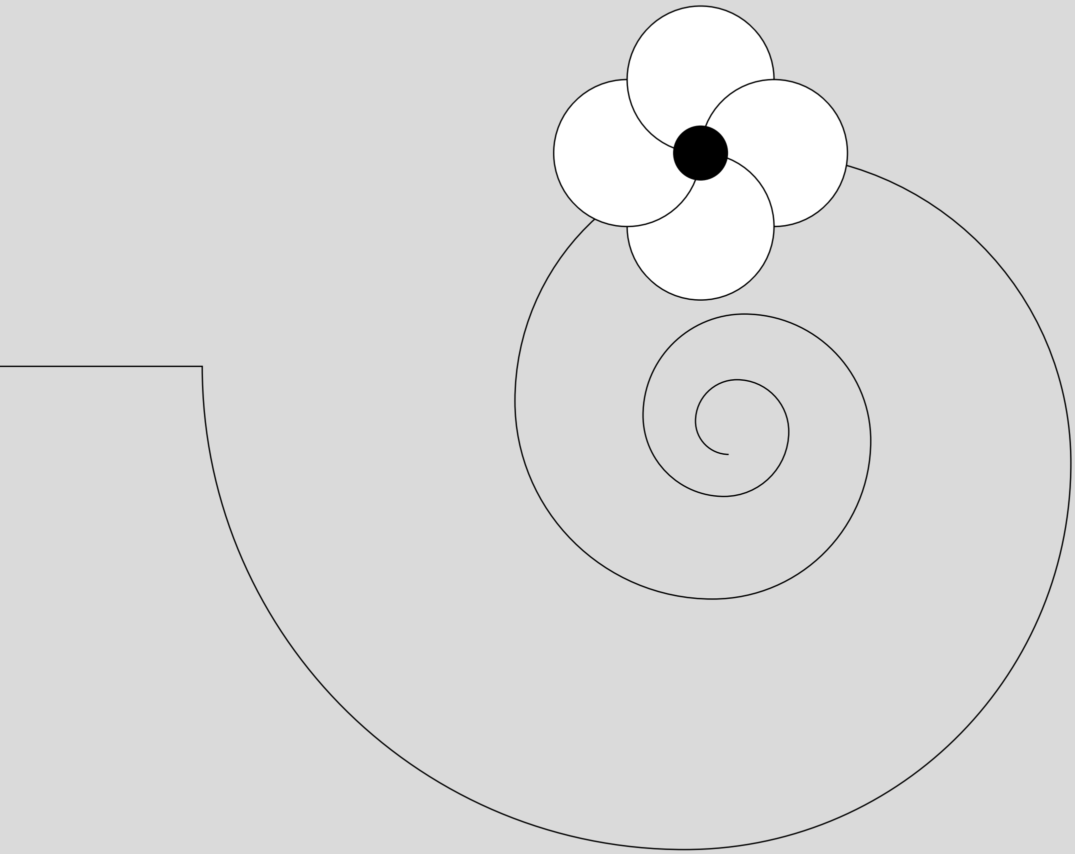
SENKADAGALA FINANCE PLC

Annual Report 2019/20

Resilience that shines through



Resilience that shines through

Our pragmatic vision and practical knowledge – garnered over half a century – proved to be the guiding light that ensured we remained focused on the future in a year that proved to be darker than expected for the industry as a whole. We are here for the long term and it is our resilience that will power us ahead. During the year under review, Senkadagala Finance geared itself with liquidity, funding and capital to leverage the envisaged upturn in 2020 and beyond.

About this Report

This is our fourth Integrated Report which has been structured to present a balanced and comprehensive assessment of our value creating ability in the short, medium and long-term, in a concise manner. The Report provides details of our financial, social and environmental impacts resulting from our value creating activities. In this Report, we strive to demonstrate the manner in which we balance the competing needs of our stakeholders by managing our business and sustainability considerations in an integrated manner.

Report boundary

The Report focuses on the operations of the parent company, Senkadagala Finance PLC (SFPLC), and its subsidiaries Senkadagala Insurance Brokers (Pvt) Ltd. and Candor Asset Management (Pvt) Ltd. The operations of all these companies are confined to Sri Lanka. Other than the changes brought about to the scope and aspects of boundaries of the Report on acquision of Candor Asset Management on 4 March 2020 and in the previous financial year due to the cessation of operations of Newest Capital Ltd. on 31 March 2019, there were no significant changes to the scope and aspect boundaries of the Report in 2019/2020. There were no restatements to the Annual Report issued in the previous reporting year.

Reporting frameworks

We have drawn on the concepts and principles mentioned in the following guides in preparation of this report:

- The International Integrated Reporting Framework (2013) www.theiirc.org
- Global Reporting Initiative (GRI) Standards https://www.globalreporting.org/standards
- The Smart Integrated Reporting Methodology™ www.smart.lk

Compliance

This Report covers the period 1 April 2019 to 31 March 2020, which coincides with our financial reporting cycle.

We follow an annual reporting cycle for financial and sustainability reporting while reporting on sustainability aspects in accordance with the GRI Standards. We also operate in accordance with all other applicable laws, rules, regulations, directions, and standards while abiding by guidelines for voluntary disclosures, both in letter and in spirit.

Queries

We welcome your comments and queries on this Report and we invite you to direct them to:

The ESMS Planning Manager
Senkadagala Finance PLC
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Colombo 3,
Sri Lanka

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Email: info@senfin.com

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Organisational Overview

Our Vision

Our vision is to be a leading financial institution in Sri Lanka that delivers high quality services and achieves excellence in all spheres of activity while being socially conscious, at all times.

Our Mission

To provide a wide range of diversified financial services and to acquire a portfolio of loanable funds that yields an adequate return to our shareholders, whilst safeguarding the interests of our depositors and other stakeholders.

About the Company

Senkadagala Finance PLC is one of the large registered finance companies operating under the purview of the Central Bank of Sri Lanka, with an excellent track record of over 50 years. Incorporated in 1968 in the city of Kandy, the Company has slowly and steadily gained momentum to be the trusted Non-banking Financial Institution that it is today, with a staff strength of 797 employees and a network of 100 customer touch points across the Nation.

The Company was listed on the *Diri Savi* Board of the Colombo Stock Exchange in March 2011 and had a market capitalisation of LKR 1,042.8 Mn. as at 31 March 2020.

The Company provides a comprehensive suite of products to its customers. The principal lines of business are finance leases, hire purchases, commercial and personal loans and acceptance of deposits in the form of fixed deposits, certificates of deposit and savings deposits. In addition, the Company provides pawn brokering, and foreign currency exchange services. Company also provides insurance brokering services to its customers through its fully owned subsidiary, Senkadagala Insurance Brokers (Pvt) Ltd. On 4 March 2020 the Company acquired Candor Asset Management (Pvt) Ltd., a registered unit trust management company with the view of further expanding the range of financial services offered by the Group.

Fitch Ratings Lanka has assigned the Company BBB+ (lka)/Stable rating.

Our Group Structure

Parent Company

Senkadagala Finance PLC

Subsidiary

SENKADAGALA INSURANCE BROKERS (PVT) LTD

Senkadagala Insurance Brokers (Pvt) Ltd.

Relationship :	Subsidiary
Holding :	100%
Date of incorporation :	17 April 2012
Joined the Group on :	17 April 2012
Principal line of business :	Insurance Brokering
Registered address :	2nd Floor, 267, Galle Road, Colombo 3
Board of Directors :	Mr L Balasuriya Dr A Balasuriya Dr M Balasuriya Ms L Fernando Mr S D Bandaranayake

Subsidiary

Candor Asset Management (Pvt) Ltd.

Relationship :	Subsidiary
Holding :	100%
Date of incorporation :	15 December 2010
Joined the Group on :	4 March 2020
Principal line of business :	Float, operate and manage unit trusts
Registered address :	267, Galle Road, Colombo 3
Board of Directors :	Dr P Ramanujam Mr L Balasuriya Mr D R Abeysuriya

**It has been proposed to change the subsidiary name to Senfin Asset Management (Pvt) Ltd.*

Highlights of the Year

	2020	2019	Change %
Financial Results (LKR Mn.)			
Total income	6,757	7,296	(7.39)
Interest income	6,534	6,996	(6.60)
Net interest income	2,852	3,236	(11.86)
Profit before taxes on financial services	722	1,179	(38.73)
Profit before income tax	529	929	(43.10)
Profit for the year	228	951	(76.03)
Dividends paid	69	228	(69.84)
Earnings retained during the year	147	725	(79.77)
Financial Position (LKR Mn.)			
Loans and advances	27,233	29,070	(6.32)
Total assets	34,395	36,783	(6.49)
Deposit base	11,223	10,009	12.13
Borrowings	11,689	17,263	(32.29)
Debentures	4,320	2,732	58.11
Shareholders’ funds	5,410	5,297	2.14
Operational Results (LKR Mn.)			
New advances disbursed	11,663	17,000	(31.40)
Net flow of deposits	1,214	502	141.91
Borrowings obtained	1,000	7,300	(86.30)
Debentures issued	1,750	–	100.00
Capital expenditure incurred	206	932	(77.94)
Information per Ordinary Share (LKR)			
Earnings per share	3.14	13.12	(76.07)
Dividends per share	0.95	3.15	(69.84)
Net assets per share	74.65	73.09	2.14

	2020	2019	Change %
Key Performance Indicators			
Return on average total assets (%)	0.64	2.61	(1.97)
Return on average shareholders' funds (%)	4.26	18.41	(14.15)
Net interest margin (%)	8.82	9.70	(0.88)
Gross non-performing assets ratio (%)	7.03	4.93	2.1
Interest cost to interest earned ratio (%)	56.35	53.74	2.61
Interest cover (times)	1.06	1.25	(15.24)
Equity to assets ratio (%)	15.73	14.40	1.33
Debt to equity ratio (times)	2.96	3.77	(21.61)
Price earning ratio (times)	29.30	6.86	327.11
Dividends yield (%)	1.03	3.50	(2.47)
Statutory Regulated Ratios			
Core capital ratio (%)	15.48	14.46	1.02
– Minimum statutory requirement 6.5% (2019 – 6%)			
Total capital ratio (%)	21.54	15.49	6.06
– Minimum statutory requirement 10.5% (2019 – 10%)			
Non-financial Indicators			
Branches	59	59	–
Service centres	41	41	–
Staff strength	797	794	0.38
Customers served	70,688	73,294	(3.56)
New branches opened	–	5	(100.00)
Rating			
Fitch Ratings Lanka Ltd.	BBB+(lka)	BBB+(lka)	

Chairman's Message

The issue of a subordinated debenture concluded successfully infusing Tier 2 capital of LKR 1.75 Bn. in 2019. This has enabled us to maintain higher capital levels creating leeway for future expansion and sustainable growth.

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the Annual Report of Senkadagala Finance PLC for the financial year ended 31 March 2020.

For over half a century, Senkadagala Finance has steadily built a solid reputation as a stable and trusted financial institution in Sri Lanka. Through our pragmatic vision and practical knowledge, we have ensured we remain focused on the future, creating and delivering sustainable value to all our stakeholders. This year, as we faced formidable challenges in the macroeconomic environment, our resilience was showcased as we continued to drive a value proposition that enriched the lives of our stakeholders and the Nation.

Through our pragmatic vision and practical knowledge, we have ensured we remain focused on the future, creating and delivering sustainable value to all our stakeholders.

Challenging operating context

The expansion and performance of the financial sector slowed down in 2019 mainly due to subdued economic activities, the uncertainty caused by the Easter Sunday terrorist attacks and the political instability which prevailed during the year. The reduction in vehicle imports, vulnerability of the Sri Lankan Rupee, import restrictions and the impact of COVID-19 adversely impacted the performance of the non-banking financial institutions (NBFI) sector which was characterised by negative credit growth, an increase in non-performing loans and declining profitability.

Our performance amid challenges

Reflecting the challenging macroeconomic environment, the profit before tax for the year declined by 43% YoY to LKR 529 Mn. in 2019/20 compared to LKR 929 Mn. recorded in the previous financial year. Although our top line and profitability was impacted by weak consumer confidence and lower yields, given the volatile and uncertain context, we thought it prudent to build our capital and maintain liquidity at healthy levels.

Accordingly, our average liquid assets and capital ratios were maintained well above the regulatory requirements, a conscious decision in the interest of the viability of the enterprise.

The issue of a subordinated debenture concluded successfully infusing Tier 2 capital of LKR 1.75 Bn. in August 2019. This has enabled us to maintain higher capital levels creating leeway for future expansion and sustainable growth.

In June 2020, we boosted our fund base with a USD 25 Mn. loan from FMO, the Netherland Development Bank which will be used to expand our lending portfolio in green lending and women entrepreneurships. This is a strong testament of the trust vested in our operational and financial strength, stability and reliability, especially considering the current global and local economic situation in the midst of COVID-19 pandemic. This also paves the way for other foreign development financial institutions to make similar investments in the industry and thereby enhance the level of financial inclusion in our Nation.

Our response to the pandemic

The implications of the outbreak of the COVID-19 pandemic have been profound for every nation, reshaping many aspects of the macro economy, human life and customer behaviour. Our foresight and proactive decision making, enabled us to take the necessary actions to keep our people, customers and communities safe whilst providing an uninterrupted service. I am proud of the manner in which our people reacted in the crisis situation, demonstrating the resilience and resolve they put forth on behalf of our stakeholders. The investments we have made in building our digital infrastructure and communication channels were instrumental to serving our stakeholders during the lockdown.

Prudent risk management

We have made significant investments in risk management and compliance to strengthen our resilience. Our commitment to good governance extends beyond compliance with rules, as we aspire to fulfill best practices. In an uncertain macroeconomic environment, we continue to model and anticipate a wide range of scenarios as part of our periodic risk management, to cover unlikely but not impossible events. Whilst strengthening our internal controls, policies and procedures, our direct and frequent engagement with regulators and key stakeholders continued to enhance transparency and build confidence and trust in the Organisation. I am also pleased that our capital base remains strong, giving us the flexibility to make investments and expand our business.

The importance of sound risk management was paramount especially in the light of the recent unforeseen calamities such as the Easter Sunday attacks and the outbreak of the COVID-19 pandemic. Our resilience and foresight enabled us to serve and fulfil our responsibilities towards all our stakeholders.

A look to the future

The outbreak of the COVID-19 pandemic presents the operating environment with a major and evolving challenge. In addition to the short-term impacts of global travel restrictions and heightened levels of uncertainty, the financial services industry will need to adapt to the new norm of conducting business and protocols to transition to a post-COVID environment. The International Monetary Fund (IMF) has revised its global growth projection for 2020 to – 4.9% in June 2020 which is 1.9% below the projection in April 2020.

The repercussions of the pandemic are seen in almost every sphere of the economy, particularly in the tourism industry. The restrictions imposed on imports, motor vehicles in particular is expected to have significant effects on the NBFI sector. The loss of foreign currency income poses a huge challenge to the Sri Lankan economy.

Moratoriums extended during March 2020 will end by September 2020. However, industries which are severely affected will continue to enjoy the repayment holidays granted for another six months. The low interest rate regime is expected to create a conducive environment for loan growth. However, unless there is a turnaround in the general economic activities and businesses with an improvement in consumption levels, the economy may not revive to expected levels.

Expressing appreciation

In closing, I wish to express my gratitude to the members of the Board of Directors for their consistent support and insightful guidance. I wish to express my deep appreciation to our management team and staff members for their ongoing commitment and dedication which is the cornerstone of our success. In particular, I wish to thank our Managing Director/CEO, Mr Lakshman Balasuriya and the additional CEO, Mr Sanath Bandaranayake for their exceptional leadership which has made a lasting contribution to the strength of this Company.

I extend my gratitude to Mr Ajith Fernando who served on the Board and retired during the year after completing nine years of service. He made an invaluable contribution to the progress of the Company.

We were pleased to welcome Mr Vasantha Kumar to the Board in July last year. Mr Kumar's expertise in finance, business leadership and operations is an asset to our Company.

My gratitude is extended to our shareholders for their confidence and trust in the Company and our customers for their unwavering loyalty. I greatly appreciate the valuable advice and guidance extended by the Director and the staff of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

We face the future feeling inspired and purposeful. We have a sustainable business, dedicated people at every level of the organisation, a healthy financial position, and strong commitment to good governance and risk management. I am confident that we will create long-term value to our stakeholders and strengthen our position in the financial services industry in our Nation.

W M R S Dias
Chairman

26 August 2020

Managing Director/ CEO's Review

Adopting a prudent capital management strategy, we increased both core and total capital ratios to 15.48% and 21.54% respectively which are comfortably above the minimum regulatory requirements as at end March 2020.

Year 2019 was one of the most challenging years we faced over our history of 50 years and it was the case for the financial services sector in general. Slow economic growth, political uncertainty, weak investor confidence and the implications of the COVID-19 outbreak towards the end of the financial year took its toll on every stakeholder. While this is reflected in our financial performance, particularly within the non-banking financial institutions (NBFI) sector – the strategic actions we have taken to strengthen our resilience had us well-placed to create and deliver sustainable value to our stakeholders.

The steps taken to strengthen relationships with our key investors and address their concerns ensured continuous financial support despite the grim predictions over the industry.

Our performance

This year we continued to focus on improving our liquidity, strengthening our risk management and compliance and building our team's capabilities. In doing this, we significantly reduced the risk of operating the Organisation despite the strong headwinds facing the industry.

Reflecting the general deterioration in asset quality of the NBFI sector, our gross non-performing loan ratio increased to 7.03% as at end March 2020, compared to 4.93% recorded a year ago. The decrease in asset quality was mainly due to the challenging operating context and the spillover effects of the Debt Relief Programme.

Total assets decreased by 6.5% YoY to LKR 34.4 Bn. driven by a contraction in the loans and advances portfolio as a result of the muted loan growth experienced throughout the year.

Consequently, profit before tax declined by 43% YoY to LKR 528.7 Mn. in FY 2019/20 primarily due to the drop in interest income and increased loan loss charges.

Adopting a prudent capital management strategy, we increased both core and total capital ratios to 15.48% and 21.54% respectively which are comfortably above the minimum regulatory requirements as at end March 2020. The LKR 1.75 Bn. subordinated debenture issue during the financial year under review contributed to boost the total capital ratio.

Successful draw down of the USD 25 Mn. green loan facility from FMO during a very volatile and turbulent period is testimony to the trust and stability of our Company. This funding would enable us to expand our green lending portfolio and women-led enterprises and enhance financial inclusion in or Nation.

Responding to a turbulent year

Our proactive decision making, deep knowledge on managing risk, close stakeholder relationships and digital investments enabled us to serve and support our stakeholders during the lockdown due to the COVID-19 pandemic and in the aftermath.

Whilst we prioritised the health and safety of our employees and customers, we immediately formed response teams and implemented actions to reduce the spread of the virus, launched Company-wide communication plan to engage employees and empowered Management to make the needed decisions.

The steps taken to strengthen relationships with our key investors and address their concerns ensured continuous financial support despite the grim predictions over the industry. Our strategic decision to build up our capital and to maintain an above average liquidity level following the impact of the Easter Sunday attacks and speculations of several other finance companies being in distress, became an important resource to meet the financial obligations during and post lockdown period. We accommodated the many customer moratorium requests and supported our customers, especially those in the micro, small and medium enterprise sectors that were severely affected by the pandemic.

However, as the lockdown eased, many customers started to service their loans despite their original moratorium requests. This is a welcome indication of gradual streamlining of business in a post-COVID era.

As the outbreak is still spreading at a fast pace in many nations, the effect of the pandemic will continue to affect local businesses as well. The Management is closely monitoring all developments to act proactively to mitigate the potential effects on the Company.

Focus on sustainable growth

Being a financial institution engaged in financial intermediation, we offer services and products to improve people's quality of life, create opportunities for our people to fulfil their potential in a nurturing environment and engage in responsible financing that creates a positive impact on the environment and the society.

Our affiliations with foreign investors such as International Finance Corporation (IFC) and FMO, have enabled us to extend the positive objectives on social and environmental welfare through our customers and business relations, meet customers' expectations and develop new growth opportunities. Through the FMO loan facility we are able to expand our leasing activities of hybrid and electric vehicles, encourage women entrepreneurships and thereby contribute towards climate action, reducing inequalities and creation of employment opportunities in Sri Lanka. We remain committed to strengthening these partnerships and maintaining the trust in our Organisation in the years ahead.

Even as we experienced a decline in asset quality which was an industry-wide phenomenon, essential steps were taken to strengthen our credit appraisal process and related policies. Our resilience stems in part from our stringent standards on risk management. Whilst the economy presents difficulties, we are not locked down in crisis mode as we continue to serve our customers, meet their needs and grow our business.

Future outlook

The granting of extensive debt moratoriums is expected to exacerbate pressure on NBFIs, adversely affecting the future cash flows and profitability. Even as the demand for credit is expected to pick up in a low interest rate regime, we will strengthen our credit appraisal procedures to grow our loan book in a sustainable manner, maintaining quality of our loan portfolio.

Our customer base will be diversified through new marketing strategies to ensure a stable income flow in a turbulent economic milieu.

We will strengthen our IT infrastructure to serve our stakeholders efficiently as the pandemic has accelerated the digital future. Cybersecurity will be further enhanced to strengthen system security, safeguarding customer information as well as business data.

Our solid capital base, the resolve of our people and prudent approach to risk management will enable us to deliver consistent value to our stakeholders. Although the exact impact on the business in the foreseeable future is still to be realised given the volatility and unexpected developments caused by the COVID-19 pandemic globally and locally, we will implement effective risk management practices and continue to monitor the impact on our business operations and stakeholders. Proactive measures will be adopted as appropriate in times of volatility to ensure business continuity and minimise losses.

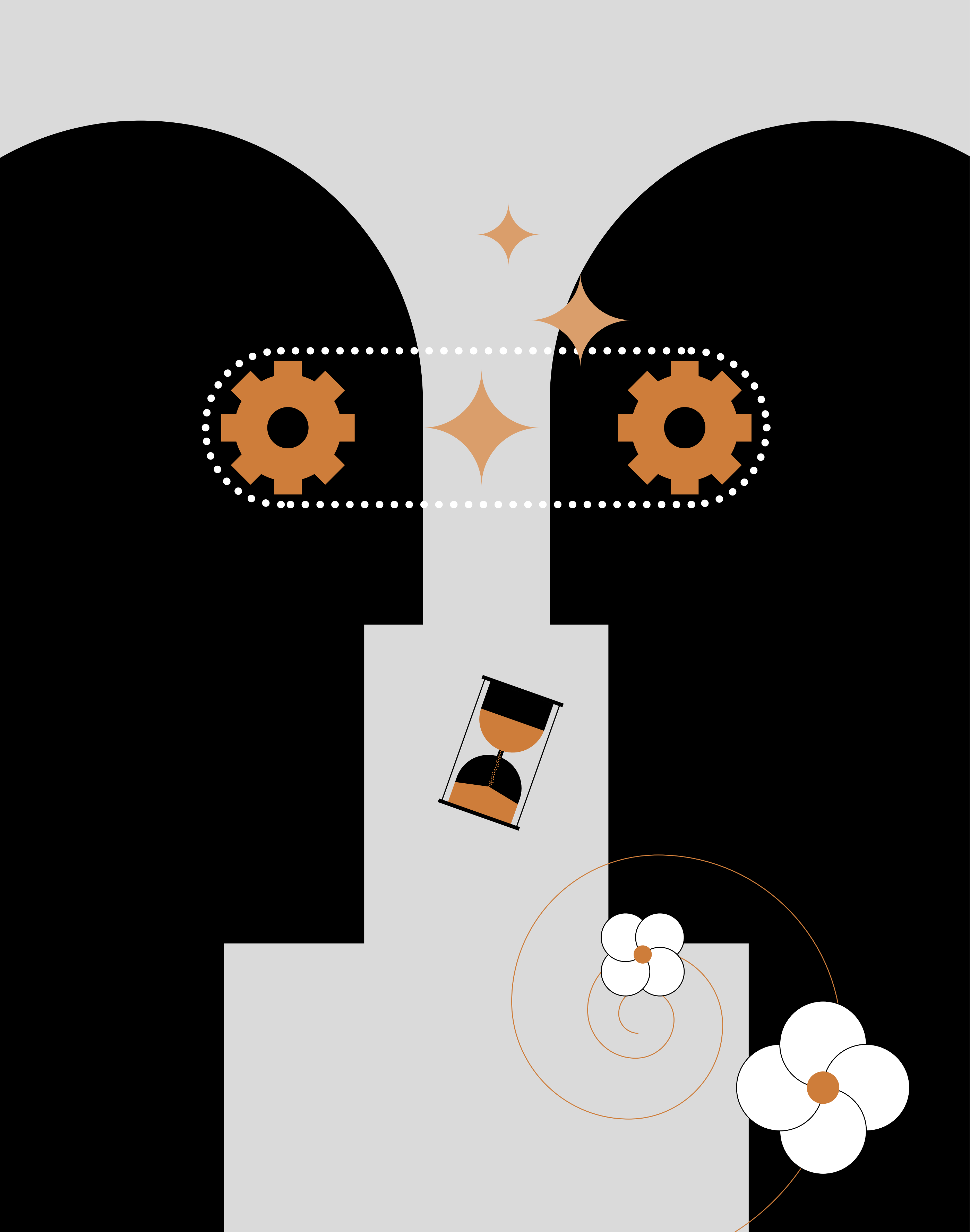
As we pursue responsible, sustainable growth, we are confident that we will forge ahead through these difficult times into the favourable future creating sustainable value for all our stakeholders.

Appreciation

I would like to express my sincere gratitude to our Chairman, members of the Board of Directors and the Additional CEO, Mr Sanath Bandaranayake for their counsel and professionalism in helping to position Senkadagala Finance for its long-term success. My appreciation goes out to the Senior Management and staff members for their hard work and ongoing dedication to the Organisation. I am grateful to our customers and shareholders for their loyalty and support at all times.

Lakshman Balasuriya
Managing Director/CEO

26 August 2020



Business Model

Our Business Model

From stakeholders

Inputs

Financial capital

- LKR 5,410 Mn. in shareholders' funds
- LKR 11,689 Mn. borrowings from other investors
- Property, plant and equipment
- Financial covenants

Institutional capital

- Institutionalised knowledge
- Internally developed tailor-made IT system
- Corporate governance framework
- System of internal control
- Social and Environmental Management System
- Customer data and insights
- Best practice
- Business collaborations and alliances

Activities*

Operating

Vision

Governance framework

- CBSL directions and guidelines
- CSE Listing Rules
- Compliance mindset
- Whistle-blowing policy
- Code of Best Practice of CA Sri Lanka

Risk management Framework

- CBSL directions and guidelines
- Risk management policy
- Emerging risks
- Diversification

Business

Range of products and services

- Deposit products
- Lending products
- Fee-based services
- Foreign currency operations

Excellent service standards

- Customer centric service
- Relationship managers
- Personalised service
- 797 passionate employees

Financial intermediation

Support

Business

*Creating value using the above inputs by delivering value to stakeholders and deriving value from them in turn, guided by a framework of internal and external rules, regulations and guidelines.

To stakeholders

Outputs

Shareholders and other investors

- Lending and investment portfolio
- Deposit base
- Sustainable growth
- Profits and profitability

Institutional capital

- Enhanced productivity
- Optimum risk-return trade-off
- Benchmarked service standards
- New products developed
- Assurances and confirmations

Outcomes

Shareholders and other investors

- Dividends, interest and capital gains
- Higher price to book value
- Stability
- A loyal investor base with a long-term view

Institutional capital

- Brand value and brand equity
- Unblemished track record
- Competitive advantage
- Asset quality
- BBB+(lka) rating from Fitch
- Innovation

Customer capital

- LKR 11,223 Mn. in customer deposits
- Findings from customer satisfaction survey

Employee capital

- 797 employees with a cumulative service of 4,359 years
- Competencies
- Findings from employee satisfaction survey and exit interviews

Social and environmental capital

- Land, water, energy, paper

Environment

Mission

Units

Maturity transformation

Network of delivery channels

- 59 branches
- 41 service centres
- Website
- Mobile App.
- Relationship managers

Streamlined internal processes

- Robust core IT system
- Faster approvals
- Sound internal controls
- Prudent policies and procedures

Services

Domain

Capital management

- CBSL directions and guidelines
- Dividend policy
- Risk-weighted assets
- Prudent business expansion

Funding and liquidity management

- CBSL directions and guidelines
- Internal funding and liquidity targets
- Current and perceived interest rates
- Contingency funding arrangements

Please refer Our Story in 2019/20 for a detailed discussion of the activities undertaken during the year.

Customer capital

- Interest income for depositors
- Funding for borrowers
- Financial advice
- Value added services

Employee capital

- Remuneration
- Training and development
- Career prospects
- Creativity and innovativeness

Social and environmental capital

- Taxes and levies to Government
- Contribution to Popham Arboretum Project
- LKR 859,084 spent on other CSR activities
- 93% of new staff recruitments from localities

Customer capital

- Safety and security for deposits
- Realised growth opportunities
- Unparalleled convenience
- A satisfied and growing customer base

Employee capital

- Career development
- Job satisfaction
- High employee retention
- Occupational health and safety

Social and environmental capital

- Responsible financing
- Financial inclusion
- Facilitating economic growth and community development
- "Social License" to operate

Operating Environment

Global economic context

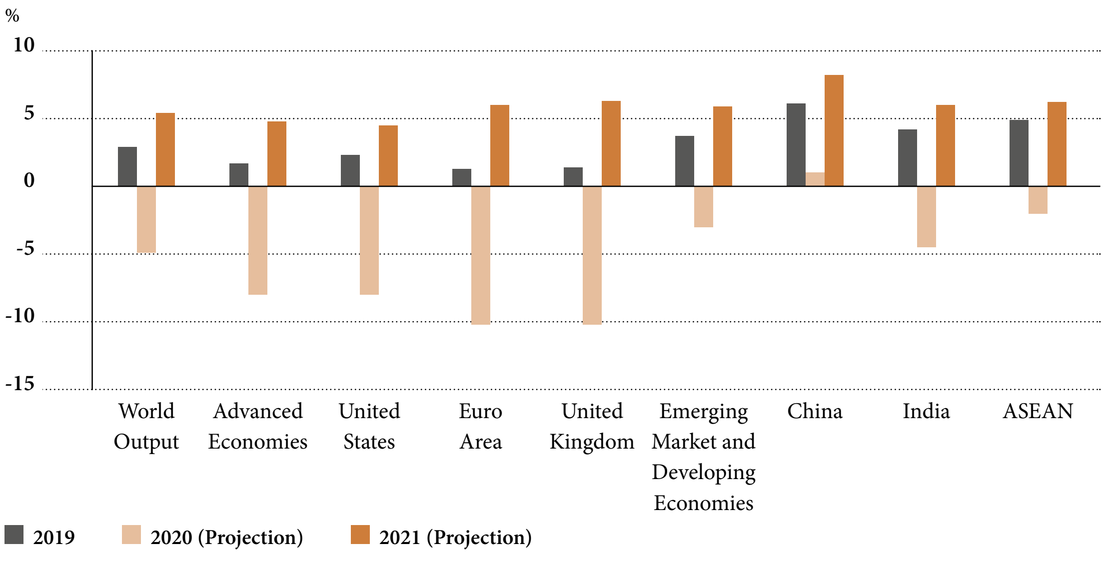
Against the backdrop of protracted trade disputes and slowdown in domestic investment, global economic expansion recorded its slowest growth since the world financial crisis in 2008/09.

The outbreak of the COVID-19 pandemic in January 2020 caused significant disruptions to global supply chains, global manufacturing, travel and tourism, investment and consumer spending. The International Monetary Fund (IMF) has downgraded its global growth projection for 2020 to -4.9% in June 2020 and 5.4% for 2021.

The steep decline in activity has caused a catastrophic hit to the global labour market with the global decline in work hours in 2020:Q1 equivalent to the loss of 130 Mn. full-time jobs. The decline in 2020:Q2 is likely to be equivalent to over 300 Mn. full-time jobs.

In response, almost all central banks of advanced economies as well as emerging market and developing economies continued to implement monetary easing measures, alongside fiscal stimulus by respective governments, to support recovery of economic activity.

World growth projections



Source: World Economic Outlook – June 2020

World growth projections

	2019	**2020 (Projection)**	2021 (Projection)
World Output	2.9	**(4.9)**	5.4
Advanced economies	1.7	**(8.0)**	4.8
United States	2.3	**(8.0)**	4.5
Euro Area	1.3	**(10.2)**	6.0
United Kingdom	1.4	**(10.2)**	6.3
Emerging market and developing economies	3.7	**(3.0)**	5.9
China	6.1	**1.0**	8.2
India	4.2	**(4.5)**	6.0
ASEAN	4.9	**(2.0)**	6.2

Source: World Economic Outlook – June 2020

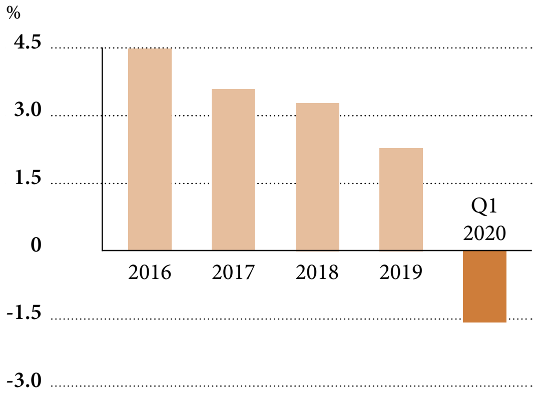
Sri Lankan economy

Sri Lanka's economic growth decreased to 2.3% in 2019 compared to 3.3% in 2018 consequent to the challenging global economic conditions as well as the aftermath of the Easter Sunday attacks. In the face of a sharp deceleration of credit to the private sector driven by subdued economic activity and weak business confidence, the Central Bank of Sri Lanka (CBSL) adopted an accommodative monetary policy stance to support economic activity. The outbreak of the COVID-19 pandemic had substantial impacts on every sector of the economy. As a result, Sri Lanka recorded an economic growth of – 1.6% in Q1 of 2020 with the contraction in Agriculture, Industry and Taxes less subsidies on products sectors. Services sector however continued to expand in Q1 of 2020.

Going forward, the adverse impact of COVID-19 on economic activity in Q2 of 2020 is likely to be substantial. A faster rebound of economic activity is expected, especially in Q4 of 2020, supported by improved political stability, the resultant improvement in business confidence, and the lagged impact of monetary and fiscal stimulus.

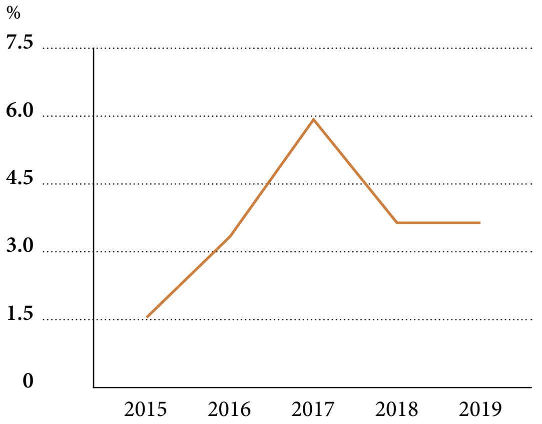
Inflation is expected to remain broadly within the desired 4-6% range in the near to medium term, with appropriate policy measures.

Real GDP growth



Source: Central Bank of Sri Lanka, Annual Report 2019

Annual average inflation



Source: Central Bank of Sri Lanka, Annual Report 2019

Sri Lankan Banking Sector

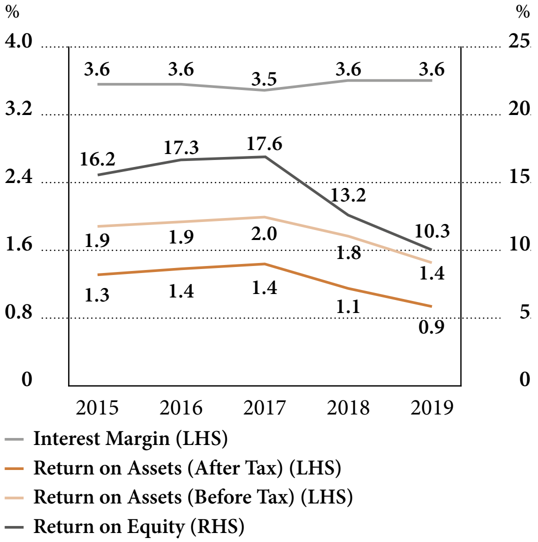
Sri Lanka's financial system remained stable and resilient amid a turbulent operating milieu in 2019. The banking sector, recorded a moderate expansion consequent to the impact of the low demand for credit.

The total asset base of the banking sector increased by 6.2% YoY and surpassed LKR 12.5 Tn. by end-2019. Quality of credit deteriorated further during 2019 with non-performing loans (NPL) ratio increasing from 3.4% at the end of 2018 to 4.7% at the end of 2019.

Deposits which continued to be the main source of funding increased at a lower rate of 7.9% YoY compared to 2018. Total borrowings decreased by 4.8% due to the contraction in Sri Lanka Rupee borrowings and foreign currency borrowings too decreased during 2019.

The Rupee and All Currency Liquidity Coverage Ratios of the banking industry were well-above the regulatory minimum of 100%. Profit after tax of the banking industry contracted by 11.2% YoY in 2019.

Profitability ratios of the banking sector



Source: Central Bank of Sri Lanka, Annual Report 2019

Non-Bank Financial Institutions (NBFIs)

The performance of the NBFI sector deteriorated during the year, with negative credit growth, declining profitability and increase in NPLs due to the unfavourable market conditions. Profit after tax declined by 31.9% YoY mainly due to increased non-interest expenses and higher loan loss provisions.

Total asset base of the sector increased marginally by 0.1% YoY in 2019 to LKR 1,432.7 Bn. compared to the growth of 5.6% recorded in 2018.

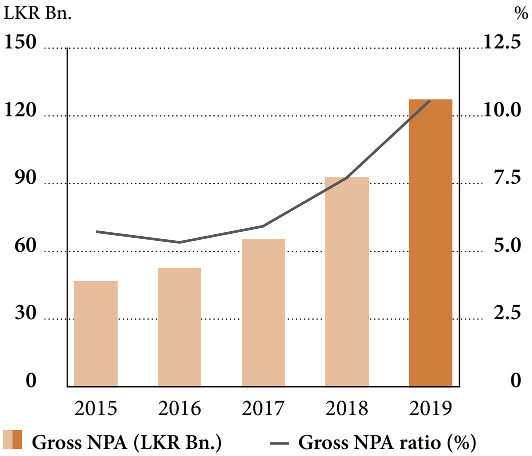
The sector remained stable with capital maintained at healthy levels and adequate liquidity buffers above the regulatory minimum levels. The total regulatory capital levels improved by LKR 22.3 Bn. in 2019 compared to 2018, following the enhancement of minimum capital requirement by the CBSL.

Lending activities showed signs of slowing down during 2019 mainly in response to macro prudential policy measures to curtail importation of motor vehicles, directions of LTV ratios for credit facilities granted in respect of motor vehicles coupled with higher market interest rates on lending and sluggish economic and commercial activities due to loss of business confidence. As a result, credit provided by the LFCs and SLCs sector declined by 3.0% YoY in 2019, compared to the 7.6% growth in 2018.

Reflecting the deterioration in the asset quality of the sector, the gross non-performing advances (NPA) ratio increased to 10.6% at end-December 2019, compared to 7.7% in 2018.

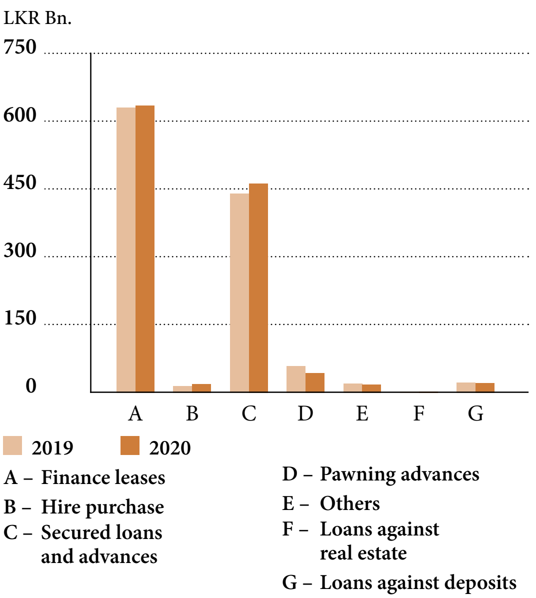
Bulk of the liabilities continued to be dominated by customer deposits. The increase in assets was mainly funded through deposits, which accounted for 52.8% of the total liabilities of the sector. Whilst the deposit growth increased to 5.6%, borrowings declined by 12.6% in 2019.

Non-performing assets of NBFIs

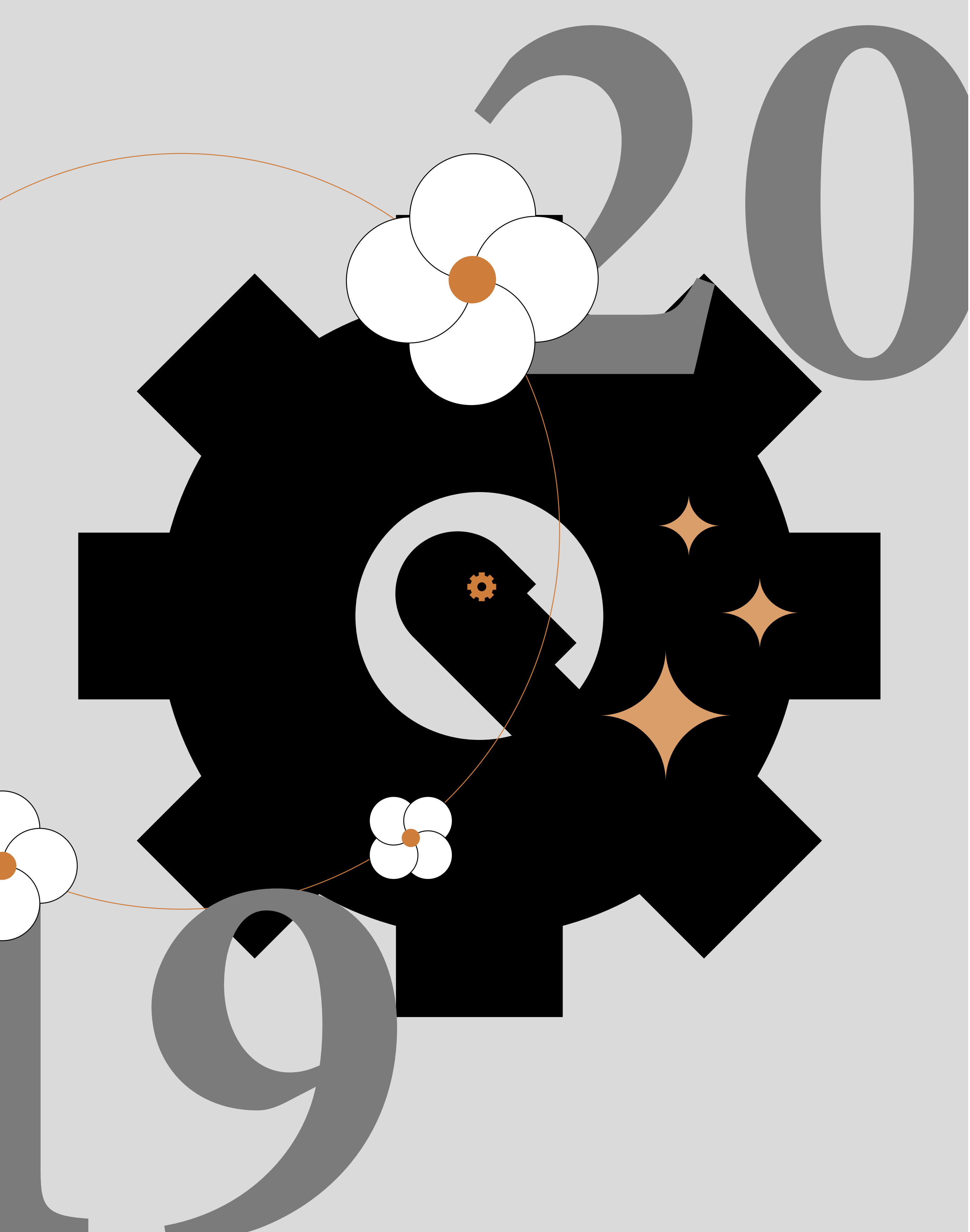


Source: Central Bank of Sri Lanka, Annual Report 2019

Total loans and advances (Gross) by product-wise of NBFIs



Source: Central Bank of Sri Lanka, Annual Report 2019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Our Story in 2019/20

Financial Capital

An overview of the year

The performance of the entire NBFIs sector deteriorated over the year due to factors such as uncertainty caused by the Easter Sunday attacks, debt relief programmes, subdued economic activities and political instability in the country. Consequently, loans and advances portfolio of the Company decreased by 6.3% by the year end, causing the total assets too to record a drop of 6.5%. Net Interest Margin (NIM) too decreased from 9.7% in 2018/19 to 8.8% in 2019/20. The conscious decision to hold a higher than average liquidity position throughout the year to withstand any potential impact of the economic downturn and negative perceptions on the sector due to collapse of distressed NBFIs too impacted the NIM. The Company recorded LKR 529 Mn. in before tax profits, a notable drop of 43% compared to the previous year.

Despite the lackluster economic performance throughout the year, the Company managed to successfully complete a subordinated, listed debenture to the value of LKR 1.75 Bn. increasing the total capital ratio of the entity to 21.54% by the end of March 2020.

Summary of financials for the year

Financial results (LKR '000)	**2020**	2019
Total assets	**34,394,526**	36,783,063
Loans and advances	**27,233,010**	29,069,749
Customer deposits	**11,222,611**	10,008,976
Total equity	**5,410,306**	5,297,041
Total income	**6,756,982**	7,295,881
PBT	**528,729**	929,284
PAT	**227,831**	950,604

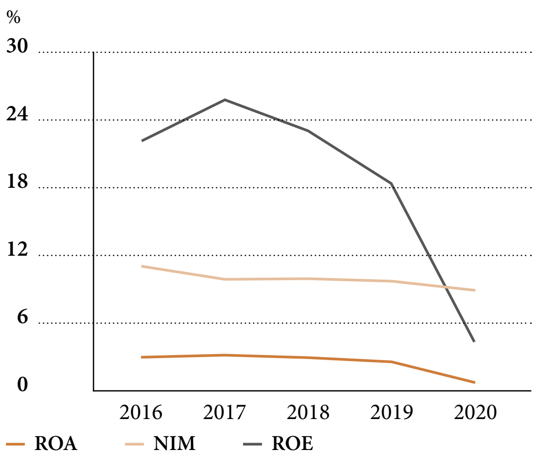
Financial performance in detail

Profitability

During the year the Company generated a profit before taxes of LKR 529 Mn., a drop of 43% from LKR 929 Mn. of the previous year. Profit after tax also recorded a notable decrease to LKR 228 Mn. as opposed to LKR 951 Mn. of the year before, due to a high tax charge in the current year as opposed to a reversal last year.

In line with the weakening profits, both Return on Assets (ROA) and Return on Equity (ROE) decreased to 0.64% and 4.26% respectively from 2.61% and 18.41% of the previous year.

Profitability indicators of the Company



A key contributory factor for the drop in profits during the year was the drop in income due to lackluster loan growth and poor asset quality experienced. The latter caused impairment charges to rise by LKR 55 Mn. for the year.

The Consolidated profits for the Group also depicted similar trends. The Group post-tax profit was LKR 252 Mn., a drop of 71% from the previous year. The pre-tax profit of LKR 591 Mn. was recorded after a drop of 35%. The contribution from the subsidiaries continues to be marginal compared to the profit of the Company.

Net interest income

Interest income experienced a drop of LKR 461.6 Mn. to LKR 6,534 Mn. for the year under review, mainly driven by the weak loan growth as a result of the lackluster economic performance. Interest income from REPO and other financial investments grew by 39% and 12% respectively which were earned on high levels of liquid assets held throughout the year.

Interest expenses too experienced a YoY drop of 2%, regardless the 7.6% or LKR 90.9 Mn. growth experienced in interest on deposits, resultant of the 12% growth in the customer deposit base. Interest expenses on lease liability too negated the reducing trend, with LKR 44.9 Mn. being categorised as interest expense on leased liability with the adoption of the SLFRS 16 – Leases with effect from 1 April 2019.

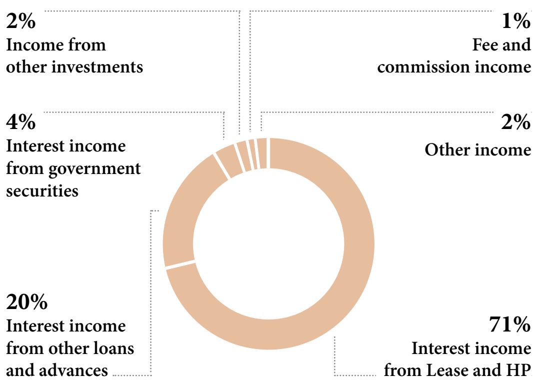
Consequent to the drop in interest expenses being less pronounced than the drop in interest income, the Company recorded a drop in net interest income to LKR 2,852 Mn. from LKR 3,236 Mn., a YoY drop of 11.8%. Net interest margin too declined to 8.82% from 9.70% of the previous year.

Income

The total income of the Company recorded a YoY drop of 7.39% to LKR 6,757 Mn. compared to LKR 7,296 Mn. of the previous year. The fund-based income remained the key contributing factor to total income with a contribution of 96.7%.With the slowdown of new business during the year, the fee and commission based income decreased by19.8% to LKR 83.5 Mn. compared to LKR 104 Mn. of the year before.

Due to lackluster performance of the equity market during the year, the Company recorded a loss of LKR 2.2 Mn. on equity trading. Mark to market of traded equity instruments recorded a profit of LKR 10.5 Mn. as opposed to a loss of LKR 22 Mn. of the year before. Other operating income for the year too recorded a drop of 33.4% as a result of drop in ad hoc income such as profits from disposal of fixed assets recorded the previous year.

Sources of income

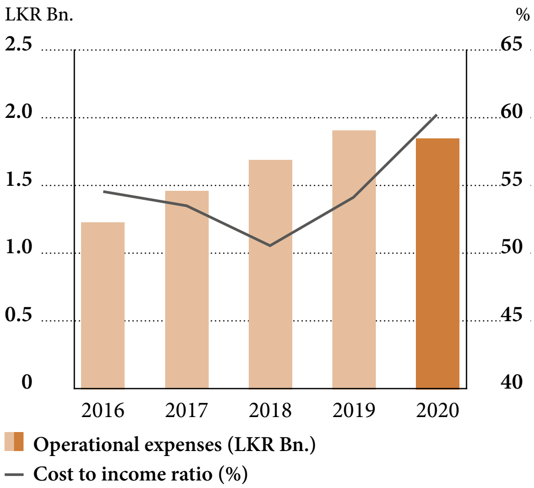


Expenses

The management took measures to control the operational expenses of the Company in light of drop in activity levels with the Easter Sunday attacks at the beginning of the financial year. Staff cadre remaining unchanged and the drop in incentive payments due to poor loan growth decreased the personnel expenses by 4.5% YoY to LKR 670 Mn. Depreciation expenses saw a notable growth of 36.8%, driven mainly by the depreciation charge on right of use assets recognised in line with the SLFRS 16 – Leases. The Company also recorded an impairment on investment in subsidiaries due to the write-off of LKR 18.4 Mn. of investment in Newest Capital due to drop in net asset value and LKR 4.9 Mn. on purchase of Candor Asset Management (Pvt.) Ltd.

Despite many measures taken to curtail costs, the cost to income ratio of the Company increased to 60.3% compared to 54.1% of the previous year, due to sharp decrease in income.

Operational efficiency



Taxation

The Company upholds its responsibilities as a tax payer. While meeting all its tax obligations on a timely and prudent manner, the Company strategises to mitigate any adverse, unexpected financial losses on taxes. However, various tax regulations brought in from time to time, affect the profitability of the Company.

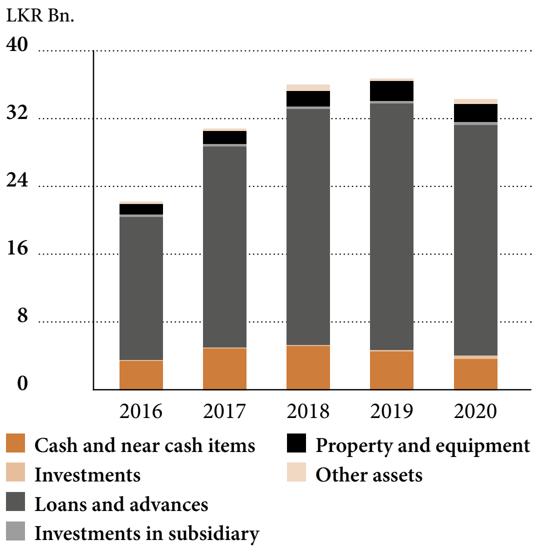
During the year, the Company recorded a tax charge of LKR 300.8 Mn. compared to a tax reversal of LKR 21.3 Mn. of the previous year. This was driven by a LKR 54.1 Mn. deferred tax reversal as opposed to a reversal of LKR 402.4 Mn. in the previous year.

Taxes on the value addition decreased in line with the drop in turnover by 22.5% during the year. The Debt Repayment Levy and NBT on financial services were abolished as per the notices published by the Department of Inland Revenue, with effect from January 2020 and December 2019 respectively.

Assets

Total assets of the Company decreased to LKR 34,394 Mn. compared to LKR 36,783 Mn. of the previous year. The drop was primarily driven by the decrease in loans and advances portfolio which experienced a year on year drop of 6.3%.

Total assets



The Company maintained healthy levels of liquid assets throughout the year under review. However, due to business closure and disruptions to the recovery process from mid-March, cash and cash equivalents, deposits with commercial banks, and investments in REPOs witnessed a YoY drop of 0.3%, 34.5% and 33.9% respectively. Investments in Treasury Bills and bonds increased by 8.4% to reach LKR 1,132 Mn. by the year end. The Company managed to maintain adequate liquid assets, well above the regulatory requirement and to meet the operational needs during the prolonged lockdown period due to COVID-19 outbreak.

Cash flows

Senkadagala Finance primarily depends on large scale funding for its business needs, hence high levels of liquid assets are maintained. Furthermore, in the backdrop of turbulent economic conditions following the Easter Sunday attacks, the Management made a conscious decision to maintain higher than average levels of liquid assets to withstand any unforeseen event in the industry. Timely collections coupled with slowdown of new business enabled the Company to generate LKR 4,536 Mn. in operating activities as opposed to LKR 617 Mn. generated in the previous year.

With the decision to curtail branch expansion, cash used for investing activities was confined to LKR 375 Mn. as opposed to LKR 734 Mn. used in the previous year. Capital expenditure incurred during the year included therein recorded a drop of 78% to LKR 205 Mn., compared to LKR 932 Mn. of the previous year.

The slowdown in operations made high cash generation through financing activities unwarranted. Accordingly, securitised borrowings obtained during the year dropped to LKR 1,000 Mn., compared to LKR 7,300 Mn. of the previous year. The Company redeemed LKR 189.5 Mn. worth debentures on maturity, and raised LKR 1,750 Mn. through an issue of a subordinated, listed debenture during the year. The funds used in financing activities of LKR 4,308 Mn. was comfortably financed through that generated from operating activities.

