Annual Report 2019/2020

Comprehensive Financial Solutions For Sustainable Development

LCB finance

South Asian Business Excellence Awards 2019

Emerging Finance Company Of The Year

Contents

About Us

Vision Statement

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

Mission Statement

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

Financial Highlights

PERFORMANCE INDICATORS		2019-2020	2018-2019	Change (%)
OPERATING RESULTS				
Income	Rs. Million	456.05	362.90	25.67%
Interest income	Rs. Million	423.69	297.58	42.38%
Net interest income	Rs. Million	292.22	221.47	31.95%
Profit before taxation (PBT)	Rs. Million	20.98	223.86	-90.63%
Profit after taxation (PAT)	Rs. Million	11.43	514.31	-97.78%
FINANCIAL POSITION				
Total Assets	Rs. Million	3,105.52	2,683.69	15.72%
Loans & Advances, Leases and Hire Purchases	Rs. Million	1,811.61	1,525.74	18.74%
Deposits	Rs. Million	1,012.24	884.65	14.42%
Borrowings	Rs. Million	471.90	419.33	12.54%
Shareholder's Funds	Rs. Million	1,483.37	1,331.89	11.37%
INVESTOR INFORMATION				
Net assets value per share	Rs.	0.30	0.29	2.51%
Earnings per share (EPS)	Rs.	0.00	0.13	-98.25%
STATUTORY RATIOS				
Core capital adequacy ratio to Risk Weighted Assets	%	28.96	30.41	-4.77%
Total capital adequacy ratio to Risk Weighted Assets	%	28.96	30.41	-4.77%
Capital funds to deposit liabilities ratio	%	116.23	124.40	-6.57%
Liquid assets ratio	%	15.21	5.91	157.53%
FINANCIAL RATIOS				
Return on assets (ROA) (Before Tax)	%	1.41	8.31	-83.03%
Return on Equity (ROE) (After Tax)	%	0.77	16.75	-95.40%
Interest Margin	%	14.15	11.07	27.82%
Loan to Deposits	Times	1.79	1.72	3.77%
Net Non - performing loans ratio (Net NPL)	%	2.42	1.02	137.25%

Non-Financial Highlights

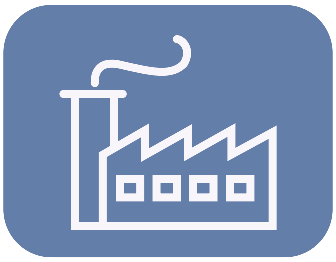
	2020	2019
	Rs.000	Rs.000
INTELLECTUAL CAPITAL		
Credit rating (ICRA Ratings)	B (STABLE)	B (STABLE)
HUMAN CAPITAL		
Total employees (N)	94	86
New Recruitments (N)	40	30
Staff Remuneration (Rs '000')	76,424	57,068
Investment In training and development (Rs '000')	109	105
Total Training hours (N)	743	1232
SOCIAL AND RELATIONSHIP CAPITAL		
Interest to depositors (Rs '000')	62,794	41,405
Employees (Rs '000')	71,585	53,688
Government (Rs '000')	28,560	19,399
Community development program (N)	2	3
Access points (branches)	8	7
MANUFACTURED CAPITAL		
Branches (N)	7	4
New branch opening (N)	1	3
Relocated branches (N)	1	-
Fixed assets (Rs '000')	88,447	80,974
Depreciation and amortization (Rs '000')	41,683	25,837
Fixed asset addition (Rs '000')	13,473	29,552
Investment in technology (Rs '000')	329	4176
ECONOMIC VALUE DISTRIBUTED TO		
Deposit (Rs '000')	62,794	41,405
Employment (Rs '000')	71,585	53,688
Government (Rs '000')	28,560	19,399
Shares (Rs '000')	0	0

About this Report

Our second Annual Report will provide a clear picture and a material evaluation of the Company's sustainable value creation over the short to long term period. This report explains our business structure, risk management and the corporate governance processes, financial and non-financial performance for Lanka Credit and Business Finance Limited (LCB Finance)

Financial Capital

Social and Relationship Capital



Manufactured Capital

Human Capital

Natural Capital

Intellectual Capital

This report which is available in the printed format and on our website will communicate relevant concise information covering all aspects of our business activities to the shareholders and other stakeholders of the Company, thereby providing a holistic view about the social, economic and environment accomplishment of our Company for the period under review.

The LCB Finance Limited Annual Report is published and it will provide strategic and business information about the Company. This report covers both financial and non-financial information from 01 April 2019 to 31 March 2020.

The Management and the Board of Directors undertakes the responsibility for the information included in this report as such adhering to the governance practices. This Annual Report is prepared and presented in compliance with the Sri Lanka Financial Reporting Standards, the Companies Act No. 07 of 2007, Finance Business Act No.42 of 2011 and the Banking Act No.30 of 1988.

Our Milestones

01

Incorporation of Lanka Credit & Business Limited under the Companies Act No.07 of 2007 (Reg. No. PB5329)

02

Commenced business operations in the Galle Branch

2016

01

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

2017

2018

01 Lanka Credit and Business Limited acquired City Finance Corporation Limited with the approval of the Monetary Board of Central Bank of Sri Lanka

02 Lanka Credit and Business Finance Limited was incorporated by changing the name of City Finance Corporation Limited

03 Addition of two branches to the branch network – Kohuwala and Rathgama

2019

01 Appointed as the CBSL authorised money dealer for currency exchange

02 Addition of one more branch at Karapitiya

03 Relocation of the Galle branch from Pettigalawatta to Wackwella Galle

2020

01 Receipt of the South Asian Excellence Award 2019 to be the Emerging Finance Company of the year

02 Addition of a branch in Negombo and relocation of the Mirissa branch to Matara

03 Procured e-finance, the new core banking system with a revamping of Company's IT infrastructure.

Chairman's Message

Dear Stakeholders,

I take pride in presenting the performance of your company for the financial year 2019/2020, which reflects the maintenance of the strong foundation set in place during the previous years. The Company recorded a remarkable stability in the market despite operating in a turbulent economy conditions and adverse impact on the macro and micro factors. I believe that the overall conditions will improve for the Sri Lankan economy to deliver a better performance in the year 2020 and beyond.

Challenging Environment caused by the Easter Sunday attacks restricted economic activities, which caused Non-Performing Loans (NPLs) to rise steeply in the entire financial services industry, recording a downward trend in their profitability.

During the year under review the financial services sector continued to contribute towards the economic expansion of our country, followed by the contributions of the wholesale and retail trade activities and your company was able to be a partner to this achievement. The company is committed to supporting and funding sustainable projects that uplift the livelihoods of the self-employed and whole communities to the next stage of growth in the areas our branches operate.

Way ahead the plan is to become a more stable company by having our shares listed on the Colombo Stock Exchange, increase customer satisfaction through the introduction of customer friendly products and services. By entering the Sri Lanka Interbank Payment System (SLIPS) as a secondary participant through our Bankers, the company envisage to introduce innovative lending and deposit products and services and be more successful in the finance services segment in the economy.

The action taken to enhance the Information Technology capabilities of the company under a centralized IT environment is progressing as per the time bound action plan targeted to be completed before 31st March 2021.

The required management expertise to steer the company towards achieving our corporate goals will be amplified through the recruitment process by acquiring new talent and building our capabilities to offer better financial solutions, as we expand the branch network.

The Board Sub Committees, consisting of the Board Audit committee, Board Remuneration and Nomination Committee, Board Integrated Risk Management Committee, and the Board Related Party Transaction Review Committee were keenly monitored by Board Members, to establish high corporate governance practices within the company.

The progress of this year has been achieved by the dedicated leadership of the Directors of our Board, the Chief Executive Officer / Executive Director, the Senior Management and Staff members of all grades of the Company with the continuous support by our dedicated customers and sister financial institutions to whom I am pleased to offer my gratitude and sincere thanks.

As an emerging finance company, I sincerely appreciate the guidance and advice extended to the company by the Director - Department of Supervision of Non-Bank Financial Institutions and his officials at the Central Bank of Sri Lanka, to conduct the affairs of the company, within their regulatory frame work.

Strengthen by exceptional performance in the face of adversity caused by among others, the Easter Sunday tragedy, the company remains on course to achieving more milestones in the years ahead, strongly supported by the shareholders, customers, the general public and all staff members, whose faith in the company inspires confidence in me about the future of your company.

Emeritus Professor W M Abeyrathna Bandara
Chairman

Emeritus Professor, W.M. Abeyrathna Bandara

Chairman

CEO's Message

The year 2019/20, commenced with the Easter Sunday attacks, leading to political and economic uncertainty extending till the Presidential Elections in 2019, necessitating us to respond proactively to the crisis so created. A majority of our customers in the southern province who are in the SME sector were severely affected from the crisis, resulting from downturn of tourist arrivals.

Subsequently, the year ended with COVID-19 pandemic impacting our business operations. Therefore, we focused on matters that we could control, and responded to the COVID-19 crisis by willingly adopting the lock down rules and the health regulations aimed at resuming our operations as early as possible.

