |
| Balances with Banks and financial institutions | 3,207,440 | - | - | - | - | - | - | - | - | - | 3,207,440 |
| Financial assets -Fair value through profit or loss | 1,031,719 | - | - | - | - | - | - | - | - | - | 1,031,719 |
| Loans and receivables - Amortised cost | 4,881,761 | 30,535,229 | 9,267,973 | 4,337,271 | 35,230,788 | 11,861,226 | 18,168,984 | 28,421,616 | 2,618,256 | 11,174,642 | 156,497,746 |
| Less - Impairment charges | - | - | - | - | - | - | - | - | - | - | 8,750,235 |
| Net loans and receivables | - | - | - | - | - | - | - | - | - | - | 147,747,511 |
| Financial assets - Fair value other comprehensive income | 324,371 | - | - | - | - | - | - | 10 | - | - | 324,381 |
| Debt instrument - Amortised cost | 4,106,963 | - | - | - | - | - | - | - | - | - | 4,106,963 |
| Other financial assets | 232,692 | - | - | - | - | - | - | - | - | - | 232,692 |

* Financial services include banks, finance institutions, insurance companies, stock brokering companies and fund management companies, venture capital companies and investment advisory services companies.

# Industry analysis

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **31 March 2021**  **Group** | **Financial Services\* Rs. '000** | **Agriculture Rs. '000** | **Manufacturing**  **Rs. '000** | **Tourism Rs. '000** | **Transport Rs. '000** | **Construction Rs. '000** | **Traders Rs. '000** | **Services**  **Rs. '000** | **Industry**  **Rs. '000** | **Others Rs. '000** | **Total Rs. '000** |
| Cash and cash equivalents | **3,844,694** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **3,844,694** |
| Balances with banks & financial institutions | **8,231,101** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **8,231,101** |
| Financial assets -Fair value through profit or loss | **1,257,000** | **-** | **14,985** | **-** | **-** | **-** | **-** | **9,768** | **-** | **-** | **1,281,753** |
| Loans and receivables - Amortised cost | **12,186,908** | **31,237,276** | **10,625,482** | **3,679,932** | **33,611,307** | **9,780,857** | **19,034,510** | **26,233,747** | **2,942,247** | **9,892,262** | **159,224,528** |
| Less - Impairment charges |  |  |  |  |  |  |  |  |  |  | **9,882,196** |
| Net loans and receivables |  |  |  |  |  |  |  |  |  |  | **149,342,332** |
| Reinsurance and insurance receivable | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1,024,461** | **1,024,461** |
| Financial assets - Fair value other comprehensive income | **735,484** | **-** | **-** | **-** | **-** | **-** | **-** | **10** | **-** | **-** | **735,494** |
| Debt instrument - Amortised cost | **8,593,386** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **8,593,386** |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **31 March 2020**  **Group** | **Financial Services\* Rs. '000** | **Agriculture Rs. '000** | **Manufacturing**  **Rs. '000** | **Tourism Rs. '000** | **Transport Rs. '000** | **Construction Rs. '000** | **Traders Rs. '000** | **Services**  **Rs. '000** | **Industry**  **Rs. '000** | **Others Rs. '000** | **Total Rs. '000** |
| Cash and cash equivalents | 7,693,032 | - | - | - | - | - | - | - | - | - | 7,693,032 |
| Balances with banks & financial institutions | 6,661,407 | - | - | - | - | - | - | - | - | - | 6,661,407 |
| Financial assets -Fair value through profit or loss | 1,192,217 | - | 5,000 | - | - | - | - | 1,375 | - | - | 1,198,592 |
| Loans and receivables - Amortised cost | 7,836,750 | 31,148,829 | 11,378,906 | 4,352,849 | 35,265,304 | 10,905,103 | 18,606,628 | 29,850,095 | 2,618,256 | 11,342,160 | 163,304,880 |
| Less - Impairment charges |  |  |  |  |  |  |  |  |  |  | 9,169,946 |
| Net loans and receivables |  |  |  |  |  |  |  |  |  |  | 154,134,934 |
| Reinsurance and insurance receivable | - | - | - | - | - | - | - | - | - | 885,395 | 885,395 |
| Financial assets - Fair value other comprehensive income | 1,455,692 | - | - | - | - | - | - | 10 | - | - | 1,455,702 |
| Debt instrument - Amortised cost | 4,813,439 | - | - | - | - | - | - | - | - | - | 4,813,439 |

* Financial services include banks, finance institutions, insurance companies, stock brokering companies and fund management companies, venture capital companies and investment advisory services companies.

# Geographical Distribution of Loans and Receivables

Provincial breakdown for loans and receivable within Sri Lanka is as follows;

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Company** | **Lease/Ijarah receivable**  **Rs. '000** | **Hire- Purchase Murabah receivable**  **Rs. '000** | **Term Loan and receivables**  **Rs. '000** | **Related party receivables**  **Rs. '000** | **Total**  **Rs. '000** |
| **As at 31 March 2021**  Central | **9,702,115** | **20,365** | **4,943,754** | **-** | **14,666,234** |
| Eastern | **3,989,744** | **10,077** | **1,838,905** | **-** | **5,838,726** |
| North Central | **4,574,021** | **11,640** | **2,401,930** | **-** | **6,987,591** |
| Northern | **2,637,478** | **3,766** | **1,724,093** | **-** | **4,365,337** |
| North Western | **7,707,196** | **17,838** | **4,133,335** | **-** | **11,858,369** |
| Sabaragamuwa | **5,776,852** | **10,063** | **2,248,670** | **-** | **8,035,585** |
| Southern | **11,046,940** | **21,944** | **8,134,466** | **-** | **19,203,350** |
| Uva | **5,272,230** | **12,448** | **2,392,564** | **-** | **7,677,242** |
| Western | **27,435,149** | **116,652** | **42,962,450** | **1,509,160** | **72,023,411** |
| **Total** | **78,141,725** | **224,793** | **70,780,167** | **1,509,160** | **150,655,845** |
| **As at 31 March 2020**  Central | 10,488,737 | 32,233 | 4,664,620 | - | 15,185,590 |
| Eastern | 4,660,950 | 26,090 | 1,787,178 | - | 6,474,218 |
| North Central | 5,183,078 | 19,171 | 2,001,699 | - | 7,203,948 |
| Northern | 2,893,775 | 7,168 | 1,358,179 | - | 4,259,122 |
| North Western | 8,283,316 | 27,345 | 3,915,850 | - | 12,226,511 |
| Sabaragamuwa | 5,873,327 | 11,819 | 2,436,144 | - | 8,321,290 |
| Southern | 12,306,699 | 23,835 | 10,064,149 | - | 22,394,683 |
| Uva | 5,717,660 | 13,738 | 2,781,660 | - | 8,513,058 |
| Western | 30,407,824 | 174,976 | 39,718,842 | 1,617,684 | 71,919,326 |
| **Total** | 85,815,366 | 336,375 | 68,728,321 | 1,617,684 | 156,497,746 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Group** | **Lease/Ijarah receivable**  **Rs. '000** | **Hire- Purchase/ Murabah receivable**  **Rs. '000** | **Term Loan and receivables**  **Rs. '000** | **Debentures**  **and Commercial**  **Papers**  **Rs. '000** | **Total**  **Rs. '000** |
| **As at 31 March 2021**  Central | **9,702,115** | **463,874** | **4,950,118** | **-** | **15,116,107** |
| Eastern | **3,989,744** | **377,074** | **1,849,011** | **-** | **6,215,829** |
| North Central | **4,574,021** | **332,374** | **2,408,489** | **-** | **7,314,884** |
| Northern | **2,637,478** | **3,766** | **1,728,774** | **-** | **4,370,018** |
| North Western | **7,707,196** | **310,247** | **4,143,126** | **-** | **12,160,569** |
| Sabaragamuwa | **5,776,852** | **269,912** | **2,253,827** | **-** | **8,300,591** |
| Southern | **11,046,940** | **320,759** | **8,154,142** | **-** | **19,521,841** |
| Uva | **5,272,230** | **570,913** | **2,424,802** | **-** | **8,267,945** |
| Western | **27,424,854** | **494,437** | **42,926,841** | **2,338,328** | **73,184,460** |
| Bangladesh | **-** | **-** | **4,772,284** | **-** | **4,772,284** |
| **Total** | **78,131,430** | **3,143,356** | **75,611,414** | **2,338,328** | **159,224,528** |
| **As at 31 March 2020**  Central | 10,488,737 | 537,826 | 4,670,984 | - | 15,697,547 |
| Eastern | 4,660,950 | 385,414 | 1,797,284 | - | 6,843,648 |
| North Central | 5,183,078 | 409,598 | 2,008,258 | - | 7,600,934 |
| Northern | 2,893,775 | 136,711 | 1,362,860 | - | 4,393,346 |
| North Western | 8,283,316 | 317,036 | 3,925,641 | - | 12,525,993 |
| Sabaragamuwa | 5,873,327 | 333,076 | 2,441,301 | - | 8,647,704 |
| Southern | 12,306,699 | 671,809 | 10,083,825 | - | 23,062,333 |
| Uva | 5,717,660 | 389,332 | 2,813,898 | - | 8,920,890 |
| Western | 30,407,824 | 174,976 | 39,818,276 | 2,518,039 | 72,919,115 |
| Bangladesh | - | - | 2,693,370 | - | 2,693,370 |
| **Total** | 85,815,366 | 3,355,778 | 71,615,697 | 2,518,039 | 163,304,880 |

# Fair Value of Collateral and Credit Enhancements Held

As a general principle, the Company endeavors to obtain adequate collateral to secure its credit portfolios. The Company focuses on quality and responsibility of such collateral to mitigate potential credit losses. Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. A reasonable margin of safety is maintained in collateral values.