Loans and advances

Loan type	**2020 LKR '000**	2019 LKR '000	Change (%)
Finance leases and Hire purchase	24,366,847	25,916,967	(5.98)
Commercial loans and personal loans	1,273,704	1,673,562	(23.89)
Pawning advances	1,160,220	1,196,463	(3.03)
Other advances	432,240	282,758	52.86
Total	27,233,011	29,069,750	(6.32)

The total loans and advances decreased by 6.32% over the year to LKR 27,233 Mn. against LKR 29,069 Mn. of the previous year. This was due to slowdown of new business growth during the year due to macroeconomic volatility.

During the year, only LKR 11.6 Bn. was granted as new finance leases as opposed to LKR 13 Bn. of the previous year. The average LTV of new loans amounted to 58.71%, as the Company primarily finances registered vehicles.

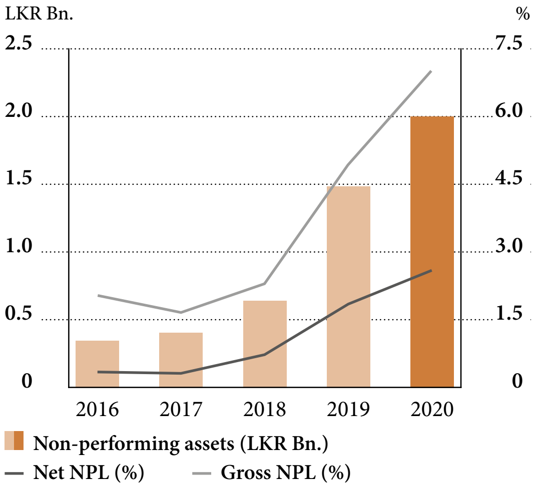
The commercial and personal loans experienced a notable slowdown during the year, primarily due to the general economic downturn and the poor asset quality of the product categories. Pawning portfolio of the Company too recorded a marginal drop of 3% to LKR 1,160 Mn. against LKR 1,196 Mn. of the previous year.

Asset quality

Given that loans and advances portfolio comprises about 80% of the total assets of the Company, the Management accords the highest importance to maintaining high asset quality as a critical success factor in the finance business; it is regarded a key aspect in achieving sustainable business growth. With continuous upgrade of credit appraisal systems, policies and procedures the Company has managed to maintain relatively low NPL ratios throughout.

During the year, due to instability and general downturn of the economic condition, the asset quality of the entire industry witnessed deterioration. The industry ratios increased to 10.6% from 7.7% of the previous year. The Company Gross NPL ratio, which is gross non-performing assets as a percentage of total advances, also increased to 7.03% compared to 4.93% of the previous year. The net NPL followed a similar trend to reach 2.61% compared to 1.85% of the year before.

Non-performing loans and ratios



The effects of Easter Sunday attacks in the beginning of the year, resulting in an economic downturn experienced throughout the year and the effects of business closure due to the COVID-19 outbreak from mid-March 2020 affected recovery and impacted asset quality for the year significantly.

Senkadagala Finance has maintained higher than industry average provisions throughout. Accordingly, by March 2020 the Company has made provisions to the value of LKR 1,567 Mn. compared to LKR 1,201 Mn. of the previous year.

Liabilities

The total liabilities of the Company recorded a decrease of 7.9% to LKR 28,984 Mn. compared to LKR 31,486 Mn. of 2019. Both bank borrowings and other securitised borrowings witnessed a decrease of 31.7% and 32.8% respectively by the year end. The short-termed commercial paper financing reduced by 94% and dropped to LKR 46.7 Mn., to better match the maturities of the asset base of the Company. The volatile market conditions that prevailed throughout the year prompted the move-away from short-term funding avenues to ensure stability in the long run.

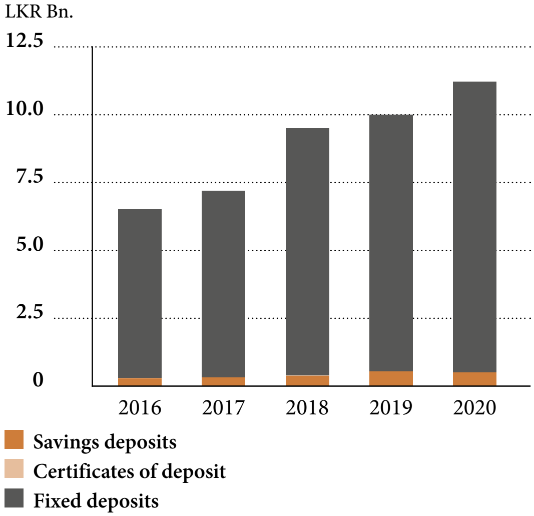
During the year, the Company redeemed LKR 189.5 Mn. worth senior listed debentures and raised LKR 1,750 Mn. through an issue of a subordinated listed debenture. This caused an increase in total debt securities in issue to reach LKR 4,319 Mn. by the end of the financial year. The issuance also helped to increase the capital ratios of the Company to better withstand the economic turbulence.

Deposits from customers

Deposits from customers consisting of fixed deposits, certificates of deposit and savings deposits recorded a notable growth of 12.13% reaching LKR 11,222 Mn. by March 2020 compared to LKR 10,009 Mn. in 2019, testament to the valued and trusted partnerships the Company has developed over the past five decades with its customers. This has added significance in the backdrop of mismanaged NBFIs being declared as distressed and licenses being cancelled by the CBSL, sending ripples across the industry deterring customers from depositing with NBFIs and prompting premature withdrawals.

Fixed deposits base reached LKR 10,716 Mn. with a growth of 13.3% over the year. Deposit customers are provided many value added services such that the savings deposits are equipped with facilities equivalent to those of a bank deposit while offering a higher rate of return to the customers.

Deposit base



Shareholders' funds

Total shareholders' funds recorded a growth of 2.14% over the financial year to reach LKR 5,410 Mn.
In compliance with the Finance Companies (Capital Funds) Direction No. 1 of 2003, the Company transferred LKR 15 Mn. out of profits for the year to the Statutory Reserve Fund, resulting in a growth of the Fund by 3.6% to reach LKR 430 Mn. by March 2020.

Retained earnings recorded a subdued growth of 2.98% to reach LKR 3,388 Mn. as a result of lower profits recorded for the year. The fair value reserve increased by 5.29%, recognising the fair value gain of investments classified as equity at fair value through other comprehensive income.

In line with the Direction (Capital Adequacy Requirements) No. 3 of 2018, the Company recorded a core capital ratio of 15.48% and a total capital ratio of 21.54% in March 2020 compared to 14.46% and 15.49% respectively of the previous year, well in excess of the regulatory requirements. This was due to prudent measures taken by the Management to increase the capital buffer in light of developments in the operating environment.

Group performance

Senkadagala Finance Group performance reflects a trend parallel to that of the Company over the year. The post-tax profit dropped by 71% to LKR 252 Mn. in the year under review compared to LKR 886 Mn. of the previous year. The total assets also recorded a drop of 6.48% to LKR 33,995 Mn. similar to that of the Company.

Senkadagala Insurance Brokers recorded a post-tax profit of LKR 86 Mn., with a drop of 6.82% from the previous year.

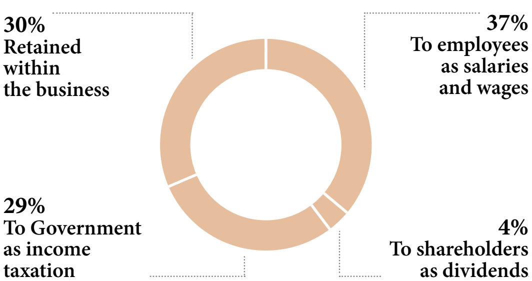
The Company acquired Candor Asset Management (Pvt) Ltd. [since renamed Senfin Asset Management (Pvt) Ltd.] on 4 March 2020, a licensed unit trust management company with the expectation of providing the customers with a comprehensive financial product portfolio.

Value addition and distribution

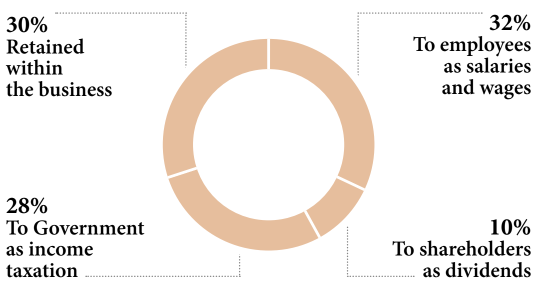
The value addition and distribution computation provides an understanding of the financial benefits each stakeholder group received due to business activities of the Company. Investors, shareholders, employees, and the government are considered as key stakeholders for the purpose of this computation.

	2020 LKR '000	Share %	2019 LKR '000	Share %	Change %
Value added					
Gross income	**6,756,982**		7,295,881		(7)
Less					
Cost of borrowings	**(3,681,611)**		(3,759,531)		(2)
Payments towards support services	**(705,847)**		(878,047)		(20)
Provisions for loan losses	**(499,454)**		(444,362)		(12)
Impairment of investment	**(25,388)**		–		(100)
	1,844,682		2,213,941		(17)
Distribution of value addition					
To employees					
as salaries and wages	**501,631**	27	480,089	22	4
as other benefits	**185,461**	10	215,286	10	(14)
To shareholders as dividends	**68,851**	4	228,296	10	(70)
To Government					
as income taxation	**355,071**	19	384,296	17	(8)
as taxes on financial services	**193,761**	10	249,987	11	(22)
Retained within the business					
as depreciation for replenishment of assets	**452,138**	25	333,296	15	36
as deferred taxation	**(58,943)**	(3)	(402,492)	(18)	(85)
as reserves	**146,712**	8	725,182	33	(80)
	1,844,682		2,213,941		(17)

Distribution of value addition 2020



Distribution of value addition 2019



Institutional Capital

We encompass a strong institutional capital base with our operational expertise spanning over 50 years. We build our intellectual capital through our intangible assets such as organisational knowledge, brand reputation, corporate culture, systems and processes and business ethics. Combined, these enable us generate increased value to all our stakeholders.

In a competitive business environment, we understand the importance of optimising and reaping the benefits of our institutional capital.

We continually enhance the value of our intellectual capital by investing in information technology including an in-house developed ICT system equipped with a management information system tailored to our specific processes and needs. These enable us to offer tailor-made financial solutions to customers.

Our corporate values outline our aim of providing an exceptional customer experience through a high service standard, improving customer loyalty, and having a team of motivated and committed staff delivering a high quality service.

Our corporate culture is synonymous with our brand identity reflecting quality of service and well-being. Parallel to its expansion, our employees have grown with the Company achieving new career heights. These developments have also inspired changes in our information and communication technology (ICT), supply chain, and procurement systems.

Developing our information technology

At the initial stages of our business, we operated from a combination of tailored hardware and software operated from a simple PC-based network system. Following the rapid technological developments and the timely decisions made by the Management, this system has evolved into a stable multi-user, client-server architecture which enables the smooth functioning of the core and other front office and back office operations. The system is capable of providing much needed insights to support reporting and strategic decision-making including customer information and a wide range of data at the operational level. We have automated majority of our basic functions to minimise user interactions and reduce non-value adding expenditure.

Managing risks

Most of our operations embrace ICT. Hence, we have placed greater reliance on ICT within a short period. This requires us to be more aware of ICT related risks in order to take appropriate measures to counter those risks proactively. Considering the threat of potential ICT associated risks that could hamper our business operations significantly, we continue to review our ICT policies and practices to assess their effectiveness in addressing ICT related risks. We ensure adequate system security measures are in place to facilitate data and information security. Various risk management techniques are adopted to mitigate ICT-related risks associated in our day to day operations.

Enhancing efficiency

The ICT system is made use of at a department level. We have provided each department with a manual encapsulating methods for efficient use and ICT-related policies, in order to ensure the effective use of the system. To ensure minimal business disruption, we have put place an Information System Security Policy and a business continuity plan. Employees are given access to the system at department level, regardless of hierarchy. This enables them to extract the necessary information to make effective decisions and execute various business functions. We update our systems and processes regularly to ensure high levels of service standards, which provides the required competitive edge essential in the industry.

Institutionalised knowledge

We have developed a rich base of institutionalised knowledge over the years. The documentation of processes, specialised training, job rotation etc., have enabled us “institutionalise” Company knowledge and nurture a people-focused environment. We ensure this knowledge and competencies are shared within the Company to ensure the continuity of our operations even when employees choose to leave our Organisation. Especially in an era where staff turnover is high amongst millennials in particular, such transfer of knowledge is becoming more relevant and important. This also helps in our business continuity planning and succession planning, thereby enhancing organisational effectiveness.

Our corporate culture

Adopting a professional approach to work, we encourage all internal and external stakeholders to act diligently and ethically. We have established an optimal work environment and infrastructure to promote professionalism across the Organisation. The Management encourages a free and open approach for superior – subordinate communication which has enabled us to create synergistic value.

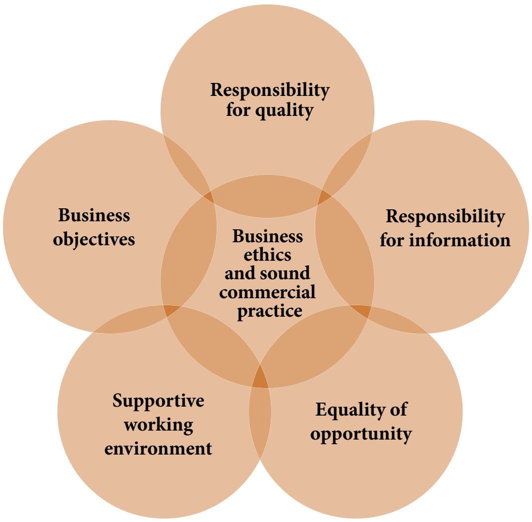
Recognising individual talents is a key feature of our Organisational culture. This has enabled us to promote career development and progression within the Organisation. We always strive to make all Management appointments through internal promotions, as they are equipped with the needed technical knowledge, and necessary know-how. This contributes towards efficient operations across the Company.

We encourage a team driven environment within the Organisation. All branches and centres are staffed with a small number of employees and they are encouraged to be proficient with the respective operation associated to their task. This has promoted a learning culture within the Company.

We present our employees with continuous training and development opportunities. Newly recruited staff members are trained on technical knowledge, systems and procedures and customer handling techniques under an experienced employee while on the job.

Team performance is assessed when paying annual bonuses to employees. This approach of collective assessment has enabled to nurture a performance driven culture and promote a healthy competition among branches and centres.

Line managers and other employees are encouraged to be vigilant of risks while engaging in their daily operations. This has enabled us to identify potential risks at the point of origin and manage them effectively. A culture of open communication supports this process. We recognise customer as a key stakeholder of the business, and we strive to achieve high level of customer satisfaction. Staff at all levels are encouraged to serve meticulously to achieve this objective.



Supply chain and procurement policy

Being a financial services provider, our dependence on suppliers for provision of materials is minimal when compared to a manufacturing organisation. However, with the commencement of the branch expansion a few years ago, procurement and supply chain management became relatively important for the Organisation. We source stationery, day-to-day consumables and maintenance related equipment and services through a supply chain in the regular course of our business.

Sourcing is carried out by the Administrative Department in line with the purchasing policies and procedures of the Company. We have a pool of suppliers for various requirements. Maintaining close relationships with key suppliers ensures high quality of goods and timely delivery. This helps to provide continuous business for the suppliers and whilst we obtain a reasonably priced and quality service.

We adopt a lean procurement process in order to minimise inventory holding. A small stock of stationery is held at branch and centre levels due to the dispersed nature of the locality. The branch staff places an order with the Administrative Office when the inventory is depleting and the administrative staff immediately places an order with the supplier. We have sourced the services of a courier service to deliver stationery or other equipment as soon as possible. This has enabled us to minimise the need to hold stationery and consumable stocks while maximising value creation. The suppliers are enjoying continuous business as a result of this arrangement.

We have a selected pool of interior construction companies. When a new branch location is identified the Administrative Department assigns a suitable company the responsibility to undertake the construction. A representative of the Administrative Department closely supervises and coordinates the construction process ensuring conformity with Company requirements and specifications. Having a selected pool of interior constructors has enabled the Company to maintain uniformity throughout our branch network. The suppliers get continuous business whilst we enjoy timely completion and reasonable pricing due to our close ties with the respective entities.

Enhancing our brand

Since our inception, we have strived to offer an unmatched service to our customers and our corporate culture has been fostered with this ideology. Our logo and the registered trademark is a depiction of a four-leaf clover – a symbol of good fortune. Inspired by this identity, we have been striving to create wealth, prosperity and good fortune to our customers throughout our history.

We have always focused on developing our intrinsic values. The brand name Senkadagala Finance has always been associated with technologically innovations. We have always adhered to ethical business practices.

Centralised oversight is practiced using state-of-the-art systems, which enables us to distribute controls and operations. Accountability is promoted at all levels: the Credit Officer is accountable for appraisals carried out, hence is involved with managing and recovering loans. This helps to foster customer relationships while maintaining lower NPLs even in turbulent economic conditions.

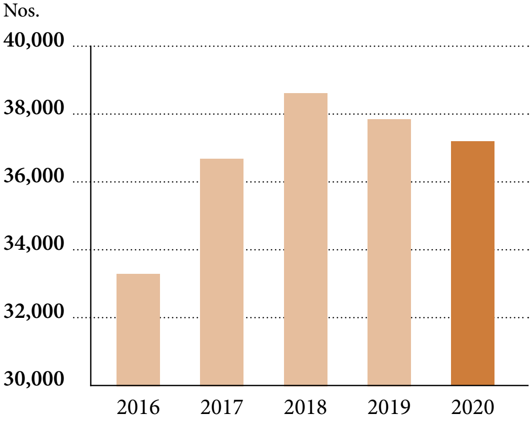
Quality of service is paramount in acquiring and maintaining a strong deposit base. We do not engage in price competition when canvassing deposits. We strive to give a superior service to our customers, that will foster long-term loyal relationships.

Opening of the new Kurunegala branch, which moved in to an own property in the heart of the city in July 2019

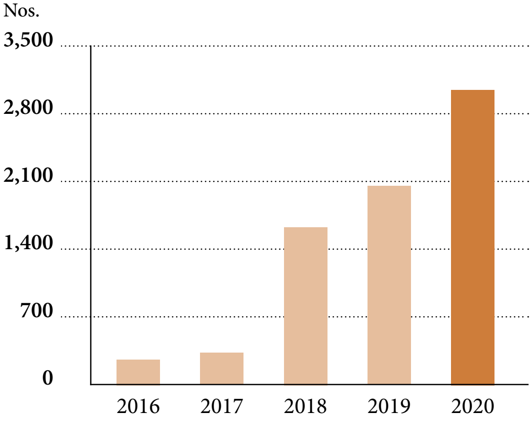
Customer Capital

In our core business activities of financial intermediation and maturity transformation, customer plays an integral role. Over the years, we have built a strong and loyal customer base, by meeting their diverse needs and delivering an exemplary customer experience. We have continued to enhance the quality and strength of our customer relationships resulting in high customer retention and long-term sustainability of our business.

Total lending customer base



Digital banking customer base



Our products and services

We offer financial services in the form of lending and accepting of deposits.

Our main lending products are finance leases, hire purchases, commercial loans, personal loans, and pawning. Priority was given to expanding our finance leasing business in the financial year 2019/20. However, due to the impact of Easter Sunday attacks in the economy and subsequent political instability, the Company recorded a marginal drop of 4.8% YoY in the lease portfolio in the financial year under review.

Loaned funds were rapidly disbursed by adopting technological advancements. Customers who approach us with a good track record of their creditworthiness were able to obtain loaned funds for their commercial or personal needs within a period as short as one to two business days. This proved to be a competitive advantage for the Company.

Our deposit products include fixed deposits, savings deposits, and certificates of deposit. Fixed deposits is the primary deposit product accounting for 95.5% of the deposit base as at 31 March 2020 including sub categories such as senior citizens and minors.
We offer attractive interest rates to fixed deposit holders within the stipulated limits of the Central Bank of Sri Lanka (CBSL). Deposit holders are able to handle their account transactions online through our corporate website including conducting balance inquiries, fund transfers, online real-time transfers, and bill payments.
As a sub-product of fixed deposits, we have facilitated customers obtain loans against fixed deposits. This facility enables customers to ulitise funds in case of emergency without compromising the potential to earn FD interest on maturity.

Savings and certificates of deposit are supplementary deposit products. Many benefits and features have been made available to our savings customers to increase their convenience. These include, state-of-the-art contactless

Visa debit cards with chip and pin security, online banking facilities such as real-time fund transfers and payment of credit card and other utility bill expenses through the online portal. We will focus on improving these products to enhance customer experience.

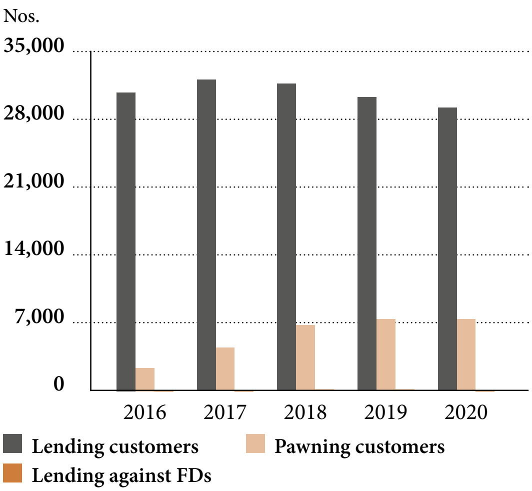
Additionally, we provide services such as foreign currency exchange, insurance brokering activities and Western Union fund transfers to provide comprehensive solutions for all their financial needs.

Customers can obtain quotations from almost all the leading insurance companies operating in Sri Lanka within minutes through our insurance brokering arm. As a result, we enable customers to make informed decisions resulting in significant cost savings while obtaining the services from their preferred insurance company.

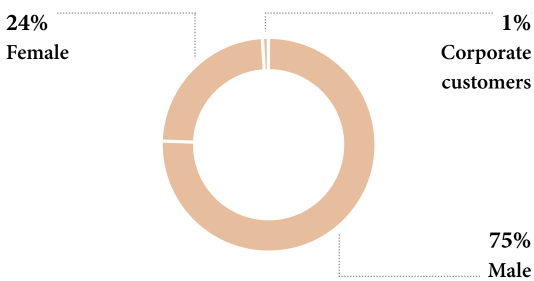
Following the acquisition of Candor Asset Management (Pvt) Ltd. we are able to provide unit trust products and manage private portfolios, inclusive of both conventional and Shariah-compliant funds.

We strive to maintain a balanced product portfolio to ensure a healthy flow of returns to our Company. Our suite of products comprises different stages of the product life cycle.

Growth in total lending customer base by products



Gender-wise analysis of lending customers



New products introduced during the financial year

Payments through POS (point of sale) machines were introduced in 2019/20 for all branches. Customers are enabled to pay their leasing rental using Master Card or Visa Debit Cards. This facility is available in all 100 customer touch points. During the financial year, a total of 473 transactions were conducted to the value of LKR 15.7 Mn.

An Internet Payment Gateway (IPG) was introduced in May 2019. It enables customers to pay their lease and loan rentals via our corporate website. The facility was highly patronised by the customers during the lockdown period due to the COVID-19 pandemic.

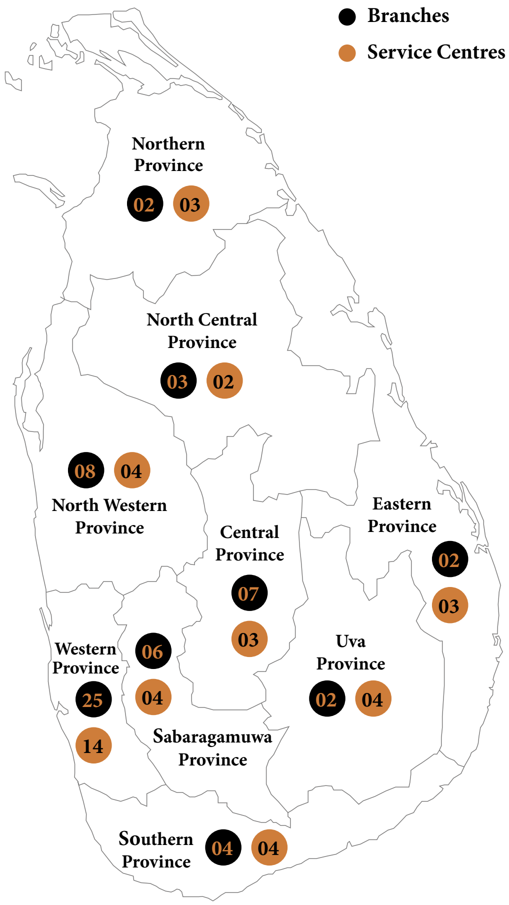
User friendly Internet Payment Gateway (IPG)

We are in the process of developing the mobile application to enhance the range of technologically advanced customer services provided by the Company, which will be launched mid next year.

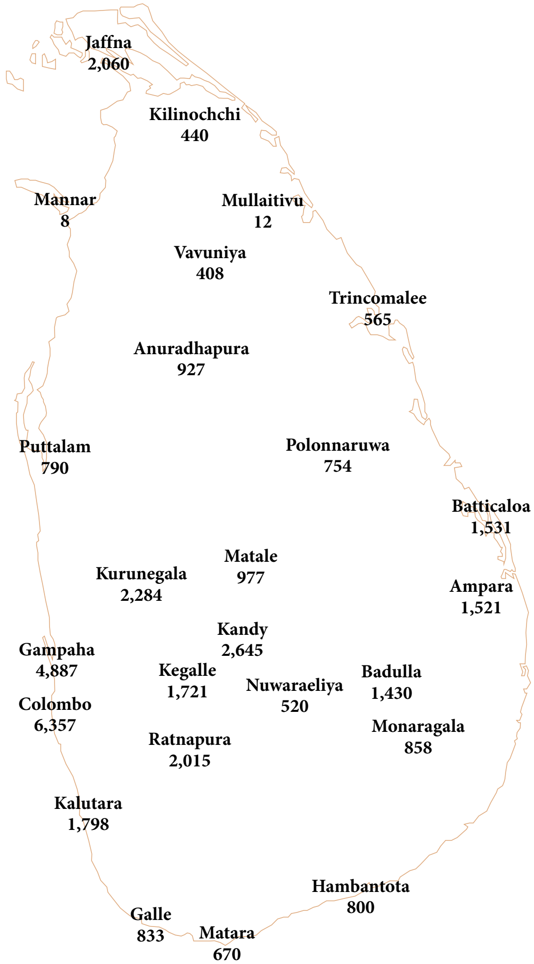
Our reach

We constantly strive to improve customer access by expanding our presence island-wide. We serve customers across the Nation through our network of 59 branches and 41 service centres. There has been a significant growth in regions outside Colombo as a result of our expansion.

Geographic spread



District-wise break-down of customers



Brand development and promotions

We conducted several promotions to develop our brand and connect with customers across the Nation. These included town storming campaigns, leaflet campaigns, street promotions and displaying banners. The Company does not engage in many large scale promotions that cover the entire island. Instead, we focus on localised and targeted promotional campaigns, tailored to the respective locality.

We also use referrals and recommendations as a primary form of business promotion. Hence, we give high priority to enhancing customer satisfaction and developing strong customer relationships.

Customer satisfaction and customer communications

To deliver an exceptional customer experience, we have assigned a relationship manager for each customer with whom the customer could directly liaise with. The marketing officer acts as the relationship manager for the initial period of the contract.

Customers are enabled access to our services from any of our branches and service centres across the island through our centralised network. Customers can obtain information about their loan facilities, deposits and all other services from any of these touch points.

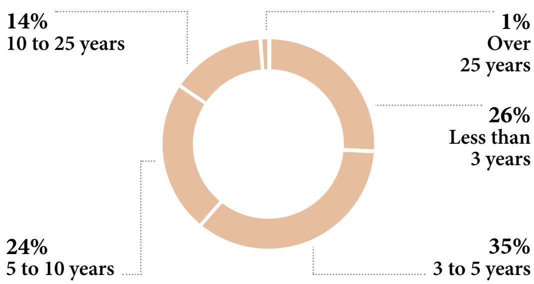
Customers can stay updated about our products and services through our corporate website. The customer portal and the corporate email facilitates customers to make direct inquiries and forward complaints with ease. The web portal was upgraded with a more user-friendly interface to enhance customer experience.

We continuously develop new sub-products, provide novel value added services and features to products to meet the evolving requirements of our customers effectively and improve customer satisfaction.

For customers to lodge their complaints and suggestions with ease, we have placed customer complaint and suggestions boxes at every branch and service centre. Complaints are directed towards the highest authority depending on the severity of the issue. Remedial actions are taken for the complaints promptly.

We conduct periodic customer satisfaction surveys to assess customer satisfaction. The high rate of return customers, high fixed deposit renewal ratio and the growing deposit customer base are strong testaments of the high customer satisfaction levels and customer loyalty towards the Company.

Overall length of relationship with FD customers



Employee Capital

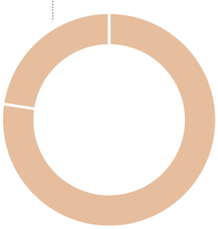
Managing Employee Capital is an essential aspect of executing our corporate business strategy. We focus on building a resilient and engaged workforce who is able to create increased value. By leveraging the skills, experience, diversity, and productivity of our people, we are able to operate efficiently, reliably and sustainably, and deliver on our growth objectives. Hence, our ability to attract, develop and retain the right people is a key success factor for our business.

Diversity and inclusion

We strive to nurture a diverse and inclusive workforce based on the conviction that diversity drives quality and innovation and thus ultimately drives performance leading to better solutions for our clients. Diversity includes gender, age, race, disability, experience, religion, values and beliefs.

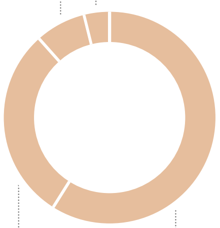
In terms of gender, 22.5% of employees are women (2018/19: 22.0%). Although more male employees are required for branches based on our Company's nature of operation and the business model, there are equal or more female employees in other departments of the Organisation. In addition, some middle management positions are held by female employees who were promoted internally.

Employees analysed by gender



In terms of age, 59% of employees are between 20 to 30 years category (2018/19: 62.0%), 29% are between 31 to 40 years and 4% are over 50 years.

Analysis of employees by age



Recruitment and selection

We adopt a stringent recruitment process to ensure the best talent is hired for the relevant role. The recruitment process is based on merit without favouritism or discrimination. Priority is given to internal candidates to fill vacancies and internal promotions are granted to fill new positions.

We have 797 employees (2018/19: 794) and 185 employees were recruited during the year under review. 23.2% of employees joined the branches ensuring the expertise is dispersed throughout the network. Majority of recruits were from the localities of the branches, creating employment opportunities for the youth. 20% of the vacancies were filled by internal candidates of which 69% were promotions reflecting the strength of our internal talent pipeline.

Training and development

Personal and professional growth and development are crucial for the Company. This year we invested LKR 1.12 Mn. on training and development and we believe this investment is very important to support our people in their growth and possibilities to make an impact. A total of 528 employees participated in training programmes in FY 2020 and the average training hours per employee was 5.44 hours (2018/19: 5.93 hours).

Employee retention

There has been a high employee turnover in sales and marketing mainly due to competition. We have taken several measures to strengthen employee retention. These include, competitive remuneration packages, enabling corporate culture that nurtures growth, providing a range of non-financial benefits and implementing an effective grievance and counseling procedure. We also conduct exit interviews to ascertain the reasons for employee resignations/departures and take remedial actions.

As a result, there has been a notable increase in the average length of service across all positions within the Organisation. The average service period of the Senior management team and managers increased from 11.9 and 7.8 years in 2018/19 to 13.4 and 9.1 years respectively in 2019/20.

Perquisites and benefits

In addition to the mandatory benefits, we provide a range of additional benefits to reward the performance of our employees and highlight the important role they occupy in the growth of the Organisation. Medical benefits, personal accident covers, loans and other incentives are provided to incentivise employees.

Performance review

The performance of the sales and marketing staff is assessed through an ongoing performance evaluation system. The system can measure performance at individual, branch and regional levels and monitor status in real time basis. Performance based incentives are provided to employees to reward high performing branches and employees depending on the profitability of the Company at the discretion of the management.

Health, safety and protection

To ensure the safety and protection of employees, several measures have been instituted in our Organisation. We have deployed security officers as required, fixed CCTV cameras, security alarms and locks to ensure security of the branches and the head office. Work place health and safety regulations are implemented to create a safe working environment. All employees are encouraged to adhere to these safety regulations and protocols implemented to ensure their health and safety.

Stringent fire protection measures have been implemented for prevention and emergency response to protect lives and property in case of fire. In addition to conducting periodic fire drills, selected employees have been trained as fire wardens and all employees of the Organisation have been made aware about fire evacuation, fire protection, and safety measures.

In particular, following the COVID-19 pandemic, we implemented the necessary safety protocols following the guidelines of the health authorities to safeguard our employees and customers. Social distancing practices were strictly adopted to ensure the well-being of the employees.

Handling grievances

A formal grievance handing procedure is in place to handle employee grievances in a transparent manner without discomfort to the employees. Our corporate culture that fosters trust and communication among employees has been effective in handling grievances. All employees with grievances are treated with sensitivity and seriousness and immediate remedial action is taken for issues that cause discomfort to respective employees.

A healthy work-life balance

To ensure a healthy work-life balance, we have adopted several measures including geographically, friendly recruitments, convenient work times, nurturing a friendly-working environment and making provision for employees to enjoy their leave without any hassle.

Social and Environmental Capital

We understand that we affect the community through the manner in which we manage our employees and customers, and our business activities may have positive as well as negative consequences on the community. Neglecting these can pose a threat to the Company's social license to operate.

Since our inception we have catered to various financial needs of our customers. By extending financial facilities, we have contributed to elevating the living standards of our customers, their dependants and beneficiaries.

Finance companies in general offer financial products and services to the unbanked and under banked customer segments in society. However, our focus is on providing financial solutions to entrepreneurs and small and medium enterprises to achieve a sustainable growth. Thereby, we provide our customers the opportunity to grow their wealth. In particular, through the low cost development loan facilities obtained from institutions such as IFC and FMO, we were able to create employment opportunities in the communities contributing to uplifting their living standards.

As a responsible corporate citizen, we are committed to conducting our operations focusing on minimising adverse impacts and maximising the positive impacts across all our activities. In doing so, we make our contribution towards preserving the natural environment. This could prevent long-term negative consequences on the availability of natural resources and enhance the sustainability of our Organisation.

Reducing our environmental footprint

The Environmental and Social Management System (ESMS) and Procedures

We have in place an ESMS which integrates environmental and social risk management into the business processes of our Company.

The system which is in line with the applicable national environmental legislative requirements and relevant international best practices, helps us to screen lending against a specified exclusion list. The system also helps to monitor the effective implementation of ESMS within the Organisation while assisting clients to identify, mitigate, and manage their environmental risks. Environmental and social risk conscious policies have enabled the Organisation to secure funding from leading multilateral funding agencies such as the IFC.

Putting the ESMS policy in to action, we included an addendum to our loan agreement in April 2014. This communicates our policy on environment and social risk management to our customers, emphasising the necessity of conducting their business activities in line with the ESMS policy.

We continually strive to ensure effective environmental and social management practices in all our activities and services with a special focus on the following:

- Ensure relevant local, national as well as international best practices on environmental and social protection are integrated by the customer prior to or soon after obtaining financing and in its implementation.
- Ensure all our activities are consistent with our environmental and social standards, as well as applicable requirements.
- Integrate environmental and social risk management into our internal risk management analysis.
- Influence interested parties, especially clients and other domestic business partners, to be more environmentally and socially responsible.
- Ensure transparency in our Environmental and Social Management System and procedures.

Digital solutions

We have in place an online document retrieval system which has reduced the need to reproduce physical copies of certain documents. The system has greatly increased the productivity of the Organisation by reducing the time taken to approve a loan facility. Our staff claim approval process has been digitalised as well, enabling to further cut-down paper consumption at branch and centre level. Printing of any past record from the system has helped to eliminate the use of two-ply receipt papers, storage and binding cost of duplicates and reduce printing costs substantially.

Recycling

We actively promote the re-use of materials such as paper. The frequent reminders by the Administrative Department stressing the importance of reusing envelopes for internal courier purposes has helped to reduce stationery cost and encouraged environmental-friendly trends among staff.

Energy conservation

In order to reduce our energy consumption, LED panel lights were installed at new branches and service centres. Although, this has slightly increased the procurement and installation costs, it has helped to reduce our energy consumption in the long-run. Replacement of outdated air conditioners with inverter air conditioners further contributed towards reducing our energy cost. The Management proposal to install solar electrical systems to all new properties constructed by the Company in the future will contribute towards reducing energy consumption significantly. Our staff has been educated on the significance of energy preservation. These initiatives combined have helped to maintain electricity consumption at relatively low levels.

	2020	2019	Variance %
Electricity expenses (LKR)	**48,737,658**	46,192,370	5.51
Number of units	**1,802,953**	1,776,729	1.48
Water expenses (LKR)	**1,257,440**	1,146,917	9.64
Number of units	**13,951**	13,269	5.14

Popham Arboretum project

We continued to extend financial assistance to the Popham Arboretum project in Dambulla, which has expanded its mission beyond Chena cultivation to include naturally grown indigenous dry zone trees. The Arboretum also educates the public on the importance of natural forestation and warns them of the danger of clearing lands for cultivation.

Environmental-friendly lending

Through the FMO loan facility we have expanded our leasing activities of hybrid and electric vehicles contributing towards action against climate change.

Shareholder and Investor Capital

Shareholders play an important role in the success of our Company in the short, medium and long-term. We commenced operations with three shareholders who were also the Directors of the Company. Since then, we have grown sustainably over the years, gaining the trust of more shareholders. We rely on investors for equity and individuals and institutions for debt capital.

Senkadagala Finance PLC was listed in the *Diri Savi* Board of the Colombo Stock Exchange in March 2011, providing shareholders with a liquid form of investment. We only have equity in the form of voting shares in issue.

Total regulatory capital comprises Tier 1 and Tier 2 capital, of which Tier 1 comprising issued share capital, statutory reserve fund and published retained profits contributed to 70.6% of the total regulatory capital. In order to maintain a healthy capital adequacy ratio, Company issued LKR 1.75 Bn. worth of subordinated listed debentures in August 2019 which improved the Tier 2 capital base of the Company.

Shareholder information

Twenty largest shareholders

As at 31 March	2020		2019	
	Number of shares	**Percentage of holding %**	Number of shares	Percentage of holding %
E W Balasuriya & Co. (Pvt) Limited	**40,918,535**	**56.46**	40,774,460	56.26
Hallsville Trading Group Inc.	**5,954,393**	**8.22**	5,954,393	8.22
Dr M Balasuriya	**4,172,046**	**5.76**	4,172,046	5.76
Mr R Balasuriya	**4,172,045**	**5.76**	4,172,045	5.76
Dr (Mrs) G Madan Mohan	**4,172,045**	**5.76**	4,172,045	5.76
Dr A Balasuriya and Mr D Balasuriya	**2,086,023**	**2.88**	2,086,023	2.88
Mr L Balasuriya and Mr S K Balasuriya	**2,086,023**	**2.88**	2,086,023	2.88
Dr A Balasuriya and Mr S Balasuriya	**2,086,022**	**2.88**	2,086,022	2.88
Mr L Balasuriya and Ms A S Balasuriya	**2,086,022**	**2.88**	2,086,022	2.88
Ms L Fernando and Ms S A Fernando	**1,166,232**	**1.61**	1,166,232	1.61
Ms L Fernando and Mr A R Fernando	**1,166,231**	**1.61**	1,166,231	1.61
Ms L Fernando and Ms A L Fernando	**1,166,231**	**1.61**	1,166,231	1.61
Mr D K C R Fernando	**673,348**	**0.93**	673,348	0.93
Mrs C Fernando	**172,888**	**0.24**	172,888	0.24
Estate of late Mr D G K Hewamallika	**172,888**	**0.24**	172,888	0.24

As at 31 March	2020		2019	
	Number of shares	**Percentage of holding %**	Number of shares	Percentage of holding %
Mr I M Thaha	**144,073**	**0.20**	144,073	0.20
Mr M M Ariyaratne	**31,653**	**0.04**	31,653	0.04
Mr P P K Ikiriwatte	**16,977**	**0.02**	16,977	0.02
Mr J K Jayatileke	**16,963**	**0.02**	16,963	0.02
Mrs S Thaha	**14,408**	**0.02**	158,483	0.22
Total shares	**72,475,046**	**100.00**	72,475,046	100.00

The Company has 72,475,061 (2019 – 72,475,061) number of voting shares in issue, with right to vote allocated at one vote per share as at 31 March 2020.

Information on public holding and market capitalisation

	2020	2019	Minimum requirement
Public holding (%)	**15.64**	15.84	7.50
Number of public shareholders	**8**	8	2.00
The float adjusted market capitalisation (LKR)	**1,042,884,032**	1,393,011,618	1,000,000,000

The float adjusted market capitalisation of the Company falls under Option 1 of Rule 7.13.1 (b) of the Listing Rules of the Colombo Stock Exchange. As at 31 March 2020 the Company was not in compliance with the minimum number of shareholders required therein.

Directors' shareholdings

	2020		2019	
	Number of shares	**Percentage of holding %**	Number of shares	Percentage of holding %
Dr M Balasuriya	**4,172,046**	**5.76**	4,172,046	5.76
Dr A Balasuriya and Mr D Balasuriya	**2,086,023**	**2.88**	2,086,023	2.88
Dr A Balasuriya and Mr S Balasuriya	**2,086,022**	**2.88**	2,086,022	2.88
Mr L Balasuriya and Mr S K Balasuriya	**2,086,023**	**2.88**	2,086,023	2.88
Mr L Balasuriya and Ms A S Balasuriya	**2,086,022**	**2.88**	2,086,022	2.88
Mrs L Fernando and Ms S A Fernando	**1,166,232**	**1.61**	1,166,232	1.61
Mrs L Fernando and Mr A R Fernando	**1,166,231**	**1.61**	1,166,231	1.61
Mrs L Fernando and Ms A L Fernando	**1,166,231**	**1.61**	1,166,231	1.61
Mr L Balasuriya - The Trustee of the Capitalisation Issue	**15**	**0.00**	15	0.00
Mr W A T Fernando (Resigned with effect from 1 August 2019)	**–**	**0.00**	–	0.00

	2020		2019	
	Number of shares	**Percentage of holding %**	Number of shares	Percentage of holding %
Mr S D Bandaranayake	–	**0.00**	–	0.00
Mr D T P Collure	–	**0.00**	–	0.00
Mr W M R S Dias	–	**0.00**	–	0.00
Mr Senanayakege R Pushpakumara	–	**0.00**	–	0.00
Mr Vasantha Kumar (Appointed with effect from 1 July 2019)	–	**0.00**	–	0.00

Distribution of shareholding

Shareholding as at 31 March	2020			2019		
	Number of holders	**Number of shares**	**Percentage %**	Number of holders	Number of shares	Percentage %
1 – 1,000	**1**	**15**	**0.00**	1	15	0.00
1,001 – 10,000	**0**	**–**	**0.00**	0	–	0.00
10,001 – 100,000	**4**	**80,001**	**0.11**	3	65,593	0.09
100,001 – 1,000,000	**4**	**1,163,197**	**1.60**	5	1,321,680	1.82
1,000,001 – 10,000,000	**11**	**30,313,313**	**41.83**	11	30,313,313	41.83
Over 10,000,000 shares	**1**	**40,918,535**	**56.46**	1	40,774,460	56.26
		72,475,061	**100.00**		72,475,061	100.00

Residential and non-residential shareholders

Shareholding as at 31 March	2020			2019		
	Number of holders	**Number of shares**	**Percentage %**	Number of holders	Number of shares	Percentage %
Resident shareholders	**20**	**66,520,668**	**91.78**	20	66,520,668	91.78
Non-resident shareholders	**1**	**5,954,393**	**8.22**	1	5,954,393	8.22
		72,475,061			72,475,061	

Institutional and individual shareholding

Shareholding as at 31 March	2020			2019		
	Number of holders	**Number of shares**	**Percentage %**	Number of holders	Number of shares	Percentage
Institutions	**3**	**46,872,943**	**64.67**	3	46,728,868	64.48
Individuals	**18**	**25,602,118**	**35.33**	18	25,746,193	35.52
		72,475,061			72,475,061	

Information on market prices and other ratios

	2020	2019	2018	2017	2016
Earnings per share (LKR)	**3.14**	13.12	13.97	13.05	9.40
Dividends per share (LKR)	**0.95**	3.15	3.00	2.85	2.55
Net assets per share (LKR)	**74.65**	73.09	69.42	56.14	45.89
Price earning ratio (Times)	**29.30**	6.86	6.44	6.90	6.38
Price to book value ratio (Times)	**1.23**	1.23	1.30	1.60	1.31
Dividends yield (%)	**1.03**	3.50	3.33	3.17	4.25

Market price and trade information

	2020	2019
Market prices		
Highest price (LKR)	**92.00**	Not traded
Lowest price (LKR)	**92.00**	Not traded
Last traded price (LKR)	**92.00**	Not traded
Last traded date	**9 December 2019**	–
Number of trades	**1**	–
Number of shares traded	**144,075**	–
Value of shares traded (LKR)	**13,254,900**	–

Dividend policy

A number of factors are taken into consideration when deciding the dividend payout. These include earnings after tax, current capital ratios, capital requirements to support future growth, strategies, and industry practices.

The Company did not propose any dividends for the year under review. LKR 68.8 Mn., 30.22% of earnings were distributed as declared in the previous financial year.

Details of dividends paid to shareholders during the year are as follows:

	2020			2019		
Dividend payment	**Amount LKR**	**DPS LKR**	**Paid date**	Amount LKR	DPS LKR	Paid date
1st interim dividend paid	–	–	–	28,990,024	0.40	29 October 2018
2nd interim dividend paid	–	–	–	57,980,049	0.80	11 February 2019
3rd interim dividend paid	–	–	–	43,485,037	0.60	7 May 2019
Final dividend proposed/paid	–	–	–	25,366,271	0.35	9 August 2019
Total dividends proposed	–			130,455,110		
Dividends paid during the year	**68,851,308**			228,296,442		
Earnings during the year	**227,831,063**			950,603,694		
Dividends pay-out ratio (%)	**30.22**			24.02		
Earnings retention ratio (%)	**69.78**			75.98		

Information on listed debentures

The listed debentures provide a reliable source of funding for corporates whilst allowing the investors to reap benefits of favourable market movements and realise the gains when required. We have the following listed debentures in issue:

Debenture	August 2019	November 2016			
		Type B	Type C	Type D	Type E
Instrument	Subordinated, Unsecured, Redeemable, Rated	Senior, Unsecured, Redeemable, Rated			
Listing	Main board of the Colombo Stock Exchange	Main board of the Colombo Stock Exchange			
Redemption	Redeemable	Redeemable			
Number of debentures	17,500,000	100.00	1,895,100	622,700	23,509,400
Issue price (LKR)	100.00	100.00	100.00	100.00	100.00
Tenure	5 years	3 years	3 years	4 years	4 years
Date of issue	August 2019	November 2016	November 2016	November 2016	November 2016
Date of maturity	August 2024	November 2019	November 2019	November 2020	November 2020
Interest rate	Fixed coupon of 12.875% p.a.	6 Month Gross T Bill + 1.50%	Fixed coupon of 13.25% p.a.	6 Month Gross T Bill + 1.75%	Fixed coupon of 13.75% p.a.
Frequency of interest	Semi-annually	Semi-annually	Semi-annually	Semi-annually	Semi-annually
Effective annual yield (%)	13.29	–	13.69	–	14.22
Interest of comparable Government securities (%)	9.70	9.08	9.08	9.60	9.60
Rating	BBB- by Fitch Ratings Lanka Limited	BBB+ by Fitch Ratings Lanka Limited			
Total amount (LKR)	1,750,000,000	10,000	189,510,000	62,270,000	2,350,940,000
Market information –					
Highest traded value (LKR)	100.00	Not traded	100.00	Not traded	100.10
Lowest traded value (LKR)	100.00	Not traded	100.00	Not traded	100.00
Last traded value (LKR)	100.00	Not traded	100.00	Not traded	100.10
Current yield (%)	12.88	N/A	N/A	–	13.74
Yield to maturity (%)	12.88	N/A	N/A	–	0.05

The Company redeemed listed debentures to the value of LKR 189.52 Mn. during the year.

Proceeds from the Debenture issue in November 2016 were, primarily utilised to fund finance leasing and other lending of the Company. Details of utilisation of funding are given below:

Objective number	Objective as per prospectus	Amount allocated as per prospectus LKR Mn.	Proposed date of utilisation as per prospectus	Amount allocated from proceeds in (A) LKR Mn.	% of total proceeds	Amount utilised (B) LKR Mn.	% of utilisation against allocation (B/A) %	Clarification if not fully utilised including whether the funds are invested
1	Leasing	2,700	Within 6 months from the date of allotment	2,700	90	2,700	100	N/A
2	Loans and advances	300	Within 6 months from the date of allotment	300	10	300	100	N/A

The subordinated debenture issue in August 2019 was primarily objected to strengthen the capital structure of the Company. Proceeds from the Debenture issue were utilised to finance leasing and other lending. Details of utilisation of funding are given below:

Objective number	Objective as per prospectus	Amount allocated as per prospectus LKR Mn.	Proposed date of utilisation as per prospectus	Amount allocated from proceeds in (A) LKR Mn.	% of total proceeds	Amount utilised (B) LKR Mn.	% of utilisation against allocation (B/A) %	Clarification if not fully utilised including whether the funds are invested
1	Expansion of the lending portfolio	1,750	Within 12 months from the date of allotment	1,750	100	1,750	100	N/A

Other financial information

	2020	2019	2018	2017	2016
Debt to equity ratio (Times)	**2.96**	3.77	3.93	5.12	3.93
Interest cover (Times)	**1.06**	1.25	1.29	1.47	1.52

Capital adequacy

It is important to maintain adequate capital funds to be resilient in volatile economic conditions. Several directives were issued by the Central Bank of Sri Lanka (CBSL) to govern this aspect of NBFIs. In addition to the Direction issued in 2017 specifying the minimum core capital requirement of a Licensed Finance Company (LFC) encouraging consolidation of LFCs, the following Directives governing the capital positions of LFCs were issued:

- Finance Companies (Capital Funds) Direction No. 01 of 2003 specifies that every finance company should maintain capital funds which should at all times be more than 10% of its total deposit liabilities and also every finance company should maintain a Statutory Reserve Fund, transferring a specified fraction of its net profit for the year based on the ratio of capital funds to total deposit liabilities.
- Finance Companies (Capital Adequacy Requirement) Direction No. 03 of 2018 specifies that every finance company should, at all times maintain its core capital at a level not less than 6.5% of its risk-weighted assets, and the total capital constituting not less than 10.5% of its risk-weighted assets which was increased to 11% from July 2020.

Tier 1 – Core capital: comprises paid up ordinary share capital, statutory reserves and/or any other reserves created or increased by transferring of retained earnings excluding special purpose reserves with adjustments to investments in financial subsidiaries, intangible assets and shortfall of impairment provision.

Tier 2 – Supplementary capital: comprises of revaluation reserves, general provisions and other capital instruments which combine characteristics of equity and debt instruments and unsecured subordinated term debts.

Risk-weighted assets – The CBSL defines weightings based on the risk inherent in each category of assets. Cash and cash equivalents as well as Government securities are 0% weighted, securitised assets are weighted in accordance with risk exposure of the security.

Risk-weighted assets on operational risk, as introduced by this new Direction is calculated using the Basic Indicator Approach.

- Finance Companies (Minimum Core Capital) Direction No. 02 of 2017 specifies that every finance company should at all times maintain an unimpaired core capital not less than LKR 2.0 Bn. from 1 January 2020 and thereafter maintains an unimpaired core capital at levels as stipulated by the dates specified.

Our commitment

Understanding the importance of healthy capital positions, we continue to surpass the regulatory capital requirement. As at 31 March 2020, our core capital ratio and total capital ratio stood at 15.48% and 21.54% respectively.

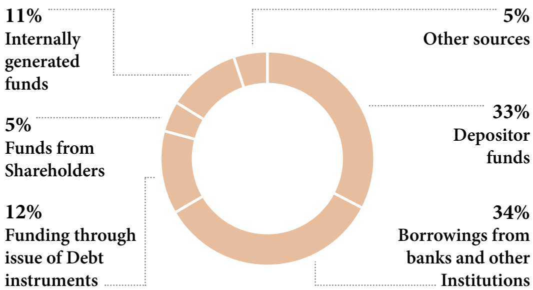
Initiatives taken during the year,

- We maintained a Statutory Reserve Fund, amounting LKR 430,036,033 as at 31 March 2020. LKR 15 Mn. was transferred out of profits to the said Fund during the year.
- Out of profits for the year, LKR 146,712,507 was retained within the Company to support future growth and to strengthen the capital base.
- LKR 1,750 Mn. worth of subordinated, listed debentures was issued with the approval of the CBSL during the year, which helped to increase the total capital ratio to 21.54% by March 2020.