We decided to implement the Directives of the Central Bank of Sri Lanka relating to the relief package designed to support businesses, industries and individuals who were affected by the Easter Sunday attacks and by the COVID-19 pandemic, despite the challenges to our liquidity.

Darning the aforesaid period under review the company's total assets grew by about 16% from Rs 2,683 Mn to Rs 3,105 Mn, whilst the loan book recorded an increase of Rs 285.86 Mn an increase of about 19 % over the previous year amounting to Rs 1,811Mn. Our Deposit base grew to Rs 1.012Mn an increase of 14% over the previous year. The Stated Capital of the company increased from 3,091Mn to Rs 3,231 Mn and the gross income increased from Rs 362 Mn to Rs 456 Mn an increase of about 26 %.

When encountered the two disasters stated above, our first priority was to ensure the safety of our employees, customers, and initiated procedures to restore a reasonable degree of normalcy in our operations aimed at serving our valued customers. Accordingly, all those who applied to avail of the Debt Moratorium were evaluated expeditiously and approved. The recovery process was adjusted to fall in line with the moratorium granted and initiating recovery through litigations were postponed subject to borrowers agreeing to reschedule the facilities.

Our branches were operated following the guidelines of the health authorities facilitating our customers to obtain their financial requirements without any difficulty.

At present we are in the process of improving our digital capacity to enhance our ability to meet the future challenges in the Finance Sector. The migration of our operations to a new digital sphere is implemented in keeping with the time bound action plans. With the adoption of the state of-the-art IT infrastructure we plan to conduct our operations digitally and our customers will be provided with the opportunity to use digital channels as much as possible, as we progress.

With the support of our technological capabilities we are confident that we could continue to improve the mutually beneficial relationship we have with our customers, offering them customer friendly new products and services.

We anticipate a great potential in expanding our gold loan product ensuring that the general public have access to this product through our branch network, coupled with our other products and services. We plan to, support the rural economic development and improve the livelihoods of those residing in the areas served by our branches.

We were able to face the first wave of the global pandemic due to the commitment of our staff and the strength we possess in the finance industry as an emerging finance company. However, the pandemic is still on-going globally, ushering in uncertainty for the immediate future of all.

We are focused on our concerns such as, preserving our liquidity, minimizing credit losses, reducing operating costs, and ensuring the safety of our employees and our customers, on our forward march to achieve our goals as planned.

Looking to the future, we plan to improve our branch network and establish our core bank solution with the "e-finance" software package. We will increase our core capital in compliance with the directions of the Central Bank of Sri Lanka within the stipulated period. We will adopt our impairment model and other financial statements preparation and presentation in compliance with the Sri Lanka Accounting Standards and also ensure that we maintain our risk rating "B stable' whilst working towards achieving an up grading in due course. We will Complete the planned listing of our shares on the Colombo Stock Exchange attracting new investors in the process and maintain transparency in our business activities.

I am pleased to extend my appreciation and convey my sincere thanks to the Chairman and the Members of the Board of Directors for their guidance and foresightedness and appreciate the Corporate Management and each and every member of our committed staff of all grades, that rose to the occasion in dealing with the repercussions of Easter Sunday attack and the Covid 19 pandemic.

My thanks also goes to our stake holders, valued customers for the trust they have placed in us and their continued loyalty, to the Director and officials of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for their regulatory guidance and to all our service providers.

K.G. Leelananda
Chief Executive Officer

K.G. Leelananda
Chief Executive Officer / Executive Director

Branch Network

01. GALLE BRANCH
Mrs. M.H.L.Rasika Sampath (Senior Manager)
No :119,Wakwella Road,Galle,Sri Lanka.
Phone :+94 91 2247222
Fax :+94 91 2247222
Email :lcbgalle@lcbfinance.lk

02. KARAPITIYA BRACH
Mr. Kamil Shantha Kumara (Branch Manager)
No 249/d, Golden Range, Karapitiya, Sri Lanka.
Phone: +94 91 22 45 810
Fax : +94 91 22 45 810
Email: lcbkarapitiya@lcbfinance.lk

03. MATARA BRANCH
Mr. M.D. Gunarathna (Senior Manager)
No 68, Anagarika Dharmapala Mawatha,
Matara, Sri Lanka.
Phone : +94 41 22 50 017
Fax : +94 41 22 50 017
Email :lcbmatara@lcbfinance.lk

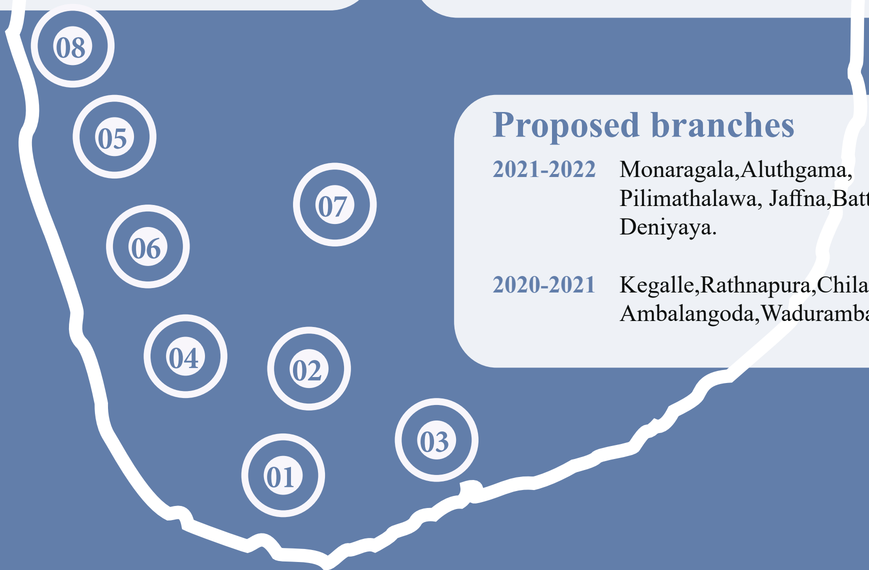
04. RATHGAMA BRANCH
Mr. K.T. Dammika Darshnana (Branch Manager)
No. 622, Devenigoda, Rathgama, Sri Lanka.
Phone : +94 91 22 68 160
Fax : +94 91 22 68 160
Email: lcbrathgama@lcbfinance.lk

05. KOHUWALA
Mrs. M. L.L.D Molligoda (Branch Manager)
No 76 S De S Jayasinghe Mawatha, Kohuwala,
Nugegoda, Sri Lanka.
Phone : +94 11 28 25 404-6
Fax : +94 11 28 25 406
Email: lcbkohuwala@lcbfinance.lk

06. KARANDENIYA
Mr. L.G.I. Pushpa Kumara (Branch Manager)
Elpitiya Road, Maha Edanda,
Karandeniya, Sri Lanka.
Phone : +94 91 22 90 255
Fax : +94 91 22 90 255
Email: lcbkarandeniya@lcbfinance.lk

07. PELAWATHTHA BRANCH
Mr. W.U. Anurudda Perera (Branch Manager)
No 07, Mathugama Road, Pelawaththa, Sri Lanka.
Phone : +94 34 22 84 810
Fax : +94 34 22 84 810
Email: lcbpelawatta@lcbfinance.lk

08. NEGOMBO BRANCH
Mr. M.S.Jayalal (Branch Manager)
No. 615, Colombo Road, Kurana,
Negombo, Sri Lanka.
Phone : +94 31 22 26 565
Fax : +94 31 22 26 565
Email: lcbnegombo@lcbfinance.lk



Proposed branches

2021-2022	Monaragala,Aluthgama, Pilimathalawa, Jaffna,Batticaloa, Deniyaya.
2020-2021	Kegalle,Rathnapura,Chilaw, Ambalangoda,Waduramba.

SAVE FOR YOUR CHILD
HE IS THE LIVING MESSAGE
YOU SEND TO THE FUTURE
WHICH YOU MAY NEVER SEE

- ***Attractive Interest Rate with Amazing Gifts***

Operating Environment

The Non-Bank Financial Institution (NBFI) sector performance slowed down significantly in 2019-2020 on the back of low credit growth, declining profitability and increasing non-performing loans mainly due to Easter Sunday attacks and COVID -19 pandemic.

Sri Lankan Economic Outlook

In 2019, the Sri Lankan economy managed to record passive economic growth of 2.3% which is lower than 2018 figure of 3.3%. Muted economic growth, coupled with the sharp depreciation of the Sri Lankan rupee at the end of 2018 resulted in depreciation of exchange rate in 2019.

