50 YEARS

Advancing

AGAINST ADVERSITIES

ASIA ASSET FINANCE PLC

A Finance Company with a Golden Heritage

A Muthoot Group Company

Advancing

AGAINST ADVERSITIES

The past year has been the epitome of instability and uncertainty; it was a year that expunged conventions of normal behaviour, and demanded a new way of life, in adapting to circumstances and in combating a completely unforeseen pandemic.

Rooting for operational continuity and systematic stability, Asia Asset took proactive measures and built on existing strengths in withstanding challenges. The dramatic 'New Norm', compelled Asia Asset Finance to re-strengthen our stability, by readdressing how we offer services and by taking proactively devised measures to ensure continued value creation for stakeholders. Irrespective of how uncertainties increased, we maintained our promise of securing interests for our existing customers - guaranteeing financial safety amidst adversities. Through numerous circumspect approaches, we have now ensured a commendable level of stability - sharpening our ability to tackle further volatilities in the future.

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Goal

"To become a premier finance company in Sri Lanka."

Vision

"Empowering people transforming lives."

Mission

Towards the Customers

The solutions we provide for our customers financial needs would be unconventional, innovative and relevant for their needs to improve their quality of life whilst maintaining superior levels of customer service which would go well beyond their expectations.

Towards the Shareholders

Build shareholder value and provide substantial shareholder returns through relentlessly improving our performance and operations with sustainable effective strategies.

Towards our Family of Employees

A Company that fosters and harnesses equality amongst employees along with personnel development and to create the perfect work- life balance in the organisation.

Towards Society

To be an ethical financial service provider,promoting the betterment of the societies we work and live in while maintaining transparent financial records and practices. We aim to provide financial solutions to all segments in our society and eliminate financial exclusion in our society.

Towards the Values of our Company

- Honesty and Integrity
- Flexibility
- Innovation
- Passion for Excellence
- People Oriented
- Genuine Concern for the Client

About the Report

In this 2020/21 Annual Report, Asia Asset Finance PLC is adopting an integrated approach to its annual reporting initiatives.

REPORTING CONTENT, SCOPE AND BOUNDARY

The reporting period is set for the financial year ended 31st March 2021. The report covers the overall operations, strategy and discusses the year's performance at length, with comparisons against the preceding financial year. Moreover, future plans have been outlined. This report brings together financial and non-financial information and highlights the Company's value creation process, linking financial, human, social and relationship capitals.

COMPLIANCE

Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, guided by the International Financial Reporting Standards. Independent auditors have audited the financial statements and related notes. The sustainability aspects of the report are not externally assured.

INQUIRIES

Queries and clarifications, if any, on this annual report are to be directed to:

Name : Tania Jayawickrema
Department : Compliance & Policy & Planning
Tel. : 011 7 699 021
E-mail : taniyaj@asiaassetfinance.lk

About the Company

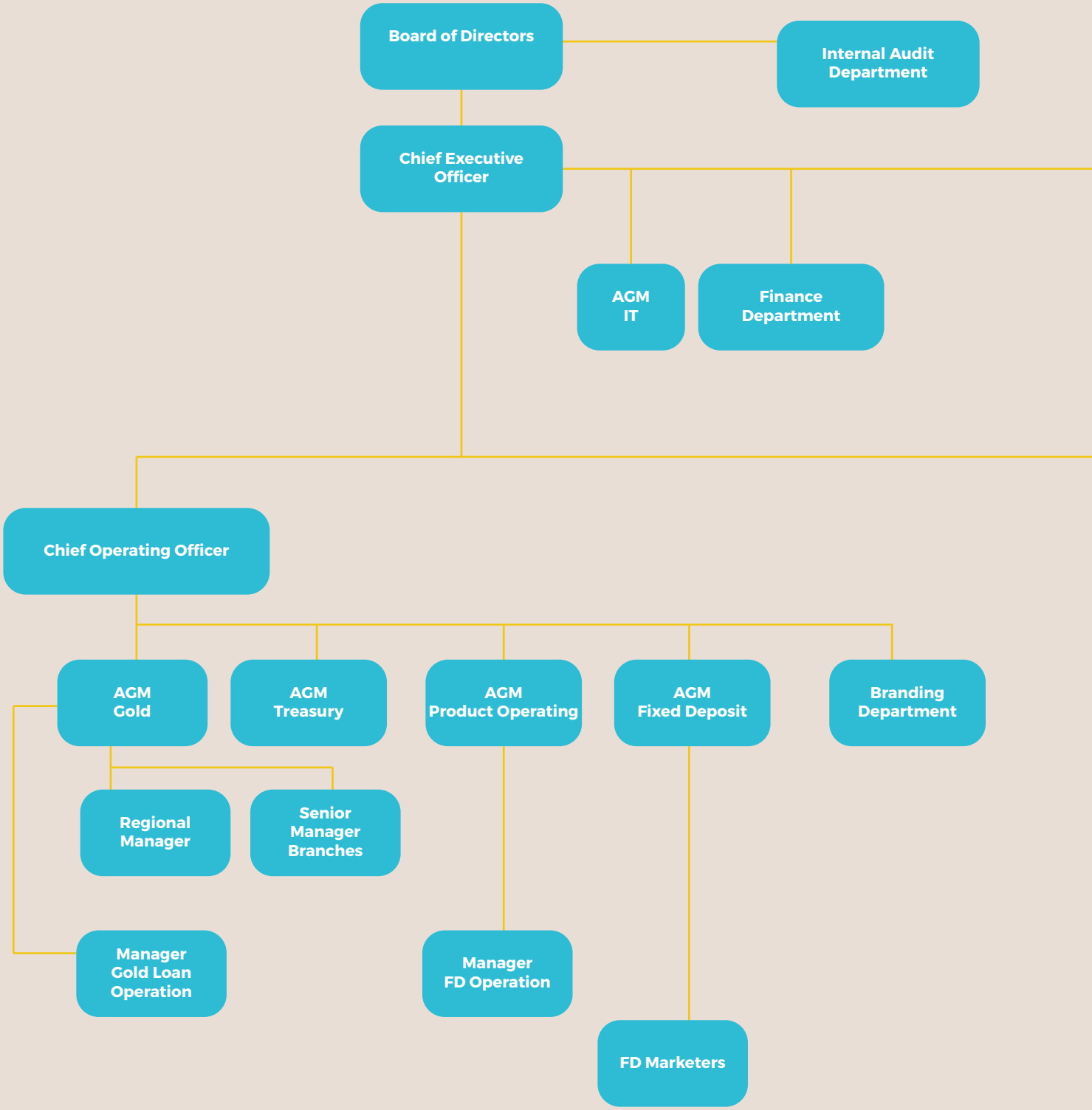
Asia Asset Finance PLC is a fully owned subsidiary of Muthoot Finance Ltd and a fully licensed, deposit-taking institution registered with the Central Bank of Sri Lanka. Muthoot Finance Ltd, is the world's largest gold finance company in India, with gold loan assets of INR 526,223 Mn and a network of 4632 branches in India. It holds 171 tonnes of gold jewellery as security and has net worth of INR 152,389 Mn as of 31st March 2021.

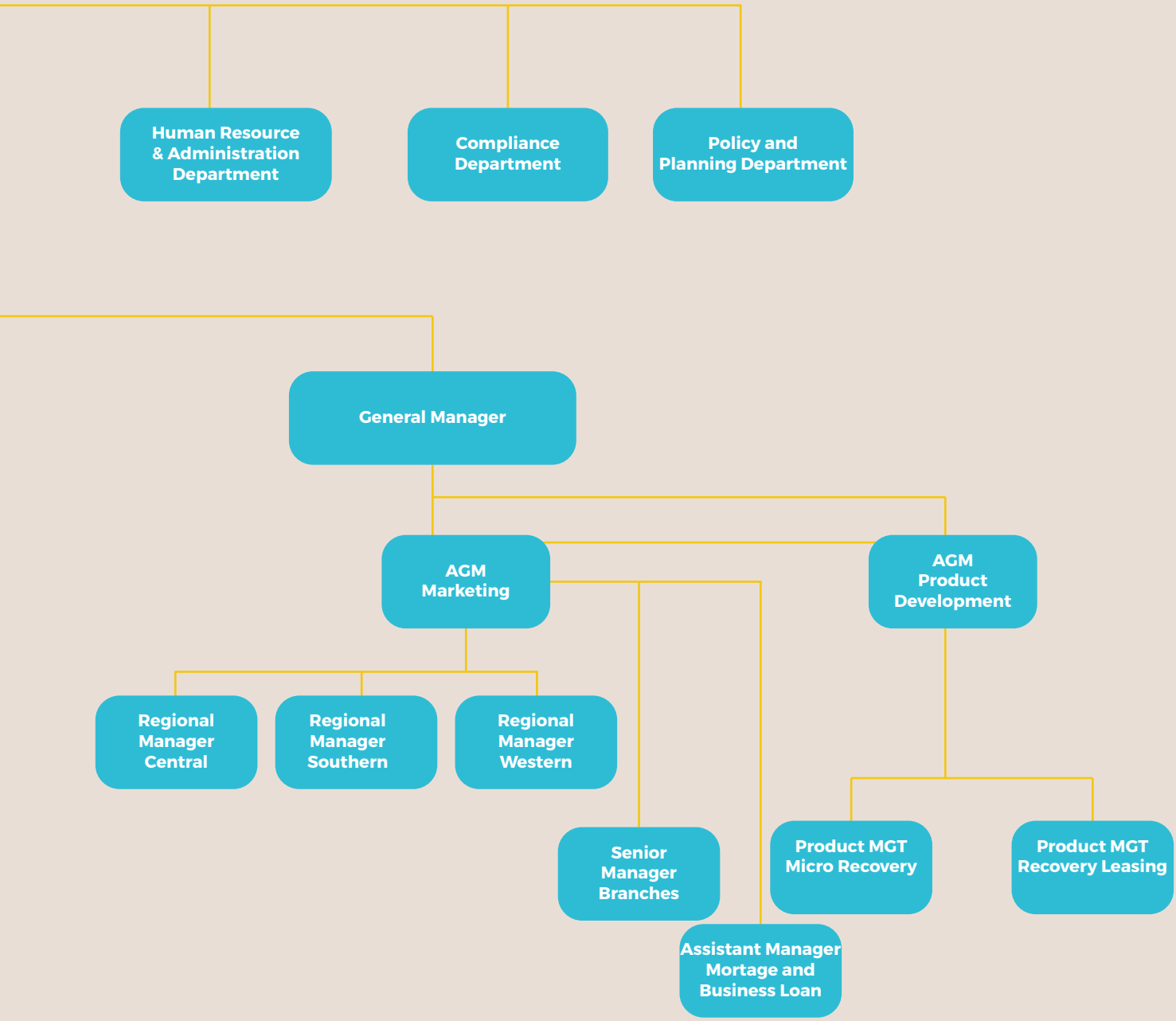
For over 50 years Asia Asset Finance PLC have invested our interests in countless individuals and businesses. Be it in the Gold loans we provide for the most reasonable rates, leasing, mortgage loans, Group Personal loans, or accepting your public deposits, we are proud to have nurtured communities to be sustainable economies.

Society's financial needs are ever growing, and Asia Asset grew over the years, in a simple quest to cater to these needs. Our efforts have always been to aid our customers to achieve growth in the way they live and in the way they do business.

The year under review was a testimonial to the resilience of Asia Asset Finance PLC as it successfully nurtured its stakeholders amidst a challenging situation while recording profitability to deliver an overall sustainable performance.

Organisation Structure

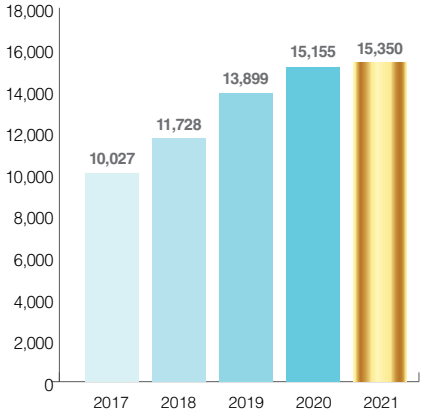



Human Resource & Administration Department
Compliance Department
Policy and Planning Department
General Manager
AGM Marketing
AGM Product Development
Regional Manager Central
Regional Manager Southern
Regional Manager Western
Senior Manager Branches
Assistant Manager Mortage and Business Loan
Product MGT Micro Recovery
Product MGT Recovery Leasing

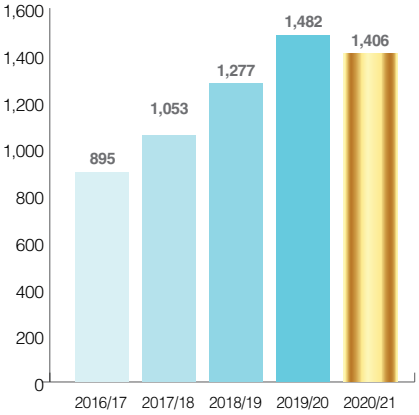
Performance Highlights

As at 31 March	2020/2021	2019/2020	2018/2019	Change
	Rs.	Rs.	Rs.	%
Finance Performance (Rs. Mn)				
Gross Revenue	**2,954.81**	3,332.62	2,722.60	(11.34)
Net Interest Income	**1,164.03**	1,339.47	1,289.20	(13.10)
Profit Before Tax	**86.75**	93.32	93.90	(7.04)
Taxation	**(41.55)**	(23.16)	(7.02)	79.39
Profit After Tax	**45.2**	70.15	100.93	(35.58)
Position as at the Year End (Rs. Mn)				
Cash and Cash Equivalents	**1,006.23**	511.94	643.70	96.55
Loans and Receivables	**12,410.80**	12,639.54	11,555.00	(1.81)
Total Assets	**15,350.43**	15,154.59	13,899.00	1.29
Fixed Deposit	**7,013.69**	6,585.23	6,617.00	6.51
Financial Ratios (%)				
Profitability Perspective				
Operating Profit	**45.2**	70.15	100.93	
Net Interest Margin	**8.35**	10.15	11.37	
Return on Assets (ROA)	**0.29**	0.46	0.73	
Equity Holders				
Earnings per Share (Rs.)	**0.36**	0.57	0.92	
Net Asset Value per Share (Rs.)	**17.89**	17.50	18.18	
Price to Book Value (Times)	**15.39**	9.73	9.08	
Return on Equity (%)	**2.03**	3.23	5.17	
Earning Yield (%)	**6.5**	10.28	11.01	
Debt Holders				
Debt to Equity Ratio (Times)	**5.77**	5.84	5.93	
Interest Cover (Times)	**1.09**	1.09	1.11	
Statutory Ratio				
Tier 1 (Minimum Requirement 7.5%)	**16.75**	16.15	19.16	
Statutory Liquidity Ratio (Times)	**13.57**	11.82	15.05	
Non-Performing Ratio	**19.18**	16.21	9.22	
Quality of Loan Portfolio (%)				
Gross Non-Performing Loans Ratio (%)	**19.80%**	16.21%		
Net - Non-Performing Loans Ratio (%)	**4.66%**	5.85%		
Net - Non-Performing Loans to Core Capital Ratio	**29.43%**	37.37%		
Provision Coverage Ratio	**58.70%**	50.06%		

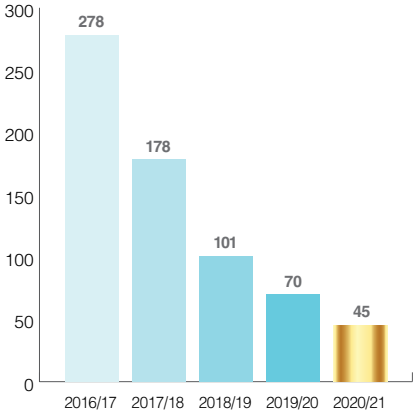
Asset Growth
(LKR Mn)



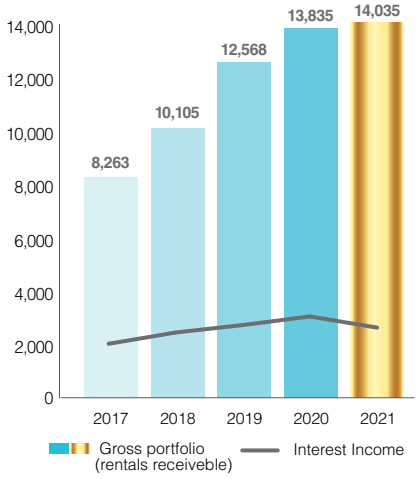
Movement of Operating Expenses
(LKR Mn)



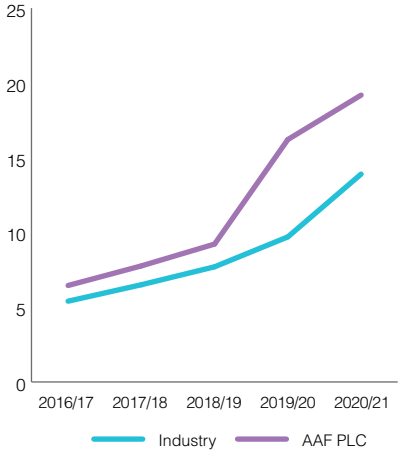
Profit After Tax
(LKR Mn)



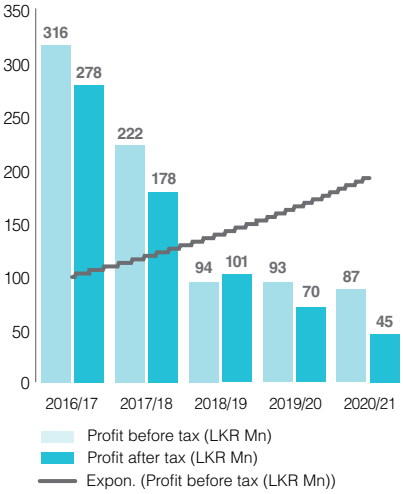
Portfolio Vs Interest Income
(LKR Mn)



NPA Movement
(%)



Profitability
(LKR Mn)



Managing Director's Message

THE FINANCIAL YEAR 2021 WAS A YEAR OF CONSOLIDATION FOR THE COMPANY WITH THE IMPLEMENTATION OF THE NEW BUSINESS MODEL

I appreciate Asia Asset Finance Team for their relatively good performance during the financial year 2020-21 despite all odds marred by the challenges posed by COVID-19 pandemic impacting all sectors of the economy. The financial year 2021 was a year of consolidation for the Company with implementation of new business model, aimed at improving asset quality by increasing secured advance and bringing down the unsecured micro finance portfolio considerably. Gold loan portfolio has registered 55% growth to touch Rs. 6622.5 Mn during the financial year. Company was successful in cost containment through streamlining human resources and branch expansion during the financial year.

In line with the recently proposed medium-term plan of CBSL for consolidation of NBFIs with the rationale of creating strong and stable NBFIs to steer future economic growth in the country, Asia Asset Finance is in the process of implementing a diversified business plan with capital infusion to match the prescribed Capital adequacy requirement and other bench mark. CBSL mid-term plan envisages to reduce number of NBFIs to around 25 by mid-2026, from the present 39 players. With the 'A' category classification assigned by CBSL, Asia Asset Finance PLC is confident of meeting all benchmarks that will arise in the future as well.

The Muthoot Group has been parenting and nurturing AAF since its association in 2015 and we are committed to support the Company for facing all the challenges, which is demonstrated by our Rs. 400 Mn capital infusion during financial year 2022.

I congratulate the Asia Asset Finance Management team and wish them all success in their goal of becoming the premier Finance Company in Sri Lanka.

George Alexander Muthoot
Managing Director
Muthoot Finance Ltd

Chairman's Message

THE NEW BUSINESS MODEL HAS ACHIEVED SUCCESS AND WAS ALSO WELL RECEIVED BY THE MARKET AND THE CUSTOMERS

The operating environment in Financial Year 2020-21 was quite challenging to say the least, with the COVID-19 global pandemic impacting all sectors as was the case in many countries. However, I am happy to state that despite the challenging circumstances, Asia Asset Finance PLC was able to record a relatively good performance, as reflected in the pages of this Annual Report for the year under review.

MACROECONOMIC CONDITIONS

The Central Bank of Sri Lanka (CBSL) significantly contributed in responding to the COVID-19 crisis in Sri Lanka, undertaking considerable monetary policy easing, for which there was room given the benign inflation and additional measures to increase liquidity in the market and support businesses. CBSL introduced financial sector regulatory measures such as debt moratorium for COVID-19 affected businesses and individuals. The regulator also took several measures to preserve foreign exchange reserves and reduce pressures on the exchange rate.

Sectors such as tourism, construction and transport were hit especially hard, while loss of jobs and daily wages disrupted private consumption and uncertainty impeded investment. The economy began to recover somewhat in Q3 of 2020/21 as the first wave was brought under control and containment measures were relaxed. The impact on economic activity was minimised with the timely steps taken by the Government, limiting the contraction of the economy to 3.6% in the financial year under review. Meanwhile, the outlook for Financial Year 2021/22 is rather encouraging with a forecasted GDP growth of 4-5%.

OUTLOOK FOR NON-BANKING FINANCIAL INSTITUTIONS/ LICENSED FINANCE COMPANIES

Non-Banking Financial Institutions (NBFIs) and Licensed Finance Companies (LFCs) are important players in the financial economic ecosystem. They contribute to the economy by providing enhanced services to customers through an expanded branch network, thereby promoting financial inclusion in the country. Through the year under review, CBSL continued to take prudential measures to maintain stability of the sector with consideration on reviving companies with supervisory concerns.

Along with other business sectors, LFCs also faced significant challenges during 2020. The performance of the LFC sector weakened during the year due to negative credit growth, declining profitability and an increase in non-performing loans (NPLs). The slowdown in the sector was mainly contributed by subdued economic activity due to various restrictions imposed amidst the COVID-19 pandemic.

Chairman's Message

CBSL has recently proposed to introduce a medium-term plan (five-year) for the sector including consolidation plan of NBFIs, with the rationale of creating strong and stable NBFIs to steer future economic growth. The objective of the plan is to ensure strong LFCs in the system with diversified business models, which are able to effectively contribute to the economic needs of the country. Accordingly, the number of LFCs is expected to reduce to around 25 by mid-2026, from the present 39 players, with prescribed levels of minimum Capital Adequacy Requirement (CAR) and other benchmarks. Existing LFCs are classified into 'A', 'B' and 'C' categories based upon various parameters, with the 'A' category LFCs expected to take the industry forward. Asia Asset Finance PLC is classified in the 'A' category and is confident of meeting all benchmarks that will arise in the future as well.

OUR MAJORITY INVESTOR – MUTHOOT GROUP

The Muthoot Group, which has a family legacy of 800 years, is an Indian multinational conglomerate that is home to 20 diversified divisions and over 5000 branches with a global presence servicing over 2.5 lakh customers every day. It has interests in Financial Services, Information Technology, Media, Healthcare, Education, Power Generation, Infrastructure, Plantations, Precious Metal, Leisure and Hospitality sector. Muthoot Group operates in all the states in India and has presence in Nepal, Sri Lanka, US, UK and UAE.

Asia Asset Finance PLC is an overseas subsidiary of the Group's flagship company, Muthoot Finance Ltd, which is the largest gold finance company in India, with gold loan assets of INR 526,223 Mn and a network of 4632 branches in India as on 31.03.2021. The Company holds 171 tonnes of gold jewellery as security and has net worth of INR 152,389 Mn as on 31.03.2021.

Recently, CRISIL upgraded the long term debt facilities of Muthoot Finance Limited to AA+/ Stable from AA/Positive in February 2021, considering factors like established track record and brand name in gold financing industry, strong capitalisation, profitability among the best in the industry and expectations on of financials remaining healthy.

NEW DAWN WITH A NEW BUSINESS MODEL

The Financial Year 2020/21 witnessed implementation of a new business model for Asia Asset Finance PLC, aimed at improving the level of secured advances, broad basing resource mobilisation through diverse channels including innovative funding instruments, streamlining of human resources, enhancing risk management structure and upgrading corporate governance practices.

The Gold Loan product was identified as the future growth engine for the Company and a business process re-engineering exercise was undertaken in the organisation. In a short span of around 7 months, the Gold Loan portfolio percentage against Total Loans & Advances rose from around 31% to 47%, to touch a figure of Rs. 6.60 Bn as at year-end.

Innovative resource mobilisation strategies such as the "Asset Backed Secured debenture programme" were introduced during the year under review, apart from a thrust on expanding the retail fixed deposit customer base. Simultaneously, the recovery machinery was augmented with a new structure and strategy to maximise collections even during present turbulent times.

The new business model has achieved success and was also well-received by the market and the customers. This is amply demonstrated by the recent credit rating outlook revision for the Company by rating agency ICRA Lanka Limited, from 'BBB+/Outlook negative' to 'BBB+ /outlook stable'.

It was equally important for us to streamline our human resource base and also to bring in the necessary mind-set change for making the business model change a success. Accordingly, organisational structure changes were successfully undertaken and elaborate training programmes conducted. As a result, our organisation is now trim, fit and more efficient.

GOOD GOVERNANCE

Considerable improvement was achieved in corporate governance practices and compliance areas. All the Board level committees made meaningful contributions for better governance aimed at protecting stakeholder value at all times.

Improvement of systems and procedures for better Risk Management was a key consideration for the Board, as evidenced by continuous improvement in these areas during the period under consideration. Internal controls were strengthened and more system-based monitoring introduced. More business processes were automated for better control and operational efficiency.

LOOKING AHEAD

We believe the customer is the center of our universe. We also believe the future belongs to those who seek to empower their customers through technology. To this end, we have taken steps to increase our digital footprint in the ecosystem. Digital payment points with full integration with Lanka Clear, the nation's payment gateway, to enable online real time inward and outward cash operations, is already under implementation. A Mobile App enabling customers to avail of our products and services is scheduled for launch shortly. Providing 24x7 customer support services to increase customer engagement through a Trilingual Chatbot and social media is also under consideration.

ACKNOWLEDGMENT

I take this opportunity to thank all our customers, partners and stakeholders for the confidence they have placed in our Company. With all your support and good wishes, we look forward to an even better year ahead.

V. A. Prasanth
Chairman/Non-Independent Non-Executive Director

Chief Executive Officer's Review

THE COMPANY RESTRICTED THE GROWTH OF ALL UNSECURED PRODUCTS AND PRIORITISED ON GOLD BACKED FINANCING WITH THE INTENTION OF PROMOTING ONE OF THE MOST SUCCESSFUL LENDING PRODUCTS IN SOUTH ASIA.

The year 2020/21 was a critical period for Asia Asset Finance PLC. Despite the challenges which continued from COVID-19, the Company used the existing circumstances to re-evaluate the business model and to re-structure its product line to improve the business model of Asia Asset Finance. As a result of aggressive strategies and repositioning, the Company decided to focus mainly on Gold Financing where Asia Asset Finance was able to exceed expectations and deliver a robust performance.

Asia Asset Finance took an unconventional approach during the year with the Company expanding its branch network aggressively, opening an additional 18 branches and increasing our reach to 48 locations during the year. In addition to our expansion plan, the Company restricted the growth of all unsecured products and prioritised in gold backed financing with the intention of promoting one of the most successful lending products in South Asia and falling in line with the business model of our parent Company, Muthoot Finance.

The successful turnaround of our business model was endorsed with our rating agency ICRA Ratings, revising our outlook from Negative to Stable during the year under review. This was a significant achievement with the COVID-19 pandemic continuing to create chaos across the world and economy. The timely decisions of Asia Asset Finance supported the growth of our secured portfolio.

MACROECONOMIC AND SECTOR REVIEW

The Macro economic conditions continued to weaken during the year under review, with COVID-19 spreading across the country and challenging our economy. The continuous disruption to the day-to-day operations of the country ensured that the SME and self-employed were continuously affected. The tourism and tourism related sectors faced the biggest burden of the COVID-19 pandemic. As a result, the financial sector continued to bear the burden of these sectors by providing concessions under the Debt Moratorium guidelines which resulted in the industry NPA continuing to remain at high levels.

The Debt Moratorium was applied by majority of customers and the 2nd wave of COVD-19 extended the concessions of the Debt Moratorium, once again affecting the repayments of loan obligations.

The industry continues to remain committed to supporting customers affected due to the prevailing conditions and ensure that all possible steps will be taken to assist the revival of their business operations.

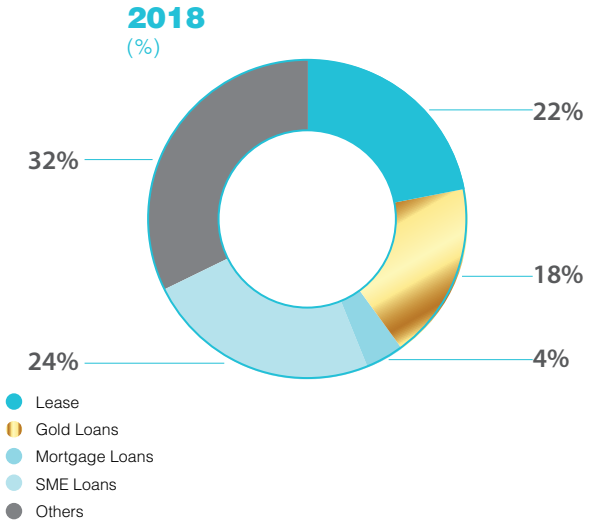
The Governments' stance on rate reduction has benefited the financial sector positively with the cost of funds reducing and the benefits of these rate reductions being extended to the public.

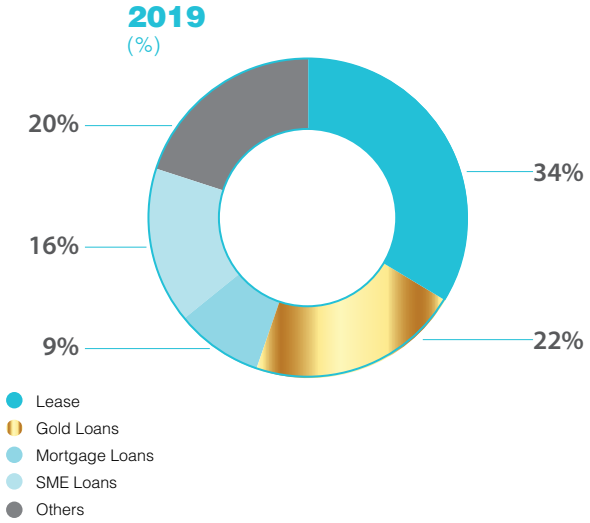
PERFORMANCE REVIEW

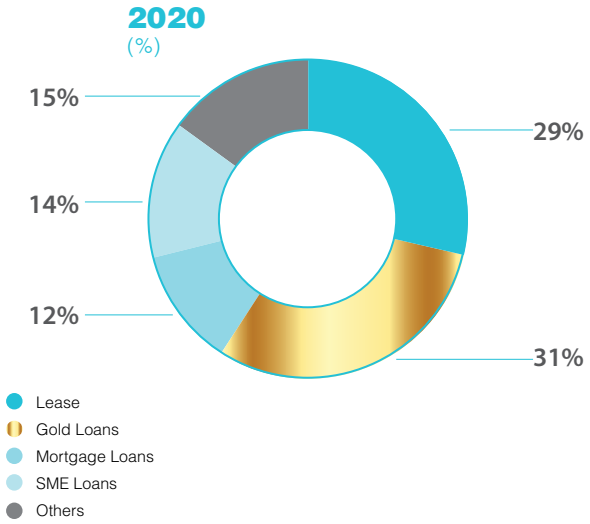
The Company's Position

As highlighted previously, the Company has performed above expectations during the prevailing conditions with gold financing leading the loan growth of the Company. The strengthening of Governance and restructuring the business operations have provided a strong platform for our growth trajectory and was complemented by our expansion of the branch network, which contributed to the expansion of the secured loan portfolio.

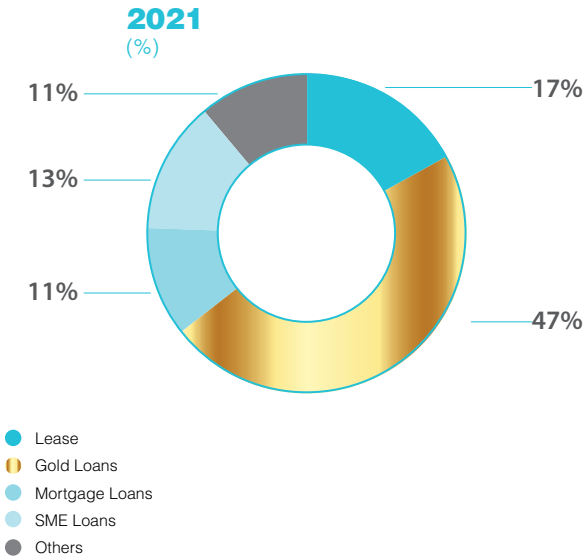
The Company during the year grew the loan book by 1.45%, a marginal increase considering the previous financial year. However, an improvement, taking into consideration COVID-19 restrictions throughout the year, the Company only used its secured loan portfolio to grow its loan book and Gold Loans was the main contributor to the growth of our portfolio whilst allowing the unsecured portfolio to deplete by 6.2% organically as part of our strategy. This was a conscious decision to increase and improve the asset quality of the organisation. The charts below depicts transition of our asset portfolio into a more robust and creditworthy portfolio.

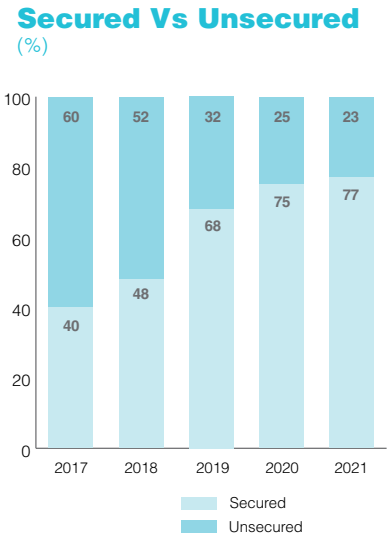






Chief Executive Officer's Review





Gold Loans reported the biggest increase in terms of product growth during the year with a 55% growth in its portfolio reaching a Rs.6.6 Bn milestone. The asset quality of our gold operations is closely monitored by maintaining a LTV of no more than 80%. The Company took a cautious stance on the leasing portfolio considering the exorbitant asset price increase in the market which could have exposed the Company to further risk in the event of any price fluctuations. Mortgage Loans showed a decline of 4% with strong collections reporting from the portfolio. As part of the overall strategy, the Company has discontinued all unsecured products and as a result the unsecured portfolio was reduced by 6.2% during the year under review.

As part of our overall strategy the Company grew its focus on retail expansion and as a result the number of Gold Loan customers increased from a previous of 23,219 to 28,297.

The Company NPA continued to have an upward trajectory due to the prevailing conditions in the country, with a NPA of approximately Rs.2.6 Bn. However, the Company also made necessary impairment provisions to ensure effective management of the loan portfolio, improving our provision coverage to 59% which was above industry standards.

The Company maintained a healthy liquidity position during the year under review. The increased liquidity along with the continuous growth in our Fixed Deposit base displays the level of confidence the customers have placed with us. Asia Asset Finance also successfully conducted its first listed Debenture with the issue being rated A-. The Debenture issue received a positive response with oversubscribing in the first day. With the introduction of the Debentures, we have further diversified our funding lines to better manage the operations of Asia Asset Finance and to create a stable inflow for the growth of our operations.

THE COMPANY'S PERFORMANCE

During the year under review, the Company reported an Interest Income of Rs.2.6 Bn which is a reduction of 14% from the previous year to maintain a Net Interest Margin of Rs. 1.1 Bn (8.4%). The NIM is maintained at these levels to ensure we provide the benefit of reduced rates to our customers.

A key focus factor during the year was controlling of our costs, hence, we are pleased to announce, after opening an additional 18 branches, the Company continued to reduce its overhead costs by Rs. 121 Mn (by 8.2%). This was a significant achievement and a conscious decision made as part of our Business Plan. The Company expects a lean cost structure to complement and enhance the profitability of the Company as part of our overall strategy. The Cost to Income ratio now stands at 50.14%.

The newly revised Business Plan has ensured that our Core Capital increased to Rs. 2.22 Bn and our Capital Adequacy ratio is maintained at a healthy level of 16.75% complying with the regulatory requirements.

FUTURE GOALS AND OBJECTIVES

The challenges are expected to continue as we progress in the year 2021/22, but Asia Asset Finance has accepted these challenges and have prepared a 5-year Business Plan. Having implemented the first year of the Business Plan successfully, we are confident of our ability to achieve this Business Plan and ensure healthy returns to all our stakeholders. Our focus will continue to be the growth of our most successful product, Gold Loans, which will reach 70% of our overall portfolio during the year.

AAF will continue to support and assist people who have been affected by the pandemic and introduce new products and services to help revive and improve their livelihoods.

The digitalisation will play a significant part in our expansion plan and ensure we provide an advanced service to our customers. The automation process will ensure efficiency and will result in a lean cost structure. Even with the expectation of expanding the branch network to 100, the Cost to Income ratio is expected to be maintained below industry levels.

The company also focused on minimising our carbon footprint by automating our internal workflow and committed to reduce our use of materials which affects our environment and could harm future generations.

Having one of the most successful Finance companies in the world as the majority shareholder of Asia Asset Finance, gives added confidence to continue our operations without hesitation. The new Business Plan of Asia Asset Finance is very much in line with the Muthoot Business model which has yielded the highest returns to their investors. Hence, we are confident with the continuous support and guidance of our parent that we will be able to successfully achieve the future goals and objectives of the Company.

APPRECIATIONS

Asia Asset Finance has always been blessed with a dedicated and a committed work force, who continue to dedicate all their resources to the development and growth of the Company even during the most challenging times. Staff is the key to success of this organisation, hence, we will be investing continuously to improve their value through training and development to better the standards of our operations.

The Board of Directors and our Chairman have been actively supporting and guiding us through this challenging period. Their support has been invaluable in achieving the goals and objectives of the Company.