The main types of collateral obtained are, as follows:

* For commercial lending, charges over real estate properties, inventory and trade receivables and transfer of ownership over the vehicles.
* For retail lending, mortgages over residential properties and transfer of ownership over the vehicles.

The general creditworthiness of significant customers tends to be the most relevant indicator of credit quality of a facility extended to those parties. However, collateral provides additional security and the Company generally requests large borrowers to provide same. The Company may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees. As

Company’s focus on corporate customers is mainly based on their credit worthiness, business standing and reputation, Company does not insist on updated valuation of collateral from corporate clients. Such valuations will only be called for from corporate clients only if there is a foreseeable deterioration in credit standing or evidence of possible credit risk. Accordingly, the Company does not routinely update the valuation of collateral held against all facilities to significant customers. For impaired facilities, the Company usually obtains the current market value of the collateral, since it may be an input to the impairment measurement.

The following table shows the fair value of collateral and credit enhancements held by the Company.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company** | **31 March 2021** | | **31 March 2020** | |
| **Maximum exposure to credit risk**  **Rs. '000** | **Net**  **exposure**  **Rs. '000** | **Maximum exposure to credit risk**  **Rs. '000** | **Net**  **exposure**  **Rs. '000** |
| Cash and cash equivalents (excluding cash in hand) | **1,780,463** | **1,780,463** | 6,508,137 | 6,508,137 |
| Balances with banks and financial institutions | **5,399,071** | **5,399,071** | 3,207,440 | 3,207,440 |
| Financial assets -Fair value through profit or loss | **109,787** | **109,787** | 1,031,719 | 1,031,719 |
| Loans and receivables - Amortised cost | **141,387,907** | **551,368** | 147,747,511 | 517,217 |
| Financial assets - Fair value through other comprehensive income | **309,118** | **309,118** | 324,381 | 324,381 |
| Debt instrument - Amortised cost | **6,994,206** | **6,994,206** | 4,106,963 | 4,106,963 |
| Other financial assets | **126,949** | **126,949** | 232,692 | 232,692 |
| **Total** | **156,107,501** | **15,270,962** | 163,158,843 | 15,928,549 |

The following table shows the fair value of collateral and credit enhancements held by the Group.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Group** | **31 March 2021** | | **31 March 2020** | |
| **Maximum exposure to credit risk**  **Rs. '000** | **Net**  **exposure**  **Rs. '000** | **Maximum exposure to credit risk**  **Rs. '000** | **Net**  **exposure**  **Rs. '000** |
| Cash and cash equivalents (excluding cash in hand) | **2,904,928** | **2,904,928** | 7,023,760 | 7,023,760 |
| Balances with banks and financial institutions | **8,231,101** | **8,231,101** | 6,661,407 | 6,661,407 |
| Financial assets - Fair value through profit or loss | **1,281,753** | **1,281,753** | 1,198,592 | 1,198,592 |
| Loans and receivables - Amortised cost | **149,342,332** | **551,368** | 154,134,934 | 517,217 |
| Reinsurance and insurance receivable | **1,024,461** | **1,024,461** | 1,194,933 | 1,194,933 |
| Financial assets - Fair value through other comprehensive income | **735,494** | **735,494** | 1,455,702 | 1,455,702 |
| Debt instrument - Amortised cost | **8,593,386** | **8,593,386** | 4,813,439 | 4,813,439 |
| **Total** | **172,113,455** | **23,322,491** | 176,482,767 | 22,865,050 |

# Collateral and Other Credit Enhancements

The below table provides an analysis of the current fair values of collateral held and credit enhancements for stage 3 assets. Dependent on the level of collateral, some Stage 3 exposures may not have individual ECLs when the expected value of the collateral is greater than the LGD, even if the future value of collateral is forecasted using multiple economic scenarios. However, the Stage 3 ECL can be higher than net exposure shown below when the future value of collateral, measured using multiple economic scenarios, is expected to decline.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Type of collateral or credit enhancement**  **In Rs.'000** | **Maximum exposure to credit risk** | **Fair value of collateral and credit enhancements held under the base case scenario** | | | **Net**  **exposure** | **Associated**  **ECL** |
| **Movable**  **securities** | **Immovable**  **securities** | **Total collateral** |
| **Company**  **As at 31 March 2021**  Loans and receivables - Amortised cost | 28,678,260 | 13,536,876 | 31,319,598 | 44,856,474 | (16,178,214) | 7,323,080 |
| **As at 31 March 2020**  Loans and receivables - Amortised cost | 32,227,432 | 16,125,508 | 22,048,802 | 38,174,310 | (5,946,878) | 6,891,790 |
| **Group**  **As at 31 March 2021**  Loans and receivables - Amortised cost | 31,622,920 | 16,060,082 | 31,319,598 | 47,379,680 | (15,756,760) | 7,624,698 |
| **As at 31 March 2020**  Loans and receivables - Amortised cost | 33,283,862 | 18,490,474 | 22,048,802 | 40,539,276 | (7,255,414) | 7,087,069 |

# Offsetting Financial Assets & Liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when the group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

# Financial Assets & Liabilities Not Subject to Offsetting

Amounts that do not qualify for offsetting include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of other predetermined events. Such netting arrangements include repurchase agreements and other similar secured lending and borrowing arrangements.

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed below.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March**  **Company & Group** | **2021** | | | **2020** | | |
| **Gross amount**  **Rs. '000** | **Amount subject to netting but**  **do not qualify for offsetting**  **Rs. '000** | **Net amount**  **Rs. '000** | **Gross amount**  **Rs. '000** | **Amount subject to netting but**  **do not qualify for offsetting**  **Rs. '000** | **Net amount**  **Rs. '000** |
| **Financial Assets**  Loans and receivables - Amortised cost | **8,115,689** | **2,724,435** | **5,391,254** | 8,255,369 | 3,014,640 | 5,240,729 |