All major sectors of the economy recorded positive, but modest growth rates. The agriculture sector recorded a growth of 0.6 per cent in 2019 compared to the growth of 6.5 per cent in 2018. Extreme weather conditions affected the agriculture sector in 2019, with growing of tea, growing of rubber, marine fishing and marine aquaculture subsectors and forestry and logging activities recording notable contractions. Meanwhile, the industry sector registered a growth of 2.7 per cent in 2019, compared to the growth of 1.2 per cent in the previous year. The growth of the industry sector was mainly supported by the manufacture of textiles, wearing apparel and leather products, the manufacture of food, beverages and tobacco products, and the revival of construction and mining and quarrying activities. Meanwhile, with the impact of the Easter Sunday attacks on tourism related activities, the growth of the services sector decelerated significantly to 2.3 per cent in 2019, compared to the growth of 4.6 per cent in 2018. Activities in accommodation, food and beverage services recorded a contraction during 2019. Activities in wholesale and retail trade mainly contributed to the growth of the services sector, while telecommunication and IT programming consultancy and related activities continued to record a double digit growth.

The Easter Sunday attacks had a notable impact on the Sri Lankan economy, and the transport sector is one of the sectors that were heavily affected. Accordingly, both passenger and goods transportation through road, railway and aviation modes declined during 2019 due to low people engagements over security concerns and reduced activities in the economy.

Reflecting subdued economic activity, the unemployment rate increased to 4.8 percent in 2019 from 4.4 percent in 2018. Male and female unemployment rates rose to 3.3 percent and 7.4 per cent, respectively, during 2019, from 3.0 percent and 7.1 percent, respectively, in the previous year. Meanwhile, the Labour Force Participation Rate (LFPR) increased marginally to 52.3 percent in 2019 from 51.8 percent in 2018, primarily due to an increase in LFPR of females. Accordingly, LFPR for females increased to 34.5 percent in 2019 from 33.6 percent in 2018.

Despite transient supply side disturbances, both headline and core inflation moved broadly in the desired range of 4-6 per cent during 2019, mainly as a result of subdued demand conditions and well anchored inflation expectations. With survey based upward adjustments to house rentals and education fees, headline inflation as measured by the movements in the Colombo Consumer Price Index accelerated at the beginning of 2019. Contributed also by the revisions of administratively determined prices and taxes on certain food and non food items, CCPI based year-on-year headline inflation accelerated from 3.7 per cent in January 2019 to 5.0 per cent in May 2019, before easing during the ensuing three months to record 3.4 per cent in August 2019.

Domestic retail prices of petroleum products were revised regularly until September 2019 with the implementation of a pricing formula in May 2018 and kept unchanged thereafter. Accordingly, domestic retail prices of petroleum products of the CPC were revised eight times during 2019. Further, Lanka IOC, which is the second player in the market, also revised their retail prices during the year.

Despite the temporary setback posed by the pandemic, appropriate growth supportive reforms to address longstanding structural issues and enhance domestic production, improve export orientation, attract foreign direct investment (FDI), facilitate innovation, improve factor productivity and efficiency, and improve policy buffers, if implemented without delay, would enable Sri Lanka to realize the desired outcome of achieving sustained and equitable economic growth and becoming a prosperous nation in the period ahead.

Financial Sector of the Sri Lankan Economy

The financial sector performance deteriorated during the year, with negative credit growth, declining profitability and increase in NPLs. The slowdown in the sector was mainly due to restrained economic activities, prevailed political uncertainty, lack of investor confidence and security concerns created by the Easter Sunday attacks.

Total assets of the sector stood at Rs. 1,432.7 billion by the end of December 2019, representing 7.6 per cent of Sri Lanka's financial system. The sector as a whole remained stable, with capital maintained at healthy levels along with adequate liquidity buffers well above the regulatory minimum levels. Deposits dominated the funding mix, as increased assets were mainly funded through deposits, while borrowings of the sector largely declined compared to the previous year.

At end-2019, the Non-Bank Financial Institution (NBFI) sector comprised 42 the Licensed Finance Companies (LFCs) and 4 Specialized Leasing Companies (SLCs). LFCs and SLCs contributed to the economy by providing enhanced services to the customers and expanding its branch network, thereby promoting financial inclusion in the country. There were 1,432 branches and 599 other outlets1 of the LFCs and SLCs sector, out of which 952 branches (66.0 percent) were located outside the Western Province. In 2019, several LFCs introduced technology based products& services to facilitate financial inclusion.

Assets

Total asset base of the sector stood at Rs. 1,432.7 billion, which expanded marginally by 0.1 per cent (Rs. 1.3 billion) during the year, compared to 5.6 per cent growth reported in 2018. The asset base of the sector mainly consisted of loans and advances which accounted for 77.0 per cent of the total assets. Finance leases accounted for the major part, representing 52.9 per cent of the gross loans and advances, followed by other secured loans, representing 37.0 per cent.

Liabilities

Customer deposits still dominated the major portion of liabilities, and increased assets were mainly funded through deposits, which accounted for 52.8 per cent of the total liabilities of the sector. The deposit growth accelerated to 5.6 per cent (Rs. 39.9 billion), while borrowings declined by 12.6 per cent (Rs. 58.2 billion) in 2019.

Credit Risk

The gross non-performing advances (NPA) ratio increased to 10.6 per cent at end-December 2019, from 7.7 per cent reported at end-December 2018, reflecting deterioration in the asset quality of the sector. This is mainly due to the slowing down in economic activities due to the Easter Sunday attacks, declined lending activities of the sector and spillover effects of the Debt Relief Program. The provision coverage ratio slightly deteriorated to 56.6 per cent by end-December 2019, compared to 57.0 per cent reported at end-December 2018. With the implementation of SLFRS 9, NPA will rise further which would highlight the significant credit risk of the sector.

Profitability

Net interest income of the sector during the year was Rs. 117.4 billion, which increased by 7.9 per cent (Rs. 8.6 billion). This was due to the combined effects of increased interest income by 7.6 per cent (Rs. 18.3 billion) and increased interest expenses by 7.4 per cent (Rs. 9.8 billion). Net interest margin of the sector (net interest income as a percentage of average assets) increased to 7.7 per cent in 2019 from 7.4 per cent in 2018, due to the combined effects of increased net interest income

Capital

The sector remained resilient with capital maintained at healthy levels during the year. The total regulatory capital levels improved by Rs. 22.3 billion in 2019, compared to the figures reported in 2018, mainly due to the enhancement of minimum capital requirement by the Central Bank to Rs. 2.0 billion by 01 January 2020 and Rs. 2.5 billion by 01 January 2021. The regulatory capital comprises Tier I and Tier II capital, of which Tier I capital contributed to 95.1 per cent of the total regulatory capital. Tier I capital mainly comprises issued share capital, statutory reserve fund and published retained profits.

The Capital Reports

Financial Capital

These are the cash resources introduced by our shareholders and improved & developed through our business operations. The income and the profits generated through our business activities are used to pay out dividends to our shareholders and the balance will be retained in the company for future expansions.

Lanka Credit and Business Finance Limited generated a profit after tax of Rs.11.43Mn during the Financial Year 2020. In the previous reporting period the Company had a fair value gain on investment property amounting to Rs. 202.16Mn, and a deferred tax reversal of Rs. 290.44Mn. However, this year's profit was solely based on the returns in the ordinary course of the business. There was a remarkable growth in the total assets of the Company from 2,683.69Mn in 2019 to Rs. 3,105.51Mn in 2020.

Total Assets – Rs. 3,105.51Mn

Profit after Tax – Rs. 11.43Mn

Investments – Rs.338.37Mn

ICRA Lanka Limited rating -[SL]B (Stable)

Deposit customers – 15,079

Taxes to Government – Rs. 28.56Mn

NPL (gross) – 26.59%

ROE - 0.77 %

Our performance during 2019-2020

- Achieved a Profit Before Tax of Rs. 20.98Mn and a Profit After Tax of Rs. 11.43Mn
- NPL ratio (gross) was maintained at 26.59%
- Recorded Intrest Margin of 14.15%

Social and Relationship Capital

Being a Socially Responsible Company we created a greater value to our stakeholders by maintaining a strong relationship and focusing more on Corporate Social Responsibilities.

During our journey towards success we enabled to win a 15,079 Customer base by maintaining a healthy client relationship through effective communication channels.

Deposit customers – 15,079+

Taxes to Government – Rs. 28.56Mn

Over 1.5Mn Contribution towards CSR projects

Comprehensive financial solutions – 10+

Our performance during 2019-2020

- Introduction of "LCB Sihina Ayojana" investment savings account to target oriented young generation in order to reach their goals step by step.
- Door step banking facilities for savings and loan recovery activities for business customers with a busy life schedule.
- Rs.28.56Mn to the Government as Taxes
- Contribution towards the construction of a fully equipped patients room at the Palliative Care Unit at the Karapitiya Teaching Hospital.
- Relocation of Mirissa branch in Matara town to cater to wider clientele from a strategic location.
- Donation to Sujatha Orphanage

Manufactured Capital

This capital contains all the physical assets and infrastructure of the Company which supports the business activities of the entity.

The manufactured capital helps the Company to grow the business in an effective and efficient manner in order to achieve the strategic objectives of the Company. Also, this capital will facilitate both deposit and loan customers to reach us comfortably without much effort thereby enhancing our business operations.