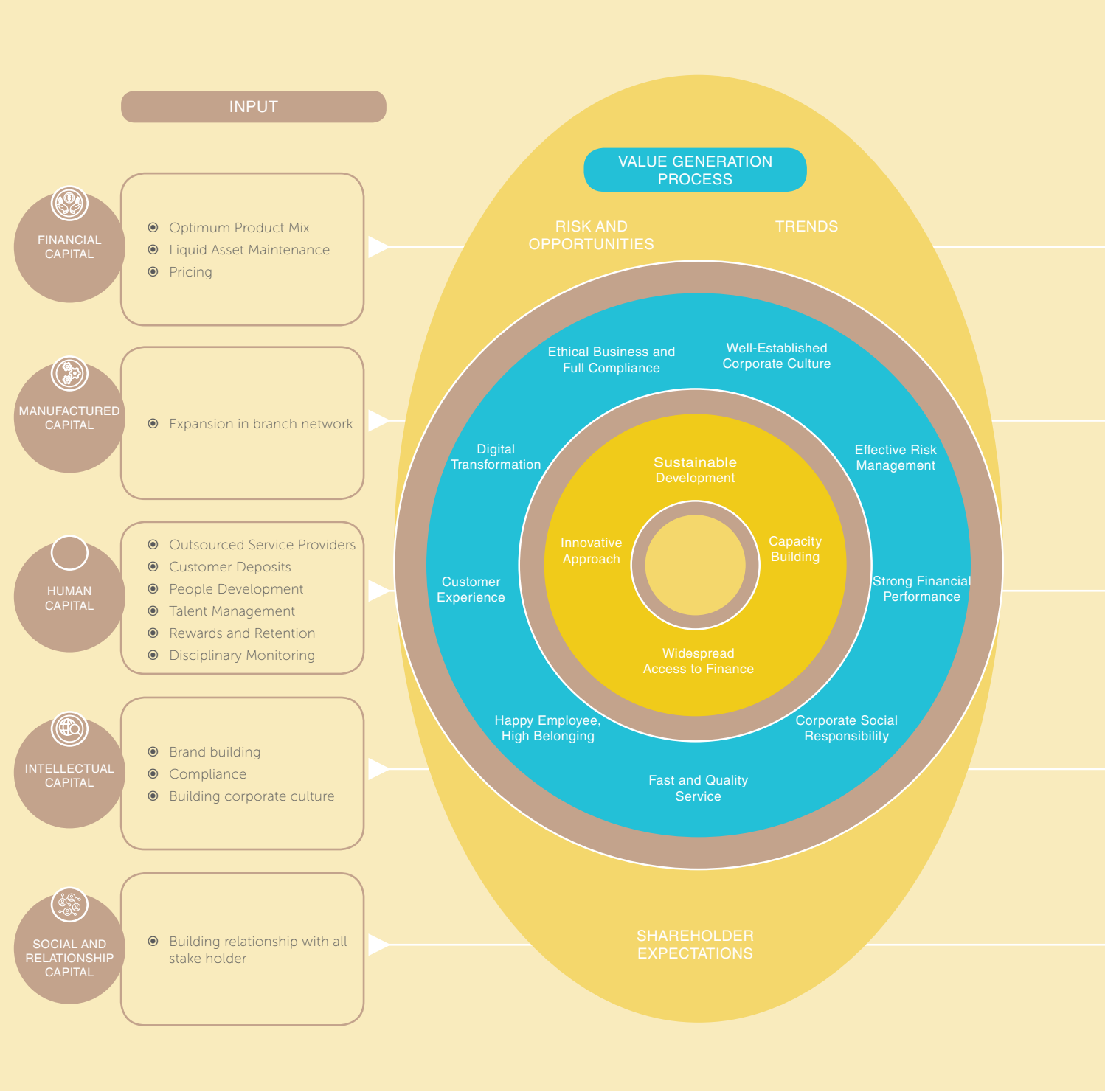
Our parent, Muthoot Finance and Group Managing Director have been pillars of strength to Asia Asset Finance with their knowledge sharing program. The Company has been fortunate not only to be supported financially, but also to have the ability to obtain professional and experienced advice to support the growth of the Company and face the adverse challenges which lies ahead.

We thank all our customers and investment partners who have maintained great relations with the Company and ensured that we received continued support to ensure the continued success of our operations.

Asia Asset Finance will ensure the continued success of the organisation through the implementation of our Business Plan. The path we have taken will ensure long term sustainability and a stable finance company which can provide healthy returns by serving the people of our country.

Rajiv Gunawardena
Chief Executive Officer

Business Model



OUTPUT	STAKEHOLDER IMPACTS
FINANCIAL • Budgeted Profitability and Balance Sheet Growth Achievement • Maintenance of Statutory Capital Adequacy Requirements • Budgeted Dividend Declaration • Enhancement of Reserves • Share Price Increase	**ECONOMIC** • Contribution to State Revenue • Returns to Shareholders • Retention of Profits
CUSTOMER • Deposit and Lending Portfolio Growth • Increased Customer Satisfaction • Increased Repeat Customers • Enhanced Brand Value • Increased Cross Selling	**SOCIAL** • Employment Generation • Regulatory Compliance • Maintenance of Business Ethics • Engagement in Industry Development
HUMAN • Increased Employee Productivity • Motivated Workforce • Reduced Turnover • Increased Internal Recruitment • Compliance with Internal Processes	
INTELLECTUAL • Enhanced Organisational Know-how • Development of Best Practices and Process Excellence • Ability to predict and face Industry challenges	**ENVIRONMENTAL** • Community Education of Proper Waste Disposal • Non-Engagement with Environmentally Hazardous Businesses

Operating Environment

MACROECONOMIC CONDITIONS

Alongside the global economic downturn induced by the pandemic, the Sri Lankan economy contracted by 3.6% in 2020, recording the deepest recession since independence. Mobility restrictions and other containment measures imposed locally and internationally, with a view to preventing the spread of COVID-19, hampered real economic activity across all sectors. The sharp contraction observed in Industry activities during the year was driven by the significant slowdown in construction and manufacturing activities. Services activities also registered a notable contraction due to the pandemic driven deceleration in transportation, other personal services, accommodation, food and beverage services. The Agriculture sector, too, registered a contraction during the year as the impact of the pandemic outweighed the positive effects of timely policy support and favourable weather conditions.

Reflecting the combined effect of the contraction in Gross Domestic Product (GDP) at current market prices and the depreciation of the Sri Lankan rupee against the US dollar, GDP per capita declined to US dollars 3,682 in 2020 from US dollars 3,852 in the previous year. The pandemic also caused a decline in the overall size of the economy to US dollars 80.7 Bn in 2020 from US dollars 84.0 Bn in 2019.

In 2020, a hike in the prices of gold was reported after 2011, with an increase of 40% in the past year. Gold is considered a safe haven during times of political and financial uncertainty and the increase in the prices of gold is due to investors focusing on purchasing gold against the backdrop of an economic downfall due to the COVID-19 pandemic. Probable further depletion of LKR which will have a favourable adverse impact on Gold pricing and vehicles. The price of Gold was created in Sri Lanka due to USD exchange rate and scarcity of gold.

In spite of the overall contraction, the economy began to show strong signs of recovery during the second half of 2020, responding to the pro-growth policy initiatives across the fiscal and monetary policy fronts. Supported by timely policy measures undertaken by the Government and the Central Bank, the external sector battled strong headwinds in 2020. The slump in merchandise exports due to the mobility restrictions and lockdown measures was swiftly overcome, demonstrating the resilience of Sri Lankan exporters. Accordingly, export earnings rebounded within a relatively short span of time to reach pre-pandemic levels. Measures to curtail non-essential imports, together with the significantly low global petroleum prices, helped reduce the import expenditure in 2020, resulting in a notable improvement in the trade deficit. The tourism sector was severely affected by global travel restrictions. Foreign inflows, in terms of trade in services relating to the Information Technology and Business Process Outsourcing (IT/BPO) sector, recorded a significant improvement, supported by the surge in novel work arrangements amidst the pandemic.

The main issue faced by Micro and Small enterprises was the breakdown of their supply chain due to lockdowns and curfew. In addition, majority of them face working capital problem as they do not receive payments for goods supplied and other income sources also have declined. Price escalation of raw material due to limited availability has affected their operations. The curfew and lockdowns also have imposed constrains on disposable income affecting the economic cycle. The relief measures that were taken by the Government would not create a swift cash flow into the hands of these MSMEs and the vulnerable groups such as daily wage earners. The challenge of the Government will be to implement measures for sustenance of business and minimise job losses. The lockdown of Western province in which the commercial capital Colombo is located is a major issue in the supply chain. All imports, exports, wholesale warehouses and the entire logistic operations are centered in Colombo.

PERFORMANCE OF SPECIALISED LICENSED COMPANIES LICENSED FINANCE COMPANIES (LFCS) AND SPECIALISED LEASING COMPANIES (SLCS) SECTOR

The LFCs and SLCs sector performance deteriorated during the year, with negative credit growth and high NPLs. In addition to the COVID-19 pandemic related growth impediments, the reduction of consumer confidence due to issues observed in the sector contributed towards the sluggish performance. However, despite certain institutions encountering difficulties to fulfil regulatory requirements at an individual level, the sector remained stable with capital and liquidity maintained at healthy levels above the minimum regulatory requirements.

Total assets of the sector stood at Rs. 1,401.6 Bn by end December 2020, representing 5.9% of Sri Lanka's financial system. The funding mix was dominated by deposits while borrowings of the sector declined compared to the previous year. The Central Bank continued to introduce prudential measures to maintain the stability of the sector and granted regulatory flexibility to support the sector to face the challenges posed by the COVID-19 pandemic.

ASSETS

Assets of the sector contracted, recording a negative growth rate of 2.2% (Rs. 31.0 Bn) during the year reaching Rs. 1,401.6 Bn compared to the 0.1% growth reported in 2019. Loans and advances accounted for 74.2% of the total assets of the sector. Finance leases accounted for the highest share of loans and advances, representing 53.7%, followed by the secured loans and advances (36.2%). Lending of the sector slowed considerably during the year as business activities continued to contract amidst the COVID-19 lockdowns and curtailment of vehicle imports. Credit provided by the LFCs and SLCs sector contracted by 5.7% (Rs. 62.9 Bn) to Rs. 1,039.9 Bn compared to the contraction of 3.0% in the corresponding period of 2019.

LIABILITIES

Customer deposits continued to dominate the liabilities of the LFCs and SLCs sector, accounting for a share of 53.4% of liabilities. The deposits contracted by 1.1% (Rs. 8.1 Bn) to reach Rs. 748.6 Bn while borrowings recorded a sharp decline of 19.1% (Rs. 77.6 Bn) reaching Rs. 328.0 Bn during the year.

MARKET RISK

The sector continued to experience low market risk which comprise of interest rate risk and equity risk. Interest Rate Risk: With the objective of reducing interest rates on lending, maximum interest rates on deposits and debt instruments were further reduced since April 2020. Accordingly, interest rate risk of the sector decelerated with the prevailing negative mismatch in the maturity profile of the interest-bearing assets and liabilities.

EQUITY RISK

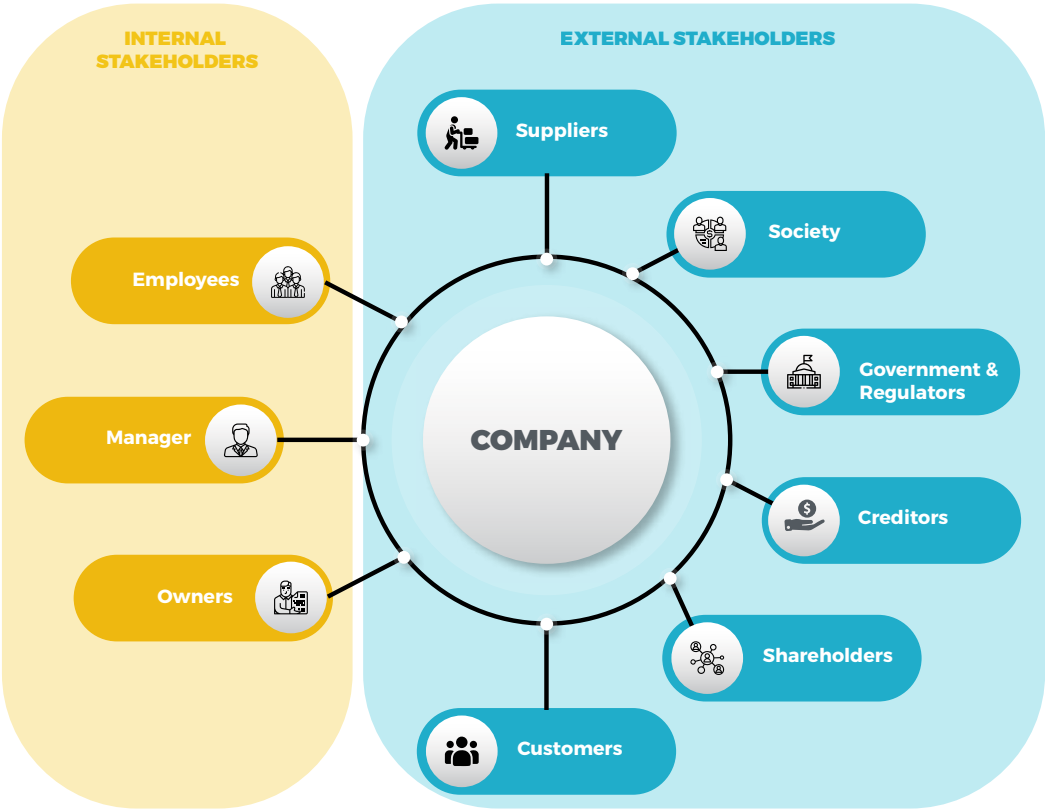
Equity risk of the sector remained low during the period under review as the exposure to equity market in the form of investment in listed shares is 1.0% of the sector assets at the end December 2020. Liquidity Risk: The sector maintained adequate liquidity buffers well above the regulatory minimum levels by end December 2020. The overall regulatory liquid assets available in the sector indicated a surplus of Rs. 89.0 Bn as against the stipulated minimum requirement of Rs. 50.7 Bn.

COMPANY PERFORMANCE

Asia Asset Finance PLC adopted a new business model in 2020/21 with the aim to enhance the quality of secured advances, broad basing resource mobilisation through diverse channels including innovative funding instruments, improving human resources, enhancing risk management structure and upgrading corporate governance practices. The Gold Loan product performed well and will be the flagship product for the Company going ahead. The Company was awarded recent credit rating outlook revision for the Company by rating agency ICRA Lanka Limited, from 'BBB+/Outlook negative' to 'BBB+ /outlook stable' confirming the potential of the newly implemented business model.

Stakeholders

Asia Asset Finance PLC (AAFP) has embarked on its sustainability reporting journey by identifying its key stakeholders, namely, shareholders, employees, suppliers. investors, customers, regulators and the community, and takes strategic decisions to ensure a positive impact for all stakeholder groups while ensuring healthy returns on invested capital. As a regulated listed finance company, the entity cannot sustain itself by merely maximising the value of the shareholders, as it is dependent upon customers (borrowing from customers and lending to customers) and relies on regulators such as Central Bank of Sri Lanka (CBSL) and the Securities Exchange Commission (SEC). The Company's stakeholder engagement evaluation is based on the proximity between the potential stakeholder and the organisation and the nature of the impact) exercised by the potential stakeholder in continued business success and growth. Our aim is to build ensuring relationships with all stakeholder groups.



Stakeholder Type	Communication Channel	Engagement Framework	Engagement Mechanism	Frequency & Implementation
Shareholders & Other Investors	Investor forums through online platform.	We commit to providing a balanced review of our performance, position and prospects in our communications with investors ensuring a competitive return to their investment.	Annual reports and Annual General Meetings	Annually
			Extraordinary General Meetings	When the need arises
			Interim financial statements	Quarterly
			Press releases & CSE announcements	When the need arises
			Investor forums	Quarterly
			Corporate Website	Ongoing (Continuously)

Stakeholder Type	Communication Channel	Engagement Framework	Engagement Mechanism	Frequency & Implementation
Government & Regulators	Discussions through Online platforms.	The corporate objective of the Company has adopted a framework to be inline and integrate with monetary policy of the country and compliance with directives and codes whilst supporting the economic growth.	Off-site surveillances with periodic returns.	Weekly, Monthly, Quarterly and Annually.
			On-site surveillances	Annually
			Compliance with directives and circulars.	Continuous
			Meetings, consultations & press releases.	When the need arises
			Dedicated personnel for continuous, personalized interaction	Continuous
Employees	Face to face discussions and through Online platforms (Internal & External).	We consider employees as intellectual assets and we invest in developing our employees ensuring that their professional development and economic is enhanced.	Training & Development	As required
			Individual performance Appraisals	Annually
			Intranet	Continuous
			Code of conduct and Whistle Blower Policy.	Continuous
			One to one interactions based on our open-door policy.	Quarterly
			Confidential employee satisfactory survey.	Quarterly
			Fostering a work-life balance	Continuous
Community	Communicating through online platforms and digital communication tools.	We engage with local communities to develop economic activity, providing employment opportunities and facilitating their socioeconomic well-being	Corporate website and social media page.	Continuous
			Establishment of a CSR Committee	Continuous
			Implementing projects to benefit the society and the environment	When the need arises
			Company website	Continuous
			Media releases	Continuous
Customers	Communicating through online platforms and digital communication tools.	We uphold the rights of our customers in line with our customer charter ensuring that they understand the terms and conditions relating to services accessed by them.	Personalised interactions	Continuous
			Customer complaint handling process	Continuous
			Customer Satisfaction Surveys	Quarterly
			Market Surveys	Bi-Annually
			Communication through multiple media platforms.	Continuous
			Corporate Web site	Continuous
Business Partners & Value Added Service Providers	Communicating through digital communication tools.	We recognise excellence in service by our suppliers and look to support their growth through mutually rewarding partnerships	Dedicated personnel to interact with different types of suppliers and service providers.	Continuous
			Prioritised engagement with local suppliers	Continuous
			Mutually beneficial, long term relationships being the focus during contractual negotiations.	Continuous

Materiality

At Asia Asset Finance PLC, the Company considers the views of both internal and external stakeholders while assessing matters which have the greatest impact on the future sustainability of the organisation. Identifying material issues has helped to develop strategic goals for the Company. The materiality table (according to GRI standards) below reflects the factors that matter most to the organisation on a scale of 1-3, with 1 being the highest in importance.

	Level of Importance	
	Company	Stakeholders
Valuing Employees		
Training and Development	1	1
Workplace Satisfaction	1	1
Employee Retention	2	2
Compassionate and ethical conduct	1	1
Inclusion and equal opportunities	1	1
Workplace diversity	3	3
Reward and Recognition	1	1
No discrimination	1	1
Serving Customers and Community		
Speed of Service and Improved Efficiency	1	2
Increased Access and Diversified Channel network	2	2
Digital Solutions	1	2
Enhanced Customer Service	1	2
Diversified Portfolio	3	3
Improved relations with business partners	1	2
Customer privacy	1	1
Increased contributions to society	2	3
Socio economic compliance	1	2
Shareholder value creation		
Increasing returns to Shareholders	1	1
Increasing GWP, Revenue and Profitability	2	1
Optimum operational costs	1	1
Optimum use of property, plant and equipment	1	2
Commitment to the environment		
Mindful consumption of Energy, Water	1	2
Reduced Paper Usage	1	2
Environmental compliance	1	2
Ethics and Compliance		
Risk Assessment and Management (All Stakeholders)	1	1
Corporate Governance, Compliance and Internal Controls	1	1
Anti-corruption	1	1
Anti-competitive behavior	2	3

High - 1 | Medium - 1 | Low - 1

Our Strategy

2020/21 witnessed implementation of a new business model for Asia Asset Finance PLC, aimed at improving the level of secured advances and broad basing resource mobilisation through diverse channels including innovative funding instruments, streamlining of human resources, enhancing risk management structure and upgrading corporate governance practices. The Management of AAF believes the newly implemented business model with the core focus in Gold Financing will ensure the successful growth of the Company, which will in turn provide stable returns to all our valued stakeholders. The Company is currently ranked fifth in the market and provides its customers with a level of service and attention that is unmatched in the industry through its unique products and innovative service levels. Its focus remains unwavering and is always aimed at providing the best solutions and plans that are perfectly customised to meet specific requirements of a diverse clientele. The key objective is to grow AAF into the leading financial service provider in the country.

Asia Asset Finance PLC accomplished its Inaugural Debenture issue on 29th September 2020, whilst celebrating 50 Years as a Registered Finance Company in September 2020. The Company raised Rs. 1 Bn through listed debentures and had an overwhelming response. The Company made history by becoming the first NBFI to complete its first ever debenture issue with a rating a notch higher than the issuer. The Debenture was Rated [SL] A- (SO) (Negative) by ICRA Lanka Limited. The Company structured its Debenture in a unique manner which was a first in the Financial Sector. This distinctive feature ensured a secured Debenture for investors backed by the Company's valuable Gold Loan portfolio.

AAF will continue to leverage on synergies of its parent, Muthoot Finance, the world largest Gold Financing Company and replicate the successful business model in Sri Lanka by focusing mainly on Gold Financing. The funds were raised for the purpose of Gold Loan Financing, which has become the largest product of AAF. The Company expansion is mainly dependent on this capacity to reach customers via geographical penetration. In this regard, the Company envisages a very ambitious plan to expand the branch network across the provinces in the country. By implementing these strategies, the Company expects to establish its reputation as the most trusted Gold Loan Financing Company in Sri Lanka.

MANAGEMENT DISCUSSION

and Analysis

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Financial Capital

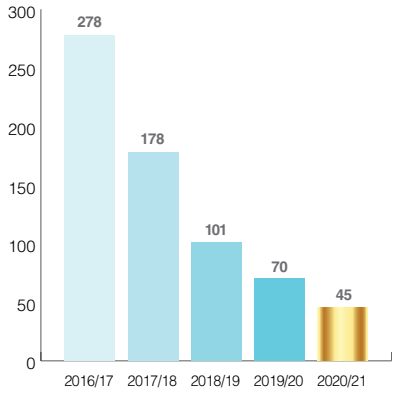
This financial review provides details of the AAF's financial performance during the year. The AAF's performance linked with the Operating Environment, which explains the broader global, local, and sector trends that affects the overall financial performance of the Company and the Management Discussion and Analysis, which analyses how the AAF grew its financial and other capitals in relation to its strategic imperatives. As the first wave of COVID-19 infections in late March 2020 and lockdowns ensued, the AAF moved into action, applying a range of operational measures, including: splitting teams and setting up protocols for working at alternate sites and from home; gradual deterioration in asset quality, which resulted in an increase of non-performing advances, and excess liquidity due to lower growth in advances being channeled to low interest earning assets also impacted the interest income. The drop in market interest rates, the reduction in policy rates, and due to concessions granted to the borrowers affected by COVID-19 including concessions prescribed by the regulator, as well as concessions and interest rebates granted at the AAF's discretion. The Company achieved Rs 45.2 Mn after tax profit while reaching Rs 15.3 Bn worth of Total assets. The AAF recorded the growth in assets of Rs. 195 Mn. or 1.3% (2020: 9.03%) during the year under review and recorded Rs. 1.535 Bn. as at March 31, 2021. This was mainly funded by the growth in deposits of Rs. 428 Mn. which reached Rs. 7.013 Bn. as at the year end. However the net lending portfolio had only a marginal growth of 1.45% (2020: 10.13%) for the year under review. However, timely shifting towards other products such as mortgage and gold loans paved the way to overcome possible unfavorable impacts of impairment provision during the pandemic distress. Furthermore, the gross NPL ratio of the Company significantly improved from 16.21% in 2020 to 19.18% as at March 31, 2021.

STATEMENT OF COMPREHENSIVE INCOME

Profit Before Taxes

Negative growth in net operating income by 8.35% with a marginal decrease in total operating expenses by 11.36% saw operating profit before taxes on financial services decreased by 7.04% (2020: -0.6%). The AAF's Cost to Income ratio for the year 2020 including taxes on financial services also improved to 50.14% (2020: 46.76%). Income tax expense for the year has increased by 79.39% (2020: 430%) to Rs. 41.58 Mn. from Rs. 23.1 Mn. in 2020. Profitability reflecting the drop in profit after tax and the substantial increases in assets and equity during the year, Return on Assets (ROA) 0.29 (2020 0.46) and Return on Equity (ROE) reduced to and 2.03 (2020 3.23) respectively. Yet, this can be considered a significant achievement when viewed against the magnitude of the challenges posed by the operating environment and the increase in impairment provision.

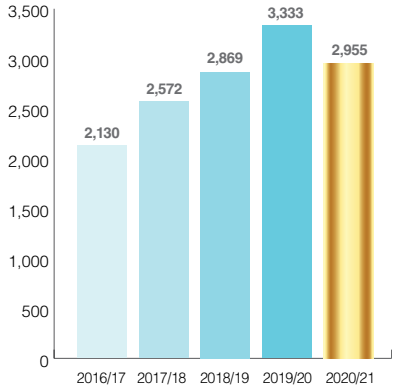
Profit After Tax
(LKR Mn)



Gross Income

Gross income dropped by 12.79% (2020: 13.92%) to Rs. 2.95 Bn. for the year from Rs. 3.33 Bn. in 2020. Interest income recorded a negative growth while positive growth has been shown from and the fee and commission income. This was mainly attributable to the decline in the average rate of interest due to volatile and decline of the interest rate.

Gross Income
(LKR Mn)

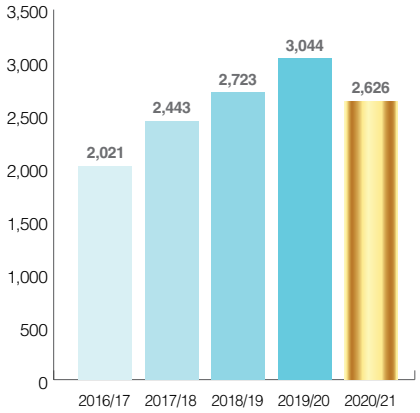


Financial Capital

Interest Income

The interest income has dropped by 13.7% compared to 11.79% 2020.Income has been dropped due to COVID-19 impact and reductions of the interest rates and the business. However, as witnessed across the industry, net lending portfolio had only a marginal growth of 1.45% (2020 - 11.61%) for the year.

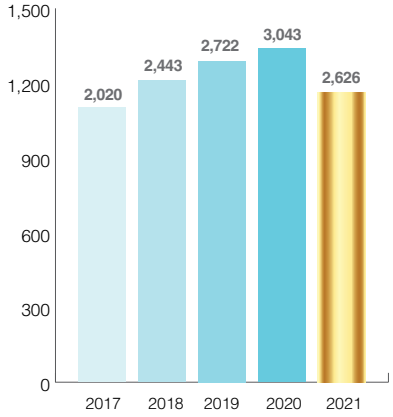
Interest Income
(LKR Mn)



Net Interest Income

The drop in market interest rates, the reduction in policy rates, and due to concessions granted to the borrowers affected by COVID-19 (including concessions prescribed by the regulator, as well as concessions and interest rebates granted at the AAF's discretion) all combined to exert pressure on the average rate of interest. The financial margin for the year was 8.35% compared to 10.21% for 2020. Consequently, net interest income dropped by 13.1% (2020 - 3.89%)

Net Interest Income
(Rs. Mn)

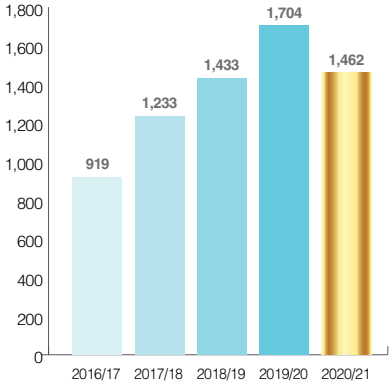


Interest Expenses

Interest expenses, which accounted for 50.26% of the total expenses (52.24% in 2020), decreased to Rs. 1.46 Bn. during the year from Rs. 1.7 Bn. in 2020, recording a negative growth of 14.19% (2020 - 18.89%). This was mainly due to timely reprising of liabilities to reflect the decreasing interest rate.

Total interest expense declined by 14.19% during the financial year. Majority (54%) of the portfolio is funded through customer deposits with 47.65% of the interest expense being attributed to customer deposits. The interest on borrowings showed a decrease of 22.25 % compared to last financial year and it was resulted due to 21.48% reduction in the other borrowings.

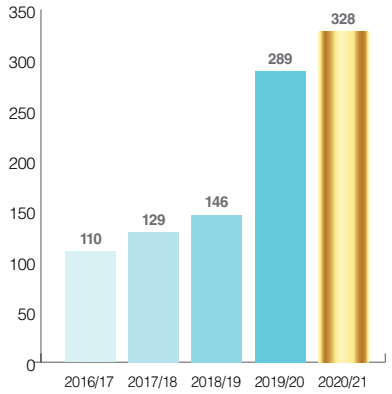
Interest Expenses
(LKR Mn)



Other Income

The Bank recorded a substantial increase in other income for the year of 13.67% (2020 - 97.74%) to Rs. 328 Mn., from Rs. 288 Mn. in 2020. This was made from fee based income.

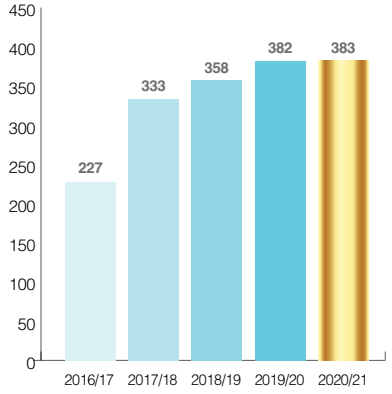
Other Income
(LKR Mn)



Impairment Charge

Impairment charges and other losses for the year recorded Rs. 382.9 Mn. This includes additional provisions made for expected credit losses as a management overlay and the potential losses that the existing impairment models may not be capturing due to high level of uncertainty and volatility created by COVID-19 pandemic.

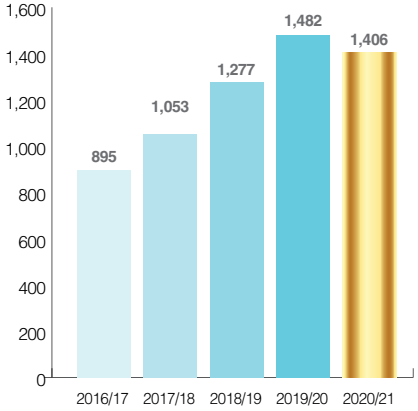
Impairement Charge
(LKR Mn)



Operating Expenses

Total operating expenses decreased marginally by Rs. 110.9 Mn or -7.12% (2020 16.77%) to Rs. 1.44 Bn. for the year from Rs. 1.55 Bn. in 2020. This was as a result of the decrease in personnel expenses and other general and administrative operating expenses. As per year under review cost to income ratio was 50.14% (2020 - 46.76%)

Movement of Operating Expenses
(LKR Mn)



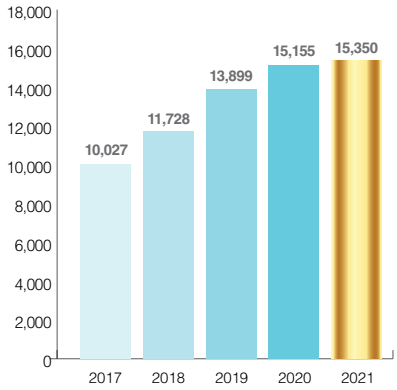
Financial Capital

STATEMENT OF FINANCIAL POSITION

Assets

Total assets of the AAF grew marginally by 1.3% (2020: 9.03%) during the year to reach Rs. 15.35 Bn at the year end. Given that the net loans and advances to customers recorded only a marginal decreased by.1.8%, deposits mobilised during the year invested in short term investments which mostly accounted for the growth in assets. Despite the challenging economic conditions in the country, Company was able to maintain the total assets at a stable level, a Rs. 15.35 Bn as at the end of the year.

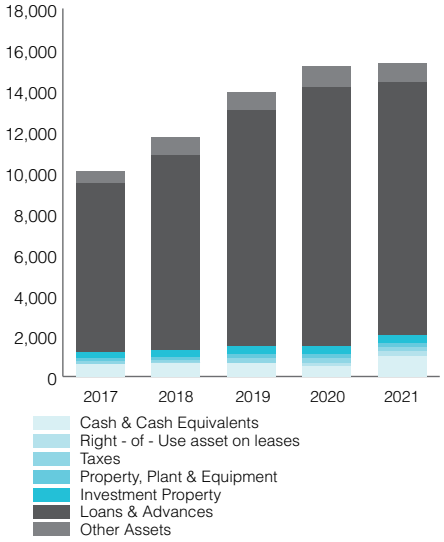
Asset Growth
(LKR Mn)



Composition of Total Asset

The lending portfolio constituted 80.84% of the total assets and stood at Rs. 12.4 Bn Investments in government securities & deposits with banks and other financial institutions were Rs. 1.66 Bn, constituted 11% of the total assets. Investment properties stood at Rs. 376 Mn and represents 3% of total assets.

Composition of Total Asset
(%)



INVESTMENT PROPERTY

Investment Properties includes bare lands acquired by the Company from clients who defaulted on accommodations granted and purchased properties (pages 151-153). These properties are held by the Company for capital appreciation and rental purposes.

The Company has not generated any rental income from the properties which includes under the Investment Property. But Company has spent Rs. 0.84 Mn and (Rs. 0.72 Mn in 2020) for security charges of the Investment property.

FAIR VALUE HIERARCHY

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio three years and the latest valuation was done on 31 March 2021 to March 2019. The fair value has been determine based on valuation performed by Mr. D. Jayawardene, Incorporated Valuer, B.Sc. Estate Mgt. & Valuation (Special) A.I.V. (Sri Lanka) except Manipay Land (No. 55 Nachchimar Kovil Road, Manipay) which fair value has been performed by the V. Selvanayakam FIV (Sri Lanka) Dip in Agriculture (Sri Lanka). As per year under review, Fair value of Investment Property Rs. 548.7 Mn and (Rs. 582.9 in 2020).

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

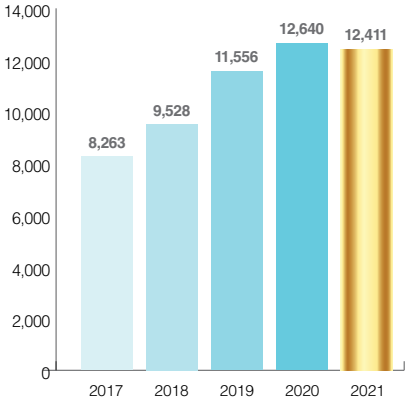
Valuation Technique	Significant Unobservable Inputs	Interrelationship between Key Unobservable Input and Fair Value Measurement
Market comparison method – value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio ranges from Rs. 400,000 to Rs. 10,000,000 in the Colombo area and Rs. 28,000 to Rs. 400,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: Per perch value was higher/(Lesser)
Depreciated replacement cost method	Value per sq.ft determined based on similar properties value and depreciated for period used.	The estimated fair value would increase (decrease) if: Depreciation rate was lesser / (higher sq.ft value was higher/ (Lesser)

LOANS AND RECEIVABLES PORTFOLIO

During the year loans and receivables portfolio topped the Rs. 14.03 Bn and reached Rs. 200 Mn up by 1.45% compared to the 2020 financial year. The main contributor of the loan portfolio is gold loans. Gold loan portfolio has increased 55.01% with compared to 2020 .

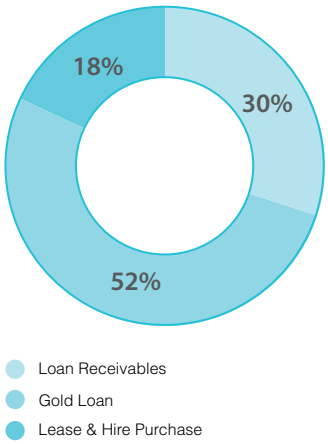
Loans and advances to customers reflecting the continued slowdown in credit to the private sector and the increase in impairment provisioning, the growth in loans and advances to customers was limited to 1.45% (2020:11.65 %) for the year. Accordingly, net loans and advances as at March 31, 2021 was Rs. 12.41 Bn. compared to Rs. 12.63 Bn. The net loans and advances accounted for 80.84.% (2020: 83.44%). The company efforts during the year were mostly directed towards granting concessions and accommodating moratorium requests to the borrowers affected by COVID-19. AAF has changed strategies to develop secured portfolios to avoid credit risk of the portfolios.

Net Loans and advances
(LKR Mn)



Financial Capital

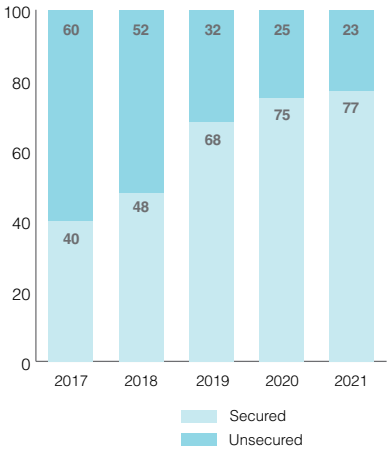
Loans & Advances



AAF has changed strategies to develop secured portfolios to avoid credit risk of the portfolios. The composition of the Secured vs. unsecured portfolio has been increased to 76.7% (2020:74.9%). The Company has started to secure portfolio through movable and immovable properties to reduce impairment provision impact. As a result of the strategic decision of the portfolio management, AAF managed requirements of the year impairment provision.

Secured Vs Unsecured

(%)



CREDIT QUALITY

Asset quality of the loans and advances portfolio is a key determinant of the sustainability of the Company operations. Deterioration in asset quality witnessed industry-wide during most of the year caused the Company to also experience a further increase in NPLs. The company moderate risk profile, and a robust risk management framework, helped to end the year with the gross NPL ratios at 19.8% (2020: 16.2%). The Net NPL ratio at 4.66% (2020: 5.85%). The accumulated impairment provisions for loans and advances as a percentage of the total loans and advances portfolio as at the end of the year amounted to 5.38% (2019: 3.89%).

Further, total regulatory provisions to gross loans and advances portfolio stood at Rs. 1.59 Bn at the year end. Specific provision coverage ratio (based on regulatory provisions) increased to 58.7% (2020: 50.06%).