# Sensitivity of Impairment Provision on Loans and Receivables

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Sensitivity on ECL sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]** | | | | **Sensitivity effect on income**  **(Rs. ’000)** |
| **Stage 1**  **(Rs. ’000)** | **Stage 2**  **(Rs. ’000)** | **Stage 3**  **(Rs. ’000)** | **Total**  **(Rs. ’000)** |
| **Company - As at 31 March 2021**  PD 1% increase across all age buckets | **7,876** | **10,928** | **-** | **18,804** | **18,804** |
| PD 1% decrease across all age buckets | **(7,876)** | **(10,928)** | **-** | **(18,804)** | **(18,804)** |
| LGD 5% increase | **39,385** | **54,963** | **206,864** | **301,212** | **301,212** |
| LGD 5% decrease | **(39,385)** | **(54,963)** | **(206,864)** | **(301,212)** | **(301,212)** |
| Probability weighted Economic Scenarios |  |  |  |  |  |
| – Base case 10% increase, worst case 5% decrease and best case 5% decrease | **(1,515)** | **(564)** | **-** | **(2,079)** | **(2,079)** |
| – Base case 10% decrease, worst case 5% increase and best case 5% increase | **1,515** | **564** | **-** | **2,079** | **2,079** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Sensitivity on ECL sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]** | | | | **Sensitivity effect on income**  **(Rs. ’000)** |
| **Stage 1**  **(Rs. ’000)** | **Stage 2**  **(Rs. ’000)** | **Stage 3**  **(Rs. ’000)** | **Total**  **(Rs. ’000)** |
| **Company - As at 31 March 2020**  PD 1% increase across all age buckets | 5,857 | 10,622 | - | 16,479 | 16,479 |
| PD 1% decrease across all age buckets | (5,857) | (10,622) | - | (16,479) | (16,479) |
| LGD 5% increase | 29,285 | 58,172 | 258,700 | 346,157 | 346,157 |
| LGD 5% decrease | (29,285) | (58,172) | (258,700) | (346,157) | (346,157) |
| Probability weighted Economic Scenarios |  |  |  |  |  |
| – Base case 10% increase, worst case 5% decrease and best case 5% decrease | (657) | (703) | - | (1,360) | (1,360) |
| – Base case 10% decrease, worst case 5% increase and best case 5% increase | 657 | 703 | - | 1,360 | 1,360 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Sensitivity on ECL sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]** | | | | **Sensitivity effect on income**  **(Rs. ’000)** |
| **Stage 1**  **(Rs. ’000)** | **Stage 2**  **(Rs. ’000)** | **Stage 3**  **(Rs. ’000)** | **Total**  **(Rs. ’000)** |
| **Group - As at 31 March 2021**  PD 1% increase across all age buckets | **8,330** | **11,557** | **-** | **19,887** | **19,887** |
| PD 1% decrease across all age buckets | **(8,330)** | **(11,557)** | **-** | **(19,887)** | **(19,887)** |
| LGD 5% increase | **42,536** | **59,360** | **279,396** | **381,292** | **381,292** |
| LGD 5% decrease | **(42,536)** | **(59,360)** | **(279,396)** | **(381,292)** | **(381,292)** |
| Probability weighted Economic Scenarios |  |  |  |  |  |
| – Base case 10% increase, worst case 5% decrease and best case 5% decrease | **(1,538)** | **(572)** | **-** | **(2,110)** | **(2,110)** |
| – Base case 10% decrease, worst case 5% increase and best case 5% increase | **1,538** | **572** | **-** | **2,110** | **2,110** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Sensitivity on ECL sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]** | | | | **Sensitivity effect on income**  **(Rs. ’000)** |
| **Stage 1**  **(Rs. ’000)** | **Stage 2**  **(Rs. ’000)** | **Stage 3**  **(Rs. ’000)** | **Total**  **(Rs. ’000)** |
| **Group - As at 31 March 2020**  PD 1% increase across all age buckets | 6,194 | 11,234 | - | 17,428 | 17,428 |
| PD 1% decrease across all age buckets | (6,194) | (11,234) | - | (17,428) | (17,428) |
| LGD 5% increase | 31,628 | 62,826 | 279,396 | 373,850 | 373,850 |
| LGD 5% decrease | (31,628) | (62,826) | (279,396) | (373,850) | (373,850) |
| Probability weighted Economic Scenarios |  |  |  |  |  |
| – Base case 10% increase, worst case 5% decrease and best case 5% decrease | (667) | (714) | - | (1,381) | (1,381) |
| – Base case 10% decrease, worst case 5% increase and best case 5% increase | 667 | 714 | - | 1,381 | 1,381 |

**59.3 Liquidity Risk and Funding Management**

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, the management has arranged diversified funding sources in addition to its deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis.

Management considered different possible outcomes to assess the possible impact from COVID-19 to the Company’s operations and forecast cash flows in order to absorb sudden liquidity shock to comply financial covenant and CBSL Liquidity Requirement. I.e. consider sufficient cash and unused credit lines, deposits renewal ratio, customer collection ratios, availability of negotiate borrowing facilities to meet short term needs, restructure operations to reduce operating costs and defer capital expenditure.

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs.

To ensure adequate liquidity in the market, Central Bank has intervened by reducing Policy rates in order to inject market liquidity. This may be as a result of the increased withdrawals within affected sectors potentially leading to reduced net inflows in Company. In addition to providing loan moratoriums, concessionary loans via banks and Non-Banking Financial Institutions (NBFIs) for businesses and individuals impacted by the COVID-19 lockdown to further provide liquidity and drive the economy.

In compliance with Finance Companies (Liquid Assets) Direction No: 4 of 2013 which shall not as the close of the business on any day, be less than the total of;

1. 10% of the outstanding value of the time deposits and accrued interest payable at the close of the business on such day and
2. 15% of outstanding value of the saving deposit and accrued interest payable at the close of the business on such day and
3. 10% of the total outstanding borrowings

Further the Company shall maintain liquid assets in the form of Sri Lankan government Treasury Bills & Government securities equivalent to 7.5% of the average of its month end total deposit liabilities and borrowings of the 12 months preceding financial year.

However, due to the COVID-19, Central Bank of Sri Lanka issued Finance Business Act Direction No 02 of 2021 "Amendments to Direction on Liquid Assets" and subcequent amendments through No 07 of 2020 and No 03 of 2021 such requirements have changes as follows untill 30 June 2021.

1. 6% of the outstanding value of the time deposits and accrued interest payable at the close of the business on such day and
2. 10% of outstanding value of the saving deposit and accrued interest payable at the close of the business on such day and
3. 5% of the total outstanding borrowings

Further the Company shall maintain liquid assets in the form of Sri Lankan government Treasury Bills & Government securities equivalent to 5% of the average of its month end total deposit liabilities and borrowings of the 12 months preceding financial year.

The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, balances with banks and financial institutions and investment in Government securities.

The Company stresses the importance of savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio , which compares loans and advances to customers as a percentage of customer savings accounts and fixed deposits.

The ratios at the end of the year was as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Liquidity ratios**  **As at 31 March** | **Company** | | **Group** | |
| **2021** | **2020** | **2021** | **2020** |
| Advances to deposit ratios (Times) | **1.39** | 1.36 | **1.44** | 1.40 |
| Liquid Assets to Deposit (%) | **14** | 14 | **17** | 18 |

# Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summaries the maturity profile of the undiscounted cash flows of the Company’s financial assets and liabilities as at 31 March

2021.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cash flows indicated by the Company’s deposit retention history.