Existing Branches - **08 Branches**

Branches Relocated - **01 Branch**

New Branches - **01 Branch**

Computer Systems - **e-Finance computer system**

Investments made in Fixed Assets - **Rs. 13.47Mn**

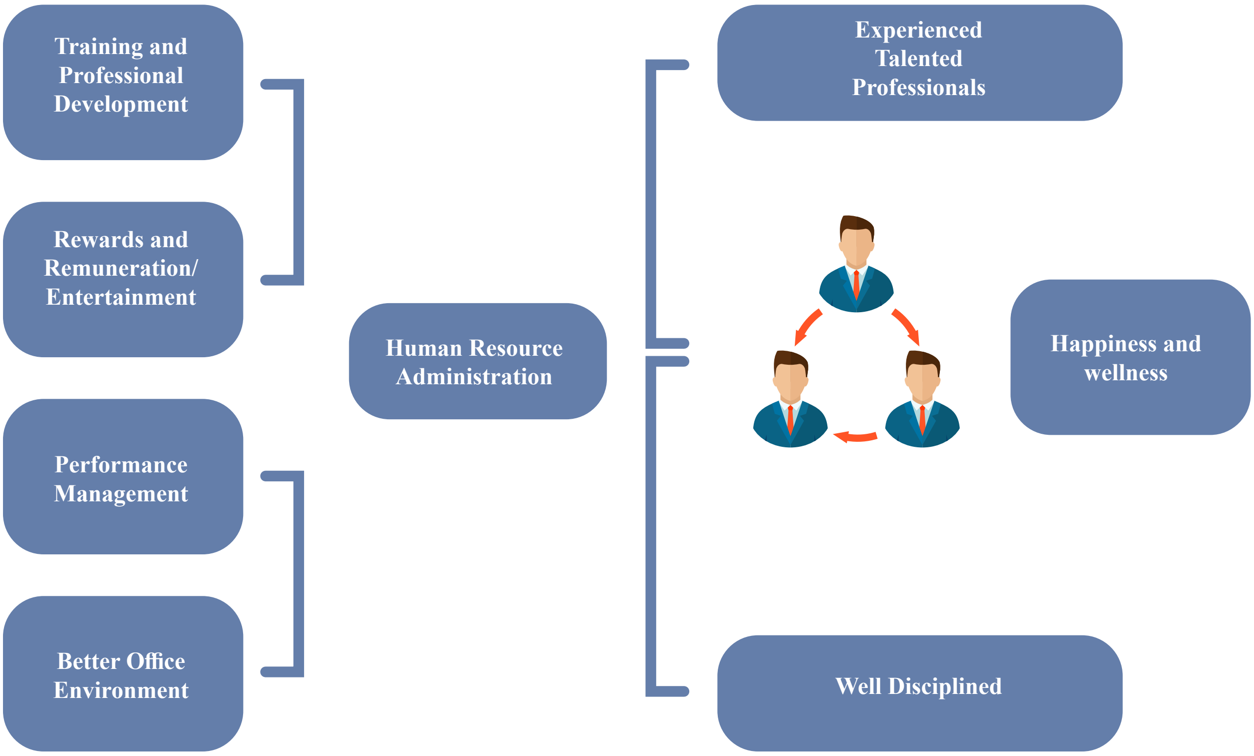
Our performance during 2019-2020

- Operations commenced in our new branch in Negombo
- Relocated the Mirissa branch to Matara
- Acquired property, plant and equipment for Rs.13.47Mn
- Invested in the e- Finance core banking system

Human Capital

Our Human Capital refers back to the strength of our employees together with their fitness and well-being, expertise, experience, innovative capacity and attitudes.

Value Creation for human Capital



To grow our business, we require high-performing, talented and efficient human beings with the right knowledge and experience.

Total Employees	94
Male	54
Female	40
New Internal Promotions	10
New recruitments	40

Human Capital	**2019/20**	**2018/19**
Amount paid in wages & benefits (Rs '000')	76,424	57,068
Cost incurred in employee training (Rs '000')	109	105

Value creation for the future business

By focusing on expertise sourcing and succession planning we would be able to refresh our action-oriented values thereby enhancing the diversified skills of our employees over time.

Natural Capital

Natural Capital can be considered as all renewable and non-renewable environmental resources and processes that support current and future prosperity of our business and all to our stakeholders.

We were able to keep electricity consumption at about Rs. 3Mn during the year

Our water cost is only Rs.184,992

Fuel cost was maintained at Rs. 2Mn with less impact to the envirionment

Being a responsible financial services provider LCB Finance took a greater initiative to reduce the effects to the environment during COVID 19.

The company circulated the message to all employees to work towards reducing the paper cost.

Electricity and water savings were encouraged by minimal utilisation of resources.

Educated our staff to engage in more environmental friendly projects.

Intellectual Capital

Our Intellectual Capital includes our brand emerged from down South of the country, technological systems such as the new e-Finance IT system and other primary assets such as licenses, software, procedures and protocols.

These technologies and our expert know how will help us to grow and generate the returns from our investments which will result in a competitive edge.

Our performance during 2019-2020

- Implementation of new IT System to improve the efficiency.
- Implementation of new manuals to streamline the processes of the company.
- Introduction of a new investment plan to the customers “SIHINA AYOJANA” which adds value to the brand of the company.
- Collaborating with Cargills Bank Swift payment system enable an efficient fund transfer process.
- Obtained the license to carry out foreign currency transactions.
- We received the membership at the Finance Houses Association.
- We received the membership of the Micro Finance Association.

THE MORE I SAVE, THE MORE I AM SAFE

- ***5% Interest Rate***
- ***Specialized for the women***

Board of Directors

01. Mr.W.M.A. Bandara
02. Mr. K. G. Leelananda
03. Mr. R. L. Masakorala
04. Mr.A. G. M. Priyantha
05. Mr. U. K. H. R. Ranasinghe

06. Mr. K. I. Weerasinghe
07. Mr. J. W. Nanayakkara
08. Mr. V. Lokunarangoda
09. Mr. S. W. Subasinghe
10. Mr. G. K. Nanayakkara
11. Mr.S. A. K. Alahakoon

Board of Directors

Emeritus professor Mr.W.M.Abeyrathne Bandara
Chairman

Mr.W.M.Abeyrathne Bandara is a senior academic with strong dedication and commitment, target oriented, self-motivated person having over 40 years' service in the university system of Sri Lanka in the field of Business Management and Financial Management with practical experience in formulation and implementation of business strategies, over all administration, monitoring and controlling, team management, and problem solving, both in the government and private sector organizations such as, Commercial Banking, Development Banking. Finance Companies, Primary Dealer companies, Government Ministries, Govt. authorities and Non-Government Organizations.

Further, he also serves as the chairman to the Board of United Engineering Services (Private) Limited. Director of Net Wealth Securities Limited and Director of Net Wealth Corporation Limited.

Mr. K. G. Leelananda
CEO/Executive Director

Mr. K.G. Leelananda holds a Management degree from the University of Sri Jayewardenepura, Diploma in HRM at Aquinas University College, Chartered Licentiate at Chartered Institute of Sri Lanka 1993 and Intermediate Banking & Finance Diploma at IBSL. He has successfully completed courses on Private Enterprise Development at Harvard USA Management in Finance at NTUC at Singapore University, Co-operative Banking System Course conducted in South Korea and in Netherland and Canada: A System Study at Banka Italia Italy. Since 2001, he has contributed towards the growth of Sanasa Development Bank and reached the 2nd Key executive position "The Senior Deputy General Manager" in the Bank.

Mr. R. L. Masakorala
Non-Executive Director

Mr. R. L. Masakorala holds a Diploma in Management –Japan –University of Tokyo and functions as The Managing Director of Hotel Kabalana (Pvt) Ltd. and a director of Udumullagoda Tea Factory (Pvt) Ltd. He is the Proprietor of The Villa Hotel and Vista tours, Uneth Car sale and a Director in the Board of Yakkalamulla Tea Factory Private Limited. Senior Director of Lanka Credit and Business Limited

Mr.A. G. Maheen Priyantha
Non-Executive Director

Mr.A. G. Maheen Priyantha holds a Human Resource Management Degree at NIBM, Sri Lanka; He also serves as the Managing Director & Chairman in Maweli Traders (PVT) Ltd, Maweli Finance (PVT) Ltd, Further he also serves as the Managing Director in Yakkalamulla Tea Factory (PVT) Ltd and a Director in the board of Udumullagoda Tea Factory (PVT) Ltd, Senior Director of Lanka Credit and Business Limited, Director of Singhe Capital Investment Limited.

Mr. U. K. H. R. Ranasinghe
Non-Executive Director

Mr. U. K. H. R. Ranasinghe had followed a Management Trainee Course – AOTS-LKCM-Japan; Management Trainee Course-NIPM. He has served as an Assistant Superintendent / Superintendent in Sri Lanka State Plantation Corporation; Managing Director at Thalgampala Tea Company (Pvt) Limited; Promoter and Proprietor of UKG Enterprise; Director of L&H Capital Partners (Pvt) Limited; Secretary -Galle Business Club. The Chairman of Sri Lanka Tea Factory Owners' Association, Director Lanka Credit and Business Limited, Director of Sinhaputhra Finance, Chairman of Singhe Capital Investment Limited.