NON-PERFORMING LOANS AND ADVANCES (NPL)

The year under review, recorded the highest industry-wide non-performing (NPL) rate after 2015, caused by COVID-19 pandemic, unfavourable weather conditions, unstable political environment and slowing down of economic activities in 2019. However, the Company was able to maintain the NPL level below the industry averages. In conclusion, the Company is hoping for economic stability in post-election era with a conducive environment for growth across all the industries in Sri Lanka despite medium term shocks that might affect certain sectors due to the COVID-19 pandemic. The strategies implemented to improve credit quality and futuristic strategic plans of the Company will ensure moderate growth for next couple of years with strong growth in the medium to long term. State-of-the-art fintech solutions will be implemented to enhance the efficiency and the productivity of business processes while focusing on superior customer experience. This ultimately will help us to thrive in a volatile market condition and engender higher profitability in the future periods.

IMPACT OF STAGING OF LOANS ON COLLECTIVE IMPAIRMENT

The Company categorises its loans into stage 1, stage 2, stage 3 and originated credit impaired when determining the collective impairment provision under SLFRS 9 (page 142). The sensitivity of collective impairment provision to staging of the loans is given below. If performing loans and advances currently in stage 2, were moved to stage 1, the ECL provision of the Company as at 31 March 2021 would have reduced by approximately 1.52%. The total loans and advances in stage 2 as at 31 March 2021 amounts to Rs. 780.4 Mn for the Company. If performing loans and advances currently in stage 1, were moved to stage 2, the ECL provision of the Company as at 31 March 2021 would have increased by approximately 11.27%. The total loans and advances in stage 1 as at 31 March 2021 amounts to Rs. 9.1 Bn for the Company.

IMPACT ON COLLECTIVE IMPAIRMENT DUE TO CHANGES IN FORWARD LOOKING INFORMATION

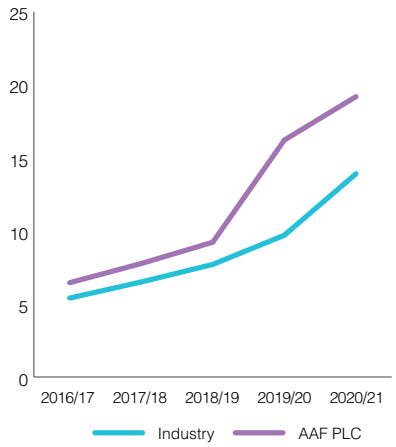
The Company calculated expected credit losses based on three probability-weighted scenarios. 10% increase/decrease in the worst case scenario with a similar decrease /increase in the base case scenario would have increase/decreased the collective impairment provision of the Company by approximately Rs. 3.9 Mn as at 31 March 2021. The Company calculated expected credit losses based on three probability-weighted scenarios. 10% increase/decrease in the best case scenario with a similar decrease /increase in the base case scenario would have increase/decreased the collective impairment provision of the Company by approximately Rs. 3.5 Mn as at 31 March 2021.

IMPACT OF EXTENDING THE RECOVERY CASH FLOWS BY FURTHER ONE YEAR FOR INDIVIDUALLY SIGNIFICANT IMPAIRED LOANS

Had the Company further extended the recovery cash flows by one year, the cumulative impairment provision for individually significant impaired loans would have increased by Rs. 172 Mn.

NPA Movement

(%)

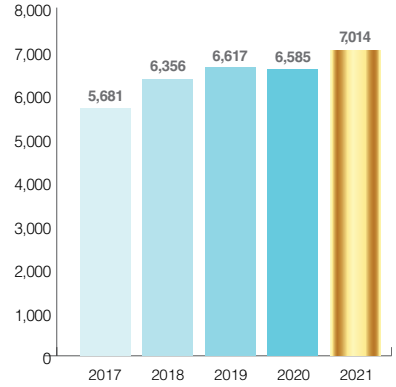


FIXED DEPOSIT BASE

The customer deposits continued to be the single biggest source of funding for the Company, and it was recorded from total funding 54.7%. During the year under review Fixed deposits base recorded Rs. 7.013 Bn. as at 31 March 2021. This was mainly funded by the growth in deposits of Rs. 428 Mn or 6.5% (2020: -0.49%), which reached Rs. 7.013 Bn as at the year end.

Customer Deposit

(LKR Mn)

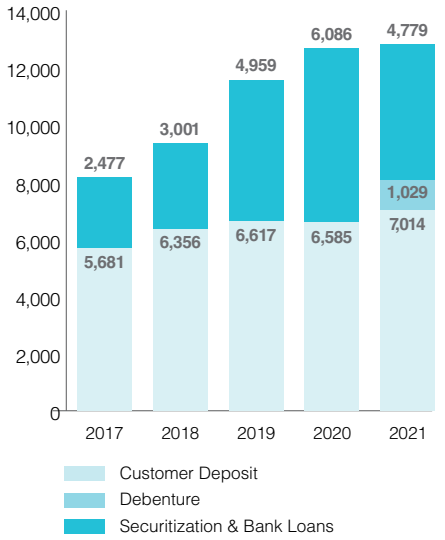


Financial Capital

FUND COMPOSITION

The external borrowings during the year were mainly from domestic fixed deposit, securitization borrowings and Debenture. During the year under review the Company has mobilized 6.5% growth of Fixed deposits from the local market and Rs. 1 Bn as secured debenture. During the year, the Company effectively managed the operating cash flows and settled its short-term and long-term borrowings. As a result, the borrowing base reduced by 21% and stood at Rs. 4.77 Bn at end of the financial year.

Composition of Borrowings
(LKR Mn)

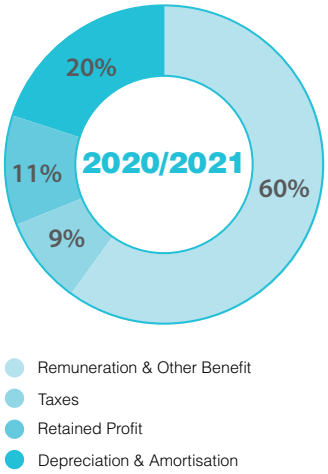


OTHER RESERVES

Other Reserves reported general and statutory reserve amounting Rs. 79.2 Mn and 73.76 Mn in 2021 and 2020 (page 161) Statutory reserve fund is a capital reserve which contains profits transferred as required by Section 3 (b) (i) of Finance Companies (Capital Funds) Direction No. 1 of 2003. The Company transferred 5%of its annual net profit after tax to this reserve in compliance with this direction.

VALUE ADDITION

Asia Asset Finance is highly interconnected with and interdependent on its stakeholders for its value creation. This is reflected in the duality of the value creation process though delivering value to and deriving value from stakeholders. Deriving value enables the AAF to create value for itself, giving capacity to sustain its performance into the foreseeable future as a going concern. These are two mutually inclusive aspects since it is the sustained performance of the AAF that enables it to give due consideration to the society and the environment while the AAF cannot sustain its performance in the long run unless it gives due consideration to the social and environmental aspects. A profitable operation is a precondition for being sustainable AAF continued to build both financial as well as other capitals through its activities during the year. Details of the value creating activities are given in the value addition table. The outcomes of such activities are summarised in the "Value added Position"



Manufactured Capital

AAF's Manufactured Capital consists of its human-created and serviced -based infrastructure which indirectly drives the provision of products and services including the branch network, Information and Communication Technologies (ICT) infrastructure and other property, plant, and equipment (PPE) employed for business operations.

MANAGEMENT APPROACH

In line with our customer- centric culture, we cater to the evolving nature of customer needs by using the resources in our Manufactured Capital such as Building, Property Plant and Equipment, Branch network, IT equipment etc. It forms an integral part of the Company's value creation process and superior customer care.

MAIN PRODUCTS;

- Fixed Deposits
- Gold Loan
- Leasing
- Mortgage Loans

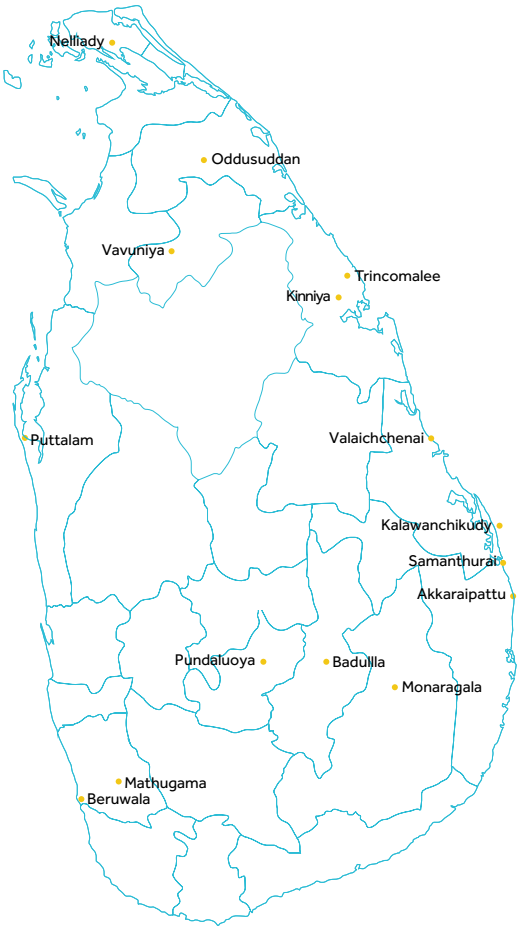
NEW PRODUCT;

- Debentures

BRANCH NETWORK

The Company engages with customers through branches and our geographic branch distribution is critical for our success. The staff at all branches are experienced and trained regularly in customer handling.

NEW BRANCHES OPENED



LOOKING AHEAD

The Company remains committed to enhancing its customer base by expanding its branch presence and fast tracking digitalisation. AAF will continue in its pursuit of innovation to retain and attract new customers.

Intellectual Capital

MANAGEMENT APPROACH

At Asia Asset Finance PLC, intellectual capital is defined as a combination of a well-positioned brand, talented human capital, strong governance framework and relationship with our stakeholders. Another strong pillar of our Intellectual Capital is our parent, Muthoot Group, which provides the expertise, financial stability and vision to entrench our credentials in the financial services industry in Sri Lanka. The diversified knowledge of our experienced Board of Directors and well respected brand further strengthens our credentials.

INFORMATION & TECHNOLOGY

The Company's Information Technology (IT) processes and systems create value for and strengthen the organisation's goals. The IT function at AAF played a pivotal role in the Company's performance in the year under review. The 'new normal' created by the pandemic due to mobility restrictions and lockdowns to curb the spread of COVID-19 tested the IT preparedness of companies across all sectors. AAF was able to surmount the 'work from home' challenge with ease, as the Company had been investing in enhancing and streamlining its processes by leveraging on advanced IT business processes. Having understood the postCOVID-19 digitalisation context, AAF identified key IT functional requirements to implement during the period.

The Company has invested heavily in enhancing its IT platforms year-on-year. Some of the process efficiencies undertaken in 2020/21:

NEW IT DEVELOPMENTS

- Initiatives on Cyber Security Framework and Risk Assessment Framework – AAF will invest on comprehensive Cyber security and Risk Assessment framework to ensure digital security to customers and their respective data`
- Increasing Digital Payment Points – With full integrated Lanka Clear national payment gateway, AAF is enabling features including online real time inward and outward cash operations and Lanka QR initiatives. AAF will integrate core system with leading digital touch point service providers to enhance customer experience.
- Gold Loan Home Redemption and Agent Monitoring App – Mobile based application will help to promote and provide convenience to customers by requesting gold loans though mobiles securely and safely. Agent mobile app will monitor entire workflow for provide secure and efficient services to customers.
- Business Intelligence and Advance reporting platform – this will provide efficient mechanism to interpret and define advance reporting requirements based on the growing demands.
- Document Management System for faster access and informed decision-making.

EMPLOYEE KNOWHOW

The Company considers its employees as its most valuable asset and has established industry best human capital management practices. The performance of employees is evaluated at regular intervals and annual performance reviews are based on Key Performance Indicators (KPIs) consisting of behaviours and competencies. The ratings are then linked to annual Increments, which motivates staff to strive work hard to achieve their KPIs. The Company maps out appropriate trainings for staff to ensure they remain at the cutting-edge. maintain a high standard of knowledge and expertise.

The Senior Management Team are well qualified with most having MBAs including the AGMs and Regional Managers and some key Branch Managers are equipped with their Bachelor's Degrees and are ready to take up Senior Managerial positions as per the succession plan.

The Company have in place a cost reimbursement scheme for further studies which encourages the management staff to further their studies in order to be ready for the next level.

BOARD PROFILE

Our Board of Directors comprises individuals with diverse expertise, experience and accumulated industry exposure. They come from various educational and professional backgrounds. The Board boasts of various fields which are relevant to the Industry such as Legal, Finance, Tax, IT and Economics, which shows an appropriate mix of knowledge and experience required to take the Company to the next stage of growth, ably supported by the senior management.

WAY FORWARD

AAF's aggressive growth strategy is enhancing its brand in the industry and coupled with our unique offering and backing by the Muthoot Group, we expect to deliver superior service to our customers

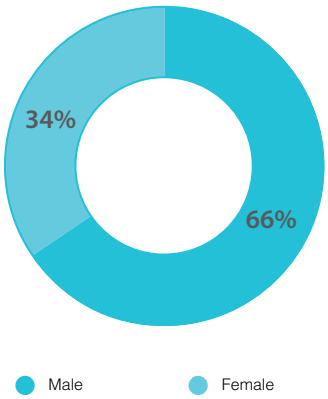
Human Capital

Asia Asset Finance PLC advocates best practices in Human Capital management to create an enabling environment for employees to reach their full potential and thereby contribute to the long-term success of the organisation.

MANAGEMENT APPROACH

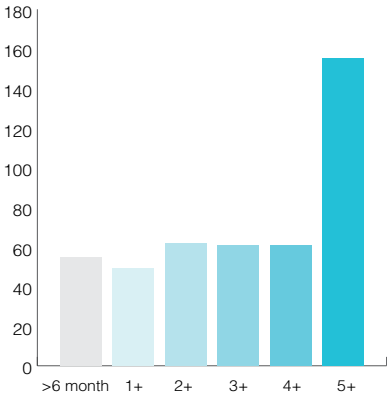
The Company is committed to creating an 'equal opportunity work environment to build a talented team. All employees are treated fairly and their prospects within the Company are determined solely by their performance. A non-discriminatory policy ensures that no discrimination is allowed based on religion, colour, sexual orientation, gender identity, age, marital status, disability, or any other basis. The Company fosters a healthy dialogue with employees and encourages an open-door culture, which has led to the development of strong relationships with all levels of the employees.

Male Vs Female



Service Period

(No.)



PERFORMANCE MANAGEMENT

The Company considers its employees as its most valuable asset and has established industry-best human capital management practices. The performance of employees is evaluated at regular intervals and annual performance reviews are based on Key Performance Indicators (KPIs) consisting of behaviours and competencies. The ratings are then linked to annual increments, which motivates staff to strive hard to achieve their KPIs.

A 360-degree evaluation system is also in place for managerial and higher grades to obtain a transparent and overall view of their performance. This mode of evaluation solicits and uses feedback from the employees, co-workers, peers and subordinates as well as their supervisors. The employee is rated based on their contribution towards the job and behaviours observed in performing the job. The monthly Performance Allowance encourages employees to be more productive on a consistent basis.

SUCCESSION PLANNING

The Company's Succession Plan aims at recognising high performers identified through the Performance Evaluation process, whereby these performers are groomed to reach the next level in the hierarchy by taking them through a structured training and development process.

Human Capital

ONLINE LEARNING

The Company's Intranet is uploaded with relevant regular training material on day-to-day operational aspects. In addition, quarterly training schedules are prepared based on the outcome of the Performance reviews and such training is also conducted through e-learning as appropriate.

TEAM-BUILDING INITIATIVES

The company organises various events that promote team building and collaboration. An organising committee consisting of a cross divisional team – covering all branches and divisions/roles and grades in the organisation. The Company also conducts Outward Bound Training programmes at external locations for staff to further enhance team work amongst multi divisional staff members.

EMPLOYEE SURVEYS

A Climate Survey was conducted during 2020 covering all employees across the organisation on an anonymous basis and the results were shared amongst the Senior Management Team.

The aim of the survey was to obtain a transparent view on the organisation in the aspects of Leadership, Communication, Employee Motivation, Training & Development and Working Conditions. All respondents were quite positive about their Leadership which provides all guidance and support towards performing their job roles.

The Staff were provided with challenging goals pertaining to their jobs. The respodents also stated that the communication across the organisation was quite transparent, the compensation / benefits and rewards schemes were also competitive and that that company provides a favourable working conditions and culture along with ample training opportunities towards the development of staff.

EMPLOYEE WELFARE

A Medical scheme is available for various categories of staff wherein assistance is provided for hospitalisation and spectacle requirements. This scheme is now extended to include the hospitalisation for COVID-19 and PCR testing as well.

Apart from the above, the Company welfare and sports club provides period facilities as appropriate, such as assistance during natural disasters and assistance for low income-earners during the pandemic period.

The Company offers discount schemes as applicable for staff to facilitate their regular purchase requirements through leading merchants. New Arrangements are being made to arrange Hire-Purchase/Easy Payment schemes for staff to purchase their household requirements through leading vendors/merchants in the future.

The Company also felicitates longstanding staff who have completed many years in service annually during the Company's Anniversary celebrations. Furthermore, Best Performance (branch and individual) is recognised during the Annual Christmas Party for which a CEOs recognition award is bestowed.

WORK-LIFE BALANCE

The Company encourages work-life balance for employees and respects the personal time of its employees. Employees are always encouraged to utilise their Annual Leave and Casual Leave to attend to their personal commitment. Many events are organised within the Company which involves family members.

The work-from-home policy introduced as a result of the pandemic situation enabled staff to attend to official matters whilst balancing the home front.

RECREATION

The Company usually organises get-togethers for the Sinhala and Tamil New Year, a Christmas party and also a trip for staff spread across different locations. Considering the pandemic situation, these events were held separately across regions during the year under review, in line with the health regulations.

Social and Relationship Capital

CUSTOMERS

Management Approach

The Company values its relationships with its stakeholders and strives to build trust. AAF is committed to serve customers with a comprehensive set of products and excellence for sustainable value creation. Appropriate investments are made to train employees to give their best to exceed customer expectations.

Customer-Centric Services

As one of the most aggressive gold loan companies in the market, AAF has always come up with innovative ideas considering the prevailing market conditions. During the year under review, the Company introduced Home Gold Loan, to cater to the requirements of our customers and to satisfy their financial needs, which helped customers during travel restrictions,

The year under review provided a great opportunity for AAF to communicate with customers while working from home. Staff educated customers on business proposal preparation and fund management which helped the customers obtain additional working capital given by the government. Further, over the financial year, the government proposed Debt Moratoriums to customers for which we received requests from more than 60% of customers. AAF continued to support the customers through these directives and advised them on how cash flows should be managed and to automate operations through reliance on technology

Further, customers were given alternative payment methods such as Ezcash / Cargills / Direct Bank deposits where customers can pay through other repayment methods with ease. Customers were educated with all these payment methods in order to broaden the services offered to our customers.

Customer Outreach

AAF has established a network of 48 branches including Head Office, across the country, giving the Company a competitive edge to gain market share and supporting the bottom-line profitability. In the reporting year, the Company established many new branches to serve customers across new geographies.

Product Responsibility

In a competitive marketplace with socioeconomic challenges, AAF offers disciplined and prudent operations. Staff are trained to be responsible, efficient and within the contractual obligations, terms and conditions stipulated therein. AAF upholds its responsibility to ensure that customers are enabled to make informed decisions on products and services in keeping with their repayment capacities. Customer privacy and security of data and information are maintained whilst complying with all applicable legislature and regulatory requirements laid down to ensure product responsibility.

Marketing Communication

The Company leverages on social media and Digital Marketing as its main medium of communicating with customers. Further the Company has revamped its' website to be more informative and user friendly. Currently, the Company is in the process of developing and installing a Chat Bot in order to make the website more informational. Steps are being taken to digitalize the Company's operations in order to be more efficient, effective and environment friendly.

The Company is working towards a paperless work environment and digital onboarding and processing of customer applications providing better service to the customers.

COMMUNITY

Engaging communities and building positive relationships is a part of AAF's strategy. During the year, the Company undertook many CSR projects to uplift the lives of COVID-19 affected people across the Company:

- Essential supplies were donated as COVID-19 relief packages
- Provided food and stationaries for underprivileged children.
- Food and provisions provided for few selected Elders' Home.
- Provided provisions and gift toys to the cancer hospital Children's' ward

Social and Relationship Capital

Green Projects

Demonstrating its concern for the environment, AAF was the first partner of the Sri Lanka Army initiated 'ThuruMithuru Nawaratak' programme that was aimed at increasing the country's green cover.

The Company is also initiating a programme to recycle used papers through a paper recycling company to put in place better waste management practices while making a conscious effort to reduce paper usage. .

Way Forward

AAF will continue to strengthen relationships with key stakeholders to partner their growth and prosperity.
The Company will ensure steps will be taken to reduce company footprint and introduce new mechanisms, be an environmental friendly company.

Stewardship

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Board of Directors

Mr. V. A. Prasanth
Chairman/Non-Independent Non-Executive Director

Mr. R. J. A. Gunawardena
Chief Executive Officer

Mr. R. A. T. P. Perera
Independent Non-Executive Director

Mr. G. M. Alexander
Non-Independent Non-Executive Director

Mr. K. R. Bijimon
Non-Independent Non-Executive Director

Mr. K. G. K. Pillai
Non-Independent Non-Executive Director

Mr. R. A. B. Basnayake
Senior Independent Non-Executive Director

Mr. J. P. D. R. Jayasekara
Independent Non-Executive Director

Board of Directors

V. A. PRASANTH

Chairman/Non-Independent Non-Executive Director
(Appointed w.e.f. 2 June 2020)

V.A Prasanth, M.B.M; C.A.I.I.B; CRISC is a commercial banker with over 37 years of all-round exposure in Retail & Corporate banking, Treasury Operations and Information Security. Formerly he worked with Indian Bank – acclaimed as one of the best performing Public Sector Banks in India – as General Manager and Chief Information Officer. During this time, he was in-charge of Information Technology and Digital Banking. V.A Prasanth was also appointed as the Chief Financial Officer at Indian Bank, and further served as the Zonal Manager in two prominent zones of the Bank.

He has over two decades of experience in Financial Markets – Headed the Forex Dealing Room at Mumbai during 1994-1998, the Head of Singapore Treasury during 2001-2005, Head of Treasury Back Office during 2009-2011, and also the Administrator of Wealth Management Services for Indian Bank (WMS) between 2009 and 2011.

V.A Prasanth is presently associated with the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad, as Senior Domain Expert. He was appointed as the Chairman of Asia Asset Finance in June 2020.

RAJIV GUNAWARDENA

Director/Chief Executive Officer

Mr. Rajiv Gunawardena is the Chief Executive Officer / Director of Asia Asset Finance PLC. He was appointed to the Board in December 2009. He is responsible for setting and implementing the organisation's vision and strategy and for the management of the entire organisation's operations. He has a Bachelor of Science in Business and Information Systems from the United Kingdom and has completed his Masters of Professional Accounting at Monash University Australia. Prior to joining Asia Asset Finance, he has worked in the capacity of Senior Investment Analyst at Asia Capital PLC. He was a lecturer in Accounting at the Australian College of Business and Technology.

R. A. T. P. PERERA

Independent Non-Executive Director

Thusitha Perera was appointed to the Board of Asia Asset Finance PLC on 17th December 2013 as a Non-Executive Director. He started his career at Kreston Sri Lanka, correspondent firm of Grant Thornton International – Sri Lanka Division, a firm of Chartered Accountants and counts over 27 years of professional and commercial experience in the fields of auditing, finance and management consultancy both locally and internationally.

He presently serves as the Group Chief Financial Officer of Asia Capital PLC and also serves on the Boards of Asia Leisure Holdings (Pvt) Ltd, Asia Leisure Travels (Pvt) Ltd, Galle Beach CC Trust (Pvt) Ltd, Asia Tea Packaging (Pvt) Ltd, River House Estate (Pvt) Ltd, Asia Capital Technologies (Pvt) Ltd and Dickwella Hotels & Resorts (Pvt) Ltd. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and Associate Member of the Institute of Certified Management Accountants of Sri Lanka.

GEORGE M. ALEXANDER

Non-Independent Non-Executive Director

George Alexander has completed his Master's in Business Administration from the University of North Carolina – Kenan & Flagler Business School and has his bachelor's degree in Mechanical Engineering from the University of Kerala - TKM College of Engineering. He is currently working in his family business as the Executive Director of Muthoot Finance and takes care of operations across the states of Karnataka, Goa, Telangana and Andhra in India. He has the additional responsibility of heading the global operations of The Muthoot Group in the U.S.A as well.

Alongside this, he also serves on the Board of 2 other Group Companies (Muthoot Insurance Brokers and Belstar Finance & Investments). Muthoot Finance is an Gold Loan NBFC (Non-Banking Finance Company) and is the flagship company of The Muthoot Group. It was listed in 2011 and is traded in BSE & NSE. It is currently the largest gold loan company in the country. Apart from Muthoot Finance, The Muthoot Group has 16 other divisions, such as hospitality, health care, equity & commodity trading, insurance broking etc. The group is four generations old and George represents the fourth generation. Prior to joining his family business, he had worked for ING & Kotak Mahindra Bank in India.

Aside from work, George has served as the Chair for the Confederation of Indian Industries – Young Indians Bangalore Chapter in 2015. He was the Finance Chair for the Entrepreneur's Organisation Bangalore from 2016-2018. George was also one amongst the ten Indians chosen to represent India for the AIYD (Australia India Youth Dialogue) at Sydney and Melbourne in 2013. He is presently serving on the Board of Advisors at University of North Carolina's – Kenan-Flagler Business School and on the Board of XIME Business School Bangalore.

K. R. BIJIMON

Non-Independent Non-Executive Director

Mr. K R Bijimon started his career as Manager (Finance) with Muthoot Bankers in the year 1996. During 25 years of his service he led the transformation of Muthoot Bankers to the present day Muthoot Finance Ltd and over the years he rose to the position of Chief General Manager of the Company. Under his leadership, the Company grew manifold and today has become the largest lender of Gold Loans in the country and perhaps the largest in the world too. The flagship company Muthoot Finance current market capitalisation is $8.5 Bn.

As Chief General Manager, he is also responsible for driving growth across the diversified business portfolios of the Group such as Vehicle Finance, Home Finance, Micro Finance, Money Transfer, International Remittance & Foreign Exchange. Mr. Bijimon also assumes the role of Chief Operating Officer for Global Operations of the Muthoot Group. Muthoot Group today has a global presence with successful businesses in countries like USA, UK, UAE, Nepal and Sri Lanka.

Presently, he also holds Directorship in companies like Muthoot Forex Ltd, Muthoot Securities Ltd, Muthoot Commodities Ltd, Muthoot Homefin (India) Ltd, Muthoot Royalex Services Pvt. Ltd, Belstar Investment and Finance Pvt. Ltd and Asia Asset Finance PLC (Sri Lanka). Mr. Bijimon holds a Bachelor's Degree in Law (LLB), a Bachelor's Degree in Science (BSc) and a Master's Degree in Business Administration (MBA). He is also a Fellow Member of the Institute of Chartered Accountants of India, a Certified Associate of the Indian Institute of Bankers (CAIIB) and a Fellow Member of Certified Management Accountants (FCMA), Institute of Sri Lanka.

Board of Directors

K. G. K. PILLAI

Non-Independent Non-Executive Director

Kiran G presently functions as the Head of the Internal Audit & Inspection Department of Muthoot Finance Limited. He graduated from the Kerala University with a Bachelor of Science Degree in Mathematics. He is also a Chartered Accountant from the Institute of Chartered Accountants, India. He presently functions as the Head of the Internal Audit & Inspection Department, which employs a team of 1000 auditors. He possesses over 17 years of specialist experience in auditing with expertise in operational, financial, and regulatory compliance. He has a proven track record and experience in strategic reporting on internal control to the Audit Committee, including providing expertise and advice on risk management techniques. Further, he has experience in coordinating work with risk, legal, surveillance & vigilance departments. He provides his expertise to act as a resource person for other departments in their design, implementation and monitoring of activities across the organisation.

R. A. B. BASNAYAKE

Senior Independent Non-Executive Director

Independent Management and ICT Consultant with 30+ years of extensive experience in ICT and Business Management providing leadership to mission critical ICT and Business Process Transformation projects enabling business strategies of a wide variety of industry sectors predominantly encompassing Financial services, Digital Entertainment, FMCG/ consumer durables Retailing / Distribution and Food & Beverage manufacturing /Distribution, Hospitality and Information Technology solution delivery.

He brings extensive experience in Business Consultancy services as Director Advisory Services of Ernst & Young Sri Lanka providing Business Advisory and ICT Advisory solutions for mission critical private and public sector projects including ADB, UN, ICTA projects in Sri Lanka and overseas. He currently serves on the Board of Asia Asset Finance PLC as Senior Independent Non-Executive Director and also as Chairman of Evoke International (Pvt) Ltd, leader in Digital Entertainment industry Sri Lanka . Furthermore he currently functions as Senior Management Consultant at Latex Green (Pvt) Ltd, the regional leader in Natural Latex Foam industry. His project portfolio currently includes key IT Strategy and Business Process Re-engineering projects as an external consultant to key clients of Ernst & Young IT Advisory Service, Sri Lanka. During his career he has spearheaded ICT operations of Asia Capital Group a highly diversified conglomerate into capital markets, non banking finance, insurance, digital entertainment, tea packaging, Leisure, Technology as Group Chief Information Officer and held key Senior Management positions in ICT at The Lion Brewery Ceylon Ltd as Head of Information Technology and Richard Pieris Distributors Ltd as Manager Information Systems . He counts over 20 years experience as a key member of the strategic leadership teams of these companies and Ernst & Young.

He was also a visiting lecturer for MSc in Information Technology study program conducted by Informatics Institute of Technology in collaboration with Keele University UK. Rajitha holds a Master Degree with Distinction from Keele University UK, Executive Diploma in Business Administration with Distinction from University of Colombo and British and Australian Professional IT qualifications.

J. P. D. R. JAYASEKARA

Independent Non-Executive Director

Mr Danasiri Rupakumara Jayasekera holds a BA (Special) Degree in Economics with a second class upper division. He possesses over 33 years of progressive experience in taxation, ICT and banking and finance. He assumed office as an Assessor to the Department of Inland Revenue in 1984 and was promoted to the position of Senior Assessor in 1994.

In the year 2005, he was promoted as Deputy Commissioner, thereafter he was promoted as Commissioner and also to Senior Commissioner. Since 2015 July, he has performed duties as Senior Additional Project Director of Revenue Administration Management Information System (RAMIS) which is an IT project in order to automate the entire IRD Taxes. At the time of retirement he performed duties as Deputy Commissioner General (Information Technology) of the Department. Mr Jayasekera has gained considerable overseas exposure through training programs and international conferences attended during his career at the IRD.

He had the opportunity undergo training programs in various aspects of taxation in Austria, India and UK. He has also received valued exposure in double taxation treaty negotiations through programs conducted in Seychelles and Saudi Arabia. He has participated in strategic level forums as a delegate to conferences such as 'OECD Global Forum on VAT' held in France and the 'Fourth IMF – Japan High Level Tax Conference for Asian Countries' in Tokyo, Japan, Ministerial workshop on Blue Economy and Maritime Silk Road in China.

He was one of the member of Evaluation committee in preparation of Due Diligence Reports in respect of RAMIS project who visited to countries such as Singapore and Angola. Mr. Jayasekera hold a membership of APFA (Association of Public Finance Accountants of Sri Lanka) and also an active member of China Sri Lanka Society. He is also a social worker holding positions and memberships in several societies and associations.

Senior Management

RAJIV GUNAWARDENA

Director/Chief Executive Officer

Mr. Rajiv Gunawardena is the Chief Executive Officer / Director of Asia Asset Finance PLC. He was appointed to the Board in December 2009. He is responsible for setting and implementing the organisation's vision and strategy and for the management of the entire organisation's operations. He has a Bachelor of Science in Business and Information Systems from the United Kingdom and has completed his Masters of Professional Accounting at Monash University Australia. Prior to joining Asia Asset Finance, he has worked in the capacity of Senior Investment Analyst at Asia Capital PLC. He was a lecturer in Accounting at the Australian College of Business and Technology.

ROSHAN DE SILVA GUNASEKERA

Chief Operating Officer

Mr. Gunasekera joined Asia Asset Finance PLC in April 2010. Mr. Gunasekera carries more than 27, years of post-qualifying experience in the Finance Sector having commenced his career as a Credit Officer at Commercial Leasing Company Limited in 1994. Mr. Gunasekera is a graduate from the University of Sri Jayewardenepura and holds an MBA from the University of Colombo. He is also part-qualified at Chartered Institute of Management Accountants (CIMA) UK. Mr. Gunasekera is a member of the Association for Overseas Technical Senior Management Scholarship (AOTS) - Japan and is a visiting lecturer in Financial Services Marketing at the University of Colombo - Sri Lanka.

MR. THIRUNEELAKANDAN

General Manager

Mr. Thiruneelakandan, General Manager, joined the AAF PLC in the year 2003 and is a professional Banker with more than four decades of experience in Developing Banking including Project Financing, Credit Management, Foreign Exchange Management, Business and Financial transformation and diversification.

His ability to convince others with his persuasive consultancy skills and pleasing personality, led him to build up a massive high end corporate and individual clientele with over 2000 clients at AAF PLC.

He was playing a leading in giving leadership to young professional who join the Company lacking the Banking experience and managing the credits and lending.

He was instrumental in turning around the distressed clients due to the external shock of COVID- 19 pandemic. We are able to help many lives and being a part of their trusted partner during the pandemic. Further, the collaboration with "Muthoot Group" India, has strengthened the AAF PLC in the diversification of business specially in the gold loan trade and be able to be very competitive in the market.

He loves to build high performing teams which will lead to develop variety of programmes at AAF for highly potential staff. Believes in authentic leadership and deeply passionate and committed to do well by doing good and has led to develop program at AAF for high potential talent.

GEETHIKA ELWALAGE
Deputy General Manager - Finance

Geethika Elwalage has varied exposure of over 12 years in the financial services sector. She is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. She has additional experience of three years in the audit sector having worked at BDO Partners. Further, she holds a Master Degree in Business Administration from the University of Sri Jayawardenapura.

JAYANTHA WEERAPULLIGE
Assistant General Manager - Marketing

Mr. Jayantha Weerapullige joined Asia Asset Finance PLC in 2008. Currently he serves as the AGM – Marketing and he served as Senior Manager Lending for 3 years prior to being promoted as AGM. Mr. Jayantha Weerappulige holds a B.Com (Special) degree in Business Administration and MBA from University of Colombo. He counts over 20 years of working experience in Marketing, Credit & Accounts of which 17 years were spent in Finance sector and he also has the experience in banking sector in his previous employment with Peoples Merchant Bank during the period from 2003 to 2008. He holds more than 12 years of experience in the top management of Asia Asset Finance PLC.

He is responsible for overlooking branch network as well as overall operations of the branches which comprises of Marketing, Credit, Administrations & Recoveries. He is further responsible for product & business development, strategic planning & implementation.

SAJITH ATAPATTU
Assistant General Manager - Operation Product Development

Mr. Sajith Atapattu joined Asia Asset Finance in April 2010. At Asia Asset Finance Mr. Atapattu has worked with the Credit, Recovery, and Administration and Operations departments. Prior to working at Asia Asset Finance he has worked in the UK financial sector where he was involved in projects to improve financial inclusion within the non-banking population in the society. He holds a Bachelor's degree from University of Keele - UK.

MAHESH KUMARA
Assistant General Manager – Product Operations

Mr. Mahesh Kumara received his BBA (Accounting) Degree from the University of Colombo in 2001 while working in the industry from 1999. Subsequently, throughout his career, he gained experience in key finance sectors after working in several leading Finance companies as a member of the Senior Management. Mr. Kumara joined Asia Asset Finance PLC in December 2009 and presently holds the position of Assistant General Manager – Product Operations with an industrial experience of over 21 years.

Senior Management

PRAVEEN PEIRIS

Assistant General Manager – Treasury

Mr. Praveen Peiris joined Asia Asset Finance PLC in January 2014 and has over 17 years of Financial and Treasury experience. He started his career at a Global Audit Firm in 2004 and joined the Non-Banking Financial Sector in 2008. Prior to joining Asia Asset Finance PLC, he worked as Manager – Treasury in a listed finance company. He has the expertise in Treasury Management including Strategic Risk Management, Asset –Liability Management and Cash Management. He is Competent in Operational Management and has the capacity of handling financing of high-value projects. Mr. Peiris holds an MBA from the University of Wales, U.K and is a Finalist at the Chartered Institute of Management Accountants, U.K.

INDITHA JAYATHILAKA

Assistant General Manager - Information Technology

Mr. Inditha Jayathilaka is the mastermind solution provider for all IT related tasks at Asia Asset Finance PLC. He has more than 12 years of experience in banking and finance solution development and implementation. He received his BSc in MIS from University college of Dublin. Over the course of his career, he gained his experience from various sectors, ultimately specialising in the financial sector by providing mission-critical software and infrastructure solutions. Presently, he oversees the Information Technology department by proving IT related infrastructure, software and security service.

SAMIRA WEVELDENIYA

Assistant General Manager - Fixed Deposits

Mr. Samira Weveldeniya joined AAF
in June 2006 as the Negombo Branch Manager and was appointed to the post of Regional Manager - Fixed Deposit in 2009 followed by a subsequent appointment as the Senior Manager - Fixed Deposits in 2011. Then, again he was promoted as Assistant General Manager-Marketing in 2014. He has over 19 years of experience in Deposit Marketing in the Finance Sector and is currently working in the capacity of AGM-Fixed Deposits and contributes to the fund mobilisation and branch development of the Company. Prior to joining AAF, Mr. Weveldeniya worked at the Ceylinco Development Bank where he was awarded many times for his achievements in marketing. Mr. Weveldeniya holds a MBA from Buckinghamshire New University in UK and was conferred the Postgraduate professional status of Certified Professional Marketer- Asia (CPM - Asia) by The Asia Marketing Federation (AMF). He is also an Associate Member of the Certified Management Accountants Australia (AMA Australia). Apart from that he is also a Certified Member of Sri Lanka Institute of Marketing (SLIM). He holds the Preliminary Certificate in Marketing from the Sri Lanka Institute of Marketing and is partly qualified in Chartered Institute of Marketing (CIM UK).