# Remaining Contractual Maturities of Undiscounted Cash Flows of Financial Assets and Liabilities

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2021**  **Company** | **On demand**  **Rs. '000** | **Less than 3**  **months**  **Rs. '000** | **3 to 12 months Rs. '000** | **1 to 3 years Rs. '000** | **3 to 5 years Rs. '000** | **Over 5 years Rs. '000** | **Total**  **Rs. '000** |
| **Financial Asset**  Cash and cash equivalents | **2,703,031** | **-** | **-** | **-** | **-** | **-** | **2,703,031** |
| Balances with banks and financial institutions | **-** | **5,291,634** | **116,854** | **-** | **-** | **-** | **5,408,488** |
| Financial assets -Fair value through profit or loss | **-** | **109,787** | **-** | **-** | **-** | **-** | **109,787** |
| Loans and receivables - Amortised cost | **9,539,408** | **28,396,273** | **47,980,789** | **78,310,609** | **18,763,721** | **389,923** | **183,380,723** |
| Financial assets - Fair value through other comprehensive income | **-** | **309,108** | **-** | **-** | **-** | **10** | **309,118** |
| Debt instrument - Amortised cost | **-** | **5,200,037** | **1,885,456** | **-** | **-** | **-** | **7,085,493** |
| Other financial assets | **-** | **126,949** | **-** | **-** | **-** | **-** | **126,949** |
| **Total undiscounted**  **financial assets** | **12,242,439** | **39,433,788** | **49,983,099** | **78,310,609** | **18,763,721** | **389,933** | **199,123,589** |
| **Financial liabilities**  Due to banks | **716,374** | **209,970** | **909,506** | **5,980,493** | **-** | **-** | **7,816,343** |
| Due to customers | **8,265,964** | **27,414,568** | **47,916,279** | **16,918,724** | **3,774,746** | **164,029** | **104,454,310** |
| Debt securities issued | **-** | **1,189,974** | **7,230,443** | **7,442,993** | **-** | **-** | **15,863,410** |
| Other financial liabilities | **-** | **4,131,671** | **-** | **-** | **-** | **-** | **4,131,671** |
| Lease liabilities | **-** | **165,100** | **504,043** | **1,327,457** | **695,916** | **445,445** | **3,137,961** |
| **Total undiscounted financial**  **liabilities** | **8,982,338** | **33,111,283** | **56,560,271** | **31,669,667** | **4,470,662** | **609,474** | **135,403,695** |
| **Net undiscounted financial assets/(liabilities)** | **3,260,101** | **6,322,505** | **(6,577,172)** | **46,640,942** | **14,293,059** | **(219,541)** | **63,719,894** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2020**  **Company** | **On demand**  **Rs. '000** | **Less than 3**  **months**  **Rs. '000** | **3 to 12 months Rs. '000** | **1 to 3 years Rs. '000** | **3 to 5 years Rs. '000** | **Over 5 years Rs. '000** | **Total**  **Rs. '000** |
| **Financial Asset**  Cash and cash equivalents | 2,034,316 | 5,129,823 | - | - | - | - | 7,164,139 |
| Balances with banks and financial institutions | - | 2,945,763 | 298,866 | - | - | - | 3,244,629 |
| Financial assets -Fair value through profit or loss | - | 1,031,719 | - | - | - | - | 1,031,719 |
| Loans and receivables - Amortised cost | 14,878,433 | 27,421,600 | 51,465,418 | 81,262,031 | 18,863,910 | 163,703 | 194,055,095 |
| Financial assets -Fair value through profit or loss | - | 324,371 | - | - | - | 10 | 324,381 |
| Debt instrument - Amortised cost | - | 2,187,464 | 2,005,192 | - | - | - | 4,192,656 |
| Other financial assets | - | 232,692 | - | - | - | - | 232,692 |
| **Total undiscounted**  **financial assets** | 16,912,749 | 39,273,432 | 53,769,476 | 81,262,031 | 18,863,910 | 163,713 | 210,245,311 |
| **Financial liabilities**  Due to banks | 24,683 | 1,823,909 | 708,180 | 2,639,718 | 3,777,203 | - | 8,973,693 |
| Due to customers | 26,333 | 33,749,133 | 49,883,951 | 25,232,970 | 5,752,380 | 143,730 | 114,788,497 |
| Debt securities issued | 17,087 | 1,231,318 | 5,336,381 | 9,890,198 | 5,973,211 | - | 22,448,195 |
| Other financial liabilities | - | 3,014,117 | - | - | - | - | 3,014,117 |
| Lease liabilities | - | 156,667 | 473,932 | 1,038,303 | 517,268 | 411,070 | 2,597,240 |
| **Total undiscounted financial**  **liabilities** | 68,103 | 39,975,144 | 56,402,444 | 38,801,189 | 16,020,062 | 554,800 | 151,821,742 |
| **Net undiscounted financial assets/(liabilities)** | 16,844,646 | (701,712) | (2,632,968) | 42,460,842 | 2,843,848 | (391,087) | 58,423,569 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2021**  **Group** | **On demand**  **Rs. '000** | **Less than 3**  **months**  **Rs. '000** | **3 to 12 months Rs. '000** | **1 to 3 years Rs. '000** | **3 to 5 years Rs. '000** | **Over 5 years Rs. '000** | **Total**  **Rs. '000** |
| **Financial Asset**  Cash and cash equivalents | **3,844,694** | **-** | **-** | **-** | **-** | **-** | **3,844,694** |
| Balances with banks and financial institutions | **-** | **6,363,103** | **1,847,720** | **78,302** | **-** | **-** | **8,289,125** |
| Financial assets -Fair value through profit or loss | **-** | **1,281,753** | **-** | **-** | **-** | **-** | **1,281,753** |
| Loans and receivables - Amortised cost | **9,980,624** | **29,213,835** | **50,107,709** | **82,746,614** | **20,727,091** | **696,060** | **193,471,933** |
| Insurance and reinsurance receivable | **-** | **1,268,209** | **572,030** | **-** | **-** | **-** | **1,840,239** |
| Financial assets - Fair value through other comprehensive income | **-** | **735,484** | **-** | **-** | **-** | **10** | **735,494** |
| Debt instrument - Amortised cost | **-** | **5,625,023** | **2,045,474** | **742,973** | **340,013** | **52,021** | **8,805,504** |
| **Total undiscounted**  **financial assets** | **13,825,318** | **44,487,407** | **54,572,933** | **83,567,889** | **21,067,104** | **748,091** | **218,268,742** |
| **Financial liabilities**  Due to banks | **719,394** | **406,341** | **1,671,103** | **7,118,036** | **347,088** | **-** | **10,261,962** |
| Due to customers | **8,324,960** | **28,746,198** | **49,379,419** | **16,995,421** | **3,778,713** | **174,457** | **107,399,168** |
| Debt securities issued | **-** | **1,173,874** | **7,230,443** | **7,285,013** | **-** | **-** | **15,689,330** |
| Other financial liabilities | **-** | **4,110,795** | **-** | **-** | **-** | **-** | **4,110,795** |
| Insurance liabilities and reinsurance payable | **4,977,168** | **38,717** | **-** | **-** | **-** | **-** | **5,015,885** |
| Lease liabilities | **-** | **93,154** | **283,394** | **720,481** | **517,268** | **411,070** | **2,025,367** |
| **Total undiscounted financial**  **liabilities** | **14,021,522** | **34,569,079** | **58,564,359** | **32,118,951** | **4,643,069** | **585,527** | **144,502,507** |
| **Net undiscounted financial assets/(liabilities)** | **(196,204)** | **9,918,328** | **(3,991,426)** | **51,448,938** | **16,424,035** | **162,564** | **73,766,235** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2020**  **Group** | **On demand**  **Rs. '000** | **Less than 3**  **months**  **Rs. '000** | **3 to 12 months Rs. '000** | **1 to 3 years Rs. '000** | **3 to 5 years Rs. '000** | **Over 5 years Rs. '000** | **Total**  **Rs. '000** |
| **Financial Asset**  Cash and cash equivalents | 2,563,209 | 5,129,823 | - | - | - | - | 7,693,032 |
| Balances with banks and financial institutions | - | 3,384,603 | 2,416,361 | 75,632 | - | - | 5,876,596 |
| Financial assets -Fair value through profit or loss | - | 1,198,592 | - | - | - | - | 1,198,592 |
| Loans and receivables - Amortised cost | 14,878,433 | 27,245,770 | 52,119,800 | 81,806,295 | 20,192,323 | 259,239 | 196,501,860 |
| Insurance and reinsurance receivable | - | 1,268,209 | 572,030 | - | - | - | 1,840,239 |
| Financial assets - Fair value through other comprehensive income | - | 1,455,692 | - | - | - | 10 | 1,455,702 |
| Debt instrument - Amortised cost | - | 2,187,562 | 2,066,319 | 361,538 | 340,866 | 202,942 | 5,159,227 |
| **Total undiscounted financial**  **assets** | 17,441,642 | 41,870,251 | 57,174,510 | 82,243,465 | 20,533,189 | 462,191 | 219,725,248 |
| **Financial liabilities**  Due to banks | 384,130 | 2,120,541 | 1,434,440 | 4,053,119 | 4,179,169 | - | 12,171,399 |
| Due to customers | 26,333 | 33,554,416 | 49,658,988 | 25,121,858 | 5,752,380 | 143,730 | 114,257,705 |
| Debt securities issued | 17,087 | 1,215,318 | 5,336,381 | 9,858,198 | 5,832,211 | - | 22,259,195 |
| Other financial liabilities | - | 2,829,708 | - | - | - | - | 2,829,708 |
| Insurance liabilities and reinsurance payable | 5,026,503 | 38,717 | - | - | - | - | 5,065,220 |
| Lease liabilities | - | 93,154 | 283,394 | 720,481 | 517,268 | 411,070 | 2,025,367 |
| **Total undiscounted financial**  **liabilities** | 5,454,053 | 39,851,854 | 56,713,203 | 39,753,656 | 16,281,028 | 554,800 | 158,608,594 |
| **Net undiscounted financial assets/(liabilities)** | 11,987,589 | 2,018,397 | 461,307 | 42,489,809 | 4,252,161 | (92,609) | 61,116,654 |