Mr. K. I. Weerasinghe
Non-Executive Director

Mr. K.I.Weerasinghe holds a Diploma in Chartered Accountancy in Germany and also he is the Managing Director / Chairman of Transline GMBH- Transport and Packaging and R K W Courier Service. He is a leading businessman in Germany.

Mr. J. W. Nanayakkara (Retired and CBSL is informed and approved)
Non-Executive Director

Mr. J. W. Nanayakkara holds a Bachelor of Science degree in Civil Engineering and he is a Charted Civil Engineer. He serves as the Chairman / Managing director of NEM Construction (Pvt) Ltd and Project Engineer of Central Engineering & Consultancy Bureau, Site Engineer of John Lang Construction Company in UK.

Mr. V. Lokunarangoda
Non-Executive Director

Mr.V. Lokunarangoda serves as the Managing Director of Galle Highway Express and Narangoda Group of Companies. He also serves as Inspector of fisheries of Department of Fisheries. Director Singhe Capital Investment Limited.

Mr. S. W. Subasinghe
Independent Non-Executive Director

Mr.S.W.Subasinghe holds a Master of Business Administration Degree (MBA) in University of Ballarat Melbourne, Australia. Post Graduate Diploma in Educational Administration at the University of La Trobe Melbourne. Australia. B.Sc. Management (Public Administration) sp. Degree at University of Sri Jayewardenepura, Sri Lanka. He has been the Divisional Secretary of Galle Four Gravets, Divisional Secretary G/ Nagoya Division and the Tawalama Division Assistant Secretary - Ministry of Youth affairs and skills Development; Project Director – Up grading of Niyagama Vocational Training Center project, Director HRM Department of Technical Education and Training, Assistant Secretary – Ministry of Technical Education and Vocational Training (SLAS); Director- Department of Management Services, Ministry of Finance

Mr. G. K. Nanayakkara
Non-Executive Director

Mr. G. K. Nanayakkara holds BSc Degree in Computer Science with Management (Second class lower division) University of Nottingham UK he has been General Manager Etambagahwila Tea Factory – Kananke.

Mr. S. A. Alahakoon – (Resigned and CBSL is informed and approved)
Non-Executive Director

Mr. S A Alahakoon has a B.Com (Special) degree from the University of Sri Jayawardhanapura , Fellow Member of the institute of Chartered Accountants of Sri Lanka , Associate Member of the Institute of Bankers of Sri Lanka. He possesses a good exposure in banking and finance as well as in business administration as The Director –Manmeck Management Services Pvt Ltd (2004-2005), The General Manager Abans Financial Services Ltd (2006-2009), The CEO/General Manager – Global Trust Finance Services Ltd (2009-2010), The Head of Credit HDFC Bank (2010-2012) , The Deputy General Manager (Credit Recoveries) Regional Development bank -2012

Management Team

Corporate and Senior Management Team

Name	Designation
Mr.K.G. Leelananda	Chief Executive Officer/Executive Director
Mr.H.Y.J.Chandrapala	Senior Deputy General Manager
Mr.S.S.S.Senanayake	Head of Compliance & Audit
Mr. Aruna Withanage	Chief of Resource Mobilization
Ms .Kokila Perera	Head of Finance & Strategic Planning
Mr.R.M.Gnanarathna	Chief Risk Officer
Mr.K.G.S. Suranga	Head of IT
Ms.Rasika Sampath	Senior Manager – Southern Region
Mr.M.D.Gunarathna	Senior Manager- Matara

Managers (Branches and Head Office)

Name	Designation
Ms.W.L.I .Dinushani	Manager -Legal
Mr.D.M.W.Bandara	Manager -Admin & Operation
Ms. Nayomi Mawella	Manager - Human Resources
Mr.S.S.Neligama	Manager- Recoveries
Mr.W.M.T.Bandara	Manager -Accounts
Mr. Thilina Abeysirigunawardana	Manager -IT
Ms.Harshani Sirimanna	Legal Officer
Ms. Dilanthi Liyanage	Legal Officer
Ms.Rasika Sampath	Senior Manager- Southern Region
Mr. M.D. Gunarathna	Senior Manager- Matara
Ms.M.L.L.D.Molligoda	Manager -Kohuwala
Mr.K.T. D.Darshana	Manager -Rathgama
Mr. L.G.I. Pushpakumara	Manager - Karandeniya
Mr.W.U.A. Perera	Manager -Pelawatte
Mr.K. Shantha Kumara	Manager -Karapitiya
Mr.S. Jayalal	Manager-Negombo


Mr.K.G. Leelananda
Chief Executive Officer/Executive Director


Mr.H.Y.J.Chandrapala
Senior Deputy General Manager


Mr.S.S.S.Senanayake
Head of Compliance & Audit


Mr. Aruna Withanage
Chief of Resource Mobilization


Ms.Kokila Perera
Head of Finance & Strategic Planning


Mr.R.M.Gnanarathna
Chief Risk Officer


Mr.K.G.S. Suranga
Head of IT


Ms.Rasika Sampath
Senior Manager- Southern Region


Mr.M.D.Gunarathna
Senior Manager- Matara


Ms.W.L.I .Dinushani
Manager Legal

Mr.D.M.W.Bandara
Manager Admin & Operation

Ms.Nayomi Mawella
Manager - Human Resources

Mr.W.M.T.Bandara
Manager Accounts

Mr.Thilina Abeysirigunawardana
Manager IT

Ms.M.L.L.D.Molligoda
Manager -Kohuwala

Mr.K.T. D.Darshana
Manager -Rathgama

Mr.L.G.I. Pushpakumara
Manager - Karandeniya

Mr.W.U.A. Perera
Manager -Pelawatte

Mr.K. Shantha Kumara
Manager -Karapitiya

Mr.S. Jayalal
Manager-Negombo

Corporate Governance

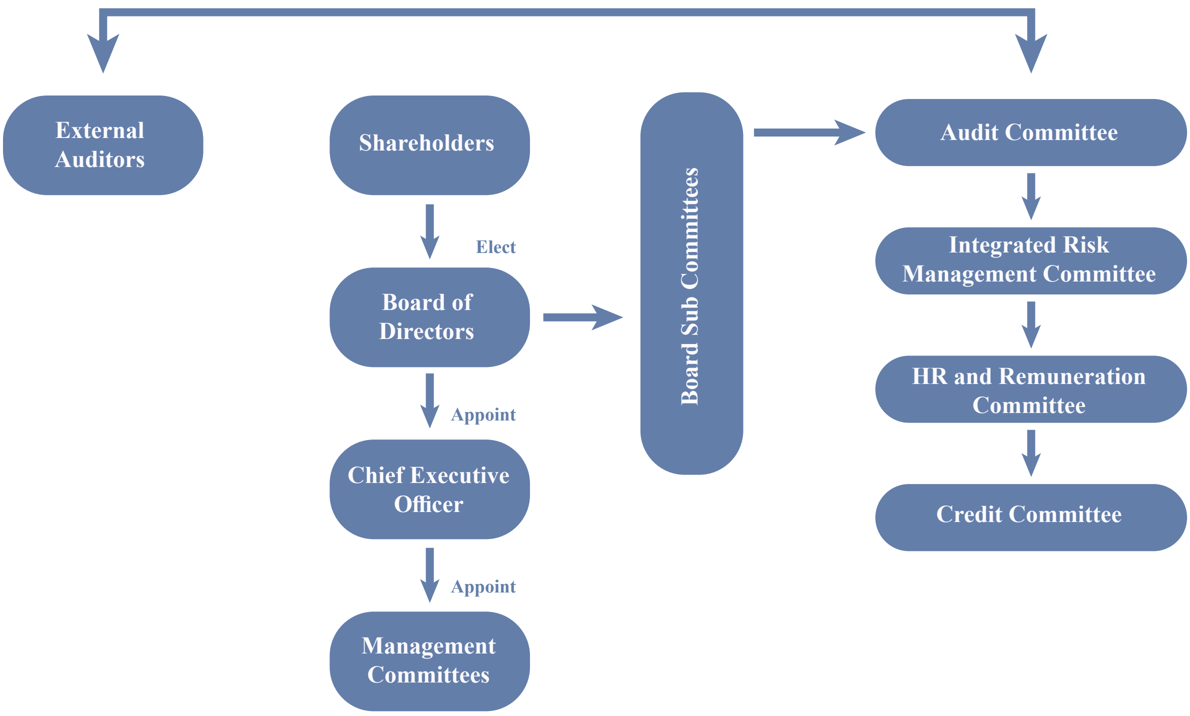
LCB Finance pursues Sound corporate governance from the highest level and integrates relevant practices within business strategies...

Corporate governance is a critical pillar at Lanka Credit and Business Finance Limited that determines how the company is directed, controlled and monitored in the right direction. We continue to maintain the highest standards of corporate governance and ethical business through good practices, processes and procedures which essentially involve in balancing the interest of the Company's stakeholders and facilitating long term sustainable value creation.