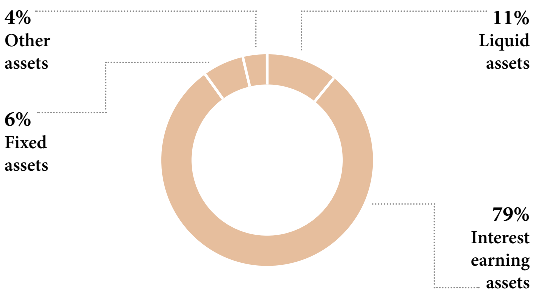
	2020* %	2019* %	2018 %	2017 %	2016 %
Core capital ratio					
Senkadagala Finance PLC	**15.48**	14.46	16.86	14.19	15.82
CBSL minimum requirement	**6.50**	6.00	5.00	5.00	5.00
Total capital ratio					
Senkadagala Finance PLC	**21.54**	15.49	17.65	16.08	19.69
CBSL minimum requirement	**10.50**	10.00	10.00	10.00	10.00

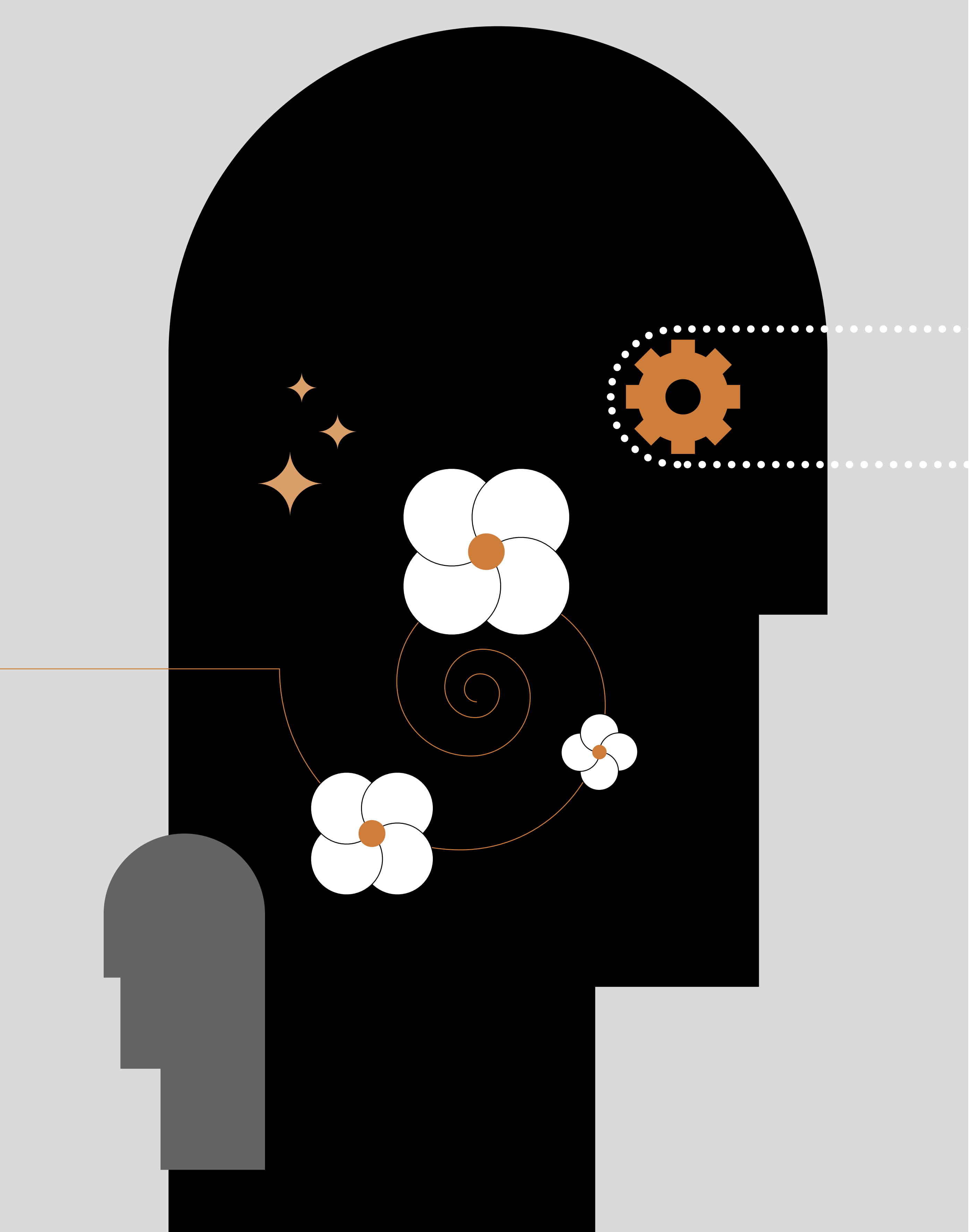
**Calculated in accordance with Finance Companies (Capital Adequacy Requirement) Direction No. 03 of 2018*

Sources of funds



Distribution of funds





Governance

Board of Directors' Profiles

Mr W M R S Dias

FCIBC (London), LL.B, Hubert H Humphrey Fellow
Chairman

Mr Ravi Dias, a banker by profession, retired as the Managing Director/Chief Executive Officer of Commercial Bank of Ceylon PLC after long years of service. He is a Fellow of the Chartered Institute of Bankers – UK, holds a Degree in Law (LL.B) and is a Hubert H Humphrey Fellow.

Mr Dias serves on the Boards of Seylan Bank PLC (Chairman), Carson Cumberbatch PLC, Tokyo Cement (Lanka) PLC, Ceylon Tea Marketing (Pvt) Ltd., (Chairman), and South Asia Textile Industries Ltd.

He previously served on the Boards of Lanka Clear (Pvt) Ltd., Lanka Financial Services Bureau Ltd., Commercial Development Company PLC, Commercial Insurance Brokers (Pvt) Ltd., and was a council member of the Employers' Federation of Ceylon.

Mr Lakshman Balasuriya

BSc (London), MSc (Lancaster)
Managing Director/Chief Executive Officer

Mr Lakshman Balasuriya is a Director of E W Balasuriya & Co. (Pvt) Ltd., Senkadagala Hotels (Pvt) Ltd., Thompsons Beach Hotels Ltd. and Candor Asset Management (Pvt) Ltd. He holds a BSc (Lon) and MSc (Lancaster) and has 39 years of experience in finance, hotel management, and other commercial fields. He is the Managing Director and the Chief Executive Officer of Senkadagala Finance PLC.

Dr Asoka Balasuriya

BSc (London), PhD (London)
Executive Director

Dr Balasuriya holds a BSc (Lon) and a PhD (Lon) and has over 36 years of experience in the field of gems and jewellery. He is also a Director of Senkadagala Hotels Ltd., Thompsons Beach Hotels Ltd., and is the Chairman of E W Balasuriya & Co. (Pvt) Ltd.

Ms Lakshmi Fernando

BSc (Hons)
Executive Director

Ms Fernando holds a BSc (Hons) and has over 24 years of experience in the field of finance as well as in hotel management. She is a Director of Thompsons Beach Hotels Ltd., Senkadagala Hotels Ltd., and E W Balasuriya & Co. (Pvt) Ltd.

Dr Mahendra Balasuriya

BVSc
Executive Director

Dr Balasuriya is a Director of Senkadagala Hotels Ltd., E W Balasuriya & Co. (Pvt) Ltd., and Thompsons Beach Hotels Ltd., He holds a Bachelor's Degree in Veterinary Science and has over 36 years of experience in finance, hotel management, and other related fields.

Mr Sanath Divale Bandaranayake

BSc (University of Sri Lanka)
Executive Director/Additional CEO

Mr Bandaranayake joined the Company subsequent to his retirement from Commercial Bank of Ceylon PLC – the largest and most awarded bank in Sri Lanka – having completed 36 years of service.

He has served the Bank in various capacities such as Branch Manager (Kandy, City Office), Chief Manager, Assistant General Manager, and Deputy General Manager (Operations). He was a core member of the management teams which led the Bank to important milestones such as introducing the banking software which has eased the Bank's operations and is used to date. During his tenure he also introduced holiday banking and supermarket banking.

During his career at the Bank he was appointed as Director at LankaClear and also served as Director of Commex Sri Lanka S R L (subsidiary of Commercial Bank based in Italy) and ONEzero Company Ltd., (subsidiary of Commercial Bank engaged in the business of Information Technology). Mr Bandaranayake holds a Bachelor's Degree in Physical Sciences from the University of Sri Lanka, Vidyodaya Campus.

Mr Don Tilak Padmanabha Collure

BSc (Colombo), MPA (University of Sri Jayewardenepura)
Independent Non-Executive Director

Mr Collure is a former public servant from the Sri Lanka Administrative Service Special Grade who has held a number of senior positions during 35 years in Government service mainly in the areas of trade, commerce, and logistics.

He has served as the Secretary to the following ministries: Ministry of Industry and Commerce, Ministry of Transport, Ministry of Shipping, Ports and Aviation. During his career, he has also headed several major public sector corporate institutions.

At present, he serves as a Member of the National Police Commission. Mr Collure holds a BSc in Natural Sciences (Colombo) and a Masters in Public Administration with a Merit Award (PIM/University of Sri Jayewardenepura).

Mr Senanayakege Raja Pushpakumara

FCA, BCom (Special) (USJ), PG Dip (BMgt)
Independent Non-Executive Director

Mr Senanayakege completed his articles at M/s Ernst & Young qualifying as a Chartered Accountant and joined Singer Industries (Ceylon) PLC in 1991 as a Financial Accountant. In 1994, he joined Commercial Bank of Ceylon PLC as the Senior Manager Finance where he worked for 13 years and was the Assistant General Manager (Finance and Planning) when he resigned to join Nations Trust Bank PLC as the Chief Financial Officer. Subsequent to resigning from NTB, he commenced working at Smart Media The Annual Report Company helping the Company in all aspects of annual report production.

Mr Senanayakege also serves as an Independent Non-Executive Director of Serendib Finance Ltd., a fully-owned subsidiary of Commercial Bank of Ceylon PLC and a Director of Virtual Capital Technologies (Pvt) Ltd., a software development company that specialises in enterprise solutions in the real estate, retail and telecom spaces catering to the New Zealand and the Australian markets.

Mr Namasivayam Vasantha Kumar

MBA, Dip (Professional Treasury Management)
Independent Non-Executive Director

Mr N Vasantha Kumar holds a Master of Business Administration and Diploma in Professional Treasury Management. He was the former CEO/General Manager of People's Bank and served as Treasurer at ANZ Grindlays Bank, Colombo for many years.

Currently, he is the Chairman of Safe Holding (Pvt) Ltd. and Director of Ceylinco Insurance PLC and a Past President of the Association of Primary Dealers and Sri Lanka Forex Association.

Corporate Governance

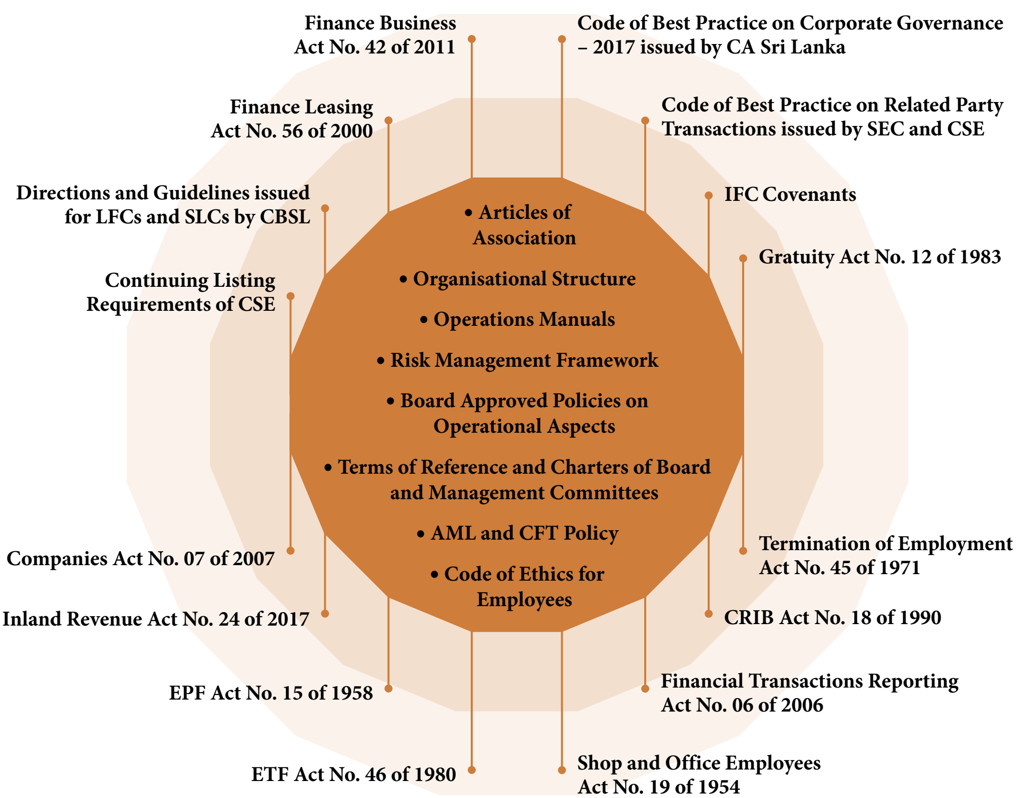
The Company's corporate governance framework which is built with cornerstones of collaborative culture, independent structure, ethical behaviour and the focused approach continues to ensure good governance within the Company. The strong foundation laid down by the Board through its governance philosophy is elaborated in this section. Further, it addresses how the Company conducts business by leveraging the numerous opportunities and responding to the threats presented by the business environment whilst maintaining the right balance between rights of and responsibilities to stakeholders.

As per the concept of Corporate Governance which has been defined as a system by which companies are directed, managed and controlled, the effective, transparent and accountable governance of affairs of a Company by its Management, including the conduct of the Board, ensures good corporate governance. Therefore, we at Senkadagala Finance PLC, place a strong emphasis on adopting and implementing sound principles and practices of good corporate governance derived from its foundation. The Company's policy of employing principles and practices of good governance ensures that its affairs are conducted in an effective and transparent manner and is well communicated to all its branches, service centres and departments within the Organisation.

Moreover, governance of financial institutions should aim at protecting the interests of all stakeholders such as shareholders, customers, employees, suppliers, regulators, depositors and the general public. Therefore, to that effect, the overall responsibility for governing the Company has been initiated by the Board of Directors followed by the Management Committee who takes leadership and a supervisory role in ensuring that the business is conducted in a transparent, sound and prudent manner. In governing the operations of the Company, the Board ascertains its core objectives and devises strategic plans in keeping with its corporate vision, mission and corporate values. The Board as part of its duties establishes policies, procedures and practices for smooth conduct of operations while providing financial, human and other resources for the attainment of its corporate objectives. Company continues to excel in the area of financial reporting which enhances transparency, one of the key features of an enterprise practicing sound corporate governance practices.

The framework including policies, procedures, structures and processes is reviewed regularly with the view of identifying gaps and areas for improvement to ensure that all elements of the Company's governance framework are fit for the purpose, up to date enabling value creation and growth.

The Governance Environment of the Company



The Company's corporate governance structure has been designed based on recommended best practices, regulatory requirements and industry standards. It has been further developed in the recent past in order to accommodate additional requirements of the regulators.

Corporate Governance Structure of the Company

Appoints
Reports to

Shareholders

Main Board

Chairman	Independent Non-Executive Directors (Including the Chairman)	Executive Directors
	4	5
Governance of the Board	Overall conduct of the business and strategy setting	

Board Committees

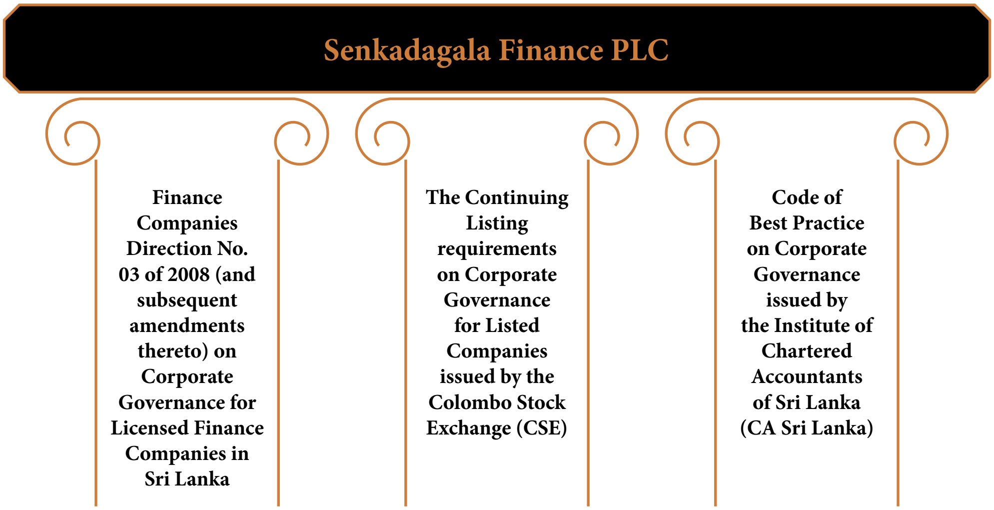
Audit Committee	Integrated Risk Management Committee	Remuneration Committee	Related Party Transactions Review Committee
Key objectives	**Key objectives**	**Key objectives**	**Key objectives**
Effective governance of financial reporting, internal control and risk management systems, review of significant accounting judgements, assumptions and estimates, management of the relationship and appointment of the External Auditor, monitoring and reviewing of effectiveness of the internal audit function	Development and implementation of policy on risk management including corporate compliance, review, assess and monitor all the risks faced by the Company and compliance with policies, procedures and other regulatory requirements	Development and implementation of the Company's remuneration framework and policies for Directors and the management including all incentives, bonuses and retirement benefits	To have guidelines for identification of related parties and the proper conduct, documentation and disclosure of all related party transactions of the Company
Three Independent Non-Executive Directors with accounting and auditing background	**One Independent Non-Executive Director and two Executive Directors with the Senior Management**	**Two Independent Non-Executive Directors**	**Two Independent Non-Executive Directors and one Executive Director**

Executive Management Committee

- Managing Director
- Additional Chief Executive Officer
- Three Executive Directors
- Chief Financial Officer
- Chief Risk Officer
- Corporate Management

Key objectives
Implementation of strategy and actions in respect of financial planning and performance: day-to-day management of operations

Codes complied by the Company



Finance Companies Direction No. 03 of 2008 (and subsequent amendments thereto) on Corporate Governance for Licensed Finance Companies in Sri Lanka

This Direction comprises nine fundamental principles, namely the responsibilities of the Board of Directors, meetings of the Board, composition of the Board, criteria to assess the fitness and propriety of Directors, delegation of functions, the Chairman and the Chief Executive Officer, Board-appointed committees, related party transactions and disclosures. The established structures in place and the conformance to the requirements are tabulated below under each fundamental principle:

CBSL rule	Corporate governance principle	Compliance status	Level of compliance
2. The responsibilities of the Board of Directors			
2 (1)	Strengthening the safety and soundness of the operations of the finance company	Complied	The Board is responsible for overseeing the strategic direction, ensuring adequacy of risk management procedures, maintaining effective communication with all stakeholders, reviewing internal control systems and Management information systems for their effectiveness, identifying and defining the responsibilities of Key Management Personnel including succession planning, understanding the regulatory environment and exercising due diligence in hiring and oversight of External Auditors.
2 (2)	Chairman and CEO	Complied	The functions and the responsibilities of the Non-Executive Chairman and the Managing Director/CEO have been in line with the Section 7 of the Direction. The Chairman is required to provide leadership to the Board to ensure that the Board effectively discharges its responsibilities. The Managing Director/CEO on the other hand being an Executive Director is responsible for effective running of day-to-day operations of the Company.

CBSL rule	Corporate governance principle	Compliance status	Level of compliance
2 (3)	Independent professional advice	Complied	Independent professional advice could be obtained by the Directors as and when required, at the Company's expense.
2 (4)	Voting for resolutions in matters of interest	Complied	There had been no such circumstances that arose during the year and procedure is in place to avoid conflicts of interest in relation to matters of interest. There is proper identification and disclosure of Directors' Interest in Contracts and Related Party Transactions through proper recording and disclosure in Financial Statements.
2 (5)	Formal schedule of matters	Complied	The Board ensures that the direction and the control of the Finance Company is under its authority through decisions made by way of a formal schedule of matters reserved for it, which has been approved by the Board.
2 (6)	Situation of Insolvency	Complied	Such situation has not arisen as Company fulfilled all its obligations accordingly. The Company makes payment of interest and capital on due maturity dates to its depositors and its borrowers, when they fall due.
2 (7)	Corporate Governance Report	Complied	This report satisfies the stipulated requirement.
2 (8)	Scheme of self-assessment	Complied	Annual self-assessment by each Director on Board performance has been done accordingly.
3. Meetings of the Board			
3 (1)	Number of meetings	Complied	Please refer table of Directors Attendance for the Board meetings given later in this section. Board Papers and other matters which require Board's consent had been taken up directly at Board meetings as much as possible.
3 (2)	Inclusion of proposals by all Directors in the agenda	Complied	All Directors are able to submit proposals for discussion on matters pertaining to promotion of business and the risk management of the Company.
3 (3)	Notice of Meetings	Complied	Directors are given adequate time and minimum notice period for all Board meetings.
3 (4)	Attendance of Directors	Complied	All Directors have attended the Board meetings as stipulated by the Direction. Attendance of Directors at Board meetings is given later on in this Annual Report.
3 (5)	Board Secretary	Complied	The Board Secretary has been appointed by the Board to handle secretarial services of the Board and other functions specified by the statutes.

CBSL rule	Corporate governance principle	Compliance status	Level of compliance
3 (6)	Agenda for Board meetings	Complied	Board Secretary prepares the agenda for Board meetings under direct supervision of the Chairman. Prior to circulation, Board Secretary obtains Chairman's approval for the Notice of Meeting and the agenda.
3 (7)	Access to the Company Secretary	Complied	All Directors have the opportunity to obtain advice and services of the Company Secretary without any restriction.
3 (8)	Minutes of Board meetings	Complied	Duly perfected minutes of the Board meetings are available with the Board Secretary and those are accessible by any Director at any point in time.
3 (9)	Details of Minutes	Complied	Minutes of all Board meetings are duly recorded in sufficient details and retained by the Board Secretary under the direct supervision of the Chairman.
4. Composition of the Board			
4 (1)	Number of Directors	Complied	There were nine Directors in the Board as at the end of the financial year.
4 (2)	Period of service of a Director	Complied	Period of service of Non-Executive Directors has not exceeded nine years.

Name of Director	Directorship status	Number of months/ years in position as at 31 March 2020
Mr W M R S Dias	Chairman – Independent Non-Executive Director	Completed 5 years and 7 months
Mr D T P Collure	Independent Non-Executive Director	Completed 5 years and 10 months
Mr Senanayakege R Pushpakumara	Independent Non-Executive Director	Completed 3 years
Mr N Vasantha Kumar	Independent Non-Executive Director	Completed 9 months

CBSL rule	Corporate governance principle	Compliance status	Level of compliance
4 (3)	Appointment of an employee as a Director	Complied	No such situation has arisen during the year.
4 (4)	Number of Independent Non-Executive Directors	Complied	Board comprised four Independent Non-Executive Directors out of total of nine Directors in the Board as at the end of the financial year.
4 (5)	Alternate Director	Complied	No such situation has arisen during the year.

CBSL rule	Corporate governance principle	Compliance status	Level of compliance
4 (6)	Skills and experience of Non-Executive Directors	Complied	All four Non-Executive Directors of the Board possess adequate skills and experience to contribute to the Board in effectively discharging its obligations. The details of experience level of each Non-Executive Director have been set out on pages 54 and 55 in this Report.
4 (7)	Non-Executive Directors in the quorum of the meetings	Complied	Required quorum was maintained at the Board meetings convened during the year and the satisfactory proportion of Non-Executive Directors were present at these meetings.
4 (8)	Directors information	Complied	Composition of the Board by category of Directors, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors has been disclosed in this Report on pages 54 and 55.
4 (9)	Appointment of new Directors	Complied	There has been a formal and transparent procedure for the appointment of new Directors to the Board.
4 (10)	Filling a casual vacancy of a Director	Complied	No such situation has arisen during the year.
4 (11)	Resignation/removal of a Director	Complied	All new appointments and resignations are informed to the Director, Department of Supervision of Non-Bank Financial Institutions and also to the Colombo Stock Exchange in a timely manner.
5. Criteria to assess the fitness and propriety of Directors			
5 (1)	Directors over 70 years of age	Complied	As at the end of the financial year, all Directors of the Company were below the age of 70 years.
5 (2)	Holding of office in companies	Complied	Holding of office by the Directors of Senkadagala Finance PLC has been in accordance with this corporate governance requirement.
6. Delegation of functions			
6 (1)	Delegating work	Complied	The Board ensures delegation of authority at various levels does not hinder or reduce its ability as a whole to discharge its functions.
6 (2)	Reviewing of delegation process	Complied	Delegation of authority is being reviewed by the Board as and when necessary.
7. The Chairman and the Chief Executive Officer			
7 (1)	Roles of the Chairman and the CEO	Complied	The roles of Chairman and CEO are segregated and are not performed by the same person.
7 (2)	Chairman is an Independent Non-Executive Director, if not appointing a senior Director	Complied	The Chairman of Senkadagala Finance PLC, Mr Ravi Dias is an Independent Non-Executive Director.

CBSL rule	Corporate governance principle	Compliance status	Level of compliance
7 (3)	Relationship between Chairman and CEO and other Directors	Complied	There are no material relationships, including financial, business or family between the Chairman and the CEO and other members of the Board which impair their respective roles and functions as members of the Board.
7 (4)-7 (11)	Role of the Chairman	Complied	Chairman provides leadership to the Board and ensures that the Board works effectively and discharges its responsibilities. He also ensures that all key issues are discussed by the Board in a timely manner. Board Secretary prepares the agenda for Board meetings under direct supervision of the Chairman. The agenda with Notice of Meeting is duly circulated to the Directors at least seven days prior to the meeting. All Directors are informed adequately and in a timely manner of the issues arising at each Board meeting. Chairman ensures full and active contribution of all members of the Board and also ensures the Board acts in the best interests of the Company. Chairman does not engage in activities involving direct supervision of Key Management Personnel.
8. Board appointed committees			
8 (1)	Board Committees	Complied	There are four Board-appointed subcommittees namely Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Related Party Transactions Review Committee. Minutes are kept for each of the above committees under the supervision of the Chairman relating to each committee. A report on the performance, duties and functions of each committee has been made available in this Annual Report.
8 (2)	Audit Committee	Complied	Mr Raja Senanayake, a Fellow Member of CA-Sri Lanka and an Independent Non-Executive Director of the Company acts as the Chairman of the Audit Committee. Other members of the Committee are also Independent Non-Executive Directors and possess multifaceted experience including finance background. The details of the Audit Committee are set out in the Audit Committee report on pages 80 and 81.
8 (3)	Integrated Risk Management Committee	Complied	IRMC consists of one Independent Non-Executive Director, two Executive Directors including CEO and Key Management Personnel. All key business risks are addressed and assessed on a continuous basis by the IRMC through its periodical meetings. The details of the Integrated Risk Management Committee are given on page 82 of this Annual Report.

CBSL rule	Corporate governance principle	Compliance status	Level of compliance
9. Related Party Transactions			
9 (2)	Avoiding conflict of interest in related party transactions and favourable treatments	Complied	There were no such transactions reported during the year. The Board has taken steps to avoid conflict of interest due to related party transactions as well as favourable treatments to related parties. Particulars relating to related party transactions have been disclosed in the Notes to the Financial Statements. The Company has not entered in to any transaction in a manner that would grant the related party "more favourable treatment" than the treatment given for transactions with an unrelated customer. The details of the Related Party Transactions Review Committee are given on page 84 of this Annual Report.
10. Disclosures			
10 (1) (a)	Financial reporting as per regulatory requirements and applicable accounting standards	Complied	Relevant Financial Statements are published in conformity with regulatory requirements and applicable accounting standards.
10 (1) (b)	Publishing financial reports in Sinhala, Tamil and English newspapers	Complied	Financial Statements are published in all three languages in the newspapers.
10 (2)	Disclosures in the Annual Report	Complied	(a) A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures is given on page 96. (b) Statement of Internal Control by the Board is given on page 102. (c) The statement referred to in Section (b) above has been certified by Messrs KPMG, External Auditor of the Company. (d) Names and other information of Directors are provided on pages 54 and 55. (e) Fees and remuneration paid by the Company to the Directors in aggregate is given on pages 97 and 192 of the Financial Statements. (f) There were no accommodations granted to related parties during the year. (g) The details of aggregate values of remuneration paid by the Company to its Key Management Personnel are disclosed on page 192. (h) There were no non-compliances to prudential requirements, regulations, laws and internal controls. (i) There were no regulatory and supervisory concerns on lapses in the finance Company's risk management, non-compliance with the Act, and rules and directions that have been communicated by the Director of NBFI and directed by the Monetary Board to be disclosed to the public. (j) The External Auditor of the Company has submitted a factual finding report on the corporate governance status and its compliance with Directions issued by the Director, Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

The Continuing Listing Requirements, Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange (CSE)

Section 7.10 of the CSE Listing Rules requires a listed entity to publish in the Annual Report relating to the financial year commencing on or after 1 April 2007 a statement confirming that as at the date of the Annual Report they are in compliance with the Corporate Governance Rules and if they are unable to confirm compliance, set out the reasons for its inability to comply. The rule addresses the areas such as Non-Executive Directors, Independent Directors, disclosures relating to Directors, criterion for defining Independence, Remuneration and Audit Committees. Following table depicts the level of compliance of the Company under each area:

CSE rule	Corporate governance principle	Compliance status	Level of compliance
7.10.1	Non-Executive Directors	Complied	There were four Non-Executive Directors and it was more than one-third of the Board of Directors.
7.10.2	Independent Directors	Complied	All four Non-Executive Directors were Independent Directors as well. Non-Executive Directors have submitted the signed declarations of their independence.
7.10.3	Disclosures relating to Directors	Complied	Annual determinations as to the independence of Directors have been made and disclosed in the Annual Report. (Refer directorship status under Board and Committee meetings-attendance on page 79. A brief profile of each Director has been set out on pages 54 and 55. Information relating to new appointments to the Board is disclosed to the CSE, when appointments are made to the Board.
7.10.4	Criteria for defining independence	Complied	All criteria given in determining the independence of Directors have been taken in to consideration for the determination of independence status of the Company's Independent Directors.
7.10.5	Remuneration Committee	Complied	The Remuneration Committee solely consists of Independent Non-Executive Directors and the MD/CEO attends the meeting by invitation. The report of the Remuneration Committee including its policy and scope has been set out on page 85 of this Annual Report.
7.10.6	Audit Committee	Complied	The Audit Committee consists of three Independent Non-Executive Directors. The Report of the Audit Committee including its composition, policy and scope has been set out on pages 80 and 81 of this Annual Report.

Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

This voluntary code consists of seven fundamental principles, namely Directors, Directors' Remuneration, Relations with Shareholders, Accountability and Audit, Institutional Investors, Other Investors and Sustainability Reporting. The level of adoption of the best practices mentioned under each fundamental principle is depicted below:

Number	Corporate governance principle	Adoption status	Level of adoption
A. Directors			
A.1 The Board			
Senkadagala Finance is headed by an effective Board which directs, leads and controls the Company.			
A.1.1	Board meetings	Adopted	There were 11 Board meetings during the year, at approximately monthly intervals. Details of the meetings and individual attendance are given on page 79.
A.1.2	Board responsibilities	Adopted	The Board of Directors of Senkadagala Finance is responsible for the following: – Formulating, implementing and executing a sound business strategy. – Ensuring CEO and the Management Team possesses the skills, experience and knowledge to devise the strategy. – Having a proper succession plan for the Key Management Personnel including CEO. – Securing integrity of information, prudent management of risks, designing effective internal controls and, ensuring business continuity. – Ensuring compliance with laws and regulations. – Considering all stakeholder interests in the corporate decision-making process. – Recognising sustainable business development in Company's strategy, decisions and other activities. – Company's values and standards are set with emphasis on adopting appropriate accounting policies.
A.1.3	Independent professional advice	Adopted	Independent professional advice could be obtained by the Directors as and when required at the Company's expense.
A.1.4	Access to the Company Secretary	Adopted	All Directors have the opportunity to obtain advice and services of the Company Secretary without any restriction. There has not been any instance where there is a requirement to remove the Secretaries of the Company.
A.1.5	Independent judgement of Directors	Adopted	Directors bring independent judgement and scrutiny on decisions taken by the Board on issues of strategy, performance, resources and standard of its business conduct.

Number	Corporate governance principle	Adoption status	Level of adoption
A.1.6	Directors' dedication of adequate time and efforts	Adopted	Board of Directors of the Company dedicates sufficient time to review Board papers and call for additional information and clarifications, if required. Also follows up on actions taken for issues discussed at the meetings.
A.1.7	Training for Directors	Adopted	All Directors are given the opportunity to get trained. Specific training on financial services industry is also available by way of presentations to the Board and attending seminars such as Directors' symposium at CBSL, etc.

A.2 Chairman and Chief Executive Officer

In Senkadagala Finance PLC, Chairman is responsible for conducting the business of the Board while MD/CEO of the Company is responsible for conducting the business of the Company.

A.2.1	Key tasks of Chairman and CEO	Adopted	The roles of the Chairman and the MD/CEO have been separated to ensure that no individual has unfettered powers of decision-making.

A.3 Chairman's role

Chairman of the Company is responsible for effective conduct of the Board as to preserve the order and good corporate governance.

A.3.1	Role of the Chairman	Adopted	The Chairman who is an Independent Non-Executive Director ensures effective discharge of Board functions through: – Having monthly Board meetings with adequate notice preserving the agenda prepared by the Company Secretary under his close supervision. – Ensuring effective participation of both Executive and Non-Executive Directors in the decision-making process while maintaining the balance of power among them. – Encouraging effective contribution of all the Directors' respective capabilities towards the benefit of the Company. – Obtaining views of all Directors for issues under consideration. – Ensuring that the Board is in complete control of the Company's affairs and alerts to its obligations to shareholders while maintaining proper communication with all the stakeholders.

Number	Corporate governance principle	Adoption status	Level of adoption
A.4 Financial acumen			
The Board of the Company consists of members with sufficient financial acumen and knowledge to offer guidance on matters of finance.			
A.4	Availability of sufficient financial acumen and knowledge	Adopted	The Board includes fellow members of both local and international professional accounting bodies. (The details of qualifications of Directors are given on pages 54 and 55). These Directors are having sufficient financial acumen and knowledge to offer guidance on matters of finance to the Board.
A.5 Board balance			
The Board of the Company consists of four Non-Executive Directors and five Executive Directors.			
A.5.1	Ratio of Executive and Non-Executive Directors	Adopted	A ratio in excess of the requirement ensures that the Board decisions are taken impartially. The roles of the Chairman and the MD/CEO are not vested in one person.
A.5.2	Independent Directors	Adopted	All the Non-Executive Directors are independent and within the requirements of the Code.
A.5.3	Mode of Independence	Adopted	All Independent Directors are independent of management and free of business relationships so that they could exercise their unfettered and independent judgement over decisions without any material interference.
A.5.4	Declaration of Independence	Adopted	All Independent Non-Executive Directors submit their annual declarations as to their independence against the specified criteria.
A.5.5	Determination of independence of the Directors by the Board	Adopted	The Board determines that the submission of declaration by the Independent Directors as to their independence is a fair representation and continues to evaluate it annually.
A.5.6	Alternate Director	Not applicable	The requirement for appointing an Alternate Director has not arisen during the year.
A.5.7 and A.5.8	Senior Independent Director	Not applicable	Such situation has not arisen as roles of Chairman and MD/CEO have been clearly separated.
A.5.9	Meetings with Non-Executive Directors	Adopted	The Chairman can meet with Non-Executive Directors without the presence of Executive Directors if necessary twice a year when Non-Executive Directors meet the External Auditor without Executive Directors being present as per the requirement under CBSL Direction on Corporate Governance.
A.5.10	Recording of concerns in Board minutes	Not applicable	There have been no concerns about the matters of the Company which could not be resolved unanimously. All matters taken up for discussion were resolved through unanimity at Board meetings.

Number	Corporate governance principle	Adoption status	Level of adoption
A.6 Supply of information			
Company has provided appropriate timely information to the Board enabling it to discharge its duties effectively.			
A.6.1	Information to the Board by Management	Adopted	Management provides appropriate and timely information to the Board and Board calls for further information where necessary. The Chairman ensures all Directors are provided with all necessary information pertaining to the issues discussed at Board meetings.
A.6.2	Notice of Board meetings	Adopted	The Board Papers including previous meeting minutes and agenda are sent to the Directors, minimum seven days before the respective Board meeting. This would give adequate time for Directors to study the related matters and get ready for effective discussion at Board meetings.
A.7 Appointments to the Board			
There should be a formal and transparent procedure on new appointments to the Board.			
A.7.1	Nomination Committee	Not Adopted	The Board as a whole decides on the selection of new Directors.
A.7.2	Assessment of Board composition	Adopted	The Board as a whole annually assesses the Board composition, to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. Findings of the assessment of the Board are considered for new Board appointments and re-election of Directors.
A.7.3	Disclosure of details of new Directors to shareholders	Adopted	When appointing a new Director to the Board, a brief profile of the Director, experience and skills, other directorships, status of independence, etc., are disclosed not only to the shareholders but also to the general public as per the requirements under CSE Listing Rules.
A.8 Re-election			
All Directors should be required to submit for re-election at regular intervals and at least once in every three years			
A.8.1	Appointment of Non-Executive Directors	Adopted	Non-Executive Directors are only appointed for a period of nine years with the age limit of seventy.
A.8.2	Election of Directors	Adopted	Appointment and reappointment of all Directors including the Chairman of the Board is subject to election by shareholders.

Number	Corporate governance principle	Adoption status	Level of adoption
A.9 Appraisal of Board performance			
Board performance is evaluated annually in order to ensure satisfactory discharge of its responsibilities.			
A.9.1 and A.9.2	Appraisal of Board performance and annual self-evaluation of Board performance and its committees	Adopted	A formal Board performance evaluation process has been implemented and it is carried out annually. A checklist has been introduced for this purpose and it is filed with minutes of the Board meetings by the Secretary.
A.9.3	Mode of Board performance appraisal	Adopted	Board performance evaluation is being carried out as detailed in above Sections A.9.1 and A.9.2.
A.10 Disclosure of information in respect of Directors			
Details of Directors should be made available for the shareholders.			
A.10.1	Disclosure of details of Directors in the Annual Report	Adopted	The name, qualifications and the brief profiles including nature of expertise of all the Directors have been set out on pages 54 and 55 in this Report. Please refer the table given on page 79 for directorship status, Board meeting and other committee meeting attendance by the Directors of the Company.
A.11 Appraisal of Chief Executive Officer (CEO)			
Performance of CEO is to be assessed at least annually to see whether the Company has achieved the objectives set by the Board.			
A.11.1	Financial and non-financial targets for the CEO	Adopted	At the commencement of the financial year, reasonable financial and non-financial targets for the CEO are set by the Board in consultation with the CEO in line with short, medium and long-term objectives of the Company.
A.11.2	Evaluation of the performance of CEO	Adopted	The Board periodically assesses the performance of the Company to ensure its short, medium and long-term objectives are achieved against its targets set and approved by the Board.
B. Directors' remuneration			
B.1 Remuneration procedure			
Company should have a well-established, formal and transparent procedure for developing an effective policy on Executive remuneration and remuneration packages for individual Directors where no Director is involved in deciding his/her own remuneration.			
B.1.1	Remuneration Committee	Adopted	A Remuneration Committee has been set up to make recommendations to the Board on the Company's remuneration framework. Details have been given on page 83, in the report of the Remuneration Committee.
B.1.2	Composition of the Remuneration Committee	Adopted	All the members of the Remuneration Committee are Independent Non-Executive Directors.

Number	Corporate governance principle	Adoption status	Level of adoption
B.1.3	Disclosures in the Annual Report	Adopted	Details of the members and the Chairman of the Remuneration Committee have been given on page 83 of this Annual Report under report of the Remuneration Committee.
B.1.4	Remuneration of the Non-Executive Directors	Adopted	The Board as a whole decides on the remuneration of the Non-Executive Directors.
B.1.5	Consultation of the Chairman or the CEO and access to professional advice	Adopted	Remuneration Committee consults the Chairman about its proposals where necessary. CEO attends the Remuneration Committee meetings by invitation. External professional advice is obtained where necessary in determining the remuneration of the Directors and senior level staff members.

B.2 The level and make up of remuneration

The Code requires the Board to establish the levels of remuneration for both Executive and Non-Executive Directors which should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of the Executive Directors remuneration should be structured to link rewards to corporate and individual performance

B.2.1	Remuneration of Executive Directors	Adopted	The remuneration framework of the Executive Directors has been designed to attract, retain and motivate them of the quality required and avoid paying more than what is necessary for the purpose.
B.2.2	Positioning remuneration levels of the Company	Adopted	The Remuneration Committee in deciding the remuneration levels of the Company takes account of such levels in comparable companies while paying attention to its relative performance.
B.2.3	Comparison of remuneration with other companies in the Group	Not applicable	This is not applicable as there are no units comparable for this purpose within the Group.
B.2.4	Inclusion of performance-related elements in the remuneration	Adopted	Performance-related elements have been included in the design of remuneration packages of the Company at all levels.
B.2.5	Executive share options	Not applicable	There are no share option plans for Executives.
B.2.6	Designing the remuneration	Adopted	The Remuneration Committee has considered the provisions given in Schedule E to this Code in designing the remuneration schemes of the Company.
B.2.7	Early termination of Directors	Adopted	Such situation has not arisen during the year. However, Remuneration Committee is aware that it should consider the compensation commitments given in the contracts of employment of Executive Directors, if any, in case of early termination, other than in the case of removal for misconduct.

Number	Corporate governance principle	Adoption status	Level of adoption
B.2.8	Early termination where compensation commitment not included in the initial contract	Adopted	Such situation has not arisen during the year. However, Remuneration Committee is aware that in case of an early termination, it should tailor their approach with the aim of fair dealing with regard to compensation commitments for those who have performed well, if the initial contract does not explicitly provide for such commitments.
B.2.9	Remuneration for Non-Executive Directors	Adopted	Non-Executive Directors' remuneration has been calculated to reflect time commitment, responsibilities of their role and market practices. No share options available for Non-Executive Directors.

B.3 Disclosure of remuneration

The Company should disclose the remuneration policy and the details of remuneration of the Board as a whole in the Annual Report.

B.3.1	Disclosure of remuneration	Adopted	The Remuneration Committee's Report setting out the policy and scope of the Committee is given on page 83. The remuneration paid to the Board of Directors is disclosed in aggregate in Note 47.3 to the Financial Statements on page 192.

C. Relations with shareholders

C.1 Constructive use of the Annual General Meeting and conduct of General Meetings

Board should use the Annual General Meeting to communicate with shareholders and encourage their participation.

C.1.1	Use of proxy votes	Adopted	The Company has adopted a methodology to count all proxy votes and to indicate the level of proxies lodged on each resolution if any.
C.1.2	Separate resolutions for separate issues	Adopted	A separate resolution is proposed for the adoption of Financial Statements and the shareholders are given the opportunity to vote separately for each substantially separate issue by having separate resolutions, if any.
C.1.3	Availability of Board Subcommittee Chairmen at the AGM	Adopted	The Chairman of the Board ensures that Chairmen of all Subcommittees namely, Audit Committee, Remuneration Committee, Integrated Risk Management Committee and Related Party Transactions Review Committee to be present at the AGM to answer questions raised at the AGM.
C.1.4	Adequate notice of the AGM	Adopted	Notice of the AGM is given as per the requirements of the Companies Act No. 07 of 2007.
C.1.5	Procedure of voting at General Meetings	Adopted	Notice and the summary of the procedures governing voting at the meeting including any other business to be transacted at the meeting are circulated to the shareholders along with the Annual Report.

Number	Corporate governance principle	Adoption status	Level of adoption
C.2 Communication with shareholders			
Board should implement effective communication with shareholders.			
C.2.1	Channel to reach all shareholders of the Company	Adopted	The Annual Report and the AGM form the primary channels of communication. Shareholders are given the Annual Report with adequate time to raise any issues at AGM based on the information published therein. Moreover interim reports, stock exchange announcements, etc. also form part of effective communication as those are available in the respective websites and in the Company website.
C.2.2	Policy and Methodology for communication with shareholders	Adopted	The Company has adopted an open communication policy with its stakeholders by making available timely, relevant and accurate information with fair disclosures.
C.2.3	Disclosure of implementation of the above Policy and Methodology	Adopted	Printed Annual Reports are sent along with the Notice of the AGM. Annual Report, Interim Financial Statements and CSE announcements are published in respective institution's website and the Company website.
C.2.4	Contact person for communication	Adopted	The Directors and the Senior Management could be contacted by the shareholders. The contact details are available in the Company's website and also for any questions, requests and comments, Shareholders may at any time contact the Company Secretary.
C.2.5 and C.2.6	Communication by the shareholders with the Company	Adopted	The Company Secretary receives all the correspondence and deliver to the Board or relevant individual Director at the earliest possible time.
C.2.7	The process for responding to shareholders' matters	Adopted	Through the Company's Board Secretary the Board or individual Director/s will respond to shareholders' matters.
C.3 Major and material transactions			
Directors should disclose all major and material transactions to shareholders.			
C.3.1	Major transactions	Not applicable	Process has been implemented to capture and disclose any materiel transactions either through its Audited Financial Statements or in interim publication or by making an announcement to the Colombo Stock Exchange.

Number	Corporate governance principle	Adoption status	Level of adoption

D. Accountability and audit

D.1 Financial and business reporting (The Annual Report)

The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.

Number	Corporate governance principle	Adoption status	Level of adoption
D.1.1 and D.1.2	Board's responsibility for statutory and regulatory reporting	Adopted	Interim and annual Financial Statements, other price sensitive public reports, reports to regulators and reports required as per statutory requirements have been presented as per the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011, other Regulatory Authorities such as the Central Bank of Sri Lanka, Colombo Stock Exchange and Department of Inland Revenue.
D.1.3	Board's responsibility to obtain relevant declarations from CEO and CFO on the Financial Statements	Adopted	"Annual Report of the Board of Directors" given on pages 96 to 101 describes the level of compliance with the requirements of this section.
D.1.4	Declarations in the Director's Report	Adopted	The Directors have made all their declarations in the "Annual Report of the Board of Directors" given on pages 96 to 101.
D.1.5	Statement of Directors' and Auditors responsibility for Financial Statements and Statement on Internal Controls	Adopted	The Statement of "Directors' Responsibility for Financial Reporting" is given on pages 96 and 97 of the Annual Report. Auditor's reporting responsibility is given in their report on the Financial Statements on pages 103 to 109. The Directors' Statement on Internal Controls is given on page 102 and Auditor's certification on the Directors' Statement on Internal Controls is given on page 102.
D.1.6	Management Discussion and Analysis in the Annual Report	Adopted	Pages 18 to 51 of this Annual Report contains the Management Discussion and Analysis.
D.1.7	Requirement for calling EGM if the net assets fall below 50% of the shareholders' funds	Not applicable	Such situation has not arisen during the year. However, should the situation arise, an EGM will be called for and Shareholders will be notified.
D.1.8	Disclosure of Related Party Transactions in the Annual Report	Adopted	The Board ensures that the related party transactions are properly captured in to the system of accounts, keep proper records on them and make necessary disclosures in the Financial Statements accordingly.

Number	Corporate governance principle	Adoption status	Level of adoption

D.2 Risk management and internal control

The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and Company's assets.

Number	Corporate governance principle	Adoption status	Level of adoption
D.2.1	Annual review of risks and the effectiveness of the internal control system	Adopted	The Board is responsible for establishing a sound framework of risk management and internal controls. Further, it has to be monitored for its effectiveness on a continuous basis. Integrated Risk Management Committee has been set up by the Board in order to look after the risk aspects of the Company and report any concerns to the Board. IRMC Report is given on page 82. The Directors' Statement on Internal Controls is given on page 102.
D.2.2	Risk assessment	Adopted	Risk Management Report on pages 85 to 94 describes the compliance to the requirement of this section
D.2.3	Internal audit function	Adopted	The Company's internal audit function is assisted by outsourcing mainly its branch audits to Messrs Ernst & Young Advisory Services (Pvt) Ltd. Further, to coordinate the function well and to carry out special assignments and investigations, Company's Internal Auditor also has been appointed by the Audit Committee.
D.2.4	Review of process and effectiveness of risk management and internal controls	Adopted	Internal audit carries out regular reviews on the internal controls and reports to the Audit Committee. Audit Committee once satisfied reports to the Board on the effectiveness of the internal control systems and based on that the Board issues "Directors' Statement on Internal Control" Report which is given on page 102. The External Auditor reviews this statement independently and certifies.
D.2.5	Responsibilities of Directors in maintaining a sound internal control system	Adopted	This has been stated in the "Directors' Statement on Internal Controls" on page 102.

Number	Corporate governance principle	Adoption status	Level of adoption

D.3 Audit Committee

The Board should establish formal and transparent arrangements in selecting and applying accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors.

Number	Corporate governance principle	Adoption status	Level of adoption
D.3.1	Composition of the Audit Committee	Adopted	The Audit Committee comprises three Independent Non-Executive Directors including its Chairman. Audit Committee Report is given on pages 80 and 81 on this Annual Report.
D.3.2	Terms of Reference of the Audit Committee dealing with its authority and duties	Adopted	The Audit Committee monitors and reviews the scope and results of the audits and its effectiveness, independence and objectivity of the Auditors. The Committee has formulated a policy for the engagement of the External Auditor for non-audit services with the approval of the Board. The Audit Committee has been established by the Board of Directors to assist oversight of financial reporting, internal controls, risk management and functions relating to internal and external audit.
			The Committee holds the responsibility for overseeing the preparation and presentation of the Company's Financial Statements with adequate disclosures in the Financial Statements in accordance with the Companies Act. No. 07 of 2007 and applicable Sri Lanka Financial Reporting Standards. The Committee is also responsible for ensuring the adequacy and efficiency of internal controls adopted by the Company in maintaining accounting records and preparing Financial Statements and make recommendations to the Board of Directors on matters regarding the Internal and External Auditors including their independence, performance, terms of engagement and remuneration.
D.3.3	Disclosures of the Audit Committee	Adopted	The names of the members of the Audit Committee are given in the Audit Committee Report on pages 80 and 81. The Audit Committee has undertaken annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process and is satisfied as disclosed in the Audit Committee Report on pages 80 and 81.

Number	Corporate governance principle	Adoption status	Level of adoption

D.4 Related Party Transactions Review Committee

The Board should establish a procedure to ensure that the Company does not engage in transactions with related parties with the view of granting more favourable treatment than that accorded to third parties in the normal course of business.

Number	Corporate governance principle	Adoption status	Level of adoption
D.4.1	Definitions of "Related Party" and "Related Party Transactions"	Adopted	LKAS 24 definitions have been adopted in formulating the policy on related party transactions of the Company.
D.4.2	Composition of the Related Party Transactions Review Committee	Partially Adopted	The Related Party Transactions Review Committee comprises two Independent Non-Executive Directors including its Chairman. Related Party Transactions Review Committee Report is given on page 84 of this Annual Report.
D.4.3	Terms of Reference of the Related Party Transactions Review Committee dealing with its authority and duties	Adopted	The Company has a Board-approved Related Party Transactions Policy in place which addresses requirements under this section. Related Party Transactions Review Committee Report is given on page 84 of this Annual Report.

D.5 Code of Business Conduct and Ethics

Company must adopt a Code of Business Conduct and Ethics for Directors and Key Management Personnel and must promptly disclose any deviations from that code.

Number	Corporate governance principle	Adoption status	Level of adoption
D.5.1	Code of Business Conduct and Ethics	Adopted	Senkadagala Finance has incorporated in its HR code as well as in other manuals of operations, areas such as addressing of conflicts of interest, conditions in receiving gifts or any other benefits, accountability, confidentiality of information, record keeping, corporate opportunities, fair dealing, protection and proper use of the Company's assets and compliance with applicable laws and regulations including insider trading laws and, encouraging the reporting of any illegal or unethical behaviour.
D.5.2	Ensuring price sensitive information is promptly identified and reported	Adopted	Company has a process to ensure timely disclosure of price sensitive information as per the CSE regulations.
D.5.3	Share purchase by Directors and Key Management Personnel	Adopted	Relevant disclosures have been made as per the requirement of this code.
D.5.4	Affirmation of the Code of Conduct and Ethics	Adopted	The Chairman hereby confirms that he is not aware of any material violations of the terms and conditions contained in above mentioned Code of Conduct and Ethics.

Number	Corporate governance principle	Adoption status	Level of adoption
D.6 Corporate governance disclosures			
Company should disclose the extent of adherence to principles and practices of good Corporate Governance.			
D.6.1	Corporate Governance Report	Adopted	This report from pages 56 to 84 satisfies the requirement.
E. Institutional investors			
E.1 Shareholder voting			
Institutional shareholders have a responsibility to make considered use of their votes and encouraged to ensure that their voting intentions are translated into practice.			
E.1.1	Communication with institutional shareholders	Adopted	Mainly the AGM is used for effective communication with the shareholders. The Chairman communicates the views and queries of the shareholders to the Board and the Senior Management.
E.2 Evaluation of governance disclosures			
Company should encourage institutional investors to give due weightage to all relevant factors drawn to their attention when evaluating the governance arrangements of the Company, particularly those relating to Board structure and composition.			
E.2	Evaluation of the Corporate Governance arrangements	Adopted	When evaluating the Company's Corporate Governance arrangements, institutional investors are encouraged to give due weight to all relevant factors drawn to their attention particularly in the Board structure and composition.
F. Other investors			
F.1 Investing/Divesting decision			
Individual shareholders should be encouraged to carry out adequate analysis or seek independent advice in investing and divesting decisions.			
F.1	Individual investors investing/divesting decisions	Adopted	Company by disclosing all required information that would be useful for individual shareholders, encourage them to carry out adequate analysis or seek independent advice on investing or divesting decisions.
F.2 Shareholder voting			
Individual shareholders should be encouraged to participate and exercise their voting rights in General Meetings.			
F.2	Individual shareholders' voting rights	Adopted	The Company sends adequate notices to all shareholders encouraging them to participate at General Meetings and this adequate time allows them to be prepared to duly exercise their voting rights.

Number	Corporate governance principle	Adoption status	Level of adoption

G. Internet of things and cybersecurity

G.1-G.5 Company ensures authorised access to all internal and external networks. DGM IT acts as the CISO of the Company.

H. Environment, society and government

Company has a policy on its environmental and social management system which covers IFC exclusion list and other applicable national and provincial laws on environment, health, safety and social issues.

Board and committee meetings – Attendance

Name	Directorship status	Board	Audit Committee	Integrated Risk Management Committee**	Remuneration Committee	Related Party Transactions Review Committee
Number of meetings held		11*	04	04	04	04
Mr W M R S Dias	Chairman Independent Non-Executive Director	11/11	–	–	–	–
Mr L Balasuriya	Managing Director/ Chief Executive Officer Executive Director	11/11	04/04	–	04/04	–
Dr A Balasuriya	Director – Operations Executive Director	08/11	–	–	–	–
Dr M Balasuriya	Director – Planning Executive Director	11/11	–	–	–	–
Ms L Fernando	Director – Human Resources Executive Director	10/11	–	–	–	–
Mr W A T Fernando	Independent Non-Executive Director	03/04	02/02	–	–	–
Mr Senanayakege R Pushpakumara	Independent Non-Executive Director	11/11	04/04	–	04/04	04/04
Mr D T P Collure	Independent Non-Executive Director	11/11	04/04	04/04	04/04	04/04
Mr S D Bandaranayake	Director/Additional Chief Executive Officer Executive Director	11/11	04/04	04/04	04/04	04/04
Mr N Vasantha Kumar	Independent Non-Executive Director	08/08	02/02	–	02/03	

**Attended/Eligible to attend–Only eleven Board meetings were held in the financial year 2019/20. A Board meeting was not held for the month of March 2020 due to the COVID-19 pandemic*

***Key Management Personnel attended the meetings on invitation*

Report of the Audit Committee

The Audit Committee has been established by the Board of Directors to assist oversight of financial reporting, internal controls and functions relating to internal and external audit. The Committee holds the responsibility for overseeing the preparation and presentation of the Company's Financial Statements with adequate disclosures in the Financial Statements in accordance with the Companies Act No. 07 of 2007 and applicable Sri Lanka Financial Reporting Standards. The Committee is also responsible for ensuring the adequacy and efficiency of internal controls adopted by the Company in maintaining accounting records and preparing Financial Statements and making recommendations to the Board of Directors on matters regarding the Internal and External Auditors including their independence, performance, terms of engagement and remuneration.