* + 1. **Commitments and Guarantees**

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.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Company** | **On demand**  **Rs. '000** | **Less than 3**  **months**  **Rs. '000** | **3 to 12 months Rs. '000** | **1 to 5 years Rs. '000** | **Over 5 years Rs. '000** | **Total**  **Rs. '000** |
| **As at 31 March 2021**  Guarantees | **-** | **2,500** | **334,098** | **127,500** | **-** | **464,098** |
| Assessment received from Inland Revenue  Department | **-** | **-** | **-** | **50,953** | **-** | **50,953** |
| Litigation against the Company | **-** | **92,110** | **90,341** | **-** | **-** | **182,451** |
| Capital commitment | **-** | **9,186,451** | **1,114,158** | **-** | **-** | **10,300,609** |
| **Total commitments and guarantees** | **-** | **9,281,061** | **1,538,597** | **178,453** | **-** | **10,998,111** |
| **As at 31 March 2020**  Guarantees | - | 5,300 | 327,498 | - | - | 332,798 |
| Assessment received from Inland Revenue  Department | - | - | - | 67,938 | - | 67,938 |
| Letter of credits | - | 1,139 | - | - | - | 1,139 |
| Accidents of leased out vehicles | - | 280,735 | 6,680 | - | - | 287,415 |
| Capital commitment | - | 4,627,602 | - | - | - | 4,627,602 |
| **Total commitments and guarantees** | - | 4,914,776 | 334,178 | 67,938 | - | 5,316,892 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Group** | **On demand**  **Rs. '000** | **Less than 3**  **months**  **Rs. '000** | **3 to 12 months Rs. '000** | **1 to 5 years Rs. '000** | **Over 5 years Rs. '000** | **Total**  **Rs. '000** |
| **As at 31 March 2021**  Guarantees | **-** | **2,500** | **334,098** | **127,500** | **-** | **464,098** |
| Assessment received from Inland Revenue  Department | **-** | **-** | **-** | **97,942** | **-** | **97,942** |
| Litigation against the Company | **-** | **92,110** | **90,341** | **-** | **-** | **182,451** |
| Capital commitment | **-** | **9,186,451** | **1,114,158** | **-** | **-** | **10,300,609** |
| **Total commitments and guarantees** | **-** | **9,281,061** | **1,538,597** | **225,442** | **-** | **11,045,100** |
| **As at 31 March 2020**  Guarantees | - | 5,300 | 327,498 | - | - | 332,798 |
| Assessment received from Inland Revenue  Department | - | - | - | 85,827 | - | 85,827 |
| Letter of credits | - | 1,139 | - | - | - | 1,139 |
| Accidents of leased out vehicles | - | 280,735 | 6,680 | - | - | 287,415 |
| Capital commitment | - | 4,627,602 | 15,834 | - | - | 4,643,436 |
| **Total commitments and guarantees** | - | 4,914,776 | 350,012 | 85,827 | - | 5,350,615 |

The Company expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

# Total liquid assets

The table below sets out the components of the Company's liquid assets;

|  |  |  |
| --- | --- | --- |
| **As at 31 March** | **2021**  **Amount Rs. '000** | **2020**  **Amount Rs. '000** |
| Cash in hand | **922,568** | 656,002 |
| Balances in current accounts | **442,176** | 1,148,826 |
| Deposits in commercial banks | **5,606,470** | 3,413,893 |
| Treasury bills and Treasury Bonds | **6,955,980** | 4,111,641 |
| Other approved securities | **-** | 5,129,015 |
| **Total liquidity assets** | **13,927,194** | 14,459,377 |

# 59.4 Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Company classifies exposures to market risk into either trading or non–trading portfolios and manages each of those portfolios separately.

Currently, increased volatility and decline in value of many financial asset classes may impact the trading books of most company due to the increased market risk. The uncertainty caused by the pandemic could lead to increased pressure on the local currency resulting in higher foreign exchange risk.

Company estimate how the reduction in interest rates will impact their rate sensitive assets and liabilities and the subsequent implication on profitability.

# 59.4.1 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s exposure to the risk of changes in market interest rates relates primarily to the Company’s long-term debt obligations with floating interest rates. The Company policy is to continuously monitor interest rates on regular basis. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate financial assets and financial liabilities.

The following table demonstrates the sensitivity of the Company's Statement of Profit or Loss for the year ended 31 March 2021 and 31 March 2020 to a reasonable possible change in interest rates, with all other variable constant.

|  |  |  |
| --- | --- | --- |
| **As at 31 March** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
|  |  |  |
| Impact on Statement of Profit or Loss due to interest rate shocks | | |
| 0.50% | **5,060** | 4,277 |
| 1% | **10,120** | 8,554 |
| -0.50% | **(5,060)** | (4,277) |
| -1% | **(10,120)** | (8,554) |

# Sensitivity of Lease Liability to Key Assumption

|  |  |  |
| --- | --- | --- |
| **Sensitivity to Incremental Borrowing Rates** | **2021**  **Rs. '000** | **2020**  **Rs. '000** |
|  |  |  |
| Impact on Company's Statement of Financial Position due to interest rate shock | | |
| 1% | **(51,625)** | (41,257) |
| -1% | **53,585** | 43,486 |

**Interest Rate Risk Exposure on Financial Asset and Liabilities**

The table below analyses the Company’s interest rate risk exposure on non–trading financial assets and liabilities. The Company’s assets and liabilities are included at carrying amount and categorised by the earlier of contractual re–pricing or maturity dates.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2021** | **Company** | | | | | | | |
| **Carrying amount**  **Rs. '000** | **On demand**  **Rs. '000** | **Less than**  **3 months**  **Rs. '000** | **3 to 12 months**  **Rs. '000** | **1 to 3 years**  **Rs. '000** | **3 to 5 years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Non–interest**  **bearing**  **Rs. '000** |
| **Assets**  Cash and cash equivalents | **2,703,031** | **207,423** | **-** | **-** | **-** | **-** | **-** | **2,495,608** |
| Balances with banks and financial institutions | **5,399,071** | **48,621** | **5,239,950** | **110,500** | **-** | **-** | **-** | **-** |
| Financial assets -Fair value through profit or loss | **109,787** | **-** | **-** | **-** | **-** | **-** | **-** | **109,787** |
| Loans and receivables - Amortised cost | **150,655,845** | **10,084,836** | **23,646,215** | **37,222,146** | **64,874,601** | **14,683,282** | **144,765** | **-** |
| Less - Impairment charges | **9,267,938** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Net loans and receivables | **141,387,907** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Financial assets - Fair value through other comprehensive income | **309,118** | **-** | **-** | **-** | **-** | **-** | **-** | **309,118** |
| Debt instrument - Amortised cost | **6,994,206** | **42,014** | **5,136,618** | **1,815,574** | **-** | **-** | **-** | **-** |
| Other financial assets | **126,949** | **-** | **-** | **-** | **-** | **-** | **-** | **126,949** |
| **Total** | **157,030,069** | **10,382,894** | **34,022,783** | **39,148,220** | **64,874,601** | **14,683,282** | **144,765** | **3,041,462** |
| **Liabilities**  Due to banks | **6,439,310** | **2,044,668** | **212,751** | **708,063** | **3,473,828** | **-** | **-** | **-** |
| Due to customers | **101,502,931** | **12,983,261** | **25,217,406** | **44,196,736** | **15,373,365** | **3,568,134** | **164,029** | **-** |
| Debt securities issued | **13,825,553** | **1,047,215** | **-** | **6,788,101** | **5,990,237** | **-** | **-** | **-** |
| Other Financial liabilities | **4,131,671** | **-** | **-** | **-** | **-** | **-** | **-** | **4,131,671** |
| Lease liabilities | **2,286,386** | **-** | **94,358** | **310,505** | **968,680** | **540,782** | **372,061** | **-** |
| **Total** | **128,185,851** | **16,075,144** | **25,524,515** | **52,003,405** | **25,806,110** | **4,108,916** | **536,090** | **4,131,671** |
| **Total interest sensitivity gap** | **28,844,218** | **(5,692,250)** | **8,498,268** | **(12,855,185)** | **39,068,491** | **10,574,366** | **(391,325)** |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2020** | **Company** | | | | | | | |
| **Carrying amount**  **Rs. '000** | **On demand**  **Rs. '000** | **Less than**  **3 months**  **Rs. '000** | **3 to 12 months**  **Rs. '000** | **1 to 3 years**  **Rs. '000** | **3 to 5 years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Non–interest**  **bearing**  **Rs. '000** |
| **Assets**  Cash and cash equivalents | 7,164,139 | 384,414 | 5,129,015 | - | - | - | - | 1,650,710 |
| Balances with banks and financial institutions | 3,207,440 | 202,756 | 2,734,287 | 270,397 |  | - | - | - |
| Financial assets -Fair value through profit or loss | 1,031,719 | - | - | - | - | - | - | 1,031,719 |
| Loans and receivables - Amortised cost | 156,497,746 | 15,287,682 | 21,649,373 | 37,960,938 | 64,522,858 | 16,980,219 | 96,676 | - |
| Less - Impairment charges | 8,750,235 | - | - | - | - | - | - | - |
| Net loans and receivables | 147,747,511 | - | - | - | - | - | - | - |
| Financial assets - Fair value through other comprehensive income | 324,381 | - | - | - | - | - | - | 324,381 |
| Debt instrument - Amortised cost | 4,106,963 | 28,443 | 2,141,057 | 1,937,463 | - | - | - | - |
| Other financial assets | 232,692 | - | - | - | - | - | - | 232,692 |
| **Total** | 163,814,845 | 15,903,295 | 31,653,732 | 40,168,798 | 64,522,858 | 16,980,219 | 96,676 | 3,239,502 |
| **Liabilities**  Due to banks | 7,938,185 | 1,289,463 | 1,728,144 | 552,385 | 2,246,877 | 2,121,316 | - | - |
| Due to customers | 106,701,027 | 11,753,079 | 24,697,553 | 44,997,065 | 20,285,055 | 4,824,545 | 143,730 | - |
| Debt securities issued | 18,479,260 | 1,241,443 | - | 4,472,471 | 7,483,709 | 5,281,637 | - | - |
| Other financial liabilities | 3,014,117 | - | - | - | - | - | - | 3,014,117 |
| Lease liabilities | 1,909,098 | - | 98,137 | 317,394 | 773,246 | 384,316 | 336,005 | - |
| **Total** | 138,041,687 | 14,283,985 | 26,523,834 | 50,339,315 | 30,788,887 | 12,611,814 | 479,735 | 3,014,117 |
| **Total interest sensitivity gap** | 25,773,158 | 1,619,310 | 5,129,898 | (10,170,517) | 33,733,971 | 4,368,405 | (383,059) |  |