LCB Finance Limited Board and Board appointed committees discharged their governance duties with clear and meaningful objectives to follow and comply with the principals of good governance enshrined in the Code of Best Practices for Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Finance Companies (Corporate Governance) Direction No.3 of 2008 and amendments thereto.

Governance Structure

The Board of Directors bears ultimate responsibility for the affairs of the Company and have set in place an appropriate governance structure to facilitate the discharge of its duties. Board Sub Committees assist the Board in its oversight function in specialized areas requiring significant attention.
The governance structure of Lanka Credit and Business Finance Limited ensures alignment of its business strategy and direction through effective engagement and communication with its stakeholders, Board of Directors, Board Sub Committee and Management.



Governance Framework

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

a. Companies Act No.7 of 2007

b. Finance Business Act No 42 of 2011

c. The Finance Companies Directions issued by the Central Bank of Sri Lanka for Registered Finance Companies in Sri Lanka including Direction No.03 of 2008 and subsequent amendments thereto on Corporate Governance.

d. The Code of Best Practice on Corporate Governance 2013 issued jointly by the Securities and the Finance Companies Direction No. 03 of 2008 and subsequent amendments thereto on Corporate Governance issued by the Central bank of Sri Lanka for registered Finance Companies in Sri Lanka.

Section	Corporate Governance Principle	Compliance
2.	**The Responsibilities of The Board of Directors**	
2 (1) (a)	The board approval of the finance company's strategic objectives and corporate values.	Board approved Business Plan for 2018-2022 established in restructuring of City Finance Corporation Ltd by Lanka Credit & Business Ltd is in the place and this has been communicated throughout the company. The Board and the Management are aware of the organizational values and the strategic objectives as these have been communicated throughout the company.
2 (1) (b)	The board approval of the overall business strategy of the finance company including risk policy, risk management procedures and mechanism with measurable goals.	Board approved the Business Plan 2018-2022 includes the company's overall business strategy. Risk Management Policy has been approved by the Board inline with the Business Plan. Company's Business Plan 2018-2022 contains , measurable goals for the next three years.
2 (1) (c)	Identifying risks and ensuring implementation of appropriate systems to manage the risk prudently.	Board Integrated Risk Management Committee (BIRMC) has been established at the company and delegated the function of identification and assessment of the principal risks and overseeing the management of those risks are monitored by the BIRMC Board assesses the overall risk management of the company through the minutes of the BIRMC submitted to the Board.
2 (1) (d)	The Board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers.	Board approved communication policy for all stakeholders and all officers and employees comply with the policy in order to ensure effective communication for the best interest of stakeholders
2 (1) (e)	The Board has reviewed the adequacy and the integrity of the finance company's internal control systems and management information systems.	There is a mechanism at the company to identify the accuracy of the internal control by the BOD through the process over design and effectiveness of internal control over financial reporting. Further, Internal Audit Division of the company adds value to the process verifying the effectiveness of the above process. Accordingly ,the Board reviewed the adequacy and the integrity of the Company's MIS through the Internal audit reports and Management Information Reports submitted by the Internal Auditors of the company
2 (1) (f)	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	Policy of succession plan for key management personnel, approved by the Board defines key management positions of the Company.

	business activities, operations and risk management.	Chief executive officer, Senior deputy General Manager, Deputy General Manager (vacant at present),Assistant General Manager(vacant at present),Head of Credit, Head of Finance, Chief Risk Officer, Internal Auditor, Compliance officer, Head of Legal, Head of Information Technology and Company Secretary have been identified as Key management positions of the company.
2 (1) (g)	The Board has defined the areas of authority and key responsibilities for the Board directors themselves and for the key management personnel.	Company's Article 28 speaks of the powers and duties of Directors. Further, Section 2 of Corporate Governance manual approved by the Board defines the key responsibilities of the Board of Directors and approved by the Board. Functions and responsibilities of the CEO has to be defined and approved by the Board. Authority of key management personnel is included in the powers delegated by the Board and reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company.
2 (1) (h)	The Board has exercised appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with Board policy.	Board has exercised appropriate oversight of the affairs of the finance company by key management personnel. Board of Directors have noted the status of the level of the overall compliance of the company submitted by the compliance Officer. In order to ensure management, development and effective performance of the company, KPM's make regular presentations to the Board on matters under their purview.
2 (1) (i)	The board has periodically assessed the effectiveness of the Board Directors own governance practices, including: (i) Selection, nomination and election of Directors and Key Management Personnel; (ii) Management of conflicts of interests; and (iii) Determination of weaknesses and implementation of changes where necessary.	As per Company's Article 26 there is a requirement in place for the Directors to declare the nature of their interest. Further, Company's Article 26 describes the general procedure for appointment and removal of new Directors to the Company by the Board. Article 31 of Company's Articles of Association speaks of the conflicts that may arise and how to avoid those conflicts of interests. Determination of weaknesses of Board of Directors' own governance practices and implementation of changes are being addressed through self-evaluation process of the board members. Self-evaluation forms for the year 2018/19 have been obtained from all Board members and based on that, a summary has to be prepared and submitted to the Board for their review and action if deem necessary.
2 (1) (J)	The Board has a succession plan for Key Management Personnel.	Policy on Succession Plan for Key Management Personnel approved by the Board and is in place.
2 (1) (K)	The board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Chief Executive officer /Executive Director is called for regular Board Meetings to review policies and monitor progress towards the corporate objectives. The other KMPs attend Board meetings on invitation and make presentations. Departments submit a report to the BOD listing out the progress of each department towards corporate objectives.

2 (1) (l)	The board has taken measures and processes in place to understand the regulatory environment and that the finance company maintains a relationship with regulators.	All directions issued by CBSL have been presented to the Board members by the Company Secretary on a regular basis for their knowledge and guidance. The Head of Compliance submits a Compliance Certificate and Statutory Compliance report which contains the details of returns submitted to CBSL and to other Statutory Bodies, new regulations/statutes and their implications on the business, significant non-compliance events and compliance with regulatory requirements/returns. Thus, the Directors are conversant with the regulatory environment.
2 (1) (m)	The board has a process in place for hiring and oversight of external auditors.	Company's Article 43(4) addresses the general procedure for appointment of external auditors by the shareholders. Oversight of external auditors is carried out by the Board Audit Committee.
2 (2)	The board had appointed the Chairman and the Chief Executive Officer (CEO) and listed out their duties and responsibilities.	Chairman and the Chief Executive Officer have been appointed by the Board. The CBSL had approved the appointments accordingly. Functions and responsibilities of the Chairman and the CEO have been defined by the Board.
2(3)	Procedures for seeking Independent Professional Advice.	A Board approved procedure has to be in place to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances, at the company's expense.
2(4)	A Director shall abstain from voting on any Board resolution in relation to a matter to which he or any of his relatives or a concern, in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	As per company's Article 31(6), there is a procedure/ requirement in place for the director to declare the nature of his interest and abstain from voting on any board resolution in relation to a matter in which he/she or any of his/her close relation or a concern in which a director has substantial interest.
2(5)	The board has a formal schedule of matters specifically reserved to it for decisions.	The board has a formal schedule of matters specifically reserved to it for decisions.
2(6)	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.	Members of the Board are aware of the requirement to inform the Director of the Department of Non-Bank supervision with regard to the situation of the company when the company is unable to meet its obligations and is about to become insolvent. such a situation has not arisen during the year 2019/20.
2(7)	The board publishes, in the finance company's Annual Report, an annual corporate governance report setting out the compliance with these Directions.	Corporate Governance Report is set out on the pages 29 to 42 of Annual Report of the Company.
2(8)	The board adopts a scheme of self-assessment to be undertaken by each director annually and maintains records of such assessments.	Board adopts a scheme of self-assessment to be undertaken by each director annually and maintains records of such assessments.
3	**Meetings of the Board**	
3(1)	The board has met regularly and held board meetings at least twelve times a financial year at approximately monthly intervals.	Board Meetings for the year have been scheduled at the end of the previous year and an annual meeting calendar is submitted to the Board. Special meetings were conducted as and when required. Twelve Board Meetings were held during the year under review.
3(2)	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	Board has a procedure in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.

	and the management of risks of the finance company.	
3(3)	The Board has given notice of at least 7 days for a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice has been given.	Company's Articles of Association, Article 35(4) has a provision in this regard. As per information submitted by the Company Secretary, Board has given notice of at least 7 days for a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, reasonable notice has been given.
3(4)	The directors have met with the attendance requirements.	As depicted by the Board attendance schedule all the Directors have attended at least two-thirds of the meetings during the year 2019/20. Company Secretary also monitors the attendance.
3(5)	The board has appointed a company secretary whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	The board has appointed the Company Secretary who possesses the required qualification as stated in the Companies Act No.07 of 2007.The Company Secretary provides secretarial services to the Board and carries out other function specified in the statues and other regulations.
3(6)	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.	Company Secretary is responsible for the agenda, in consultation with the Chairman.
3(7)	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.	A Board approved procedure has to be in place for all Directors to have access to advice and services of the company secretary to ensure all Board procedures, applicable laws, rules, directions and regulations are followed.
3(8)	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.	Company Secretary maintains the minutes of the Board Meetings with sufficient detail. Upon reasonable request, any Director can inspect the minutes.
3(9)	Minutes of Board Meetings.	Company Secretary maintain the minutes with the following contents. • A summary of data and information used by the Board in its deliberations • The matters considered by the Board • The fact –finding discussions and issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence • The matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations • Board's knowledge and understanding of the risks to which the company is exposed and an overview of the risk management measures adopted. • The decisions and Board Resolutions. Minutes are under safe custody of Company secretary.
4	**Composition of the Board**	
4(1)	Composition of the Board.	New Board under LCBF appointed w.e.f 19.04.2018.Board consisted of ten (10) Directors up to 18.12.2018 and then increased to 11 thereafter. Details are tabulated below.