SISIRA MUDALIGE

Assistant General Manager - Gold Loans

Sisira Mudalige brings in diverse and a rich portfolio of experience while his skill sets include portfolio and operation management. He began his career as the Deputy Manager at BP Airport Connect specialising and being directly involved in the central ordering system which was piloted at Airport Connect in 2009. Subsequently, he moved to Asia Asset Finance PLC, where he pioneered the development and implementation of Gold loan, a strategy in retail asset portfolio management. He was instrumental in promoting and expanding gold loan product via the entire branch network. Further he was responsible for setting up and implementing effective control procedures for gold loans. He holds a B.A. in Marketing and Finance – Keele University, Staffordshire UK (2009) and has successfully completed certificate & lower managerial levels in CIMA.

NAWASDEEN IHLAS

Senior Manager Finance

Mr Ihlas is an Associate Member of the Institute of Chartered Accountants of Sri Lanka & Member of the Association of Accounting Technicians of Sri Lanka. Also holds a B.Sc. Accounting (Sp.) Degree with a first class from University of Sri Jayawardenepura. Having a decent accounting background counting over 09 years in the financing & non financial sectors, he began the career as an audit trainee in Ernst & Young and step by step he enriched his designation to the current position due the hard working skill, dedication & passion shown in his career.

VIRANTHIE FERNANDO

Head of HR & Administration

Ms. Viranthie Fernando joined Asia Asset Finance in 2020 and her HR career spans over 15 years spread across diverse disciplines from Manufacturing, Hospitality, Insurance, FMCG and Banking and is a new addition to the Senior Management Team of Asia Asset Finance PLC.

During her short tenure as at todate in AAF – she has been instrumental in driving change across the organisation by facilitating implementation of the organisation's business plan and several other initiatives as well as she has been an actively involved in developing the HR operation and processes towards benchmarking against the industry standards and also building and maintaining the Company culture and employee relations. Prior to joining Asia Asset Finance – Ms. Fernando was heading the HR and Administration operation for ICICI Bank Sri Lanka which is a pioneer in the Banking sector – headquartered in India. She is a professional member of the Association of HR Professionals in Sri Lanka.

Senior Management

PRAMOD HINIDUMA

Senior Manager – Internal Audit

Mr.Pramod Hiniduma is responsible for overlooking the Branch Operation Audit, Department & Offsite Audit function in AAF. Mr.Pramod holds a Bachelor of Business Administration (Special) degree in University of Colombo in 2014. He is an Associate Member of SLIM & Certified Business Accountant of CA Sri Lanka. He counts over five years of experience in Finance Services and more than three years' experience in External Auditing. He started his career as an Audit trainee at Ernst and Young.

PRIYANTHA WIJESINGHE

Regional Manager - Central

Mr. Priyantha Wijesinghe joined AAF in October 2010 as a Branch Manager and was promoted as Senior Branch Manager in 2016. Currently Mr. Wijesinghe serves as a Regional Manager of the Company. He holds over 17 years experience in the finance sector. He has commenced his carrier in 1999 as a cashier at People's Bank before entering the University. Prior to joining Asia Asset Finance PLC Mr. Wijesinghe worked at Sampath Leasing & Factoring Ltd. At the time of leaving Sampath Leasing Limited Mr. Wijesinghe was the Assistant Branch Manager Kurunegala & Project Manager Micro Finance. He was instrumental in introducing Two Wheel Tractors to the product portfolio of Sampath Leasing and Factoring Ltd in 2007. Mr. Wijesinghe also worked at SEEDS (GTE) Ltd as a Project Marketing Manager – EM Technology and Senior Training Officer of North Central Region till March 2005. Mr. Wijesinghe holds a B.Sc. (Special) Degree in Agriculture (Specialised in Agricultural Extension). He also holds part qualification at The Chartered Institute of Marketing (CIM UK). He is currently reading for his MBA at the Wayamba University of Sri Lanka.

THARANGA WIJESENA

Regional Manager - Western

Having joined Asia Asset Finance PLC in 2012 as an Assistant Branch Manager, Mr. Tharanga Wijesena has groomed his way to the top management within short span of time owing to his technical expertise and practical experience in the industry. He completed his bachelor's studies in management specialised in business administration by obtaining reputed BSc. Business Administration (Special) Degree from University of Sri Jayewardenepura. Subsequently, he continued his postgraduate studies in business administration specialised in finance and obtained MBA (Finance) from University of Colombo. His education background in management specialised in business administration and finance has enable him to introduce customer focused management into day-to-day management of the operations. He holds overall responsibility of the management and operations of the branch network in western province.

In his previous employments, experience gathered in corporate management at premier conglomerate Hayles and exposure to banking at systemically important Peoples Bank has sharpened his skills set to manage the requirements of demanding clientèle in the finance industry while delivering the performance milestones of the Company.

SUMINDA HETTIGE

Regional Manager - Southern

Mr. Suminda Hettige graduated from the University of Sri Jayewardenepura in 2006 with a Bachelor of Science (Specialised in State Management and Valuation). He is currently reading for his MBA at the University of Ruhuna of Sri Lanka. Mr. Suminda Hettige joined AAF in January 2011 as a Branch Manager and he was promoted as a Senior Branch Manager in 2015. Currently Mr. Suminda Serves as a Regional Manager of the Company. He has commenced his career in 2006 at Samapth Leasing and Factoring (currently known as Siyapath Finance PLC). He was also with Orient Finance in 2008 as a Branch Manager. He holds over 14 years' Experience in the Finance Sector.

SUREN SUBRAMANIUM

Regional Manager - Gold Loans

Mr. Suren Subramanium joined Asia Asset Finance in the year 2008 as an Executive. He has held various positions in the organisation having handled Fixed Deposits, Loans and Leasing products. He possesses more than 18 years of experience in the financial sector. Currently Mr. Subramanium serves as the Regional Manager for Gold Loans overlooking 20 Branches in the Eastern, Uva and Central provinces. He is currently reading for his MBA at the Lincoln University, Malaysia.

SHIRANTHI GUNAWARDENA

Consultant - Legal

Mrs. Shiranthi Gunawardena was enrolled as an Attorney-at-Law in 1975. She served as a Law Officer at the People's Bank up to the year 1986 and thereafter joined Mercantile Credit Limited as the Deputy General Manager - Legal. In the year 1992, a Partnership was formed under the name Gunawardena and Ranasinghe Associates, wherein she is the senior partner and presently she is practicing under the name and style of Shiranthi Gunawardena Associates. Mrs. Gunawardena is also the Legal Consultant to the Finance House Association where all registered Finance Companies are members.

Corporate Governance

The Company's Corporate Governance model has been built and enhanced based on the following requirements and guidelines.

- Compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and amendments thereto as specified in Finance Companies (Corporate Governance-Amendment) Direction No. 4 of 2008, No. 6 of 2013 and No 05 of 2020 issued by Central Bank of Sri Lanka.
- The Companies Act No. 7 of 2007
- The Listing Rules of the Colombo Stock Exchange (CSE)
- Compliance with the Code of Best Practice on Corporate Governance 2017 (The Code) issued by The Institute of Chartered Accountants of Sri Lanka

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
BOARD OF DIRECTORS				
The Board should direct, lead and control the Company	A.1	7.10.3 (a)&(c)	Compliant	The Board of Directors currently comprises of Eight Members including the Chairman. The day-to-day monitoring of operations of the Company has been delegated to the CEO and the Executive Committee governed by policies, procedures, and authority by the Board of Directors. They bring a wide range of business, financial, legal, engineering,Technology and entrepreneurial knowledge, skills and experiences.
BOARD MEETINGS				
Frequency of Board meetings	A.1.1		Compliant	Board meetings were held twelve (12) times during a year to review financial performance and consider other matters such as strategic and operational plans, to review and evaluate the performance of the Company. The individual attendance by each member of the Board is presented on page 78 of this Annual Report.
BOARD RESPONSIBILITIES				
Formulation and implementation and monitoring of business strategies	A.1.2		Compliant	The Board is collectively responsible for formulation, implementation and monitoring of business strategies. In order to do so, the Board appoints sub-committees to assist the Board in fulfilling its stewardship function by reviewing systems of internal control, internal and external audit, risk management, credit management and financial reporting to shareholders.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Competence of the CEO and Senior Management in implementing Business Strategies	A.1.2		Compliant	The CEO is responsible for the management of the Company in accordance with the mandate defined by the Board and he is accountable for the achievement of the financial and non-financial objectives as stipulated in the Company Plan. The Senior Management / Management Committee consist of competent members who have skills, knowledge and experience and qualifications to carry out their respective functions effectively. The profiles of the Senior Management and the Management Committee are presented on pages 48 to 53 of this Annual Report.
Effective succession planning for the CEO and Senior Management	A.1.2		Compliant	Continuous training programmes are put in place to ensure that the Senior Management is up to the required standard in filling a vacant position.
Effective Systems to secure Integrity of Information, Internal Controls and Risk Management	A.1.2		Compliant	To secure integrity of information, internal controls, risk management policies and effective systems have been implemented by the Company. The effectiveness of such systems is continuously monitored by the management, internal and external auditors.
Independent Non-Executive Directors		7.10.2(b)	Compliant	Each Non–Executive Director submits a signed and dated declaration annually of his independence or non– independence against a specified criteria as set out in Appendix 7A of Colombo Stock Exchange listing rule Section 7.10.2(b).
Provision of relevant, quality and timely information			Compliant	Board papers, agenda and previous Board minutes to be tabled one week prior to Board meeting.
Compliance with Laws, Regulations, and Ethical Standards	A.1.2		Compliant	The Company has been taking steps to follow ethical standards in carrying out operations. The Company has taken relevant measures to comply with the laws and regulations applicable to ethical business practices wherever possible.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Consideration of all stakeholders interest in corporate decisions	A.1.2		Compliant	The Chairman ensures the effective communication with the shareholders and that their interests are taken into consideration in making decisions. The Board always makes an effort to minimize negative aspects towards any stakeholder in the corporate decision making process.
Adoption of appropriate accounting policies and fostering compliance with financial regulations	A.1.2		Compliant	The Company's Accounting Policies are reviewed annually and updated accordingly to reflect the true and fair financial position of the Company. Financial statements of the Company are prepared and presented in compliance with the Sri Lanka Accounting Standards (SLAS) and also comply with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011 and the directions issued there under. The Independent Auditor's Report is given on pages 106-109 of this Report.
Independent professional advice	A.1.3		Compliant	The Board members are permitted to obtain independent professional advice from third parties as deemed necessary, which includes the Company's external lawyers and auditors at the expense of the Company.
Company Secretary	A.1.4		Compliant	The Company Secretary possesses the required qualifications and expertise, and advises the Board on matters concerning the Companies Act and other relevant rules, regulations and regulatory guidelines. All governance activities are coordinated on behalf of the Board by the Company Secretary, who is accountable to the Board.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Independent Judgement	A.1.5		Compliant	Each Director has independent judgement on issues of strategy, performance, resources and standards of business conduct. Non–Executive Directors have necessary skills and experience to bring an objective judgement to bear on issues of strategy, performance and resources.
Dedication of adequate time and effort to matters of the Board and the Company	A.1.6		Compliant	The Board Members dedicate adequate time for the affairs of the Company by attending Board Meetings, Board sub- committee meetings and by making decisions via circular resolutions. The number of meetings attended to by each Director is presented on page 78 of this Annual Report.
Training for Directors	A.1.7		Compliant	The Chairman is responsible to ensure that the Directors possess sound knowledge to carry out their duties in an effective manner.
Division of responsibilities between the Chairman and CEO	A. 2		Compliant	The roles of Chairman and Chief Executive Officer are separated, and are not performed by the one and the same person.
Chairman's Role	A.3 & A.3.1		Compliant	The Chairman is responsible for the leadership of the Board, managing Board meetings and the business undertaken threat. The Chairman together with the Company Secretary is responsible to ensure all relevant issues are on the Board Agenda and Directors receive all appropriate information and documentation in a timely manner, thus facilitating the Directors to contribute at the deliberations.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
FINANCIAL ACUMEN				
Availability of sufficient financial acumen and knowledge	A.4		Compliant	AAF Director Board is equipped with qualified Directors in the field of Finance and Accountancy and possesses the necessary financial wisdom. AAF is fortunate to have highly-qualified Directors to advice the Board on financial matters. The Deputy General Manager - Finance possesses vast experience in financial management together with necessary qualifications in finance being an Associate Member of The Institute of Chartered Accountants of Sri Lanka, graduated and holds a Master's Specialized in Finance The Directors and DGM - Finance hold the required qualifications and experience in the financial service sector as set out in their profiles given on pages 49 of this Annual Report and provide the Company with the necessary financial guidance in conducting its business.
BOARD BALANCE				
Composition of the Board	A.5 & A.5.1	7.10.1	Compliant	The Board of Directors of the Company comprises of Seven Non-Executive Directors and one Executive Director.
Independent Directors	A.5.2	7.10.2 & 7.10.3.(c)	Compliant	There are three Independent Non-Executive Directors and they are free of any business or other relationship with the Company.
CRITERIA FOR EVALUATING				
Independence of Non-Executive Directors	A.5.3	7.10.2	Compliant	Independent Non-Executive Directors remained distant from management and free from any other business relationships that could impair in dependency in decision making. The Independent Non-Executive Directors Compliant with independency criteria stipulated by the CBSL, SEC and ICASL guidelines during Financial year 2020/21.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Signed independence declaration by the Non-Executive Directors	A.5.4		Compliant	Each Non-Executive Director is responsible to submit assigned and dated declaration on an annual basis of his/her independency/non-independency. At present, three Directors of the Company are Independent and the other four Directors are Non-Independent.
Determination of independence of Non-Executive Directors	A.5.5		Compliant	Based on the written submissions made by the following Non-Executive Directors and taking into account the criteria specified in Section 4.4 of the Corporate Governance Direction issued by CBSL, the Board deems them as "Independent".
Requirement to appoint a Senior Independent Director	A.5.6		Compliant	The company has a Senior Independent Director to the Board of Directors of AAF.
Supply of Information	A.6		Compliant	As a practice agenda together with high-quality information circulated seven days prior to the Board meeting to discharge the Board obligations effectively.
Information to the Board by management	A.6.1		Compliant	The Board receives regular reports and presentations on strategies and developments in relation to its business lines and geographical areas and overall plans and performance. Regular reports also provide the Board and Board Subcommittees information on risk appetite profile, emerging risks, risk management aspects, credit exposures, asset and liability management including liquidity, compliance and other vital matters. The agenda and supporting papers are distributed in advance to the Board and Sub-Committees meetings to allow time for appropriately review and to facilitate full discussion at the meetings. All Directors have full and timely access to all relevant information. Executive Director brief the Board on the functional areas of Credit, Finance and Recoveries that they oversee. The Board on other functional matters deals with the Managing Director or the heads of those respective departments when necessary. The Directors have free and open contact with management of all levels.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Adequate time for effective meetings	A.6.2		Compliant	The Company Secretary ensured that the required notice of meeting, agenda and information documents including Board papers are circulated to all Directors at least seven days prior to holding of Board meetings. This ensured that the Board members have adequate time to study and analyze the related papers and prepare thoroughly for Board meetings.
APPOINTMENTS TO THE BOARD				
Assessment of Board Composition			Compliant	The Board as a whole assesses its own composition to ascertain whether the combined knowledge and experience of the Board matches when the Company is faced with strategic demands facing the Company. The findings of such assessments are taken into account when making new appointments to the Board. This financial year, one new appointment was made to the Board by considering their industry experience and knowledge.
Disclosure of profiles of the newly-appointed Director	A.7.3	7.10.3. (d)	Compliant	Mr. V. A. Prasanth who was appointed the board with effect 22nd April 2020 in disclosure of Colombo stock exchange in terms of sec 8 of the listing rules.
Resignation of a Director			Compliant	There were no resignation on financial year
Period of Service			Compliant	Two Directors have exceeded the period of nine years of holding the office of Director.(Mr. C. Ramachandra with effect from 10th June 2020 and Mrs. Priyanthi Peris retired with effect from 22nd January 2021)
APPRAISAL OF BOARD PERFORMANCE				
Board appraisal	A.9 & A.9.1		Compliant	The Board periodically appraises their own performance and self–assessment to be undertaken by each Director in order to ensure that Board responsibilities are satisfactorily discharged. A self-assessment was carried out by each Director at the end of the financial year based on a specified evaluation checklist.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Fitness and Propriety of Directors			Partially Compliant	One of the Director of the Company holds office as a Director or any other equivalent position in more than 20 Companies/Societies/Corporate Bodies.
DISCLOSURE OF INFORMATION IN RELATION TO EACH DIRECTOR				
Information in relation to each Director	A.10	7.10.3 (c)	Compliant	The following information in relation to Directors is disclosed in the Annual Report. 1. Profiles of Directors - Pages 42-47 2. Corporate Governance Report – Pages 54-77 3. Details of Related Party Transactions – Pages 170-171. Details of Directors including names, transactions with a finance Company. 4. Board Meeting Attendance - Page 78 In terms of the Articles of Association of the Company, Directors abstain from voting on any Board resolution on a matter in which he or any of his relatives has substantial interest and are not counted in the quorum for relevant agenda item at the Board meeting.
Appraisal of CEO	A.11		Compliant	The Board annually assesses the performance of the CEO.
Targets for Director/ Chief Executive Officer	A.11.1		Compliant	The Director/Chief Executive Officer, being the apex chief executive of the Company, is entrusted by the Board to conduct day-to-day operations effectively to attain broad strategic targets/goals after giving necessary consideration to market reality and changes in relevant variables. Performance of the Director/ Chief Executive Officer is reviewed on an ongoing basis by the Board, evaluating the extent to which organizational objectives have been achieved overall, from an overall perspective.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
DIRECTORS' REMUNERATION				
The level and make up of Remuneration	B.2		Compliant	The Remuneration Committee in deciding the remuneration of the Directors.
Executive Share Options	B.2.5		Compliant	At present the Company does not have any executive share options.
Disclosure of remuneration	B.3		Compliant	The remuneration paid to the Directors is disclosed on page 170 of this Annual Report.
RELATIONS WITH SHAREHOLDERS				
Constructive use of AGM and conduct of General Meetings	C.1		Compliant	The AGM is held in a participative way with the presence of the shareholders. The Board is responsible for encouraging all the shareholders to be present at AGM's of the Company.
Consideration of proxy votes	C.1.1		Compliant	The Company counts all proxy votes and indicates the level of proxies lodged on each resolutions and the balance for and against resolution.
Separate resolution for separate issues	C.1.2		Compliant	The Company proposes a separate resolution on each substantially separate issue and the adoption of the Annual Report and accounts is proposed as a separate resolution.
Circulation of Notice of AGM and other documents	C.1.4		Compliant	The Annual Report, Financial Statements, copies of proposed resolutions to be passed at the AGM and the notice are sent to Shareholders with a notice period of at least 15 working days in compliance with the Companies Act.
Summary of procedure governing voting at General Meetings	C.1.5		Compliant	Instructions on appointing a Proxy with regard to representing the shareholder at the General Meeting to ensure the voting right are sent to each shareholder.
MAJOR TRANSACTIONS				
Disclosure of major transactions	C.2		Compliant	Board of Directors disclose to all shareholders all proposed corporate transactions which if entered in to would materially alter the Companies net assets base.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
ACCOUNTABILITY AND AUDIT				
Financial Reporting	D.1		Compliant	The Board ensures annual audited Financial Statements and periodically financial statements are prepared and published in accordance with the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011 and the directions issued there- under and the Financial Statements are presented in conformity with the Sri Lanka Accounting Standards. The Company has also Compliant with the requirements of the regulatory authorities such as the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.
Interim accounts, price sensitive public reports, reports to regulators and information required by statute	D.1.1		Compliant	Interim and Annual Financial Statements and other price sensitive information are disclosed to the CSE duly on a timely basis. All other regulatory reports are also submitted by the due dates. AAF's interim accounts have been published in a timely manner in three languages and conform to State Language Policy and the regulatory interim publication format and the applicable accounting standards and requirements specified in all other regulations mentioned in the previous paragraph.
Directors' Report	D.1.2		Compliant	Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are presented on pages 96-97 of this Annual Report.
Responsibilities of the Board and Auditors for the preparation of Financial Statements	D.1.3		Compliant	The statements of Directors' Responsibility for Financial Reporting and Independent Auditors' Report are presented on page 98 of this Annual Report.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Management Discussion and Analysis	D.1.4		Compliant	"Management discussion and analysis" discussing the above issues; Industry structure and development, risk and concerns, financial performance and prospects of the future are presented on pages 27-40 of this Annual Report.
Declaration of Going Concern by Directors Internal Control	D.1.5		Compliant	The Board of Directors provides disclosure confirming the going concern of the Company on page 90 of the Annual Report.
Maintain a sound system of Internal Controls	D.2		Compliant	A Risk Management Report is presented on pages 79-87 of this Annual Report. Review of the Effectiveness of the group's system of internal controls to safe-guard shareholders' investment and the Companies Assets.
Review of the effectiveness of the group's system internal control	D.2.1		Compliant	The Audit Committee periodically assesses the effectiveness of the internal control systems. The Audit Committee Report on internal controls is given on page 104 on the Annual report.
Internal Audit function	D.2.2		Compliant	AAF has entrusted its separate Internal Audit Division, with members who are well-qualified and experienced officers, to conduct independent audits in areas involving high risk, especially at branch level in keeping to the annual audit plan. Monthly/quarterly full audit/spot audits are conducted by both sets of internal auditors based on approved annual audit programmes.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
BOARD COMMITTEES				
Board Committees	D.3	7.10.5 & 7.10.6	Compliant	The Company consists of the following Board Committees as required by the relevant statutory provisions; Audit Committee Integrated Risk Management Committee Remuneration Committee Related Party Transaction Review Committee Credit Committee Each of the above Committees directly report to the Board and is responsible to present a report on performance, duties and functions at the AGM.
SUB COMMITTEES				
Audit Committee	D.3	7.10.6 (a), (b) & (c)	Compliant	An Audit Committee is appointed by the Board of Directors. This Committee consists of five members of the Board, out of the three members; two of them is a non-Independent Non-Executive Director. The Chairman of the Committee is an Independent Non-Executive Director who possesses qualifications and experience in accountancy. The composition and functions carried out by the Audit Committee is presented on page 102 of the Annual Report. The Committee met 04 times during the year.
Remuneration Committee		7.10.5.	Compliant	A Remuneration Committee was appointed by the Board of Directors during the year. The Chairman of the Committee is Non-Independent Non-Executive Director. The composition and functions carried out by the Remuneration Committee is presented on page 88 of this Annual Report.

Corporate Governance

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Integrated Risk Management Committee			Compliant	The Committee consists of 06 members. The committee periodically reviews the adequacy and the effectiveness of the risk management decisions taken by the Management.
Independence and objectivity of the Auditors			Compliant	The Audit Committee, in keeping to its terms of reference, monitors the objectivity, effectiveness and independence of the External Auditor of the Company. Audit Committee recommended Messrs BDO Partners as the External Auditor of the Company in 2014, in accordance with CBSL regulations on selecting regulatory approved External Auditors for the sector. Audit Committee's selection and review of external auditor was based on capability, resource availability of the firm and their level of independence from AAF and its Board of Directors. The duties of the Audit Committee is given in the Audit committee's report which is set out on page 102 of this Annual Report.
Adoption of a Code of Business Conduct	D.4		Compliant	The Company adopts a code of business conduct and ethics for Directors and members of the senior management team.
Confidential Information	D.4.1		Compliant	If the Company has a Code of Business conduct & ethics for directors and members of the senior management team, make affirmative declaration in the annual report that all directors and members of the senior management team have Compliant with such code. If unable to make that declaration state why you are unable to do so.
Affirmation from the Board regarding not violating the provisions of the code	D.4.2		Compliant	There were no violations of the Company's Code of Ethics during the year.

Principle	Reference to Code of Best Practice issued by ICASL	Reference to the Listing Rules of CSE	Compliant Status	Level of Compliance
Practice of good Corporate Governance	D.5		Compliant	The Company is adhered to the Corporate Governance directions issued by the Central Bank of Sri Lanka. Further, the Company has taken steps to be compliant with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for listed companies issued by the CSE.
Inclusion of a Corporate Governance Report in the Annual Report	D.5.1		Compliant	The Corporate Governance Statement states to what extent the Company is compliant with the Corporate Governance guidelines.
SHAREHOLDERS				
Institutional Investors				
Ensure institutional shareholders' voting intentions are translated into practice	E.1		Compliant	All shareholders are encouraged to participate and vote at the AGM. The names and the number of shares held by the 20 largest shareholders and percentage of such shares are presented on pages 94-95 of this Annual Report along with other shareholder information.
Regular and structured dialogue with shareholders	E.1.1		Compliant	The Company conducts a regular and structured dialogue with shareholders based on a mutual understanding of objectives. The primary mode of Communication between the Company and the Shareholders is through the Annual General Meeting. The Chairman ensures the views of shareholders are communicated to the Board as a whole.
OTHER INVESTORS				
Investing/ Divesting Decisions	F.1		Compliant	The Annual Report is circulated to all shareholders in a timely manner and includes adequate information to enable the shareholders to make decisions relevant to their investment in the Company.
Encourage individual shareholders to participate in general meetings and exercise voting rights	F.2		Compliant	All shareholders are encouraged to participate and vote at the AGM.

Corporate Governance

NOTE: The below mentioned numbering is used to coincide with the "section 2" of the Finance Companies (Corporate Governance) Direction, No. 3 of 2008 and No. 6 of 2013 amendment issued by the Central Bank of Sri Lanka.

2	The Responsibilities of the Board	Findings
2.1	Check the Board's approval of the finance company's strategic objectives and corporate values. Check whether the finance company has communicated its strategic objectives and corporate values throughout the finance company.	Complied
	a. Check the Board's approval of the overall business strategy of the finance company. Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented. Check that the overall business strategy contains measurable goals, at least for next three years.	Complied
	b. Check that the appropriate systems to manage the risks identified by the Board are prudent and properly implemented.	Complied
	c. Check that the Board has approved and implemented a policy of communication with all stakeholders including depositors, creditors, shareholders and borrowers.	Complied
	d. Check that the Board has reviewed the adequacy and integrity of the finance company's internal control systems and management information systems.	Complied
	e. Check that the Board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards/ CBSL direction, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.	Complied
	f. Check that the Board has defined the areas of authority and key responsibilities for the Board of Directors themselves and for the key management personnel.	Complied
	g. Check that the Board has exercised appropriate oversight of the affairs of the finance company by key management personnel that is consistent with Board's policy.	Complied
	h. Check that the Board has periodically assessed the effectiveness of the Board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Complied
	i. Check that the Board has a succession plan for key management personnel.	Complied
	j. Check that the Board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied
	k. Check that the Board has taken measures and processes in place to understand the regulatory environment and that the finance company maintains a relationship with regulators.	Complied
	l. Check that the Board has a process in place for hiring and oversight of external auditors.	Complied
2.2	Check that the board has appointed the Chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the Chairman and the CEO are in line with paragraph 7 of the Corporate Governance Direction.	Complied

2.3	Check that there are procedures determined and resolved by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the finance company's expense.	Complied
2.4	Check that a Director has abstained from voting and not be counted in quorum on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested.	Complied
2.5	Check that the Board has a formal schedule of matters specifically reserved to it for decisions.	Complied
2.6	Check that the Board has identified events where it is unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors and informed the Director of the Department of Supervision of Non- Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	N/A
2.7	Check that the Board publishes, in the finance company's Annual Report, an annual corporate governance report setting out the compliance with these Directions.	Complied
2.8	Check that the Board adopts a scheme of self-assessment to be undertaken by each director annually and maintains records of such assessments.	Complied
3	Meetings of the Board	Findings
3.1	Check that the Board has met regularly and held board meetings at least twelve times a financial year at approximately monthly intervals. Check whether consent of the board has been obtained through the circulation of written or electronic resolutions/papers.	Complied
3.2	Check that the Board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied
3.3	Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend. For all other board meetings, reasonable notice has been given.	Complied
3.4	Check that the directors have met with the attendance requirements. (at least two- thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held). Participation at the directors' meetings through an alternative director, however, to be acceptable as attendance.	Complied
3.5	Check that the Board has appointed a company secretary whose primary responsibilities shall be to handle the secretariat services to the Board and shareholders' meetings and carry out other functions specified in the statutes and other regulations.	Complied
3.6	Check whether the Chairman has delegated the responsibility for preparing the agenda for the Board meeting. If so, the Company secretary shall be responsible for carrying out such function.	Complied
3.7	Check whether there is a documented process in place for directors to have access to advice and services of the Company secretary in relation to Board procedures on applicable laws, rules, directions and regulations.	Complied
3.8	Check that the Company secretary maintains the minutes of Board meetings and prepares the minutes within a reasonable time and has a documented process for the minutes to be inspected by the directors.	Complied

Corporate Governance

3	Meetings of the Board	Findings
3.9	Check that the minutes of a board meeting contain or refer to the following: a) A summary of data and information used by the Board in its deliberations. b) The matters considered by the Board. c) The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence, including the names of the directors; d) The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations e) The understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and f) The decisions and the Board's resolutions.	Complied

4	Composition of the Board	Findings
4.1	Check that the Board comprises not less than 5 and not more than 13 directors.	Complied
4.2	Check that the total period of service of a director other than a director who holds the position of CEO, or executive director does not exceed nine years. (The period of non-executive director shall be inclusive of total period of service, served up-to the date of this direction).	Complied
4.3	Check that the number of executive directors, including the CEO does not exceed one- half of the number of directors of the Board.	Complied
4.4	Check that the Board has at least one fourth of the independent non-executive directors from the total number of directors, Non-executive directors cannot be considered independent, if he/she: has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company; Has or had during the period of two years immediately preceding his appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited statement of financial position. Has been employed by the finance company during the two year period immediately preceding the appointment as director; Has a relative, who is a director or a chief executive officer or a key management personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company. Represents a shareholder, debtor or such other similar stakeholder of the finance company; Does an employee or a director have a shareholding of 10% or more of the paid up capital in a company or business organisation: Which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its audited statement of financial position of the finance company; or In which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10 % of the capital funds as shown in its last audited statement of the financial position of the finance company; or In which any of the other directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited Statement of Financial Position of the finance company.	Complied

4	Composition of the Board	Findings
4.5	Check whether the alternative director appointed to represent an independent non-executive director meets the criteria for independent non-executive directors.	N/A
4.6	Ensure that non-executive directors have necessary skills, qualifications and experience especially in banking, finance to bring an objective judgement to bear on issues of strategy, performance and resources.	Complied
4.7	Check whether there had been required quorum and at least 50% of the directors present at the meetings were non-executive directors.	Complied
4.8	Check whether in all corporate communications where the names of the directors are disclosed, independent non-executive directors are expressly identified. Check whether the Annual Corporate Governance Report which is a part of the Annual Report has disclosed the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors.	Complied
4.9	Check the procedure for the appointment of new directors and orderly succession of appointments to the Board.	Complied
4.10	Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	Complied
4.11	Check whether the Board has announced to the shareholders and notified the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation or removal of directors giving the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the Board.	Complied
5	**Criteria to assess the fitness and propriety of directors**	**Findings**
5.1	Check that the age of a person who serves as director does not exceed 70 years.	Complied
5.2	Check if a person holds office as a director of more than 20 companies/ societies/ body corporates inclusive of subsidiaries or associate companies of the finance company.	Partly complied Mr. G. Alexander hold over 20 companies directorship.
6	**Management functions delegated by the board**	**Findings**
6.1	Check whether the functions delegated by the Board ensure that it does not hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied
6.2	Check that the Board reviews the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied

Corporate Governance

7	The Chairman and CEO	Findings
7.1	Check that the roles of Chairman and CEO are separated and not performed by the same individual.	Complied
7.2	Check that the chairman is a non-executive director.	Complied
7.3	In the case where the chairman is not an independent non-executive director, check that the Board designates an independent non-executive director as the senior director with suitably documented terms of reference.	
	Check that the designation of the senior director be disclosed in the finance company's Annual Report.	Complied
	Check that the Board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the CEO and relationships among members of the Board.	
7.4	Check whether the Board evaluation process covers the following; where the Chairman: a) Provides leadership to the Board; b) Ensures that the Board works effectively and discharges its responsibilities; and c) Ensures that all key and appropriate issues are discussed by the Board in a timely manner.(Should have been conducted at least annually).	Complied
7.5	Check that a formal agenda is circulated by the Company secretary approved by the chairman.	Complied.
7.6	Check that the agenda has adequate information in relation to the agenda items. Agenda papers are circulated to the directors 7 days prior to the meeting.	Complied
7.7	Peruse at least three Board minutes to ensure that the Board members have adequately contributed to the decisions.	Complied
7.8	Peruse at least three Board minutes to ensure that the Chairman facilitates the contribution of non-executive directors and ensures constructive relationships between the executive and non-executive directors.	Complied
7.9	Peruse the organisational chart approved by the Board and inquire from the key management personnel whether they are under the supervision of the Chairman.	Complied
7.10	Check the process adopted by the Chairman of the Company to communicate with the shareholders and how the views of shareholders are communicated to the Board.	Complied
7.11	Peruse the organisational chart approved by the Board to ensure that the CEO functions as the apex of the Company.	Complied

8	Board appointed committees	Findings
8.1	Check that the finance company has established an Audit Committee and an Integrated Risk Management Committee.	Complied
8.2	Audit Committee:	
	a. Check that the chairman of the committee is a non-executive independent director and possesses qualifications and experience in accounting and/or audit.	Complied
	b. Check that all members of the committee are non-executive directors.	Complied

8	Board appointed committees	Findings
	c. Check that the committee has made recommendations on matters in connection with: i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; ii) the implementation of the Central Bank guidelines issued to auditors from time to time; iii) the application of accounting standards;	Complied
	d. Check whether the committee has established a policy in relation to the service period, audit fee and any resignation or dismissal of the auditor; This policy should address that the engagement partner does not exceed five years, and is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied
	e. Check that the committee has obtained representations from the external auditors on their independence and evaluated the effectiveness, and that the audit is carried out in accordance with SLAuS.	Complied
	f. Check that the committee has implemented a policy on the engagement of an external auditor which does not impair the independence and objectivity in relation to the provision of non-audit services (in accordance with Sec 8 2(e) of the regulations).	Complied
	g. Check that the committee has discussed and finalized the nature and scope of the audit, with the external auditors including: i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and iii) the co-ordination between auditors where more than one auditor is involved.	Complied
	h. Check that the committee has reviewed the financial information of the finance company by perusing the minutes, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodic reports prepared for disclosure. The following areas should have been addressed in the review by perusing the minutes;	Complied
	Major judgmental areas; Any changes in accounting policies and practices; The going concern assumption; The compliance with relevant accounting standards and other legal requirements, and; In respect of the annual financial statements the significant adjustments arising from the audit.	Complied
	i. Check that the committee has met the external auditors to discuss issues, problems and reservations arising from the interim and the final audit including matters which need to be discussed in the absence of the executive management by perusing the minutes.	Complied
	j. Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	Complied

k. Check that the committee has taken the following steps with regard to the internal audit function of the finance company: i) Established the internal audit charter which covers the scope and functions of the internal audit department and satisfies itself that the department has the necessary authority to carry out its work. ii) Reviewed the resources of the internal audit department, and satisfies itself that the department has the necessary resources to carry out its work; iii) Reviewed the internal audit program and results of the internal audit process and, where necessary, ensures that appropriate actions are taken on the recommendations of the internal audit department; iv) Reviewed any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; v) Recommended the appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; vi) Checked that the committee has been informed of all resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers and has provided an opportunity for them to give the reasons for their resignations. vii) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. viii) Examined the organisation chart and terms of reference and ensures that the internal audit function is independent of the activities it audits. ix) Checked that a process has been documented which addresses that the audit work has been performed with impartiality, proficiency and due professional care.	Complied
l. Check the minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied
m. Check that the committee has met the external auditors without the executive management at least once in six months.	Complied
n. Check that the audit committee has an approved terms of reference which includes; i) Explicit authority to investigate into any matter; ii) The resources which are needed to do so; iii) Full access to information; and iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied
o. Check that the committee has met regularly and maintained minutes.	Complied
p. Check that the annual report contains a report from the Audit Committee which includes the following. i) Details of the duties and functions of the committee ii) Details of the activities of the audit committee; iii) The number of audit committee meetings held in the year; and iv) Details of attendance of each individual director at such meetings	Complied

	q. Check that the secretary of the committee is the Company secretary or the head of the internal audit function.	Complied
	r. Check that the "whistle blower" policy covers the process of dealing with; i) The improprieties in financial reporting, internal control or other matters. ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and iii) Appropriate follow-up action. Protection of the whistle blower : iv)	Complied
8.3	Integrated Risk Management Committee (IRMC):	
	a. Check that the committee consists of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied
	b. Check that the committees have documented processes to capture and assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a finance company basis and group basis.	Complied
	c. Check that the committee has evaluated functions carried out by all management level committees such as the credit committee and the asset- liability committees, in relation to addressing specific risks and managing these risks.	Complied
	d. Check that the committee has taken prompt actions in accordance with the policies on risks which have gone beyond the specified levels as decided by the committee.	Complied
	e. Check the committee has met at least quarterly to assess all aspects of risk management by perusing the minutes.	Complied
	f. Check that the committee has taken appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/ or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied
	h. Check that the committee has established a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically	Complied

Corporate Governance

9	Related party transactions	
9.1	The Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 shall be considered in addition to the following.	Complied
9.2	Check that there is an established and documented process by the Board to avoid any conflicts of interest that may arise from any transaction of the finance company with a related party as defined in the direction no 3 of 2008 paragraph 9.	Complied
9.3	Check that there is a process to identify and report the following types of transactions being identified as transactions with related parties that is covered by this Direction. [Confirm subject to the contents in the RPTRC TOR]	
	a. The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation.	Complied
	b. The creation of any liabilities of the finance company in the form of deposits, borrowings and investments.	Complied
	c. The provision of any services of a financial or non-financial nature provided to the finance company or received from the finance company.	Complied
	d. The creation or maintenance of reporting lines and information flows between the finance company and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.	Complied
9.4	Does the Board have a process to ensure that the finance company does not engage in transactions with related parties as defined in Direction 9(2) above, in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the finance company carrying on the same business	
	a. Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.	Complied
	b. Charging of a lower rate of interest than the finance company's best lending rate or paying more than the finance company's deposit rate for a comparable transaction with an unrelated comparable counterparty.	Complied
	c. Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	Complied
	d. Providing services to, or receiving services from a related-party without an evaluation procedure;	Complied
	e. Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	Complied

10	Disclosures	Findings
10.1	Check that the board has disclosed:	
	a. Annual audited financial statements and periodical financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards	Complied
	b. That such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied
10.2	Check that the Board has made the following minimum disclosures in the Annual Report:	
	a. The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied
	b. The report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied
	c. Details of directors, including names, transactions with the finance company.	Complied
	d. Fees and remuneration paid to directors in aggregate.	Complied
	e. Total net accommodation as defined in paragraph 9(4) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the finance company's capital funds.	Complied
	f. The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied
	g. A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied
	h. A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the Act, rules and Directions that have been communicated by the Director of the Department of Supervision of Non – Bank Financial Institutions, if so, directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	N/A
	i. A statement indicating that the Board has obtained a factual findings report on the compliance with the corporate governance direction.	Complied
11	Check that the Board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 10 (2) (b) above.	Complied

Corporate Governance

BOARD MEETING ATTENDANCE

o.	Name of the Director	Executive	Non-Executive	Independent	Non-independent	Attendance at Board meetings											
						17.04.2020	26.05.2020	10.06.2020	10.07.2020	21.08.2020	22.09.2020	28.10.2020	20.11.2020	18.12.2020	19.01.2021	22.02.2021	22.03.2021
1.	Mr. C. Ramachandra		√		√	√	√										
2.	Mrs. D. P. Pieris		√			√	√	√	√	√	√	√	√	√	√		
3.	Mr. V. A. Prasanth		√		√		√	√	√	√	√	√	√	√	√	√	√
4.	Mr. R. J. A. Gunawardena	√				√	√	√	√	√	√	√	√	√	√	√	√
5.	Mr. R. A. T. P. Perera		√	√		√	√	√	√	√	√	√	√	√	√	√	√
6.	Mr. G. Alexander		√		√	√	√	√	√	√	√	√	√	√	√	√	√
7.	Mr. K. R. Bijimon		√		√	√	√	x	√	√	√	√	√	√	√	√	√
8.	Mr. R. A. B. Basnayake		√	√		√	√	√	√	√	√	√	√	√	√	√	√
9.	Mr. J. P. D. R.Jayasekara		√	√		√	√	√	√	√	√	√	√	√	√	√	√
10.	Mr. K. G. K. Pillai		√		√	√	√	√	√	√	√	√	√	√	√	√	√

Risk Management

The Sector Performance continued to be challenged during the period under review. The COVID-19 continues to ravage the country and affect the economy. With the impact on the economy dynamics of the business model changed drastically with demand for credit dampening. The economy continued to contract with heavy restrictions imposed on imports. As a result, the vehicle leasing and the import related advances have reduced. The sector has witnessed increasing NPA due to the impact of COVID-19 and Debt Moratoriums offered to the public.