The table below analyses the Group’s interest rate risk exposure on non–trading financial assets and liabilities. The Group’s assets and liabilities are included at carrying amount and categorised by the earlier of contractual re–pricing or maturity dates.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2021** | **Group** | | | | | | | |
| **Carrying amount**  **Rs. '000** | **On demand**  **Rs. '000** | **Less than**  **3 months**  **Rs. '000** | **3 to 12 months**  **Rs. '000** | **1 to 3 years**  **Rs. '000** | **3 to 5 years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Non–interest**  **bearing**  **Rs. '000** |
| **Assets**  Cash and cash equivalents | **3,844,694** | **1,116,437** | **-** | **-** | **-** | **-** | **-** | **2,728,257** |
| Balances with banks and financial institutions | **8,231,101** | **155,656** | **6,748,378** | **1,255,928** | **71,139** | **-** | **-** | **-** |
| Financial assets -Fair value through profit or loss | **1,281,753** | **-** | **-** | **-** | **-** | **-** | **-** | **1,281,753** |
| Loans and receivables - Amortised cost | **159,224,528** | **10,988,903** | **23,551,567** | **39,867,161** | **68,200,436** | **16,165,559** | **450,902** | **-** |
| Less-Impairment charges | **9,882,196** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Net loans and receivables | **149,342,332** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Insurance and reinsurance receivable | **1,024,461** | **-** | **-** | **-** | **-** | **-** | **-** | **1,024,461** |
| Financial assets - Fair value through other comprehensive income | **735,494** | **-** | **426,376** | **-** | **-** | **-** | **-** | **309,118** |
| Debt instrument - Amortised cost | **8,593,386** | **87,767** | **5,621,571** | **1,927,618** | **628,368** | **281,196** | **46,866** | **-** |
| **Total** | **173,053,221** | **12,348,763** | **36,347,892** | **43,050,707** | **68,899,943** | **16,446,755** | **497,768** | **5,343,589** |
| **Liabilities**  Due to banks | **9,003,873** | **2,224,999** | **350,754** | **1,469,660** | **4,611,372** | **347,088** | **-** | **-** |
| Due to customers | **103,743,716** | **12,883,575** | **26,307,059** | **45,356,462** | **15,450,062** | **3,572,101** | **174,457** | **-** |
| Debt securities issued | **13,684,516** | **1,031,958** | **-** | **6,788,101** | **5,864,457** | **-** | **-** | **-** |
| Other financial liabilities | **4,110,795** | **-** | **-** | **-** | **-** | **-** | **-** | **4,110,795** |
| Insurance liabilities and reinsurance payables | **5,015,885** | **-** | **-** | **-** | **-** | **-** | **-** | **5,015,885** |
| Lease liabilities | **1,614,660** | **-** | **54,905** | **181,364** | **561,175** | **477,770** | **339,446** | **-** |
| **Total** | **137,173,445** | **16,140,532** | **26,712,718** | **53,795,587** | **26,487,066** | **4,396,959** | **513,903** | **9,126,680** |
| **Total interest sensitivity gap** | **35,879,776** | **(3,791,769)** | **9,635,174** | **(10,744,880)** | **42,412,877** | **12,049,796** | **(16,135)** |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **As at 31 March 2020** | **Group** | | | | | | | |
| **Carrying amount**  **Rs. '000** | **On demand**  **Rs. '000** | **Less than**  **3 months**  **Rs. '000** | **3 to 12 months**  **Rs. '000** | **1 to 3 years**  **Rs. '000** | **3 to 5 years**  **Rs. '000** | **Over 5**  **years**  **Rs. '000** | **Non–interest**  **bearing**  **Rs. '000** |
| **Assets**  Cash and cash equivalents | 7,693,032 | 397,361 | 5,129,015 | - | - | - | - | 2,166,656 |
| Balances with banks and financial institutions | 6,661,407 | 202,756 | 3,722,590 | 2,736,061 | - | - | - | - |
| Financial assets - Held-for-trading | 1,198,592 | - | - | - | - | - | - | 1,198,592 |
| Loans and receivables - Amortised cost | 163,304,880 | 15,744,959 | 21,275,125 | 39,910,054 | 66,197,005 | 19,860,190 | 317,547 | - |
| Less-Impairment charges | 9,169,946 | - | - | - | - | - | - | - |
| Net loans and receivables | 154,134,934 | - | - | - | - | - | - | - |
| Insurance and reinsurance receivable | 1,194,933 | - | - | - | - | - | - | 1,194,933 |
| Financial assets - Fair value through other comprehensive income | 1,455,702 | - | - | 234,540 | 161,440 | 681,618 | 53,723 | 324,381 |
| Debt instrument - Amortised cost | 4,813,439 | 28,443 | 2,180,693 | 1,948,577 | 222,280 | 255,622 | 177,824 | - |
| **Total** | 177,152,039 | 16,373,519 | 32,307,423 | 44,829,232 | 66,580,725 | 20,797,430 | 549,094 | 4,884,562 |
| **Liabilities**  Due to banks | 10,978,046 | 1,966,084 | 1,938,458 | 1,146,479 | 3,431,789 | 2,495,236 | - | - |
| Due to customers | 107,685,592 | 11,732,213 | 24,991,570 | 44,814,342 | 21,166,927 | 4,836,742 | 143,798 | - |
| Debt securities issued | 18,338,039 | 1,226,001 | - | 4,472,472 | 7,483,709 | 5,155,857 | - | - |
| Other financial liabilities | 2,829,708 | - | - | - | - | - | - | 2,829,708 |
| Lease liabilities | 1,594,245 | - | 55,961 | 183,262 | 542,017 | 433,765 | 379,240 | - |
| Insurance liabilities and reinsurance payables | 5,065,220 | - | - | - | - | - | - | 5,065,220 |
| **Total** | 146,490,850 | 14,924,298 | 26,985,989 | 50,616,555 | 32,624,442 | 12,921,600 | 523,038 | 7,894,928 |
| **Total interest sensitivity gap** | 30,661,189 | 1,449,221 | 5,321,434 | (5,787,323) | 33,956,283 | 7,875,830 | 26,056 |  |

* + 1. **Currency Risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Since investments in USD deposits were low, the currency risk od the Company/Group is minimal.

The tables below indicate the currencies to which the Company had significant exposures as at 31st March 2021 and the effect to the Gains/Losses in case of a market exchange rates up/drop by 1%. The analysis calculates the effect of a reasonably possible movement of the currency rate against the LKR, with all other variables held constant, on the Statement of Profit or Loss (due to the fair value of currency sensitive non trading monetary assets and liabilities).