			Name of the Director	Date of Appointment for the position held at present
		5	K. G. Leelananda	19.04.2018
		6	S. W. Subasinghe	19.04.2018
		7	K. I. Weerasinghe	19.04.2018
		8	R. L. Masakorala	19.04.2018
		9	J. W. Nanayakkara	19.04.2018
		10	U. K. H. R. Ranasin-ghe	19.04.2018
		11	A. G. M. Priyantha	09.05.2018
		12	V. Lokunarangoda	09.05.2018
		13	G. K. Nanayakkara	22.06.2018
		14	Mr. S.A Alahakoon	10.01.2019

4(2)	Period of Service of Directors.	Since all the directors have been appointed after April 2018, there are no directors who have exceeded 9 years of service at the Board during the year.
4(3)	Number of executive Directors.	The Board consists of only one executive director Mr. K.G Leelananda.
4(4)	Number of independent Non-executive Directors.	As per the director's details provided by the company secretary, up to 18.11.2018 Company had only two (02) in-dependent non-executive directors and thereafter increased to three (03) which is within the statutory requirements on 24.08.2020 Independent Directors are, Prof M.W.A Bandara, Mr. S.W. Subasinghe and Mr. Dushmanthe Thotawatta.
4(5)	The alternate director appointed to repre-sent an independent non-executive director meets with the criteria for independent non-executive directors.	There are no such alternate directors appointed by the com-pany during the year 2019.
4(6)	non-executive directors have necessary skills, qualifications and experience especially in banking, finance to bring an objective judgment to bear on issues of strategy, performance and resources.	As per the profiles of the Non-executive directors, they have the necessary skills, qualifications and experience especially in Banking and finance to bring an objective judgment to bear on issues of strategy, performance and resources.
4(7)	The required quorum had been present and at least 50% of the directors present at the meetings were non-executive directors.	As per the company's Article 38, the quorum necessary for meetings of directors shall be a majority of the directors for the time being of the company subject to the provisions of the Corporate Governance Direction issued by the CBSL. Board members attendance prepared by the company secretary for the year 2019/20 evidence that the required quorum has been present at all Board meetings and com-plied with the requirement.
4(8)	Composition of the Board.	Composition of the Board, by category of Directors ,in-cluding the names of the Chairman, Executive Directors, Non-Executive Directors and independent Non-Executive Directors has been disclosed on page 34 of the Annual Report.
4(9)	The procedure for the appointment of new directors and orderly succession of appointments to the board.	Company's Article (26) speaks of the 'Appointment and Removal of Directors' of the company.
4(10)	All directors appointed to fill a casual vacancy be subject to election by share-holders at the first general meeting after their appointment.	Company's Article 26 (2) speaks of appointing directors to fill a casual vacancy. As per the Company Secretary, there were no directors appointed to fill casual vacancies during the year 2019/20.

4(11)	Resignation and removal of Directors.	Directors resignation or removal and the reason for such resignation or removal are duly informed to the Department of Non-bank Supervision of Central Bank of Sri Lanka .
5	**Criteria to assess the fitness and propriety of directors**	
5 (1)	The age of a person who serves as Director does not exceed 70 years.	None of the present Directors of the Company are above the age of 70 years. Mr J. W. Nanayakkara reached the age of 70 on 24.11.2019
5 (2)	Directorships in more than 20 companies	None of the directors holds directorships of more than 20 companies' /entities/ institutions inclusive of subsidiaries or associate companies.
6	**Delegation of Functions**	
6(1)	The functions delegated by the board ensures that it does not hinder or reduce the ability of the Board as a whole	The Board may delegate the authority to make decisions to any Board Committee or to a Directors or employee but monitors by means of reasonable methods the exercise of power so delegated. This delegation is permitted under Company 's articles 28(2) and under Section 186 of the Companies Act.
6(2)	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.	As per Section 5 of the Corporate Governance Manual of the company, Board is required to review the delegation process on a periodic basis.
7	**The Chairman and Chief Executive Officer**	
7(1)	The roles of chairman and CEO is separated and not performed by the same individual.	Roles of Chairman and CEO are separated and held by two individuals appointed by the Board.
7(2)	Appointing a senior Director where Chairman is non independent.	Prof. W.M. A Bandara is the Chairman of the company and he is a non-executive, independent director, thus there is no need to appoint a senior director.
7(3)	Identification and disclose relationship between Chairman, CEO and Board Members.	The names of the Chairman and the Managing Director are published in the Annual Report and there is no financial, business, family or other material relationship between Chairman, Managing Director and Board members. A Board approved procedure is in place to monitor the relationship between CEO and the Board of Directors and among the Board Members.
7(4)	Role of the chairman.	Chairman's key responsibilities and duties have been approved by the Board. Self-evaluation process of the Board ensures that the said requirements are fulfilled.
7(5)	A formal agenda is circulated by the company secretary approved by the chairman.	Formal agenda is circulated by the company secretary approved by the chairman.
7(6)	The agenda has adequate information in relation to the agenda items. Agenda papers are circulated to the directors 7 days prior to the meeting.	Board papers are sent to the members of the Board 7 days prior to the meeting. Agenda contains adequate information in relation to agenda items.
7(7)	Full and active Contribution of Directors.	The Chairman encourages all Directors to make a full and active contribution to the Board's affairs. Further, this is also evaluated through the Self Evaluation process designed for the Board of Directors.
7(8)	Chairman facilitates the contribution of non-executive directors and ensures constructive relationships between executive and non – executive directors.	Board consists of Non-Executive Directors and Executive Directors and they give their fullest and effective contribution to the Company while discharging their duties collectively. Chairman facilitates the contribution of non-executive directors and ensures constructive relationships between executive and non – executive directors.

7(9)	Peruse the organizational chart approved by the board and inquire from the key management personnel whether they are under the supervision of the Chairman.	The Chairman does not engage directly or indirectly in supervision of KMPs and executive duties. CEO is responsible for the day to day operations of the Company.
7(10)	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.	Company maintains effective communication with shareholders at the AGM of the Company .
7(11)	Peruse the organizational chart approved by the board to ensure that the CEO functions as the apex of the company.	As per the company's organizations chart the CEO functions as the apex executive-in-charge of the day-to-day management of the company's operations and business.
8	**Board Appointed Committees**	
8(1)	The finance company has established an Audit Committee and an Integrated Risk Management Committee.	The company has established Integrated Risk Management Committee (BIRMC) and the Board Audit Committee (BAC) at the company. Apart from the above two Committees, the Company has established two more Board Sub Committees, namely Board HR and Remuneration Committee and Board Credit Committee.
8(2)	**Board Audit Committee(BAC)**	
8(2)(a)	Chairman of the Audit Committee and qualification of the chairman.	Mr. S.W Subasinghe, a non-executive director has been appointed as the Chairman of the Board Audit Committee (BAC) by the Board. Mr. S.W Subasinghe holds a Master of Business Administration Degree (MBA); University of Ballarat, Australia, Post Graduate Diploma in Educational Administration; University of La Trobe Melbourne, Australia. B.Sc. Management (Public Administration) sp. Degree; University of Sri Jayewardenepura Sri Lanka.
8(2)(b)	All members of the committee are non-executive directors.	All other members in the committee are non-executive directors namely Mr. G.K.Nanayakkara and A.G.M Priyantha.
8(2)(c)	Recommendations made by the Audit Committee. (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;	Audit Committee has made recommendations with regards to the following • The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes. • The implementation of the Central Bank guideline issued to auditors from time to time • The application of the relevant accounting standards • The service period, audit fee and any resignation or dismissal of the Auditors ; provided that the engagement of the Audit Partner shall not exceed five years ,and that the particular Audit Partner is not reengaged for the Audit before the expiry of three years from the date of the completion of the previous term. • Implementation of the Whistle Blowing Policy within the Company.
8(2)(c)(iv)	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.	The Board has noted the fee proposal of Ernst & Young with respect to the assignment of auditing the financial statements of the company for the year of 2019/20. Committee has to establish a policy in relation to the service period, audit fee and any resignation or dismissal of the external auditor