Composition

The Audit Committee comprised following Directors:

- Mr Senanayakege R Pushpakumara FCA, BCom (Special) (USJ), PG Dip (BMgt) – Independent Non-Executive Director, Chairman of the Audit Committee
- Mr D T P Collure – Independent Non-Executive Director
- Mr N Vasantha Kumar – Independent Non-Executive Director

Mr L Balasuriya – Managing Director/CEO and Mr S D Bandaranayake – Executive Director/Additional Chief Executive Officer attend meetings of the Audit Committee by invitation.

(Brief profiles of the Directors are set out on pages 54 and 55 of this Annual Report).

Other Senior Managers of the Company also attend the Committee meetings whenever their presence is requested.

Policy and scope

The Committee discharges its responsibilities through a series of meetings during the year. At these meetings, the Committee reviews the reports of Internal Auditors and External Auditors of the Company and interim and final Financial Statements of the Company ensuring their compliance with statutory and other requirements. The number of meetings and attendance by the Committee members at each of those meetings are given in the table on page 79 of the Annual Report.

The Committee has reviewed the independence, objectivity and performance of the internal audit function and the adequacy of its resources. The findings of internal audits, their evaluation of Company's internal control systems and level of risks pertaining to those findings, effectiveness of implementation of audit recommendations were thoroughly reviewed and discussed at the meetings and accordingly, the Committee advised the Board on matters of high significance. The Company's internal audit function is assisted by outsourcing mainly its branch audits to Messrs Ernst & Young Advisory Services (Pvt) Ltd. Further, to coordinate the function well and to carry out special assignments and investigations, Company's Internal Auditor also has been appointed by the Audit Committee.

The Audit Committee has undertaken the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process. The Financial Statements of the year under review have been audited by Messrs. KPMG, Chartered Accountants. The Committee was satisfied that these were no conflict of interest between the Company and the Auditors, which would came to compromise the independence and objectivity of the Auditor. Permitted non audit related services were carried out in line with the

Company's policy on obtaining non-audit services from external auditors which was formulated in keeping with the regulatory requirements. Audit Committee ensured that the provision of such limited services did not impair the independence and objectivity of External Auditors and that work was assigned in such manner as to prevent any conflict of interest. Also the Audit Committee had meetings with the External Auditors without the presence of Executive Directors as per the corporate governance requirements.

Audit Committee has recommended to the Board of Directors that Messrs KPMG, Chartered Accountants, be reappointed as the external Auditor of the Company for the year ending 31 March 2021, subject to the approval of shareholders at the Annual General Meeting. Audit Committee's selection and review of the external Auditors was based on capability, resource availability of the firm and their level of independence from the Company and its Board of Directors. The fees payable to the Auditors for the financial year 2019/20 were recommended by the Audit Committee and approved by the Board.

Senanayakege R Pushpakumara
Chairman
Audit Committee

26 August 2020

Report of the Integrated Risk Management Committee

The Integrated Risk Management Committee was formed in order to assess the overall risk faced by the Company mainly credit, market, liquidity, operational, strategy, and other statutory and regulatory risks.

Composition

The Integrated Risk Management Committee comprised the following Directors:

- Mr S D Bandaranayake – Executive Director/ Additional CEO – Chairman of the Committee
- Mr L Balasuriya – Executive Director, CEO/Managing Director
- Mr D T P Collure – Independent Non-Executive Director

(Brief profiles of the Directors are set out on pages 54 and 55 of this Annual Report).

Senior Management representatives who attend the meetings are:

- Mr P Ikiriwatte – Deputy CEO
- Mr J Jayatilake – GM – Operations
- Mr T De Silva – DGM – IT
- Mr T K Aturupana – AGM – Accounts
- Mr A D Hettiarachchi – AGM – Credit Control
- Mr N Rasingolla – AGM – IT
- Mr S D R S Fernando – AGM – Personnel and Administration
- Mr N Karunaratne – AGM – Legal/Customer Services
- Mr K Rajapaksa – Chief Financial Officer
- Mr S Supramaniam – Chief Manager – Treasury
- Mr L Perera – Manager – Foreign Currency
- Mr T Ranathunga – Chief Manager – Risk and Audit

Policy and scope

The Committee meets on a regular basis and minutes are maintained to ensure timely and adequate follow-up. Remedial actions are taken to address the areas of high significance. The policies and the scope of activities of the Committee are as follows:

- Assessing all risks, including credit, market, liquidity, operational, and strategic risk on a continuous basis using specific risk indicators through the Company's reporting systems
- Ensuring the level of current risks of the Company is within the prudent levels acceptable to the Management based on the Company's risk appetite and the regulatory and supervisory requirements
- Taking appropriate remedial actions to mitigate the effects of specific risks in case such risks are beyond the prudent and acceptable levels on the basis of the Company's policies, procedures and regulatory requirements
- Review of the portfolio on a business line basis such as product, region, sector, etc. to evaluate trends
- Review of the performance branch-wise, district-wise, and region-wise in evaluating the branch expansion criteria
- Reviewing any compliance-related matters with applicable laws and regulations

S D Bandaranayake
Chairman
Integrated Risk Management Committee

26 August 2020

Report of the Remuneration Committee

The Remuneration Committee has been set-up to determine the human resources and remuneration policies relating to Directors, the Managing Director/CEO and other Key Management Personnel of the Company.

Composition

- Mr D T P Collure – Independent Non-Executive Director, Chairman of the Remuneration Committee
- Mr Senanayakege R Pushpakumara – Independent Non-Executive Director
- Mr N Vasantha Kumar – Independent Non-Executive Director

Mr L Balasuriya – Managing Director/CEO and Mr S D Bandaranayake – Executive Director/Additional Chief Executive Officer, attend meetings of the Remuneration Committee by invitation.

(Brief profiles of the members of the Committee are set out on pages 54 and of 55 this Annual Report).

Policy and scope

The Company's remuneration policy aims to attract, motivate, and retain talent in a highly competitive environment with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company. The Company remuneration framework for the Managing Director/CEO and the Corporate Management team is designed to create and enhance value for all stakeholders of the Company and to ensure alignment between short and long-term interests of the Company. The Committee reviews all significant human resource policies and initiatives, salary structures, and terms and conditions relating to staff at executive level. The Committee deliberates upon and recommends to the Board of Directors the remuneration packages, annual increments and bonuses of the Managing Director, members of the Corporate Management team and senior staff.

Fees

All Non-Executive Directors receive a fee for attendance at Board meetings and for serving on subcommittees.

Committee meetings

Number of meetings and attendance of the members of such meetings are set out on page 79 of this Annual Report.

Access to professional advice

The Committee is authorised to seek external professional advice as and when it deems necessary.

D T P Collure
Chairman
Remuneration Committee

26 August 2020

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee has been set up by the Board of Directors in order to strengthen the process of identifying, recording and reporting of related party transactions which in turn ensure strict compliance with the rules and regulations governing Related Party Transactions of Listed Entities and thus improve its internal control mechanisms.

Composition

- Mr D T P Collure – Independent Non-Executive Director, Chairman of the Related Party Transactions Review Committee
- Mr Senanayakege R Pushpakumara – Independent Non-Executive Director
- Mr S D Bandaranayake – Executive Director/ Additional Chief Executive Officer

Mr K Rajapakshe – Chief Financial Officer and Mr T Ranathunga – Chief Manager Risk and Audit attend the meeting by invitation

Policy and scope

With the approval of the Board, Company has adopted a policy on Related Party Transactions of the Company that gives necessary guidelines in recognising, recording and reporting of such transactions. It helps to determine whether related party transactions that are to be entered into by the Company require the approval of the Board or shareholders of the Company. Further the policy ensures that no Director of the Company shall participate in any discussion of a proposed related party transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the related party transaction to the Committee. Also it ensures that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/ regulations are made in a timely and detailed manner.

Related party transactions during 2019/20

Committee has reviewed the Related Party Transactions during the financial year and has communicated the comments/observations to the Board of Directors.

Details of related party transactions of the Company during the above period are disclosed in Note 47 to the Financial Statements.

Committee meetings

The number of meetings and attendance of the members of such meetings are set out on page 79 of this Annual Report.

Declaration

A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with the Listing Rules pertaining to related party transactions is given on page 97 of the Annual Report.

D T P Collure
Chairman
Related Party Transactions Review Committee
26 August 2020

Risk Management

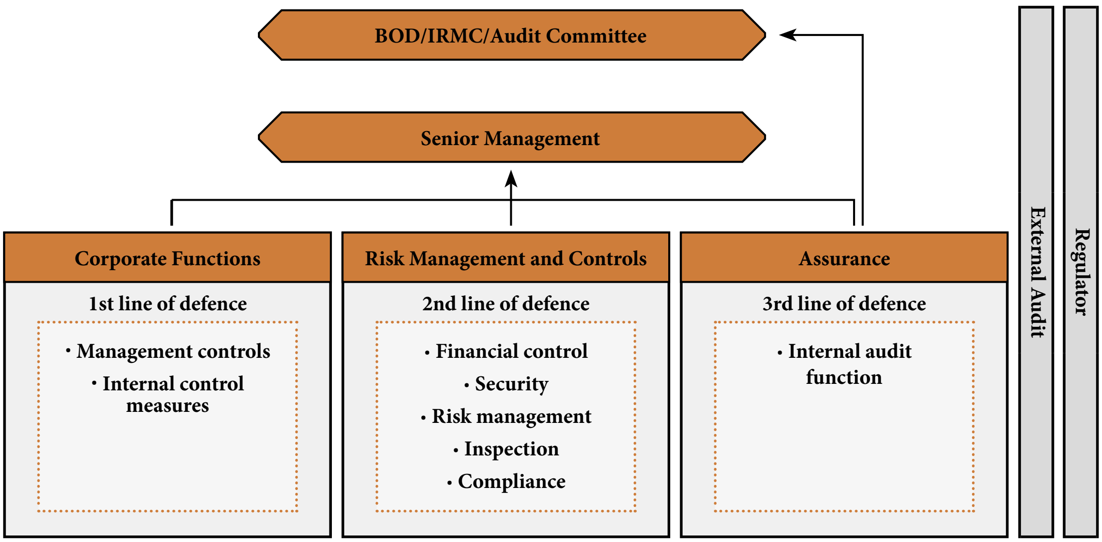
Effective risk management and sound governance are critical aspects for success of financial institutions, as their business model is centered on financial intermediation and maturity management. Especially in a period when unforeseen risks materialise, effective risk management is fundamental and paramount in ensuring business continuity and sustainable returns.

Developments in the business environment such as technological advances, cyber security concerns and threats, tightened regulations and supervisory controls, volatile economic conditions and behaviour of competitors continue to create new challenges to organisations. Social developments such as demographics changes, changes in customer perceptions and dynamic customer requirements also enhance the imminent risks associated with strategic decision making. Recent events such as the Easter Sunday attacks and the outbreak of the COVID-19 pandemic, require businesses to rethink their entire business model, emphasising the importance of having robust risk management systems to tackle emerging risk factors.

Risk management framework

The Company has in place a robust risk management framework to ensure all risk exposures are objectively identified and meticulously managed. The framework allows managers/experts in internal controls, risk management, compliance and auditing functions to assist the Corporate Management in forming a cohesive risk governance structure.

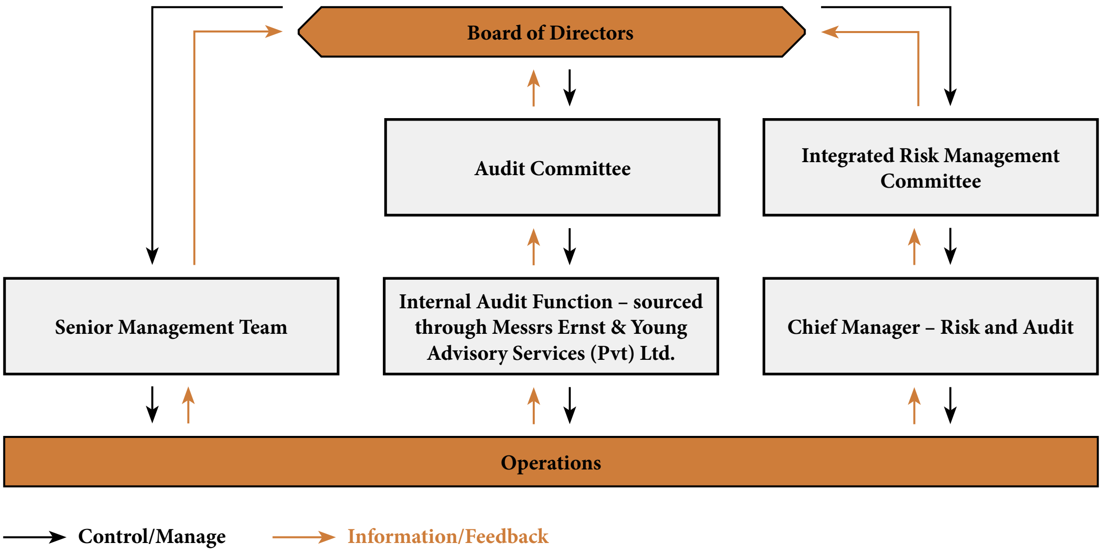
The three tiered risk management structure adopted by the Organisation allows it to tackle risks in a systematic manner. This has provided a simple but effective structure which has enhanced clarity regarding risk and controls that resulted in an effective risk management system.



Risk governance

Senkadagala Finance adopts a holistic approach to risk management. Hence, the primary role of risk governance is assumed at the Board level, as the Board holds the ultimate responsibility for risk management.

The overall risk strategy is defined and the corporate risk objectives are set at Board level ensuring the corporate strategy and the risk strategy are aligned to optimise the risk return trade-off.



The Integrated Risk Management Committee (IRMC), a subcommittee of the Board with the participation of the senior managers and department heads assesses the effectiveness of the overall risk strategy of the Company in the context of changes in the global and the local environment and recommends effective risk management policies to safeguard stakeholder interests.

The IRMC recommends the Directors on the course of action to be taken to counter potential and emerging risks. The suggestions from these meetings are presented to the Board in order to further strengthen the risk management framework of the Company. The Board orchestrates the corporate risk functions including the risk appetite of the entity and the risk management controls and policies based on such recommendations. The Board also ensures the internal control systems are adequate and organisational culture is geared towards creating risk awareness.

Risk objectives of Senkadagala Finance

- Identify, measure and control potential risks that hinder the profitability of the entity.
- Manage the financial position in order to strike a balance between assets and liabilities to optimise the value creation for the entity.
- Ensure that adequate controls are in place to curtail downside of risk, while maximising returns.

Risk management controls, policies and procedures

Corporate risk objectives are communicated to the operational level staff by way of risk controls, policies, and procedures, which are geared towards fine-tuning the risk appetite of the entity and prompting a risk culture within the organisation. Controls are regularly streamlined to identify and counter day-to-day risks as well as long-term strategic risks.

The responsibility of managing these risk criteria within tolerable limits is shared among the risk assuming managers and the higher level management. This collective approach has enabled the Company to establish an effective risk management framework.

By promoting a risk sensitive culture, the management encourages staff at all levels to be mindful of emerging risks. When new risks are identified, they are assessed for the likelihood of occurrence and the severity of impact. Control actions are decided based on these two factors. Risk tolerance levels are set, based on the risk appetite of the entity and generally accepted industry norms.

Periodic reports are submitted to IRMC meetings assessing the risk indicators against the risk parameters and tolerance levels of the entity. Reasons for variances are discussed, while evaluating suggestions to control such deviations.

Independent assurance

Senkadagala Finance has a continuous internal audit process, utilising the co-sourced services of Messrs Ernst & Young Advisory Services (Pvt) Ltd., reporting directly to the Audit Committee and the Board of Directors.

Monthly reports are submitted, communicating deviations from the standard operating procedures, misconducts and lapses in the internal control process, while identifying the severity of impact. The presence of continuous monitoring and assurance by external experts enable the management to assess the adequacy of the internal controls and the overall risk management policies.

Continuous monitoring and follow-up action are carried out to ensure remedial actions taken are properly implemented. In-depth independent review and assurance ensures the risk management framework of the Company is robust and dynamic

Environmental scanning

Monitoring emerging market developments plays a key role in meticulous risk management. Standard risk management approaches are well-honed to mitigate conventional risks, however the accelerated pace of change and deepened interconnectivity have added complexity to risk, hence robust environmental scanning is vital for the risk management process.

Key developments during the year

The financial year under review had a turbulent start with the Easter Sunday attacks in April 2019, the year succeeding being characterised by lackluster economic growth, restrictions on imports, volatile interest rates, prolonged business closure, heightened regulatory controls, collapse of certain distressed NBFIs, political instability and lack of policy consistency. The financial sector felt the impact of these developments throughout, in the form of weak demand for credit growth, deteriorated asset quality, rising impairment costs, diminishing interest margins, escalating costs ultimately leading to drop in profitability. Towards the year end COVID-19 outbreak and its effects brought about unprecedented risk factors to businesses.

In the global arena geopolitical and geoeconomic tension escalated, devastating biological threats, heightened cybersecurity concerns, privacy and information security breaches and disruption to international travel and trade were some of the risks that materialised. Spillover effects of such scenarios further deteriorated the economic conditions in the country, ultimately threatening business continuity of certain industries and entities.

Risk event	Impact to the Company	Risk mitigations techniques
General economic down-turn	Decrease in demand for new business	• Identify niche customer segments and industries for business promotion
Deterioration of financial position of customers	Increase in NPA due to drop in repayment capacity of customers	• Restructure loans to ease the repayment burden of customers • Allow third-party transfers • Amicable settlement or repossession
Market interest rate fluctuations	Stress on net margins Drop in profitability	• Continuous evaluation of product pricing in line with market trends • Deposit products are streamlined in line with regulatory guidelines • Explore alternative funding avenues
Prolonged business closure	Inability of physical interactions with employees, customers and other stakeholders for day-to-day operations and recovery	• Set-up an Internet Payment Gateway (IPG) enabling online payments through Company Website • Set-up/developed new lines for internal and external communications with all stakeholders • Extended the remote access capabilities to employees working from home
Cybersecurity threats	Increased risk of data security and business disruption	• Introduced state of art cybersecurity measures • Sourced expert advice to detecting potential threats and shortcomings • Introduced new security measures to safeguard against identified and potential threats

Risk types

Key risk areas such as credit risk, liquidity risk, market risk, and operational risk implications are monitored on a regular basis. Following are the key risk types affecting the Company:

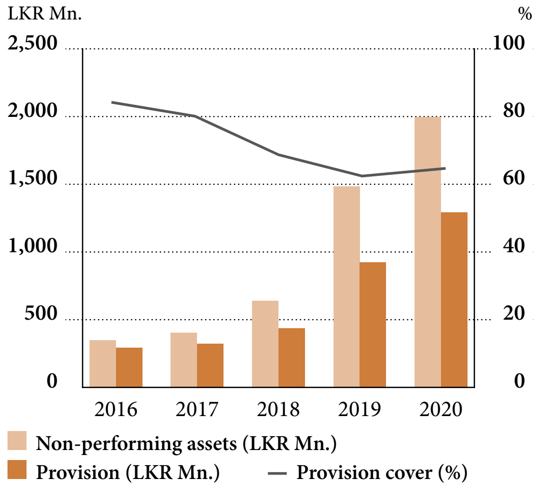
1. **Credit risk**
   a. Default risk
   b. Concentration risk
2. **Market risk**
   a. Interest rate risk
   b. Foreign exchange risk
   c. Equity price risk
   d. Commodity price risk
3. **Liquidity risk**
4. **Operational risk**
   a. Internal controls
   b. IT risk
   c. Disaster and contingency
   d. Regulatory and compliance
   e. Strategic risk
   f. Reputation risk

Credit risk

Credit risk is potential financial losses due to failure of customers or counterparties to discharge the contractual obligations. It is segmented to default risk and concentration risk based on the reason for materialisation. Financial institutions such as Senkadagala Finance, engaged in financial intermediation are highly susceptible to credit risk. It is an integral part of finance business. Therefore, this risk must be meticulously managed to optimise the risk return trade-off.

Over 90% of the assets of the Company are exposed to credit risk and the maximum exposure as at 31 March 2020 was LKR 31,514 Mn., primarily consisting of finance leases and other loans and advances.

Non-performing loans and provision cover



Managing credit risk is a critical function of the Company as majority of assets of the entity are exposed to this risk. The Company has in place a robust credit risk management process with clear policies and procedures, segregation of approval limits, collateral valuation and handling process, social and environmental risk management policy, credit risk monitoring and independent assurance.

Summary of the credit risk monitoring and recovery procedure of Senkadagala Finance is as follows:

Marketing Staff

- Continuous relations with customers
- Periodic site visits
- Courtesy reminders via SMS
- Payment reminders via mail
- Phone calls
- Site visits by the loan officer, BM

Recovery Department

- Site visit by recovery officer
- Follow-up action
- Restructure loans
- Voluntary handover
- Allow third party transfers to creditworthy customers

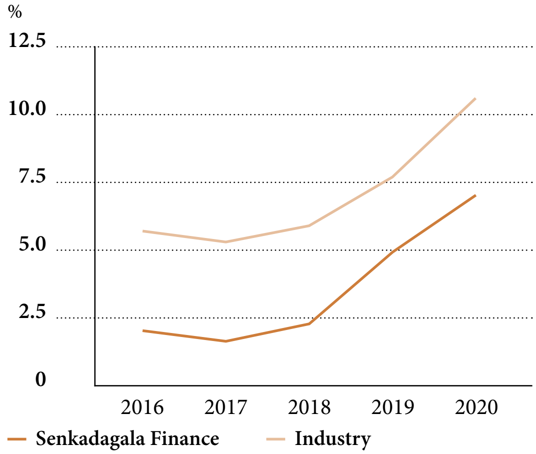
Legal Department

- Letter of demand
- Repossession of vehicles
- Mediation Board to recover the dues
- Initiate legal action

Concentration risk is managed by diversifying exposures to industry sectors, products, geographical regions, collateral types, customer segments, and individual entities. The management has set parameters to each of the above segments based on the risk appetite of the entity. Periodic statements are submitted to the IRMC evaluating the adherence to set limits. Tolerance limits are also evaluated periodically in line with the developments in the business environment.

Entire financial services sector experienced an overall increase in defaults due to the general economic downturn resultant of the Easter Sunday attacks. Senkadagala Finance too experienced this and as a result, the gross NPA ratio increased to 7.03% from 4.93% of the previous year. However, the Company managed to maintain its NPAs at a relatively low level compared to the industry average of 10.6% for the year under review.

Gross NPA ratio



Market risk

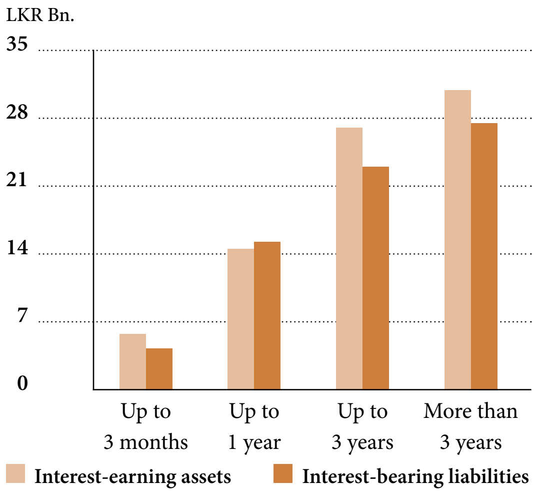
Market risk is losses incurred as a result of unfavourable movements in market factors such as interest rates, tradable equity prices, exchange rates and commodity prices. Probable loss exposures vary with the volatility of the underlying variable:

Risk type	Description	Risk mitigation objectives	Risk mitigations techniques
Interest Rate risk	Losses due to unfavourable movement of interest rates	Maintain an optimal net interest spread	• Meticulous asset and liability management • Risk tolerance level • Continuous environmental scanning • Carrying out yield curve analysis • Periodical review of the interest rates offered • Explore alternate funding sources • Re-price assets and liabilities to make use of favourable trend in the market
		Strike a balance between floating and fixed rated borrowings	• Re-price assets and liabilities in accordance with market trends • Periodical review of the interest rates offered
		Maintain an optimal gearing ratio	• Identify and maintain the optimum mix of equity and borrowing • Maintain a lower weighted average cost of capital (WACC)
Equity Risk	Losses due to volatility of exchange traded equity and debt instruments	Maintain the equity-related risk at a minimum level	• Maintain equity investments within the risk tolerance level • Set stop-loss limits to minimise losses • Mark to market of instruments periodically to identify the impact

Risk type	Description	Risk mitigation objectives	Risk mitigations techniques
		Maintain a diversified portfolio	• Invest in a variety of industries • Diversify the type of securities invested • Sourced the services of Orion Fund Management to manage the investment portfolio
Foreign Exchange Risk	Materialisation of losses due to adverse movements in the foreign currency exchange rates	Minimise transaction losses	• No overnight positions of foreign currency maintained • Educate employees on counterfeit notes in circulation and other possible fraudulent activities
		Minimise translation losses	• Swap cash flows to minimise the exchange risk exposure • Hedge to lessen the effects of the foreign currency borrowings • Regularly review the effectiveness of the hedge
Commodity	Adverse movements in commodity prices	Minimise exposure to commodities	• Minimal exposure to such risk due to nature of operations

In managing interest rate risk, the Company focuses on controlling the re-pricing concerns, yield curve movements and basis risk. Meticulous management of interest rate risk is vital for the Company, because majority of its earnings comprise interest income from fund-based operations. Adverse movements in the market rates coupled with the requirement to hold high liquid levels due to volatile market conditions caused the net interest margins to decline in the year under review. However, the Company managed to maintain interest rate gaps between interest earning assets and interest-bearing liabilities at favourable levels.

Analysis of cumulative maturity gap



Liquidity risk

Liquidity risk materialises when an institution fails to honour its financial obligations as they fall due. Crystallisation of liquidity risk is one of the common reasons for insolvency of financial institutions; major players in the finance business fail due to issues relating to liquidity mismanagement from time to time. Therefore, meticulous liquid assets management is vital for a financial institution's success.

Prolonged business closure coupled with dampened recoveries created a tight liquid situation for many NBFIs during the COVID-19 lockdowns. However, proactive measures adopted by the management enabled Senkadagala Finance to manage its working capital without any difficulties.

The Liquid Assets Direction issued by the CBSL governs the liquid asset management framework of finance companies. In addition, the Company has in place tolerance levels set in line with the operational liquidity requirements and contingency funding arrangements have also been lined up. Senkadagala Finance has continuously adhered to the Central Bank regulations on liquid assets.

Following are the key liquidity ratios stipulated by the CBSL and the respective Company ratios:

Liquidity ratio	Regulatory* requirement %	**As at 31 March 2020 %**	As at 31 March 2019 %
Government securities to average deposit liabilities ratio	7.5	**13.22**	12.46
Liquid assets to Fixed Deposits and CDs	10	**34.84**	48.92
Liquid assets to Savings Deposits	15	**750.96**	856.95
Liquid assets to Unsecured Senior Borrowings	10	**144.46**	129.42

**On 31 March 2020 regulatory requirement was revised down to 5%, 6%, 10% and 5% respectively for a period of 6 months in view of the COVID-19 outbreak.*

Operational risk

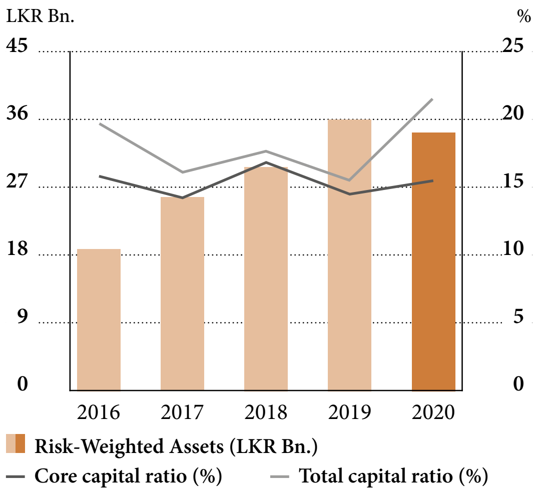
Losses arising due to inadequate or failed internal processes, people and systems as a result of internal and/or external events are operational risks. It covers a broad spectrum of activities and functions within an organisation and hence a robust internal control system as well as adequate levels of capital should be in place to mitigate and act as a buffer for potential losses.

Risk type	Description	Risk mitigation objectives	Risk mitigations techniques
Internal controls	Losses due to lapses in internal controls	Eliminate internal fraud	• Robust internal control systems are in place • Accountability • IT backed controls are in place • Authority limits hard coded to system controls • A strong risk culture • Procedures for reviews and control • Whistle-blowing Policy
		Evade external fraud	• Dynamic customer screening process • Upgraded information system security
		Enhance employment practices and work place safety	• Employee screening policies • Continuous training and development • Update systems, processes and procedures
		Develop execution, delivery and process management	• Comprehensive operations manual • Ongoing education of the operational staff on changes to market conditions and business processes
Technology-related risk	Risk associated with operations, involvement and adoption of information technology within an organisation	Minimise system downtime	• System development and upgrades • Well trained systems support team • Online system support
		Improve system and data security	• Update and upgrade information system security • State-of-the-art system security software • Ensure accuracy and reliability of management information systems • Continuous system development
		Improve hardware functionality and eliminate breakdowns	• Regular maintenance and upkeep • Co-sourcing suppliers to prompt restoration in system breakdowns • Improve customer experience and satisfaction
Disasters and contingencies	Loss due to unforeseen events	Minimise business disruption and system failures	• Disaster Recovery Site in place enabling continuous operations with minimal down time • Business Continuity Plan • Data backups and backup servers
		Minimise loss due to damage to physical assets	• Comprehensive insurance covers • Regular staff training on workplace safety measures

Risk type	Description	Risk mitigation objectives	Risk mitigations techniques
Strategic risk	Losses arising due to strategic decisions	Systematic analysis of strategic decisions and meticulous implementation	• Environmental scanning • Regular reporting • Meeting at regular intervals to review the progress • Remedial measures for any deviation
Regulatory and compliance risk	Losses that arise due to failure of complying with applicable rules, regulations and codes of conduct	Comply with all regulatory restrictions and controls	• Incorporate regulatory limits and restrictions in to internal controls • Assign responsibility to functional managers • Compliance function • Regular reports to the BOD • External assurance Sourcing Messrs Ernst & Young Advisory Services (Pvt) Ltd.
Reputation risk	Loss of earnings, profitability, capital orbrand image due to negative publicity	Adequate controls over all risk criteria	• Effective communication • Proper internal controls • Regulatory compliance • Customer relations

The Company maintains healthy capital levels to buffer the impact of operational risk. Detailed information on the capital position of the entity is available on page 50 of this Report. Additionally, in line with the Finance Business Act, Direction (Capital Adequacy Requirement) No. 3 of 2018, a capital charge for operational risk was introduced. Accordingly, Senkadagala Finance has provided a capital charge of LKR 4,674 Mn. for operational risk under the Basic Indicator Approach.

Risk-weighted assets and capital position



Financial Reports

Annual Report of the Board of Directors of Senkadagala Finance PLC

The Board of Directors of Senkadagala Finance PLC has pleasure in presenting the Annual Report together with the Audited Financial Statements of the Company and the Audited Consolidated Financial Statements for the year ended 31 March 2020 to the shareholders, which was approved by the Board of Directors on 7 August 2020.

The details set out here provide information required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011, the Listing Rules of the Colombo Stock Exchange and recommendations of best accounting practices.

Domicile and legal form of the Company

Senkadagala Finance PLC is a public limited liability Company domiciled in Sri Lanka, incorporated under the Companies Act No. 51 of 1938 on 29 December 1968 bearing Registration No. PB 238 PQ and registered under the Finance Companies Act No. 78 of 1988 which was replaced by the Finance Business Act No. 42 of 2011. The Company was re-registered under the Companies Act No. 07 of 2007. Senkadagala Finance PLC is listed in the Diri Savi Board of the Colombo Stock Exchange with effect from 22 March 2011.

The registered office of the Company is situated at 2nd Floor, 267, Galle Road, Colombo 03.

Vision and Mission
The Company's vision and mission are stated in page 4 of this report.

Principal activities and operations
The principal lines of business of the Company include providing financial accommodation in the form of finance leases, hire purchase, commercial loans and personal loans. Additional lines of business include pawning, foreign exchange transactions, investment in money market instruments and the acceptance of term deposits, certificates of deposit and savings deposits. The principal line of business of the subsidiary, Senkadagala Insurance Brokers (Pvt) Ltd. is insurance brokering activities.

All operations of Newest Capital were discontinued during the financial year 2018/19. In March 2019 the leasing license of the company was revoked by the CBSL and it is in the process of being wound up.

On 4 March 2020 Senkadagala Finance PLC acquired 100% shareholding of Candor Asset Management (Pvt) Ltd., a company licensed by the Securities and Exchange Commission of Sri Lanka to manage unit trust funds and discretionary portfolios.

There have been no significant changes in the principal activities of the Company and of the Group during the financial year other than those mentioned above.

Management and financial review of business

A detailed description and analysis of the operations of the Company for the year under review is contained in the Chairman's Message (on pages 8 to 11), the Managing Director/CEO's Review (on pages 12 to 15) and Value Creation and Capital Formation (on pages 25 to 51) section. These reports together with the Audited Financial Statements provide an overall assessment of the Company's performance during the financial year.

Branch expansion and future development

Senkadagala Finance PLC now has 59 branches and 41 service centres island wide. In light of the turbulent economic conditions prevailed during the financial year, branch expansion was halted and more focus was given to maintain profitability.

Directors' responsibility for Financial Reporting

The Financial Statements of the Company and the Group duly approved by two Directors are given on pages 110 to 224.

The Directors are responsible for the preparation of Financial Statements, the maintaining of proper accounting records and disclosures regarding accounting policies and principles of the Company and the Group.

The Directors are of the view that the Financial Statements presented give a true and fair view of the affairs of the Company as at 31 March 2020 and the profit of the year then ended and has been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007, Finance Companies Act No. 78 of 1988 which was replaced by the new Finance Business Act No. 42 of 2011 and the amendments to these Acts and provide appropriate disclosures as required by the Central Bank of Sri Lanka and Listing Rules of Colombo Stock Exchange.

Auditor's report

The Auditors of the Company Messrs. KPMG performed the audit on the separate and the Consolidated Financial Statements for the year ended 31 March 2020. The Auditor's Report issued thereon is given on pages 103 to 109 of this Annual Report.

Accounting policies

The accounting policies adopted in preparing and presenting of these Financial Statements are given on pages 121 to 143 of this Annual Report.

The Company and the Group prepared the Financial Statements for all periods up to and including the year ended 31 March 2020 in accordance with the Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka, which has converged with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

Directors interests

As required by the Section 192 (1) and (2) of the Companies Act all Directors have made declarations of interests with the Company. The share ownership of Directors is disclosed on page 100 of this Report.

Remuneration and other benefits of Directors

Directors' remunerations in respect of the Company and the Group for the financial year under review is LKR 21,221,430 (2019 – LKR 22,758,780).

Related party transactions

The Directors have disclosed the transactions that could be classified as related party transactions in terms of Sri Lanka Accounting Standard 24, Related Party Disclosures, in the Financial Statements, and given in Note 47 on page 190 of this Annual Report.

The Directors confirm that the transactions carried out with the related parties during the year ended 31 March 2020 are in line with the provisions contained in Section 9 of the Listing Rules of the Colombo Stock Exchange and such transactions have been reviewed by the Related Party Transactions Review Committee of the Company and observations of the Committee have been communicated to the Board on a regular basis.

Donations

A sum of LKR 859,084 (2019 – LKR 2,141,650) was paid out by way of donations during the financial year under review.

Income

The income generated by the Company during the financial year comprises of the following:

	Company		Group	
	2020 LKR	2019 LKR	**2020 LKR**	2019 LKR
Interest income	**6,533,974,238**	6,995,603,180	**6,534,686,186**	6,997,021,470
Fee and commission income	**83,589,169**	104,337,490	**209,140,021**	237,972,153
Other income	**139,418,929**	195,940,490	**62,500,443**	116,520,490
Total	**6,756,982,336**	7,295,881,160	**6,806,326,650**	7,351,514,113

Further analysis of which is given in Note 5, 7 and 9 to 11 of the Financial Statements on pages 145 to 147 of this Report.

Profit and appropriations

Details of appropriation of profit of the Company is given below:

	2020 LKR	2019 LKR
Profit before income taxation	**528,729,404**	929,283,773
Income taxation paid	**(300,898,341)**	21,319,921
Profit for the period	**227,831,063**	950,603,694
Other comprehensive income/(loss) net of income tax	**(12,267,248)**	2,874,461
Balance brought forward	**3,290,248,392**	3,071,416,182
Adjustments	**(33,652,556)**	(456,349,503)
Profit available for appropriation	**3,472,159,651**	2,615,066,679
Appropriated as follows;		
Transfers to statutory reserve fund	**15,000,000**	50,000,000
Dividends paid	**68,851,308**	228,296,442
Un-appropriated profit carried forward	**3,388,308,343**	3,290,248,392

Dividends

The total dividend payout ratio amounted to 30.22% in 2020 compared to 24.02% of 2019. Details on dividends paid during the year and the dividend policy is available in shareholder and investor capital on page 44 of this report.

Taxation

The Company accounts for deferred taxation under the liability method on all timing differences. Details are disclosed in Note 39 on page 185 of this Report.

Reserves

The aggregate reserves of the Company as at 31 March 2020 amounted to LKR 3,822 Mn., the aggregate reserves as at 31 March 2019 were LKR 3,709 Mn. Movement in reserves during the year is given in Statement of Changes in Equity on pages 114 to 117 of this report.

Capital expenditure

The total capital expenditure for the year amounted to LKR 205.7 Mn. (2019 – LKR 932.3 Mn.).

Details of property, plant and equipment are available on pages 170 to 177 of this report. Details relating to the depreciation charge for the year are also available on pages 170 and 173.

Market value of freehold assets

The values of the freehold property and investment property of the Company have been obtained from the reports issued by an external independent property valuer, Mr K M U Dissanayake dated 13 March 2020 and 27 June 2020. The valuer has appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The valuation has been carried out based on open market value of similar properties. These values have not been incorporated in the Financial Statements. Details of free hold property owned by the Company including extent, location and number of buildings are given in Note 28.9 and Note 27.2 of the Financial Statements on pages 168 and 175 to this Report.

Issue of shares and debentures

Stated capital

Senkadagala Finance PLC has in issue 72,475,061 ordinary shares to the book value of LKR 1,587.9 Mn. as at 31 March 2020. No new shares were issued during the year under review. The Company does not have any other categories of shares in issue.

Details of the stated capital are given in Note 43 of the Financial Statements on page 189 of this Report.

Debentures

The Company issued a subordinated, unsecured, redeemable, rated debenture to the value of LKR 1.75 Bn. in August 2019, listed in the Main Board of the Colombo Stock Exchange.

Details of debentures in issue as at 31 March 2020 are given in detail in Note 36 and Note 37 of the Financial Statements on pages 182 and 183 respectively. Further information on the listed debentures is given on page 48 of this Report.

Share information

Information relating to earnings per share, dividends per share, net assets per share, market price per share and the distribution of shareholding is stated on pages 44 to 47, under shareholder and investor capital section. The twenty largest shareholders as at 31 March 2020 together with an analysis of the shareholding are also stated therein.

Equitable treatment to shareholders

The Company has taken all possible steps to ensure equitable treatment to all its shareholders.

Directors

The Board of Directors of Senkadagala Finance PLC consists of Directors with financial and commercial experience. A brief profile of the Directors with their qualifications and experience is detailed on pages 54 and 55 of this Report.

Following were the Directors of the Company during the year:

- Mr W M R S Dias
- Mr L Balasuriya
- Dr A Balasuriya
- Mrs L Fernando
- Dr M Balasuriya
- Mr W A T Fernando (Resigned with effect from 1 August 2019 on completing 9 years of service as an Independent Non-Executive Director)
- Mr S D Bandaranayake
- Mr D T P Collure
- Mr Senanayakege R Pushpakumara
- Mr N Vasantha Kumar (Appointed with effect from 1 July 2019)

Following were the Directors of the Subsidiary, Senkadagala Insurance Brokers (Pvt) Ltd. during the year:

- Mr L Balasuriya
- Dr A Balasuriya
- Mrs L Fernando
- Dr M Balasuriya
- Mr W A T Fernando (Resigned with effect from 1 August 2019)
- Mr S D Bandaranayake

Following were the Directors of the Subsidiary, Newest Capital Limited during the year

- Mr L Balasuriya
- Dr A Balasuriya
- Mrs L Fernando
- Mr S D Bandaranayake

Following directors were appointed to the Subsidiary on acquisition of Candor Asset Management (Pvt) Ltd. with effect from 4 March 2020:

- Dr P Ramanujam
- Mr D R Abeysuriya
- Mr L Balasuriya

Independence of Directors

The Board has carried out a determination of the independence or non-independence status of its Directors in accordance with the Section 7.10.3 of the Continuous Listing Rules of the CSE. Particulars of Independent Directors are set out on pages 54 and 55 of this Report along with a brief profile of each Director.

Board and committee meetings

A number of Board meetings, Audit Committee meetings, Remuneration Committee meetings, Integrated Risk Management Committee meetings and Related Party Transactions Review Committee meetings were held during the year at the Registered Office of the Company. Members of each of these committees have attended the meetings on a regular basis. Details of the members and their attendance are given on page 79 of this report.

Recommended for re-election

In accordance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008, none of the Directors of the Company is coming up for re-election.

Directors' shareholdings

The Directors of the Company as at the date of the report are shown below together with their respective shareholdings:

	2020		2019	
	Number of shares	**% of holding**	Number of shares	% of holding
Dr M Balasuriya	**4,172,046**	**5.76**	4,172,046	5.76
Dr A Balasuriya and Mr D Balasuriya	**2,086,023**	**2.88**	2,086,023	2.88
Dr A Balasuriya and Mr S Balasuriya	**2,086,022**	**2.88**	2,086,022	2.88
Mr L Balasuriya and Mr S K Balasuriya	**2,086,023**	**2.88**	2,086,023	2.88
Mr L Balasuriya and Ms A S Balasuriya	**2,086,022**	**2.88**	2,086,022	2.88
Mrs L Fernando and Ms S A Fernando	**1,166,232**	**1.61**	1,166,232	1.61
Mrs L Fernando and Mr A R Fernando	**1,166,231**	**1.61**	1,166,231	1.61
Mrs L Fernando and Ms A L Fernando	**1,166,231**	**1.61**	1,166,231	1.61
Mr L Balasuriya – The Trustee of the Capitalisation Issue	**15**	**0.00**	15	0.00
Mr S D Bandaranayake	**–**	**0.00**	–	0.00
Mr D T P Collure	**–**	**0.00**	–	0.00
Mr W M R S Dias	**–**	**0.00**	–	0.00
Mr Senanayakege R Pushpakumara	**–**	**0.00**	–	0.00
Mr N Vasantha Kumar	**–**	**0.00**	–	0.00

Directors' interests in debentures

Details of Debentures held by the Directors of the Company are set-out in Note 47.3.3 on page 192 of the Financial Statements.

Environment

The Directors are of the belief that the Company does not engage in any form of activity that is detrimental to the environment. Compliance with all environmental regulations has been adhered to during the year.

Statutory payments

The Directors are of the view that all statutory payments in relation to Government agencies and employees have been made up to date.

Post balance sheet events

There were no material events occurring after the reporting period that require adjustment to or disclose in the Financial Statements.

Appointment of Auditors

The Financial Statements of the year under review have been audited by Messrs KPMG, Chartered Accountants, who offer themselves for re-appointment. A resolution will be proposed at the Annual General Meeting to re-appoint them as Auditors and authorising the Directors to resolve their remuneration.

Auditor's remuneration, other fees and payables

The Auditors, Messrs KPMG was paid audit fees of LKR 1,500,000 (2019 – LKR 1,320,000) for the Company and LKR 411,344 (2019 – LKR 479,871) for the subsidiary companies for the period under review. In addition they were paid LKR 3,880,373 (2019 – LKR 2,652,758), for permitted non-audit-related services of the Company and LKR 87,555 (2019 – nil) for the subsidiaries respectively. This information is disclosed as required by the Section 168 (1) of the Companies Act No. 7 of 2007.

Amounts pertaining to the audit fee of LKR 1,500,000 of the Company and LKR 411,344 of the subsidiaries were payable as at the year end.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Company.

Risk Management

Information pertaining to material foreseeable risk factors and specific steps taken by the Company in managing such risks are detailed in the Risk Management Section on pages 85 to 94 of this Report.

Corporate Governance

The Board places great emphasis on maintaining effective corporate governance practices. Policies, and systems are structured accordingly and reviewed time to time, to enhance transparency and accountability. The Report on corporate governance is given on pages 56 to 79 of the Annual Report.

Internal control

The Directors of the Company are responsible for setting out the policy regarding internal control. The set of internal control procedures laid down seek to manage against material errors or omissions, losses, fraudulent practices and to safeguard assets and secure as far as is possible the accuracy and reliability of the records.

Employment policies

The Company is an equal opportunity employer. In its goals and objectives, it seeks to achieve excellence and market orientation in its service. Continuous training and social participation amongst employees are encouraged.

A holistic approach prevails in the Company's strategic outlook where a participatory management style ensures that employees are involved in the decision-making process. Incentive schemes which are related to employee performance are one of the ways in which the Company ensures that rewards are directly related to performance. The Remuneration Committee ensures that a balance is struck between performance and related employee rewards structures.

The Company has also set up an in-house training facility in order to ensure that all employees meet certain standard requirements before job placement and also to enhance the existing skills of its staff. The Company had 797 employees as at 31 March 2020 (2019 – 794).

The Company does not have any Employee Share Option Schemes (ESOS) or Employee Share Purchase Schemes (ESPS) as at the date of this Report.

There had been no material issues pertaining to employees and industrial relations of the Company or its subsidiaries during the year under review.

Going concern

The Directors are satisfied that the Company has at its disposal adequate resources to continue in business in the foreseeable future; and hence the going concern concept is adopted in the preparation of the Financial Statements.

Compliance with laws and regulations

The Directors are of the belief that the Company has not engaged in any activities contravening the law and has complied with all applicable regulations.

By order of the Board of
SENKADAGALA FINANCE PLC

Sgd.
Managers and Secretaries (Private) Limited
Secretaries

Colombo
26 August 2020

Directors' Statement on Internal Control

Responsibility

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

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at Senkadagala Finance PLC, ("Company").

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board. The Board is of the view that the system of Internal Control over Financial Reporting in place, is adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. The Management is continuously in the process of enhancing the documentation of the systems of Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis.

Confirmation

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

External auditors' certification

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting. The matters addressed by the External Auditors will be considered and appropriate steps would be taken to rectify them in the future.

By order of the Board,

Sanath D Bandaranayake
Director/Additional CEO

W M R S Dias
Chairman

Senanayakege R Pushpakumara
Chairman of the Board Audit Committee

Colombo
26 August 2020

Independent Auditors' Report

KPMG
Kandy Branch
(Chartered Accountants)
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To the shareholders of Senkadagala Finance PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Senkadagala Finance PLC ("the Company") and the Consolidated Financial Statements of the Company and its subsidiaries ("the Group"), which comprise the Statement of Financial Position as at 31 March 2020, and the statements of income, other comprehensive income, changes in equity and cash flows for the year then ended and notes to the financial statements, including, a summary of significant accounting policies and other explanatory information as set out on pages 110 to 224.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2020 and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Company Financial Statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Company Financial Statements and the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters (continued)

Impairment for finance leases, hire purchases and other loans and receivables to customers
Refer Notes 2.8 and 3.3.11 (Accounting policies) and Notes 22 to 23 (Notes to the Financial Statements).

Risk description	Our responses
As at 31 March 2020, the Company reported net amounts of leases and hire purchases and other loans and receivables (Loans and advances) of LKR 25,402,650,928 and LKR 3,400,752,484 respectively with a provision of LKR 1,570,393,399 as impairment. Due to the complexity of SLFRS 9 and its expected pervasive impact on the financial Sector we focused on the Company's disclosure of the expected impact of measuring credit losses on loans and receivables and the significant judgement exercised by the Company. The Company's models to calculate Expected Credit Losses (ECLs) were derived from internally developed statistical models, which is inherently complex, and judgement is required in determining the correct construct of the model. There are also number of key assumptions made by the Company in applying the requirements of SLFRS 9 to the models including selection and input of forward-looking information. Loan impairment remains one of the most significant judgements made by management particularly in light of the uncertain economic outlook in Sri Lanka and, at the reporting date the potential impact of the global COVID-19 outbreak. We identified assessing impairment of loans and advances to customers as a key audit matter because, there is a high degree of complexity and judgement involved in estimating credit impairment provisions against these loans and advances.	Our audit procedures included the following: • Evaluating and validating the design, implementation and operating effectiveness of key controls over timely identification of individually impaired loans and advances, estimates of future cash flows and valuation of collaterals for impaired loans and advances which are assessed on an individual basis; • Selecting a sample of large customers based on quantitative thresholds and evaluating those large customers where impairment indicators have been identified by Management. We obtained management's assessment of the recoverability of these exposures and challenged whether individual impairment provisions were appropriate; • Challenging recoverability of the forecasted cash flows by comparing them to the historical performance of the customers and expected future performance where applicable; • Evaluating the experience, independence, competence and integrity of the external valuers engaged by the Company to value certain property and illiquid collateral. Where possible, we compared the valuations with externally derived data; • Re-performing credit assessments for the selected individually impaired loans and advances by assessing the forecast of recoverable cash flows through inquiry, applying judgment and our own research. We evaluated the timing and means of realisation of collateral and considered other sources of repayment asserted by Management. We also evaluated the consistency of management's application of key assumptions and compared them with our own data sources. Where available, we made use of post reporting date information to evaluate credit quality with hindsight; • Performing credit assessment of a sample of loans and advances not being identified by Management as impaired, challenging management's assessment by examining the underlying loan information and external evidence available;

KPMG

Key audit matters (continued)

Risk description	Our responses
	• Evaluating and validating the design, implementation and operating effectiveness of key controls over the application of collective provision model adjustments. This included assessing the components of models, trend in the credit risk, concentration of specific portfolios and our understanding of economic conditions; • Reviewing the key assumptions in the models such as forecasts, calculation and assumptions of future cash flows prepared by Management by examining the underlying supporting evidence including external market data; • Challenging the validity of the models used and assumptions including staging, PD and LGD adopted by the Company for the calculation of collective impairment allowances; • Challenging how management had assessed the impact of COVID-19 within the ECL model to assess whether it was appropriately considered in the measurement of ECLs at year end. In particular, we challenged management's assessment of the likelihood of a severe economic downturn caused by COVID-19 at the reporting date with reference to the reasonable and supportable information available to management at that date; • Considering, as part of the procedures above, the nature of and reasons for any revisions to the key assumptions and input parameters in the models, the consistency of judgment applied in the use of economic factors, the loss emergence period and the observation period for historical losses and assessing key internal controls over the input of underlying data into the models. We compared the economic factors used in the models to market information to assess whether they were aligned with market and economic developments. We also assessed the emergence period by tracing the life cycle of overdue accounts from the specific credit event to downgrading the account to non-performing contracts.

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Key audit matters (continued)

IT systems and controls over financial reporting	
Risk description	Our responses
The Company operates a large and complex IT systems for its day-to-day operations. Automated accounting procedures and IT environment controls, which include IT governance, controls over programmes development and changes, access to programmes and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting. In particular importance are system calculations, logic regarding significant accounts, including interest calculations, interfaces between business management systems. We identified IT systems and controls over financial reporting as a key audit matter because the Company is heavily dependent on IT systems for the processing and recording of significant volumes of transactions.	We used our internal IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included the following: • Assessing the design, implementation and operating effectiveness of general IT controls over the continued integrity of all major IT systems; • Examining the framework of governance over the Company's IT organisation and the controls over program development and changes, access to programmes and data and IT operations, including compensating controls where required; • Evaluating the design, implementation and operating effectiveness of the significant accounts-related IT process controls by assessing the operating effectiveness of IT application controls, assessing the operating effectiveness of certain automated controls and system calculations which are relevant to the Company's compliance activities; • Assessing the availability and stability of key operating systems, taking into consideration the rapid development of business types and transactions volumes as well as IT projects that have a significant impact on business continuity; • Testing the appropriateness of the access rights given to staff and segregation of duties between users within particular systems.

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Key audit matters (continued)

Management assessment of material uncertainty relating to impact of COVID-19
Refer "Note 2.8.1 (Accounting policies)" and "Note 55. (Notes to the financial statements)".

Risk description	Our responses
The financial statements have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the directors have reviewed the Group's cash flow projections for the next 12 months, prepared by management. The cash flow projections were based on management's assumptions and estimation of future cash inflows and outflows, also taking into consideration the impact of COVID-19 global pandemic. Notes 2.8.1 and 55.1 to the financial statements described the impact of COVID-19 outbreak to the current year financial statements and possible effects to the Group's future prospects, performance and cash flows. Further, the management considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements. We identified the management assessment of going concern assumption due to the COVID-19 outbreak as a key audit matter because the cash flow projections referred above involves consideration of future events and circumstances which are inherently uncertain, and effect of those uncertainties may significantly impact the resulting accounting estimates. Therefore, the assessment requires the exercise of significant management judgment in assessing future cash inflows and outflows which could be subject to potential management bias.	Our audit procedures included: • Assessing the Directors' assessment of the Group's ability to continue as a going concern including challenging the underlying data and key assumptions used to make the assessment and evaluated the Directors' plan for future actions in relation to their going concern assessment; • Obtaining the Group's cash flow projections covering period of not less than twelve months from the reporting period end date and challenging these key assumptions used in preparing the projections; • Evaluating the sensitivity of the projected available cash by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions; • Inspecting the facility agreements for the Group's long-term loans to identify any financial covenants or similar terms and assessing the implication of these on the Group's liquidity; • Assessing the adequacy of disclosures in the financial statements in relation to the going concern basis of accounting with reference to the requirements of the prevailing accounting standards.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the Financial Statements and our auditor's report thereon.

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

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

Responsibilities of management and those charged with governance for the Financial Statements

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

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

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

Auditors' responsibilities for the audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

KPMG

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditors' Report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditors' Report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditors' Report is 3707.