# Impact on Statement of Profit or Loss due to Exchange Rate Shocks

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **For the year ended 31 March** | **Change in currency rate in %** | **Company** | | **Group** | |
| **2021**  **Effect on**  **profit before tax Rs. '000** | **2020**  **Effect on**  **profit before tax Rs. '000** | **2021**  **Effect on**  **profit before tax Rs. '000** | **2020**  **Effect on**  **profit before tax Rs. '000** |
| USD | 1 | **-** | - | **375** | 482 |
| USD | -1 | **-** | - | **(375)** | (482) |

* + 1. **Equity Price Risk**

The sensitivity analysis for equity risk reflects how changes in the fair value of equity securities at the reporting date will fluctuate in response to assumed changes in equity market prices. The movements in the fair value of equity securities monitored by assessing the projected changes in the fair value of equity securities held by the portfolios in response to assumed equity price movements of +/- 1%.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **1% increase/decrease in equity market prices** | **2021** | | | **2020** | | |
| **Effect on net**  **asset value**  **Rs. '000** | **Effect on profit**  **before tax**  **Rs. '000** | **Effect on**  **comprehensive**  **income**  **Rs. '000** | **Effect on net**  **asset value**  **Rs. '000** | **Effect on profit**  **before tax**  **Rs. '000** | **Effect on**  **comprehensive**  **income**  **Rs. '000** |
| **Company**  Financial assets - FVTPL | **98** | **98** | **-** | 136 | 136 | - |
| Financial assets - FVOCI | **3,091** | **-** | **3,091** | 3,244 | - | 3,244 |
| **Group**  Financial assets - FVTPL | **248** | **248** | **-** | 272 | 272 | - |
| Financial assets - FVOCI | **3,091** | **-** | **3,091** | 3,244 | - | 3,244 |

# Commodity price risk

Commodity price risk refers to the uncertainty of future market value and future income scale caused by commodity price fluctuations. Given the importance of the gold loan to the group, volatility in gold prices may adversely affect Statement of Profit or Loss. Fluctuations in gold prices lead to market risk, which is the main source of credit risk associated with this product.

Following strategies are used to manages the credit and market risks arising from adverse changes in gold prices by the Group.

* LTV - The Group implements a process of revising the advance payments for each gold sovereign to reflect market value volatility to maintain an ideal loan-to-value ratio.
* Product Lifetime - As a credit risk management strategy, the Group deliver services in less time, enabling a faster recovery process.

# 59.5 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

Operational risk of the Company are managed through a Board approved operational risk management policy control framework which consists of monitoring and responding to potential risks.

# 59.6 Insurance Risks

People's Insurance PLC (PI) is a subsidiary of the Company whose principle line of business is carrying out general insurance business. The following are the risks and their management arising from PI for its statutory year ended 31 March 2021.

# 59.6.1 Regulatory Framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the PI is satisfactorily managing affairs for policyholders' benefit. At the same time, regulators are also interested in ensuring that the PI maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

As an insurer, the operations of the PI are subject to regulatory supervision of the Insurance Board of Sri Lanka (IBSL). PI has taken necessary action to comply with and complied with applicable regulations throughout the year.

# 59.6.2 Nature and Extent of Risks Arising from Insurance Contracts

**Objectives, Policies and Processes for Managing Risks Arising from Insurance Contracts**

PI willingly assumes risks of other organisations as its prime value creation activity. This is the core of the insurance business and there is no perfect way of measuring the potential impact on insured risk. For non-life insurance business, most significant risks arise from climate changes, natural disasters and terrorist activities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. PI’s risk management framework focuses on strategic risk, assumed risks and the potential risks. PI identifies and categorises risks in terms of their source, their impact on PI and preferred strategies for dealing with them.

# Method used to Manage Risks Risk Appetite and Risk Tolerance

PI has made a strategic decision to maintain a risk appetite moderately above the average of the insurance market, since it allows the best potential for creating shareholder value at an acceptable risk level. PI manages the volatility and potential downward risk through diversification.

# Identification of Shock Losses

There are three areas of risk which have the potential to materially damage economic value that PI identified at present as having the greatest potential for shock losses. They are catastrophe, reserving and equity investment risk. PI manages the risk of shock losses by setting limits on the tolerance for specific risks and on the amount of capital that PI is willing to expose.

The table below sets out the concentration of non-life insurance contract liabilities by type of contract.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **31 March 2021** | | | **31 March 2020** | | |
| **Gross liabilities Rs. '000** | **Reinsurance receivable Rs. '000** | **Net liabilities Rs. '000** | **Gross liabilities Rs. '000** | **Reinsurance receivable Rs. '000** | **Net liabilities Rs. '000** |
| Motor | **655,925** | **70,757** | **585,168** | 769,853 | 46,757 | 723,096 |
| Marine | **5,792** | **5,607** | **185** | 1,695 | 1,160 | 535 |
| Fire | **96,986** | **120,000** | **(23,014)** | 411,378 | 334,342 | 77,036 |
| Miscellaneous | **182,361** | **80,914** | **101,447** | 143,830 | 50 | 143,780 |
| **Total** | **941,064** | **277,278** | **663,786** | 1,326,756 | 382,309 | 944,447 |

# Claims Development Table

The following tables show the estimates of cumulative incurred claims for each quarter, together with cumulative payments to date.

# Gross Non-Life Insurance Outstanding Claims Provision for 2021

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accident Period** | **Current estimate of cumulative claims incurred** | | | | | | | | | | | |
| **2010/11**  **Rs. '000** | **2011/12**  **Rs. '000** | **2012/13**  **Rs. '000** | **2013/14**  **Rs. '000** | **2014/15**  **Rs. '000** | **2015/16**  **Rs. '000** | **2016/17**  **Rs. '000** | **2017/18**  **Rs. '000** | **2018/19**  **Rs. '000** | **2019/20**  **Rs. '000** | **2020/21**  **Rs. '000** | **Total**  **Rs. '000** |
| 2020/21 | 193 | 10,771 | 1,012 | 685 | 539 | 2,236 | 10,692 | 11,085 | 32,949 | 3,072 | **3,536,534** | 3,609,768 |
| 2019/20 | - | 42,085 | 5,515 | 1,591 | 1,014 | 2,662 | 4,183 | 31,282 | 92,881 | 3,803,005 |  | 3,984,218 |
| 2018/19 | (120) | 11,385 | 51 | (8,584) | 4,918 | (9,647) | 21,099 | 73,912 | 3,165,480 |  |  | 3,258,494 |
| 2017/18 | (844) | 4,738 | (608) | 8,298 | 5,704 | 21,071 | 33,255 | 2,792,805 |  |  |  | 2,864,419 |
| 2016/17 | (945) | (113) | (17,006) | (8,555) | 5,397 | 50,267 | 2,635,203 |  |  |  |  | 2,664,248 |
| 2015/16 | 1,703 | 6,377 | (5,165) | 35,874 | 31,044 | 2,182,704 |  |  |  |  |  | 2,252,537 |
| 2014/15 | 1,465 | 1,577 | 28,391 | (15,126) | 2,040,473 |  |  |  |  |  |  | 2,056,780 |
| 2013/14 | 3,148 | 50,297 | (167,837) | 2,042,094 |  |  |  |  |  |  |  | 1,927,702 |
| 2012/13 | 4,224 | (58,704) | 2,042,934 |  |  |  |  |  |  |  |  | 1,988,454 |
| 2011/12 | 2,762 | 1,396,938 |  |  |  |  |  |  |  |  |  | 1,399,700 |
| 2010/11 | 213,653 |  |  |  |  |  |  |  |  |  |  | 213,653 |
| **Current estimated of cumulative claims incurred** | 225,239 | 1,465,351 | 1,887,287 | 2,056,277 | 2,089,089 | 2,249,293 | 2,704,432 | 2,909,084 | 3,291,310 | 3,806,077 | **3,536,534** | 26,219,973 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accident Period** | **Cumulative payments to date** | | | | | | | | | | | |
| **2010/11**  **Rs. '000** | **2011/12**  **Rs. '000** | **2012/13**  **Rs. '000** | **2013/14**  **Rs. '000** | **2014/15**  **Rs. '000** | **2015/16**  **Rs. '000** | **2016/17**  **Rs. '000** | **2017/18**  **Rs. '000** | **2018/19**  **Rs. '000** | **2019/20**  **Rs. '000** | **2020/21**  **Rs. '000** | **Total**  **Rs. '000** |
| 2020/21 | (193) | (3,154) | (9,536) | (6,513) | (8,510) | (11,979) | (16,068) | (19,079) | (33,096) | (761,838) | **(3,025,348)** | (3,895,314) |
| 2019/20 | - | (84,791) | (9,222) | (4,101) | (13,820) | (21,259) | (15,975) | (39,809) | (551,787) | (2,956,804) |  | (3,697,568) |
| 2018/19 | - | (16,329) | (5,532) | (14,079) | (15,396) | (26,780) | (26,927) | (515,478) | (2,646,682) |  |  | (3,267,203) |
| 2017/18 | (2,129) | (8,627) | (10,057) | (10,447) | (13,186) | (30,768) | (468,923) | (2,267,584) |  |  |  | (2,811,721) |
| 2016/17 | (390) | (8,262) | (16,478) | (12,958) | (23,979) | (389,878) | (2,129,944) |  |  |  |  | (2,581,889) |
| 2015/16 | (1,718) | (16,664) | (53,691) | (28,525) | (395,617) | (1,743,315) |  |  |  |  |  | (2,239,530) |
| 2014/15 | (2,329) | (19,215) | (29,760) | (329,993) | (1,586,379) |  |  |  |  |  |  | (1,967,676) |
| 2013/14 | (3,495) | (57,574) | (252,384) | (1,621,312) |  |  |  |  |  |  |  | (1,934,765) |
| 2012/13 | (5,154) | (311,763) | (1,465,582) |  |  |  |  |  |  |  |  | (1,782,499) |
| 2011/12 | (72,227) | (893,615) |  |  |  |  |  |  |  |  |  | (965,842) |
| 2010/11 | (134,902) |  |  |  |  |  |  |  |  |  |  | (134,902) |
| **Cumulative payments**  **to date** | (222,537) | (1,419,994) | (1,852,242) | (2,027,928) | (2,056,887) | (2,223,979) | (2,657,837) | (2,841,950) | (3,231,565) | (3,718,642) | **(3,025,348)** | (25,278,909) |
| **Total Gross claims outstanding** | 2,702 | 45,357 | 35,045 | 28,349 | 32,202 | 25,314 | 46,595 | 67,134 | 59,745 | 87,435 | **511,186** | 941,064 |