However, the government stance to maintain low interest rates supported the industry with the interest expense reducing considerably and complementing performance of the industry. As a result the industry were able to show improved performance during the year under review. But affected retail depositors in remaining with the industry as the high inflation demanded higher yielding investment in the medium to shorter term.

Consolidation plan of the Central Bank of Sri Lanka, has added on to the challenges of the industry, with few companies having difficulties in meeting the deadlines imposed by the regulator, have questioned the sustainability of the industry affecting on the investor confidence.

Despite the challenges which has threatened the sector, the industry continued to improve on the liquidity position, asset quality of the new lending, and improved the overall capital position of the industry. Giving confidence in the ability to remain ahead of the regulatory requirements of the industry.

RISK MANAGEMENT STRATEGY

Risk Management Strategy aims to identify the potential risks to the Company and to take preventive and mitigative steps without affecting the overall objective of our business. The finance industry is exposed to a variety of risks, hence it is important to have robust strategy in place. Also important to keep ourselves regularly updated on the potential threats and new innovations and ideas which can help improve the operations of the Company whilst minimising the risk framework of the Company. The risk framework should be regularly reviewed and updated to ensure the best solution to our business and to ensure safeguarding of all our stakeholders.

Objectives of Risk Management

- Evaluate the risk profile against the approved risk framework on a continuously
- Assist and support the decisions related to accepting, transferring, mitigating and minimising risks and recommending corrective action
- Estimate probable losses that could happen due to risk exposure
- Periodically conduct stress testing to confirm the ability to absorb pressures on liquidity and capital to absorb unexpected losses and to honor contractual obligations
- Instill and maintain strong risk culture at Asia Asset Finance

RISK MANAGEMENT FRAMEWORK

The strength of our risk management framework is the ability to adapt considering the prevalent situation and to ensure a consistent approach to understanding and taking steps to manage the risks of the Company. The resources are allocated and trained to identify unexpected situations within the risk framework.

RISK APPETITE

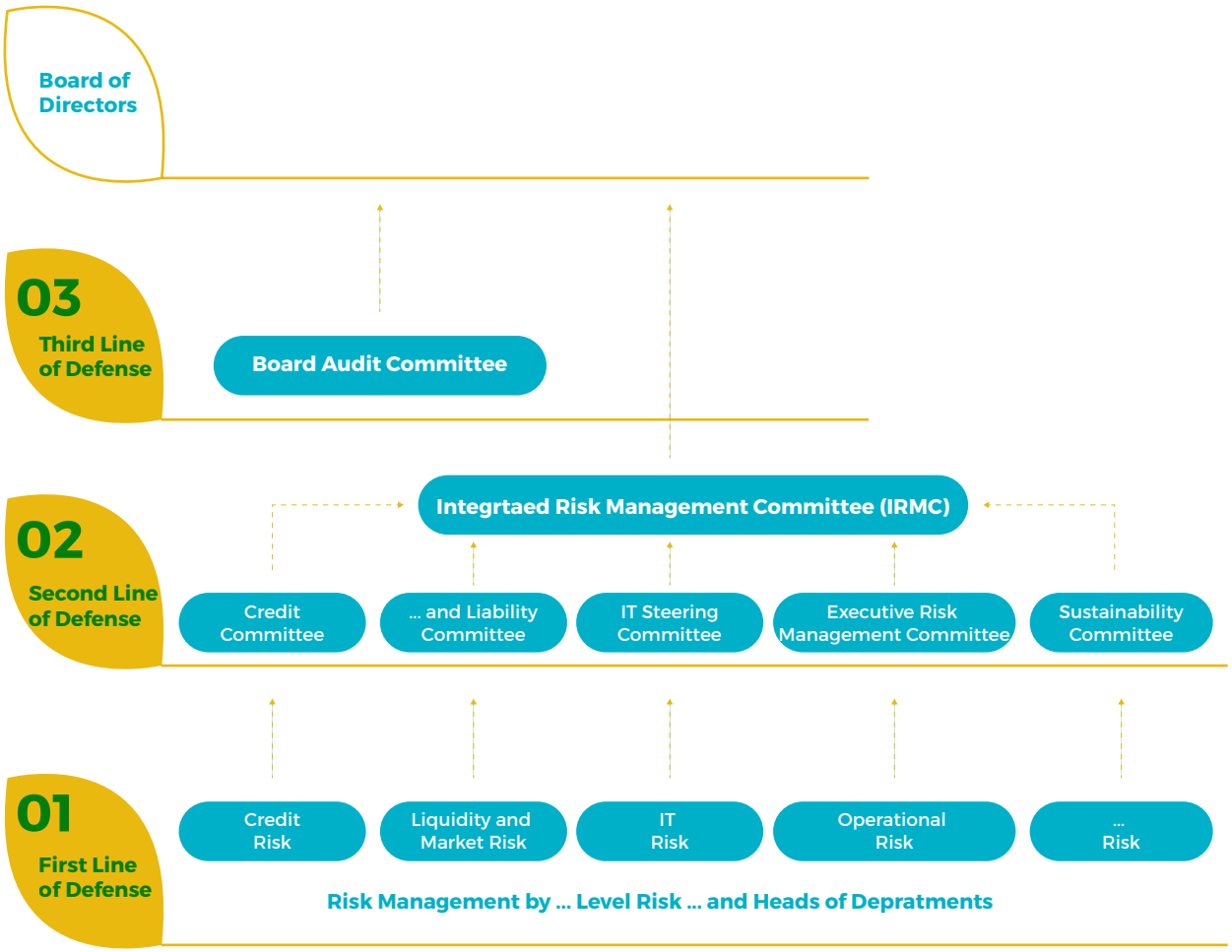
Risk appetite is the level of risks that AAF is willing to undertake. The Board and the board appointed committees continuously monitors the activities against the prevailing situations surrounding the business environment. The Board reviews the Company's risk profile on a periodic basis and in the event of distress on a more regular basis. All communications and decisions will be documented and presented in a manner understandable for all resources managing risks.

RISK CULTURE RISK CULTURE

Asia Asset Finance Management has a proactive and effective culture on Risk management. The management understands it is inherent business risks and these risks are generally part of the business operations. Hence the management continues to understand and evaluates the risk of the business and operate in an environment to improve risk awareness, through regular training, communications and adopting proven risk assessment methodology.

Risk Management

The risk management system, the Company has adopted has a governance framework with three lines of defense to replicate clear accountability for risk taking, oversight and independence assurance within the Company. The AFC Board of Directors holds apex responsibility for risk management and sets the tone at the top for the effective management of risks. In discharging its risk related responsibilities, it is supported by three key committees namely the Integrated Risk Management Committee (IRMC), the Board Audit Committee (BAC) and the Board Credit Committee. The IRMC & BAC supported by executive level committees, credit committee, Assets and Liability Committee, IT steering committee. The risk structure is based on the three lines of defense and aims to drive accountability and ownership while facilitating an appropriate level of independence and segregation of duties.



Credit Risks

"Credit risk is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations hence the affecting the asset Quality"

Credit Risk arises due to the core operations of the finance business. Total Credit risk constitute default risk, concentration risk and settlement risk. NBFI have faced tremendous pressure in terms deteriorating asset quality, considering the prevailing situation of the country. AAF NPA rose to 19.18% from 16.21%. AAF believes credit risk to be the most volatile risk category during this period. As a result, management have formed a board credit committee to ensure in-depth review and study of the credit quality and sustainability.

CREDIT RISK GOVERNANCE

Governance of Credit Risk comes under the purview of the board Credit Committee, where all communications and actions are focused on timely solution through a thorough evaluation of our credit operations. The external factors will be continuously monitored to take proactive decisions to eliminate and prevent possible impact to mitigate the credit risk of AAF. The Credit Risk Policy of the Company is reviewed and revised annually with the approval of the Board of Directors.

As a Financial service institution, the effective management of Credit Risks allows us to mtainain a healthy loan portfolio, that can optimise the returns to our stakeholders. This will allow the Company to strike the correct balance between risk – Reward, and maintain a healthy asset quality.

Default Risk

"Default risk is the risk that a lender takes on in the chance that a borrower will be unable to make the required payments on their debt obligation."

The Default risk is inherent to the industry, financial sector makes considerable investments in order to mitigate the default risk of the operations. The Management of default risk is embedded in the operational structure, with specialised recoveries unit and call centers. AAF ensures that dedicated resources are in place to ensure the timely collections are in place and a centralise monitoring systems are monitoring the progress of the allocated resources and processes to ensure the improvement of collections. Along with the above KPI are set to be monitored daily, weekly and monthly. Along with strategic management recovery committees will review the plans and strategies in place to improve the recoveries of the Company.

Key highlights of risk management

- Discontinued all products which has been yielding high NPA and repositioned all products based on the asset quality and value addition to the Company
- Implemented one of Asia best business models which has proven track record credit quality the Muthoot Business Model
- Segregated the collections and monitoring process between the distressed products and separate collections goals have been allocated
- Further strengthened the management structure of the recovery activities
- The business model revised to complement the prevailing economic conditions and focus purely on secured products which have appreciating asset backed facilities
- A dynamic credit evaluation policy was re-introduced for gold loan to ensure maintaining of healthy LTV ratios
- Regular training and awareness programs have been conducted to ensure our staff are trained and educated to achieve our objectives.
- Introduction of digitalized collection mechanisms to ensure greater flexibility and efficiency for the customers.

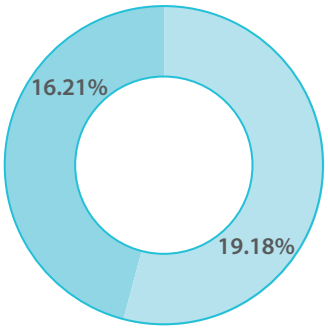
Assessment

Non-performing loans ratio is monitored on a regular basis individually evaluating based on each product along with the Expected Credit loss on the products. The NPA continues to move upwards due to the prevailing economic conditions. This has resulted in the Company focusing more on the recovery activities of the Company.

The company took an aggressive approach to expand the gold loan portfolio to ensure expansion and growth of our secured portfolio.

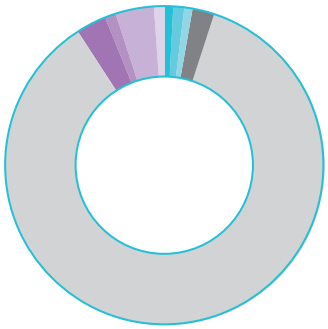
Risk Management

NPA 2021 Vs 2020
(%)



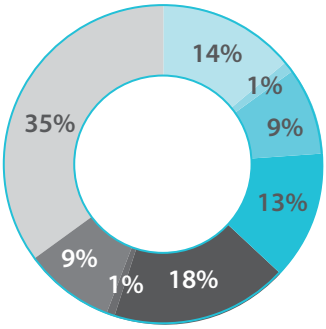
- NPA 2021
- NPA 2020

Sector Wise - Portfolio
(%)



- Agriculture & Fishing **1%**
- Construction **1%**
- Financial and Business Services **1%**
- Infrastructure **0%**
- Manufacturing **2%**
- New Economy **0%**
- Other Customers **86%**
- Other Services **3%**
- Tourism **1%**
- Trades **4%**
- Transport **1%**

Regional Wise Loan Base
(%)

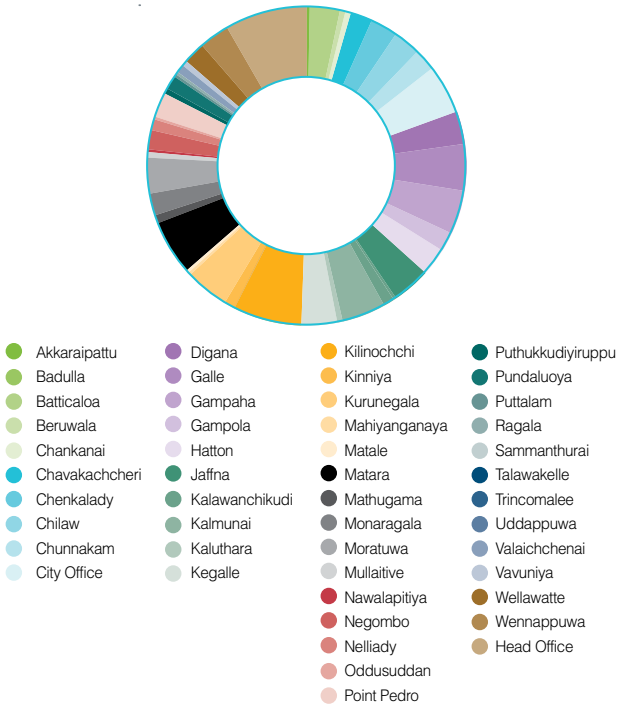


- Central Province
- Central Province
- Eastern Province
- North Western Province
- Northern Province
- Sabaragamuwa Province
- Southern Province
- Uva Province
- Western Province

Concentration Risk

Concentration risk is the risk of uneven distribution of Company's loan and advances to individual counterparties, products or geographical regions. AAF has taken prudent steps to ensure that the Company has diversified the concentration risk through the expansion of our branch network allowing a larger geographical penetration.

Loan and Advances - Branch Wise
(%)



The company has reduced its average loan size to ensure a larger distribution. As a result, Gold Loan distribution increased by 11.27% compared to 2020. The focus of retail clientele ensures a more balanced approach to risk mitigation.

Product	Facility Count	
	2019/20	2020/21
MORTGAGE LOAN	731.00	**631.00**
LEASE & HP	21,046.00	**13,282.00**
GOLD LOAN	53,236.00	**59,426.00**
MICRO/GPL/PL/SL	19,734.00	**16,636.00**
SME LOANS	706.00	**557.00**
PLEDGE LOAN	328.00	**172.00**
REVOLVING LOANS	20.00	**18.00**
	95,801.00	**90,722.00**

Product Type	Average Ticket Size
Mortgage Loan	107,670.00
Gold Loan	500,000.00
Leases	200,000.00
Micro /GPL	50,000.00
SME Loan	2,000,000.00

Market Risk

"Market risk is the potential loss arising due to market fluctuation in interest rates, exchange rates, and commodity prices such as gold prices"

Market Risk Governance

AAF key market risk consists of Interest rate risk, exchange rate risk and commodity risk of fluctuations of gold prices. Market risk indicators were maintained in line with the Company's risk appetite during the year. The Board remains the ultimate authority in charge of determining the Company's Market Risk Management policy, while Asset and Liability Committee (ALCO) and Treasury are collectively responsible for monitoring Market Risk, reviewing risks and periodic reporting, setting limits and guidelines, and formulating and implementing plans regarding market risk management in line with the Board approved guidelines and through the Integrated risk management committee.

Interest Rate Risk

Interest rate risk is the potential for changes in rates to reduce the Company's earnings or value. Continuous volatility in market interest rate affects the Company's net interest income and net interest margin. Due to the current market volatility majority of the investments are placed short to medium term. However, considering our gold loan product is short term. The interest rate risk is mitigated as it allows to adjust pricing accordingly. The Interest rates have been gradually coming down with the government stance to maintain interest rates at single digits.

Assessment

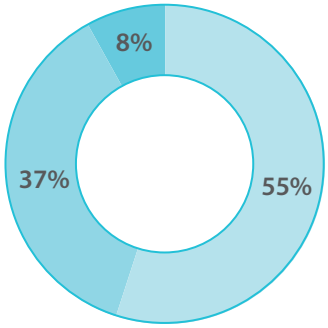
Interest rate risk is managed principally through minimising interest rate sensitive asset and liability gaps. In order to ensure interest margins are maintained, the Company conducts periodic reviews and re-prices its assets accordingly. The Treasury Department uses a variety of tools such as duration gap analysis, stress testing and scenario analysis to monitor the impact of various forms of interest rate risk.

Risk Management

Interest rate risk analysis is done to ensure the Company does not see unexpected changes which could harm the profitability of the organisation due to adverse changes and proper analysis will ensure the sudden adverse changes will have a minimum impact on the operational sustainability.

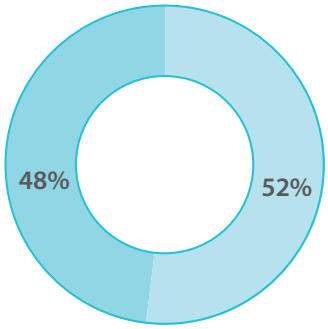
The Company introduced Debentures as a new product to the portfolio with a fixed term rate for medium term. This complemented our overall portfolio and provided a good mix by allowing to raise funds at a competive rate for a longer period. The fixed deposits continue to dominate the portfolio with liabilities getting reprised at much lower rates for a medium to short term period.

Funding Mix
as of 31st March 2021



- Customer Deposit
- Other Borrowed Funds
- Debentures

Funding Mix
as of 31st March 2020



- Customer Deposit
- Other Borrowed Funds

The majority of AAF portfolio consists of fixed rates however the recent fundings have been focused on variable rates considering the short life cycle of our loan portfolio.

Exchange Rate Risk

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (Rs.) exchange rate with other major currencies. Sri Lanka currency continued show signs of deterioration during the year 2020/21. With no exposure to foreign borrowings AAF have been able to mitigate the risk of direct exposure on exchange rate risks. However, the commodity prices and effect on the Exchange risk on the commodity prices is regularly evaluated to mitigate potential risk.

Commodity Price Risk

Commodity price risk highlights to the uncertainties of future market values and of the size of the future income caused by the fluctuation in the prices of commodities. Since AAF majority of the gold loan portfolio consists of gold loans it is a very vital part of the overall risk profile to be considered. Hence the fluctuations of the gold prices are monitored on a daily basis. Trend analysis and forecasting models are done to ensure the Company stays on top of matters. During the year AAF has benefitted from the global prices in the market and the exchange risk volatility. The above benefits were further complemented in terms of pricing with the restrictions imports.

LTV against the Market Price (QOQ)

- LTV against the Market Price (QOQ)
- LTV on advance balance is 67%
- LTV on advance balance + interest is 71%
- Market Value against actual granted amount QOQ
- Mkt Val Rs. 10,171,979,946 against actual granting Rs. 6,825,688,451.52
- Ticket size 108,855/-

Liquidity Risk

"Liquidity risk is the NBFC inability to meet financial obligations as they fall due, without incurring unacceptable losses"

AAF Liquidity Risk arises as a result of shortage of cash inflows and the inability to meet the demands of the cash outflows. This mainly stems from the Asset and liabilities mismatch. Hence the Company's primary objective in liquidity management is to ensure sufficient funding is available throughout its business cycle. Therefore, in order to ensure timely management of our cash resources, the treasury department has ensured the following strategies are put in place.

- The Company ensured compliance with the statutory liquidity ratios well above the industry standards
- Introduced Debentures as a new product to the funding portfolio
- Stress testing of our liquidity position is conducted on a frequent basis
- Regular ALCO meetings were held and the Committee monitors the liquidity position of the Company and liquidity management.
- The contingency funding has been improved
- Improved the other borrowings against the Fixed deposits

	31.03.2021 Rs.	31.03.2020 Rs.
Available Liquid Asset	**1,434,071.00**	1,223,476.00
Required Liquid Asset	**430,125.02**	706,428.30

Operational Risk

The risk of loss suffered as a result of the inadequacy or failure in, internal processes, people, and systems or from external events.

Type	How we managed it	Outcome
Risk Fraud or Malpractices due to people	Clear policies and procedures	There have been material incidents of Fraud or Malpractices during the year.
	Robust internal controls	
	Regular Internal audit function	
	Off-site real time audit operations	
	Document Customer complaint process	
	Whistleblower process	
	Staff intensification linked to prevent fraud and malpractices	
Human resource Risk	Staff are given regular trainings	
	Awareness programs are done	
	Transparent communications	
	Disciplinary officers are in place	
	Incentives are mainly focused towards targets	
IT Related risks and Privacy	IT security policy is in place and renewed every year.	
	System audits done by a professional reputed audit firm	
	Access controls to systems	
	All server access is restricted and backup are maintained in cloud servers	
Assets	Insurance coverage	
	24/7 CCTV coverage	

Risk Management

Strategic Risk

The risk that the Company's future business plans and strategies are inadequate or not conducive to prevent financial loss or protect AAF to retain the companies position and status in the industry.

Action for the year:

- The Company implemented one of the most tested and successful business models in the Asia. The muthoot Business Model
- Based on the above the Company prepared a 5-year business plan.

Reputational Risk

The risk of potential or actual damage to the Company's image which may have a detrimental impact on the operations and/or sustainability of the business.

Action for the Year:

- The Company strengthened its corporate governance structure and the communication policy to improve the relations with the stakeholders
- The Company conducts employee and customer feedback forums to ensure continuous improvement

Capital Risk

"Capital risk is the risk that the Company has insufficient capital resources to meet minimum regulatory requirements and to support credit rating, growth and strategic options of the Company."

Capital Adequacy Ratio (CAR) is a key indicator which measures the financial strength of a financial institution, expressed as a ratio of its capital to its risk weighted assets. A higher capital adequacy ratio indicates that the Company is able to handle losses and fulfill its obligations to stakeholders without ceasing operations. This ratio is used as an indicator to protect all stakeholders and promote the stability and efficiency of a financial system.

	31.03.2021	31.03.2020
	%	%
Tier 1 Capital Ratio (Minimum requirement of 7.5%)	**16.75**	16.15
Total Capital (Minimum requirement 10.5%)	**16.75**	16.15

Board Integrated Risk Management Committee Report

THE COMPOSITION OF THE COMMITTEE

The Integrated Risk Management Committee (IRMC) functions as a Board Sub-Committee in compliance with Sections 8 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 with board approved terms of reference.

The IRMC is entrusted with the responsibility to assist the Board to oversee the Risk Management framework of the Company, set the risk appetite and to determine the appropriate tolerable limits, monitor the limits continuously for effective risk management and to overlook the Compliance Function of the Company.

The Committee comprised of the following members,

- Mr. V.A. Prasanth
  (Chairman - Appointed w.e.f. from 01 July 2020)
- Mr. R.AT.P. Perera
- Mr. J.P.D.R. Jayasekera
- Mr. R.J.A. Gunawardena (Director/CEO)
- Mr. Roshan De Silva Gunasekera (Chief Operating Officer)
- Mr. K.R. Bijimon
- Mr. C. Ramachandra - Retired w.e.f. 10 June 2020

The Committee is responsible and reports to the Board of Directors. Mr. V.A.Prasanth, Mr. R.A.T.P. Perera and Mr J.P.D.R. Jayasekera are Independent Non Executive Directors.

TERMS OF REFERENCE

The main objective of the IRM Committee is to assist the Board of Directors to effectively carry out its responsibilities relating to financial and other connected affairs of the Company.

The main responsibility of the Committee is to assess risks faced by the Company such as credit risk, market risk, liquidity risk, operational risk and strategic risk. In fulfilling its duties, the Committee covers the following areas.

The Committee is empowered to:

- Review the quality of the credit portfolio including delinquency monitoring and adequacy of the allowances for impairment.
- Review the Credit and Funding Concentrations Risks.
- Review financial performance and the Capital Adequacy of the Company
- Review the Asset and Liability Management Policy including the specific risk limits and monitoring the compliance.
- Review progress on operational risk throughout the Company.
- Review of Business Continuity and Disaster Recovery Plan related issues.
- Assess adequacy and effectiveness of Management Committees, namely Credit Committee and Asset and Liability Committee (ALCO)
- Review the Company's Compliance with laws and regulations
- Propose appropriate measures for corrective action as part of the risk mitigation process.

MEETINGS

The Committee held four meetings during the year under review.

Senior Management staff also attend meetings as and when required. The proceedings of the IRM Committee meetings are regularly reported to the Board of Directors.

REGULATORY COMPLIANCE

The Company's procedures in place to ensure compliance with mandatory Finance Company and other statutory requirements were under close scrutiny.

V.A. PRASANTH
Chairman
IRMC
30.06.2021

Remuneration Committee Report

COMPOSITION

The Remuneration Committee appointed by the Board of Directors includes the following Directors:

- Mr. V.A.Prasanth
  (Chairman - Appointed w.e.f. from 01 July 2020)
- Mr. R.A.T.P. Perera
- Mr. G.M. Alexander
- Mr. R.A.B. Basnayake
- Mr. J.P.D.R. Jayasekara
- Mr. C. Ramachandra - Retired w.e.f. from 10 June 2020

The Chairman of the Committee, Mr. V.A. Prasanth, Mr. R.A.T.P. Perera, Mr. R.A.B Basnayake and Mr. J.P.D.R. Jayasekara are Independent Non-Executive Directors.

REMUNERATION POLICY

The Asia Asset Finance Remuneration Policy aims to draw, motivate and retain talent in a competitive environment. The policy aims to ensure that the total remuneration package is adequately competitive to attract the best talent from the industry.

The Company's remuneration framework for the Chief Executive Officer, Directors and Corporate Management Team is structured to identify the contributions made by them and to remunerate appropriately. The policy further takes into consideration both short-term and long-term objectives of the Company when finalizing incentives.

SCOPE

The Remuneration Committee evaluates and recommends to the Board of Directors the remuneration packages, annual increments and bonuses of the Chief Executive Officer and the members of the Senior Management in addition to recommending the Directors fees payable to Non Executive Directors.

The Chief Executive Officer, who is responsible for the overall management of the Company, attends meetings by invitation and participates in evaluations except in instances where his own interest, performance and compensation packages are discussed.

The Committee also evaluates and recommends the bonuses and special performance allowances pertaining to the Management level against key performance indicators and goals set out at the beginning of the year. The succession plan in the Company is also evaluated by the Committee.

FEES

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

COMMITTEE MEETINGS

A formal meeting of the Committee takes place whenever necessary. During the financial year 2020-21, the Committee met on one occasion.

V.A. PRASANTH
Chairman
Remuneration Committee
30.06.2021

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

The Directors of Asia Asset Finance PLC have the pleasure in submitting their Report together with the Audited Financial Statements of the Company for the year ended 31st March 2021.

PRINCIPAL ACTIVITIES

During the year the principal activities of the Company was

i) to carry on the finance business, finance leasing business, Operational leasing, lease purchasing, leasing of all kinds of plant, machinery, factories, warehouse, equipment, furniture, and fittings, tools, apparatus, utensils, materials, stock –in – trade and things for any purpose whatsoever.

ii) To advance or lend money with or without security, upon such terms as may be arranged.

iii) To enter into Contracts and arrangements with other Companies, firms or persons for the sale or purchase of any goods, vehicles or services,

iv) To accept time deposit and opening, maintaining and managing deposit.

v) To guarantee, Indemnity, or become liable for the payment of money or for the performance of any obligation by such other company, firm or person.

vi) To carry on the business of borrowing, raising or taking up of money, the lending or advancing of money either upon or without security.

vii) To purchase or otherwise acquire, sell , exchange , exploit , develop , turn to account and deal in all kinds of real and personal property in any part of Sri Lanka and any interests therein

viii) To enter into contracts and arrangements with other Companies, Corporations, Firms, or persons, Government Institutions for promoting and increasing the manufacture, production, sale, purchase and maintenance of all or any movable or immovable properties.

ix) Subject to the applicable Statutory Regulations, to carry on business as pawnbrokers and moneylenders and as dealers in jewellers and precious stones, gold, silver and plated articles, articles of virtue, coins and medals, and as commission agents and general merchants.

x) To carry on any other business which is capable of being conveniently carried on in connection with any of these objects.

xi) Subject to the applicable Statutory Regulation, to carry on the business of factors.

xii) Subject to the applicable Statutory Regulation, to carry on the business of Margin Trading

xiii) To buy, sell and exchange foreign currency notes and coins, and to encash travelers' cheques subject to the terms and conditions mentioned in permit No. ECD/MC/1015 dated 24.05.2016 issued by the Controller of Exchange as may be altered from time to time"

REVIEW OF OPERATIONS

The chairman's review on pages 11 to 13 which forms an integral part of this report provides an overall assessment of the financial performance of the Company and describes its affairs and the important events of the year.

A detailed analysis of the operations and financial results are provided in the management discussion and Analysis on pages 27-40 of this annual report.

FINANCIAL STATEMENTS

The completed financial statements of the Company have been duly certified by the person responsible for the preparation of the financial statements of the Company have been signed by two Directors on behalf of the Board of Directors and the Auditors and confirm the Company is in compliance with the requirements of the Companies Act No. 07 of 2007. Details are given on page 97.

AUDITORS REPORT

The Auditor's Report on the Financial Statements is given in pages 106-109.

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of Financial Statements are given in pages 116-135.

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

FINANCIAL RESULTS

	2021 Rs.	2021 Rs.
Total Income	**2,954,814,601**	3,332,619,279
Net Interest Income	**1,164,031,611**	1,339,474,988
Profit/(Loss) Before Income Tax Expenses	**86,747,175**	93,316,292
Income Tax (Charge)/Reversal	**(41,551,058)**	(23,162,926)
Net Profit/(Loss) after Taxation	**45,196,117**	70,153,366
Leases, Loans and Advances	**14,034,995,103**	13,834,794,403
Total Assets	**15,350,430,089**	15,154,586,490
Deposit from Customers	**7,013,686,384**	6,585,234,705
Total Equity	**2,222,079,395**	2,171,452,813

DIVIDENDS

No dividends have been declared by the Company.

PROPERTY, PLANT AND EQUIPMENT

An analysis of the Property, Plant and Equipment of the Company is disclosed in note 19 of the Financial Statements on pages 149-150.

STATED CAPITAL

The stated Capital of the Company as at 31st March 2021 was Rs.1,791,478,691/.

DONATIONS

The Company has made donations of Rs.444,365/- during the financial year under review.

CAPITAL COMMITMENTS

Capital commitment is Rs.6,956,240 for software as at 31st March 2021.

PROVISIONS

Impairment Provision is Rs. 382,940,886/- and Provision for Depreciation and Amortisation is Rs. 51,276,593/- as at 31 March 2021.

PROVISION FOR THE TAXATION

The provision for Taxation is Rs 41,551,058/.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory dues have been paid up to date, or have been provided for in the Financial Statements.

CONTINGENT LIABILITIES

Details of contingent liabilities and capital commitments as at 31st March 2021 are set out in Notes 33 and on pages 162-163 of the Financial Statements.

POST BALANCE SHEET EVENTS

There have been no material events occurring after the reporting date that require adjustments to or disclosures in the Financial Statements.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board confirms that there is an ongoing process for identifying, evaluating and managing any significant risk faced by the Company. The Directors review this process through the Audit Committee.

GOING CONCERN

The Board of Directors is satisfied that the Company has adequate resources to continue its operation in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

DIRECTORS WHO HELD OFFICE DURING THE YEAR

The Directors of the Company during the year were as follows.

Mr. V. A. Prasanth	- Chairman/Non-Independent Non-Executive Director
Mr. R. J. A. Gunawardena	- Chief Executive Officer
Mr. R. A. T. P. Perera	- Independent Non-Executive Director
Mr. G. M. Alexander	- Non-Independent Non-Executive Director
Mr. K. R. Bijimon	- Non-Independent Non-Executive Director
Mr. K. G. K. Pillai	- Non-Independent Non-Executive Director
Mr. R. A. B. Basnayake	- Senior Independent Non-Executive Director
Mr. J. P. D. R. Jayasekara	- Independent Non-Executive Director

Alternate Directors

Mr. K. G. K. Pillai - Non-Independent Non-Executive Director (Alternate Director to Mr. K. R. Bijimon)

Appointments during 1st April 2020 to 31st March 2021

Mr. V. A. Prasanth - Non-Independent Non-Executive Director (Appointed with effect from 27th April 2020)

Resignations 1st April 2020 to 31st March 2021

1. Mr. C. Ramachandra - Non-Independent Non-Executive Director

   (Ceased with effect from 10th June 2020 as per the Section 86 (viii) of the Articles of Association and in terms of paragraph No. 4(2) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008

2. Ms. D. P. Pieris - Independent Non-Executive Director

   (Ceased with effect from 22nd January 2021 as per the Section 86 (viii) of the Articles of Association and in terms of paragraph No. 4(2) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008

Appointments after the conclusion of the year

Nil

Resignations after the conclusion of the year

Nil

Directors who held office as at the end of the Accounting period

Mr. V. A. Prasanth	- Chairman/Non-Independent Non-Executive Director
Mr. R. J. A. Gunawardena	- Chief Executive Officer
Mr. R. A. T. P. Perera	- Independent Non-Executive Director
Mr. G. M. Alexander	- Non-Independent Non- Executive Director
Mr. K. R. Bijimon	- Non-Independent Non-Executive Director
Mr. K. G. K. Pillai	- Non-Independent Non-Executive Director
Mr. R. A. B. Basnayake	- Senior Independent Non-Executive Director
Mr. J. P. D. R. Jayasekara	- Independent Non-Executive Director

Alternate Directors

Mr. K. G. K. Pillai - Non-Independent Non-Executive Director (Alternate Director to Mr. K. R. Bijimon)

of the 8 Directors, Mr. R. A. B. Basnayake is an Independent Non-Executive Director and the Senior Director of the Board.

Directors retiring (at the Annual General Meeting)

1) Mr. K .G .K. Pillai retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself for re-election in terms of Article 88 of the Articles of Association.
2) Mr. R.A.T.P Perera retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself for re-election in terms of Article 88 of the Articles of Association.

CORPORATE GOVERNANCE

The Board of Directors confirm that the Company is compliant with the Finance Companies Direction (Corporate Governance) No.03 of 2008 and section 7.10 of the Listing Rules of the Colombo Stock Exchange.

An Audit Committee, an Integrated Risk Management Committee, a Related Party Transactions Committee and a Remuneration Committee function as Board sub committees with Directors who possess the requisite qualifications and experience. The composition of the said committees is as follows;

Audit Committee as at 31st March 2021

Mr. R. A. T. P. Perera
(Independent Non-Executive Director) - Chairman

Mr. V. A. Prasanth
(Non-Independent Non-Executive Director) - Member

Mr. R.A.B.Basnayake
(Senior Independent Non-Executive Director) - Member

Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Member

Mr. K. G. K. Pillai
(Non-Independent Non-Executive Director) - Member

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

Integrated Risk Management Committee as at 31st March 2021

Mr. V. A. Prasanth
(Chairman/Non-Independent Non-Executive Director) - Chairman

Mr. R. J. A. Gunawardena
(Chief Executive officer) - Member

Mr. R. A. T. P. Perera
(Independent Non-Executive Director) - Member

Mr. R. D. S. Gunasekara
(Chief Operating Officer) - Member

Mr. K. R. Bijimon
(Non- Independent Non-Executive Director) - Member

Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Member

Related Party Transaction Review Committee as at 31st March 2021

Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Chairman

Mr. K. R. Bijimon
(Non-Independent Non-Executive Director) - Member

Mr. R. A. B. Basnayake
(Senior Independent Non-Executive Director) - Member

Remuneration Committee as at 31st March 2021

Mr. V. A. Prasanth
(Non-Independent Non-Executive Director) - Chairman

Mr. . R. A. T. P. Perera
(Independent Non-Executive Director) - Member

Mr. G. M. Alexander
(Non-Independent Non-Executive Director) - Member

Mr. R. A. B. Basnayake
(Senior Independent Non-Executive Director) - Member

Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Member

IT Committee as at 31st March 2021

Mr. R. A. B. Basnayake
(Senior Independent Non-Executive Director) - Chairman
Mr. V. A. Prasanth
(Non-Independent Non-Executive Director) - Member
Mr. R. J. A. Gunawardena
(Chief Executive officer) - Member
Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Member

Credit Committee as at 31st March 2021

Mr. V. A. Prasanth
(Non-Independent Non-Executive Director) - Chairman
Mr. R. J. A. Gunawardena
(Chief Executive officer) - Member
Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Member
Mr. K. R. Bijimon
(Non-Independent Non-Executive Director) - Member

DIRECTORS' INTEREST REGISTER

In terms of the Companies Act No. 07 of 2007 an Interest Register is maintained during the accounting period under review. This Annual Report also contains particulars of entries made in the Interest Register.