KPMG

Chartered Accountants
Kandy, Sri Lanka

7 August 2020

Income Statement

For the year ended 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Interest income	5	**6,533,974,238**	6,995,603,180	**6,534,686,186**	6,997,021,470
Interest expense	6	**(3,681,611,333)**	(3,759,531,355)	**(3,678,265,535)**	(3,754,628,139)
Net interest income		**2,852,362,905**	3,236,071,825	**2,856,420,651**	3,242,393,331
Fee and commission income	7	**83,589,169**	104,337,490	**209,140,021**	237,972,153
Fee and commission expense	8	**(20,590,104)**	(23,279,985)	**(20,590,104)**	(23,279,985)
Net fee and commission income		**62,999,065**	81,057,505	**188,549,917**	214,692,168
Net (loss)/gain from trading	9	**(2,296,371)**	2,289,975	**(2,296,371)**	2,289,975
Net gain/(loss) from financial instruments designated at fair value through profit or loss	10	**10,551,460**	(22,136,573)	**10,632,974**	(22,136,573)
Other operating income	11	**128,867,469**	193,650,515	**51,867,469**	114,230,515
Net other operating income		**137,122,558**	173,803,917	**60,204,072**	94,383,917
Total operating income		**3,052,484,528**	3,490,933,247	**3,105,174,640**	3,551,469,416
Impairment charges and other credit losses	12	**(499,453,759)**	(444,362,086)	**(499,453,759)**	(444,362,086)
Net operating income		**2,553,030,769**	3,046,571,161	**2,605,720,881**	3,107,107,330
Personnel expenses	13	**(670,054,649)**	(701,374,419)	**(675,116,218)**	(706,127,910)
Depreciation expense		**(438,513,902)**	(320,578,117)	**(439,737,268)**	(321,787,682)
Amortisation expense		**(13,624,109)**	(12,717,854)	**(13,624,109)**	(12,717,854)
Impairment of investment properties		**(1,959,000)**	–	**–**	–
Impairment of intangible assets		**–**	–	**(4,356,872)**	(64,820,214)
Impairment of investment in subsidiaries		**(23,427,937)**	–	**–**	–
Other operating expenses	14	**(682,960,585)**	(832,630,698)	**(688,096,936)**	(837,765,328)
Operating profit before taxation on financial services		**722,490,587**	1,179,270,073	**784,789,478**	1,163,888,342
Taxes on financial services	15	**(193,761,183)**	(249,986,300)	**(193,761,183)**	(249,986,300)
Profit before income tax		**528,729,404**	929,283,773	**591,028,295**	913,902,042
Income tax expense	16	**(300,898,341)**	21,319,921	**(339,326,170)**	(27,944,357)
Profit for the year		**227,831,063**	950,603,694	**251,702,125**	885,957,685
Basic/diluted earnings per share	17	**3.14**	13.12	**3.47**	12.22

Figures in brackets indicate deductions.
Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Other Comprehensive Income

		Company		Group	
For the year ended 31 March	Note	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Profit for the year		**227,831,063**	950,603,694	**251,702,125**	885,957,685
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain/(loss) on defined benefit plans	42.2	**(17,037,844)**	5,999,263	**(17,300,178)**	5,999,263
Deferred tax effect on actuarial gain/(loss)	39	**4,770,596**	(3,124,802)	**4,769,601**	(3,124,802)
Changes in fair value of investments in equity at fair value through other comprehensive income	46	**205,919**	3,893,597	**205,919**	3,893,597
Other comprehensive income for the year net of tax		**(12,061,329)**	6,768,058	**(12,324,658)**	6,768,058
Total comprehensive income for the year		**215,769,734**	957,371,752	**239,377,467**	892,725,743

Figures in brackets indicate deductions.
Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Assets					
Cash and cash equivalents	19	**718,612,914**	720,853,597	**760,978,541**	724,775,309
Deposits with licensed commercial banks	20	**884,788,297**	1,350,947,501	**884,788,297**	1,350,947,501
Repurchase agreements		**1,001,277,322**	1,515,652,849	**1,001,277,322**	1,515,652,849
Financial assets held at fair value through profit or loss	21	**378,817,366**	167,900,307	**391,355,052**	167,900,307
Financial assets at amortised cost – Finance leases and hire purchases	22	**24,366,846,750**	25,916,966,738	**24,366,846,750**	25,916,966,738
Financial assets at amortised cost – Other loans and receivables	23	**2,866,163,263**	3,152,781,971	**2,866,393,263**	3,152,781,971
Financial assets measured at fair value through other comprehensive income	24	**14,803,522**	14,597,603	**14,803,522**	14,597,603
Financial assets at amortised cost – Other financial instruments	25	**1,131,895,795**	1,044,295,261	**1,131,895,795**	1,044,295,261
Investments in subsidiaries	26	**328,301,663**	320,000,000	**–**	–
Investment property	27	**365,410,369**	375,880,895	**269,748,857**	278,260,383
Property, plant and equipment	28	**1,744,830,446**	1,911,818,746	**1,747,957,408**	1,915,840,801
Intangible assets	29	**46,237,627**	45,131,673	**46,237,627**	45,131,673
Current tax receivable	30	**6,429,659**	–	**9,487,493**	–
Right-of-use assets	31	**388,931,384**	–	**388,931,384**	–
Other assets	32	**151,179,996**	246,236,128	**114,731,215**	225,721,761
Total assets		**34,394,526,373**	36,783,063,269	**33,995,432,526**	36,352,872,157
Liabilities					
Due to banks	33	**5,257,315,384**	7,698,196,509	**5,257,315,384**	7,698,196,509
Financial liabilities at amortised cost – Due to depositors	34	**11,222,611,480**	10,008,976,046	**11,174,910,555**	9,957,561,479
Financial liabilities at amortised cost – Other borrowings	35	**6,432,119,305**	9,564,781,494	**6,432,119,305**	9,564,781,494
Debt securities issued	36	**2,539,828,926**	2,732,047,895	**2,539,828,926**	2,732,047,895
Subordinated debentures	37	**1,779,700,505**	–	**1,779,700,505**	–
Lease liability	38	**344,723,626**	–	**344,723,626**	–
Deferred tax liabilities	39	**402,371,039**	461,314,121	**402,137,961**	461,173,423
Current tax payable	30	**–**	92,943,783	**–**	104,942,770
Amounts due to related company	40	**282,247,412**	282,396,920	**–**	–
Other liabilities	41	**600,010,438**	556,792,899	**617,456,584**	560,009,081
Employee retirement benefits	42	**123,291,686**	88,572,900	**125,625,819**	89,419,248
Total liabilities		**28,984,219,801**	31,486,022,567	**28,673,818,665**	31,168,131,899

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Equity					
Stated capital	43	**1,587,862,680**	1,587,862,680	**1,587,862,680**	1,587,862,680
Statutory reserve fund	44	**430,036,033**	415,036,033	**434,997,079**	419,997,079
Available-for-sale reserve	45	–	–	–	–
Fair value reserve	46	**4,099,516**	3,893,597	**4,099,516**	3,893,597
Retained earnings		**3,388,308,343**	3,290,248,392	**3,294,654,586**	3,172,986,902
Total equity		**5,410,306,572**	5,297,040,702	**5,321,613,861**	5,184,740,258
Total liabilities and equity		**34,394,526,373**	36,783,063,269	**33,995,432,526**	36,352,872,157

Figures in brackets indicate deductions.

Notes to the Financial Statements form an integral part of these Financial Statements.

It is certified that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

S D Bandaranayake
Additional Chief Executive Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board.

W M R S Dias
Chairman

L Balasuriya
Chief Executive Officer/Managing Director

Colombo, Sri Lanka

7 August 2020

Statement of Changes in Equity

	Note	Stated capital LKR
Company		
Balance as at 1 April 2018		1,587,862,680
Profit for the year		–
Other comprehensive income, net of tax		–
Total comprehensive income for the year		–
Transactions with equity holders recognised directly in equity		
Dividends paid		–
Transfers to reserves		–
Total contributions from and distribution to equity holders		–
Balance as at 31 March 2019		1,587,862,680
Balance as at 1 April 2019		1,587,862,680
Adjustment on initial application of SLFRS 16	4.1	–
Restated balance as at 1 April 2019		1,587,862,680
Profit for the year		–
Other comprehensive income, net of tax		–
Total comprehensive income for the year		–
Transactions with equity holders recognised directly in equity		
Dividends paid		–
Transfers to reserves		–
Total contributions from and distribution to equity holders		–
Balance as at 31 March 2020		**1,587,862,680**

Statutory reserve fund LKR	Available-for-sale reserve LKR	Fair value reserve LKR	Retained earnings LKR	Total LKR
365,036,033	–	–	2,615,066,679	4,567,965,392
–	–	–	950,603,694	950,603,694
–	–	3,893,597	2,874,461	6,768,058
–	–	3,893,597	953,478,155	957,371,752
–	–	–	(228,296,442)	(228,296,442)
50,000,000	–	–	(50,000,000)	–
50,000,000	–	–	(278,296,442)	(228,296,442)
415,036,033	–	3,893,597	3,290,248,392	5,297,040,702
415,036,033	–	3,893,597	3,290,248,392	5,297,040,702
–	–	–	(33,652,556)	(33,652,556)
415,036,033	–	3,893,597	3,256,595,836	5,263,388,146
–	–	–	227,831,063	227,831,063
–	–	205,919	(12,267,248)	(12,061,329)
–	–	205,919	215,563,815	215,769,734
–	–	–	(68,851,308)	(68,851,308)
15,000,000	–	–	(15,000,000)	–
15,000,000	–	–	(83,851,308)	(68,851,308)
430,036,033	**–**	**4,099,516**	**3,388,308,343**	**5,410,306,572**

Statement of Changes in Equity (Continued)

	Note	Stated capital LKR
Group		
Balance as at 1 April 2018		1,587,862,680
Profit for the year		–
Other comprehensive income, net of tax		–
Total comprehensive income for the year		–
Transactions with equity holders recognised directly in equity		
Dividends paid		–
Transfers to reserves		–
Total contributions from and distribution to equity holders		–
Balance as at 31 March 2019		1,587,862,680
Balance as at 1 April 2019		1,587,862,680
Adjustment on initial application of SLFRS 16	4.2	–
Restated balance as at 1 April 2019		1,587,862,680
Profit for the year		–
Other comprehensive income, net of tax		–
Total comprehensive income for the year		–
Transactions with equity holders recognised directly in equity		
Dividends paid		–
Transfers to reserves		–
Total contributions from and distribution to equity holders		–
Balance as at 31 March 2020		**1,587,862,680**

Figures in brackets indicate deductions.

Notes to the Financial Statements form an integral part of these Financial Statements.

Statutory reserve fund LKR	Available-for-sale reserve LKR	Fair value reserve LKR	Retained earnings LKR	Total LKR
369,997,079	–	–	2,562,451,198	4,520,310,957
–	–	–	885,957,685	885,957,685
–	–	3,893,597	2,874,461	6,768,058
–	–	3,893,597	888,832,146	892,725,743
–	–	–	(228,296,442)	(228,296,442)
50,000,000	–	–	(50,000,000)	–
50,000,000	–	–	(278,296,442)	(228,296,442)
419,997,079	–	3,893,597	3,172,986,902	5,184,740,258
419,997,079	–	3,893,597	3,172,986,902	5,184,740,258
–	–	–	(33,652,556)	(33,652,556)
419,997,079	–	3,893,597	3,139,334,346	5,151,087,702
–	–	–	251,702,125	251,702,125
–	–	205,919	(12,530,577)	(12,324,658)
–	–	205,919	239,171,548	239,377,467
–	–	–	(68,851,308)	(68,851,308)
15,000,000	–	–	(15,000,000)	–
15,000,000	–	–	(83,851,308)	(68,851,308)
434,997,079	**–**	**4,099,516**	**3,294,654,586**	**5,321,613,861**

Statement of Cash Flows

For the year ended 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Cash flows from operating activities					
Interest and commission receipts		**6,498,869,967**	7,072,819,200	**6,625,132,767**	7,207,872,153
Interest payments		**(3,632,856,744)**	(3,840,510,938)	**(3,629,510,946)**	(3,835,607,722)
Recoveries of bad debts	12	**50,312,434**	39,267,215	**50,312,434**	39,267,215
Other operating income		**35,331,386**	66,355,347	**35,031,386**	66,055,347
Operating expenditure		**(1,067,006,118)**	(1,093,912,040)	**(1,072,142,469)**	(1,099,046,670)
Rent expenses		**–**	(122,984,457)	**–**	(122,984,457)
Cash payments to employees		**(643,970,245)**	(683,434,961)	**(649,048,641)**	(687,971,798)
Operating cash flow before changes in operating assets and liabilities (Note A)		**1,240,680,680**	1,437,599,366	**1,359,774,531**	1,567,584,068
Changes in operating assets and liabilities					
Net funds received from/(advanced to) customers		**1,576,456,837**	(2,019,279,877)	**1,576,226,837**	(2,019,279,877)
Net deposits from customers		**1,213,635,433**	501,842,256	**1,217,349,073**	492,106,145
Deposits with licensed commercial banks		**466,126,522**	(762,646,607)	**466,126,522**	(762,646,607)
Government and other securities		**426,774,993**	1,307,195,058	**426,774,993**	1,307,195,058
Other assets		**33,355,363**	429,635,405	**50,650,912**	450,417,551
Rent prepaid		**–**	4,291,137	**–**	4,291,137
Other liabilities		**(32,882,654)**	(64,184,147)	**(29,863,641)**	(55,316,635)
		3,683,466,494	(603,146,775)	**3,707,264,696**	(583,233,228)
Net cash flow from operating activities before taxation		**4,924,147,174**	834,452,591	**5,067,039,227**	984,350,840
Taxes paid		**(380,021,869)**	(212,912,996)	**(427,237,793)**	(281,058,502)
Gratuity paid	42	**(8,403,462)**	(4,476,559)	**(10,403,462)**	(4,476,559)
Net cash generated from operating activities		**4,535,721,843**	617,063,036	**4,629,397,972**	698,815,779

For the year ended 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Cash flows from investing activities					
Acquisition of subsidiary	26.3	**(26,729,599)**	–	**(9,936,414)**	–
Investment in shares of subsidiary	26.3	**(5,000,001)**	–	**–**	–
Net investment in trading securities		**(202,661,969)**	2,035,578	**(202,661,969)**	2,035,578
Dividends received on investments	11	**80,067,701**	81,714,358	**3,367,701**	2,594,364
Purchase of property, plant and equipment	28	**(190,938,699)**	(931,679,658)	**(191,264,099)**	(931,716,378)
Purchase of intangible assets	29.1	**(14,730,063)**	(597,720)	**(14,730,063)**	(597,720)
Proceeds from sale of property, plant and equipment		**32,771,042**	114,880,623	**32,771,042**	114,880,623
Addition of right-of-use assets	31	**(47,639,813)**	–	**(47,639,813)**	–
Net cash used in investing activities		**(374,861,401)**	(733,646,819)	**(430,093,615)**	(812,803,533)
Cash flows from financing activities					
Subordinated liabilities issued	37	**1,750,000,000**	–	**1,750,000,000**	–
Redemption of debentures	36 and 37	**(189,520,000)**	(1,647,270,000)	**(189,520,000)**	(1,647,270,000)
Securitised loans obtained		**1,000,000,000**	7,300,000,000	**1,000,000,000**	7,300,000,000
Repayment of loans		**(6,695,434,262)**	(5,322,082,694)	**(6,695,434,262)**	(5,322,082,694)
Repayment of lease liability	38	**(105,906,454)**	–	**(105,906,454)**	–
Dividends paid		**(67,323,023)**	(227,215,190)	**(67,323,023)**	(227,215,190)
Net cash (used in)/generated from financing activities		**(4,308,183,739)**	103,432,116	**(4,308,183,739)**	103,432,116
Net decrease in cash and cash equivalents		**(147,323,297)**	(13,151,667)	**(108,879,382)**	(10,555,638)
Cash and cash equivalents at the beginning of the year		**668,923,873**	682,075,540	**672,845,585**	683,401,223
Cash and cash equivalents at the end of the year		**521,600,576**	668,923,873	**563,966,203**	672,845,585

For the year ended 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Reconciliation of cash and cash equivalents					
Cash and cash equivalents	19	**718,669,531**	720,860,722	**761,035,158**	724,782,434
Bank overdrafts	33	**(197,068,955)**	(51,936,849)	**(197,068,955)**	(51,936,849)
		521,600,576	668,923,873	**563,966,203**	672,845,585
Note A					
Reconciliation of operating profit					
Profit before income tax		**528,729,404**	929,283,773	**591,028,295**	913,902,042
Depreciation and amortisation		**452,138,011**	333,295,971	**453,361,377**	334,505,536
Dividend receipts on investments	11	**(80,067,701)**	(81,714,358)	**(3,367,701)**	(2,594,358)
Profit on disposal of fixed assets		**(13,468,382)**	(45,580,900)	**(13,468,382)**	(45,580,900)
Provision for defined benefit plan	42.1	**26,084,404**	17,939,458	**26,067,577**	18,156,112
Impairment charge on financial assets		**322,176,656**	342,572,107	**322,176,656**	342,572,107
Impairment of investment in subsidiaries	26	**23,427,937**	–	**–**	–
Impairment of investment property	27	**1,959,000**	–	**–**	–
Impairment of intangible assets		**–**	–	**4,356,872**	64,820,214
Loan losses and write-offs	12	**57,967,585**	30,191,540	**57,967,585**	30,191,540
Gain from auction of pawned articles	12	**(1,086,768)**	(133,860)	**(1,086,768)**	(133,860)
Loss on disposal of right-of-use assets		**1,014,474**	–	**1,014,474**	–
Net (gain)/loss from financial instruments designated at FVTPL	10	**(10,551,460)**	22,136,573	**(10,632,974)**	22,136,573
Net loss/(gain) from trading	9	**2,296,371**	(2,289,975)	**2,296,371**	(2,289,975)
Loss on foreign currency balances		**–**	90	**–**	90
Interest expense on lease liability	38	**44,994,212**	–	**44,994,212**	–
Interest accrued on loans and advances		**(118,693,441)**	(27,121,470)	**(118,693,441)**	(27,121,470)
Accrued interest on borrowings		**(23,241,158)**	(60,401,797)	**(23,241,158)**	(60,401,797)
Accrued interest on debentures		**27,001,536**	(20,577,786)	**27,001,536**	(20,577,786)
		1,240,680,680	1,437,599,366	**1,359,774,531**	1,567,584,068

Figures in brackets indicate deductions.

Notes to the Financial Statements form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Corporate information

1.1 Domicile and legal form

Senkadagala Finance PLC is a public limited liability company domiciled in Sri Lanka, incorporated under the Companies Act No. 51 of 1938 on 29 December 1968 and registered under the Finance Companies Act No. 78 of 1988 which was replaced by the Finance Business Act No. 42 of 2011. The Company was re-registered under the Companies Act No. 07 of 2007 on 14 November 2011. The Registered Office of the Company is situated at 2nd Floor, No. 267, Galle Road, Colombo 03.

As a registered finance company, it is supervised by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

1.2 Number of employees

The number of employees of the Company at the end of the year was 797 (2019 – 794).

1.3 Consolidated financial statement

The Consolidated Financial Statements of Senkadagala Finance PLC for the year ended 31 March 2020 comprise those of the Company (parent company) and its subsidiaries (together referred to as the "Group").

1.4 Principal activities and nature of operations

Company

The principal lines of business of the Company can be broadly classified under two categories – Fund based and fee-based. The fund based services include leasing, hire purchase finance, trade loans and pledge loans. The fee-based services include vehicle valuations etc.

Subsidiaries

The subsidiary companies and their principal lines of business are as follows:

- Senkadagala Insurance Brokers (Pvt) Ltd.

  The principal activity of the Senkadagala Insurance Brokers (Pvt) Ltd. was providing insurance brokering services. The Company holds 100% share capital of Senkadagala Insurance Brokers (Pvt) Ltd.

- Newest Capital Limited

  The Company acquired 100% equity stake of Newest Capital Limited under the consolidation programme implemented by the Central Bank of Sri Lanka. The principal activity of the Company was finance leasing business. However, Newest Capital Limited ceased all its operations on 31 March 2019 and is in the process of being wound up.

- Candor Asset Management (Private) Limited

  The Company acquired 100% share capital of Candor Asset Management (Private) Limited on 4 March 2020. The primarily lines of business of Candor Asset Management (Pvt) Limited are to float, operate and manage unit trusts and to operate as an investment managers to third party portfolios.

1.5 Parent enterprise and ultimate parent enterprise

E W Balasuriya and Company (Private) Limited which is incorporated and domiciled in Sri Lanka is the immediate and ultimate parent of Senkadagala Finance PLC.

2. Basis of preparation

2.1 Statement of compliance

The Financial Statements of the Company and the Group are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by The Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007, the Finance Companies Act No. 78 of 1988 which is replaced by the new Finance Business Act No. 42 of 2011 and the amendments to these Acts and provide appropriate disclosures as required by the Central Bank of Sri Lanka and Listing Rules of the Colombo Stock Exchange.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified format prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Non-Bank Financial Institutions.

This is the first set of Group's Annual Financial Statements in which the Sri Lanka Accounting Standard – SLFRS 16 "Leases" has been applied. The related changes to significant accounting policies are described in Note 2.9.

2.2 Responsibility for financial statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and the Company in accordance with the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards (LKASs and SLFRSs).

The Financial Statements of Senkadagala Finance PLC for the year ended 31 March 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 7 August 2020.

These Financial Statements include the following components:

- An Income Statement providing the information on the financial performance of the Company and the Group for the year under review.
- A Statement of Income and Other Comprehensive Income providing the other comprehensive income of the Company and the Group for the year under review.
- A Statement of Financial Position providing the information on the financial position of the Company and the Group as at the year end.
- A Statement of Changes in Equity providing the information on all changes in shareholders' equity of the Company and the Group during the year under review.
- A Statement of Cash Flows providing the information on the cash and cash equivalents, generating ability of the Company and the Group and the utilisation of those cash flows.
- Notes to the Financial Statements comprising accounting policies used by the Company and the Group.

2.3 Basis of measurement

The Financial Statements of Senkadagala Finance PLC ("the Company") and consolidated subsidiaries ("Group") are prepared on a historical cost basis except for the following material items:

Items	Basis of measurement
Financial instruments measured at fair value through profit or loss	Fair value
Financial instruments measured at fair value through other comprehensive income	Fair value
Employee retirement benefit	Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost, and unrecognised actuarial losses

2.4 Functional and presentation currency

Items included in the Financial Statements of the Company and the Group are measured using the currency of the primary economic environment in which the Group operates. Financial Statements are presented in Sri Lankan Rupees, which is the Company's and its Subsidiary's functional currency. There was no change in the Group's presentation and functional currency during the year under review.

2.5 Preparation of Financial Statements

The Company and the Group presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement based on maturity is presented in Note 51. No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.5.1 Reporting date

The Financial Statements of all companies in the Group are prepared for a common financial year, which ends on 31 March except for Candor Asset Management (Pvt) Ltd. whose financial year ends on 31 December. However, consolidated financial statements has been prepared based on the audited financial statements of Candor Asset Management (Pvt) Ltd. as at 31 March 2020.

2.6 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements".

2.7 Comparative information

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

The Company and the Group has not restated the comparative information for 2018/19 for contracts within the scope of Sri Lanka Accounting Standard – SLFRS 16 on "Leases". Therefore, the comparative information for 2018/19 is reported under Sri Lanka Accounting Standard – LKAS 17 on "Leases" and is not comparable to the information presented for 2018/19. Differences arising from adoption of SLFRS 16 have been recognised directly in equity as of 1 April 2019 and are disclosed in Note 4.

2.8 Significant accounting judgements, estimates and assumptions

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards (LKAS/SLFRS) requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amount may differ from these estimates.

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

Information about significant areas of estimation, uncertainty, critical judgements and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the notes below:

2.8.1 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 the 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.

In preparing the Financial Statements for the year ended 31 March 2020, the Management has made an assessment of Group's ability to continue as a going concern using all available information about the future, in light of the current uncertain economic conditions and market volatility caused due to the COVID-19 outbreak. Further details on the impact and implications of the COVID-19 outbreak is given in Note 55 of these Financial Statements.

2.8.2. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted pricing in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The fair value of an asset or a liability is measured using the assumptions that market participants would use the fair value hierarchy when pricing the asset or liability, assuming that market participants act in their economic best interest. The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and building.

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

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

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

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

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

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 27 – Investment Property
- Note 28 – Property, Plant and Equipment
- Note 53 A and B – Financial Instruments

2.8.3 Financial assets and liabilities classification

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 3.3.3.1.
- The contractual cash flow characteristics of the financial assets as set out in Note 3.3.3.2.

2.8.4 Impairment losses on loans and advances

The measurement of impairment losses across the categories of financial assets under Sri Lanka Accounting Standard on "Financial Instrument" (SLFRS 9) requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses.

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 Income Statement. 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. The individual impairment provision applies to financial assets evaluated individually for impairment and is based on Management's best estimate of the present value of the future cash flows that are expected to be received. In estimating these cash flows, Management makes judgements about a borrower's financial situation and the net realisable value of any underlying collateral.

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.

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 judgements 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 lifetime 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 macroeconomic 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 macroeconomic scenarios and their probability weights, to derive economic input into ECL models.

The accuracy of the provision depends on the model assumptions and parameters used in determining the collective provision.

2.8.5 Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for an asset or a cash generating unit (CGU) at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the "value in use" of such individual assets or the CGUs. Estimating "value in use" requires the Management to make an estimate of the expected future cash flows from the asset or the CGU and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates.

2.8.6 Defined benefit obligation

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discounting rates, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

2.8.7 Useful life of property, plant and equipment

The Group reviews the residual values, useful life and method of depreciation for property, plant and equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rate methods and hence subject to uncertainty.

2.9 Changes in accounting policies

The Group has consistently applied the accounting policies to all periods presented in these Financial Statements, except for the changers as set out below.

The Group initially applied SLFRS 16 Leases from 1 April 2019. A number of other new Standards are also effective from 1 April 2019 but they do not have a material effect on the Group's Financial Statements.

The Group adopted SLFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 April 2019. Accordingly, the comparative information presented for 2019 was not restated, it is presented, as previously reported under LKAS 17 and related interpretations. The cumulative effect of the initial adjustment was identified in the Statement of Changes in Equity. Accordingly, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

2.9.1 SLFRS 16 – Leases

With effect from 1 April 2019, Group applies SLFRS 16 to account for contracts that were previously identified as leases under LKAS 17 and IFRIC 4. For the contracts entered into on or after the effective date of transition, the Group, at the inception of a contract, assesses whether a contract is, or contains, a lease as per the guidelines of SLFRS 16. This assessment considers whether, throughout the period of use, the lessee has both the right to obtain all of the economic benefits from the identified asset and the right to direct how and for what purpose the identified asset is used in exchange for a consideration.

After the assessment of whether a contract is, or contains, a lease, the Group determines whether it contains additional lease or non-lease (service) components based on the detailed guidance provided in SLFRS 16.

2.9.1.1 As a lessor

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

2.9.1.2 As a lessee

As a lessee, the Group previously classified operating lease and the finance lease based on its assessment of whether the lease transferred significantly all risk and rewards incidental to ownership of the underlying assets to the Group. Under SLFRS 16, the Group determines whether a contract is or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the "right-of-use" model.

The Group recognises the lease liability at the date of initial application for leases previously classified as operating leases applying LKAS 17. It has been measured at the present value of the lease payments, discounted using the Group's cost of funds rate on the date of initial application.

The Group recognised the "right-of-use" asset at the date of initial application, for leases previously classified as operating leases under LKAS 17. Right-of-use assets are measured at their carrying amount as if SLFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application.

The Group used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases, for which the lease term ends within 12 months;
- did not recognise right-of-use assets and liabilities for leases of low-value assets;
- excluded any initial direct costs from measuring the right-of-use asset at the date of initial application;

- applied a single discount rate to a portfolio of leases with similar characteristics;
- used hindsight when determining the lease term if the contract contains option to extend or terminate the lease.

2.9.1.3 Impact on transition

On transition to SLFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

As at 1 April 2019	LKR
Right-of-use – lease assets	165,613,799
Lease liabilities	199,266,355
Equity	(33,652,556)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate as at 1 April 2019, an average rate of 15.84%.

3. Significant Accounting Policies

3.1 Basis of consolidation

The Financial Statements of the Company and Group comprise the Financial Statements of the Company and its subsidiaries for the year ended 31 March 2020. The Financial Statements of the Company's subsidiaries for the purpose of consolidation are prepared for the same reporting year as that of Senkadagala Finance PLC, using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

Business combinations are accounted for using the acquisition method when control is transferred to the Group as per Sri Lanka Accounting Standard on "Business Combinations" (SLFRS 3). The consideration transferred in the acquisition and identifiable net assets acquired are measured at fair value. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, expect if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity. Then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

3.1.1 Non-controlling interests

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.1.2 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.1.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency of the operations at the spot exchange rates at the dates of the transactions. All differences arising on non-trading activities are taken to "other operating income" in the Income Statement. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Unrealised gains and losses are dealt under "other operating income" in the Income Statement.

3.3 Financial instruments – Initial recognition, classification, and subsequent measurement

3.3.1 Date of recognition

The Group initially recognises loans and advances, deposits and liabilities on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

3.3.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per SLFRS 9 and trade receivables that do not have a significant financing component as defined by SLFRS 15. Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss.

3.3.2.1 Day 1 profit or loss

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

3.3.3 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; at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The subsequent measurement of financial assets depends on their classification.

3.3.3.1 Business model assessment

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. 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;
- the risks that affect the performance of the business model and how those risks are managed managers of the business are compensated; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

As a second step of its classification process the 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. "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 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.

3.3.3.3 Financial assets measured at amortised cost

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

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

3.3.3.3.1 Securities purchased under resale agreements (reverse repos)

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

3.3.3.3.2 Debt and other financial instruments measured at amortised cost

Details of "Debt and other financial instruments measured at amortised cost" are given in Note 25.

3.3.3.3.3 Cash and cash equivalents

Details of "Cash and cash equivalents" are given in Note 19.

3.3.3.4 Financial assets measured at FVOCI

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

3.3.3.4.1 Debt instruments measured at FVOCI

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

3.3.3.4.2 Equity instruments designated at FVOCI

Upon initial recognition, the Group elects to classify irrevocably some of its equity investments held for strategic and statutory purposes as equity instruments at FVOCI.

3.3.3.5 Financial assets measured at FVTPL

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.

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 a 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.

Financial assets designated at fair value through profit or loss are recorded in the SOFP at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned is accrued in "Interest income", using the EIR, while dividend income is recorded in "Other operating income" when the right to receive the payment has been established.

3.3.4 Classification and subsequent measurement of financial liabilities

The Group classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as designated at fair value through profit or loss.
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

3.3.4.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities designated at fair value through profit or loss are recorded in the SOFP at fair value when the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis, or a group of financial liabilities or financial assets and financial liabilities are managed and its performance is evaluated on a fair value basis.

Changes in fair value are recorded in "Net fair value gains/(losses) from financial instruments at fair value through profit or loss" with the exception of movements in fair value of liabilities designated at FVTPL due to changes in the Company's own credit risk. Such changes in fair value are recorded in the own credit reserve through OCI and do not get recycled to profit or loss. Interest paid/payable is accrued in "Interest expense", using the EIR.

3.3.4.2 Financial liabilities at amortised cost

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

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in “Interest expense” in the Income Statement. Gains and losses too are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

3.3.5 Reclassification of financial assets and liabilities

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

3.3.5.1 Timing of reclassification of financial assets

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

3.3.5.2 Measurement of reclassification of financial assets

3.3.5.2.1 Reclassification of Financial Instruments at “Fair value through profit or loss”

- To fair value through other comprehensive income

  The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value is recognised in the OCI.

- To amortised cost

  The fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

3.3.5.2.2 Reclassification of financial instruments at “Fair value through other comprehensive income”

- To fair value through profit or loss

  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.

- To amortised cost

  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the reclassification date. The adjusted amount becomes the amortised cost. EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

3.3.5.2.3 Reclassification of financial instruments at “Amortised cost”

- To fair value through other comprehensive income

  The asset is remeasured at fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of the reclassification.

- To fair value through profit or loss.

  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

3.3.6 Derecognition of financial assets and financial liabilities

3.3.6.1 Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. However, cumulative gain/loss recognised in OCI in respect of equity investment securities designated at FVOCI is not recognised in profit or loss on derecognition of such securities as per SLFRS 9. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its SOFP, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised, the asset is recognised to the extent of the Group's continuing involvement in the asset. The Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflected the rights and obligations that the Group has retained.

3.3.6.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

3.3.7 Modification of financial assets and financial liabilities

3.3.7.1 Financial assets

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

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

3.3.7.2 Financial liabilities

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

3.3.8 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the SOFP if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.3.9 Amortised cost and gross carrying amount

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

3.3.10 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 2.8.2.

3.3.11 Identification and measurement of impairment of financial assets

3.3.11.1 Overview of the ECL principles

The Group records an allowance for expected credit losses for loans and advances to customers, debt and other financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

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

- Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of 12 months expected credit losses 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 financial asset is credit impaired, it is moved to Stage 3 and the Group recognises an allowance for LTECL, with probability of default at 100%.
- Purchased or originated credit impaired (POCI) financial assets: Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. The Group does not have POCI loans as at the reporting date.

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

3.3.11.2 Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and expert credit assessment and including forward looking information. The Group considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 90 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. Such indicators include, inter alia:

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument.
- When the value of collateral is significantly reduced and/or realisability of collateral is doubtful.
- When a customer is subject to litigation that significantly affects the performance of the credit facility.
- Frequent changes in the senior management of an institutional customer.
- Delay in the commencement of business operations/ projects by more than two years from the originally agreed date.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants.
- When the customer is deceased/insolvent.
- When the Company is unable to contact or find the customer.
- A fall of 50% or more in the turnover and/or profit before tax of the customer.
- Erosion in net-worth by more than 25% when compared to the previous year.

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

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

3.3.11.3 Definition of default and credit impaired assets

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

- 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
- The borrower becomes 120 days past due on its contractual payments.

In addition, the Group classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is "default". In assessing whether a borrower is in default, Group reviews its individually significant loans and advances above a predefined threshold at each reporting date.

3.3.11.4 Movement between the stages

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

3.3.11.5 Grouping financial assets measured on collective basis

The Group calculates ECLs either on a collective or an individual basis. Asset classes where the Group calculates ECL on individual basis include:

- Credit impaired facilities of individually significant customers.
- The treasury, trading and interbank relationships (such as due from banks, money at call and short notice, placements with banks, government securities, investments in debentures etc.).

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

3.4 Non-current assets held-for-sale and disposal groups

The Group intends to recover the value of non-current assets and disposal groups classified as held-for-sale as at the reporting date principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for sale in its present condition, Management has committed to the sale and the sale is expected to have been completed within one year from the date of classification.

These assets are measured at the lower of the carrying amount and fair value, less costs to sell. Thereafter, the Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired.

The Group recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. Impairment loss is first allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets or employee benefit assets which continue to be measured in accordance with the Group's other accounting policies. As a result, once classified, the Group neither amortises nor depreciates the assets classified as held for sale.

In the Income Statement of the reporting period and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a NCI in a subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the Income Statement.

3.5 Recognition of income and expenses

Revenue 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. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest and similar income and expense

Interest income and expenses for all financial instruments are recorded using the 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.

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

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for the provision of services are not integral part of main source. Such income is a collection from the customers for reimbursement of expenses. These fees include commission income and finance charge, legal fees, valuation, and document charges and are recognised when earned.

(iii) Dividend income

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

(iv) Net gain from trading

Results arising from trading activities include all gains and losses from sale of financial assets and financial liabilities "held for trading".

3.6 Cash and cash equivalents

Cash and cash equivalents as referred to in the Statement Of Cash Flow comprises cash on hand, non-restricted current accounts and balances on demand with an original maturity of three months or less.

3.7 Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill.

If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the Income Statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value 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 Company'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. Each unit to which the goodwill is allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with Sri Lanka Accounting Standard (SLFRS 8) – Operating Segments.

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 subsidiary is sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Income Statement.

3.8 Property, plant and equipment

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

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Land is not depreciated.

The depreciation rates and estimated useful lives of the different types of assets are as follows:

The class of asset	% Per annum	Useful life
Buildings	5	20 years
Office equipment	10	10 years
Computers and other equipment	25	4 years
Furniture, fixtures and fittings	10	10 years
Motor vehicles	16.67	6 years
Generators	12.5	8 years

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 Income Statement in the year the asset is derecognised.

3.9 Intangible assets

The Group's intangible assets include the value of computer software and licenses. 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.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is measured at their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

The class of intangible assets	% Per annum	Useful life
Computer Software	12	8-9 years

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

3.10 Investment property

Property held to earn rental income and property held for capital appreciations have been classified as investment property. Investment property are initially recognised at cost. Subsequent to the initial recognition, the investment properties are accounted using cost model.

Depreciation is calculated using the straight-line method to write down the cost of property to their residual values over their estimated useful lives. Land is not depreciated. Buildings are estimated to have a useful life of 20 years, the depreciation rate adopted is 5% per annum.

3.11 Right-of-use assets and lease liabilities

Leases

The Group has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 April 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after 1 April 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site to its original state, less any lease incentives received.

The right-of-use asset subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers the ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head-lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies SLFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognise lease payments received under operating leases as income on a straight-line basis over the lease term as part of other operating income.

Policy applicable before 1 April 2019

For contracts entered into before 1 April 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's Statement of Financial Position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain Indicators such as whether the lease was for the major part of the economic life of the asset.

3.12 Employee benefits

(i) Defined benefit plan

The cost of providing benefits under the defined benefit plan is determined separately using the Projected Unit Credit method. This method involves estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value.

The past service cost is recognised as an expense on a straight line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a defined benefit plan, past service cost is recognised immediately.

The latest actuarial valuation was carried out as at 31 March 2020, by Piyal S Gunatilleke F.S.A. (USA), a Fellow of the Society of Actuaries (USA), Member of the American Academy of Actuaries, Consulting Actuary.

The principal financial assumptions used in the valuation are:

Interest/Discount Rate	9.5% p.a.
Basic salary increase for all grades	5.0% p.a.
Retirement age	55 years

The actuarial gain or losses are recognised in the Income Statement in the year in which they arise.

Funding arrangement

The gratuity liabilities are not externally funded. Gratuity payments are made by the Group according to the Payment of Gratuity Act No. 12 of 1983. Accordingly, the Group is liable to pay gratuity to employees who have completed a minimum of five years of service in the Group at the rate of 50% of the last drawn salary for each completed year of service.

(ii) Defined contribution plan

The Group contributes to the following Schemes:

Employees' Provident Fund

The Group and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Employees' Provident Fund managed by the Central Bank of Sri Lanka.

Employees' Trust Fund

The Group contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board of the Central Bank of Sri Lanka.

3.13 Provisions

Provisions are recognised 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. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3.14 Taxes

(i) Current taxation

Current tax assets and liabilities consists of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 24 of 2017 and the amendment thereto, at the rates specified in the Financial Statements.

As per the notice to tax payers and withholding agents on "implementation of proposed changes to the Inland Revenue Act No. 24 of 2017" dated 12 February 2020 issued by Department of Inland Revenue, Income Tax rates of corporates has been revised to 24% from 28% effective from 1 January 2020 pending formal amendments to be made to the Inland Revenue Act.

(ii) Deferred taxation

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognised for all temporary differences.

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

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent 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 recognise to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

(iii) Value Added Tax on financial services

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 benefits in money and not in money including contribution or provision relating to terminal benefits.

(iv) Nation Building Tax on financial services

With effect from 1 January 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. Up to 30 November 2019, As per Notice published by the Department of Inland Revenue dated 29 November 2019, NBT was abolished with effect from 1 December 2019. NBT was chargeable on the same base used for calculation of VAT on financial services as explained in Notes to the Financial Statements.

(v) Crop Insurance Levy

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

(vi) Withholding Tax on dividends distributed by the Company

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised. As per Notice dated 18 February 2020 published by the Department of Inland Revenue, requirement to deduct WHT on dividends has been removed effective 1 January 2020.

(vii) Economic Service Charges (ESC)

As per the Finance Act No. 11 of 2004, and amendments thereto, ESC was introduced with effect from 1 April 2004. The ESC is payable at 0.5% on liable turnover of the Company and is deductible against subsequent 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 dated 1 January 2020 published by the Department of Inland Revenue, ESC was abolished with effect from 1 January 2020.

(viii) Debt Repayment Levy (DRL)

As per the Finance Act No. 35 of 2018, with effect from 1 October 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 per notice published by the Department of Inland Revenue dated 20 January 2020, DRL was abolished with effect from 1 January 2020. The amount of DRL charged in determining the profit or loss for the period is given in Note 15.

3.15 Deposit Insurance Scheme

As per the Direction No. 1 of 2010, Sri Lanka Deposit Insurance Scheme, which was effected from 1 October 2010 all Licensed Finance Companies (LFC) are required to pay an insurance premium calculated at the rate of 0.15% per annum payable monthly for all eligible deposits as at the end of the month. Eligible deposits include all the time deposits held by the LFC except for –

a. Deposit liabilities to member institutions.
b. Deposit liabilities to the Government of Sri Lanka inclusive of Ministers, Departments and Local Governments.
c. Deposit liabilities to Directors, key management personnel and other related parties as defined by the Finance Companies Act (Corporate Governance) Direction No. 3 of 2008.
d. Deposit liabilities held as collateral against any accommodation granted.

e. Deposits falling within the meaning of abandoned property in terms of the Finance Companies Act, Funds which have been transferred to the Central Bank of Sri Lanka in terms of the relevant directions issued by the Monetary Board.

3.16 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing services (Business Segment).

The segments comprise of financing and investing segments. Segment results, assets and liabilities include those items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprises mainly of head office expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

3.17 Events after the reporting date

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

In this regard, all material and important events that occurred after the reporting date have been considered and appropriate disclosures are made in Note 49 where necessary.

3.18 Earnings per share

The Group presents Basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The details of the earnings per share are given in Note 17.

3.19 Maturity analysis

The Group has disclosed an analysis of assets and liabilities in to relevant maturity baskets based on the remaining period as at the reporting date to the contractual maturity date.

3.20 Cash Flow Statement

The Cash Flow Statement has been prepared using the "Direct Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7 – "Statement of Cash Flows". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The cash and cash equivalent include cash in hand, balances with banks, placements with banks, money at call and short notice and money market funds.

3.21 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 reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

All discernible risks are accounted for in determining the amount of all known liabilities. The Company's share of any contingencies and capital commitments of a subsidiary for which the Company is also liable severally or otherwise are also included with appropriate disclosures.

3.22 New Accounting standards issued but not yet effective

Several amendments to Accounting Standards are effective for annual reporting periods beginning on or after 1 April 2020, and early application is permitted. However, the Group has not early adopted the following amendments to Accounting Standards in preparing these Consolidated Financial Statements as they are not expected to have a significant impact on the Group's Financial Statements.

3.22.1 Amendments to SLFRS 3: Definition of a business

Amendments to SLFRS 3 to help entities determine whether an acquired set of activities and assets are a business or not. Therefore, whether or not an acquired set of activities and assets are a business, is a key consideration in determining how the transaction should be accounted for. Prior to the amendments, SLFRS 3 stated that a business consists of inputs and processes applied to those inputs that have the ability to create outputs, although outputs are not necessarily required for an integrated set to qualify as a business.

The Group shall apply those amendments to business combinations prospectively for annual financial periods beginning on or after 1 April 2020.

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".

The Group shall apply those amendments prospectively for annual financial periods beginning on or after 1 April 2020.

The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. The new conceptual framework is effective for annual periods beginning on or 1 April 2020.

3.22.2 Interest rate benchmark reforms (Amendments to SLFRS 9, LKAS 39, and SLFRS 7)

Interest rate benchmark reform is a global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. Historically IBORs such as USD LIBOR have been determined by panels of banks with a heavy reliance on expert judgement. The objective of the reforms is to replace IBORs with alternative nearly risk-free rates (RFRs) that are based on actual market transactions. The Financial Conduct Authority has stated that it will no longer compel panel banks to submit values for LIBORs after 31 December 2021 and it is expected that these benchmarks will cease to exist thereafter. Consequently, financial contracts referencing these benchmarks with a maturity beyond 2021 may need to be amended to reference the alternative RFR in the applicable currency. There remain many uncertainties associated with the IBOR transition, including the prospective Group is in the process of assessing the possible impact.

4. Impact on transition to SLFRS 16 – "Leases"

The Company made adjustments due to adoption of the new Sri Lanka Accounting Standards SLFRS 16 – "Leasing" with effect from 1 April 2019. Details of adjustments are as follows:

	Company	Group
Right-of-use – Lease asset	165,613,799	165,613,799
Lease liabilities	(199,266,355)	(199,266,355)
Net impact on retained earnings	(33,652,556)	(33,652,556)

The Group adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application being 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect initially identified in the Statement of Changes in Equity.

Following table set out the impact of adopting SLFRS 16 on the Statement of Financial Position, and retained earnings:

4.1 Company

		SLFRS 16 transition adjustment		
	31 March 2019	Reclassification	Remeasurements	1 April 2019
Assets				
Right-of-use – lease assets	–	61,700,764	165,613,799	227,314,563
Other financial and non-financial assets*	36,783,063,269	(61,700,764)	–	36,721,362,505
Total assets	36,783,063,269	–	165,613,799	36,948,677,068
Liabilities and Equity				
Liabilities**	31,486,022,567	–	199,266,355	31,685,288,922
Equity	5,297,040,702	–	(33,652,556)	5,263,388,146
Total liabilities and equity	36,783,063,269	–	165,613,799	36,948,677,068

4.2 Group

		SLFRS 16 transition adjustment		
	31 March 2019	Reclassification	Remeasurements	1 April 2019
Assets				
Right-of-use – lease asset	–	61,700,764	165,613,799	227,314,563
Other financial and non-financial assets*	36,352,872,157	(61,700,764)	–	36,291,171,393
Total assets	36,352,872,157	–	165,613,799	36,518,485,956
Liabilities and Equity				
Liabilities**	31,168,131,899	–	199,266,355	31,367,398,254
Equity	5,184,740,258	–	(33,652,556)	5,151,087,702
Total liabilities and equity	36,352,872,157	–	165,613,799	36,518,485,956

** Due to derecognition of the LKAS 17 pre-paid lease asset*

*** Due to recognition of lease liabilities*

Figures in brackets indicate deductions.
Notes to the Financial Statements form an integral part of these Financial Statements.

5. Interest income

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Cash and short-term funds	**22,163,691**	24,197,295	**22,875,639**	25,615,585
Fixed deposits	**104,815,520**	149,531,500	**104,815,520**	149,531,500
Repurchase agreements	**127,291,000**	91,035,595	**127,291,000**	91,035,595
Financial assets at amortised cost				
– Finance leases and hire purchases	**4,814,280,196**	4,986,244,406	**4,814,280,196**	4,986,244,406
– Commercial loans	**201,121,634**	386,726,476	**201,121,634**	386,726,476
– Personal loans	**45,473,439**	40,317,232	**45,473,439**	40,317,232
– Pawning advances	**255,067,304**	246,654,396	**255,067,304**	246,654,396
– Fixed deposit loans	**11,937,469**	13,581,344	**11,937,469**	13,581,344
– Other financial instruments	**104,667,470**	93,387,345	**104,667,470**	93,387,345
Interest on delayed insurance premium	**83,875,977**	105,277,543	**83,875,977**	105,277,543
Interest on overdue rentals	**763,280,538**	858,650,048	**763,280,538**	858,650,048
	6,533,974,238	6,995,603,180	**6,534,686,186**	6,997,021,470

6. Interest expense

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Due to banks	**745,367,934**	813,139,129	**745,367,934**	813,139,129
Financial liabilities at amortised cost				
– Due to depositors	**1,278,076,946**	1,187,175,569	**1,274,731,148**	1,182,272,353
– Other borrowings	**1,075,477,006**	1,137,524,045	**1,075,477,006**	1,137,524,045
– Commercial paper	**54,213,643**	98,961,191	**54,213,643**	98,961,191
Debt securities issued	**352,400,832**	391,987,230	**352,400,832**	391,987,230
Subordinated liabilities	**131,080,760**	130,744,191	**131,080,760**	130,744,191
Interest expenses on lease liability	**44,994,212**	–	**44,994,212**	–
	3,681,611,333	3,759,531,355	**3,678,265,535**	3,754,628,139

7. Fee and commission income

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Finance charges	**41,681,939**	51,683,774	**41,681,939**	51,683,774
Loan protection fee	**38,455,428**	42,514,365	**38,455,428**	42,514,365
Commission income	**345,178**	83,891	**125,896,030**	133,718,554
Legal and Inspection fee	**3,106,624**	10,055,460	**3,106,624**	10,055,460
	83,589,169	104,337,490	**209,140,021**	237,972,153

8. Fee and commission expense

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Commission paid	**10,261,815**	12,340,437	**10,261,815**	12,340,437
Other	**10,328,289**	10,939,548	**10,328,289**	10,939,548
	20,590,104	23,279,985	**20,590,104**	23,279,985

9. Net (Loss)/gain from trading

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Equities	**(2,296,371)**	2,289,975	**(2,296,371)**	2,289,975
	(2,296,371)	2,289,975	**(2,296,371)**	2,289,975

10. Net gain/(loss) from financial instruments designated at fair value through profit or loss

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Financial assets designated at fair value through profit or loss	**10,551,460**	(22,136,573)	**10,632,974**	(22,136,573)
	10,551,460	(22,136,573)	**10,632,974**	(22,136,573)

11. Other operating income

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Dividend income	**80,067,701**	81,714,358	**3,367,701**	2,594,358
Profit on disposal of fixed assets	**13,468,382**	45,580,900	**13,468,382**	45,580,900
Rent income	**19,587,660**	18,930,755	**19,287,660**	18,630,755
Other income	**15,680,096**	47,280,774	**15,680,096**	47,280,774
Foreign exchange gain	**63,630**	143,728	**63,630**	143,728
	128,867,469	193,650,515	**51,867,469**	114,230,515

12. Impairment charges and other credit losses

For the year ended 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Impairment (reversal)/charge on individual impairment					
– Finance leases and hire purchases	22.3	**(169,276,271)**	143,852,508	**(169,276,271)**	143,852,508
– Commercial loans	23.1.1	**72,834,372**	(23,169,969)	**72,834,372**	(23,169,969)
		(96,441,899)	120,682,539	**(96,441,899)**	120,682,539
Expected credit losses/(reversal) (ECL)					
– Cash and cash equivalents	19.1	**49,492**	(370)	**49,492**	(370)
– Deposits with licensed commercial banks	20.1	**32,682**	56,018	**32,682**	56,018
– Finance leases and hire purchases	22.4	**345,087,341**	93,756,572	**345,087,341**	93,756,572
– Commercial loans	23.1.2	**40,210,383**	91,595,508	**40,210,383**	91,595,508
– Pawning advances	23.3.1	**(1,543,288)**	1,187,779	**(1,543,288)**	1,187,779
– Other advances	23.4.2	**34,781,945**	35,294,061	**34,781,945**	35,294,061
		418,618,555	221,889,568	**418,618,555**	221,889,568
Direct write-offs		**57,967,585**	30,191,540	**57,967,585**	30,191,540
Net loss on sale of repossessed assets		**170,708,720**	110,999,514	**170,708,720**	110,999,514
Gain from auction of pawned articles		**(1,086,768)**	(133,860)	**(1,086,768)**	(133,860)
Recovery of loans previously written-off		**(50,312,434)**	(39,267,215)	**(50,312,434)**	(39,267,215)
		499,453,759	444,362,086	**499,453,759**	444,362,086

13. Personnel expenses

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Salaries and wages	**480,409,709**	457,330,272	**484,458,394**	460,517,395
Directors' emoluments	**21,221,430**	22,758,780	**21,221,430**	22,758,780
Employers' contribution to Employees' Provident Fund	**57,386,003**	54,473,688	**57,857,445**	54,841,743
Employers' contribution to Employees' Trust Fund	**14,346,501**	13,618,422	**14,464,362**	13,710,436
Contribution for defined benefit plan	**26,084,404**	17,939,458	**26,067,577**	18,156,112
Performance incentives	**60,507,708**	123,250,799	**60,930,798**	124,100,684
Other personnel costs	**10,098,894**	12,003,000	**10,116,212**	12,042,760
	670,054,649	701,374,419	**675,116,218**	706,127,910

14. Other operating expenses

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
External Auditors' remuneration – Audit fee and expenses	**1,500,000**	1,320,000	**1,670,269**	1,799,871
– Audit-related services	**3,880,373**	2,652,758	**4,209,003**	2,652,758
Internal Auditors' remuneration	**5,808,000**	5,808,000	**5,808,000**	5,808,000
Legal expenses	**14,035,103**	10,798,826	**14,035,103**	10,798,826
Contribution to deposit insurance scheme of CBSL	**14,190,853**	13,590,498	**14,190,853**	13,590,498
Other administrative expenses	**143,576,908**	138,127,002	**144,934,454**	138,821,919
Establishment expenses	**438,427,839**	602,171,620	**439,821,992**	603,394,709
Selling expenses	**61,541,509**	58,161,994	**63,427,262**	60,898,747
	682,960,585	832,630,698	**688,096,936**	837,765,328

15. Taxes on financial services

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Value added tax	**133,128,050**	180,237,892	**133,128,050**	180,237,892
Nation building tax	**9,550,834**	24,253,559	**9,550,834**	24,253,559
Debt repayment levy	**51,082,299**	45,494,849	**51,082,299**	45,494,849
	193,761,183	249,986,300	**193,761,183**	249,986,300

16. Income tax expense

For the year ended 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Current tax expense					
Current income tax charge	16.1	**355,070,827**	381,171,631	**387,292,031**	417,621,136
Withholding tax on inter-company dividends		**–**	–	**6,300,000**	12,880,000
		355,070,827	381,171,631	**393,592,031**	430,501,136
Deferred tax expense					
Origination of temporary differences		**(54,172,486)**	(402,491,552)	**(54,265,861)**	(402,556,779)
		300,898,341	(21,319,921)	**339,326,170**	27,944,357

16.1 Reconciliation of the total tax charge

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Net profit before tax	**528,729,404**	929,283,773	**591,028,295**	913,902,042
Adjustments				
Exempt/allowable income	**162,370,593**	130,062,286	**238,770,065**	274,002,501
Disallowable expenses	**1,198,738,884**	951,148,500	**1,174,366,044**	952,988,349
Allowable expenses	**(556,293,208)**	(649,167,304)	**(551,280,939)**	(649,388,835)
Taxable income	**1,333,545,673**	1,361,327,255	**1,452,883,465**	1,491,504,057
Income tax on profit for the year	**355,070,827**	381,171,631	**387,292,031**	417,621,136
Effective tax rate (%)	**67.16**	41.02	**65.53**	45.70

17. Earnings per share

17.1 Basic earnings per share

Basic earnings per share have been calculated by dividing the net profit for the period attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Profit attributable to ordinary shareholders of the Company	**227,831,063**	950,603,694	**251,702,125**	885,957,685
Weighted average number of ordinary shares	**72,475,061**	72,475,061	**72,475,061**	72,475,061
Basic earnings per ordinary share	**3.14**	13.12	**3.47**	12.22

17.2 Diluted earnings per share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, diluted earnings per share is same as basic earnings per share above.

18. Dividend per share

Dividend per share is calculated by dividing dividend paid to ordinary shareholders of the Company, by the number of ordinary shares in issue.