Net Non-life insurance outstanding claims provision for 2021

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accident Period** | **Current estimate of cumulative claims incurred** | | | | | | | | | | | |
| **2010/11**  **Rs. '000** | **2011/12**  **Rs. '000** | **2012/13**  **Rs. '000** | **2013/14**  **Rs. '000** | **2014/15**  **Rs. '000** | **2015/16**  **Rs. '000** | **2016/17**  **Rs. '000** | **2017/18**  **Rs. '000** | **2018/19**  **Rs. '000** | **2019/20**  **Rs. '000** | **2020/21**  **Rs. '000** | **Total**  **Rs. '000** |
| 2020/21 | 193 | 10,771 | 1,012 | 685 | 539 | 2,236 | 10,139 | 12,479 | 34,119 | 88,484 | **3,339,422** | 3,500,079 |
| 2019/20 | - | 321 | 5,515 | 1,591 | 1,014 | 2,667 | 4,325 | 37,666 | 79,873 | 3,398,413 |  | 3,531,385 |
| 2018/19 | (120) | 11,400 | 51 | (11,575) | 5,037 | (3,500) | 24,501 | 77,270 | 3,106,289 |  |  | 3,209,353 |
| 2017/18 | (844) | 9,001 | (608) | 14,290 | 5,742 | 15,721 | 37,716 | 2,692,279 |  |  |  | 2,773,297 |
| 2016/17 | (945) | (128) | (16,949) | (10,511) | 6,864 | 59,287 | 2,549,666 |  |  |  |  | 2,587,284 |
| 2015/16 | 1,599 | 6,454 | (3,982) | 34,203 | 16,076 | 2,100,737 |  |  |  |  |  | 2,155,087 |
| 2014/15 | 1,465 | 2,382 | 28,151 | (15,127) | 2,023,094 |  |  |  |  |  |  | 2,039,965 |
| 2013/14 | 3,157 | 51,344 | (158,485) | 2,034,121 |  |  |  |  |  |  |  | 1,930,137 |
| 2012/13 | 4,239 | (15,515) | 1,976,422 |  |  |  |  |  |  |  |  | 1,965,146 |
| 2011/12 | 4,621 | 1,224,086 |  |  |  |  |  |  |  |  |  | 1,228,707 |
| 2010/11 | 209,132 |  |  |  |  |  |  |  |  |  |  | 209,132 |
| **Current estimated of cumulative claims incurred** | 222,497 | 1,300,116 | 1,831,127 | 2,047,677 | 2,058,366 | 2,177,148 | 2,626,347 | 2,819,694 | 3,220,281 | 3,486,897 | **3,339,422** | 25,129,572 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accident Period** | **Cumulative payments to date** | | | | | | | | | | | |
| **2010/11**  **Rs. '000** | **2011/12**  **Rs. '000** | **2012/13**  **Rs. '000** | **2013/14**  **Rs. '000** | **2014/15**  **Rs. '000** | **2015/16**  **Rs. '000** | **2016/17**  **Rs. '000** | **2017/18**  **Rs. '000** | **2018/19**  **Rs. '000** | **2019/20**  **Rs. '000** | **2020/21**  **Rs. '000** | **Total**  **Rs. '000** |
| 2020/21 | (193) | (3,154) | (9,536) | (6,513) | (8,510) | (11,979) | (15,515) | (18,797) | (19,011) | (508,359) | **(2,938,267)** | (3,539,834) |
| 2019/20 | - | (13,201) | (9,222) | (4,101) | (13,820) | (21,259) | (15,969) | (32,630) | (521,977) | (2,902,120) |  | (3,534,299) |
| 2018/19 | - | (16,329) | (5,532) | (11,079) | (15,396) | (26,799) | (25,385) | (492,761) | (2,619,040) |  |  | (3,212,321) |
| 2017/18 | (2,129) | (8,627) | (10,057) | (10,432) | (13,132) | (30,608) | (446,918) | (2,209,836) |  |  |  | (2,731,739) |
| 2016/17 | (390) | (8,244) | (16,282) | (12,833) | (23,866) | (387,579) | (2,075,965) |  |  |  |  | (2,525,159) |
| 2015/16 | (1,614) | (16,664) | (31,860) | (27,883) | (369,486) | (1,756,890) |  |  |  |  |  | (2,204,397) |
| 2014/15 | (2,329) | (17,417) | (29,152) | (329,883) | (1,564,956) |  |  |  |  |  |  | (1,943,737) |
| 2013/14 | (3,495) | (32,280) | (226,969) | (1,593,260) |  |  |  |  |  |  |  | (1,856,004) |
| 2012/13 | (5,123) | (248,760) | (1,424,239) |  |  |  |  |  |  |  |  | (1,678,122) |
| 2011/12 | (71,904) | (881,711) |  |  |  |  |  |  |  |  |  | (953,615) |
| 2010/11 | (131,282) |  |  |  |  |  |  |  |  |  |  | (131,282) |
| **Cumulative payments**  **to date** | (218,459) | (1,246,387) | (1,762,849) | (1,995,984) | (2,009,166) | (2,235,114) | (2,579,752) | (2,754,024) | (3,160,028) | (3,410,479) | **(2,938,267)** | (24,310,509) |
| **Total net claims outstanding** | 4,038 | 53,729 | 68,278 | 51,693 | 49,200 | (57,966) | 46,595 | 65,670 | 60,253 | 76,418 | **401,155** | 819,063 |

# EVENTS AFTER THE REPORTING PERIOD

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

The COVID-19 outbreak in March 2020 followed by the second and the third waves continues to pose challenges to businesses and industries both locally and globally due to uncertainties, restrictions and limitations associated with the pandemic. Considering the difficulties and constraints faced by businesses and individuals engaged in passenger transportation services and tourism industry due to the ongoing COVID-19 pandemic, the Central Bank of Sri Lanka (CBSL) has requested licensed commercial banks, licensed specialised banks, licensed finance companies and specialised leasing companies (financial institutions), to provide concessions for lease facilities obtained by such businesses

and individuals for six months or a shorter period, as applicable, commencing from 1 April 2021. The eligible borrowers are businesses and individuals engaged in providing public passenger transportation, private passenger transportation, and tourism sector.

Further the Company has carried out a preliminary impact assessment and the management is of the view that the negative impact would not pose any additional stress on the Company’s ability to fulfill the regulatory capital requirements. However, the Company would continue to assess the situation and take mitigating actions to minimize the potential impacts by updating its contingency plans and risk management measures, as the situation evolves. The Company would continue its efforts in providing support to affected customers in line with the CBSL relief schemes.

The process of evaluating the requests for eligibility for these concessions is still underway and once the exercise is complete, we will be able to quantify the impact on the Company's revenue and profitability more accurately. These relief measures occurs subsequent to the reporting date that is not adjusted in Annual Financial statements of 2021.

Assessment on risk management relating to COVID-19 is disclosed in Note 59 on page 280 of the Financial Statements.