DIRECTORS REMUNERATION AND OTHER BENEFITS OF DIRECTORS

Directors' remuneration and other benefits of directors are stated in the Note 41 on page 170 of the Financial Statements.

DIRECTORS' INTEREST IN SHARES

Name	No. of Shares 31.03.2021	%
Mr. V. A. Prasanth		
Mr. R. J. A. Gunawardena	-	-
Mr. R. A. T. P. Perera	-	-
Mr. G. M. Alexander	-	-
Mr. K. R. Bijimon	-	-
Mr. K. G. K. Pillai (Alternate Director - Mr. K. R. Bijimon)		
Mr. R. A. B. Basnayake	-	-
Mr. J. P. D. R. Jayasekara	-	-
Mrs. D.P. Pieris (Ceased w.e.f. 22nd January 2021)		

DIRECTORS' INTEREST IN CONTRACTS

None of the Directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed in Note 41 on pages 170-171 of the Financial Statements.

SHAREHOLDERS INFORMATION

The distribution and analysis of shareholdings were as follows;

SHAREHOLDING AS AT 31ST MARCH 2021

From	To	No. of Holders	No. of Shares	%
1	1,000	1,448	350,310	0.28
1,001	10,000	528	2,195,480	1.77
10,001	100,000	212	7,230,675	5.82
100,001	1,000,000	30	9,311,854	7.49
Over 1,000,000		5	105,107,214	84.64
		2,223	124,195,533	100

CATEGORIES OF SHAREHOLDERS AS AT 31ST MARCH 2021

	No. of Holders	No. of Shares	%
Local Individuals	2,133	14,649,918	11.8
Local Institutions	76	18,742,097	15.09
Foreign Individuals	12	85,740	0.07
Foreign Institutions	2	90,717,778	73.04
	2,223	124,195,533	100

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

20 LARGEST HOLDERS OF EQUITY

	NAME	2021		2020	
		NO. OF SHARES	(%)	NO. OF SHARES	(%)
1	MUTHOOT FINANCE LIMITED	**90,558,778**	**72.916**	90,558,778	72.920
2	SEYLAN BANK PLC/SENTHILVERL HOLDINGS (PVT) LTD	**7,692,693**	**6.194**	7,560,504	6.090
3	HATTON NATIONAL BANK PLC/SRI DHAAMAN RAJENDRAM ARUDPRGASAM	**3,095,431**	**2.492**		
	MR. S.D.R. ARUDPRAGASAM			2,460,638	1.980
4	J.B. COCOSHELL (PVT) LTD	**2,259,032**	**1.819**	4,242,950	3.420
5	PEOPLE`S LEASING & FINANCE PLC/MR.W.K.R.JAYAKODY	**1,501,280**	**1.209**	1,501,280	1.210
6	MR. K.M.S.M. RAZEEK & MR. K.S.M. RAJUBDEEN & MR. S.M.R. MOHAMED	**740,000**	**0.596**	740,000	0.600
7	MR N S R SIVARUBAN & MRS S ABYERAMI	**731,726**	**0.589**	20,847	0.017
8	MR K L G UDAYANANDA	**729,000**	**0.587**	-	-
9	MR. P.A.D.R.U. PUSHPAKUMARA	**728,000**	**0.586**	1,456,934	1.170
10	HATTON NATIONAL BANK PLC/SUBRAMANIAM VASUDEVAN	**718,835**	**0.579**	-	-
11	MERCHANT BANK OF SRI LANKA & FINANCE PLC/W K R JAYAKODY	**604,553**	**0.487**	234,928	0.190
12	MR. C.W. GUNASEKARA	**500,000**	**0.403**	500,000	0.400
13	SEYLAN BANK PLC /KARAGODA LOKU GAMAGE UDAYANANDA	**495,792**	**0.399**	-	-
14	MR. P.P. SUBASINGHE	**392,623**	**0.316**	302,623	0.240
15	MRS M ARUDPRAGASAM	**303,562**	**0.244**	174,262	0.140
16	MR N S R SIVARUBAN	**291,518**	**0.235**	-	-
17	MERCHANT BANK OF SRI LANKA & FINANCE PLC 01	**249,999**	**0.201**	13,928	0.011
18	MR R UDALAGAMA	**249,830**	**0.201**	150,000	0.120
19	MR T S SALIM	**246,127**	**0.198**	197,495	0.160
20	SAMPATH BANK PLC /MR ABISHEK SITHAMPALAM	**229,389**	**0.185**	229,389	0.180
		112,318,168	**90.436**	110,344,556	88.848
	OTHER	**11,877,365**	**9.564**	13,850,977	11.152
	TOTAL	**124,195,533**	**100.000**	124,195,533	100.000

SHARE PRICES FOR THE YEAR

Market price per share	As at 31.03.2021	As at 31.03.2020
Highest during the year	Rs. 10.50 (09-07-2020)	Rs. 9.50 (29-11-2019)
Lowest during the year	Rs. 4.80 (12-05-2020)	Rs. 5.50 (20-03-2020)
As at end of the year	Rs. 5.60	Rs. 5.50

The float adjusted market capitalisation as at 31st March 2021 - Rs. 188,364,758.40

PUBLIC SHAREHOLDING

Percentage as at 31 March 2021 being 27.084% comprising of 2,221 shareholders.

ANNUAL GENERAL MEETING

The notice of the Annual General Meeting is on page 191.

AUDITORS

The Financial Statements for the year ended 31 March 2021 have been audited by Messrs. BDO Partners (Chartered Accountants) who offer themselves for reappointment. As far as the Directors are aware, the Auditors do not have any relationship (other than that of an Auditor) with the Company other than those disclosed above. The Auditors also do not have any interest in the Company.

The Auditors Messrs. BDO Partners, Chartered Accountants were paid Rs.2,031,000/- as Audit fees by the Company.

A resolution relating to their reappointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

V. A. Prasanth
Chairman/Non-Independent Non-Executive Director

R. A. B. Basnayake
Senior Independent Non-Executive Director

P. R. Secretarial Service (Private) Limited
Secretaries

29 September 2021

Directors' Responsibility Statement

The responsibility of the Directors in relation to the financial statements of the Company is set out in the following statement. The responsibility of the Auditors, in relation to the financial statements, prepared in accordance with the provision of the Companies Act No.07 of 2007, is set out in the independent Auditors' report appearing on pages 106-109. The Directors are required by the companies Act No.07 of 2007 to prepare financial statements for each financial year, which give a true and fair view of the statements of affairs of the Company as at the end of the financial year and the profit and loss and cash flows of the Company for the financial year.

The Directors confirm that the financial statements of the Company for the year ended 31st of March 2021 have been prepared and presented in accordance with Sri Lanka Accounting Standards and Companies Act No.07 of 2007. In preparing the financial statements appropriate accounting policies have been selected and applied consistently, whilst reasonable and prudent judgments and estimates have been made.

The Board of Directors of Asia Asset Finance PLC ("Board") holds the responsibility of approving and monitoring the strategic objectives and corporate values of the Company. Further they ensure that these strategies are communicated within the organisation, stakeholders, lenders and creditors. This strategic responsibility extends to cover the overall risk policy and risk management procedures for at least the subsequent three years. The obligations of the Board also extend to reviewing internal structure and management of the organisation.

The hierarchy of the organisation must be monitored and continually assessed resulting in the identification of capable and qualified personnel whose position must be defined so as to review and oversee the policies, management and the strategic objectives of the business. This periodic assessment of the organisation would result in selection and nomination of Directors to the Board and other personnel to different positions in the hierarchy. The interests of all personnel are brought to notice and lead to lesser conflicts of interests between such persons, their benefits and the Company. This assessment would result in a diverse hierarchy spanning personnel from different fields of expertise representing a wide range of operational and business aspects.

The Board must also draft and implement a succession plan for key management personnel. Communication of such plans, risk policies and other strategic objectives requires regular meetings of the Board. The hiring of Auditors is a duty of the Board so as to ensure that a third party without vested interest in the Company, reviews its operations or assets and examines the conduct of the personnel and the Company in detail, on a regular basis. Such a review must be communicated to all stakeholders with an interest in the operations of the Company so as to improve transparency and trust between the Company and such persons.

The Board has the power to appoint a Chairman and a Chief Executive Director in accordance with the Financing Leasing (Corporate Governance) Direction No. 04 of 2009. The Board could seek for independent advice and assistance to supplement the Board in discharging their duties. However, the procedure to receive such assistance could be resolved by the Board. Independency of the Directors could be maintained by ensuring that a Director who has a direct or indirect interest, whether monetarily or personal could abstain from voting for a Board resolution of such a matter and such a Director would not be considered to constitute the quorum. Certain matters could be formally recognised by the Board to lie within their parameters of decision making.

The Board shall, if it considers that the relevant establishment is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to lenders and other creditors, forthwith inform the Director of the Department of Supervision of Non- Bank Financial Institutions of the situation of the relevant establishment prior to taking any decision or action. The Board shall include in the relevant establishment's Annual Report, an annual corporate governance report setting out the compliance with this Direction. The Board is responsible for ensuring that the Company maintains proper books of accounts of all transactions and prepares financial statements for each financial year which gives a true and fair view of the Company's state of affairs for that time period which is a statutory obligation under Section 150 of the Companies Act No.07 of 2007. The Board shall adopt a scheme of self-assessment to be undertaken by each director annually and maintain records of such assessments.

The Directors have adopted the "going concern basis" in preparing the Financial Statements. Having reviewed the Group's business plans, the Directors are satisfied that the Company has adequate resources to continue in operation.

The Directors also confirm that to the best of their knowledge all taxes and levies payable by the Group, all contributions, levies and taxes payable on behalf of and in respect of the employees and all other statutory obligations including retirement gratuities as were due as at the Balance Sheet date have been either duly paid or have been appropriately provided for in the Financial Statements.

On behalf of the Board of Directors;

V. A. Prasanth
Chairman/Non-Independent Non-Executive Director

Rajiv Gunawardena
Director/CEO

Independent Assurance Report to the Board of Directors

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Website : www.bdo.lk

Chartered Accountants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

TO THE BOARD OF DIRECTORS OF ASIA ASSET FINANCE PLC

Introduction

We were engaged by the Board of Directors of Asia Asset Finance PLC ("The Company") to provide assurance on the Directors' Statement on Internal Control ("the Statement") included in the annual report for the year ended 31st March, 2021.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement as required by section 10 (2) (b) of Finance Companies (Corporate Governance) Direction, No.03 of 2008 and Corporate Governance – Amendment Direction, No.06 of 2013. In the absence of specific detailed guidelines with respect of preparation and presentation of the statement for finance companies, in preparing and presenting the statement, the Company has considered "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. In the absence of specific detailed guidelines with respect of providing assurance report for finance companies on the Director's Statement on Internal control, we conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Company.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures.

1. We had an initial meeting with the Deputy General Manager Finance and other relevant key management personnel of the Company and discussed the Company's approach in assessing, designing and effectiveness of the Company's internal controls over financial reporting.
2. Requested all correspondence related to Directors' Assessment on design and effectiveness of the Internal Control of the Company and performed further procedures including the following:
   - 2.1 We independently reviewed the documentation of internal controls related to the key processes provided by the management and confirmed the completeness of such documentation by performing walkthroughs and test of controls.
   - 2.2 We reviewed the findings by Internal Auditors related to internal control weaknesses including the suggestions for improvements.
   - 2.3 Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees such as the Audit Committee.
3. Considered whether the Directors' Statement on Internal Control covers the year under review and adequate processes are in place to identify any significant matters arising.

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners : Sujeewa Rajapakse FCA, FCMA, MBA. Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H. Sasanka Rathnaweera FCA, ACMA.
R. Vasanthakumar Bsc (Acc), ACA. F. Sarah Z. Afker ACA, ACMA (UK), CGMA, MCSI (UK). M.N. Mohamed Nabeel ACA. D. Jerad N. Dias ACA.
Madhura V. De Silva FCA, MSc.

4. Considered whether the directors have disclosed that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, whether it has been in place for the year under review, whether it is regularly reviewed by the Board. Further, we considered whether the explanations given in the statement are consistent with our understanding.
5. Reviewed other documentation prepared by, or for the directors to support their Statement on Internal Control.
6. Obtained written representations from directors on matters material to the Statement on Internal Control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our conclusion

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

BDO Partners

CHARTERED ACCOUNTANTS
Colombo 02
30th April 2021
VR/dm

Directors' Statement on Internal Control over Financial Reporting

This report on internal control has been presented in accordance with section 10.2.b of the Finance Companies (Corporate Governance) Direction, No 03 of 2008 and the Corporate Governance – Amendment Direction No 06 of 2013.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the Internal Control mechanism in place at Asia Asset 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 sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting.

The Company has appointed its own Internal Audit team which reviews the Company's compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis. The annual audit and the internal audit reports are approved by the Board Audit Committee at periodic meetings. The Internal Audit team has been strengthened subsequent to the end of the financial year.

In assessing the internal control 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 team of the Company for suitability of design and effectiveness on an on-going basis. In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS, progressive improvements on processes to comply with new requirements of recognition, measurement, classification and disclosure are being made whilst some processes as at reporting date were not fully completed.

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 has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

EXTERNAL AUDITOR'S REVIEW OF THE STATEMENT

The External Auditor has reviewed the above "Report of the Board on Internal Control" for the year ended 31st March, 2021 included in the annual report of the Company. They reported to the Board that nothing had come to their attention that caused them to believe that the statement was inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Company over financial reporting.

By order of the Board

V. A. Prasanth
Chairman/Non-Independent Non-Executive Director

Rajiv Gunawardena
Director/Chief Executive Officer

R. A. T. P. Perera
Independent Non-Executive Director/
Chairman Audit Committee

Board Related Party Transactions Review Committee Report

The Related Party Transactions Review Committee, which is appointed by the Board of Directors of the Company, consists of the following Independent Non- Executive Directors who possess in depth expertise and knowledge in the Finance Industry:

- Mr. J.P.D.R. Jayasekara (Chairman/Appointed on 20th March 2018)
- Mrs. D.P.Pieris (Retired w.e.f. 22nd January 2021)
- Mr. K.R. Bijimon
- Mr. R.A.B. Basnayake (Appointed on 20th March 2018)

The primary purpose of the Committee is to evaluate and consider all transactions with related parties of the Company, in order to ensure that related parties are treated on par with other shareholders and constituents of the Company.

Furthermore, the core objective of the Related Party Transactions Review Committee is to ensure that the interest of shareholders is taken into consideration when entering into related party transactions and compliant with the rules. The Related Party Transactions Review Committee conducts its activities as per its Charter, Policy and Guidelines and is entrusted with the task of reviewing related party transactions other than those transactions explicitly exempted under the Listing Rules of the Colombo Stock Exchange.

OBJECTIVES, RESPONSIBILITIES AND DUTIES

The Related Party Transactions Review Committee carries out the following duties and responsibilities:

- To ensure that any related party transaction is conducted in a manner that will protect the Company from conflict of interest which may arise between the Company and its Related Parties.
- To ensure proper review and approval is carried out by the Committee either prior to the transaction being entered into or if the transaction is expressed to be conditional on such approval, prior to the completion of the transaction.
- To monitor disclosure of transactions between the Company and any of its Related Parties as required in compliance with legal and / or regulatory requirements stipulated by the Listing Rules of the Colombo Stock Exchange, Central Bank of Sri Lanka and Sri Lanka Financial Reporting Standards.
- To monitor financial accommodations granted to Key Management Personnel, major shareholders and Related parties.
- To monitor business transactions with institutions where the Directors of the Company have an interest either as Directors or major shareholders.
- To monitor that all related party transactions are transactions on normal commercial terms and not prejudicial to the interests of the Company or its minority shareholders.

PROFESSIONAL ADVICE

The Committee has assessed and/or ensured that they have access to internal and external resources and may seek the advice of the External Auditors of the Company, Counsel or such other independent advisers, consultants or specialists as to any matter pertaining to the powers or responsibilities of the Committee with respect to any Related Party Transaction and obtain such advice as and when necessary

MEETINGS

The Committee met four times during the year to review and discuss related party transactions. The minutes of the meetings were submitted to the Board of Directors.

KEY ACTIVITIES DURING THE YEAR UNDER REVIEW

During the year 2020/21, there were no non - recurrent or recurrent Related Party Transactions that exceeded the respective thresholds mentioned in the Listing Rules of the Colombo Stock Exchange.

The Committee discussed existing transactions with related parties, and recommended the procedure to be followed for future transactions. The Committee is in the process of developing policies and procedures to identify related parties prior to transactions, seek approval where necessary and to report in compliance with regulatory and / or legal requirements.

FUTURE OUTLOOK

The Committee will continue to review related party transactions in order to ensure the Company is in compliance with its stipulated framework governing related party transactions.

Board Audit Committee Report

COMPOSITION

The Board-appointed Audit Committee comprises of five Non-Executive Directors of whom four are Independent Directors.

The members of the board appointed audit committee in the year under review were:

Mr. R.A.T.P. Perera (Chairman) INED

Mr. V. A. Prasanth – NED***

Mr. R. A. B. Basnayake - SINED

Mr. J. P. D. R. Jayasekara - INED

Mr. K. G. K. Pillai - NED

Mr. C. Ramachandra - Retired w.e.f. from 10th June 2020

**INED - Independent Non-Executive Director*
***NED - Non-Independent Non-Executive*
Senior Independent Non-Executive Director
**** Appointed w.e.f. 1st July 2020*

The Committee's composition met the requirements of the rule 7.10.6 of listing Rules of the Colombo Stock Exchange.

The Chairman of the Committee, Mr. R.A.T.P. Perera, is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and Associate Member of Certified Management Accountants of Sri Lanka. A brief profile of the members of the audit committee is given in the pages 42-47.

Mr. C. Ramachandra, who was a member of the Audit Committee, retired from the Company w.e.f 10th June 2020 as per the regulations of the Central Bank of Sri Lanka (Section 04(02) in the Direction of the Finance Companies (Corporate Governance) Direction No.03 of 2008).

ROLE OF THE AUDIT COMMITTEE

The role of the Audit Committee is to assist the Board of directors to oversee the financial reporting system, Internal Control mechanism, Internal Audit function and review of independence and performance of External Audit related affairs of the Company, with a view to safeguarding the interest of the shareholders and all other stakeholders. The Committee provides a communication link between Internal Audit, External Audit and the Board of Directors of the Company.

Rules on Corporate Governance under "Listing Rules of the Colombo Stock Exchange" and "Code of Best Practice on Corporate Governance" issued jointly by The Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka further regulate the composition, role and functions of the Audit Committee.

TERMS OF REFERENCE

The Audit Committee adheres to terms of reference, dealing with its authority and duties established for the purpose of assisting the Board to effectively carry out its responsibilities relating to financial and other connected affairs of the Company.

The Committee is responsible and reports to the Board of Directors. The terms of reference of the committee is reviewed periodically by a Board of directors.

ACTIVITIES

- Examine any matter relating to the financial and other connected affairs of the Company,
- Make recommendations to the Board of Directors on matters connected with engagement, re-engagement, partner rotation period, removal, and audit fees of External Auditors.
- Monitor all Internal and External Audit inspection programmes and reviews Internal and External Audit Reports and follow up on recommendations
- Review the efficiency of internal control systems and procedures, in place.
- Review the quality of Accounting Policies and their adherence to statutory and regulatory compliance.
- Ensure that a well-managed sound financial reporting system is in place to provide timely, reliable information to the Board of Directors, Regulatory Authorities, Management and all other stakeholders.
- Ensure Company policies are firmly committed to the highest standards of good corporate governance practices and that operations conform to the highest ethical standards, in the best interests of all stakeholders.

MEETINGS

The Committee held four meetings during the year to discuss the matters coming under their review. The attendance of the members at the meeting is as follows:

No. of Meetings Attended

Mr. R.A.T.P. Perera 4/4

Mr. R. A. B. Basnayake 4/4

Mr. J. P. D. R. Jayasekara 4/4

Mr. K. G. K. Pillai 4/4

Mr. Mr. V. A. Prasanth 3/3

The formalized minutes of the Committee meetings with details of matters discussed are regularly tabled at Board meetings.

The Director/CEO, COO and Senior Managers of Internal Audit are invited to attend all meetings. The Committee also invited members of the Senior Management of the Company to participate in the meetings as and when required. The engagement partner of the Company's external auditors attends meetings when matters pertaining to their functions come up for consideration. The Company Secretary functions as Secretary to the Audit Committee.

FINANCIAL REPORTING

The Committee reviewed the effectiveness of the financial reporting system in place to ensure that the information provided to the stakeholders is reliable and is in strict adherence and compliance with the requirements of the Sri Lanka Accounting Standards and disclosure requirements and complies with the statutory provisions of Companies Act No 07 of 2007 and Finance Business Act No 42 of 2011. Having assessed the internal financial controls, the Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Company's assets are safeguarded and that the financial position of the Company is well monitored.

INDEPENDENCE AND OBJECTIVITY OF THE EXTERNAL AUDITORS

The external auditors were given adequate access by the committee to ensure they had no cause to compromise their independence and objectivity. The committee has also received a declaration from the external auditors as required by the Companies Act No 07 of 2007, confirming that they do not have any relationship or interests in the Company, which may have a bearing on their independence.

Prior to commencement of the annual audit, the committee discussed with the external auditors their audit plan, audit approach, procedures and matters relating to the scope of audit. The audit results were discussed at the conclusion of the audit, where the committee reviewed and approved the annual financial statements.

The external auditors were also provided with the opportunity of meeting Non-Executive Directors separately, without any executive being present, to ensure that the auditors had the independence to discuss and express their opinions on any matter which provided assurance to the committee that the management had fully provided all the information and explanations with full access to all relevant areas requested by the auditors.

The committee reviewed the non-audit services provided by the external auditors, with a view to ensure that such functions do not impair the external auditors' independence and objectivity.

The audit committee also reviewed the external auditor's management letter of the previous year with the management's responses thereto.

The committee has recommended to the Board of Directors that re-appointment of Messrs. BDO Partners as the independent External Auditor for the financial year ending 31st March 2022 and that the re-appointment together with the fees of the external auditor to be included in the Agenda of the Annual General Meeting to be approved by the Shareholders of the Company.

Board Audit Committee Report

REGULATORY COMPLIANCE

The Company's procedures in place to ensure compliance with mandatory Finance Company and other statutory requirements were under close scrutiny. The committee reviewed the information requirement of Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and other reporting requirements of CBSL, SEC and CSE regulations.

INTERNAL AUDIT

The Audit Committee exercises oversight over the internal audit function. The Committee approves the annual internal audit programme and follows up on the progress during the year. Internal audit reports are presented and reviewed on a regular basis. Issues are raised with a risk rating to ensure more attention is given to high-risk areas. These reviews examine management's responses to the issues raised and recommendations to overcome the issues and the implementation plans. The processes and the frequency of audits are dependent on the risk level, with higher risk areas being audited more frequently with greater focus. The Committee also ensured that the internal audit function is independent of the activities it audits and that the functions are performed with impartiality, proficiency and due professional care.

INTERNAL CONTROLS

The audit committee assessed the effectiveness of the internal controls and procedures for controlling business risk including the controls relating to the use of information technology and is of the view that adequate controls and procedures are in place to provide a reasonable assurance to the board that the assets of the Company are safeguarded and the financial position of the Company is well monitored.

The Committee also regularly reviews the Internal Control Procedures in place to ensure that the necessary controls and mitigating measures are available in respect of the newly identified risks.

CORE BUSINESS SYSTEM

Although the system is fully implemented, we are continuously monitoring to bring more controls into the system to make ait a more robust system. The committee is also evaluating the process of getting an audit verification system to facilitate internal audit.

SRI LANKA ACCOUNTING STANDARDS

The Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards (SLFRS/LKAS) applicable to the Company and made necessary recommendations to the Board. The Committee would continue to monitor the compliance with relevant Accounting Standards and keep the Board informed at regular intervals.

Evaluation Accounting judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

WHISTLE BLOWER POLICY

The whistle blower Policy and appropriate procedures are in place to conduct independent investigations into any reported incidents through whistleblowing or identified through other means. The policy guarantees the maintenance of strict confidentiality of the whistleblowing. During the year under review, no such incident was reported.

CONCLUSION

The Audit Committee is of the view that adequate controls are in place to safeguard the Company's assets and to ensure that the financial position and the results disclosed in the audited financials are free from any material misstatements.

FINANCIAL

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Independent Auditors' Report

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Website : www.bdo.lk

Chartered Accountants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

TO THE SHAREHOLDERS OF ASIA ASSET FINANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Asia Asset Finance PLC (the "Company"), which comprise the statement of financial position as at 31st March 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 116-135.

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

Basis for Opinion

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

Key Audit Matters

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

Key audit matter

Impairment of loans and receivables

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

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

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

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners : Sujeewa Rajapakse FCA, FCMA, MBA. Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H. Sasanka Rathnaweera FCA, ACMA.
R. Vasanthakumar Bsc (Acc), ACA. F. Sarah Z. Afker ACA, ACMA (UK), CGMA, MCSI (UK). M.N. Mohamed Nabeel ACA. D. Jerad N. Dias ACA.
Madhura V. De Silva FCA, MSc.

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

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

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

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

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

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

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

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

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

How our audit addressed the key audit matter

Our procedures included the following:

- We obtained an understanding of management's process and tested controls over credit origination, credit monitoring and credit remediation.
- We assessed the appropriateness of the accounting policies and loan impairment methodologies applied, by comparing these to the requirements of SLFRS 9: Financial Instruments, including consideration of COVID-19 impact and related industry responses based on the best available information up to the date of our report.
- We test-checked the underlying calculations and data.

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

For loans and receivables collectively assessed for impairment:

- We assessed the completeness of the underlying information in loans and receivables used in the impairment calculations by agreeing details to the company's source documents and information in IT systems.
- We also considered the reasonableness of macro-economic and other factors used by management by comparing them with publicly available data and information sources. This included assessing and challenging the reasonableness of macroeconomic scenarios considered and certain forward-looking economic data developed by the company, with particular focus on the impact of COVID-19 in light of certain available information and consensus views.

For loans and receivables individually assessed for impairment:

- We assessed the main criteria used by management for determining whether an impairment event had occurred.
- Where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held.
- Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on elevated risk industries, strategic responsive actions taken, collateral values, and the value and timing of future cashflows.

Independent Auditors' Report

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

- Assessing the appropriateness of judgements, reasonableness of calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and
- Evaluating the reasonableness of the interest income recognised on such affected loans and advances.

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

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report. 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 identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise whether it appears to be materially misstated.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3890.

BDO Partners

CHARTERED ACCOUNTANTS
Colombo
30th April 2021
VR/cc

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31st March 2021	Note	2020/2021 Rs.	2019/2020 Rs.
Interest income	4	**2,626,394,467**	3,043,709,078
Less: Interest expenses	5	**(1,462,362,856)**	(1,704,234,090)
Net interest income		**1,164,031,611**	1,339,474,988
Net trading loss on held for trading securities		**-**	(125)
Other operating income	6	**328,420,134**	288,910,201
Less: Operating expenses			
Personnel expenses		**(268,929,048)**	(310,582,828)
Provision for staff retirement benefits		**(7,163,721)**	(7,041,239)
General and administration expenses		**(701,570,915)**	(782,395,544)
Impairment charge for lease rentals receivable, hire purchase, loans and advances	7	**(382,940,886)**	(381,645,114)
Operating profit before value added tax on financial services		**131,847,175**	146,720,339
Value added tax on financial services		**(45,100,000)**	(53,404,047)
Profit before income tax	8	**86,747,175**	93,316,292
Income tax expenses	9	**(41,551,058)**	(23,162,926)
Profit for the year		**45,196,117**	70,153,366
Other comprehensive income not to be re-classified to profit or loss in subsequent periods (net of tax)			
Actuarial gain/(loss) on retirement benefit liability		**4,379,407**	(2,075,633)
Deferred tax effect on components of other comprehensive income	9	**1,051,058**	(498,152)
Other comprehensive income/(expense) for the year net of tax		**5,430,465**	(2,573,785)
Total comprehensive income for the year		**50,626,582**	67,579,581
Earnings per share - basic	32	**0.36**	0.57

Figures in brackets indicate deductions.

The accounting policies and notes on pages 116-177 form an integral part of these financial statements.

Colombo
30th April, 2021

Statement of Financial Position

As at 31st March 2021	Note	31.03.2021 Rs.	31.03.2020 Rs.
ASSETS			
Cash and cash equivalents	11	**1,006,233,476**	511,939,133
Investment in reverse repurchase agreements against the treasury bills and bonds at amortised cost	12	**654,692,844**	860,630,696
Financial assets at amortised cost - Loans and advances	13	**10,198,262,863**	8,913,047,650
Financial assets at amortised cost - Lease rentals receivable and hire purchase	14	**2,212,534,894**	3,726,488,702
Other assets	15	**21,637,319**	16,983,813
Income tax receivable	16	**27,698,763**	27,736,580
Advances, deposits and prepayments	17	**252,083,662**	156,189,223
Financial assets - Fair value through other comprehensive income	18	**506,659**	506,659
Property, plant and equipment	19	**156,436,174**	138,032,482
Right-of-use assets	20	**217,810,352**	137,210,457
Investment property	21	**376,158,647**	399,678,109
Deferred tax assets	9	**185,422,647**	225,922,647
Intangible assets	22	**40,951,789**	40,220,339
Total assets		**15,350,430,089**	15,154,586,490
LIABILITIES			
Financial liabilities - Due to banks	23	**24,279,289**	58,777,776
Other liabilities	24	**38,147,908**	96,622,133
Financial liabilities - Other borrowed funds	25	**4,778,758,726**	6,086,325,326
Lease liability	26	**213,877,899**	126,200,873
Due to customers	27	**7,013,686,384**	6,585,234,705
Subordinated liabilities	28	**1,029,465,110**	-
Retirement benefit obligation	29	**30,135,378**	29,972,864
Total liabilities		**13,128,350,694**	12,983,133,677

Statement of Financial Position

As at 31st March 2021	Note	31.03.2021 Rs.	31.03.2020 Rs.
EQUITY			
Stated capital	30	**1,791,478,691**	1,791,478,691
Retained earnings		**351,303,022**	303,207,769
Statutory reserve fund and other reserves	31	**79,297,682**	76,766,353
Total equity		**2,222,079,395**	2,171,452,813
Total equity and liabilities		**15,350,430,089**	15,154,586,490
Contingent liabilities and commitments	33 & 34	**643,139,968**	680,417,899
Net assets value per share		**17.89**	17.50

Figures in brackets indicate deductions.

The accounting policies and notes on pages 116-177 form an integral part of these financial statements.

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

Geethika Elwalage
Deputy General Manager - Finance

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

Approved and signed for and on behalf of the Board.

R.J.A Gunawardena
Director/Chief Executive Officer

R. A. T. P. Perera
Independent Non-Executive Director/
Chairman of the Audit Committee

Colombo
30th April, 2021
VR/cc

Statement of Changes in Equity

As at 31st March 2021	Note	Stated capital	General reserve	Statutory reserve fund	Retained earnings	Total
		Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31st March, 2019		1,640,493,541	3,000,000	70,387,374	239,007,167	1,952,888,082
Total comprehensive income for the year						
Profit for the year		-	-	-	70,153,366	70,153,366
Other comprehensive expense (net of tax)		-	-	-	(2,573,785)	(2,573,785)
Total comprehensive income for the year		-	-	-	67,579,581	67,579,581
Transactions with equity holders recognised directly in equity						
Proceeds from right issue of ordinary shares	30	150,985,150	-	-	-	150,985,150
Transfers to reserves		-	-	3,378,979	(3,378,979)	-
Total transactions with equity holders		150,985,150	-	3,378,979	64,200,602	218,564,731
Balance as at 31st March, 2020		1,791,478,691	3,000,000	73,766,353	303,207,769	2,171,452,813
Total comprehensive income for the year						
Profit for the year		-	-	-	45,196,117	45,196,117
Other comprehensive income (net of tax)		-	-	-	5,430,465	5,430,465
Total comprehensive income for the year		-	-	-	50,626,582	50,626,582
Transactions with equity holders recognised directly in equity						
Transfers to reserves	31	-	-	2,531,329	(2,531,329)	-
Total transactions with equity holders		-	-	2,531,329	48,095,253	50,626,582
Balance as at 31st March, 2021		1,791,478,691	3,000,000	76,297,682	351,303,022	2,222,079,395

Figures in brackets indicate deductions.

The accounting policies and notes on pages 116-177 form an integral part of these financial statements.

Colombo
30th April, 2021

Statement of Cash Flows

For the Year Ended 31st March 2021	Note	2020/2021 Rs.	2019/2020 Rs.
Cash flows from operating activities			
Profit before income tax		**86,747,175**	93,316,292
Adjustments for			
Depreciation and amortisation	19 & 22	**51,276,593**	51,791,363
Amortisation of right-of-use asset	20	**41,018,741**	29,177,605
Interest expenses on lease liability	26	**20,009,922**	17,234,710
Impairment of lease, hire purchase, loans and advances	7	**382,940,886**	381,645,114
Early termination of loans, leases and hire purchase		**(29,908,552)**	(51,580,552)
Non-cash items included in profit before tax (WHT and Notional tax)		**37,817**	(1,264,129)
Net interest margin adjustment		**-**	31,765,157
Interest income on commercial papers		**-**	(6,170,583)
Interest income on short term investment		**(18,852,915)**	(3,493,043)
Profit on sale of held for trading securities		**-**	125
Gains from sale of property, plant and equipment, investment property and real estate inventories		**(8,958,592)**	(182,714)
Loss on sale of vehicle stock		**-**	1,133,738
Provision for retirement benefit liability	29.1	**7,163,721**	7,041,239
Interest expense on other borrowings		**695,547,058**	897,277,265
Interest expense on debentures		**47,070,376**	-
Cash generated from operations before working capital changes		**1,274,092,230**	1,447,691,587
Changes in working capital			
Decrease in lease rentals receivable and hire purchase		**1,592,530,924**	279,318,715
Increase in loans and advances		**(1,716,824,690)**	(1,724,658,389)
Increase in other receivables		**(126,272,144)**	(472,010)
Increase in deposits and prepayments		**(95,894,459)**	(31,671,976)
Increase/(decrease) in deposits from customers		**428,451,679**	(32,110,250)
Increase/(decrease) other non-financial liabilities		**63,144,462**	(120,541,238)
Net cash from/(used in) operating activities before income tax payments		**1,419,228,002**	(182,443,561)
Taxes paid		**-**	(22,740,148)
Gratuity paid		**(2,621,800)**	(1,232,500)
Lease rent advance paid		**(14,542,782)**	(42,557,697)
Rent paid		**(39,408,751)**	-
Net cash generated from/(used in) operating activities		**1,362,654,669**	(248,973,906)
Cash flows from investing activities			
Acquisition of property, plant and equipment	19	**(65,141,353)**	(27,787,206)
Acquisition of intangible assets	20	**(6,956,240)**	(17,178,378)
Acquisition of investment property	21	**(315,000)**	(5,859,596)

For the Year Ended 31st March 2021	Note	2020/2021	2019/2020
		Rs.	Rs.
Proceeds from sale of investment property		**30,900,000**	-
Proceeds from sale of vehicle stock		**-**	17,779,831
Investments in commercial papers		**-**	(280,000,000)
Proceeds from commercial papers		**-**	286,170,583
Investments in short term investments		**(980,000,000)**	(250,000,000)
Proceeds from short term investments		**998,852,915**	253,493,043
Proceeds from sale of property, plant and equipment		**3,578,913**	602,054
Net cash used in investing activities		**(19,080,765)**	(22,779,669)
Cash flows from financing activities			
Repayment of other borrowed funds	25	**(4,686,113,659)**	(4,421,488,570)
Proceeds from other borrowed funds	25	**2,683,000,000**	4,651,801,017
Proceeds from debenture issue		**982,394,733**	-
Proceed from right issue		**-**	150,985,150
Net cash generated from/(used in) financing activities		**(1,020,718,926)**	381,297,597
Net increase in cash and cash equivalents		**322,854,978**	109,544,022
Cash and cash equivalents at the beginning of the year	A	**1,313,792,053**	1,204,248,031
Cash and cash equivalents at the end of the year	B	**1,636,647,031**	1,313,792,053
At the beginning of the year			Note A
Cash and cash equivalents		**511,939,133**	643,777,198
Investment in reverse repurchase agreements against the treasury bills and bonds at amortised cost		**860,630,696**	691,744,740
Bank overdraft		**(58,777,776)**	(131,273,907)
		1,313,792,053	1,204,248,031
At the end of the year			Note B
Cash and cash equivalents		**1,006,233,476**	511,939,133
Investment in reverse repurchase agreements against the treasury bills and bonds at amortised cost		**654,692,844**	860,630,696
Bank overdraft		**(24,279,289)**	(58,777,776)
		1,636,647,031	1,313,792,053

Figures in brackets indicate deductions.

The accounting policies and notes on pages 116-177 form an integral part of these financial statements.

Colombo
30th April, 2021

Significant Accounting Policies & Notes to the Financial Statements

1. CORPORATE INFORMATION

This section provides general information about Asia Asset Finance PLC.