	Company	
For the year ended 31 March	**2020 LKR**	2019 LKR
Gross dividend paid to ordinary shareholders	**68,851,308**	228,296,442
Number of ordinary shares	**72,475,061**	72,475,061
Gross dividend per share	**0.95**	3.15

19. Cash and cash equivalents

		Company		Group	
As at 31 March	Note	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Cash in hand held in local currency		**113,726,259**	380,192,729	**113,792,022**	380,654,052
Cash in hand held in foreign currency		**73,839**	126,224	**73,839**	126,224
Balances with licensed commercial banks		**604,869,433**	340,541,769	**647,169,297**	344,002,158
Gross cash and cash equivalents*		**718,669,531**	720,860,722	**761,035,158**	724,782,434
Less: Allowance for impairment losses	19.1	**(56,617)**	(7,125)	**(56,617)**	(7,125)
Net cash and cash equivalents		**718,612,914**	720,853,597	**760,978,541**	724,775,309

19.1 Movement in allowance for collective impairment

	Company		Group	
As at 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Balance at the beginning of the year	**7,125**	–	**7,125**	–
Impact of initial adoption of SLFRS 9	**–**	7,495	**–**	7,495
Adjusted balance at the beginning of the year	**7,125**	7,495	**7,125**	7,495
Charge/(reversal) for the year	**49,492**	(370)	**49,492**	(370)
Balance at the end of the year	**56,617**	7,125	**56,617**	7,125

**Gross cash and cash equivalents are reported in the Statement of Cash Flows.*

20. Deposits with licensed commercial banks

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Fixed deposits		**884,903,851**	1,351,030,373	**884,903,851**	1,351,030,373
Allowance for impairment losses	20.1	**(115,554)**	(82,872)	**(115,554)**	(82,872)
Net deposits with licensed commercial banks		**884,788,297**	1,350,947,501	**884,788,297**	1,350,947,501

20.1 Movement in allowance for collective impairment

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Balance at the beginning of the year	**82,872**	–	**82,872**	–
Impact of initial adoption of SLFRS 9	–	26,854	–	26,854
Adjusted balance at the beginning of the year	**82,872**	26,854	**82,872**	26,854
Charge for the year	**32,682**	56,018	**32,682**	56,018
Balance at the end of the year	**115,554**	82,872	**115,554**	82,872

21. Financial assets held at fair value through profit or loss

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Quoted equity	21.1	**79,503,906**	67,905,307	**79,503,906**	67,905,307
Quoted unit trust	21.2	**2,346,750**	2,150,000	**2,346,750**	2,150,000
Unquoted unit trust	21.3	**296,966,710**	97,845,000	**309,504,396**	97,845,000
		378,817,366	167,900,307	**391,355,052**	167,900,307

As per COVID-19 Pandemic Implications on financial reporting issued by CA Sri Lanka, the Company decided to use market values prevailed as at 31 December 2019 to measure the fair value of financial assets held at fair value through profit or loss on 31 March 2020, except for unquoted unit trust investments.

21. Financial assets held at fair value through profit or loss (continued)

21.1 Quoted equity

As at 31 March	Note	Company 2020 Number of shares	Company 2020 Cost LKR	Company 2020 Market value LKR	Company 2019 Number of shares	Company 2019 Cost LKR	Company 2019 Market value LKR
Bank, finance and insurance							
Central Finance Company PLC		**47,102**	**279,327**	**4,898,608**	46,672	243,207	3,943,784
National Development Bank		**792**	**8,536**	**79,200**	756	4,390	67,541
Commercial Bank of Ceylon PLC		**4,862**	**469,342**	**461,890**	4,785	469,342	472,280
Beverage, food and tobacco							
Ceylon Tobacco PLC		**3,100**	**142,017**	**3,410,930**	3,100	142,017	4,153,690
Hotels and travels							
Aitken Spence PLC		**495**	**3,355**	**23,018**	495	3,355	20,295
Manufacturing							
Royal Ceramics Lanka PLC		**20**	**273**	**1,770**	20	273	1,180
Diversified holdings							
John Keells Holdings PLC		**4,462**	**164,976**	**747,831**	4,462	164,976	696,072
Hayleys PLC		**113**	**7,175**	**19,764**	113	7,175	18,984
Trading							
Lanka Indian Oil Corporation PLC		**5,500**	**148,500**	**104,500**	5,500	148,500	95,700
Portfolio Investment	21.1.1		**69,398,435**	**69,756,395**		69,073,103	58,435,781
			70,621,936	**79,503,906**		70,256,338	67,905,307

	Group					
	2020			2019		
	Number of shares	**Cost LKR**	**Market value LKR**	Number of shares	Cost LKR	Market value LKR
	47,102	**279,327**	**4,898,608**	46,672	243,207	3,943,784
	792	**792**	**79,200**	756	4,390	67,541
	4,862	**469,342**	**461,890**	4,785	469,342	472,280
	3,100	**142,017**	**3,410,930**	3,100	142,017	4,153,690
	495	**3,355**	**23,018**	495	3,355	20,295
	20	**273**	**1,770**	20	273	1,180
	4,462	**164,976**	**747,831**	4,462	164,976	696,072
	113	**7,175**	**19,764**	113	7,175	18,984
	5,500	**148,500**	**104,500**	5,500	148,500	95,700
		69,398,435	**69,756,395**		69,073,103	58,435,781
		70,614,192	**79,503,906**		70,256,338	67,905,307

21. Financial assets held at fair value through profit or loss (continued)

21.1.1 Portfolio investment

As at 31 March	Company					
	2020			2019		
	Number of shares	Cost LKR	Market value LKR	Number of shares	Cost LKR	Market value LKR
Bank finance and insurance						
Ceylinco Insurance PLC (non-voting)	**10,000**	**1,560,322**	**8,400,000**	10,000	1,560,322	9,004,000
Commercial Bank of Ceylon PLC	**70**	**4,722**	**6,650**	69	4,722	6,810
Lanka Ventures PLC	**61,800**	**2,552,579**	**2,472,000**	61,800	2,552,579	2,404,020
Seylan Bank PLC (non-voting)	**50,761**	**2,241,315**	**1,715,722**	32,309	1,820,160	1,159,893
Hatton National Bank PLC (non-voting)	**30,120**	**5,437,291**	**4,081,260**	29,554	5,348,333	4,344,438
People's Insurance Ltd.	**100,000**	**1,508,032**	**2,170,000**	100,000	1,508,032	1,970,000
National Development Bank PLC	**16,592**	**1,709,701**	**1,659,200**	15,819	1,622,974	1,490,150
Beverage, food and tobacco						
Lanka Milk Foods (CWE) PLC	**40,215**	**4,032,213**	**4,025,522**	40,215	4,032,213	4,423,650
Ceylon Beverage Holdings PLC	**2,321**	**1,936,261**	**1,984,919**	2,321	1,936,261	1,914,825
Chemicals and pharmaceuticals						
CIC Holdings PLC (non-voting)	**90,000**	**3,823,735**	**4,284,000**	90,000	3,823,735	2,304,000
Haycarb PLC	**18,300**	**3,010,621**	**3,477,000**	18,300	3,010,621	2,324,100
Plantation						
Kotagala Plantation PLC	**15,000**	**556,151**	**108,000**	15,000	556,151	105,000
Healthcare						
Ceylon Hospitals PLC (non-voting)	**43,838**	**1,609,492**	**2,954,681**	43,838	1,609,492	2,963,449
Hotels and travels						
Taj Lanka Hotels PLC	**114,432**	**3,478,514**	**1,647,821**	114,432	3,478,514	1,075,661
John Keells Hotels PLC	**251,000**	**3,197,111**	**2,911,600**	251,000	3,197,111	1,882,500
Investment trusts						
Renuka Holdings PLC (non-voting)	**183,274**	**4,031,493**	**2,474,199**	183,274	4,031,493	1,649,466
Land and property						
CT Land Development PLC	**8,333**	**111,570**	**249,990**	8,333	111,570	236,657
Overseas Realty (Ceylon) PLC	–	–	–	160,000	3,683,802	2,624,000
Manufacturing						
ACL Cables PLC	**40,000**	**2,496,906**	**2,300,000**	40,000	2,496,906	1,292,000
Dipped Products PLC	**47,500**	**5,868,703**	**3,990,000**	47,500	5,868,703	3,705,000
Pelwatte Sugar Industries PLC	–	–	–	31,000	1,064,794	3,100
Ceylon Grain Elevators PLC	**70,000**	**4,653,439**	**4,795,000**	70,000	4,653,439	3,647,000

	Group					
	2020			2019		
	Number of shares	**Cost LKR**	**Market value LKR**	Number of shares	Cost LKR	Market value LKR
	10,000	**1,560,322**	**8,400,000**	10,000	1,560,322	9,004,000
	70	**4,722**	**6,650**	69	4,722	6,810
	61,800	**2,552,579**	**2,472,000**	61,800	2,552,579	2,404,020
	50,761	**2,241,315**	**1,715,722**	32,309	1,820,160	1,159,893
	30,120	**5,437,291**	**4,081,260**	29,554	5,348,333	4,344,438
	100,000	**1,508,032**	**2,170,000**	100,000	1,508,032	1,970,000
	16,592	**1,709,701**	**1,659,200**	15,819	1,622,974	1,490,150
	40,215	**4,032,213**	**4,025,522**	40,215	4,032,213	4,423,650
	2,321	**1,936,261**	**1,984,919**	2,321	1,936,261	1,914,825
	90,000	**3,823,735**	**4,284,000**	90,000	3,823,735	2,304,000
	18,300	**3,010,621**	**3,477,000**	18,300	3,010,621	2,324,100
	15,000	**556,151**	**108,000**	15,000	556,151	105,000
	43,838	**1,609,492**	**2,954,681**	43,838	1,609,492	2,963,449
	114,432	**3,478,514**	**1,647,821**	114,432	3,478,514	1,075,661
	251,000	**3,197,111**	**2,911,600**	251,000	3,197,111	1,882,500
	183,274	**4,031,493**	**2,474,199**	183,274	4,031,493	1,649,466
	8,333	**111,570**	**249,990**	8,333	111,570	236,657
	–	**–**	**–**	160,000	3,683,802	2,624,000
	40,000	**2,496,906**	**2,300,000**	40,000	2,496,906	1,292,000
	47,500	**5,868,703**	**3,990,000**	47,500	5,868,703	3,705,000
	–	**–**	**–**	31,000	1,064,794	3,100
	70,000	**4,653,439**	**4,795,000**	70,000	4,653,439	3,647,000

As at 31 March	Company					
	2020			2019		
	Number of shares	**Cost LKR**	**Market value LKR**	Number of shares	Cost LKR	Market value LKR
Power and energy						
Lanka IOC PLC	**219,949**	**5,130,291**	**4,179,031**	219,949	5,130,291	3,827,113
LVL Energy Fund PLC	**150,000**	**1,061,760**	**1,125,000**	–	–	–
Diversified holdings						
Expolanka Holdings PLC	**500,000**	**3,286,400**	**2,550,000**	500,000	3,286,400	2,000,000
CT Holdings PLC	**5,500**	**909,830**	**924,550**	5,500	909,830	895,950
Aitken Spence PLC	**52,500**	**2,495,136**	**2,441,250**	–	–	–
Telecommunications						
Dialog Axiata PLC	**230,000**	**2,694,848**	**2,829,000**	130,000	1,774,657	1,183,000
		69,398,435	**69,756,395**		69,073,103	58,435,781

21.2 Quoted unit trust

As at 31 March	Company					
	2020			2019		
	Number of shares	**Cost LKR**	**Market value LKR**	Number of shares	Cost LKR	Market value LKR
Namal Acuity Value Fund	**25,000**	**1,250,000**	**2,346,750**	25,000	1,250,000	2,150,000
		1,250,000	**2,346,750**		1,250,000	2,150,000

21.3 Unquoted unit trust

As at 31 March	Company					
	2020			2019		
	Number of shares	**Cost LKR**	**Market value LKR**	Number of shares	Cost LKR	Market value LKR
National Equity Fund	**205,559**	**1,921,491**	**4,390,798**	201,610	1,921,491	4,966,209
Guardian Acuity Equity Fund	**2,669,166**	**45,000,000**	**33,099,254**	2,669,166	45,000,000	39,143,046
Guardian Acuity Money Market Fund	**2,309,952**	**36,328,622**	**44,885,610**	2,309,952	36,328,622	40,625,133
Capital Alliance High Yield Fund	**640,188**	**11,881,066**	**14,591,048**	640,188	11,881,066	13,110,612
Candor Money Market Fund	**14,179,872**	**200,000,000**	**200,000,000**	–	–	–
		295,131,179	**296,966,710**		95,131,179	97,845,000

	Group					
	2020			2019		
	Number of shares	**Cost LKR**	**Market value LKR**	Number of shares	Cost LKR	Market value LKR
	219,949	**5,130,291**	**4,179,031**	219,949	5,130,291	3,827,113
	150,000	**1,061,760**	**1,125,000**	–	–	–
	500,000	**3,286,400**	**2,550,000**	500,000	3,286,400	2,000,000
	5,500	**909,830**	**924,550**	5,500	909,830	895,950
	52,500	**2,495,136**	**2,441,250**	–	–	–
	230,000	**2,694,848**	**2,829,000**	130,000	1,774,657	1,183,000
		69,398,435	**69,756,395**		69,073,103	58,435,781

	Group					
	2020			2019		
	Number of shares	**Cost LKR**	**Market value LKR**	Number of shares	Cost LKR	Market value LKR
	25,000	**1,250,000**	**2,346,750**	25,000	1,250,000	2,150,000
		1,250,000	**2,346,750**		1,250,000	2,150,000

	Group					
	2020			2019		
	Number of shares	**Cost LKR**	**Market value LKR**	Number of shares	Cost LKR	Market value LKR
	205,559	**1,921,491**	**4,390,798**	201,610	1,921,491	4,966,209
	2,669,166	**45,000,000**	**33,099,254**	2,669,166	45,000,000	39,143,046
	2,309,952	**36,328,622**	**44,885,610**	2,309,952	36,328,622	40,625,133
	640,188	**11,881,066**	**14,591,048**	640,188	11,881,066	13,110,612
	15,068,786	**210,651,945**	**212,537,686**	–	–	–
		305,783,124	**309,504,396**		95,131,179	97,845,000

22. Financial assets at amortised cost – Finance leases and hire purchases

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Net investment in finance leases	22.1	**25,357,240,560**	26,648,782,581	**25,357,240,560**	26,648,782,581
Net investment in hire purchase	22.2	**45,410,368**	96,822,163	**45,410,368**	96,822,163
		25,402,650,928	26,745,604,744	**25,402,650,928**	26,745,604,744
Impairment losses					
Provision for individual impairment	22.3	**(67,390,215)**	(236,666,486)	**(67,390,215)**	(236,666,486)
Provision for collective impairment	22.4	**(968,413,963)**	(591,971,520)	**(968,413,963)**	(591,971,520)
Net investment after impairment		**24,366,846,750**	25,916,966,738	**24,366,846,750**	25,916,966,738

22.1 Finance leases

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Gross investment in leases receivable within one year	**8,539,675,777**	12,079,138,141	**8,539,675,777**	12,079,138,141
Gross investment in leases receivable between one and five years	**21,955,351,872**	21,482,800,637	**21,955,351,872**	21,482,800,637
Gross investment in leases receivable in respect of non-performing leases	**548,672,479**	316,118,737	**548,672,479**	316,118,737
Repossessed lease receivable	**786,587,519**	641,131,464	**786,587,519**	641,131,464
Leases receivable in arrears	**1,193,432,096**	1,044,064,469	**1,193,432,096**	1,044,064,469
	33,023,719,743	35,563,253,448	**33,023,719,743**	35,563,253,448
Unearned lease income	**(7,565,452,994)**	(8,795,104,174)	**(7,565,452,994)**	(8,795,104,174)
Initial lease rental	**(3,248,474)**	(4,017,300)	**(3,248,474)**	(4,017,300)
Prepaid lease rentals	**(97,777,715)**	(115,349,393)	**(97,777,715)**	(115,349,393)
Net investment in finance leases	**25,357,240,560**	26,648,782,581	**25,357,240,560**	26,648,782,581

22.2 Hire purchases

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Gross investment in hire purchase receivable within one year	**–**	7,162,644	**–**	7,162,644
Gross investment in hire purchase receivable in respect of non-performing hire purchase	**29,904,332**	65,421,265	**29,904,332**	65,421,265
Repossessed hire purchase receivable	**15,505,714**	22,392,171	**15,505,714**	22,392,171
Hire purchase receivable in arrears	**322**	2,343,128	**322**	2,343,128
	45,410,368	97,319,208	**45,410,368**	97,319,208
Unearned hire purchase income	**–**	(364,759)	**–**	(364,759)
Prepaid hire purchase rentals	**–**	(132,286)	**–**	(132,286)
Net investment in hire purchase	**45,410,368**	96,822,163	**45,410,368**	96,822,163
Net investment in finance lease and hire purchase	**25,402,650,928**	26,745,604,744	**25,402,650,928**	26,745,604,744

22.3 Movement in allowance for individual impairment

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Balance at the beginning of the year	**236,666,486**	92,813,978	**236,666,486**	92,813,978
(Reversal)/charge for the year	**(169,276,271)**	143,852,508	**(169,276,271)**	143,852,508
Balance at the end of the year	**67,390,215**	236,666,486	**67,390,215**	236,666,486
Gross amount of loans individually determined to be impaired	**267,847,504**	687,124,887	**267,847,504**	687,124,887

22.4 Movement in allowance for collective impairment

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Balance at the beginning of the year		**591,971,520**	138,955,983	**591,971,520**	138,955,983
Impact of initial adoption of SLFRS 9		**–**	353,893,719	**–**	353,893,719
Adjusted balance at the beginning of the year		**591,971,520**	492,849,702	**591,971,520**	492,849,702
Charge for the year	22.4.1	**345,087,341**	93,756,572	**345,087,341**	93,756,572
Interest income accrued on impaired loans and receivables		**31,355,102**	5,365,246	**31,355,102**	5,365,246
Balance at the end of the year		**968,413,963**	591,971,520	**968,413,963**	591,971,520

22.4.1 Impairment charge for the year

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Impairment charge on ECL	**403,054,926**	93,756,572	**403,054,926**	93,756,572
Net write-offs for the year	**(57,967,585)**	–	**(57,967,585)**	–
Impairment charge for the year	**345,087,341**	93,756,572	**345,087,341**	93,756,572
Total of individual and collective impairment	**1,035,804,178**	828,638,006	**1,035,804,178**	828,638,006

22.5 Analysis of the impairment for expected credit losses, based on the staging of the underlying loans is given below:

	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross loans and advances 31 March 2020	**15,208,551,229**	**7,954,384,232**	**2,239,715,467**	**25,402,650,928**
Allowance for collective impairment	**(114,632,569)**	**(389,799,813)**	**(463,981,581)**	**(968,413,963)**
Allowance for individual impairment	–	–	**(67,390,215)**	**(67,390,215)**
	15,093,918,660	**7,564,584,419**	**1,708,343,671**	**24,366,846,750**
Gross loans and advances 31 March 2019	16,412,991,697	9,066,547,167	1,266,065,880	26,745,604,744
Allowance for collective impairment	(111,197,980)	(347,062,847)	(133,710,693)	(591,971,520)
Allowance for individual impairment	–	–	(236,666,486)	(236,666,486)
	16,301,793,717	8,719,484,320	895,688,701	25,916,966,738

23. Financial assets at amortised cost – Other loans and receivables

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Commercial loans	23.1	**1,122,009,428**	1,542,219,637	**1,122,009,428**	1,542,219,637
Personal loans	23.2	**151,694,623**	131,342,017	**151,694,623**	131,342,017
Pawning advances	23.3	**1,160,219,554**	1,196,462,693	**1,160,219,554**	1,196,462,693
Other advances	23.4	**432,239,658**	282,757,624	**432,469,658**	282,757,624
		2,866,163,263	3,152,781,971	**2,866,393,263**	3,152,781,971

23.1 Commercial loans

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Gross investment in commercial loans receivable within one year		**325,015,260**	721,415,798	**325,015,260**	721,415,798
Gross investment in commercial loans receivable between one and five years		**510,883,774**	667,807,175	**510,883,774**	667,807,175
Gross investment in commercial loans receivable in respect of non-performing loans		**819,423,924**	641,763,415	**819,423,924**	641,763,415
Commercial loans receivable in arrears		**57,048,431**	106,231,146	**57,048,431**	106,231,146
		1,712,371,389	2,137,217,534	**1,712,371,389**	2,137,217,534
Unearned commercial loan income		**(224,362,043)**	(351,933,476)	**(224,362,043)**	(351,933,476)
Prepaid commercial loan rentals		**(8,187,683)**	(9,070,463)	**(8,187,683)**	(9,070,463)
Net investment in commercial loans		**1,479,821,663**	1,776,213,595	**1,479,821,663**	1,776,213,595
Impairment losses					
Provision for individual impairment	23.1.1	**(141,781,737)**	(68,947,365)	**(141,781,737)**	(68,947,365)
Provision for collective impairment	23.1.2	**(216,030,498)**	(165,046,593)	**(216,030,498)**	(165,046,593)
Net investment in commercial loans after impairment		**1,122,009,428**	1,542,219,637	**1,122,009,428**	1,542,219,637

23.1.1 Movement in allowance for individual impairment

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Balance at the beginning of the year	**68,947,365**	92,117,334	**68,947,365**	92,117,334
Charge/(reversal) for the year	**72,834,372**	(23,169,969)	**72,834,372**	(23,169,969)
Balance at the end of the year	**141,781,737**	68,947,365	**141,781,737**	68,947,365
Gross amount of loans individually determined to be impaired	**145,344,948**	68,947,365	**145,344,948**	68,947,365

23.1.2 Movement in allowance for collective impairment

	Company		Group	
As at 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Balance at the beginning of the year	**165,046,593**	41,353,150	**165,046,593**	41,353,150
Impact of initial adoption of SLFRS 9	**–**	28,181,415	**–**	28,181,415
Adjusted balance at the beginning of the year	**165,046,593**	69,534,565	**165,046,593**	69,534,565
Charge for the year	**40,210,383**	91,595,508	**40,210,383**	91,595,508
Interest income accrued on impaired loans, and receivables	**10,773,522**	3,916,520	**10,773,522**	3,916,520
Balance at the end of the year	**216,030,498**	165,046,593	**216,030,498**	165,046,593
Total of individual and collective impairment	**357,812,235**	233,993,958	**357,812,235**	233,993,958

23.1.3 Analysis of the impairment for expected credit losses, based on the staging of the underlying loans is given below:

	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross loans and advances 31 March 2020	**442,314,086**	**200,344,839**	**837,162,738**	**1,479,821,663**
Allowance for collective impairment	**(5,126,821)**	**(11,171,904)**	**(199,731,773)**	**(216,030,498)**
Allowance for individual impairment	**–**	**–**	**(141,781,737)**	**(141,781,737)**
	437,187,265	**189,172,935**	**495,649,228**	**1,122,009,428**
Gross loans and advances 31 March 2019	696,200,094	434,400,150	645,613,351	1,776,213,595
Allowance for collective impairment	(7,506,998)	(31,586,877)	(125,952,718)	(165,046,593)
Allowance for individual impairment	–	–	(68,947,365)	(68,947,365)
	688,693,096	402,813,273	450,713,268	1,542,219,637

23.2 Personal loan

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Gross investment in personal loan receivable within one year	**58,790,378**	78,059,766	**58,790,378**	78,059,766
Gross investment in personal loan receivable between one and five years	**195,707,496**	151,733,381	**195,707,496**	151,733,381
Gross investment in personal loans receivable in respect of non-performing loans	**177,265**	52,324	**177,265**	52,324
Personal loan receivable in arrears	**813,996**	192,671	**813,996**	192,671
	255,489,135	230,038,142	**255,489,135**	230,038,142
Unearned personal loan income	**(97,311,103)**	(90,569,451)	**(97,311,103)**	(90,569,451)
Prepaid personal loan rentals	**(6,483,409)**	(8,126,674)	**(6,483,409)**	(8,126,674)
Net investment in personal loan	**151,694,623**	131,342,017	**151,694,623**	131,342,017

23.3 Pawning advances

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Gross investment in pawning advances		**1,067,017,809**	1,105,642,040	**1,067,017,809**	1,105,642,040
Interest receivable from pawning advances		**95,874,947**	95,037,143	**95,874,947**	95,037,143
Net investment in pawning advances		**1,162,892,756**	1,200,679,183	**1,162,892,756**	1,200,679,183
Impairment losses					
Provision for collective impairment	23.3.1	**(2,673,202)**	(4,216,490)	**(2,673,202)**	(4,216,490)
Net investment in pawning advances after impairment		**1,160,219,554**	1,196,462,693	**1,160,219,554**	1,196,462,693

23.3.1 Movement in allowance for collective impairment

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Balance at the beginning of the year	**4,216,490**	1,036	**4,216,490**	1,036
Impact of initial adoption of SLFRS 9	**–**	3,027,675	**–**	3,027,675
Adjusted balance at the beginning of the year	**4,216,490**	3,028,711	**4,216,490**	3,028,711
(Reversal)/charge of the year	**(1,543,288)**	1,187,779	**(1,543,288)**	1,187,779
Balance at the end of the year	**2,673,202**	4,216,490	**2,673,202**	4,216,490

23.3.2 Analysis of the impairment for expected credit losses, based on the staging of the underlying loans is given below:

	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross loans and advances 31 March 2020	**1,121,025,836**	**30,945,705**	**10,921,215**	**1,162,892,756**
Allowance for collective impairment	**(1,624,178)**	**(635,745)**	**(413,279)**	**(2,673,202)**
	1,119,401,658	**30,309,960**	**10,507,936**	**1,160,219,554**
Gross loans and advances 31 March 2019	1,154,305,160	28,477,434	17,896,589	1,200,679,183
Allowance for collective impairment	(2,539,560)	(955,264)	(721,666)	(4,216,490)
	1,151,765,600	27,522,170	17,174,923	1,196,462,693

23.4 Other advances

		Company		Group	
As at 31 March	Note	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Loans against fixed deposits		**79,273,677**	86,939,329	**79,273,677**	86,939,329
Discounting of cheques		**490,000**	490,000	**490,000**	490,000
Insurance		**309,209,919**	308,303,772	**309,209,919**	308,303,772
Loans and advances granted to tourism industry – Non-performing		**49,269,103**	–	**49,269,103**	–
Interest receivable on facilities under relief measures due to COVID-19		**139,524,147**	–	**139,524,147**	–
Staff debtors		**21,927,800**	22,467,955	**22,157,800**	22,467,955
Sundry debtors		**6,648,796**	3,878,407	**6,648,796**	3,878,407
		606,343,442	422,079,463	**606,573,442**	422,079,463
Impairment losses					
Provision for individual impairment	23.4.1	**(1,906,394)**	(1,906,394)	**(1,906,394)**	(1,906,394)
Provision for collective impairment	23.4.2	**(172,197,390)**	(137,415,445)	**(172,197,390)**	(137,415,445)
Net investment in other advances after impairment		**432,239,658**	282,757,624	**432,469,658**	282,757,624

23.4.1 Movement in allowance for individual impairment

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Balance at the beginning of the year	**1,906,394**	1,906,394	**1,906,394**	1,906,394
Charge for the year	–	–	–	–
Balance at the end of the year	**1,906,394**	1,906,394	**1,906,394**	1,906,394
Gross amount of loans individually determined to be impaired	**7,138,796**	4,368,407	**7,138,796**	4,368,407

23.4.2 Movement in allowance for collective impairment

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Balance at the beginning of the year	**137,415,445**	81,360,257	**137,415,445**	81,360,257
Impact of initial adoption of SLFRS 9	–	20,761,127	–	20,761,127
Adjusted balance at the beginning of the year	**137,415,445**	102,121,384	**137,415,445**	102,121,384
Charge for the year	**34,781,945**	62,306,203	**34,781,945**	62,306,203
Net write offs for the year	–	(27,012,142)	–	(27,012,142)
Balance at the end of the year	**172,197,390**	137,415,445	**172,197,390**	137,415,445
Total of individual and collective impairment	**174,103,784**	139,321,839	**174,103,784**	139,321,839

23.4.3 Analysis of the impairment for expected credit losses, based on the staging of the underlying loans is given below:

	Stage 1 LKR	Stage 2 LKR	Stage 3 LKR	Total LKR
Gross loans and advances 31 March 2020	**220,318,650**	**94,647,301**	**291,377,491**	**606,343,442**
Allowance for collective impairment	**(2,964,762)**	**(19,746,705)**	**(149,485,923)**	**(172,197,390)**
Allowance for individual impairment	–	–	**(1,906,394)**	**(1,906,394)**
	217,353,888	**74,900,596**	**139,985,174**	**432,239,658**
Gross loans and advances 31 March 2019	71,856,139	102,376,857	247,846,467	422,079,463
Allowance for collective impairment	(8,138,510)	(23,785,220)	(105,491,715)	(137,415,445)
Allowance for individual impairment	–	–	(1,906,394)	(1,906,394)
	63,717,629	78,591,637	140,448,358	282,757,624

24. Financial assets measured at fair value through other comprehensive income

Unquoted shares

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Credit Information Bureau of Sri Lanka	90,586	90,586	90,586	90,586
Finance House Consortium (Pvt) Ltd.	200,000	200,000	200,000	200,000
Senkadagala Hotels Limited	14,512,936	14,307,017	14,512,936	14,307,017
	14,803,522	14,597,603	14,803,522	14,597,603

The Group designated the investments shown above as equity securities at FVTOCI because these equity securities represent investments that the Group intends to hold for the long-term for strategic purpose.

25. Financial assets at amortised cost – other financial instruments

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Treasury bills	**939,749,227**	855,878,980	**939,749,227**	855,878,980
Treasury bonds	**192,146,568**	188,416,281	**192,146,568**	188,416,281
	1,131,895,795	1,044,295,261	**1,131,895,795**	1,044,295,261

26. Investments in subsidiaries – Unquoted

As at 31 March	Company 2020 LKR	Company 2019 LKR
26.1 Senkadagala Insurance Brokers (Pvt) Ltd.		
(2,000,000 Ordinary shares)		
Holding (%)	**100**	100
Place of business	**No. 437 B, 1st Floor, Katugastota Road, Kandy**	
Cost	**20,000,000**	20,000,000
26.2 Newest Capital Limited		
(150,000,000 Ordinary shares)		
Holding (%)	**100**	100
Place of business	**No. 267, Galle Road, Colombo 03**	
Balance at the beginning of year	**300,000,000**	300,000,000
Impairment loss	**(18,489,723)**	–
Balance at the end of year	**281,510,277**	300,000,000

As at 31 March	Company 2020 LKR	Company 2019 LKR
26.3 Candor Asset Management (Pvt) Ltd.		
On 4 March 2020 the Company acquired 100% shareholding of Candor Asset Management (Pvt) Ltd. (19,916,303 Ordinary shares)		
Holding (%)	**100**	–
Place of business	**No. 267, Galle Road, Colombo 03**	
Initial cost of investment (No. of shares: 18,717,262)	**26,729,599**	–
Additional investment in shares (No. of shares: 1,199,041)	**5,000,001**	–
Impairment loss	**(4,938,214)**	–
Balance at the end of year	**26,791,386**	–
	328,301,663	320,000,000

27. Investment property

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Cost or valuation				
Balance at the beginning of the year	**388,341,655**	388,341,655	**299,444,424**	299,444,424
Impairment charge for the year	**(1,959,000)**	–	**–**	–
Balance at the end of the year	**386,382,655**	388,341,655	**299,444,424**	299,444,424
Accumulated depreciation				
Balance at the beginning of the year	**12,460,760**	9,060,760	**21,184,041**	17,784,041
Charge for the year	**8,511,526**	3,400,000	**8,511,526**	3,400,000
Balance at the end of the year	**20,972,286**	12,460,760	**29,695,567**	21,184,041
Carrying amount at the end of the year	**365,410,369**	375,880,895	**269,748,857**	278,260,383

27.1 Fully-depreciated investment property

The cost of fully-depreciated investment property which are still in use as at the Statement of Financial Position date is as follows:

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Buildings	**4,141,019**	4,141,019	**4,141,019**	4,141,019

27.2 Information of freehold investment property

27.2.1 Company

Location	Extent Land	Extent Building	Number of Buildings	Valuation LKR	Cost 31 March 2020 LKR	Carrying value 31 March 2020 LKR	Cost 31 March 2019 LKR	Carrying value 31 March 2019 LKR
Land and building								
98, Deans Road, Colombo 10	6.000 P	3,220 sq.Ft.	1	63,500,000	**3,500,000**	**500,000**	3,500,000	500,000
12, Kotugodella Veediya, Kandy Lot 1	9.875 P	2,450 sq.Ft.	1	92,050,000	**7,542,068**	**7,040,083**	7,542,068	7,542,068
12, Kotugodella Veediya, Kandy Lot 2	18.000 P	850 sq.Ft.	1	82,300,000	**70,679,827**	**60,648,560**	70,679,827	70,679,827
98, Yatinuwara Veediya, Kandy	7.698 P	2,813 sq.Ft.	1	60,250,000	**6,060,760**	**5,421,726**	6,060,760	–
30, Kynsey Road, Colombo 07	20.10 P	12,050 sq.Ft.	1	291,800,000	**298,600,000**	**291,800,000**	300,559,000	297,159,000
				589,900,000	**386,382,655**	**365,410,369**	388,341,655	375,880,895

27.2.2 Group

Location	Extent Land	Extent Building	Number of Buildings	Valuation LKR	Cost 31 March 2020 LKR	Carrying value 31 March 2020 LKR	Cost 31 March 2019 LKR	Carrying value 31 March 2019 LKR
Land and building								
98, Deans Road, Colombo 10	6.000 P	3,220 sq.Ft.	1	63,500,000	**3,500,000**	**500,000**	3,500,000	500,000
12, Kotugodella Veediya, Kandy Lot 1	9.875 P	2,450 sq.Ft.	1	92,050,000	**7,542,068**	**7,040,083**	7,542,068	7,542,068
12, Kotugodella Veediya, Kandy Lot 2	18.000 P	850 sq.Ft.	1	82,300,000	**70,679,827**	**60,648,560**	70,679,827	70,679,827
98, Yatinuwara Veediya, Kandy	7.698 P	2,813 sq.Ft.	1	60,250,000	**6,060,760**	**5,421,726**	6,060,760	–
30, Kynsey Road, Colombo 07	20.10 P	12,050 sq.Ft.	1	291,500,000	**211,661,769**	**196,138,488**	211,661,769	199,538,488
				589,600,000	**299,444,424**	**269,748,857**	299,444,424	278,260,383

27.3 Amount recognised in profit or loss

Rental income recognised by the Group during 2019/2020 was LKR 20,377,900/- (2018 – LKR 15,717,000/-) and was included in the Other operating income. Maintenance expenses included in establishment expenses in relation to income generating property was LKR 200,000 during 2019/20 (2018 – Nil). There are no vacant properties in the Group.

27.4 Measurement of fair value

(i) Fair value hierarchy

The fair value of properties set out above was determined by a reports from an external independent property valuer, Mr K M U Dissanayake who valued the properties on 13 March 2020 and 27 June 2020. The valuers have appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

These values have not been incorporated in the Financial Statements.

The fair value measurement for the above of LKR 589,600,000/- has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

(ii) Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of the freehold properties mentioned above, as well as the significant unobservable inputs used:

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Market comparable method: This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property in this process outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for, since the price may not adequately reflect the fair market value.	The reference range of value for the properties range from LKR 3,500,000 to LKR 11,250,000. Price per square foot for the properties range from LKR 1,500 to LKR 5,500.	Estimated fair value would increase/(decrease) if; Price per perch increases/(decreases) Price per square foot increases/(decreases)

28. Property, plant and equipment

28.1 Company

	Land LKR	Buildings LKR	Furniture, fittings and fixtures LKR	Office equipment LKR	Air conditioner LKR
Cost					
As at 1 April 2019	503,253,979	132,635,359	450,216,295	365,654,550	69,519,301
Additions/transfers during the year	(9,467,198)	74,032,779	12,708,846	22,453,484	6,681,017
Disposals during the year	–	–	(8,462,174)	(4,130,215)	(188,035)
As at 31 March 2020	493,786,781	206,668,138	454,462,967	383,977,819	76,012,283
Accumulated depreciation					
As at 1 April 2019	–	11,640,988	239,679,807	178,399,143	58,495,007
Charge for the year	–	8,950,848	35,331,746	33,213,008	5,324,703
Charge on disposals	–	–	(8,208,577)	(3,466,976)	(188,035)
As at 31 March 2020	–	20,591,836	266,802,976	208,145,175	63,631,675
Net book value					
Cost					
As at 1 April 2018	110,371,865	35,949,773	477,619,531	363,257,057	68,275,781
Additions/transfers during the year	392,882,114	96,685,586	43,389,165	31,220,277	7,110,960
Disposals during the year	–	–	(70,792,401)	(28,822,784)	(5,867,440)
As at 31 March 2019	503,253,979	132,635,359	450,216,295	365,654,550	69,519,301
Accumulated depreciation					
As at 1 April 2018	–	9,650,228	270,249,893	170,351,890	58,593,618
Charge for the year	–	1,990,760	34,876,131	33,154,620	5,768,829
Charge on disposals	–	–	(65,446,217)	(25,107,367)	(5,867,440)
As at 31 March 2019	–	11,640,988	239,679,807	178,399,143	58,495,007
Net book value					

Computer and accessories	Facsimile machine	Generator	Motor vehicles	Photostat machine	Printers	Total
LKR	LKR	LKR	LKR	LKR	LKR	LKR
431,819,048	2,414,248	62,214,368	1,145,894,540	13,007,716	41,660,929	3,218,290,333
7,023,500	152,000	1,836,261	72,211,390	571,620	2,735,000	190,938,699
(618,472)	–	(1,119,411)	(48,331,287)	(391,500)	(1,447,635)	(64,688,729)
438,224,076	2,566,248	62,931,218	1,169,774,643	13,187,836	42,948,294	3,344,540,303
347,871,885	1,329,968	43,903,456	378,348,801	11,550,052	35,252,480	1,306,471,587
53,033,465	193,074	3,809,299	194,796,106	747,686	3,224,408	338,624,343
(618,472)	–	(904,053)	(30,160,824)	(391,500)	(1,447,636)	(45,386,073)
400,286,878	1,523,042	46,808,702	542,984,083	11,906,238	37,029,252	1,599,709,857
						1,744,830,446
410,477,642	2,284,998	55,571,846	959,585,895	12,458,886	42,449,819	2,538,303,093
36,654,040	353,000	6,642,522	313,708,080	937,580	2,096,334	931,679,658
(15,312,634)	(223,750)	–	(127,399,435)	(388,750)	(2,885,224)	(251,692,418)
431,819,048	2,414,248	62,214,368	1,145,894,540	13,007,716	41,660,929	3,218,290,333
296,092,525	1,376,209	40,375,874	279,283,252	11,048,720	34,663,956	1,171,686,165
54,431,706	177,509	3,527,582	178,887,150	890,082	3,473,748	317,178,117
(2,652,346)	(223,750)	–	(79,821,601)	(388,750)	(2,885,224)	(182,392,695)
347,871,885	1,329,968	43,903,456	378,348,801	11,550,052	35,252,480	1,306,471,587
						1,911,818,746

28. Property, plant and equipment (Continued)

28.2 Group

	Land LKR	Buildings LKR	Furniture, fittings and fixtures LKR	Office equipment LKR	Air conditioner LKR
Cost					
As at 1 April 2019	503,253,979	132,635,359	450,785,990	365,821,050	69,519,301
On acquisition of subsidiary	–	–	11,498	363,328	–
Additions/transfers during the year	(9,467,198)	74,032,779	12,708,846	22,453,484	6,681,017
Disposals during the year	–	–	(8,462,174)	(4,130,215)	(188,035)
As at 31 March 2020	493,786,781	206,668,138	455,044,160	384,507,647	76,012,283
Accumulated depreciation					
As at 1 April 2019	–	11,640,988	240,139,030	178,489,148	58,495,007
On acquisition of subsidiary	–	–	8,623	363,328	–
Charge for the year	–	8,950,848	35,355,495	33,229,659	5,324,703
Charge on disposals	–	–	(8,208,577)	(3,466,976)	(188,035)
As at 31 March 2020	–	20,591,836	267,294,571	208,615,159	63,631,675
Net book value					
Cost					
As at 1 April 2018	110,371,865	35,949,773	478,161,506	363,414,557	68,275,781
Additions/transfers during the year	392,882,114	96,685,586	43,416,885	31,229,277	7,110,960
Disposals during the year	–	–	(70,792,401)	(28,822,784)	(5,867,440)
As at 31 March 2019	503,253,979	132,635,359	450,785,990	365,821,050	69,519,301
Accumulated depreciation					
As at 1 April 2018	–	9,650,228	270,674,702	170,425,764	58,593,618
Charge for the year	–	1,990,760	34,910,545	33,170,751	5,768,829
Charge on disposals	–	–	(65,446,217)	(25,107,367)	(5,867,440)
As at 31 March 2019	–	11,640,988	240,139,030	178,489,148	58,495,007
Net book value					

Computer and accessories	Facsimile machine	Generator	Motor vehicles	Photostat machine	Printers	Total
LKR	LKR	LKR	LKR	LKR	LKR	LKR
432,388,948	2,469,128	62,214,368	1,152,735,800	13,138,756	41,754,930	3,226,717,609
1,195,030	–	–	–	–	–	1,569,856
7,023,500	152,000	1,836,261	72,498,290	571,620	2,773,500	191,264,099
(618,472)	–	(1,119,411)	(48,331,287)	(391,500)	(1,447,635)	(64,688,729)
439,989,006	2,621,128	62,931,218	1,176,902,803	13,318,876	43,080,795	3,354,862,835
348,441,785	1,362,417	43,903,456	381,430,913	11,627,584	35,346,480	1,310,876,808
1,195,030	–	–	–	–	–	1,566,981
53,033,465	198,562	3,809,299	195,956,472	760,790	3,228,418	339,847,711
(618,472)	–	(904,053)	(30,160,824)	(391,500)	(1,447,636)	(45,386,073)
402,051,808	1,560,979	46,808,702	547,226,561	11,996,874	37,127,262	1,606,905,427
						1,747,957,408
411,047,542	2,339,878	55,571,846	966,427,155	12,589,926	42,543,820	2,546,693,649
36,654,040	353,000	6,642,522	313,708,080	937,580	2,096,334	931,716,378
(15,312,634)	(223,750)	–	(127,399,435)	(388,750)	(2,885,224)	(251,692,418)
432,388,948	2,469,128	62,214,368	1,152,735,800	13,138,756	41,754,930	3,226,717,609
296,662,425	1,403,174	40,375,874	281,224,925	11,113,148	34,757,956	1,174,881,814
54,431,706	182,993	3,527,582	180,027,589	903,186	3,473,748	318,387,689
(2,652,346)	(223,750)	–	(79,821,601)	(388,750)	(2,885,224)	(182,392,695)
348,441,785	1,362,417	43,903,456	381,430,913	11,627,584	35,346,480	1,310,876,808
						1,915,840,801

28. Property, plant and equipment (Continued)

28.3 Property, plant and equipment retired from active use

Following fully depreciated property, plant and equipment were retired from active use as at the Statement of Financial Position date.

	Company		Group	
As at 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Furniture, fittings and fixtures	**6,618,738**	38,127,259	**6,618,738**	38,127,259
Office equipment	**2,554,905**	7,431,090	**2,554,905**	7,431,090
Air conditioner	**188,035**	1,683,926	**188,035**	1,683,926
Computer and accessories	**618,472**	2,652,346	**618,472**	2,714,346
Facsimile machine	**–**	223,750	**–**	223,750
Photostat machine	**391,500**	388,750	**391,500**	388,750
Motor vehicles	**–**	600,000	**–**	600,000
Printers	**1,447,635**	2,885,224	**1,447,635**	2,885,224
	11,819,285	53,992,345	**11,819,285**	54,054,345

28.4 Fully-depreciated Property, plant and equipment

The cost of fully depreciated property, plant and equipment which are still in use as at the Statement of Financial Position date is an follows;

	Company		Group	
As at 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Buildings	**–**	–	**–**	–
Furniture, fittings and fixtures	**82,829,687**	76,958,503	**83,105,857**	76,958,503
Office equipment	**46,075,481**	38,880,492	**46,438,809**	38,880,492
Air Conditioner	**51,988,895**	49,682,126	**51,988,895**	49,682,126
Computer and accessories	**265,653,655**	183,449,218	**267,417,685**	183,449,218
Facsimile machine	**641,400**	538,400	**641,400**	538,400
Generator	**32,420,500**	32,420,500	**32,420,500**	32,420,500
Motor vehicles	**6,300,464**	6,300,464	**6,300,464**	6,300,464
Photostat machine	**10,171,376**	10,177,876	**10,171,376**	10,177,876
Printers	**29,458,543**	29,624,307	**29,552,543**	29,624,307
	525,540,001	428,031,886	**528,037,529**	428,031,886

28.5 Property, plant and equipment pledged as security for liability

There were no items of property, plant and equipment pledged as security for liabilities as at reporting date.

28.6 Temporarily idle property, plant and equipment

There were no any temporarily idle property, plant and equipment as at reporting date.

28.7 Title restriction on property, plant and equipment

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

28.8 Borrowing cost

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment as at reporting date.

28.9 Information of freehold land and building

28.9.1 Information of freehold land and building – Company

Location	Number of Buildings	Extent		Valuation	Cost	Carrying value	Cost	Carrying value
		Land	Building	LKR	**31 March 2020 LKR**	**31 March 2020 LKR**	**31 March 2019 LKR**	**31 March 2019 LKR**
Land								
7/4, Mawilmada Road, Kandy	1	0 A. 1 R. 10.595 P	1,301 sq. ft.	35,775,000	**13,010,871**	**8,292,635**	13,010,874	7,779,960
Highway Park, Amunugama, Pothuhera	1	0 A. 5 R. 25.49 P	680 sq. ft.	45,220,000	**30,711,364**	**26,229,354**	30,711,364	26,229,354
92, Deans Road, Colombo 10	1	0 A. 0 R. 8.00 P	4,358 sq.ft.	81,000,000	**24,600,000**	**23,751,044**	24,600,000	24,600,000
No. 255 and 257 C, D, C 1/2, Stanley Thilakaratne Mawatha, Nugegoda	3	0 A. 0 R. 13.690 P	8,326 sq.ft.	100,350,000	**77,999,400**	**73,954,553**	77,999,400	76,906,198
No. 91B and 93, Colombo Road, Piliyandala	2	A. 0 R. 12.00 P	4,350 sq.ft.	50,100,000	**46,799,100**	**46,179,066**	46,799,100	46,513,345
No. 91, Kandy Road, Kurunegala.	1	0 A. 0 R. 18.10 P	8,460 sq.ft.	119,900,000	**114,484,184**	**114,131,670**	49,918,600	49,918,600
No. 287/1, Yongamulla, Yakkala	1	0 A. 1 R. 8.50 P	2,262sq.ft.	13,150,000	**12,500,000**	**12,023,868**	12,500,000	12,500,000
No. 14, Kotugodalla Veediya, Kandy	1	0 A. 0 R. 10.00 P	12,674 sq.ft.	383,900,000	**380,350,000**	**375,300,893**	380,350,000	379,800,893
Total				829,395,000	**700,454,919**	**679,863,083**	635,889,338	624,248,350

28.9.2 Information of freehold land and building – Group

Location	Number of Buildings	Extent		Valuation	Cost	Carrying value	Cost	Carrying value
		Land	Building	LKR	31 March 2020 LKR	31 March 2020 LKR	31 March 2019 LKR	31 March 2019 LKR
Building								
7/4, Mawilmada Road, Kandy	1	0 A. 1 R. 10.595 P	1,301 sq.ft.	35,775,000	**13,010,871**	**8,292,635**	13,010,874	7,779,960
Highway Park, Amunugama, Pothuhera	1	0 A. 5 R. 25.49 P	680 sq.ft.	45,220,000	**30,711,364**	**26,229,354**	30,711,364	26,229,354
92, Deans Road, Colombo 10	1	0 A. 0 R. 8.00 P	4,358 sq.ft.	81,000,000	**24,600,000**	**23,751,044**	24,600,000	24,600,000
No. 255 and 257 C, D, C 1/2, Stanley Thilakaratne Mawatha, Nugegoda	3	0 A. 0 R. 13.690 P	8,326 sq.ft.	100,350,000	**77,999,400**	**73,954,553**	77,999,400	76,906,198
No. 91B and 93, Colombo Road, Piliyandala	2	A. 0 R. 12.00 P	4,350 sq.ft.	50,100,000	**46,799,100**	**46,179,066**	46,799,100	46,513,345
No. 91, Kandy Road, Kurunegala.	1	0 A. 0 R. 18.10 P	8,460 sq.ft.	119,900,000	**114,484,184**	**114,131,670**	49,918,600	49,918,600
No. 287/1, Yongamulla, Yakkala	1	0 A. 1 R. 8.50 P	2,262 sq.ft.	13,150,000	**12,500,000**	**12,023,868**	12,500,000	12,500,000
No. 14, Kotugodalla Veediya, Kandy	1	0 A. 0 R. 10.00 P	12,674 sq.ft.	383,900,000	**380,350,000**	**375,300,893**	380,350,000	379,800,893
Total				829,395,000	**700,454,919**	**679,863,083**	635,889,338	624,248,350

28.9.3 Measurement of fair value

(i) Fair value hierarchy

The fair value of properties set out above was determined by a reports from an external independent property valuer, Mr K M U Dissanayake who valued the properties on 13 March 2020 and 27 June 2020. The valuers have appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The fair value measurement for the above of LKR 829,395,000/- has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

(ii) Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of the freehold properties mentioned above, as well as the significant unobservable inputs used:

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Market comparable method: This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property in this process outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	The reference range of value for the properties range from LKR 125,000 to LKR 29,200,000. Price per square foot for the properties range from LKR 1,500 to LKR 7,750.	Estimated fair value would increases (decreases) if: Price per perch increases/(decreases) Price per square foot increases/(decreases)

29. Intangible assets

29.1 Company

As at 31 March	2020 LKR	2019 LKR
Software		
Cost		
Balance at the beginning of the year	**228,360,960**	227,763,240
Additions during the year	**14,730,063**	597,720
Balance at the end of the year	**243,091,023**	228,360,960
Accumulated amortisation		
Balance at the beginning of the year	**183,229,287**	170,511,433
Amortisation for the year	**13,624,109**	12,717,854
Balance at the end of the year	**196,853,396**	183,229,287
Carrying amount	**46,237,627**	45,131,673

29.2 Group

	Software LKR	Website LKR	Goodwill LKR	Total 31 March 2020 LKR	Total 31 March 2019 LKR
Cost					
Balance at the beginning of the year	228,360,960	–	–	**228,360,960**	292,583,454
On acquisition of subsidiary	3,270,366	197,847	4,356,872	**7,825,085**	–
Additions during the year	14,730,063	–	–	**14,730,063**	597,720
Impairment during the year	–	–	(4,356,872)	**(4,356,872)**	(64,820,214)
Balance at the end of the year	246,361,389	197,847	–	**246,559,236**	228,360,960
Accumulated amortisation					
Balance at the beginning of the year	183,229,287	–	–	**183,229,287**	170,511,433
On acquisition of subsidiary	3,270,366	197,847	–	**3,468,213**	–
Amortisation for the year	13,624,109	–	–	**13,624,109**	12,717,854
Balance at the end of the year	200,123,762	197,847	–	**200,321,609**	183,229,287
Carrying amount	46,237,627	–	–	**46,237,627**	45,131,673

29.3 Fully-amortised intangible assets

The cost of fully-amortised intangible assets which are still in use as at the Statement of Financial Position date is as follows:

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Software	**122,198,068**	122,198,068	**125,468,434**	122,198,068
	122,198,068	122,198,068	**125,468,434**	122,198,068

30. Current tax receivable/(payable)

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Income tax				
Balance at the beginning of the year	**(27,845,854)**	140,412,781	**(33,365,857)**	116,076,777
Current income tax charge	**(355,070,827)**	(381,171,631)	**(387,292,031)**	(417,621,136)
Payments made during the year	**349,264,391**	170,152,066	**388,245,101**	225,108,839
Economic service charges	**23,790,689**	33,322,064	**25,544,832**	33,322,064
Withholding tax on interest income	**6,966,789**	9,438,866	**7,147,860**	9,747,599
Withholding tax on acquisition	–	–	**289,982**	–
Balance at the end of the year	**(2,894,812)**	(27,845,854)	**569,887**	(33,365,857)
Other tax liabilities	**9,324,471**	(65,097,929)	**8,917,606**	(71,576,913)
	6,429,659	(92,943,783)	**9,487,493**	(104,942,770)

31. Right-of-use assets

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Balance as at 1 April 2019	–	–	–	–
Recognition of right-of-use asset on initial application of SLFRS 16	227,314,563	–	227,314,563	–
Adjusted balance as at 1 April 2019	227,314,563	–	227,314,563	–
Additions of right-of-use lease asset during the year	209,551,544	–	209,551,544	–
Advance payment made during the year for leases	47,639,813	–	47,639,813	–
Depreciation charge for the year	(91,378,031)	–	(91,378,031)	–
Disposal during the year	(4,196,505)	–	(4,196,505)	–
Balance as at 31 March 2020	388,931,384	–	388,931,384	–

31.1 Amounts recognised in profit or loss

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
2019/2020 – Lease under SLFRS 16				
Depreciation of right-of-use asset	91,378,031	–	91,378,031	–
2018/2019 operating lease under LKAS 17				
Lease expense	–	122,984,457	–	122,984,457

31.2 Amounts recognised in statement of cash flows

For the year ended 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Total cash outflow from lease	(47,639,813)	–	(47,639,813)	–

32. Other assets

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Stock of gold specimen	**259,200**	259,200	**259,200**	259,200
Western Union MMBL	**546,228**	78,414	**546,228**	78,414
Pre-paid building rent	–	61,700,764	–	61,700,764
Pre-paid WHT on loans and debentures	–	11,664,338	–	11,664,338
Advance payments	**93,049,287**	128,442,318	**93,049,287**	128,442,318
Funds held at Orion Fund Management	**17,554**	2,042,418	**17,554**	2,042,418
Deposits	**2,175,632**	8,778,813	**2,240,734**	8,778,813
Cash cover	**1,278,873**	826,325	**1,278,873**	826,325
Other	**53,853,222**	32,443,538	**17,339,339**	11,929,171
	151,179,996	246,236,128	**114,731,215**	225,721,761

33. Due to banks

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Bank overdrafts	**197,068,955**	51,936,849	**197,068,955**	51,936,849
Asset securitised loans	**5,060,246,429**	7,646,259,660	**5,060,246,429**	7,646,259,660
	5,257,315,384	7,698,196,509	**5,257,315,384**	7,698,196,509

Securities pledged

Lease and hire purchase aggregate portfolio amounting to LKR 4,069,802,150/- (2019 – LKR 6,977,195,033/-) have been pledged as security for the other bank loans.

In the ordinary course of business the Company enters into transactions that result in the transfer of financial assets to third parties, the information above sets out the extent of such transfers and retained interest in transferred assets.

The Company has transferred future rental receivable of leases and hire purchases, but has retained substantially all of the credit risk associated with the transferred assets. Due to the retention of substantially all the risk and rewards on these assets, the Company continues to recognise these assets within lease rental receivable and hire purchase receivable.

34. Financial liabilities at amortised cost – due to depositors

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Saving deposits		**497,572,036**	540,490,898	**497,572,036**	540,490,898
Certificates of deposit	34.1	**8,626,393**	8,231,066	**8,626,393**	8,231,066
Fixed deposits	34.2	**10,716,413,051**	9,460,254,082	**10,668,712,126**	9,408,839,515
		11,222,611,480	10,008,976,046	**11,174,910,555**	9,957,561,479

34.1 Certificates of deposit

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Face value	**8,700,000**	8,300,000	**8,700,000**	8,300,000
Interest in suspense	**(73,607)**	(68,934)	**(73,607)**	(68,934)
	8,626,393	8,231,066	**8,626,393**	8,231,066

34.2 Fixed deposits

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Fixed deposits	**10,319,570,801**	9,111,810,902	**10,272,451,481**	9,061,592,614
Amortised interest payable	**396,842,250**	348,443,180	**396,260,645**	347,246,901
	10,716,413,051	9,460,254,082	**10,668,712,126**	9,408,839,515

35. Financial liabilities at amortised cost – other borrowings

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Commercial paper	35.1	**46,710,600**	846,735,596	**46,710,600**	846,735,596
Asset securitised loans	35.2	**6,385,408,705**	8,718,045,898	**6,385,408,705**	8,718,045,898
		6,432,119,305	9,564,781,494	**6,432,119,305**	9,564,781,494

35.1 Commercial papers

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Commercial papers capital outstanding	**40,000,000**	800,000,000	**40,000,000**	800,000,000
Amortised interest payable	**6,710,600**	46,735,596	**6,710,600**	46,735,596
	46,710,600	846,735,596	**46,710,600**	846,735,596

35.2 Asset securitised loans

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Assets securitisation loans capital outstanding	**4,333,050,000**	6,122,510,000	**4,333,050,000**	6,122,510,000
Borrowings from International Finance Corporation (IFC)	**1,755,000,000**	2,340,000,000	**1,755,000,000**	2,340,000,000
Amortised interest payable	**297,358,705**	255,535,898	**297,358,705**	255,535,898
	6,385,408,705	8,718,045,898	**6,385,408,705**	8,718,045,898

Securities pledged

Lease and hire purchase aggregate portfolio amounting to LKR 3,702,699,681/- (2019 – LKR 7,043,317,506/-) have been pledged as security for the above loans.

In the ordinary course of business the Company enters into transactions that result in the transfer of financial assets to third parties. The information above sets out the extent of such transfers and retained interest in transferred assets.

The Company has transferred future rental receivable of leases and hire purchases, but has retained substantially all of the credit risk associated with the transferred assets, due to the retention of substantially all the risk and rewards on these assets, the Company continues to recognise these assets within lease rental receivable and hire purchase receivable.

36. Debt securities issued

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
As at the beginning of the year	**2,602,730,000**	3,000,000,000	**2,602,730,000**	3,000,000,000
Redemptions of debentures	**(189,520,000)**	(397,270,000)	**(189,520,000)**	(397,270,000)
Balance before amortised interest payable	**2,413,210,000**	2,602,730,000	**2,413,210,000**	2,602,730,000
Amortised interest payable	**126,618,926**	129,317,895	**126,618,926**	129,317,895
As at the end of the year	**2,539,828,926**	2,732,047,895	**2,539,828,926**	2,732,047,895

36.1 Listed unsecured redeemable senior debentures

As at 31 March	Interest payable	Year of issue	Year of maturity	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
2016/17 – Floating rated	Semi-annually	2016/17	2019/20	–	10,000	–	10,000
2016/17 – Fixed Rated 13.25% p.a	Semi-annually	2016/17	2019/20	–	189,510,000	–	189,510,000
2016/17 – Floating rated	Semi-annually	2016/17	2020/21	**62,270,000**	62,270,000	**62,270,000**	62,270,000
2016/17 – Fixed Rated 13.75% p.a	Semi-annually	2016/17	2020/21	**2,350,940,000**	2,350,940,000	**2,350,940,000**	2,350,940,000
Amortised interest payable				**126,618,926**	129,317,895	**126,618,926**	129,317,895
				2,539,828,926	2,732,047,895	**2,539,828,926**	2,732,047,895

37. Subordinated debentures

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
As at the beginning of the year	–	1,250,000,000	–	1,250,000,000
New debt instruments issued	**1,750,000,000**	–	**1,750,000,000**	–
Redemptions of debt instruments	–	(1,250,000,000)	–	(1,250,000,000)
Balance before amortised interest payable	**1,750,000,000**	–	**1,750,000,000**	–
Amortised interest payable	**29,700,505**	–	**29,700,505**	–
As at the end of the year	**1,779,700,505**	–	**1,779,700,505**	–

Outstanding debentures as at 31 March 2020 consists of 17,500,000 (2019 – Nil) listed unsecured redeemable subordinated rated debentures of LKR 100 each issued by the Company in August 2019, details of which is given below:

As at 31 March	Interest payable	Year of issue	Year of maturity	Value (LKR) 2020	Value (LKR) 2019
2019/20 – Fixed rated 12.875% p.a.	Semi Annually	2019/20	2024/25	**1,750,000,000**	–

38. Lease liability

	Company		Group	
As at 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Balance as at 1 April 2019	–	–	–	–
Recognition of lease liability on initial application of SLFRS 16	**199,266,355**	–	**199,266,355**	–
Adjusted balance as at 1 April 2019	**199,266,355**	–	**199,266,355**	–
Additions during the year	**209,551,544**	–	**209,551,544**	–
Payment during the year	**(105,906,454)**	–	**(105,906,454)**	–
Early termination of lease liabilities	**(3,182,031)**	–	**(3,182,031)**	–
Interest expense recognised in profit or loss	**44,994,212**	–	**44,994,212**	–
Balance as at 31 March 2020	**344,723,626**	–	**344,723,626**	–

38.1 Amounts recognised in profit or loss

	Company		Group	
For the year ended 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
2019/20 – Lease under SLFRS 16				
Interest expense recognised in profit or loss	**44,994,212**	–	**44,994,212**	–
2018/19 – Operating lease under LKAS 17				
Lease expense	–	122,984,457	–	122,984,457

38.2 Amounts recognised in Statement of Cash Flows

	Company		Group	
For the year ended 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Total cash outflow from lease	**(105,906,454)**	(118,693,320)	**(105,906,454)**	(118,693,320)

39. Deferred tax liabilities

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Balance at the beginning of the year	**461,314,121**	860,680,871	**461,173,423**	860,605,400
Amount reversed during the year – Income statement	**(54,172,486)**	(402,491,552)	**(54,265,861)**	(402,556,779)
Amount (reversed)/originated during the year – Other comprehensive income	**(4,770,596)**	3,124,802	**(4,769,601)**	3,124,802
Balance at the end of the year	**402,371,039**	461,314,121	**402,137,961**	461,173,423

The potential impact on the deferred tax from the substantively enacted Inland Revenue Act

As per the Notice to tax payers and withholding agents on "implementation of proposed changes to the Inland Revenue Act No. 24 of 2017" dated 12 February 2020 issued by the Department of Inland Revenue, income tax rates of corporates has been revised to 24% from 28% effective from 1 January 2020 pending formal amendments to be made to the Inland Revenue Act. Accordingly, it was not considered to be substantially enacted as at reporting date.

Accordingly, the Company continued to apply the income tax rate of 28% in calculating deferred tax assets/liabilities as at 31 March 2020.

Deferred tax asset has not been recognised in the Financial Statements of subsidiary of the Group (Candor Asset Management Private Limited) since it is not probable that future taxable profits will be available against which the Company can utilise the benefit there from. Accordingly, the unrecorded deferred tax assets of the subsidiary as at 31 March 2020 is LKR 32,916,144/-.

39.1 Reconciliation of net deferred tax liabilities

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Deferred tax – Liabilities				
Property, plant and equipment	**118,494,584**	121,360,828	**118,567,226**	121,457,104
Lease capital balance	**507,836,703**	356,590,030	**507,836,703**	356,590,030
Uncliamed impairment provision	**–**	8,163,676	**–**	8,163,676
Right of use lease asset	**1,811,983**	–	**1,811,983**	–
	628,143,270	486,114,534	**628,215,912**	486,210,810
Deferred tax – Assets				
Retirement benefit obligation	**34,521,671**	24,800,413	**34,827,391**	25,037,387
Unclaimed impairment provision	**191,250,560**	–	**191,250,560**	–
	225,772,231	24,800,413	**226,077,951**	25,037,387
Net deferred tax liabilities	**402,371,039**	461,314,121	**402,137,961**	461,173,423

39.1 Reconciliation of net deferred tax liabilities (Continued)

As at 31 March	Statement of Financial Position 2020 LKR	Statement of Financial Position 2019 LKR	Income Statement 2020 LKR	Income Statement 2019 LKR	Statement of Comprehensive Income 2020 LKR	Statement of Comprehensive Income 2019 LKR
Company						
Deferred tax liabilities on:						
Property, plant and equipment	**118,494,584**	121,360,828	**2,866,244**	(8,088,404)	**–**	–
Lease capital balance	**507,836,703**	356,590,030	**(151,246,673)**	413,529,011	**–**	–
Unclaimed impairment provision	**–**	8,163,676	**8,163,676**	(8,163,676)	**–**	–
Right of use lease assets	**1,811,983**	–	**(1,811,983)**	–	**–**	–
	628,143,270	486,114,534	**(142,028,736)**	397,276,931	**–**	–
Deferred tax assets on:						
Retirement benefit obligation	**34,521,671**	24,800,413	**4,950,662**	5,214,621	**4,770,596**	(3,124,802)
Unclaimed impairment provision	**191,250,560**	–	**191,250,560**	–	**–**	–
	225,772,231	24,800,413	**196,201,222**	5,214,621	**4,770,596**	(3,124,802)
Deferred tax effect on: comprehensive income			**54,172,486**	402,491,552	**4,770,596**	(3,124,802)
Net deferred tax liabilities	**402,371,039**	461,314,121				
Group						
Deferred tax liabilities on:						
Property, plant and equipment	**118,567,226**	121,457,104	**2,889,878**	(8,083,837)	**–**	–
Lease capital balance	**507,836,703**	356,590,030	**(151,246,673)**	413,529,011	**–**	–
Unclaimed impairment provision	**–**	8,163,676	**8,163,676**	(8,163,676)	**–**	–
Right of use lease assets	**1,811,983**	–	**(1,811,983)**	–	**–**	–
	628,215,912	486,210,810	**(142,005,102)**	397,281,498	**–**	–
Deferred tax assets on:						
Retirement benefit obligation	**34,827,391**	25,037,387	**5,020,403**	5,275,281	**4,769,601**	2,093,058
Unclaimed impairment provision	**191,250,560**	–	**191,250,560**	–	**–**	–
	226,077,951	25,037,387	**196,270,963**	5,275,281	**4,769,601**	2,093,058
Deferred tax effect on comprehensive income			**54,265,861**	402,556,779	**4,769,601**	2,093,058
Net deferred tax liabilities	**402,137,961**	461,173,423				

40. Amounts due to related company

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Newest Capital Limited	**282,247,412**	282,396,920	**–**	–
	282,247,412	282,396,920	**–**	–

41. Other liabilities

As at 31 March	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Accrued expenditure – Non-interest	**7,777,001**	3,578,897	**8,280,034**	4,059,791
Payable to suppliers	**401,363,405**	457,679,979	**401,363,405**	457,679,979
Dividend payable	**8,875,410**	7,347,125	**8,875,410**	7,347,125
Value added tax payable	**–**	5,918,753	**1,024,291**	8,429,791
Deposit insurance premium	**1,218,983**	1,137,492	**1,218,983**	1,137,492
Differed loan protection fee income	**21,336,144**	47,651,470	**21,336,144**	47,651,470
Other liabilities	**159,439,495**	33,479,183	**175,358,317**	33,703,433
	600,010,438	556,792,899	**617,456,584**	560,009,081

42. Employee retirement benefits

As at 31 March	Note	Company 2020 LKR	Company 2019 LKR	Group 2020 LKR	Group 2019 LKR
Balance at the beginning of the year		**88,572,900**	81,109,264	**89,419,248**	81,738,958
Retirement benefit obligation on acquisition		**–**	–	**3,242,278**	–
Retirement benefit expense recognised in the income statement	42.1	**26,084,404**	17,939,458	**26,067,577**	18,156,112
Retirement benefit expense recognised in the statement of other comprehensive income	42.2	**17,037,844**	(5,999,263)	**17,300,178**	(5,999,263)
Benefits paid during the year		**(8,403,462)**	(4,476,559)	**(10,403,462)**	(4,476,559)
Balance at the end of the year		**123,291,686**	88,572,900	**125,625,819**	89,419,248

42.1 Retirement benefit expense recognised in the income statement

	Company		Group	
For the year ended 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Current service cost	**15,455,656**	9,422,986	**15,469,422**	9,639,640
Interest cost	**10,628,748**	8,516,472	**10,598,155**	8,516,472
Total	**26,084,404**	17,939,458	**26,067,577**	18,156,112

42.2 Retirement benefit expense recognised in the statement of other comprehensive income

	Company		Group	
For the year ended 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Actuarial loss/(gain) at the end of the year	**17,037,844**	(5,999,263)	**17,300,178**	(5,999,263)
	17,037,844	(5,999,263)	**17,300,178**	(5,999,263)

Mr Piyal S Goonathilake FSA (USA), a member of the American Academy of Actuaries has carried out an independent actuarial valuation of the defined benefit obligation as at 31 March 2020. The valuation was carried out using the Projected Unit Credit Actuarial Cost Method, the method recommended by Sri Lanka Accounting Standard – LKAS 19 on Defined Benefit Obligations.

As at 31 March	**2020**	2019
Discount rate	**9.5%**	12.0%
Salary scale	**5.0%**	7.5%
Retirement age	**55 years**	55 years

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 Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the Income Statement and employment benefit obligation for the year:

Increase/(decrease) in discount rate	Increase/(decrease) in salary increment rate	Sensitivity effect on income statement increase/(reduction) in profit for the year LKR '000	Sensitivity effect on employment benefit obligation increase/(reduction) in the liability LKR '000
+1%	–	5,015	(5,015)
-1%	–	(5,616)	5,616
–	+1%	(5,592)	5,592
–	-1%	5,080	(5,080)

43. Stated capital

As at 31 March	2020		2019	
	Number of shares	**Value (LKR)**	Number of shares	Value (LKR)
Issued and fully-paid shares				
At the beginning of the year	**72,475,061**	**1,587,862,680**	72,475,061	1,587,862,680
At the end of the year	**72,475,061**	**1,587,862,680**	72,475,061	1,587,862,680

43.1 Rights, preferences and restrictions of ordinary shares

The shares of the Senkadagala Finance PLC are quoted on the Diri Savi Board of Colombo Stock Exchange.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and voting shares are entitled to one vote per share at general meetings of the Company.

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

44. Statutory reserve fund

	Company		Group	
As at 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Balance at the beginning of the year	**415,036,033**	365,036,033	**419,997,079**	369,997,079
Transfers during the year	**15,000,000**	50,000,000	**15,000,000**	50,000,000
Balance at the end of the year	**430,036,033**	415,036,033	**434,997,079**	419,997,079

The Reserve Fund is maintained in compliance with Direction No. 1 of 2003 of the Central Bank of Sri Lanka (Capital Funds) for Licensed Finance Companies.

As per the said Direction, every Licensed Finance Company shall maintain a Reserve Fund and transfer to such reserve fund out of the net profits of each period after due provisions has been made for taxation and bad and doubtful debts on following basis:

Capital funds to deposit liabilities	Percentage of transfer to reserve fund
Not less than 25%	5
Less than 25% and not less than 10%	20
Less than 10%	50

Accordingly, the Company has transferred an amount of LKR 15,000,000/-, which is above the required 5% of its net profit after taxation to the Reserve Fund as the Company's Capital Funds to Deposit Liabilities, belongs to not less than 25% category.

45. Available-for-sale reserve

The available-for-sale reserve comprises the cumulative net change in fair value of financial investments available-for-sale until such investments are derecognised or impaired. The balance of LKR 7,171,473/- in the available-for-sale reserve was reclassified to fair value through profit or loss in the Financial Statements of 2018/19.

46. Fair value reserve

	Company		Group	
As at 31 March	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
Balance at the beginning of the year	**3,893,597**	–	**3,893,597**	–
Changes in fair value of investments in equity at fair value through other comprehensive income	**205,919**	3,893,597	**205,919**	3,893,597
Balance at the end of the year	**4,099,516**	3,893,597	**4,099,516**	3,893,597

The fair value reserve comprises of fair value adjustments of equity investments measured at fair value through other comprehensive income.

47. Related party transactions

The Company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard – LKAS 24 on "Related Party Disclosures". Details of related party transactions are reported below;

Name of the Company	Nature of transaction	**Transaction amount 2020 LKR**	Transaction amount 2019 LKR	**Balance outstanding as at 31 March 2020 LKR**	Balance outstanding as at 31 March 2019 LKR
Parent company					
E W Balasuriya and Company (Private) Limited	Payment of rent expenses	**(13,975,000)**	(6,000,000)	–	–
	Dividend payment	**(38,735,737)**	(128,439,549)	–	–
	Reimbursement of expenses on Telephone	**13,762,500**	18,875,000	**1,800,000**	
	Investment in debenture	**1,266,450,000**	–	**(1,266,450,000)**	–
	Payment of debenture interest	**(81,973,225)**	–	**(21,493,831)**	
	Net funds received/(paid)	**1,145,528,538**	(115,564,549)	–	–
Subsidiary					
Senkadagala Insurance Brokers (Pvt) Ltd.	Net investment in fixed deposits	**(3,713,642)**	9,691,830	**(47,700,925)**	(51,414,567)
	Deposit interest expense	**(3,345,798)**	(4,903,216)	–	–
	Dividend income	**76,700,000**	79,120,000	–	–
	Rent income	**300,000**	300,000	**50,000**	–
	Net funds received	**69,940,560**	84,208,614	–	–

Name of the Company	Nature of transaction	**Transaction amount 2020 LKR**	Transaction amount 2019 LKR	**Balance outstanding as at 31 March 2020 LKR**	Balance outstanding as at 31 March 2019 LKR
Subsidiary					
Newest Capital Limited	Funds collected on behalf of Newest Capital Limited	**–**	231,545	**–**	–
	Payment made on behalf of Newest Capital Limited	**(149,507)**	(9,412,675)	**–**	–
	Net funds (paid)/received	**(149,507)**	(9,181,130)	**–**	–
	Balance payable			**(282,247,412)**	(282,396,920)
Subsidiary					
Candor Asset Management (Pvt) Ltd.*	Initial investment in ordinary shares	**(26,729,599)**	–	**–**	–
	Additional investment in ordinary shares	**(5,000,001)**	–	**–**	–
	Net funds (paid)/received	**(31,729,600)**	–	**–**	–
Company under common control					
Senkadagala Hotels Limited	Net investment in fixed deposits	**12,972,692**	20,495,252	**(85,515,166)**	(72,542,474)
	Deposit interest expense	**(8,619,647)**	(6,130,963)	**–**	–
	Rent income	**1,800,000**	1,260,000	**435,000**	–
	Payment of rent expense	**(927,000)**	(736,742)	**(115,140)**	–
	Reimbursement of expenses on electricity	**(630,180)**	(492,971)	**(95,724)**	–
	Net funds received	**4,595,865**	14,394,576	**–**	–
Company under common control					
Thompson's Beach Hotel Ltd.	Net investment in fixed deposits	**2,654,314**	143,697	**(3,985,316)**	(1,331,002)
	Deposit interest expense	**(58,577)**	(148,236)	**–**	–
	Net funds received/(paid)	**2,595,737**	(4,539)	**–**	–

**The Company has invested LKR 200,000,000/- (2019 – Nil) in 14,179,871.6 (2019 – Nil) units of Candor Money Market Fund, a unit trust managed by Candor Asset Management (Pvt) Ltd.*

47.1 Recurrent related party transactions

There are no recurrent related party transactions which in aggregate exceeds more than 33% of the gross revenue of the Company.

47.2 Non-recurrent related party transactions

Details of non-recurrent related party transactions which exceeds 10% of equity or 5% of total assets, whichever is lower, is as follows:

Name of the Company	Nature of transaction	**Transaction amount 2020 LKR**	Transaction amount 2019 LKR	**Balance outstanding as at 31 March 2020 LKR**	Balance outstanding as at 31 March 2019 LKR
Parent company					
E W Balasuriya and Company (Private) Limited	Investment in subordinated listed debenture – August 2019	**1,266,450,000**	–	**1,266,450,000**	–

E W Balasuriya & Company (Pvt) Ltd. was an identified institutional investor for the proposed debenture issue with an intention to invest LKR 1.5 Bn. However, with high demand from general investors, only the residual was alloted to the parent after fully-alloting for all other non-related investor applications.

47.3 Transactions with key management personnel (KMP) of the Company

According to Sri Lanka Accounting Standard – LKAS 24 Related Party Disclosures, Key management personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, Senior Management Team, Deputy CEO, CEO and the other members of the Board of Directors of the Company (including Executive and Non-Executive Directors), and of the Ultimate Parent Company have been classified as key management personnel of the Company.

47.3.1 Compensation of key management personnel

As at 31 March	**2020 LKR**	2019 LKR
Short-term employee benefits		
Board of Directors	**21,221,430**	22,758,780
Other Key Management Personnel	**66,453,220**	86,853,270

47.3.2 Post-employment benefits to key management personnel

The key management personnel are entitled to gratuity as per the provisions laid down by the Payment of Gratuity Act No. 12 of 1983 and such provision as at 31 March 2020 amounted to LKR 35,140,700/- (2018/19 – LKR 33,772,000/-).

47.3.3 Deposits held by key management personnel

As at 31 March	**2020 LKR**	2019 LKR
Deposits held with the Company	**475,018,301**	473,723,569
Investments in debentures	**13,000,000**	–

48. Commitments and contingencies

48.1 Capital expenditure commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements amounted to the following:

As at 31 March	**2020 LKR**	2019 LKR
Approved but not contracted for	**–**	–
Approved and contracted for	**6,947,433**	16,121,488
	6,947,433	16,121,488

48.2 Contingent liabilities

The Company has undertaken a Loan Protection Scheme for opting customers, whereby the Company undertakes to insure a certain amount of the receivable balances of lease and hire purchase contracts with a third party insurance company for a fee collected upfront. The loss in case of death or permanent disability is covered through the insurance policy, however based on past experience the Company expects that the probable loss in the event of death and permanent disability would not result in an loss exceeding the insured amount.

Other than the matters disclosed above, there were no material contingent liabilities which require adjustments to or disclosure in the Financial Statements as at the reporting date.

49. Events after the reporting period

There were no material events occurring after the reporting date that require adjustment to or disclose in the Financial Statements.

50. Acquisition of subsidiary

Senkadagala Finance PLC acquired 100% equity stake in Candor Asset Management (Pvt) Ltd., which engages in floating, operating and managing Unit Trusts and operating as an investment manager to third party portfolios, on 4 March 2020.

The Management was desirous of acquiring Candor Asset Management (Pvt) Ltd. in order to expand and diversify the finance business offered by the Group. The Company acquired control of the acquiree by purchasing 18,717,262 ordinary shares representing 100% of the stated capital of Candor Asset Management (Pvt) Ltd., registered in the name of Eagle Proprietary Investment Limited, the then parent.

Candor Asset Management (Pvt) Ltd. licensed by the Securities and Exchange Commission of Sri Lanka (SEC) to manage unit trust funds and discretionary portfolios. It is one of the 14 companies registered under Section 20 of the Securities Exchange Commission of Sri Lanka Act No. 36 of 1987. By acquiring CAM, the Company intends to expand its portfolio of investment opportunities available to customers as well as achieve synergistic values of reaching a broader customer base.

Despite the qualitative and intangible benefits mentioned above, the Company has impaired the goodwill arising from the transaction to recognise the investment at net asset value as at 31 March 2020.

	Fair Value as at 4 March 2020 LKR
Assets	
Property, plant and equipment	2,874
Trade and other receivables	442,431
Tax receivable	289,982
Due from related parties	918,699
Investments at fair value through profit or loss	12,456,172
Cash in hand	22,440
Balances with Banks and financial institutions	16,770,745
	30,903,343
Liabilities	
Employee retirement benefits	3,242,279
Other liabilities	5,288,337
	8,530,616
Total identifiable net assets at fair value	22,372,727
Purchase consideration	26,729,599
Goodwill on acquisition	4,356,872
Amounts recognised in Statement of Cash Flows	
Purchase consideration	26,729,599
Cash and cash equivalents of subsidiary acquired	(16,793,185)
Net cash out flow on acquisition of subsidiary	9,936,414

51. Maturity analysis

51.1 Company

An analysis of the total assets employed and the total liabilities of the Company as at 31 March 2020, based on the remaining period from the reporting date to the respective contractual maturity dates is given below:

	Up to 3 months LKR	3 to 12 months LKR	1 to 3 years LKR	More than 3 years LKR	Total as at 31 March 2020 LKR
Interest earning assets					
Cash and cash equivalents	718,612,914	–	–	–	**718,612,914**
Deposit with licensed commercial banks	884,788,297	–	–	–	**884,788,297**
Investment in Government and other securities	1,941,026,549	–	192,146,568	–	**2,133,173,117**
Loans and advances	2,292,595,997	8,774,375,492	12,282,031,835	3,884,006,689	**27,233,010,013**
Total interest earning assets	5,837,023,757	8,774,375,492	12,474,178,403	3,884,006,689	**30,969,584,341**
Non-interest earning assets					
Financial assets held at fair value through profit and loss	378,817,366	–	–	–	**378,817,366**
Financial assets measured at fair value through other comprehensive income	–	–	–	14,803,522	**14,803,522**
Investment in subsidiaries	–	–	–	328,301,663	**328,301,663**
Tangible and intangible assets	–	–	–	2,156,478,442	**2,156,478,442**
Right-of-use assets	22,550,367	63,186,092	141,146,948	162,047,977	**388,931,384**
Other receivables	105,890,461	51,459,994	–	259,200	**157,609,655**
Total assets	6,344,281,951	8,889,021,578	12,615,325,351	6,545,897,493	**34,394,526,373**
Percentage as at 31 March 2020 (%)	18	26	37	19	**100**
Interest-bearing liabilities					
Deposits from customers	2,741,872,348	5,031,319,403	3,256,674,292	192,745,437	**11,222,611,480**
Bank overdrafts	197,068,955	–	–	–	**197,068,955**
Due to banks	692,002,829	1,195,471,300	1,822,832,300	1,349,940,000	**5,060,246,429**
Borrowings	542,594,712	2,292,675,567	2,528,223,299	1,068,625,727	**6,432,119,305**
Debt securities issued	126,618,926	2,442,910,505	–	1,750,000,000	**4,319,529,431**
Lease liabilities	20,812,221	57,166,313	122,363,544	144,381,548	**344,723,626**
Total interest-bearing liabilities	4,320,969,991	11,019,543,088	7,730,093,435	4,505,692,712	**27,576,299,226**
Non-interest-bearing liabilities	445,328,600	230,005,973	236,943,874	495,642,128	**1,407,920,575**
Total liabilities	4,766,298,591	11,249,549,061	7,967,037,309	5,001,334,840	**28,984,219,801**
Percentage as at 31 March 2020 (%)	14	33	23	15	**84**
Shareholders' funds	–	–	–	5,410,306,572	**5,410,306,572**
Total shareholders' funds and liabilities	4,766,298,591	11,249,549,061	7,967,037,309	10,411,641,412	**34,394,526,373**

51.2 Group

An analysis of the total assets employed and the total liabilities of the Group as at 31 March 2020, based on the remaining period from the reporting date to the respective contractual maturity dates is given below:

	Up to 3 months LKR	3 to 12 months LKR	1 to 3 years LKR	More than 3 years LKR	Total as at 31 March 2020 LKR
Interest earning assets					
Cash and cash equivalents	760,978,541	–	–	–	**760,978,541**
Deposit with licensed commercial banks	884,788,297	–	–	–	**884,788,297**
Investment in Government and other securities	1,941,026,549	–	192,146,568	–	**2,133,173,117**
Loans and advances	2,292,825,997	8,774,375,492	12,282,031,835	3,884,006,689	**27,233,240,013**
Total interest earning assets	5,879,619,384	8,774,375,492	12,474,178,403	3,884,006,689	**31,012,179,968**
Non-interest earning assets					
Financial assets held at fair value through profit and loss	391,355,052	–	–	–	**391,355,052**
Financial assets measured at fair value through other comprehensive income	–	–	–	14,803,522	**14,803,522**
Tangible and intangible assets	–	–	–	2,063,943,892	**2,063,943,892**
Right-of-use assets	22,550,367	63,186,092	141,146,948	162,047,977	**388,931,384**
Other receivables	72,702,947	51,256,561	–	259,200	**124,218,708**
Total assets	6,366,227,750	8,888,818,145	12,615,325,351	6,125,061,280	**33,995,432,526**
Percentage as at 31 March 2020 (%)	19	26	37	18	**100**
Interest-bearing liabilities					
Deposits from customers	2,710,224,809	5,015,266,017	3,256,674,292	192,745,437	**11,174,910,555**
Bank overdrafts	197,068,955	–	–	–	**197,068,955**
Due to banks	692,002,829	1,195,471,300	1,822,832,300	1,349,940,000	**5,060,246,429**
Borrowings	542,594,713	2,292,675,566	2,528,223,299	1,068,625,727	**6,432,119,305**
Debt securities issued	126,618,926	2,442,910,505	–	1,750,000,000	**4,319,529,431**
Lease liabilities	20,812,221	57,166,313	122,363,544	144,381,548	**344,723,626**
Total interest bearing liabilities	4,289,322,453	11,003,489,701	7,730,093,435	4,505,692,712	**27,528,598,301**
Non-interest-bearing liabilities	168,309,486	230,984,945	245,603,524	500,322,409	**1,145,220,364**
Total liabilities	4,457,631,939	11,234,474,646	7,975,696,959	5,006,015,121	**28,673,818,665**
Percentage as at 31 March 2020 (%)	13	33	23	15	**84**
Shareholders' funds	–	–	–	5,321,613,861	**5,321,613,861**
Total shareholders' funds and liabilities	4,457,631,939	11,234,474,646	7,975,696,959	10,327,628,982	**33,995,432,526**

52. Segment report

The Company has seven reportable segments, as described below, which are the Company's strategic business lines. The strategic business lines offer different products and services, and are managed and monitored separately based on the Company's management and internal reporting structure. For each of the strategic business line, the Company management reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments.

- Leasing and hire purchase
- Pawning advances
- Other advances
- Investments
- Insurance brokering
- Unit trust management
- Unallocated

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue, as included in the internal management reports that are reviewed by the Company's management. Segment revenue is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

52. Segment report (Continued)

As at 31 March	Leasing and hire purchases 2020 LKR	Leasing and hire purchases 2019 LKR	Pawning advances 2020 LKR	Pawning advances 2019 LKR	Other advances 2020 LKR	Other advances 2019 LKR	Investments 2020 LKR	Investments 2019 LKR
Revenue								
External customers								
Interest	**5,546,699,014**	5,783,112,980	**255,067,304**	246,654,396	**373,270,239**	607,684,069	**359,617,553**	359,570,025
Trading	**–**	–	**–**	–	**–**	–	**8,255,089**	(19,846,598)
Commissions	**–**	–	**–**	–	**–**	–	**–**	–
Rent	**–**	–	**–**	–	**–**	–	**19,287,660**	18,630,755
Dividends	**–**	–	**–**	–	**–**	–	**3,367,701**	2,594,358
Other income	**38,455,428**	42,514,365	**–**	–	**–**	–	**13,468,382**	45,580,900
Total revenue	**5,585,154,442**	5,825,627,345	**255,067,304**	246,654,396	**373,270,239**	607,684,069	**403,996,385**	406,529,440
Profit before tax								
Taxation								
Profit after tax								
Segment assets	**24,366,846,750**	25,916,966,738	**1,160,219,554**	1,196,462,693	**1,705,943,709**	1,956,319,278	**5,472,399,232**	6,328,604,323
Segment liabilities	**23,963,726,375**	25,220,924,598	**1,094,394,639**	1,067,842,407	**1,601,557,480**	2,630,850,409	**1,733,391,427**	1,759,990,426
Information on cash flows								
Operating activities	**3,616,939,525**	790,630,334	**169,597,975**	21,336,399	**262,772,939**	323,944,701	**867,994,285**	(270,472,579)
Investing activities	**–**	–	**–**	–	**–**	–	**(209,230,682)**	4,629,942
Capital expenditure	**(181,906,033)**	(664,802,642)	**(8,661,397)**	(30,690,766)	**(12,735,396)**	(50,182,039)	**(40,853,150)**	(162,336,624)
Financing activities	**–**	–	**–**	–	**–**	–	**–**	–
Net cash flow	**3,435,033,492**	125,827,692	**160,936,578**	(9,354,367)	**250,037,543**	273,762,662	**617,910,453**	(428,179,261)
Depreciation and amortisation	**(301,597,941)**	(284,847,518)	**(14,360,489)**	(13,150,051)	**(21,115,129)**	(21,501,463)	**(8,511,526)**	(3,400,000)

Insurance brokering		Unit trust management		Unallocated		Total	
2020 LKR	2019 LKR	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR	**2020 LKR**	2019 LKR
–	–	**32,076**	–	**–**	–	**6,534,686,186**	6,997,021,470
–	–	**81,514**	–	**63,630**	143,728	**8,400,233**	(19,702,870)
124,711,144	133,634,663	**839,708**	–	**345,178**	83,891	**125,896,030**	133,718,554
–	–	**–**	–	**–**	–	**19,287,660**	18,630,755
–	–	**–**	–	**–**	–	**3,367,701**	2,594,358
–	–	**–**	–	**60,468,659**	109,020,008	**112,392,469**	197,115,273
124,711,144	133,634,663	**953,298**	–	**60,877,467**	109,247,627	**6,804,030,279**	7,329,377,540
						591,028,295	913,902,042
						(339,326,170)	(27,944,357)
						251,702,125	885,957,685
33,762,851	8,549,405	**30,242,984**	–	**1,226,017,446**	945,969,720	**33,995,432,526**	36,352,872,157
16,038,102	15,073,590	**3,451,598**	–	**261,259,044**	473,450,469	**28,673,818,665**	31,168,131,899
89,758,547	77,149,527	**871,784**	–	**(378,537,083)**	(243,772,603)	**4,629,397,972**	698,815,779
(325,400)	–	**–**	–	**32,771,042**	114,880,624	**(176,785,040)**	119,510,566
–	(36,720)	**–**	–	**(9,152,599)**	(24,265,308)	**(253,308,575)**	(932,314,099)
–	–	**–**	–	**(4,308,183,739)**	103,432,116	**(4,308,183,739)**	103,432,116
89,433,147	77,112,807	**871,784**	–	**(4,663,102,379)**	(49,725,171)	**(108,879,382)**	(10,555,638)
(1,223,174)	(1,209,565)	**(192)**	–	**(106,552,926)**	(10,396,939)	**(453,361,377)**	(334,505,536)

53. Financial instruments – Fair values

A. Accounting classifications and fair values – Company

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

As at 31 March 2020	Carrying amount		
	Designated at FVTPL LKR	Designated at FVTOCI LKR	Financial assets at amortised cost – Loans and receivables LKR
Financial assets measured at fair value			
Investments in equity securities – Quoted	**79,503,906**	–	–
Investments in equity securities – Unquoted	–	**14,803,522**	–
Investments in unit trust – Quoted	**2,346,750**	–	–
Investments in unit trust – Unquoted	**296,966,710**	–	–
	378,817,366	**14,803,522**	–
Financial assets not measured at fair value			
Cash and cash equivalents	–	–	**718,612,914**
Deposit with licensed commercial banks	–	–	**884,788,297**
Repurchase agreements	–	–	**1,001,277,322**
Loans and advances	–	–	**26,800,770,355**
Other advances	–	–	**432,239,658**
Treasury bonds	–	–	–
Treasury bills	–	–	–
	–	–	**29,837,688,546**
Financial liabilities not measured at fair value			
Due to banks	–	–	–
Deposits from customers	–	–	–
Savings deposits from customers	–	–	–
Other borrowings	–	–	–
Short-term and floating rated borrowings	–	–	–
Debt securities issued	–	–	–
Subordinated debentures	–	–	–
	–	–	–

Financial assets at amortised cost – Other financial instruments	Other financial liabilities	Total	Fair value			
			Level 1	Level 2	Level 3	Total
LKR	LKR	LKR	LKR	LKR	LKR	LKR
–	–	79,503,906	79,503,906	–	–	79,503,906
–	–	14,803,522	–	–	14,803,522	14,803,522
–	–	2,346,750	2,346,750	–	–	2,346,750
–	–	296,966,710	–	–	296,966,710	296,966,710
–	–	393,620,888	81,850,656	–	311,770,232	393,620,888
–	–	718,612,914	–	–	–	–
–	–	884,788,297	–	–	–	–
–	–	1,001,277,322	–	–	–	–
–	–	26,800,770,355	–	–	–	–
–	–	432,239,658	–	–	–	–
192,146,568	–	192,146,568	198,542,430	–	–	198,542,430
939,749,227	–	939,749,227	935,796,366	–	–	935,796,366
1,131,895,795	–	30,969,584,341	1,134,338,796	–	–	1,134,338,796
–	5,257,315,384	5,257,315,384	–	–	–	–
–	10,725,039,444	10,725,039,444	–	–	11,135,110,788	11,135,110,788
–	497,572,036	497,572,036	–	–	–	–
–	–	–	–	–	–	–
–	6,432,119,305	6,432,119,305	–	–	–	–
–	2,539,828,926	2,539,828,926	–	–	2,445,018,847	2,445,018,847
–	1,779,700,505	1,779,700,505	–	–	1,991,833,717	1,991,833,717
–	27,231,575,600	27,231,575,600	–	–	15,571,963,352	15,571,963,352

53. Financial instruments – Fair values (continued)

A. Accounting classifications and fair values – Company (continued)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

As at 31 March 2019	Carrying amount		
	Designated at FVTPL	Designated at FVTOCI	Financial assets at amortised cost – Loans and receivables
	LKR	LKR	LKR
Financial assets measured at fair value			
Investments in equity securities – Quoted	67,905,307	–	–
Investments in equity securities – Unquoted	–	14,597,603	–
Investments in unit trust – Quoted	2,150,000	–	–
Investments in unit trust – Unquoted	97,845,000	–	–
	167,900,307	14,597,603	–
Financial assets not measured at fair value			
Cash and cash equivalents	–	–	720,853,597
Deposit with licensed commercial Banks	–	–	1,350,947,501
Repurchase agreements	–	–	1,515,652,849
Loans and advances	–	–	28,786,991,085
Other advances	–	–	282,757,624
Treasury bonds	–	–	–
Treasury bills	–	–	–
	–	–	32,657,202,656
Financial liabilities not measured at fair value			
Due to banks	–	–	–
Deposits from customers	–	–	–
Savings deposits from customers	–	–	–
Other borrowings	–	–	–
Short-term and floating rated borrowings	–	–	–
Debt securities issued	–	–	–
	–	–	–

Financial assets at amortised cost – Other financial instruments	Other financial liabilities	Total	Fair value			
			Level 1	Level 2	Level 3	Total
LKR	LKR	LKR	LKR	LKR	LKR	LKR
–	–	67,905,307	67,905,307	–	–	67,905,307
–	–	14,597,603	–	–	14,597,603	14,597,603
–	–	2,150,000	2,150,000	–	–	2,150,000
–	–	97,845,000	–	–	97,845,000	97,845,000
–	–	182,497,910	70,055,307	–	112,442,603	182,497,910
–	–	720,853,597	–	–	–	–
–	–	1,350,947,501	–	–	–	–
–	–	1,515,652,849	–	–	–	–
–	–	28,786,991,085	–	–	–	–
–	–	282,757,624	–	–	–	–
188,416,281	–	188,416,281	191,643,048	–	–	191,643,048
855,878,980	–	855,878,980	855,172,601	–	–	855,172,601
1,044,295,261	–	33,701,497,917	1,046,815,649	–	–	1,046,815,649
–	7,698,196,509	7,698,196,509	–	–	–	–
–	9,468,485,148	9,468,485,148	–	–	9,816,141,200	9,816,141,200
–	540,490,898	540,490,898	–	–	–	–
–	164,997,107	164,997,107	–	–	224,059,871	224,059,871
–	9,399,784,387	9,399,784,387	–	–	–	–
–	2,732,047,895	2,732,047,895	–	–	2,624,414,063	2,624,414,063
–	30,004,001,944	30,004,001,944	–	–	12,664,615,134	12,664,615,134

53. Financial instruments – Fair values (continued)

B. Accounting classifications and fair values – Group

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

As at 31 March 2020	Carrying amount		
	Designated at FVTPL LKR	Designated at FVTOCI LKR	Financial assets at amortised cost – Loans and receivables LKR
Financial assets measured at fair value			
Investments in equity securities – Quoted	79,503,906	–	–
Investments in equity securities – Unquoted	–	14,803,522	–
Investments in unit trust – Quoted	2,346,750	–	–
Investments in unit trust – Unquoted	309,504,396	–	–
	391,355,052	14,803,522	–
Financial assets not measured at fair value			
Cash and cash equivalents	–	–	760,978,541
Deposit with licensed commercial banks	–	–	884,788,297
Repurchase agreements	–	–	1,001,277,322
Loans and advances	–	–	26,801,000,355
Other advances	–	–	432,239,658
Treasury bonds	–	–	–
Treasury bills	–	–	–
	–	–	29,880,284,173
Financial liabilities not measured at fair value			
Due to banks	–	–	–
Deposits from customers	–	–	–
Savings deposits from customers	–	–	–
Other borrowings	–	–	–
Short-term and floating rated borrowings	–	–	–
Debt securities issued	–	–	–
Subordinated debentures	–	–	–
	–	–	–

Financial assets at amortised cost – Other financial instruments LKR	Other financial liabilities LKR	Total LKR	Fair value Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
–	–	79,503,906	79,503,906	–	–	79,503,906
–	–	14,803,522	–	–	14,803,522	14,803,522
–	–	2,346,750	2,346,750	–	–	2,346,750
–	–	309,504,396	–	–	309,504,396	309,504,396
–	–	406,158,574	81,850,656	–	324,307,918	406,158,574
–	–	760,978,541	–	–	–	–
–	–	884,788,297	–	–	–	–
–	–	1,001,277,322	–	–	–	–
–	–	26,801,000,355	–	–	–	–
–	–	432,239,658	–	–	–	–
192,146,568	–	192,146,568	191,996,572	–	–	191,996,572
939,749,227	–	939,749,227	935,796,366	–	–	935,796,366
1,131,895,795	–	31,012,179,968	1,127,792,938	–	–	1,127,792,938
–	5,257,315,384	5,257,315,384	–	–	–	–
–	10,677,338,519	10,677,338,519	–	–	11,088,390,744	11,088,390,744
–	497,572,036	497,572,036	–	–	–	–
–	–	–	–	–	–	–
–	6,432,119,305	6,432,119,305	–	–	–	–
–	2,539,828,926	2,539,828,926	–	–	2,445,018,847	2,445,018,847
–	1,779,700,505	1,779,700,505	–	–	1,991,833,717	1,991,833,717
–	27,183,874,675	27,183,874,675	–	–	15,525,243,308	15,525,243,308

53. Financial instruments – Fair values (continued)

B. Accounting classifications and fair values – Group (continued)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

As at 31 March 2019	Carrying amount		
	Designated at FVTPL	Designated at FVTOCI	Financial assets at amortised cost – Loans and receivables
	LKR	LKR	LKR
Financial assets measured at fair value			
Investments in equity securities – Quoted	67,905,307	–	–
Investments in equity securities – Unquoted	–	14,597,603	–
Investments in unit trust – Quoted	2,150,000	–	–
Investments in unit trust – Unquoted	97,845,000	–	–
	167,900,307	14,597,603	–
Financial assets not measured at fair value			
Cash and cash equivalents	–	–	724,775,309
Deposit with licensed commercial banks	–	–	1,350,947,501
Repurchase agreements	–	–	1,515,652,849
Loans and advances	–	–	28,786,991,085
Other advances	–	–	282,757,624
Treasury bonds	–	–	–
Treasury bills	–	–	–
	–	–	32,661,124,368
Financial liabilities not measured at fair value			
Due to banks	–	–	–
Deposits from customers	–	–	–
Savings deposits from customers	–	–	–
Other borrowings	–	–	–
Short-term and floating rated borrowings	–	–	–
Debt securities issued	–	–	–
	–	–	–

Financial assets at amortised cost – Other financial instruments	Other financial liabilities	Total	Fair value			
			Level 1	Level 2	Level 3	Total
LKR	LKR	LKR	LKR	LKR	LKR	LKR
–	–	67,905,307	67,905,307	–	–	67,905,307
–	–	14,597,603	–	–	14,597,603	14,597,603
–	–	2,150,000	2,150,000	–	–	2,150,000
–	–	97,845,000	–	–	97,845,000	97,845,000
–	–	182,497,910	70,055,307	–	112,442,603	182,497,910
–	–	724,775,309	–	–	–	–
–	–	1,350,947,501	–	–	–	–
–	–	1,515,652,849	–	–	–	–
–	–	28,786,991,085	–	–	–	–
–	–	282,757,624	–	–	–	–
188,416,281	–	188,416,281	191,643,048	–	–	191,643,048
855,878,980	–	855,878,980	855,172,601	–	–	855,172,601
1,044,295,261	–	33,705,419,629	1,046,815,649	–	–	1,046,815,649
–	7,698,196,509	7,698,196,509	–	–	–	–
–	9,417,070,581	9,417,070,581	–		9,764,750,317	9,764,750,317
–	540,490,898	540,490,898	–	–	–	–
–	164,997,107	164,997,107	–		224,059,871	224,059,871
–	9,399,784,387	9,399,784,387	–	–	–	–
–	2,732,047,895	2,732,047,895	–		2,624,414,063	2,624,414,063
–	29,952,587,377	29,952,587,377	–	–	12,613,224,252	12,613,224,252

53. Financial instruments – Fair values (continued)

C. Measurement of fair values – Company

Valuation techniques and significant unobservable inputs used for Financial Instruments not measured at fair value.

The following tables show the valuation techniques used in measuring level 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Other liabilities **	Discounted cash flows using prevailing current market rates for similar financial instruments.	Average Effective interest rate based on the maturity of deposits liability. Interest rate varied from 8.00% to 17.50%	The estimated fair Value would increase (decrease) if there is any changes in rate of Sri Lanka Government Treasury Bill.
Corporate debt securities	Market comparison technique: Fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	N/A	N/A

*** Other liabilities consists of due to banks, deposits from customers, borrowings and debentures.*

The following is a list of financial instruments which have not been considered under the fair value measurement hierarchy, because the carrying amount of those financial instruments is a reasonable approximation of fair value since they are short-term in nature or re-price to current market rates frequently.

Assets

Cash and cash equivalents

Repurchase agreements

Other advances

Liabilities

Other liabilities

Savings deposits from customers

Short term and floating rated borrowings

Bank overdrafts

D. Measurement of fair values – Group

Valuation techniques and significant unobservable inputs used for Financial Instruments not measured at fair value.

The following tables show the valuation techniques used in measuring level 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Other liabilities **	Discounted cash flows using prevailing current market rates for similar financial instruments.	Average effective interest rate based on the maturity of deposits liability. Interest rate varied from 8.00% to 17.50%	The estimated fair value would increase (decrease) if there is any changes in rate of Sri Lanka Government Treasury Bill.
Corporate debt securities	Market comparison technique: Fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	N/A	N/A

*** Other liabilities consists of due to banks, deposits from customers, borrowings and debentures.*

The following is a list of financial instruments which have not been considered under the fair value measurement hierarchy, because the carrying amount of those financial instruments is a reasonable approximation of fair value since they are short-term in nature or reprise to current market rates frequently.

Assets	**Liabilities**
Cash and cash equivalents	Other liabilities
Repurchase agreements	Savings deposits from customers
Other advances	Short-term and floating rated borrowings
	Bank overdrafts

54. Risk management

54.1 Introduction

The Company's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. Risk is an integral component of the business model of any finance company. Accordingly, the purpose of risk management is that the institution properly identifies, measures and handles risk and prepares adequate reports on all these efforts so that the extent of risks which the Company has assumed have been compensated with adequate return.

With this in mind, the Company has established and operates mechanisms, which ensure the on-going assessment of relevant risk types on an individual basis and of the overall risk position of the Organisation.

At Senkadagala Finance PLC, the Board of Directors approves the Integrated Risk Management Policy, which sets the objectives, principles, processes and responsibilities for risk management within the Company. The policy sets guidelines for defining, quantifying, monitoring and reporting financial risks. The Integrated Risk Management Committee, which is a subcommittee of the Board, is responsible for reviewing the effectiveness of risk control policies, procedures and regulations.

More specifically, the committee is responsible for ensuring

- Integrity and adequacy of the risk management function of the Company
- Adequacy of the Company's capital
- Risk exposures and risk profiles of the Company are within acceptable parameters and to make recommendations to the Board of Directors on any action required
- The compliance of the Company's operations with relevant laws, regulations, and standards

The Company is primarily exposed to credit risk, market risk, liquidity risk, operational risk, and regulatory risk.

54.2 Credit risk

Credit risk is the risk that a borrower is unable to meet its financial obligations to the lender. In order to manage credit risk, the Company has established robust policies for credit appraisal and the staff is regularly trained in evaluating creditworthiness of prospective clients, Senkadagala Finance PLC manages high-risk sectors through sector restrictions that require prior high-level clearance before taking on new exposures even for small amounts. Once credits facilities are funded, they are continually monitored to identify changes in risk profiles. Further, sourcing and approval of clients are segregated to achieve independence. Recovery and NPA management are also given greater emphasis and are aggressively controlled.

The Company has undertaken, for a fee received in advanced from willing customers in the event of a death of a lessee the Company will not pursue litigation on the outstanding due from the next of kin or legal heir of the deceased and release them from all legal encumbrances. The Company has mitigated this risk by obtaining an insurance policy to cover its exposure on the above.

Disruption of economic activities caused by the COVID-19 outbreak has created financial difficulties to our customers in the short-term. Inline with the CBSL Circular No. 05 of 2020, the Company granted Debt Moratoriums and other reliefs to affected customers. Non-affected parties continued servicing their dues on a regular manner. The Management is closely monitoring all facilities and has strengthened the recovery process to withstand these unprecedented times.

Impairment assessment

Individually assessed allowances

The allowances appropriate for each individually significant loan or advance is determined on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance include the sustainability of the counterparty's business plan, its ability to improve performance if it is in financial difficulty. Projected receipts and the expected pay-outs, should bankruptcy ensues, 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, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

If the Company determines that no provision is required under individual impairment, such financial assets are then collectively assessed for any impairments along with the remaining portfolio.

The Company computes ECL using 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. Economic data such as current economic conditions, unemployment levels and local or industry-specific problems are also considered when assessing the collective impairment.

With the adoption of SLFRS 9 – "Financial instruments" the Company manages credit quality using a three-stage approach which is inline with the standard requirements as well.

Stage 1 : 12-month expected credit losses (ECL)
Stage 2 : Lifetime expected credit losses (ECL) – Not credit impaired
Stage 3 : Lifetime expected credit losses (ECL) – Credit impaired

Expected credit loss assessment

The Company has not made any changes to the existing model used for impairment assessment in light of the COVID-19 outbreak that prevailed in March 2020.

Accordingly, the Probability of Default (PDs) was calculated using the same staging that existed as at 31 March 2020 and for customers who were entitled for the Government reliefs, the staging as at 29 February 2020 was used. The Loss Given Default (LGDs) was assessed based on the deteriorated cash flows caused due to the lockdowns at the time. Economic Factor Adjustment (EFA) was based on the most recently published economic indicators, which factored in the impact of the COVID-19 outbreak.

Table below shows the classification of assets based on the above-mentioned three stage model:

54.2.1 Credit quality by class of financial assets

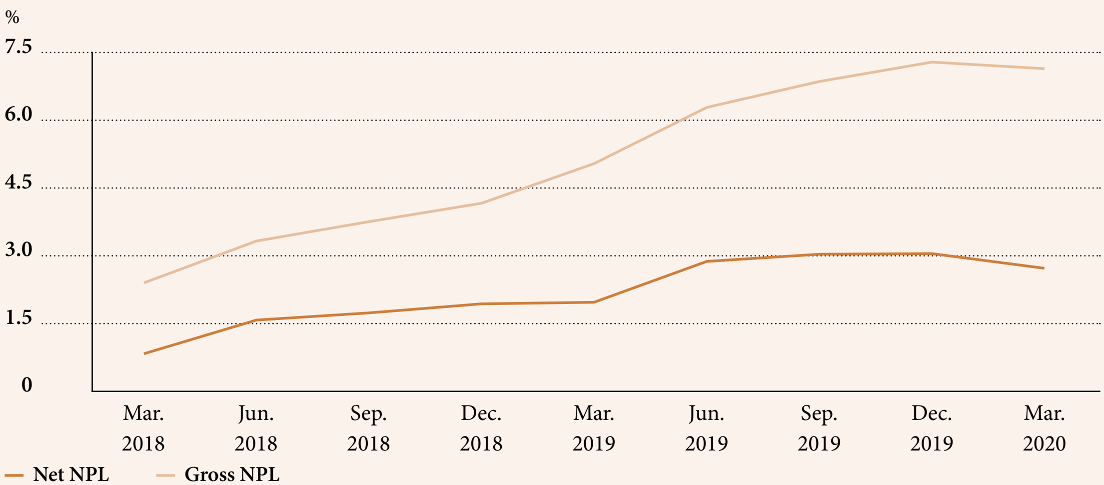
As at 31 March 2020	12-month ECL LKR	Life time ECL – Not credit impaired LKR	Life time ECL – Credit impaired LKR	Total LKR
Assets				
Cash and cash equivalents	**718,612,914**	–	–	**718,612,914**
Deposit with licensed commercial banks	**884,788,297**	–	–	**884,788,297**
Repurchase agreements	**1,001,277,322**	–	–	**1,001,277,322**
Financial assets held at fair value through profit or loss	**378,817,366**	–	–	**378,817,366**
Loans and advances	**17,019,556,094**	**7,858,967,910**	**2,354,486,009**	**27,233,010,013**
Financial assets measured at fair value through comprehensive income	**14,803,522**	–	–	**14,803,522**
Financial assets at amortised cost – Other financial instruments	**1,131,895,795**	–	–	**1,131,895,795**
Total financial assets	**21,149,751,310**	**7,858,967,910**	**2,354,486,009**	**31,363,205,229**

As at 31 March 2019	12-month ECL LKR	Life time ECL – Not credit impaired LKR	Life time ECL – Credit impaired LKR	Total LKR
Assets				
Cash and cash equivalents	720,853,597	–	–	720,853,597
Deposit with licensed commercial banks	1,350,947,501	–	–	1,350,947,501
Repurchase agreements	1,515,652,849	–	–	1,515,652,849
Financial assets held at fair value through profit or loss	167,900,307	–	–	167,900,307
Loans and advances	18,337,312,059	9,228,411,400	1,504,025,250	29,069,748,709
Financial assets measured at fair value through comprehensive income	14,597,603	–	–	14,597,603
Financial assets at amortised cost – Other financial instruments	1,044,295,261	–	–	1,044,295,261
Total financial assets	23,151,559,177	9,228,411,400	1,504,025,250	33,883,995,827

54.2.2 Non-performing assets ratio

Non-performing assets percentage movement which depicts the quality of the loan portfolio of the Company during the financial year. The gross non-performing assets ratio includes loans and advances receivable net of interest in suspense which are in arrears for more than six months as the numerator and total advances net of interest in suspense as the denominator. To arrive at the Net Non-performing assets ratio specific provisions are deducted from the numerator of the above formula.