1.1 General

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

1.2 Principal activities and nature of operations

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

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

1.3 Parent entity and ultimate parent entity

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

1.4 Number of employees

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

2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

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

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

2.1 Basis of measurement

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

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

2.2 Going concern

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

2.3 Statement of compliance

The financial statements of the Company as at 31st March, 2021 and for the year ended have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

These financial statements include the following components:

- A statement of profit or loss and other comprehensive income providing the information on the financial performance of the Company for the year under review
- A statement of financial position providing the information on the financial position of the Company as at the year end
- A statement of changes in equity depicting all changes in shareholders' equity during the year under review of the Company
- A statement of cash flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilise those cash flow and
- Notes to the financial statements comprising accounting policies and other explanatory information.

2.4 Responsibility for financial statements

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

2.5 Approval of financial statements by the Board of Directors

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

2.6 Presentation of financial statements

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

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

2.7 Comparative information

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

2.8 Functional and presentation currency

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

2.9 Materiality and aggregation

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

2.10 Rounding

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

Significant Accounting Policies & Notes to the Financial Statements

2.11 Foreign currency transactions and balances

All foreign currency transactions are translated into the functional currency which is the Sri Lanka Rupee (Rs.) at the spot exchange rate prevailing at the date of the transactions being effected. In this regard, the Company's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the reporting date.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

2.12 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements of the Company in conformity with SLFRS and LKAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

Accounting judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The company considered the impact of COVID-19 in preparing the financial statements in line with the circulars and guidelines issued by the CBSL and the CA Sri Lanka. While the specific areas of judgement may not change, the impact of COVID-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event. Further, changes to estimates were made in the measurement of company' assets where applicable.

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

2.12.1 Classification of financial assets and liabilities

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

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

2.12.2 Impairment Losses on Financial assets

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

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

2.12.3 Taxation

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

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

2.12.4 Deferred tax assets

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

2.12.5 Retirement benefit obligation

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

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

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

2.12.7 Leases

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

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

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

2.13 Changes in Accounting Policies

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

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

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

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

In November 2018, the CA Sri Lanka issued amendments to Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements" and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material'

across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial Statements, which provide financial information about a specific reporting entity.' These amendments had no impact on the financial statements of, nor is there expected to be any future impact on the financial statements of the Company.

2.14.2 Amendments to the conceptual framework for financial reporting

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

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

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

2.14.3 Amendments to Accounting Standards issued but not yet effective

Amendments to SLFRS 16 - COVID-19 Related Rent Concessions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1.1 Date of recognition

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

3.1.2 Initial measurement of financial instruments

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

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

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

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

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

3.1.2.1 "Day 1" profit or loss

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

3.1.3 Classification and subsequent measurement of financial assets

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

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

The subsequent measurement of financial assets depends on their classification.

3.1.3.1 Business model assessment

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

The information considered includes:

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

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

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

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

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

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

In contrast, contractual terms that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement

do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

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

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

3.1.3.3 Financial assets measured at amortised cost

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

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

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

3.1.3.3.1 Loans and advances to customers

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

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

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

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

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

3.1.3.3.3 Cash and cash equivalents

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

3.1.3.4 Financial assets measured at FVOCI

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

3.1.3.4.1 Debt instruments measured at FVOCI

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

3.1.3.4.2 Equity instruments designated at FVOCI

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

3.1.3.5 Financial assets measured at FVTPL

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

3.1.4 Classification and subsequent measurement of financial liabilities

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

- Financial liabilities at fair value through profit or loss, and within this category are,
  - Held-for-trading; or
  - Designated at fair value through profit or loss;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

3.1.4.1 Financial liabilities at fair value through profit or loss

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

3.1.4.2 Financial liabilities at amortised cost

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

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

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

3.1.4.2.1 Due to banks

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

3.1.4.2.2 Due to customers

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

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

3.1.4.2.3 Other borrowed funds

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

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

Significant Accounting Policies & Notes to the Financial Statements

3.1.4.2.4 Subordinated liabilities

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

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

3.1.5 Reclassification of financial assets and liabilities

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

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

3.1.5.1 Timing of reclassification of financial assets

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

3.1.5.2 Measurement of reclassification of financial assets

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

- To Fair value through other comprehensive income

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

- To Amortised Cost

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

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

- To Fair value through profit or loss

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

- To Amortised Cost

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

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

3.1.5.2.3 Reclassification of Financial Instruments at "Amortised Cost"

- To Fair value through other comprehensive income

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

- To Fair value through profit or loss

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

3.1.6 De-recognition of financial assets and financial liabilities

3.1.6.1 Financial assets

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

3.1.6.2 Financial liabilities

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

3.1.7 Modification of financial assets and financial liabilities

3.1.7.1 Financial assets

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

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

3.1.7.2 Financial liabilities

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

3.1.8 Offsetting of financial instruments

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

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

3.1.9 Amortised cost and gross carrying amount

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

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

3.1.10 Fair value of financial instruments

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

3.1.11 Identification and measurement of impairment of financial assets

3.1.11.1 Overview of the ECL principles

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

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

- Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).
- Stage 2: If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL. Refer Note 3.1.11.2 for a description on how the Company determines when a significant increase in credit risk has occurred.
- Stage 3: If a financial asset is credit- impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL, with probability of default at 100%. Refer Note 3.1.11.4 for a description on how the Company defines credit impaired and default.

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

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

3.1.11.2 Significant increase in credit risk

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

The company considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 30 days past due in accordance with the rebuttable presumption in SLFRS 9.
The company individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include, inter alia:

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

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

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

3.1.11.3 COVID -19 Impact on Loan and advances

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

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

Accordingly, the Company took steps to identify the customers showing distress signs in identifying SICR under the individual impairment assessment. Under the individual assessment, customers operating in risk elevated industries including Tourism, supplying hardware items, printing and publishing, tobacco related business, passenger transport and electronic items were assessed individually in ECL model. In addition, as expert credit judgment, the stressed the ECL parameters such as PDs and LGDs to reflect the real economic scenario that is not reflected due to the deferrals and concessions granted due to COVID-19. Early observations of payment behaviour of expiries for this year were considered in the assessment of the changes in the risk of default occurring over the expected life of a financial instrument when determining staging and is a key input in determining migration.

3.1.11.4 Definition of default and credit impaired assets

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

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

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

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

3.1.11.5 Movement between the stages

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

3.1.11.6 Grouping financial assets measured on collective basis

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

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

3.1.11.7 The Calculation of Expected Credit Loss Principle (ECL)

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

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

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

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD: Exposure At Default is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities and accrued financing income from missed payments.
- LGD: Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realisation of any collateral. The weighted average LDGs are used and the weighted average LGD is determined by dividing the total loss for the year by the total exposure of settled defaults of each year.

Significant Accounting Policies & Notes to the Financial Statements

3.1.11.8 Forward-looking information

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

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

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

3.1.12 Write-off of loans and advances

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

3.2 Property, plant and equipment

3.2.1. Basis of recognition

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

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

3.2.2 Basis of measurement

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

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

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

3.2.3 Subsequent costs

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

3.2.4 Repairs and maintenance

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

3.2.5 De-recognition

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

3.2.6 Depreciation

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

The estimated useful lives are as follows;

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

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

3.3 Intangible assets

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

3.3.1 Basis of recognition

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

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

3.3.2 Subsequent expenditure

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

3.3.3 Useful economic lives, amortisation and impairment

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

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

Computer software - 8 years

3.3.4 De-recognition

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

3.4 Investment property

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

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

Significant Accounting Policies & Notes to the Financial Statements

3.4.1 De-recognition

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

3.4.2 Subsequent transfers to/from investment property

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

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

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

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

3.5 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets are reviewed at each reporting date to assess whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing of an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash – generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators.

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

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

3.6 Deferred tax assets

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.7 Real estate inventories

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

3.8 Fiduciary assets

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

3.9 Other assets

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

3.10 Provisions

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

3.11 Leases

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

a) Basis of recognition

The company applies Sri Lanka Accounting Standard SLFRS 16 "Leases" in accounting for all lease hold rights except for short term leases, which are held for use in the provision for services.

b) Basis of Measurement

The company recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost less any accumulated amortisation and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received.

c) Depreciation

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

3.11.2 Lease Liability

At the commencement date of the lease, the Company recognises lease liabilities, measured at present value of lease payments to be made over the lease term. The present value of lease commitments has been calculated using the weighted average incremental borrowing rate.

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

3.11.3 Finance leases - Company as a lessor

As per SLFRS 16, a lease which transfers substantially all the risks and rewards incidental to ownership of an underlying asset is classified as a finance lease. At the commencement date, the Company recognises assets held under finance lease in the statement of financial position and present them as a lease receivable at an amount equal to the net investment in the lease. Net investment in the lease is arrived by discounting lease payments receivable at the interest rate

implicit in the lease, i.e. the rate which causes present value of lease payments to equal to the fair value of the underlying asset and initial direct costs. The company's net investment in lease is included in Note 14 on "Financial assets at amortised cost – Lease rentals receivable and hire purchase", as appropriate. The finance income receivable is recognised in "interest income" over the periods of the leases so as to achieve a constant rate of return on the net investment in the leases.

3.11.4 Operating leases - Company as a lessor

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

3.12 Other liabilities

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

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

3.13 Retirement benefit obligation

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

3.13.1 Recognition of actuarial gains and losses

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

3.13.2 Funding arrangements

The gratuity liability is not externally funded.

3.13.3 Defined contribution plans -Employees' Provident Fund

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

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

3.14 Dividends payable

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

3.15 Income

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

3.15.1 Net interest income

3.15.1.1 Interest income and interest expense

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

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

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

Effective Interest Rate (EIR)

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

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

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

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

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

3.15.2 Net trading gain/loss on held for trading securities

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

3.15.3 Net Fee and Commission Income

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

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

3.15.4 Other operating income

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

3.15.4.1 Dividend income

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

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

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

3.15.4.3 Other Income

Other income is recognised on an accrual basis.

3.16 Personnel expenses

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

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

Significant Accounting Policies & Notes to the Financial Statements

3.17 General and administrative expense

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

3.18 Income tax expense

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid, to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

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

3.19 Earnings Per Share (EPS) - basic

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

3.20 Contingent liabilities and commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard- LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'. Contingent Liabilities are not recognised in the statement of financial position but are disclosed unless its occurrence is remote.

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

3.21 Events after the reporting period

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

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

3.22 Statement of cash flows

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

3.23 Segment reporting

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

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

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

3.24 Fair value measurement

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

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

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

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

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

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

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

Significant Accounting Policies & Notes to the Financial Statements

4. INTEREST INCOME

For the Year Ended 31st March 2021	2020/2021 Rs.	2019/2020 Rs.
Interest on leases	**730,671,271**	1,180,119,244
Interest on hire purchase	**-**	25,375
Interest on loans	**771,593,649**	973,380,883
Overdue interest	**168,483,795**	119,095,322
Interest on treasury bills in reverse repurchase agreements	**41,466,484**	74,315,066
Interest on bank deposits	**48,171,828**	35,549,481
Interest on commercial papers	**-**	6,170,583
Interest on gold loans	**866,007,440**	655,053,124
	2,626,394,467	3,043,709,078

5. INTEREST EXPENSES

For the Year Ended 31st March 2021	2020/2021 Rs.	2019/2020 Rs.
Interest on fixed deposits	**696,842,484**	788,668,229
Interest on other borrowings	**698,440,074**	898,331,151
Interest on right of use asset-leased liability	**20,009,922**	17,234,710
Interest on debentures	**47,070,376**	-
	1,462,362,856	1,704,234,090

6. OTHER OPERATING INCOME

For the Year Ended 31st March 2021	2020/2021 Rs.	2019/2020 Rs.
Documentation charges and service charges	**260,531,587**	213,023,375
Gains from disposal of property, plant and equipment, investment property and real estate inventories	**8,958,592**	-
Profit on settled contracts	**31,186,640**	51,580,552
Dividend income	**320,000**	280,000
Operating lease income	**-**	2,656,940
Insurance commission income	**24,236,945**	20,778,315
Sundry income	**3,170,870**	580,537
Rent income	**15,500**	-
Money gram income	**-**	10,482
	328,420,134	288,910,201

7. IMPAIRMENT CHARGE FOR LEASE RENTALS RECEIVABLE, HIRE PURCHASE, LOANS AND ADVANCES

For the Year Ended 31st March 2021	Note	2020/2021	2019/2020
		Rs.	Rs.
Lease rentals receivable and hire purchase	14.2.5	**(71,963,484)**	115,717,822
Loans and advances	13.3	**454,904,370**	265,927,292
		382,940,886	381,645,114

8. PROFIT BEFORE INCOME TAX

Stated after charging all expenses including the following :

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

Significant Accounting Policies & Notes to the Financial Statements

9. INCOME TAX EXPENSES

Major components of income tax expense for the year ended 31st March are as follows:

For the Year Ended 31st March 2021	Note	31.03.2021 Rs.	31.03.2020 Rs.
Statement of profit or loss			
Current income tax	9.1		
Current income tax charge		-	-
Deferred tax	9.2		
Deferred taxation		**41,551,058**	23,162,926
Income tax expense reported in the profit or loss		**41,551,058**	23,162,926
Statement of other comprehensive income			
Deferred tax			
Deferred taxation (reversal)/expense		**(1,051,058)**	498,152
Income tax expenses/(reversal) reported in the other comprehensive income		**(1,051,058)**	498,152

9.1 Reconciliation of accounting profit and taxable income

For the Year Ended 31st March 2021	31.03.2021 Rs.	31.03.2020 Rs.
Accounting profit (profit before income tax)	**86,747,175**	93,316,292
Add : Disallowable expenses	**548,550,813**	551,980,141
Less : Allowable expenses	**(614,650,324)**	(833,211,772)
Less : Exempt income	**(39,414,136)**	(51,860,552)
Add : Adjusted business profit from leasing business	**33,734,361**	248,088,180
Statutory income	**14,967,889**	8,312,289
Tax loss brought forward and utilised	**(14,967,889)**	(8,312,289)
Taxable income / (loss)	-	-
Income tax expense	-	-
Effective income tax rate	-	-

9.2 Deferred tax assets

As at 31 March	Statement of financial position	
	31.03.2021	31.03.2020
	Rs.	Rs.
Balance at the beginning of the year	**225,922,647**	249,583,725
(Charge)/reversal for the year		
Statement of profit or loss	**(41,551,058)**	(23,162,926)
Statement of other comprehensive income	**1,051,058**	(498,152)
Balance at the end of the year	**185,422,647**	225,922,647

9.3 Deferred tax assets and liabilities relate to the following:

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

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

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

Significant Accounting Policies & Notes to the Financial Statements

10. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

10.1 As at 31st March 2021

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

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

10.2 As at 31st March 2020

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

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

FVTOCI - Fair value through other comprehensive income

FVTPL - Fair value through profit or loss

Significant Accounting Policies & Notes to the Financial Statements

11. CASH AND CASH EQUIVALENTS

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Cash in hand	**79,452,195**	75,502,668
Cheque in hand	**12,416,189**	12,309,508
Cash at banks	**687,310,215**	424,126,957
Short term investments	**227,054,877**	-
	1,006,233,476	511,939,133

12. INVESTMENT IN REVERSE REPURCHASE AGREEMENTS AGAINST TREASURY BILLS AND BONDS

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Reverse repurchase agreements against treasury bills and bonds	**654,692,844**	860,630,696
	654,692,844	860,630,696

13. FINANCIAL ASSETS AT AMORTISED COST – LOANS AND ADVANCES

As at 31 March	Note	31.03.2021 Rs.	31.03.2020 Rs.
Gross loans and advances	13.1	**11,572,708,799**	9,819,980,963
Stage 1		**7,079,074,428**	5,791,952,342
Stage 2		**717,054,715**	542,827,585
Stage 3		**3,776,579,656**	3,485,201,037
Less: Allowance for impairment		**1,374,445,936**	906,933,313
Stage 1	13.2.1	**130,393,979**	58,249,662
Stage 2	13.2.2	**20,305,792**	29,179,872
Stage 3	13.2.3	**1,223,746,165**	819,503,779
Net loans and advances		**10,198,262,863**	8,913,047,650

13.1 Loans and advances - Analysis by product

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Mortgage loans	**1,551,415,934**	1,614,042,596
Pledge loans	**135,919,742**	458,818,439
Personal and corporate loans	**1,873,944,468**	1,915,381,361
Group personal loans	**471,975,259**	651,155,230
Cheque and invoice discounting	**12,445,717**	11,810,284
Micro finance loans	**758,544,284**	782,987,172
Sale and lease back loans	**1,000,001**	1,000,001
Project financing loans	**144,966,622**	115,072,724
Gold loans	**6,622,496,772**	4,269,713,156
	11,572,708,799	9,819,980,963

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

13.2.1 Movement in stage 1 impairment

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	**58,249,662**	179,587,839
Charge/(write back) to the income statement	**72,144,317**	(121,338,177)
Balance at the end of the year	**130,393,979**	58,249,662

13.2.2 Movement in stage 2 impairment

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	**29,179,872**	32,390,823
Write back to the income statement	**(8,874,080)**	(3,210,951)
Balance at the end of the year	**20,305,792**	29,179,872

Significant Accounting Policies & Notes to the Financial Statements

13.2.3 Movement in stage 3 impairment

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	**819,503,779**	627,887,880
Charge to the income statement	**391,634,133**	394,483,287
Other adjustment/(write-off) during the year	**12,608,253**	(198,860,521)
Interest reversals on impaired loans and advances	**-**	(4,006,867)
Balance at the end of the year	**1,223,746,165**	819,503,779

13.2.4 Movement in total impairment

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	**906,933,313**	839,866,542
Charge to the income statement	**454,904,370**	269,934,159
Other adjustment/(write-off) during the year	**12,608,253**	(198,860,521)
Interest reversals on impaired loans and advances	**-**	(4,006,867)
Balance at the end of the year	**1,374,445,936**	906,933,313

13.3 Impairment charge to the income statement

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Loans and advances to customers		
Stage 1	**72,144,317**	(121,338,177)
Stage 2	**(8,874,080)**	(3,210,951)
Stage 3	**391,634,133**	390,476,420
	454,904,370	265,927,292

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

As at 31 March	Note	31.03.2021 Rs.	31.03.2020 Rs.
Gross lease rental receivables and hire purchase		**2,429,521,147**	4,014,813,440
Stage 1		**2,033,132,303**	2,787,829,382
Stage 2		**63,409,091**	452,754,414
Stage 3		**332,979,753**	774,229,644
Less: Allowance for impairment		**216,986,253**	288,324,738
Stage 1	14.2.1	**20,657,455**	95,808,518
Stage 2	14.2.2	**4,257,410**	32,169,730
Stage 3	14.2.3	**192,071,388**	160,346,489
Net lease rentals receivable and hire purchase		**2,212,534,894**	3,726,488,702

14.1 Lease rentals receivable and hire purchase

As at 31 March	Note	31.03.2021 Rs.	31.03.2020 Rs.
Lease rentals receivables	14.1.1	**2,204,274,974**	3,711,805,061
Hire purchases	14.1.2	**8,259,920**	14,683,641
		2,212,534,894	3,726,488,702

14.1.1 Lease rentals receivables

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Gross rentals receivable	**2,679,231,862**	5,205,084,441
Less: Unearned income	**(369,939,895)**	(1,433,988,222)
Pre-paid rentals	**(1,488,469)**	(2,377,814)
Lease capitalised charges	**92,091,153**	213,353,270
Allowance for impairment losses	**(195,619,677)**	(270,266,614)
	2,204,274,974	3,711,805,061

Significant Accounting Policies & Notes to the Financial Statements

14.1.2 Hire purchase receivables

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Gross rentals receivable	**29,626,496**	32,894,899
Less: Unearned income	**-**	(153,134)
Allowance for impairment losses	**(21,366,576)**	(18,058,124)
	8,259,920	14,683,641

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

14.2.1 Movement in stage 1 impairment

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	**95,808,518**	87,045,635
Charge/(write back) to the income statement	**(75,151,063)**	8,762,883
Balance at the end of the year	**20,657,455**	95,808,518

14.2.2 Movement in stage 2 impairment

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	**32,169,730**	11,147,399
Charge/(write back) to the income statement	**(27,912,320)**	21,022,331
Balance at the end of the year	**4,257,410**	32,169,730

14.2.3 Movement in stage 3 impairment

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	**160,346,489**	74,413,881
Charge to the income statement	**31,099,899**	88,628,030
Other adjustments	**625,000**	-
Interest reversals on impaired loans and advances	**-**	(2,695,422)
Balance at the end of the year	**192,071,388**	160,346,489

14.2.4 Movement in total impairment

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	**288,324,737**	172,606,915
Charge/(write back) to the income statement	**(71,963,484)**	118,413,244
Other adjustments	**625,000**	-
Interest reversals on impaired loans and advances	**-**	(2,695,422)
Balance at the end of the year	**216,986,253**	288,324,737

14.2.5 Impairment charge to the income statement

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Lease receivable and hire purchases		
Stage 1	**(75,151,063)**	8,762,883
Stage 2	**(27,912,320)**	21,022,331
Stage 3	**31,099,899**	85,932,608
	(71,963,484)	115,717,822

14.3 Age analysis of lease and hire purchase

14.3.1 Lease and hire purchase receivable not later than 1 year

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Gross rentals receivable	**399,314,242**	823,289,824
Less: Unearned income	**(7,365,976)**	(36,331,161)
Pre-paid rentals	**(1,488,469)**	(192,920)
Lease capitalised charges	**22,308,098**	42,083,600
Allowance for impairment losses	**(91,035,991)**	(75,475,914)
	321,731,904	753,373,429

Significant Accounting Policies & Notes to the Financial Statements

14.3.2 Lease and hire purchase receivable later than 1 year and not later than 5 years

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Gross rentals receivable	**2,309,544,116**	4,022,532,885
Less: Unearned income	**(362,573,919)**	(1,007,839,791)
Lease capitalised charges	**69,783,055**	171,271,001
Allowance for impairment losses	**(125,950,262)**	(212,848,822)
	1,890,802,990	2,973,115,274

15. OTHER ASSETS

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Other receivables	**21,637,319**	16,983,813
	21,637,319	16,983,813

16. INCOME TAX RECEIVABLE

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	**27,736,580**	3,732,303
Income tax expense for the year	**-**	-
	27,736,580	3,732,303
Income tax paid	**-**	8,900,107
Add : Tax credits		
WHT and notional tax	**-**	1,264,129
ESC paid	**-**	13,840,041
Less: WHT reversal	**(37,817)**	-
Balance at the end of the year	**27,698,763**	27,736,580

17. ADVANCES, DEPOSITS AND PREPAYMENTS

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Advances, deposits and prepayments	**252,083,662**	156,189,223
	252,083,662	156,189,223

18. FINANCIAL ASSETS - FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 March	31.03.2021		31.03.2020	
	Number of shares	Directors' valuation* Rs.	Number of shares	Directors' valuation* Rs.
Unquoted cumulative redeemable preference shares				
Platinum Reality Investment Limited	**25,000**	**6,500,000**	25,000	6,500,000
Less : Impairment loss		**(6,500,000)**		(6,500,000)
		-		-
Unquoted ordinary shares				
Finance Houses Consortium (Private) Limited	**45,000**	**200,000**	45,000	200,000
Credit Information Bureau of SL (CRIB)	**67**	**306,659**	67	306,659
	45,067	**506,659**	45,067	506,659

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

19. PROPERTY, PLANT AND EQUIPMENT

19.1 Gross carrying amounts

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

19.2 Accumulated depreciation

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

Significant Accounting Policies & Notes to the Financial Statements

19.3 Net book value

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Plant	**8,652,395**	11,884,863
Motor vehicle	**11,799,703**	18,085,687
Office equipment	**99,596,062**	77,323,454
Computers	**23,857,575**	23,233,581
Furniture and fittings	**12,530,439**	7,504,897
	156,436,174	138,032,482

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

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

19.6 Temporarily idle property, plant and equipment

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

19.7 Title restriction on property, plant and equipment

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

19.8 Property, plant and equipment pledged as securities for liabilities

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

20. RIGHT-OF-USE ASSET ON LEASE

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Cost		
Balance at the beginning of the year	**166,388,062**	-
Day 1 impact from application of SLFRS 16	**-**	139,021,582
Restated balance as at the beginning of the year	**166,388,062**	139,021,582
Additions to/renewal of operating lease during the year	**121,618,636**	27,366,480
Balance at the end of the year	**288,006,698**	166,388,062
Accumulated amortisation		
Balance at the beginning of the year	**29,177,605**	-
Amortisation for the year	**41,018,741**	29,177,605
Balance at the end of the year	**70,196,346**	29,177,605
Net book value at the end of the year	**217,810,352**	137,210,457

21. INVESTMENT PROPERTY

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Balance at the beginning of the year	**399,678,109**	393,818,513
Acquisitions during the year	**-**	5,255,136
During the year improvements	**315,000**	604,460
Disposals during the year	**(23,834,462)**	-
Balance at the end of the year	**376,158,647**	399,678,109

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

Significant Accounting Policies & Notes to the Financial Statements

21.2 Fair value of the investment property

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

Location of the land	Valuer's name and report date	Total extent	31.03.2021 Fair value Rs.	31.03.2021 Cost Rs.	31.03.2020 Fair value Rs.	31.03.2020 Cost Rs.
Sandiyakalikuda & Mundalamakadu of Puttalam Rd, Mundalama.	D. Jayawardene (Incorporated Valuer) - valuation report dated 25th March, 2019.	05 A - 03 R - 30 P (2.4028 Ha)	**50,400,000**	**35,300,000**	50,400,000	35,300,000
Karukottiheevu, Thamputtai 02, Akkaraipattu.	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	10 A - 01 R - 05 P (4.1602 Ha)	**115,000,000**	**95,236,734**	115,000,000	95,236,734
Galapitamillahena, Polarambegama, Kegalle.	D. Jayawardene (Incorporated Valuer) - valuation report dated 25th March, 2020.	6A - 01 R - 00 P (2.5293 Ha)	**25,000,000**	**25,374,000**	25,000,000	25,374,000
No. 95, Mallattawela, Wellawaya	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019	11.80 P (0.0435 Ha)	**10,100,000**	**5,255,135**	9,000,000	5,255,135
Lot No: 153B in Plan no: 4813/99 at Udangawa, Ambanpola.	D. Jayawardene (Incorporated Valuer) - valuation report dated 05th April, 2021.	130 P (0.3288 Ha)	**13,000,000**	**12,103,871**	13,000,000	12,103,871
Lot No: 1 in Plan no: 1520 & Lot no: 1 in Plan no: 1522, "EVERTON ESTATE", Pothupitiya Road, Rakwana	D. Jayawardene (Incorporated Valuer) - valuation report dated 26th March, 2019.	73 A - 03 R - 17.5 P (29.8898 Ha)	**62,000,000**	**27,357,721**	62,000,000	27,357,721
No. 723/53, "Lake Terrace" Jayasinghe Mawatha, Korathota Road, Athurugiriya.	D. Jayawardene (Incorporated Valuer) - valuation report dated 05th April, 2021.	23.52 P (0.05949 Ha)	**7,500,000**	**6,016,123**	7,150,000	6,016,123
Kopiwatta" Lot No:A, Plowatta Road, Minuwangoda.	D. Jayawardene (Incorporated Valuer) - valuation report dated 05th April, 2021.	01 A - 0 R - 01.49 P (0.4085 Ha)	**55,000,000**	**55,892,177**	54,000,000	55,892,177
			548,700,000	**376,158,647**	582,950,000	399,678,109

Significant Accounting Policies & Notes to the Financial Statements

22. INTANGIBLE ASSETS

22.1 Gross carrying amounts

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

22.2 Amortisation

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

22.3 Net book value

As at 31 March	31.03.2021	31.03.2020
	Rs.	Rs.
Computer software	**40,951,789**	40,951,789
	40,951,789	40,951,789

23. FINANCIAL LIABILITIES - DUE TO BANKS

As at 31 March	31.03.2021	31.03.2020
	Rs.	Rs.
Due to banks - bank overdrafts	**24,279,289**	58,777,776
	24,279,289	58,777,776

24. OTHER LIABILITIES

As at 31 March	31.03.2021	31.03.2020
	Rs.	Rs.
Accrued expenses and other payables	**38,147,908**	96,622,133
	38,147,908	96,622,133

25. FINANCIAL LIABILITIES - OTHER BORROWED FUNDS

As at 31 March	Note	31.03.2021	31.03.2020
		Rs.	Rs.
Securitized borrowings	25.1	**4,323,450,984**	5,031,560,902
Bank loans	25.2	**455,307,742**	1,054,764,424
		4,778,758,726	6,086,325,326

25.1 Securitized borrowings

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

Significant Accounting Policies & Notes to the Financial Statements

25.2 Bank loans

	As at 31.03.2020	Loans obtained	Interest for the period	Repayments	As at 31.03.2021
	Rs.	Rs.	Rs.	Rs.	Rs.
DFCC Vardhana Bank 02	62,499,989	-	4,381,273	54,381,277	12,499,985
Sampath Bank Loan 02	131,944,445	-	8,823,469	125,490,135	15,277,779
Nations Trust Bank Loan 01	32,750,000	-	1,264,091	34,014,091	-
DFCC Vardhana Bank 03	140,624,990	-	11,732,793	74,232,805	78,124,978
HNB Bank Loan 02	100,000,000	-	5,509,605	105,509,605	-
Nations Trust Bank Loan 02	88,500,000	-	6,531,889	73,431,889	21,600,000
DFCC Vardhana Bank 04	121,875,000	-	10,978,674	48,478,674	84,375,000
Sampath Bank Loan 03	154,350,000	-	13,392,210	63,192,210	104,550,000
HNB Bank Loan 03	222,220,000	-	20,376,400	103,716,400	138,880,000
	1,054,764,424	-	82,990,403	682,447,086	455,307,742

25.3 Loan details

Bank	Approved facility	Purpose	Term of the loan	Security	Security amount Rs.
HNB Trust - Securitization loan 22	Rs.600 Mn	Working capital requirements	36 monthly instalments	Hire purchase and finance lease agreements	Rs. 389.3 Mn
NSB Trust - Securitization loan 24	Rs.1000 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 169 Mn
HNB Trust - Securitization loan 25	Rs.600 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 270.8 Mn
Peoples Trust - Securitization loan 26	Rs.347.6 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 91.8 Mn
Peoples Trust- Securitization loan 28	Rs.500 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 230.7 Mn
HNB Trust - Securitization loan 29	Rs.300 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 188 Mn
Peoples Trust - Securitization loan 30	Rs.500 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 339.9 Mn
HNB Trust - Securitization loan 31	Rs.171.6 Mn	Working capital requirements	18 monthly instalments	Gold loan receivable agreements	Rs. 157.6 Mn
HNB Trust - Securitization loan 32	Rs.491 Mn	Working capital requirements	22 monthly instalments	Gold loan receivable agreements	RS. 595.3 Mn
HNB Trust - Securitization loan 33	Rs.655 Mn	Working capital requirements	23 monthly instalments	Mortgage bond over Gold loan receivable	RS. 834 Mn
HNB Trust- Securitization loan 34	Rs.1000 Mn	Working capital requirements	36 monthly instalments	Mortgage bond over Gold loan receivable	RS. 1,586.3 Mn

Bank	Approved facility	Purpose	Term of the loan	Security	Security amount Rs.
HNB Trust - Securitization loan 35	Rs.500 Mn	Working capital requirements	24 monthly instalments	Mortgage bond over Gold loan receivable	RS. 725 Mn
HNB Trust- Securitization loan 36	Rs.337 Mn	Working capital requirements	24 monthly instalments	Mortgage bond over Lease & Group personal loan receivable	RS. 484.5 Mn
DFCC Vardhana Bank 02	Rs.200 Mn	Working capital requirements	48 monthly instalments	Promissory note	Rs. 200 Mn
Sampath Bank PLC 02	Rs.550 Mn	Working capital requirements	36 monthly instalments	Loan agreement for Rs.550 Mn.	Rs. 550 Mn
DFCC Vardhana Bank 03	Rs.250 Mn	Working capital requirements	48 monthly instalments	Promissory note	Rs. 250 Mn
DFCC Vardhana Bank 04	Rs.150 Mn	Working capital requirements	48 monthly instalments	Promissory note	Rs. 150 Mn
Sampath Bank Loan 03	Rs.200 Mn	Working capital requirements	47 monthly instalments	Loan agreement for Rs.200 Mn.	Rs. 200 Mn
Nations Trust Bank Loan 02	Rs.200 Mn	Working capital requirements	36 monthly instalments	Mortgage bond over loan recoverable consisting of business loan, corporate loan and mortgage loans	Rs. 200 Mn
HNB Bank Loan 03	Rs.250 Mn	Working capital requirements	36 monthly instalments	Mortgage bond over loan recoverable consisting of business loan, corporate loan, mortgage & Gold loans	Rs. 300 Mn

26. LEASE LIABILITY

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

Significant Accounting Policies & Notes to the Financial Statements

26.1 Sensitivity of Right-of-Use Assets / Lease liability to key assumption

Sensitivity to incremental borrowing rates

Increase/(decrease) in incremental borrowing rate as at 31st March 2021 by 1% would have (decreased)/increased the lease liability by approximately Rs. 5.9 Mn with a similar (decrease/increase) in Right-of-use asset. Had the Company increased/(decreased) the incremental borrowing rate by 1%, the Company's profit before tax for the year would have (decreased)/increased by approximately Rs. 0.18 Mn.

27. DUE TO CUSTOMERS

As at 31 March	31.03.2021	31.03.2020
	Rs.	Rs.
Fixed deposits	7,013,686,384	6,585,234,705
	7,013,686,384	6,585,234,705

28. SUBORDINATED LIABILITIES

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

As at 31 March	31.03.2021		31.03.2020	
	Number	Rs.	Number	Rs.
Balance at the beginning of the year	-	-	-	-
Debenture issued during the year				
Type A Debenture	4,613,000	476,486,467	-	-
Type B Debenture	5,387,000	552,978,643	-	-
Balance at the end of the year	10,000,000	1,029,465,110	-	-

28.1 Interest rate of the debentures

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

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

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

28.3 Categories

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

29. RETIREMENT BENEFIT OBLIGATION

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Retirement benefit obligations - gratuity		
Balance at the beginning of the year	**29,972,864**	22,088,492
Amount charged for the year	**2,784,314**	9,116,872
Payments made during the year	**(2,621,800)**	(1,232,500)
Balance at the end of the year	**30,135,378**	29,972,864

29.1 AMOUNT RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Current service cost for the year	**2,997,286**	4,611,505
Interest cost for the year	**4,166,435**	2,429,734
	7,163,721	7,041,239

Significant Accounting Policies & Notes to the Financial Statements

29.2 AMOUNT RECOGNIZED IN OTHER COMPREHENSIVE INCOME

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Actuarial (gain)/loss for the year	**(4,379,407)**	2,075,633
	(4,379,407)	2,075,633

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

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Actuarial assumptions		
Discount rate	**7.5%**	10%
Salary increment rate	**5%**	10%
Staff turnover	**32%**	33%
Retirement age	**55 years**	55 years
Mortality	67/70 Mortality Table (Institute of Actuaries, London)	

29.4 Sensitivity analysis

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

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

30. STATED CAPITAL

30.1

As at 31 March	31.03.2021		31.03.2020	
	Number	Rs.	Number	Rs.
Fully paid ordinary shares	**124,195,533**	**1,791,478,691**	124,195,533	1,791,478,691

30.1.1 Ordinary shares movements

As at 31 March	31.03.2021		31.03.2020	
	Number	Rs.	Number	Rs.
Balance at the beginning of the year	**124,195,533**	**1,791,478,691**	109,097,018	1,640,493,541
Share issued during the year	-	-	15,098,515	150,985,150
Balance at the end of the year	**124,195,533**	**1,791,478,691**	124,195,533	1,791,478,691

30.2 Rights of shareholders

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

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

31. STATUTORY RESERVE FUND AND OTHER RESERVES

As at 31 March	31.03.2021	31.03.2020
	Rs.	Rs.
Statutory reserve fund	**76,297,682**	73,766,353
General reserve	**3,000,000**	3,000,000
	79,297,682	76,766,353

31.1 Statutory reserve fund

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

31.2 General reserve

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

Significant Accounting Policies & Notes to the Financial Statements

32. EARNINGS PER SHARE

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

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

As at 31 March	31.03.2021	31.03.2020
	Rs.	Rs.
Amounts used as the numerator:		
Net profit attributable to ordinary shareholders for basic earnings per share	**45,196,117**	70,153,366
Number of ordinary shares used as the denominator for basic earnings per share	**31.03.2021**	31.03.2020
	Number	Number
Weighted average number of ordinary shares in issue	**124,195,533**	124,097,289
Basic earnings per share	**0.36**	0.57

33. CAPITAL COMMITMENTS

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

33.1 Commitments

As at 31 March	Note	31.03.2021	31.03.2020
		Rs.	Rs.
Promissory note to DFCC Bank PLC Loans	33.1.1	**600,000,000**	600,000,000
Undrawn commitments	33.1.2	**13,339,617**	80,417,899
Capital commitments	33.1.3	**23,704,301**	-
Bank guarantee		**6,096,050**	-
		643,139,968	680,417,899

33.1.1 Promissory notes

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

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

33.1.2 Undrawn commitments

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

33.1.3 Capital commitments

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

34. CONTINGENT LIABILITIES

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

35. ASSETS PLEDGED

The following assets have been pledged as securities for liabilities.