NPA ratio



54.2.3 Industry analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position as at 31 March 2020:

Sector-wise breakdown	Cash and cash equivalent and short-term deposit LKR	Financial assets – Held at FVTPL LKR	Financial assets at amortised cost – Loans and advances** LKR	Financial assets measured at FVTOCI LKR	Financial assets at amortised cost – Other financial instruments LKR	Total financial assets LKR
Agriculture	–	108,000	1,614,200,786	–	–	1,614,308,786
Manufacturing	–	24,151,801	6,036,030,429	–	–	6,060,182,230
Construction	–	249,990	1,320,553,341	–	–	1,320,803,331
Financial services	2,604,678,533	327,732,189	1,659,167,904	–	–	4,591,578,626
Trading	–	104,500	6,848,352,579	–	–	6,848,457,079
Retail	–	6,706,413	1,108,107,163	–	–	1,114,813,576
Government	–	–	–	–	1,131,895,795	1,131,895,795
Hotels	–	4,559,421	539,950,635	14,512,936	–	559,022,992
Services	–	15,205,052	8,106,647,176	290,586	–	8,122,142,814
Total	2,604,678,533	378,817,366	27,233,010,013	14,803,522	1,131,895,795	31,363,205,229

***Provincial breakdown for (01) Loans and advances (02) Lease rentals receivable & Stock out on hire from customers within Sri Lanka is as follows:*

Group reviews its geographical diversification on regular basis and sets long-term target in achieving a geographical well-diversified credit portfolio. Groups strategy on geographical diversification was executed through the establishment of distribution network of the Group. The geographical concentration is considered when selecting prospective location for new branches as well. The credit concentration of the economy is mostly affected by the wealth distribution of the country where high concentration was seen in the Western Province.

Province	Loans and advances as at 31 March 2020 LKR
Central	3,009,219,327
Eastern	1,386,561,998
North Central	1,343,776,443
North Western	2,386,037,255
Northern	1,361,799,801
Sabaragamuwa	2,528,870,425
Southern	1,768,271,859
Uva	1,490,184,504
Western	11,958,288,401
Total	**27,233,010,013**

54.3 Liquidity risk and fund management

Liquidity risk is the risk of inadequate resources to meet financial obligations in time and in full, at an acceptable cost. As witnessed in some Licensed Finance Companies in the recent past, liquidity risk can pose serious threats to the existence of finance companies. The Company understands the importance of a robust liquidity risk management policy and constantly monitors the liquidity position of the Company.

Further, liquidity risk arises because of the possibility that the Company might be unable to meet its financial obligations when they fall due under both normal and stress circumstances. To limit the risk, the Management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. Therefore, the Company is not exposed to significant concentration risk, with regard to liquidity

With COVID-19 outbreak, the Management closely monitored and managed the liquidity position of the Company. In the post-COVID environment, the challenges and risks associated are changing. The Company has secured an adequate buffer of liquid assets and has established credit lines which is in satisfactory levels to withstand the prevailing conditions.

54.3.1 Statutory liquid assets ratio

As per the requirements of Finance Companies (Liquid Assets) Direction No. 04 of 2013, Company has maintained minimum liquid assets, not less than 10% of the outstanding value of time deposits and face value of certificates of deposits; and 15% of the outstanding value of savings deposits received by the Company at a given day; and 10% of total outstanding borrowings excluding borrowings which are included in the capital funds of the finance company and borrowings which are secured by mortgage of any assets of the Company.

Further, in accordance with the Finance Companies (Liquid Assets) Direction No. 04 of 2013 every Finance Company has to maintain assets in the form of approved Government securities equivalent to 7.5% of average month end total deposit liabilities and borrowings of the twelve months of the proceeding financial year.

As at 31 March 2020, the Company maintained government securities to average deposit liabilities and borrowings ratio of 13.22% (2019 – 12.46%).

In order to facilitate LFCs to overcome any liquidity issues that may arise due to the COVID-19 outbreak, on 31 March 2020 the CBSL issued an amendment to the Finance Companies (Liquid Assets) Direction No. 04 of 2013, reducing the above requirements of liquid assets for time deposits and non-transferable certificates of deposits to 6%, for savings deposits to 10% and liquid asset requirement for borrowings to 5% respectively. The requirement to maintain approved government securities was also reduced to 5%.

These concessionary liquid asset requirements are effective only for a period of six (6) months.

54.3.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2020:

	Less than 3 months LKR	3-12 months LKR	1-3 years LKR	Over 3 years LKR	Total LKR
Cash and cash equivalents	718,612,914	–	–	–	718,612,914
Deposits with licensed commercial banks	884,788,297	–	–	–	884,788,297
Repurchase agreements	1,001,277,322	–	–	–	1,001,277,322
Financial assets held at fair value through profit or loss	378,817,366	–	–	–	378,817,366
Financial assets at amortised cost – Loans and advances	2,292,595,997	8,774,375,492	12,282,031,835	3,884,006,689	27,233,010,013
Financial assets measured at fair value through other comprehensive income	–	–	–	14,803,522	14,803,522
Financial assets at amortised cost – other financial instruments	939,749,227	–	–	192,146,568	1,131,895,795
Total financial assets	6,215,841,123	8,774,375,492	12,282,031,835	4,090,956,779	31,363,205,229
Financial liabilities					
Deposits from customers	2,741,872,348	5,031,319,403	3,256,674,292	192,745,437	11,222,611,480
Bank overdrafts	197,068,955	–	–	–	197,068,955
Debt instruments issued and other borrowed funds	1,361,216,467	5,931,057,372	4,351,055,599	4,168,565,727	15,811,895,165
Total financial liabilities	4,300,157,770	10,962,376,775	7,607,729,891	4,361,311,164	27,231,575,600
Net financial assets/(liabilities)	1,915,683,353	(2,188,001,283)	4,674,301,944	(270,354,385)	4,131,629,629

54.3.3 Capital management and capital adequacy

In order to be resilient in volatile economic conditions its important to maintain an adequate capital base. The Central Bank of Sri Lanka has laid down directions to promote the strengthening of the capital base of NBFIs.

In accordance with the Finance Companies (Capital Funds) Direction No. 01 of 2003, the Company transferred LKR 15 Mn. of net profits for the year, to the Statutory Reserve Fund. Since the capital base of the Company is greater than 25% of total deposit liabilities, only LKR 15 Mn. which is greater than the required 5% of profits for the year was transferred.

Further, in accordance with the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 03 of 2018, all the NBFIs are required to maintain, as at 31 March 2020 its Capital at a level not less than 10.5% of its Risk-weighted Assets and the Core Capital at a level not less that 6.5% of Risk-weighted Assets. The ratios as at 31 March 2020 were 15.48% and 21.54% and as at 31 March 2019 were 14.46% and 15.49% respectively. Detailed calculations are given below:

Total risk-weighted amount

As at 31 March 2020	Amount LKR	Credit equivalent of off-balance sheet items LKR	Total LKR	Risk-weighted assets LKR	RWA density %
Risk-weighted amount for credit risk					
Claims on Government of Sri Lanka, public sector entities	**2,133,173,117**	**–**	**2,133,173,117**	**–**	**0**
Claims on financial institutions	**1,489,801,849**	**–**	**1,489,801,849**	**297,960,370**	**20**
Claims on corporates	**649,186,635**	**–**	**649,186,635**	**646,961,624**	**100**
Retail claims	**25,402,718,756**	**–**	**25,402,718,756**	**24,354,122,413**	**96**
Non-performing assets (NPAs)	**1,498,338,672**	**–**	**1,498,338,672**	**1,761,604,619**	**118**
Notes and coins	**113,743,481**	**–**	**113,743,481**	**–**	**0**
Fixed assets	**2,110,240,815**	**–**	**2,110,240,815**	**2,110,240,815**	**100**
Other assets/exposures	**546,396,920**	**–**	**546,396,920**	**546,396,920**	**100**
Total risk-weighted amount for credit risk	**33,943,600,245**	**–**	**33,943,600,245**	**29,717,286,761**	

Risk-weighted amount for operational risk

For the year ended 31 March	**2020 LKR**	2019 LKR	2018 LKR	Total LKR
Interest income	**6,533,974,238**	6,995,603,180	6,472,114,532	20,001,691,950
Interest expenses	**(3,681,611,333)**	(3,759,531,355)	(3,410,063,681)	(10,851,206,369)
Non-interest income	**220,711,727**	278,141,407	298,215,189	797,068,323
Realised losses/(gains) from the sale of securities	**2,296,371**	(2,289,975)	(7,152,560)	(7,146,164)
Extraordinary/irregular item of income	**(13,468,382)**	(45,580,900)	(66,838,726)	(125,888,008)
Gross income	**3,061,902,621**	3,466,342,357	3,286,274,754	9,814,519,732

As at 31 March 2020	Total LKR
Average gross income for operational risk capital requirement	3,271,506,577
Capital Charges for Operational Risk (15% of average gross income for operational risk)	490,725,987
Risk weighted amount for operational risk (reciprocal of required total capital ratio – 10.5%)	9.52
Risk-weighted amount for operational risk (using the basic indicator approach)	4,673,580,825
Total risk-weighted amount	34,390,867,586

Capital base

As at 31 March	**2020 LKR**	2019 LKR
Tier 1: Capital	**5,406,207,056**	5,293,147,105
Issued and paid-up ordinary shares	**1,587,862,680**	1,587,862,680
Statutory reserve fund	**430,036,033**	415,036,033
Published retained profits	**3,388,308,343**	3,290,248,392
Adjustment to Tier 1 capital	**82,605,585**	67,563,131
Other intangible assets (net)	**46,237,627**	45,131,673
Shortfall of cumulative impairment to total provisions and interest in suspense	**–**	–
50% of investment in banking and financial subsidiary companies	**23,395,693**	10,000,000
50% of investment in other banking and financial institutions	**12,972,265**	12,431,458
Tier 1: Capital (after adjustments)	**5,323,601,471**	5,225,583,974
Tier 2: Capital	**2,121,466,085**	392,788,365
Instruments qualified as Tier 2 capital	**1,750,000,000**	–
General provisions/collective impairment allowances	**371,466,085**	392,788,365
Eligible Tier 2 capital	**2,121,466,085**	392,788,365
Total adjustment to eligible Tier 2 capital	**36,367,958**	22,431,458
50% of investment in banking and financial subsidiary companies	**23,395,693**	10,000,000
50% of investment in other banking and financial institutions	**12,972,265**	12,431,458
Eligible Tier 2 capital after adjustments	**2,085,098,127**	370,356,907
Total capital	**7,408,699,598**	5,595,940,881
Core capital ratio (minimum requirement 6.5%)		
Core capital	**5,323,601,471**	5,225,583,974
Total risk-weighted assets	**34,390,867,586**	36,134,324,318
	15.48%	14.46%
Total capital ratio (minimum requirement 10.5%)		
Total capital base	**7,408,699,598**	5,595,940,881
Total risk-weighted assets	**34,390,867,586**	36,134,324,318
	21.54%	15.49%

54.4 Market risk

Market risk is the risk of potential losses accruing through adverse fluctuation in market interest rates, equity prices, and exchange rates. Of these markets risks, the more frequent and most likely is the risk of adverse fluctuation of interest rates. The effect of such adverse movements could have an immediate and direct bearing on the Company. The Company routinely assesses its assets and liability profile in terms of interest rate risk and depending on this assessment, necessary realignments in the assets and liability structure are undertaken. Overall authority for market risk management is vested in the Integrated Risk Management Committee (IRMC) of the Company.

54.4.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the non-trading interest rate gaps for stipulated periods. The Company policy is to monitor positions on a daily basis and hedging strategies are used to ensure position are maintained within the established limits.

The management of the Company closely monitors the impact on the net interest margin caused by the relief measures granted as announced by the CBSL to support entities and individuals affected due to outbreak of COVID-19.

54.4.2 Currency risk

Currency risk is that the value of a financial instrument that could fluctuate due to changes in foreign exchange rates and arises from financial instruments dominated in a foreign currency. Intention of managing currency risk is to curtail the currency losses incurred due to foreign currency transactions. The Company monitors this on a daily basis however the company is not exposed to significant currency risk.

There was a significant drop in the exchange rate of the Sri Lankan Rupee against the US Dollar in mid March 2020, as a result of the outbreak. The management analyses the impact occurred on regular basis to identify and manage any unfavourable impacts of foreign exchange movements.

54.4.3 Equity price risk

Equity price risk is that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as fair value through other comprehensive income.

Unexpected downfall in both economy as well as share market due to the COVID-19 pandemic, caused significant drops in share market indices. However, the indices are gradually recovering and the management monitors the equity price movements on daily basis.

54.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems and from external events. Senkadagala Finance PLC manages operational risk in a variety of ways. These include maintaining a comprehensive system of internal controls including disaster recovery plans and business continuity plans, using technology to automate processes and reduce manual errors, monitoring and analysing risk, events and trends, employing experienced staff, monitoring business activities by compliance and audit professionals, requiring education and training of employees, and emphasising the importance of management oversight.

The Company has in place a process of continuous internal audit utilising the services of Messrs Ernst & Young, Advisory Services.

With the introduction of the Finance Companies (Risk-weighted Capital Adequacy Ratio) Direction No. 03 of 2018 of the Central Bank of Sri Lanka, the Company has maintained a capital charge for operational risk. Accordingly, on 31 March 2020, the Company provided of LKR 4,673,580,825 /- (2019 – LKR 4,711,255,144/-) as risk weighted assets to accommodate operational risk.

Interest rates due to COVID-19

The management of the Company closely monitors the impact on net interest margin from relief measures announced by the CBSL to support entities and individuals affected due to COVID-19.

Exchange rates due to COVID-19

There was a significant drop in the exchange rate of the Sri Lankan Rupee against the US Dollar in mid March 2020, as a result of the outbreak. The management analyses the impact occurred on regular basis due to any unfavourable foreign exchange movements.

Equity prices due to COVID-19

Unexpected downfall in both economy as well as share market due to the COVID-19 pandemic, caused significant losses in share market indices. However, the indices are gradually recovering and the management monitors the equity price movements on daily basis.

54.6 Regulatory risk

Regulatory risk is the risk of non-compliance with applicable legislation, regulation and regulatory directives, Senkadagala Finance PLC manages day-to-day regulatory risk primarily by educating and training employees about regulatory requirements, establishing and maintaining appropriate policies and procedures, and monitoring for compliance. The Company has appointed a Compliance Officer for communicating regulatory requirements to each business unit, ensuring that business units have appropriate policies and procedures in place and that staff are trained to meet regulatory requirements and for tracking, escalating, and reporting significant issues and finding to senior management and the Board.

In this latter process, the Compliance Officer is supported and assisted by the Company's internal auditors, Messrs Ernst & Young Advisory Services, who also report on any issues of non-compliance, with both internal and external regulations. Compliance with regulatory requirements is also documented through formal procedure manuals for each business unit.

54.7 Reputation risk

Reputation risk is the risk to earning, capital or brand arising from negative publicity or employee opinion. A Company's reputation is a valuable business asset in its own right, essential to optimising shareholder value. Reputation risk cannot be managed in isolation from other forms of risks, since all risks can have an impact on reputation, which in turn can impact the brand, earning and capital. Credit, liquidity, interest rate, operational, and regulatory risk must all be managed effectively in order to safeguard the Company's reputation.

55. The impact of COVID-19 pandemic

The outbreak of COVID-19 pandemic has caused disruptions to business and economic activities creating a widespread uncertainty to the global economy. In Sri Lanka, prolonged lockdowns were imposed disrupting the daily economic activities. Many guidelines and instructions were issued by the Government and health authorities when reopening business in mid May, which are strictly followed by the Company.

During the peak of the crisis, the Company managed to maintain its business operations with minimum disruption for the best of its ability. Since mid March 2020, the Company was not able to conduct operations and business activities properly and followed a "work from home" work culture, by shifting from traditional work routine. A key priority of the Company was to ensure the customer's and employee's safety and well-being during the outbreak. To inform the customers about changes in the Company policies such as settling monthly rentals, new Government policies, operating hours and possible payment methods, different modes of communications were adopted by the Company. The Company took the initiative to mitigate the adverse outcomes of the COVID-19 outbreak, through customer performance monitoring and setting up new lines of communication.

The Central Bank of Sri Lanka issued several circulars and guidelines for financial institutions to offer concessions on financial obligations of individual customers and private businesses to overcome the adverse, short-term impact on their sources of income. The relief measures included deferment of payment, restructuring, concessionary interest rate and waving off of certain charges and fees. That has caused an adverse impact to the earnings, cash flows and liquidity positions of the Company. Also the Central Bank introduced number of measures to support NBFI's, such as easing of regulatory requirements on liquidity and capital adequacy to facilitate the provision of concessions to its customers.

55.1 Going concern

The management made an assessment of the Company's ability to continue as a going concern using available information about future and current economic conditions and market uncertainty caused by COVID-19 outbreak. Following factors were considered by the management for the assessment:

- Identifying risk factors that may affect the Company due to current market uncertainty and volatility caused by the COVID-19 outbreak.
- Evaluation of action plans to prevent the materialisation of the worse case scenario which may cause significant doubt about the entity's going concern.
- Assessment on available resources and liquidity position to ensure achievement of action plans under the prevailing conditions.

Based on the assessment, it was concluded that the Company is able to maintain a satisfactory liquid position to safeguard the interest of all stakeholders. Accordingly, the management decided that the Company has adequate resources to continue as a going concern and prepared the Financial Statement for the year ended 31 March 2020 on a going concern basis.

55.2 Liquidity risk management

With the onset of COVID-19 pandemic the Company practiced more vigilance in managing its liquid assets. While closely monitoring any developments related to the pandemic, it has continued to keep its liquidity risk management measures in alert to readily respond to changing circumstances.

From the onset of the year, the Company was maintaining sufficient levels of liquid assets. This enabled the Company to meet liabilities falling due during the COVID-19 lockdown period. Further, the Company has in place strong relations with its banking partners and other strategic local and foreign investors, which enabled the Company to withstand the liquidity pressure during turbulent times.

The management is satisfied with its existing buffer of liquid assets. Steps have been taken to maintain the existing liquidity levels, whilst mitigating any unforeseen effects on liquidity positions that may arise due to the continuously evolving nature of the pandemic.

55.3 Impairment provisioning as per ECL methodology for Financial assets at amortised cost

SLFRS 9 requires the application of judgement in determining ECLs in different circumstances, it requires and allows entities to adjust their approach by incorporating forward-looking reasonable and supportable information available without undue cost or effort at the reporting date.

As number of assumptions and linkages underlying the ECLs assessment no longer hold in the current environment, in line with the SLFRS 9 requirement to assess a Significant Increase in Credit Risk (SICR) as a default occurring over the expected life of a financial instrument by developing estimates based on the best available information about past events, current conditions, and forecasts of economic conditions.

In assessing said forecasted conditions, the Company primarily considered the effects of COVID-19 and the significant Government relief measures granted to customers. However, the extent of payment holidays granted to stressed/specified industry under the Government's relief schemes shall not automatically result in all such facilities being considered to have suffered a significant increase in credit risk (SICR). In cases where the borrower resumes regular payments in the foreseeable future, such that significant increase in credit risk would not occur over expected remaining lives of the receivables.

Due to the insufficiency of relevant and accurate information, and uncertainties relating to customers repayment ability, resource constraints and various Government relief measures as a result of the outbreak the Company decided to apply certain temporary practical expedients issued by CA Sri Lanka.

55.3.1 Probability of Default (PDs) and Loss Given Default (LGDs) and Economic Factor Adjustment (EFA) and resulting modelling

The Company has not made any changes to the existing model. Hence, captured the Probability of Default (PDS) based on 31 March 2020 positions and the Loss Given Default (LGDs) based on the deteriorated cash flows during the lock down period.

Economic Factor Adjustment (EFA) was based on the most recently published economic information which factored in the impact of the outbreak. A sensitivity analysis for the rates applied in assessing the EFA is as follows:

	Base rate	Best rate	Worst rate	Impairment provision LKR	Deviation from the reported provision LKR	% Deviation
Base case scenario	100%	0%	0%	1,122,486,319	(10,547,751)	(0.93)
Best case scenario	0%	100%	0%	1,090,082,867	(42,951,203)	(3.79)
Worst case scenario	0%	0%	100%	1,156,746,362	23,712,293	2.09%

55.3.2 Cash flow assumptions for recovery period for computation of individually significant contracts

The Company has re-assessed certain cash flows to reflect the potential changes where the COVID-19 outbreak affects the ECL impairment.

55.3.3 Objective evidence triggers due to COVID-19

The Company has not considered the objective evidence triggers as at 31 March 2020 which is allowed under the practical expedient of SLFRS 9 due to unavailability of information. The Company plans to consider objective evidence triggers when sufficient information is available.

55.3.4 Interest Income recognition for Financial Assets at Amortised Cost – Loans and Receivables to Other Customers/Lease Rental and Hire Purchase Receivables

Based on the Debt Moratoriums as per Circular No. 4 and 5 of 2020 issued by the Central Bank of Sri Lanka, payment holidays were granted to borrowers in stressed/specified industries.

For receivables which are not credit impaired, interest has to be accrued throughout the moratorium period and the extended tenure, applying the original EIR to the gross carrying amount of the financial assets, after adjusting for Expected Credit Loss (ECL). Accordingly, the modified gain or loss was charged to profit or loss immediately (SLFRS 9.5.4.3 and SLFRS 9.B5.5. 27). This is on the basis that the modification is not substantial.

The Company has accounted the interest revenue based on SLFRS 9 and in the process of finalising the customer debt relief applications, in order to identify whether the modification of terms are substantial or not.

55.4 Fair Valuation of financial assets measured at FVTPL

The Company used the market prices available as at 31 December 2019, to value the quoted securities held at FVTPL in accordance with the practical expedient issued by CA Sri Lanka.

55.5 Interest Expense on Financial Liabilities at Amortised Cost – Deposits due to Customers/Interest-bearing Borrowings

Due to the impact of the COVID-19 pandemic, there was a downward trend in the market interest rates. Effects of such trends may affect the rates applicable for deposits and borrowings in future. However, there was no significant impact from interest rate volatility for the financial year under review.

55.6 Impact on other assets and business units

The Company does not foresee any indications of impairments at the reporting date due to the COVID-19 pandemic and each business unit functions within the respective business continuity plans as per the Company's risk management framework allowing operations to function through alternate arrangements whilst strictly adhering to Government directives and social distancing requirements.

55.7 Business Continuity and future outlook

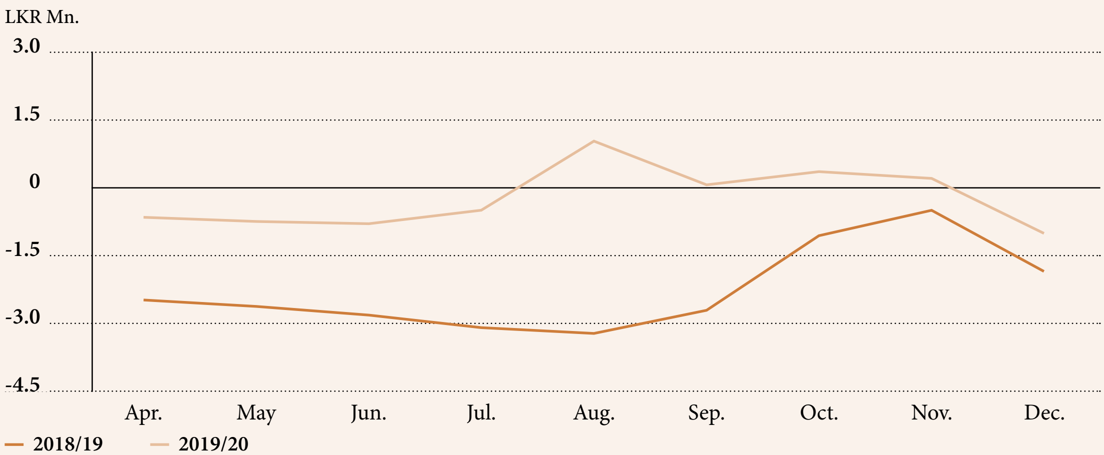
The management is confident of the Company's resilience, having possessed a skilled work force and resources to withstand the impacts arising from this crisis as currently foreseen.

However, the exact impact on the business in the foreseeable future is still to be realised given the volatility and unexpected developments caused by COVID-19 pandemic globally. Through effective risk management practices, the Company will continue to monitor the impact to business operations and stakeholders. Proactive measures will be adopted as appropriate in times of volatility to ensure business continuity and minimise losses.

56. Sensitivity analysis

The graph below depicts the sensitivity analysis carried out on the statement of financial position as at 31 March 2020 on the changes of interest rate across the market in a hypothetical situation. The Company is exposed to sudden interest rate fluctuations due to the availability of short term and floating rate funding. The exposure will partly diminish by the short-term, rate sensitive investments. The time horizon of the study is restricted to a 12 months period. The Company undertakes varying degrees of such rate shocks and evaluate them to ensure that the risk exposures are within the risk appetite of the Company as compared to the anticipated market rate movements.

Impact on NII – Rate shock of 100 bp



Sensitivity to projected net interest income	100 bps parallel increase/decrease*	
	2020 LKR '000	2019 LKR '000
As at March	**+/-238**	+/-830
Average for the period	**+/-137**	+/-1,964
Maximum for the period	**+/-1,028**	+/-447
Minimum for the period	**+/-1,013**	+/-3,128

**Parallel increase in rates would have a positive impact on earnings whereas parallel decrease would have a negative effect.*

In arriving at the above result the Company considered only rate sensitive assets and liabilities.

Annexes

Ten Year Summary

	2020 LKR '000	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	2015 LKR '000	2014 LKR '000	2013 LKR '000	2012 LKR '000	2011 LKR '000
Operating results										
Interest income	**6,533,974**	6,995,603	6,472,115	4,825,712	3,746,374	3,584,165	3,528,336	2,861,923	1,884,502	1,493,088
Interest expense	**3,681,611**	3,759,531	3,410,064	2,402,305	1,701,766	1,750,532	1,868,499	1,524,288	841,034	679,358
Net interest income	**2,852,363**	3,236,072	3,062,051	2,423,408	2,044,607	1,833,634	1,659,838	1,337,635	1,043,467	813,730
Other operating income	**223,008**	300,278	298,215	312,424	218,173	131,220	94,950	113,678	131,523	177,868
Profit before taxes on financial services	**722,491**	1,179,270	1,607,203	1,280,293	971,116	697,029	657,054	735,545	692,960	435,584
Profit before income taxation	**528,729**	929,284	1,357,416	1,119,133	882,550	647,444	622,417	680,482	634,872	349,626
Profit for the year	**227,831**	950,604	1,004,671	860,971	613,182	539,639	534,942	578,526	476,450	222,400
Dividends paid	**68,851**	228,296	213,077	185,899	166,330	107,625	214,901	132,886	127,016	63,508
Balance sheet										
Assets										
Cash and near cash items	**3,736,574**	4,631,749	5,220,436	4,923,750	3,496,397	2,796,849	2,073,101	1,860,837	1,277,793	617,647
Investments	**393,621**	182,498	200,486	159,733	98,637	103,701	86,912	69,047	61,299	66,126
Loans and advances	**27,233,010**	29,069,749	27,801,785	23,757,588	16,908,140	13,582,928	12,675,542	11,559,936	8,968,566	5,398,168
Investments in subsidiary	**328,302**	320,000	320,000	320,000	320,000	320,000	20,000	20,000	–	–
Property and equipment	**2,156,478**	2,332,831	1,803,150	1,516,891	1,194,663	1,122,864	857,732	629,823	557,758	429,969
Right-of-use assets	**388,931**	–	–	–	–	–	–	–	–	–
Other assets	**157,610**	246,236	757,962	240,865	252,107	146,677	156,390	129,935	152,086	107,544
Total assets	**34,394,526**	36,783,063	36,103,819	30,918,827	22,269,945	18,073,018	15,869,676	14,269,579	11,017,502	6,619,454
Liabilities										
Deposits from customers	**11,222,611**	10,008,976	9,507,134	7,230,873	6,510,033	6,541,896	5,624,399	3,412,464	2,732,031	2,386,821
Borrowings	**11,689,435**	17,262,978	15,376,359	13,743,732	8,691,685	4,787,693	3,423,011	6,136,152	4,805,838	1,528,532
Debentures	**4,319,529**	2,732,049	4,399,896	4,992,786	3,059,849	3,579,737	4,157,346	2,618,281	1,771,753	1,425,524
Deferred tax liability	**402,371**	461,314	860,681	607,702	434,104	197,116	155,732	199,093	178,788	103,560
Lease liabilities	**344,724**	–	–	–	–	–	–	–	–	–
Dividends payable	**8,875**	7,347	6,266	5,337	4,454	6,280	57,295	3,648	2,427	1,684
Other liabilities	**996,674**	1,013,360	921,997	676,780	576,461	426,451	350,110	325,894	399,961	439,996
Total Liabilities	**28,984,219**	31,486,023	31,072,333	27,257,209	19,276,586	15,539,171	13,767,894	12,695,532	9,890,798	5,886,117
Equity										
Stated capital	**1,587,863**	1,587,863	1,587,863	1,008,062	1,008,062	1,008,062	747,152	533,680	533,680	533,680
Statutory reserve fund	**430,036**	415,036	365,036	310,036	265,036	230,036	195,036	165,036	130,036	100,036
Other reserves	**4,100**	3,894	7,171	4,361	3,775	–	170,629	154,760	97,059	16,752
Retained earnings	**3,388,308**	3,290,248	3,071,416	2,339,158	1,716,486	1,295,749	988,966	720,571	365,928	82,870
Total equity	**5,410,307**	5,297,041	5,031,486	3,661,618	2,993,359	2,533,847	2,101,783	1,574,047	1,126,704	733,337
Total liabilities and equity	**34,394,526**	36,783,063	36,103,819	30,918,827	22,269,945	18,073,018	15,869,676	14,269,579	11,017,502	6,619,454

Key Ratios and Indicators

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Performance indicators										
Return on average total assets (%)	**0.64**	2.61	3.00	3.24	3.04	3.18	3.55	4.58	5.40	3.56
Return on average shareholders' funds (%)	**4.26**	18.41	23.11	25.87	22.19	23.28	29.11	42.84	51.23	27.15
Net interest margin (%)	**8.82**	9.70	9.93	9.87	11.12	11.78	11.78	11.30	12.83	14.33
Growth of interest income (%)	**(6.60)**	8.09	34.12	28.81	4.53	1.58	23.29	51.87	26.22	2.86
Growth of profit for the year (%)	**(76.03)**	(5.38)	16.69	40.41	13.63	0.88	(7.53)	21.42	114.23	304.73
Growth of loans and advances (%)	**(6.32)**	4.56	17.02	40.51	24.48	7.16	9.65	28.89	66.14	15.24
New advances disbursed (LKR mn.)	**11,663**	17,000	17,600	17,290	11,869	8,264	6,861	7,009	7,325	4,069
Net flow of Deposits (LKR Mn.)	**1,214**	502	2,276	721	(32)	917	2,212	680	345	292
Borrowings obtained (LKR Mn.)	**1,000**	7,300	6,740	7,800	5,500	3,383	1,860	3,703	4,569	1,021
Debentures issued (LKR Mn.)	**1,750**	–	–	3,000	–	–	2,410	1,216	565	300
Capital expenditure incurred (LKR Mn.)	**206**	932	359	641	351	473	408	214	243	103
Gross non-performing asset ratio (%)	**7.03**	4.93	2.28	1.64	2.02	4.30	3.48	1.07	1.18	2.30
Investor information										
Earnings per share (LKR)	**3.14**	13.12	13.97	13.20	9.40	8.27	8.63	10.64	8.93	4.17
Dividends per share (LKR)	**0.95**	3.15	3.00	2.85	2.55	1.65	3.66	2.49	2.38	1.51
Net assets per share (LKR)	**74.65**	73.09	69.42	56.14	45.89	38.85	35.80	29.49	21.11	13.74
Interest cover (Times)	**1.06**	1.25	1.29	1.36	1.36	1.31	1.29	1.38	1.57	1.33
Dividends cover (Times)	**3.31**	4.16	4.72	4.63	3.69	5.01	2.49	4.35	3.75	3.50
Dividend payout ratio (%)	**30.22**	24.02	21.21	21.59	27.13	19.94	40.17	22.97	26.66	28.56
Capital and leverage										
Core capital (%)	**15.48**	14.46	16.86	14.19	15.82	16.54	14.00	11.41	10.51	12.07
Total capital (%)	**21.54**	15.49	17.65	16.08	19.90	22.97	20.93	11.31	10.51	12.07
Equity as a % of total assets	**15.73**	14.40	13.94	11.84	13.44	14.02	13.24	11.03	10.23	11.08
Equity as a % of total deposits and borrowings	**19.87**	17.65	17.18	14.10	16.39	17.00	15.92	12.94	12.10	13.73
Growth of total assets (%)	**(6.49)**	1.88	16.77	38.84	23.22	13.88	11.21	29.52	66.44	12.86
Growth of net assets (%)	**2.14**	5.28	37.41	22.32	18.13	20.56	33.53	39.70	53.64	(18.96)
Earnings retention ratio (%)	**69.78**	75.98	78.79	78.41	72.87	80.06	59.83	77.03	73.34	71.44
Total deposit liabilities to capital (%)	**48.21**	52.92	52.92	50.64	45.98	38.73	37.37	46.13	41.24	30.72
Debt to equity ratio (times)	**2.96**	3.77	3.93	5.12	3.93	3.30	3.61	5.56	5.84	4.03
Liquidity										
Liquid assets as a % of total assets	**10.86**	12.59	14.46	15.92	15.70	15.48	13.06	13.04	11.60	9.33
Liquid assets as a % of total deposit liability	**33.30**	46.28	54.91	68.09	53.71	42.75	36.86	54.53	46.77	25.88
Operational										
Number of branches	**59**	59	54	49	39	39	39	39	30	30
Number of service centres	**41**	41	41	41	41	41	24	13	15	0
Number of pawning centres	**29**	26	26	18	13	11	11	6	1	0
Number of staff	**797**	794	745	690	627	601	492	414	347	235
Staff productivity – PBT per employee (LKR '000)	**663**	1,166	1,822	1,622	1,408	1,077	1,265	1,644	1,830	1,488

Branch/Service Centre Network

Branches	Address	Telephone	Fax
Akuressa	No. 24/20, Predeshiya Sabha Road, Akuressa	+94 41 228 5060	+94 41 228 5065
Aluthgama	No. 152 1/1, 1st Floor, Galle Road, Aluthgama	+94 34 227 0573	+94 34 227 0578
Ampara	No. 778 A, D S Senanayaka Mawatha, Ampara	+94 63 222 4057	+94 63 222 4093
Angoda	No. 650, Avissawella Road, Mulleriyawa, Angoda South	+94 11 241 7780	+94 11 241 7785
Anuradhapura	No. 561/4, New Bus Stand, Anuradhapura	+94 25 223 7969	+94 25 223 7989
Aturugiriya	No. 303, Godagama Road, Aturugiriya	+94 11 218 5888	+94 11 218 5889
Badulla	No 2, Riverside Road, Badulla	+94 55 222 4401	+94 55 222 4407
Bandaragama	No. 91, Panadura Road, Bandaragama.	+94 38 229 3903	+94 38 229 3924
Colombo 03	2nd Floor, 267, Galle Road, Colombo 03	+94 11 230 1301	+94 11 230 1937
Dambulla	No. 357, Matale Road, Dambulla	+94 66 228 5530	+94 66 228 5535
Dehiattakandiya	No. F-74, New Town, Dehiattakandiya	+94 27 205 0800	+94 27 205 0805
Deniyaya	No. 54, Main Street, Deniyaya	+94 41 227 3891	+94 227 3896
Embilipitiya	No. 325B Ratnapura Road, Pallegama, Embilipitiya	+94 47 226 1991	+94 47 226 1996
Fort	No.48. Mudalige Mawatha, Colombo 01	+94 11 244 6901	+94 11 244 6904
Galle	No. 143, Colombo Road, Kaluwella, Galle	+94 91 224 8111	+94 91 224 8116
Gampaha	560 A, Colombo Road, Gampaha	+94 33 223 3555	+94 33 223 3560
Gampola	No.42, Panabokka Mawatha, Gampola	+94 81 235 0100	+94 81 235 1850
Homagama	No. 94/1 (First Floor) Highlevel Road, Homagama	+94 11 285 7878	+94 11 285 7880
Horana	No. 246, Panadura Road, Horana	+94 34 226 2770	+94 34 226 2776
Ja Ela	No. 356, Weligampitiya, Colombo Road, Ja-Ela	+94 11 224 7861	+94 11 224 7866
Jaffna	No. 62/3, New Stanley Road, Jaffna	+94 21 221 9960	+94 21 221 9965
Kaduruwela	No. 292, Saw Mill Junction, Kaduruwela	+94 27 222 4739	+94 27 222 4743
Kaduwela	No. 482/5/A, Colombo Road, Kaduwela	+94 11 253 8180	+94 11 253 8186
Kahawatta	No. 187, Main Street, Kahawatta	+94 45 227 1972	+94 45 227 1977
Kalawana	No. 1/100, Mathugama Road, Kalawana	+94 45 225 6561	+94 45 225 6566
Kandy	No. 12, Kotugodella Vidiya, Kandy	+94 81 220 1201	+94 81 220 1207
Katugastota	No. 437B, 1st and 2nd Floor, Katugastota Rd, Kandy	+94 81 221 3860	+94 81 221 3867
Kegalle	No. 243, Colombo Road, Kegalle	+94 35 222 1277	+94 35 222 1281
Kelaniya	No. 457, Kandy Road, Dalugama, Kelaniya	+94 11 291 4714	+94 11 291 4887
Kirindiwela	No. 27/16/1, Nugahenawatta, Kirindiwela	+94 33 224 7851	+94 33 224 7856
Kotahena	No. 178 (Third Floor) George R De Silva Mawatha, Colombo 13	+94 11 244 1261	+94 11 244 1267
Kuliyapitiya	No. 74 1/1, Hettipola Road, Kuliyapitiya	+94 37 228 4630	+94 37 228 4635
Kurunegala	No. 91, Kandy Road, Kurunegala	+94 37 222 0402	+94 37 222 0405
Maharagama	No. 163, High Level Road, Maharagama	+94 11 289 6888	+94 11 289 6052

Branches	Address	Telephone	Fax
Maho	No. 234 , Moragollagama Road, Maho	+94 37 227 5320	+94 37 227 5324
Matale	No. 97, 97A, Kings Street, Matale	+94 66 222 2954	+94 66 222 2960
Matara	No. 558, Anagarika Dharmapala Mawatha, Pamburana, Matara	+94 41 223 3891	+94 41 223 3896
Mathugama	No. 146, Aluthgama Road, Mathugama	+94 34 229 5000	+94 34 229 5005
Mawanella	No. 215, New Colombo Road, Mawanella	+94 35 224 7626	+9435 224 7655
Mawathagama	No. 174 "Thissa Saw mill", 7th Mile Post, Kurunegala Road, Mawathagama	+94 37 229 6443	+94 37 229 6448
Mount Lavinia	No. 246, 1/1, Galle Road, Ratmalana South, Mount Lavinia	+94 11 271 5001	+94 11 271 5002
Narammala	No. 285, Uyanwatta Road, Narammala	+94 37 224 9892	+94 37 224 9897
Negombo	No. 149, 1st Floor, Rajapaksha Broadway, Negombo	+94 31 222 3456	+94 11 222 3462
Nittambuwa	No. 538/3, 38 Kilometer Post, Malwatta, Nittambuwa	+94 33 229 7030	+94 33 229 7035
Nugegoda	No. 257 C, D, C 1/2, Stanley Thilakaratne Mawatha, Nugegoda	+94 11 285 6600	+94 11 285 6650
Nuwara Eliya	No. 26, Upper Lake Road, Nuwara Eliya	+94 52 222 4123	+94 52 222 4128
Padukka	No. 397/A, High Level Road, Galagedara, Padukka.	+94 11 208 5990	+94 11 208 5995
Panadura	No. 383/1, Galle Road, Panadura	+94 38 224 3990	+94 38 224 3995
Pelawatte	No. 1067, Pannipitiya Road, Battaramulla	+94 11 277 4140	+94 11 277 4145
Piliyandala	No. 91B, 93, Colombo Road, Piliyandala	+94 11 261 5740	+94 11 261 5745
Pothuhera	No.175, Kurunegala Road, Pothuhera.	+94 37 223 7783	+94 37 223 7784
Puttalam	No. 128/B/1, Kurunegala Road, Puttalam	+94 32 226 6783	+94 32 226 6789
Ratnapura	No. 394, Main Street, Ratnapura	+94 45 222 6890	+94 45 222 6895
Thambuththegama	No. 185/158, Regina Junction, Thambuththegama	+94 25 227 5472	+94 25 227 5478
Vavuniya	No. 8, 1st Cross Street, Vavuniya	+94 24 222 6340	+94 24 222 6345
Wattala	No. 264, Negombo Road, Wattala	+94 11 294 9611	+94 11 294 9616
Wattegama	No. 79, Kandy Road, Wattegama	+94 81 247 6331	+94 81 247 6350
Welimada	No. 17, Haputhale Road, Welimada	+94 57 224 5684	+94 57 224 5690
Wennappuwa	No. 272/1/1, Chilaw Road, Wennappuwa	+94 31 224 5226	+94 31 224 5271

Service Centres	Address	Telephone	Fax
Ambalangoda	No. 118B, Galle Road, Ambalangoda.	+94 91 225 4901	+94 91 225 4906
Avissawella	No.19 , Kudagama Road, Avissawella	+94 36 222 2800	+94 36 222 2805
Balangoda	No. 281, Colombo Road, Balagahamula, Balangoda.	+94 45 228 9533	+94 45 228 9537
Bandarawela	No. 68, Dharmavijaya Mawatha, Bandarawela.	+94 57 222 2675	+94 57 222 2679
Batticaloa	No. 221 (Ground and First Floor), Trinco Road, Batticaloa.	+94 65 222 9200	+94 65 222 9205
Chavakachcheri	No. 15, Kandy Road, Chavakachcheri	+94 21 227 0951	+94 21 227 0956
Chilaw	No. 53, Kurunegala Road, Chilaw.	+94 32 222 4043	+94 32 222 4048
Dehiwala	No. 121, Galle Road, Dehiwela.	+94 11 273 2456	+94 11 273 2460
Digana	No. 2004/18/7, Kandy Road, Digana.	+94 81 237 6623	+94 81 237 6643
Eheliyagoda	No. 320, Main Street, Eheliyagoda.	+94 36 225 7341	+94 36 225 7346
Elpitiya	No. 42, Ambalangoda Road, Elpitiya.	+94 91 229 0485	+94 91 229 0495
Galewela	No. 87/3A, Kurunegala Road, Galewela.	+94 66 228 8025	+94066 228 8075
Giriulla	No. 101, Negombo Road, Giriulla.	+94 37 228 8700	+94 37 228 8770
Hanwella	No. 40, Pahala Hanwella, Hanwella.	+94 36 225 2190	+94 36 225 2195
Hingurakgoda	No. 9, Airport Road, Hingurakgoda.	+94 27 224 5680	+94 27 224 5685
Jampettah Street	No. 124, Jampettah Street, Colombo 13.	+94 11 238 0804	+94 11 238 0809
Kadawatha	No. 316 H, Kandy Road, Kadawatha.	+94 11 292 9010	+94 11 292 9090
Kalmunai	No. 202, Baticaloa Road, Kalmunai	+94 67 222 6860	+94 67 222 6865
Kalutara	First floor, No. 443,443/1 Galle Road, Kalutara.	+94 34 222 7101	+94 34 222 7106
Kekirawa	No. 55, Main Road, Kekirawa.	+94 25 226 3234	+94 25 226 3239
Kilinochchi	Opposite Commercial Bank, Kandy Road, Kilinochchi.	+94 21 228 3720	+94 21 228 3725
kohuwala	No. 130 A, Dutugemunu Street, Kohuwala	+94 11 289 0800	+94 11 289 0805
Mahiyanganaya	No.109/1, Padiyathalawa Road, Mahiyanganaya.	+94 55 225 8280	+94 55 225 8285
Maradana	No. 92, Deans Road, Colombo 10.	+94 11 268 3600	+94 11 2683222
Minuwangoda	No. 12, Weyangoda Road, Minuwangoda.	+94 11 229 5177	+94 11 229 5189
Mirigama	No. 71, Negombo Road, Mirigama.	+94 33 227 6868	+94 33 227 6911
Monaragala	No. 112, Wellawaya Road, Monaragala.	+94 55 205 5421	+94 55 205 5426
Moratuwa	No. 18, New Galle Road, Moratuwa.	+94 11 264 4249	+94 11 264 4254
Nelliady	No. 58/1, Point Pedro Road, Nelliady	+94 21 226 1430	+94 21 226 1435
Nikaweratiya	No. 245/A, Puttalam Road, Nikaweratiya.	+94 37 226 0117	+94 37 226 0217
Pilimathalawa	No. 96/07, Colombo Road, Pilimathalawa.	+94 81 257 9622	+94 81 257 9623
Ragama	No. 46B, Kadawatha Road, Ragama.	+94 11 295 3992	+94 11 295 3993
Rambukkana	No. 63 and 67, Mawanella Road, Rambukkana.	+94 35 226 6650	+94 35 226 4655
Seeduwa	No. 394, Negombo Road, Seeduwa	+94 11 225 1863	+94 11 225 1869
Tangalle	No. 35, Sea Road, Tangalle	+94 47 224 1902	+94 47 224 1907
Tissamaharama	No. 60, Palliyawatta Road, Thissamaharama.	+94 47 223 9925	+94 47 223 9930
Trincomalee	No. 346, (Ground Floor) Main Street, Trincomalee	+94 26 222 5115	+94 26 222 5119
Warakapola	No. 211C, Colombo Road, Warakapola.	+94 35 226 7020	+94 35 226 7022
Wariyapola	No. 141, Kurunegala Road, Wariyapola.	+94 37 226 8880	+94 37 226 8885
Wellawatta	No. 577, Galle Road, Colombo 06	+94 11 236 3634	+94 11 236 3680
Wellawaya	No. 72, Ella Road, Wellawaya.	+94 55 227 4194	+94 55 227 4198

GRI Content Index

GRI standard	Disclosure	Page number(s)	Report commentary title
GRI 102 : General disclosures			
Organisational profile			
102-1	Name of the organisation	04, Inner back cover	About the Company, Corporate Information
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102-3	Location of headquarters	Inner back cover	Corporate Information
102-4	Location of operations	38	Our reach
102-5	Ownership and legal form	Inner back cover	Corporate Information
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102-7	Scale of the organisation	06	Highlights of the Year
102-8	Information on employees, and other workers	40-41	Employee Capital
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102-10	Significant changes to the organisation and its supply chain	34	Supply chain, and procurement policy
102-11	Precautionary principle or approach	02	About this Report
Strategy			
102-14	Statement from senior decision-maker	8-11	Chairman's Message
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	33	Institutional capital
Governance			
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GRI standard	Disclosure	Page number(s)	Report commentary title
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102-35	Remuneration policies	83	Report of the Remuneration Committee
Stakeholder engagement			
102-40	List of stakeholder groups	18-19	Our Business Model
102-44	Key topics and concerns raised	18-19	Our Business Model
102-45	Entities included in the consolidated financial statements	05	Our Group Structure
102-46	Defining report content and topic Boundaries	02	About this Report
102-49	Changes in reporting	02	About this Report
102-50	Reporting period	02	About this Report
102-51	Date of most recent report	02	About this Report
102-52	Reporting cycle	02	About this Report
102-53	Contact point for questions regarding the report	02	About this Report
102-55	GRI content index	231-233	GRI content index
102-56	External assurance	–	No external assurance obtained
GRI 200 : Economic			
GRI 201 : Economic performance			
201-1	Direct economic value generated, and distributed	31	Value addition, and distribution
201-3	Define benefit plan obligations and other retirement plans	139	Defined benefit plan
201-4	Financial assistance received from Government	–	Non-financial assistance received from the Government
GRI 204 : Procurement practices			
204-1	Proportion of spending on local suppliers	34	Supply chain and procurement policy
GRI 205 : Anti corruption 2016			
205-2	Communication and training about anti-corruption policies, and procedures	94	Regulatory and compliance risk
205-3	Confirmed incidents of corruption and actions taken	–	No such incidents were reported during the year under review

GRI standard	Disclosure	Page number(s)	Report commentary title
GRI 300 : Environmental			
GRI 302 – Energy 2016			
302-1	Energy consumption within the organisation	43	Energy conservation
302-4	Reduction of energy consumption	43	Energy conservation
GRI 400 : Social			
GRI 401 : Employment 2016			
401-1	New employee hires	40	Recruitment, and selection
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	41	Perquisites, and benefits
GRI 403 : Occupational Health and Safety			
403-2	Occupational diseases, lost days, and absenteeism and number of work-related facilities	41	Health, safety, and protection
403-9	Work-related injuries	41	Health, safety, and protection
403-10	Work-related ill health	41	Health, safety, and protection
GRI 404 : Training and education 2016			
404-1	Average hours of training per year per employee	41	Training, and development
404-3	Percentage of employees receiving regular performance, and career development reviews	41	Performance review
GRI 405 : Diversity and equal opportunity 2016			
405-1	Diversity of governance bodies and employees	40	Diversity and inclusion
405-2	Ratio of basic salary, and remuneration of women to men	139	Employee benefits
GRI 406 : Non-discrimination			
406-1	Incidents of discrimination, and corrective actions taken	–	No such incidents were reported during the year under review
GRI 408 : Child Labour			
408-1	Operations and suppliers at significant risk for incidents of child labour	41	Health, safety, and protection
GRI 413 : Local Communities			
413-1	Operations with local community engagement, impact assessments, and development programmes	43	Popham Arboretum project
GRI 418 : Customer Privacy			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	–	No complaints were reported with this regard during the year under review

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 51st Annual General Meeting of Senkadagala Finance PLC will be held at the Registered Office of the Company, 2nd Floor, 267, Galle Road, Colombo 03, on 30 September 2020 at 10.00am for the following purposes:

1. To receive and consider the statement of accounts for the year ended 31 March 2020 with the Annual Report of the Board of Directors and Auditors' Report thereon.
2. To re-appoint the Auditors, Messrs KPMG, Chartered Accountants as the Company's auditors for the financial year 2020/21 and authorise the Board of Directors to determine their remuneration.
3. To authorise the Board of Directors to determine donations for the year 2020/21.

By Order of the Board of
Senkadagala Finance PLC

Sgd.
Mrs C Salgado
Managers and Secretaries (Private) Limited
Secretaries

Colombo,
Sri Lanka

26 August 2020

Form of Proxy

I/We, the undersigned .... of

.... being
a member/members* of Senkadagala Finance PLC hereby appoint:

Mr L Balasuriya of Colombo or failing him*

Dr A Balasuriya of Kandy or failing him*

Dr M Balasuriya of Colombo or failing him*

Mrs L Fernando of Colombo or failing her*

Mr S D Bandaranayake of Colombo or failing him*

Mr D T P Collure of Colombo or failing him*

Mr W M R S Dias of Colombo or failing him*

Mr Senanayakege R Pushpakumara of Colombo or failing him*

Mr N Vasantha Kumar of Colombo or failing him*

Mr/Mrs/Dr .... of

.... as my/our* proxy to attend and vote at the 51st Annual General Meeting of Senkadagala Finance PLC to be held at the Registered Office of the Company, 2nd Floor, 267, Galle Road, Colombo 03 on 30 September 2020 at 10.00 a.m. and at any adjournment thereof.

	For	Against
1. To receive and consider the statement of accounts for the year ended 31 March 2020 with the Annual Report of the Board of Directors and Auditors' Report thereon.		
2. To reappoint the Auditors, Messrs KPMG, Chartered Accountants as the Company's auditors for the financial year 2020/21 and authorise the Board of Directors to determine their remuneration.		
3. To authorise the Board of Directors to determine donations for the year 2020/21.		

Signed on this .... day of .... 2020.

....

Signature NIC/PP/Co. Reg. No.

Note

**Please delete the inappropriate words.*

Instructions on completing the form of proxy are set out on the reverse.

Instructions for completion of Proxy Form

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. Please indicate clearly how your proxy should vote on the Resolutions. If no indication is given, the proxy in his/her discretion will vote as he/she thinks fit.
3. In the case of a company/corporation, the proxy must be under its common seal, which should be affixed and attested in the manner prescribed by its Articles of Association.
4. The completed Form of Proxy should be deposited at the Registered Office of the Company at Senkadagala Finance PLC, 2nd Floor, 267, Galle Road, Colombo 03, 48 hours before the time appointed for the Meeting.

Corporate Information

Name of Company
Senkadagala Finance PLC

Date of Incorporation
29 December 1968

Legal Status

- Listed public limited liability company incorporated on 29 December 1968. The Company re-registered under the Companies Act No. 07 of 2007.
- Approved and registered under the Finance Business Act No. 42 of 2011.
- Approved and registered under the Finance Leasing Act No. 56 of 2000.

Company Registration Number
PB 238 PQ

Taxpayer Identification Number (TIN):
104028349

Registered Office
2nd Floor, 267, Galle Road
Colombo 3
Sri Lanka
Phone: +94 11 230 1301
Fax: +94 11 230 1937
SWIFT code: SENFLKLX
Email: info@senfin.com
Website: www.senfin.com

Stock Exchange Listing

- 72,475,061 ordinary shares of the Company are listed in the *"Diri Savi"* Board of the Colombo Stock Exchange with effect from 22 March 2011
- 17,500,000 Subordinate, unsecured, redeemable debentures of LKR 100 each – August 2019 to August 2024 with fixed rate interest payments
- 24,132,100 Senior, unsecured, listed, redeemable, rated Debentures of LKR 100 each – November 2016 to November 2020 with fixed and floating rate interest payments are listed in the main Board of the Colombo Stock Exchange

Credit Rating
Fitch Ratings Lanka affirmed BBB+(lka) with a stable outlook, in July 2019

Board of Directors
Mr W M R S Dias
FCIBC (Lon), LL.B
Hubert H Humphrey Fellow
Chairman

Mr L Balasuriya
BSc (Lon), MSc (Lancaster)
Managing Director/CEO

Dr A Balasuriya
BSc (Lon), PhD (Lon)
Executive Director

Dr M Balasuriya
BVSc
Executive Director

Ms L Fernando
BSc (Hons)
Executive Director

Mr W A T Fernando
FCMA (UK), MA (Colombo)
Independent Non-Executive Director
(Resigned w.e.f. 1 August 2019)

Mr S D Bandaranayake
BSc (University of Sri Lanka)
Executive Director – Additional CEO

Mr D T P Collure
BSc (Colombo), MPA (USJ)
Independent Non-Executive Director

Mr Senanayakege R Pushpakumara
FCA, BCom (Special) (USJ),
PG Dip (B Mgt)
Independent Non-Executive Director

Mr N Vasantha kumar
MBA, Dip (Professional Treasury Management)
Independent Non-Executive Director
(Appointed w.e.f. 1 July 2019)

Secretaries
Managers and Secretaries (Pvt) Ltd.
No. 8, Tickell Road, Colombo 8

Auditors
KPMG
Chartered Accountants
32A, Sir Mohamed Macan Markar Mawatha, Colombo 3

Legal Consultants
Nithya Partners
Attorneys-at-Law
97/A, Galle Road, Colombo 3

Internal Auditors
Ernst & Young Advisory Services (Pvt) Ltd.
839/2, Peradeniya Road, Kandy

Bankers
Commercial Bank of Ceylon PLC
National Development Bank PLC
Hatton National Bank PLC
Sampath Bank PLC

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