		Carrying amount pledged		
		31.03.2021	31.03.2020	
Nature of assets	Nature of liabilities	Rs.	Rs.	Included under
Lease and hire purchase loan receivables	People's Bank - Securitization loan 16	-	91,098,364	Lease rentals receivables and hire purchase
Micro finance & Group personal loan receivable	HNB - Securitization loan 17	-	109,357,643	Loan and advances
Lease and hire purchase agreements	People's Bank - Securitization loan 18	-	53,321,616	Lease rentals receivables and hire purchase
Gold loan receivable agreements	People's Bank - Securitization loan 19	-	148,654,723	Loan and advances
Lease and hire purchase agreements	NSB Bank - Securitization loan 20	-	200,453,050	Lease rentals receivables and hire purchase
Lease and hire purchase agreements	NSB Bank - Securitization loan 21	-	23,555,742	Lease rentals receivables and hire purchase
Lease and hire purchase agreements	HNB - Securitization loan 22	**280,989,622**	529,240,442	Lease rentals receivables and hire purchase
Gold loan receivable agreements	HNB - Securitization loan 23	-	177,767,632	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 24	**127,023,473**	803,800,380	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 25	**204,309,441**	516,261,644	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 26	**67,520,067**	336,230,748	Loan and advances

Significant Accounting Policies & Notes to the Financial Statements

		Carrying amount pledged		
		31.03.2021	31.03.2020	
Nature of assets	Nature of liabilities	Rs.	Rs.	Included under
Gold loan receivable agreements	HNB - Securitization loan 27	-	280,916,045	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 28	**171,948,283**	465,783,708	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 29	**137,327,039**	289,589,642	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 30	**253,594,074**	522,473,733	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 31	**120,052,526**	178,469,892	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 32	**433,617,955**	304,585,898	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 33	**602,690,118**	-	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 34	**1,072,138,402**	-	Loan and advances
Gold loan receivable agreements	HNB - Securitization loan 35	**515,185,264**	-	Loan and advances
Mortgage bond over lease & Group personal loan receivable portfolio	HNB - Securitization loan 36	**337,054,720**	-	Lease rentals receivables and hire purchase / Loan and advances
Mortgage bond over corporate loans and micro finance loan portfolio	Nation Trust bank Loan 01	-	32,750,000	Loan and advances
Mortgage bond over corporate loans and micro finance loan portfolio	HNB Bank Loan 02	-	100,000,000	Loan and advances
Mortgage bond over corporate loans and micro finance loan portfolio	Nation Trust bank Loan 02	**21,600,000**	88,500,000	Loan and advances
Mortgage bond over business loans, corporate loan, mortgage loan and gold loan portfolio	HNB Bank Loan 03	**138,880,000**	222,220,000	Loan and advances

36. MATURITY ANALYSIS

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

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

Significant Accounting Policies & Notes to the Financial Statements

37. CURRENT/NON-CURRENT ANALYSIS

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

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

38.1 Determination of fair value and fair value hierarchy

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

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

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

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

38.1.1 Assets measured at fair value

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

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

Significant Accounting Policies & Notes to the Financial Statements

39. FINANCIAL REPORTING BY SEGMENT

	Finance lease		Hire purchase		Gold loan	
	31.03.2021	31.03.2020	31.03.2021	31.03.2020	31.03.2021	31.03.2020
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest income	**730,671,271**	1,180,119,244	-	25,375	**866,007,440**	655,053,124
Other income	**41,491,853**	48,800,702	-	93,937	**260,168,882**	182,956,799
Total revenue	**772,163,124**	1,228,919,946	-	119,312	**1,126,176,322**	838,009,923
Segmental result	**34,454,793**	54,103,855	-	5,253	**50,251,263**	36,893,833
Value added tax on financial services						
Profits from operations						
Income tax charge for the year						
Net profit for the year						
Segment assets	**2,204,274,974**	3,711,805,061	**8,259,920**	14,683,641	**6,561,591,532**	4,203,492,692
Unallocated assets	-	-	-	-	-	-
Total assets	**2,204,274,974**	3,711,805,061	**8,259,920**	14,683,641	**6,561,591,532**	4,203,492,692
Segment liabilities	**2,167,276,753**	3,500,144,267	**8,121,279**	13,846,326	**6,451,456,809**	3,963,794,059
Unallocated liabilities	-	-	-	-		
Total liabilities	**2,167,276,753**	3,500,144,267	**8,121,279**	13,846,326	**6,451,456,809**	3,963,794,059

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

40. EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen since the reporting date which would require adjustments or disclosure in the Financial Statements other than disclosed below.

Issue of Convertible, Irredeemable, five year Preference Shares

The Board of Directors have decided to issue Convertible, Irredeemable, five (05) year Preference Shares to the general public to raise a sum of Rs. 413,985,110 to increase the Core Capital of the Company in terms of Finance Companies (Minimum Core Capital) Direction No. 02 of 2017. On 29th April 2021, the Director of Department of Supervision of Non-Bank Financial Institutions of Central Bank of Sri Lanka, granted the approval to proceed with the issue and these preference shares carry a face value of Rupees Ten (Rs. 10/-) per share and they will be issued with a fixed non-cumulative dividend of cents seventy (Cts 0.70) in any financial year.

Loans and advances		Investment		Other		Total	
31.03.2021	31.03.2020	31.03.2021	31.03.2020	31.03.2021	31.03.2020	31.03.2021	31.03.2020
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
940,077,444	1,092,476,205	89,638,312	116,035,130	-	-	2,626,394,467	3,043,709,078
7,890,730	50,176,795	320,000	280,000	18,548,669	6,601,968	328,420,134	288,910,201
947,968,174	1,142,653,000	89,958,312	116,315,130	18,548,669	6,601,968	2,954,814,601	3,332,619,279
42,299,414	50,305,907	4,014,042	5,120,836	827,663	290,655	131,847,175	146,720,339
						45,100,000	53,404,047
						86,747,175	93,316,292
						(41,551,058)	(23,162,926)
						45,196,117	70,153,366
3,636,671,331	4,709,554,957	654,692,844	860,630,696	-	-	13,065,490,601	13,500,167,048
-	-	-	-	2,284,939,488	1,654,419,442	2,284,939,488	1,654,419,442
3,636,671,331	4,709,554,957	654,692,844	860,630,696	2,284,939,488	1,654,419,442	15,350,430,089	15,154,586,490
3,575,630,684	4,440,998,790	643,703,983	811,554,364	-	-	12,846,189,509	12,730,337,807
-	-	-	-	282,161,185	252,795,870	282,161,185	252,795,870
3,575,630,684	4,440,998,790	643,703,983	811,554,364	282,161,185	252,795,870	13,128,350,694	12,983,133,677

Significant Accounting Policies & Notes to the Financial Statements

41. RELATED PARTY DISCLOSURES

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

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

41.1 Parent and ultimate controlling party

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

41.2 Transactions with related entities

41.2.1 Muthoot Finance Limited

Relationship - Ultimate parent

As at 31 March	2020/2021 Rs.	2019/2020 Rs.
Transactions during the year		
Expenses incurred for Muthoot Finance Limited	**3,511,514**	3,194,246

41.3 Transactions with key management personnel of the Company

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

41.3.1 Key management personnel compensation

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Short-term employment benefits paid - Directors	**14,732,000**	16,994,200

41.3.2 Other transactions with key management personnel

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Items in the statement of financial position		
Assets - Loan and receivables	**30,238,851**	22,429,377
Liabilities - Due to customers	**19,578,371**	78,118,463

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Items in the statement of profit or loss		
Interest income	**3,379,883**	2,897,291
Interest expense	**1,493,793**	11,007,355
Accommodation outstanding as a percentage of the Company's Capital Fund (%)		
Loan and receivables	**1.36%**	1.03%

41.3.3 Share transactions with key management personnel

As at 31 March	31.03.2021 Rs.	31.03.2020 Rs.
Number of ordinary shares held at the year end	-	1,400,000

42. RISK MANAGEMENT

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

42.1 Risk management committees

42.1.1 Assets and liability committee (ALCO)

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

Significant Accounting Policies & Notes to the Financial Statements

42.1.2 Integrated risk management committee (IRM)

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

42.2 Credit risk

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

42.2.1 Company's approach to credit risk

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

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

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

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

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

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

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

Significant Accounting Policies & Notes to the Financial Statements

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

42.2.3 Impairment assessment

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

42.2.4 Concentration of credit risk

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

As at 31 March	31.03.2021	31.03.2020
	Rs.	Rs.
Manufacturing	**305,203,819**	328,068,438
Transport	**100,672,193**	138,269,834
Services	**579,422,370**	666,011,973
Agro-business and fisheries	**179,312,866**	186,986,891
Construction	**124,223,827**	163,498,090
Commercial trading	**607,643,263**	776,365,660
Others	**12,105,751,608**	11,575,593,517
Total lending portfolio	**14,002,229,946**	13,834,794,403
Loans and advances	**4,950,212,027**	5,550,267,807
Gold Loans	**6,622,496,772**	4,269,713,156
Lease	**2,399,894,651**	3,982,071,675
Hire purchase	**29,626,496**	32,741,765
Total receivables	**14,002,229,946**	13,834,794,403

42.2.5 Capital Management

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

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

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

42.3 Market risk

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

42.3.1 Interest rate risk

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

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

Maturity mismatch/GAP

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

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

Re-Investment risk

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

Net interest position

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

42.3.2 Liquidity risk

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

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

42.3.3 Foreign exchange (FOREX) and country risk

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

43. COMPARATIVE INFORMATION

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

SUPPLEMENTARY

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Ten Year Achievements - Income Statement

Year ended 31 March	2012	2013	2014
	Rs.	Rs.	Rs.
Income	435,341,934	626,800,329	768,716,521
Interest Income	378,483,748	589,316,038	732,367,042
Interest Expenses	(207,019,231)	(336,876,108)	(437,557,304)
Net Interest Income	171,464,517	252,439,930	294,809,738
Net Trading Loss on Equity Securities	(24,957,371)	(2,679,882)	5,684,335
Other Income	56,858,186	37,484,291	36,349,479
Net Operating Income	203,365,332	287,244,339	336,843,552
Less: Operating Expenses			
Personnel Costs	(76,401,233)	(118,289,225)	(123,044,068)
Provision for Staff Retirement Benefits Cost	(489,287)	(1,516,681)	(1,947,985)
Other General & Administrative Expenses	(88,292,343)	(96,156,535)	(138,765,746)
Reversal / (Provision) of Losses on Loans and Advances	(21,624,545)	(25,973,097)	(29,886,795)
Net Profit / (Loss) Before Income Tax Expenses	16,557,924	45,308,801	43,198,958
Income Tax (Charge)/Reversal	31,428,577	16,382,992	3,318,687
Net Profit / (Loss) after Taxation	47,986,501	61,691,793	46,517,645
Actuarial Loss on Retirement Benefit Liability	-	(41,739)	(196,156)
Income Tax on Other Comprehensive Income	-	11,687	54,924
Other Comprehensive Income for the Year Net of Tax	-	(30,052)	(141,232)
Total comprehensive Income for the Year	47,986,501	61,661,741	46,376,413
Earnings per Share	0.10	0.11	0.08

Figures in brackets indicate deductions.

2015	2016	2017	2018	2019	2020	2021
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
923,347,861	1,383,809,503	2,130,607,576	2,572,365,569	2,868,765,978	3,332,619,279	**2,954,814,601**
850,447,095	1,265,001,829	2,020,556,957	2,443,389,400	2,722,660,945	3,043,709,078	**2,626,394,467**
(480,997,160)	(592,688,880)	(919,297,655)	(1,233,214,297)	(1,433,366,344)	(1,704,234,090)	**(1,462,362,856)**
369,449,935	672,312,949	1,101,259,302	1,210,175,103	1,289,294,601	1,339,474,988	**1,164,031,611**
24,610,913	(7,947,048)	2,326,220	(31,406)	(9,220)	(125)	**-**
72,900,766	126,754,722	107,724,399	129,007,575	146,105,033	288,910,201	**328,420,134**
466,961,614	791,120,623	1,211,309,921	1,339,151,272	1,435,390,414	1,628,385,064	**1,492,451,745**
(178,237,431)	(249,869,486)	(335,295,267)	(264,465,472)	(280,796,890)	(310,582,828)	**(268,929,048)**
(2,630,870)	(3,123,711)	(4,906,571)	(5,754,935)	(5,272,963)	(7,041,239)	**(7,163,721)**
(158,582,482)	(244,947,298)	(327,883,585)	(513,394,290)	(633,317,428)	(782,395,544)	**(701,570,915)**
(24,748,372)	(83,947,606)	(227,348,081)	(333,396,606)	(357,620,797)	(381,645,114)	**(382,940,886)**
102,762,459	209,232,522	315,876,417	222,139,969	158,382,336	146,720,339	**131,847,175**
(1,576,656)	(34,014,398)	(37,827,608)	(43,914,542)	(57,452,518)	(76,566,973)	**(86,651,058)**
101,185,803	175,218,124	278,048,809	178,225,427	100,929,818	70,153,366	**45,196,117**
(1,049,754)	837,345	(2,100,296)	3,554,897	(719,285)	(2,075,633)	**4,379,407**
293,931	(234,457)	(588,083)	(995,371)	(201,400)	(498,152)	**1,051,058**
(755,823)	602,888	(2,688,379)	2,559,526	(920,685)	(2,573,785)	**5,430,465**
100,429,980	175,821,012	275,360,430	180,784,953	100,009,133	67,579,581	**50,626,582**
0.15	0.21	0.33	2.12	0.94	0.57	**0.36**

Ten Year Achievements - Balance Sheet

Year ended 31 March	31.03.2012	31.03.2013	31.03.2014
	Rs.	Rs.	Rs.
ASSETS			
Cash & Cash Equivalents	66,804,910	193,568,463	229,616,166
Investment in Reverse Repurchase Agreements against Treasury Bills	88,255,490	129,938,359	184,467,915
Other Financial Assets	204,666,796	242,652,390	112,059,685
Financial Asset -Held for Trading	23,323,863	6,775,855	81,008,250
Loans & Advances Including Lease Rentals Receivables and Hire purchase	2,002,530,734	2,501,348,943	2,994,869,411
Financial Asset-Available for Sale	7,771,958	578,617	578,617
Vehicle Stock	22,935,143	8,755,453	8,928,571
Real Estate Inventories	-	-	-
Other Debtors ,Deposits & Prepayments	108,035,936	92,641,825	84,251,334
Income Tax Receivable	6,759,699	6,252,769	3,870,578
Property, Plant & Equipment	50,676,540	57,152,755	53,733,373
Investment Property	42,934,517	32,934,517	98,352,117
Deffered Tax Asset	53,786,050	77,714,479	88,626,969
Right-of-Use asset on leases			
	2,678,481,636	3,350,314,425	3,940,362,986
LIABILITIES & EQUITY			
Liabilities			
Customer Deposits	1,921,449,893	2,591,165,554	3,033,741,505
Bank Overdraft	20,231,345	1,950	78,787,246
Borrowings	76,551,117	48,544,214	64,106,983
Creditors & Accruals	27,067,942	14,201,207	15,548,199
Retirement Benefits Obligation	3,244,037	4,802,457	6,703,598
Subordinated liabilities			
Lease liability			
	2,048,544,334	2,658,715,382	3,198,887,531
Shareholders' Funds			
Stated Capital	945,130,285	945,130,285	945,130,285
Reserves	(315,192,983)	(253,531,242)	(203,654,830)
Total Equity	629,937,302	691,599,043	741,475,455
Total Equity and Liability	2,678,481,636	3,350,314,425	3,940,362,986
Contingent Liabilities and commitments			
Net Asset per Share	1.13	1.24	1.33

Figures in brackets indicate deductions

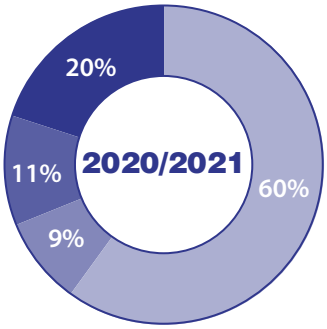
Certification

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

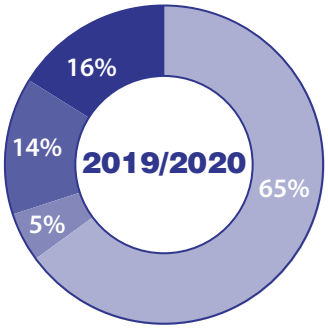
31.03.2015	31.03.2016	31.03.2017	31.03.2018	31.03.2019	31.03.2020	31.03.2021
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
446,524,236	690,797,870	601,891,827	660,159,119	643,777,198	511,939,133	**1,006,233,476**
259,698,505	328,866,266	433,333,648	622,975,267	691,744,740	860,630,696	**654,692,844**
9,254,835	8,817,330	50,204,691	207,458,481	125		**-**
69,263,955	48,244,689	-				**-**
4,137,897,770	6,527,840,413	8,263,046,222	9,528,388,590	11,556,026,398	12,639,536,352	**12,410,797,757**
578,617	506,659	506,659	506,659	506,659	506,659	**506,659**
46,797,426	-		262,088	18,913,569	-	**-**
41,698,793	34,468,475				-	**-**
71,228,510	75,137,577	80,386,384	83,535,832	171,667,000	173,173,036	**273,720,981**
3,472,184	-		362,927	3,732,303	27,736,580	**27,698,763**
79,304,388	156,612,515	173,110,135	158,845,214	169,724,190	178,252,821	**197,387,963**
80,842,794	143,706,564	306,253,164	352,385,530	393,818,513	399,678,109	**376,158,647**
97,845,584	100,402,344	118,202,709	112,814,714	249,583,725	225,922,647	**185,422,647**
					137,210,457	**217,810,352**
5,344,407,597	8,115,400,702	10,026,935,439	11,727,694,421	13,899,494,420	15,154,586,490	**15,350,430,089**
3,672,180,230	4,796,299,899	5,681,178,140	6,356,067,246	6,617,344,955.00	6,585,234,705.00	**7,013,686,384.00**
62,326	166,925,303	36,031,902	454,920,306	131,273,907.00	58,777,776.00	**24,279,289.00**
344,516,666	1,609,833,175	2,476,518,223	3,001,078,792	4,958,735,615.01	6,086,325,326.00	**4,778,758,726.00**
31,553,729	68,455,301	77,540,353	36,650,813	217,163,369.00	96,622,133.00	**38,147,908.00**
10,384,222	12,355,588	18,774,955	20,044,993	22,088,492.00	29,972,864.00	**30,135,378.00**
						1,029,465,110.00
					126,200,873.00	**213,877,899.00**
4,058,697,173	6,653,869,266	8,290,043,573	9,868,762,150	11,946,606,338.01	12,983,133,677.00	**13,128,350,694.00**
				-		
1,388,935,273	1,388,935,273	1,388,935,273	1,388,935,273	1,640,493,541.00	1,791,478,691.00	**1,791,478,691.00**
(103,224,849)	72,596,163	347,956,593	469,996,998	312,394,541.00	379,974,122.02	**430,600,704.00**
1,285,710,424	1,461,531,436	1,736,891,866	1,858,932,271	1,952,888,082	2,171,452,813	**2,222,079,395**
5,344,407,597	8,115,400,702	10,026,935,439	11,727,694,421	13,899,494,420	15,154,586,490	**15,350,430,089**
1.53	1.74	2.07	2.22	18.18	17.50	**17.89**

Statement of Value Added

As at 31 March	2020/2021		2019/2020		2018/2019	
	Rs.	%	Rs.	%		%
Income	2,626,394,467		3,043,709,078		2,722,660,945	
Other Income	328,420,134		288,910,201		146,095,813	
Cost of borrowing and services	(1,462,362,856)		(1,704,234,090)		(1,433,366,344)	
Provisions	(382,940,886)		(381,645,114)		(357,620,797)	
Value Added Tax	(45,100,000)		(53,404,047)		(64,475,297)	
	1,064,410,859		1,193,336,028		1,013,294,320	
Distribution Value Added						
To employees						
Remuneration and other benefits	276,092,769.42	59.95	317,624,067	64.64	286,069,853	51.72
To Government						
Taxes	41,551,058.00	9.02	25,238,559	5.14	6,303,494	1.14
To Expansion and Growth						
Retained Profit	50,626,582.00	10.99	67,579,581	13.75	100,009,133	18.08
Depreciation and Amortisation	92,295,335.39	20.04	80,968,969	16.48	160,683,809	29.05
	460,565,744.81	100.00	491,411,176	100.00	553,066,289	100.00



- Remuneration & Other Benefit
- Taxes
- Retained Profit
- Depreciation & Amortisation



- Remuneration & Other Benefit
- Taxes
- Retained Profit
- Depreciation & Amortisation

Quarterly Financial Statements 2020/21

INTERIM FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31ST MARCH, 2021

	For the Quarter Ended			For the Year Ended		
	31.03.2021	31.03.2020		31.03.2021	31.03.2020	
	Rs.	Rs.	Change	Rs.	Rs.	Change
	Unaudited*	Unaudited*	%	Unaudited*	Audited*	%
Interest Income	**656,798,407**	796,976,285	-17.59%	**2,626,394,468**	3,043,709,078	-14%
Interest Expenses	**(324,265,344)**	(452,417,636)	-28%	**(1,462,362,855)**	(1,704,234,090)	-14%
Net Interest Income	**332,533,063**	344,558,649	-3%	**1,164,031,612**	1,339,474,988	-13%
Net Trading Gain/(Loss) on Equity Securities	**-**	-	0%	**-**	(125)	-100%
Other Operating Income	**131,006,389**	20,441,802	541%	**328,420,134**	288,910,201	14%
Less: Operating Expenses						
Personnel Costs	**(80,242,452)**	(78,766,170)	2%	**(268,929,048)**	(310,582,828)	-13%
Provision for Staff Retirement Benefits	**(863,721)**	(938,799)	-8%	**(7,163,721)**	(7,041,239)	2%
General and Administration Expenses	**(218,148,405)**	(170,001,332)	28%	**(701,570,915)**	(782,395,544)	-10%
Impairment Charge for Lease Rentals Receivable, Hire Purchase and Loans and Advances	**(110,327,251)**	(109,707,203)	1%	**(382,940,886)**	(381,645,114)	0%
Operating Profit before Value Added Tax on Financial Services	**53,957,623**	5,586,947	866%	**131,847,176**	146,720,339	-10%
Value Added Tax on Financial Services	**(12,300,000)**	(17,449,590)	-30%	**(45,100,000)**	(53,404,048)	-16%
Profit Before Taxation	**41,657,623**	(11,862,643)	-451%	**86,747,176**	93,316,291	-7%
Income Tax (Expenses) / Reversal	**(14,051,058)**	(8,530,516)	65%	**(41,551,058)**	(23,162,926)	79%
Profit for the Period	**27,606,565**	(20,393,159)	-235%	**45,196,118**	70,153,365	-36%
Actuarial Loss on Retirement Benefit Liability	**4,379,407**	(2,075,633)	-	**4,379,407**	(2,075,633)	-
Income Tax on Components of Other Comprehensive Income	**1,051,058**	(498,152)	-	**1,051,058**	(498,152)	-
Other Comprehensive Income for the Period Net of Tax	**5,430,465**	(2,573,785)	-	**5,430,465**	(2,573,785)	-
Total Comprehensive Income for the Period	**33,037,030**	(22,966,944)	-244%	**50,626,583**	67,579,581	-25%
Earnings Per Share - Basic	**0.22**	(0.16)	-235%	**0.36**	0.57	-36%

** The above figures are provisional and subject to audit.*

** Figures in brackets indicate deductions.*

Quarterly Financial Statements 2020/21

INTERIM FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

AS AT 31ST MARCH, 2021

	31.03.2021 Rs. Unaudited*	31.03.2020 Rs. Audited*	Change %
ASSETS			
Cash and Cash Equivalents	**1,006,233,476**	511,939,133	96.6%
Investment in Reverse Repurchase Agreements Against Treasury Bills and Bonds	**654,692,844**	860,630,696	-23.9%
Financial assets at amortised cost - Loans and advances	**10,198,262,863**	8,913,047,649	14.4%
Financial assets at amortised cost - Lease rentals receivable and hire purchase	**2,212,534,894**	3,726,488,702	-40.6%
Other Assets	**21,637,319**	16,983,813	27.4%
Income Tax Receivable	**27,698,763**	27,736,580	-0.1%
Advances, Deposits and Prepayments	**252,083,662**	156,189,223	61.4%
Financial assets - Fair value through other comprehensive income	**506,659**	506,659	0.0%
Right-of-use assets	**217,810,352**	137,210,457	58.7%
Property, Plant and Equipment	**156,436,174**	138,032,482	13.3%
Investment Property	**376,158,647**	399,678,109	-5.9%
Deferred Tax Assets	**185,422,647**	225,922,647	-17.9%
Intangible Assets	**40,951,790**	40,220,339	1.8%
Total Assets	**15,350,430,089**	15,154,586,490	1.3%
LIABILITIES			
Financial liabilities - Due to banks	**24,279,289**	58,777,776	-58.7%
Other Liabilities	**38,147,909**	96,622,133	-60.5%
Financial liabilities - Other borrowed funds	**4,778,758,726**	6,086,325,326	-21.5%
Lease liability	**213,877,898**	126,200,873	69.5%
Due to Customers	**7,013,686,384**	6,585,234,705	6.5%
Debenture	**1,029,465,109**	-	100.0%
Retirement Benefit Liability	**30,135,378**	29,972,864	0.5%
Total Liabilities	**13,128,350,693**	12,983,133,677	1.1%
SHAREHOLDERS' FUNDS			
Stated Capital	**1,791,478,691**	1,791,478,691	0.0%
Retained Earnings	**351,303,022**	303,207,769	15.9%
Statutory Reserve Fund and Other Reserves	**79,297,682**	76,766,353	3.3%
Total Equity	**2,222,079,396**	2,171,452,813	2.3%
Total Equity and Liabilities	**15,350,430,089**	15,154,586,490	1.3%
Net Assets Per Share	**17.89**	17.50	2.3%

** Figures in brackets indicate deductions.*

INTERIM FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31ST MARCH, 2021

	Stated Capital	General Reserve	Statutory Reserve Fund	Accumulated Profit/(Loss)	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st April, 2019 (Audited)	1,640,493,541	3,000,000	70,387,374	239,007,167	1,952,888,082
Profit for the year	-	-	-	70,153,366	70,153,366
Other comprehensive income (net of tax)				(2,573,785)	(2,573,785)
Transaction with equity holders recognised directly in equity					
Proceeds from right issue of ordinary shares	150,985,150				150,985,150
Transferred to/from reserves During the Period	-	-	3,378,979	(3,378,979)	-
	150,985,150	-	3,378,979	64,200,602	218,564,731
Balance as at 31st March, 2020 (Audited)	1,791,478,691	3,000,000	73,766,353	303,207,769	2,171,452,813
Profit for the Year	-	-	-	45,196,118	45,196,118
Other comprehensive income (net of tax)		-		5,430,465	5,430,465
Transaction with equity holders recognised directly in equity					
Proceeds from right issue of ordinary shares	-				-
Transferred to/from reserves During the Period			2,531,329	(2,531,329)	-
	-	-	2,531,329.13	48,095,253	50,626,583
Balance as at 31st March, 2021 (Unaudited*)	1,791,478,691	3,000,000	76,297,682	351,303,022	2,222,079,396

** Figures in brackets indicate deductions.*

Quarterly Financial Statements 2020/21

CONDENSED INTERIM FINANCIAL STATEMENTS

ANALYSIS OF FINANCIAL INSTRUMENT BY MEASUREMENT BASIS

As at 31st March 2021	Financial instruments at amortised cost (AC)	Fair Value through Other Comprehensive Income (FVTOCI)	Total
Financial Assets			
Cash and cash equivalents	1,006,233,476	-	1,006,233,476.00
Reverse repurchase agreements	654,692,844		654,692,844.00
Financial assets measured at amortised cost			-
- Loans and advances	10,198,262,863		10,198,262,863.00
- Lease rentals receivable and hire purchase	2,212,534,894		2,212,534,894.00
Financial assets - Fair value through other comprehensive	-	506,659	506,659.00
Total Financial Assets	14,071,724,077	506,659	14,072,230,736
Financial Liabilities			
Due to banks	24,279,289		24,279,289
Financial liabilities at amortised cost			-
- Due to Customers	7,013,686,384		7,013,686,384
- Other borrowed funds	4,778,758,726		4,778,758,726
- Due to debt securities holders (Debenture)	1,029,465,109		1,029,465,109
Dividend Payable	295,240		295,240
Total Financial Liabilities	12,846,484,748	-	12,846,484,748

As at 31st March 2020	Financial instruments at amortised cost (AC)	Fair Value through Other Comprehensive Income (FVTOCI)	Total
Financial Assets			
Cash and cash equivalents	511,939,133		511,939,133.00
Reverse repurchase agreements	860,630,696		860,630,696.00
Financial assets measured at amortised cost			-
- Loans and advances	8,913,047,649		8,913,047,649.00
- Lease rentals receivable and hire purchase	3,726,488,702		3,726,488,702.00
Financial assets - Fair value through other comprehensive		506,659	506,659.00
Total Financial Assets	14,012,106,180	506,659	14,012,612,839
Financial Liabilities			
Due to banks	58,777,776		58,777,776
Financial liabilities at amortised cost			-
- Due to Customers	6,585,234,705		6,585,234,705
- Other borrowed funds	6,086,325,326		6,086,325,326
- Due to debt securities holders (Debenture)	-		-
Dividend Payable	295,240		295,240
Total Financial Liabilities	12,730,633,047	-	12,730,633,047

Glossary of Financial Terms

Ratio	SHORT TERM	Definition
Earnings per share(Rs)	EPS	Profit or Loss attributable to ordinary shareholders/Average no of shares
Net Asset Value per share (Rs.)	NAV	Total share holders equity/no of shares
Price Earnings (Times)	P/E	Market Price per share*no of shares
Price to book value (Times)	P/BV	Market Price per share/Earning per share
Return on equity (%)	ROE	Profit attributable to ordinary shareholders/ average share holder equity
Earning yield%	EY%	Earning per share/Market Price per share
Debt to Equity ratio (Times)	D/E	Borrowings/total share holder equity
Interest Cover (Times)	Interest Cover (Times)	PBIT/Interest Expenses
Current ratio	Current ratio	Current assets/Current Liabilities
Gross non performing advances ratio %	NPA (Gross)	Non Performing portfolios net of IIS and unerned income/gross portfolio net of iis and UI
Collective impairment to total loans	Collective impairment to total loans	Collective impairment/gross loans receivable
Operating profit	EBIT	Operating profit before VAT ON FS/ INTEREST INCOME
Net Interest Margin %	NIM	Net Interest Income/Average Interest Earning Assets

Branch Network

Virtual Annual General Meeting Notice

NOTICE OF THE VIRTUAL 10TH ANNUAL GENERAL MEETING OF ASIA ASSET FINANCE PLC
FOR THE YEAR ENDED 31ST MARCH 2020/2021

NOTICE IS HEREBY GIVEN that the 10th Annual General Meeting of Asia Asset Finance PLC (the Company) will be held on 29 September 2021 at 10.30a.m at the Boardroom of Asia Asset Finance PLC, No. 76, Park Street, Colombo 02 via audio visual means for the following purposes;

AGENDA

1) To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st March 2021 and the report of the auditors thereon.
2) To re-elect Mr. K. G. K. Pillai who retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself for re-election in terms of Article 88 of the Articles of Association.
3) To re-elect Mr. R. A. T. P Perera who retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself for re-election in terms of Article 88 of the Articles of Association.
4) To re-appoint Messrs. BDO Partners Chartered Accountants as the Auditors to the Company for the ensuing year and to authorize the Directors to determine their remuneration.

BY ORDER OF THE BOARD

Director/Secretaries
Colombo on 07th September 2021

Notes:

- In compliance with the government regulations on social distancing no shareholder will be permitted to be physically present at the venue.
- Shareholders who wish to participate at the Virtual Annual General Meeting are kindly requested to register the participation for the meeting by completing the enclosed Online Registration Form and have it emailed to compliance@asiaassetfinance.lk 24 hours prior to the commencement of the meeting (Between 8.00 am to 5.00 pm).
- A Shareholder entitled to attend and vote at the meeting, is entitled to appoint a Proxy to attend and vote instead of him/her.
- A Proxy need not be a Shareholder of the Company.
- A Shareholder wishing to vote by Proxy at the meeting may use the Form of Proxy form enclosed herewith.
- Proxyholders who wish to participate at the Virtual Annual General Meeting are kindly requested to register the participation for the meeting by completing the enclosed Online Registration Form together with the Form of Proxy and have both forms emailed to compliance@asiaassetfinance.lk or deposited at P. W. Corporate Secretarial Services (Pvt) Ltd, 3/17, Kynsey Road, Colombo 08 48 hours prior to the commencement of the meeting (Between 8.00 am to 5.00 pm).
- For security reasons, Shareholders and Proxyholders are kindly advised to have with them their National Identity Card or similar for of acceptance identity when attending the meeting.

Notes

Form of Proxy

I/We.....of .....

being a shareholder/shareholders* of the above named Company, hereby appoint ..... of

..... failing him/her.

(1) Mr. V. A. Prasanth	or failing him	(5) Mr. J. P. D. R. Jayasekara	or failing him
(2) Mr. R. J. A. Gunawardena	or failing him	(6) Mr. G. M. Alexander	or failing him
(3) Mr. R. A. T. P. Perera	or failing him	(7) Mr. K. R. Bijimon	or failing him
(4) Mr. R. A. B. Basnayake	or failing him	(8) Mr. K. G. K. Pillai	

as my/our* proxy to represent me/ us* and speak and vote for me/us* on my/our* behalf at the Virtual 10th Annual General Meeting of the Company to be held on 29th September 2021 at 10.30 am at the Boardroom of Asia Asset Finance PLC, No. 76, Park Street, Colombo 02 via audio visual and at any poll which may be taken in consequence thereof at the aforesaid meeting, and at any adjournment thereof.

I/WE INDICATE MY/OUR VOTE ON THE RESOLUTIONS BELOW AS FOLLOWS;

	For	Against
1. To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st March 2021 and the report of the auditors thereon.		
2. To re-elect Mr. K. G. K. Pillai who retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself for re-election in terms of Article 88 of the Articles of Association.		
3. To re-elect Mr. R. A. T. P Perera who retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself for re-election in terms of Article 88 of the Articles of Association		
4. To re-appoint Messrs. BDO Partners Chartered Accountants as the Auditors to the Company for the ensuing year and to authorise the Directors to determine their remuneration.		

Signed this ..... day of 2021

....

Signature of shareholder N.I.C. No

Note:

1. A proxy need not be a shareholder of the Company.
2. Instruction as to completion appear overleaf

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the Form of Proxy by filing in legibly your full name, National Identity Card/ Passport/ Company Registration Number, your address and your instructions as to voting and by signing in the space provided and filing in the date of signature. Please ensure that all details are legible.
2. Please mark "X" in appropriate cages, to indicate your instructions as to voting on each resolution. If no indication is given, the Proxy holder in his/her discretion will vote as he/her thinks fit.
3. To be valid, the completed Form of Proxy must be deposited at P. W. Corporate Secretarial Services (Pvt) Ltd, 3/17, Kynsey Road, Colombo 08, Sri Lanka not less than 48 hours before the time appointed for the holding of the meeting.
4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy, please insert the relevant details (1) overleaf and initial against this entry.
5. In the case of a Company/Corporation, the Proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association/ Act of Incorporation.
6. In the case of a Proxy signed by an Attorney, a certified copy of the Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

Corporate Information

BOARD OF DIRECTORS AS AT 31ST MARCH 2021

Mr. V. A. Prasanth
Chairman/Non-Independent Non-Executive Director

Mr. R. J. A. Gunawardena
Chief Executive Officer

Mr. R. A. T. P. Perera
Independent Non-Executive Director

Mr. G. M. Alexander
Non-Independent Non-Executive Director

Mr. K. R. Bijimon
Non-Independent Non-Executive Director

Mr. K. G. K. Pillai
Non-Independent Non-Executive Director

Mr. R. A. B. Basnayake
Senior Independent Non-Executive Director

Mr. J. P. D. R. Jayasekara
Independent Non-Executive Director

ALTERNATE DIRECTORS

Mr. K. G. K. Pillai
Non-Independent Non-Executive Director
(Alternate Director to Mr. K. R. Bijimon)

Of the 8 Directors, Mr. R. A. B. Basnayake is an Independent Non-Executive Director and the Senior Director of the Board.

AUDIT COMMITTEE AS AT 31ST MARCH 2021

Mr. R. A. T. P. Perera
(Independent Non-Executive Director) - Chairman

Mr. V. A. Prasanth
(Non-Independent Non-Executive Director) - Member

Mr. R. A. B. Basnayake
(Senior Independent Non-Executive Director) - Member

Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Member

Mr. K. G. K. Pillai
(Non-Independent Non-Executive Director) - Member

INTEGRATED RISK MANAGEMENT COMMITTEE AS AT 31ST MARCH 2021

Mr. V. A. Prasanth
(Chairman/Non-Independent Non-Executive Director) - Chairman

Mr. R. J. A. Gunawardena
(Chief Executive Officer) - Member

Mr. R. A. T. P. Perera
(Independent Non-Executive Director) - Member

Mr. R. D. S. Gunasekara
(Chief Operating Officer) - Member

Mr. K. R. Bijimon
(Non-Independent Non-Executive Director) - Member

Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Member

RELATED PARTY TRANSACTION REVIEW COMMITTEE AS AT 31ST MARCH 2021

Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Chairman

Mr. K. R. Bijimon
(Non-Independent Non-Executive Director) - Member

Mr. R. A. B. Basnayake
(Senior Independent Non-Executive Director) - Member

REMUNERATION COMMITTEE AS AT 31ST MARCH 2021

Mr. V. A. Prasanth
(Non-Independent Non-Executive Director) - Chairman

Mr. R. A. T. P. Perera
(Independent Non-Executive Director) - Member

Mr. G. M. Alexander
(Non-Independent Non-Executive Director) - Member

Mr. R. A. B. Basnayake
(Senior Independent Non-Executive Director) - Member

Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Member

IT COMMITTEE AS AT 31ST MARCH 2021

Mr. R. A. B. Basnayake
(Senior Independent Non-Executive Director) - Chairman

Mr. V. A. Prasanth
(Non-Independent Non-Executive Director) - Member

Mr. R. J. A. Gunawardena
(Chief Executive officer) - Member

Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Member

CREDIT COMMITTEE AS AT 31ST MARCH 2021

Mr. V. A. Prasanth
(Non-Independent Non-Executive Director) - Chairman

Mr. R. J. A. Gunawardena
(Chief Executive officer) - Member

Mr. J. P. D. R. Jayasekara
(Independent Non-Executive Director) - Member

Mr. K. R. Bijimon
(Non-Independent Non-Executive Director) - Member

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Annual Reports