8(2)(d)	The committee has obtained representations from the external auditor's on their independence and evaluated the effectiveness, and that the audit is carried out in accordance with SLAUs.	External Auditors are independent since they directly report to the BAC and their Report on the financial statements of the company for the year 2019/20 indicates that the audit is carried out in accordance with SLAuS.
8(2)(e)	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.	The Board Audit Committee has discussed and finalized the nature and scope of the audit, with the External Auditors in accordance with Sri Lanka Accounting Standards. The Audit Engagement Letter for the year ending 31.03.2020 is submitted to the BAC.
8(2)(f)	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.	Nature and scope of the audit for the year end 2019/20 has been submitted at the BAC and discussed. Audit Plan addresses an assessment of the finance company's compliance with Directions issued and the management's internal controls over financial reporting and, the preparation of financial statements in accordance with relevant accounting principles and reporting obligations. There is only one auditor involved in the audit therefore such a coordination is irrelevant.
8(2)(g)	The committee has reviewed the financial information of the finance company by perusing the minutes, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure. The following areas should have been addressed in the review by perusing the minutes; (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit.	Monthly Financial Statements as well as year-end Financial Statements are circulated to the Audit Committee. LCB Finance has implemented a process for • A detailed discussion focused on major judgmental areas, changes in accounting policies, significant audit judgments in the Financial Statements. • going concern assumption compliance with Accounting Standards and other legal requirements takes place.
8(2)(h)	The committee has met the external auditors to discuss issues, problems and reservations arising from the interim and the final audit including matters which needs to be discussed in the absence of the executive management by perusing the minutes.	The Board Audit Committee discusses issues, problems and reservations arising from the interim and final audits with the external auditors. During the year Committee has held one meeting with External Auditors, without the Executive Management being present, to discuss any matters (if any) the auditor may wish to discuss.
8(2)(i)	The committee has reviewed the external auditor's management letter and the management's response thereto.	

8(2)(j)	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 satisfy itself that the department has the necessary authority to carry out its work. (ii) Reviewed the resources of the internal audit department, and satisfy 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, ensure 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, sen ior staff members and out sourced service providers to the internal audit function. (vi) Check 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) Examine the organization chart and terms of reference and ensure that the internal audit function is independent of the activities it audits. (viii) Check that a process has been documented which addresses that the audit work has been performed with impartiality, proficiency and due professional care.	The Committee has a Board approved policy for Audit committee which covers the scope and functions of the internal audit department and satisfy itself that the department has the necessary authority to carry out its work. Board Audit Committee has to review the adequacy and effectiveness of resources of Internal Audit Dept. Annual Audit/Compliance Plan and progress report for the year 2020 had been presented to the BAC meeting and the Board as well. The Audit Committee has reviewed and approved internal audit program. Internal Audit reports have been submitted to the Committee with the Management comments and action taken to rectify the issues have been reported and discussed at the BAC. Company has appointed Mr. Senanayake as the Head of Compliance and Audit of the company w.e.f 02.08.2018. There were no resignations of senior staff members of the internal audit taken place during the year. Internal audit function is independent as per the Board approved organization chart of the company and they report direct to the Board Audit Committee.

8(2)(k)	The minutes to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	As per BAC minutes no such instances have occurred during the year.
8(2)(l)	The committee has met the external auditors without the executive management at least once in six months.	Board Audit Committee has held a meeting with the external auditors without the executive directors being present on 26/09/2019
8(2)(m)	The audit committee has an approved terms of reference which includes; (i) explicit authority to investigate into any matter; (ii) the resources which it needs 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.	The Board approved Terms of Reference is in place and it stipulates the required authority of the BAC. The BAC has the required resources and can access the information and if necessary, is also empowered to obtain external professional advice and to invite outsiders with relevant experience to attend meetings if necessary.
8(2)(n)	The committee has met regularly and maintained minutes.	BAC has met 06 times during the financial year 2019/20. However, the TOR of BAC requires committee to meet once a month.
8(2)(o)	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	Activities of BAC, No. of meetings and attendance of BAC members have been published in the Annual Report on pages 36 to 39.
8(2)(p)	The secretary of the committee is the company secretary or the head of the internal audit function.	Head of Audit functions as the secretary to the BAC
8(2)(q)	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. (iv) Protection of the whistle blower	Board approved Whistle Blowing Policy is in place, enabling employees to voice their concerns over possible improprieties in financial reporting, internal control and other matters. No complaints were reported under the Whistle Blowing Policy during the year 2019-2020.
8(3)	**Integrated Risk Management Committee (IRMC):**	
a)	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	Integrated Risk Management Committee consists of two non- executive directors, Executive Director / CEO and Head of Compliance and Chief Risk Office. Head of Finance participates by invitation.

		Change of membership Mr. S.A Alahakoon (appointed as the Chairman of the committee by the IRMC on 22.02.2019 and Mr. R.M Gnanaratne to the committee as a members.
b)	The committee has a documented process to capture and assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a finance company basis and group basis.	BIRMC has an appropriate process to assess all risks including credit, market, liquidity, operational and strategic risks in the Company through appropriate risk indicators and management of information.
c)	The committee has evaluated functions carried out by all management level committees such as the credit committee and the asset-liability committees, in relation addressing specific risks and managing these risks.	Terms of Reference of Asset and Liability Management committee and the Credit Committee has been approved by the Board to send such TORs to the CBSL for their review. Committee will have to initiate action to review the adequacy and effectiveness of all management level committees such as ALCO and Credit Committee by reviewing their performance bench marking against the current TORs of such committees.
d)	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.	BIRMC has taken steps to reviews the risk indicators which have gone beyond the specified quantitative and qualitative risk limits against the set limits.
e)	The committee has met at least quarterly to assess all aspects of risk management by perusing the minutes	Risk Management Committee has held 2 meetings during the year 2019/20.
f)	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.	BIRMC is responsible for assessing different types of risk, to which the Company is exposed. At the company, specific risks and the limits are identified by Risk Committee and decisions are taken collectively
g)	The committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	Board of Directors has ultimate responsibility in risk management of the Company. Therefore minutes of the BIRMC meetings are tabled at the subsequent Board meeting and the Chairman of BIRMC briefs the main Board, on significant issues and decisions taken up at the risk meetings, enabling the Board to make correct decisions.
h)	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.	Compliance Policy of the company approved by the Board of Directors is in place.
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.	

9(2)	Identification of related parties and avoid conflict of interest	The Board approved Related Party Transaction Policy is in place.
9(3)	Types of related party transaction	
9(4)	Avoid more favorable treatment	A preventive or detective process will be implemented at the company through the core system to ensure that the company does not engage in transaction with the related parties in a manner that would grant such parties "more favorable treatment" than that accorded to other constituents of the finance company carrying on the same business.
10	**Disclosures**	
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, (b) that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English..	Annual audited financial statements and periodical financial statements are prepared and published as required.
10(2)	Check that the board has made the following minimum disclosures in the Annual Report:	
10(2) (a)	The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	This is been disclosed in the "Annual Report of the Board of Directors on the state of affairs of the Company "appearing on pages 51 to 53 of the Annual Report
10(2) (b)	The report by the board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Effectiveness of the Companies' Internal control mechanism has been certified by the Directors on pages 56 of the Annual Report under the heading "Directors' Statement on Internal Control over Financial Reporting.
10(2) (c)	Certification on the effectiveness of the internal control mechanism by external auditors.	The Auditors' certification on the effectiveness of the internal control mechanism has been obtained.
10(2) (d)	Details of directors, including names, transactions with the finance company.	The names of the Directors are being set out on pages 24 to 25 of the Annual Report. Transactions with the Directors are been disclosed in Note 47.2 on the page 123 of the Annual report.
10(2) (e)	Fees and remuneration paid to directors in aggregate.	The fees & remuneration paid to Directors are been disclosed in Note 47.1on page 123 of the Annual Report.
10(2) (f)	Total net accommodation as defined in paragraph 9(4) granted to each category of related parties. The net accommodation granted	No such accommodations are provided.
10(2) (g)	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.	Total value of short term employee benefits paid to KMPs (as per CBSL direction) during the year is Rs. 4,840,000 • Total accommodation granted Rs. Nil. • Term deposits/ savings deposits Rs. 6.5Mn.

10(2) (h)	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	Details of compliances and non-compliances would be highlighted in the annual report of the Board of Directors on the affairs of the company on pages 51 to 53 of the Annual Report.
10(2)(i)	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	There were no regulatory and supervisory concerns in the company's risk management or non-compliance with the act, rules and directions that have been communicated by the Director of the Department of supervision of Non-Bank Financial Institutions.
10(2) (j)	A statement indicating that the board has obtained a factual findings report on the compliance with the corporate governance direction.	The Board has obtained a factual findings report from the external Auditors over the compliance with Corporate Governance Direction.

EY
Building a better working world

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20 July 2020,

Board of Directors,
Lanka Credit and Business Finance Ltd.
No. 76, S De S Jayasinghe Mawatha, Kohuwala,
Nugegoda.

Dear Sir,

Report of Factual Findings of Lanka Credit and Business Finance Ltd- 2019/20 on the compliance requirement of the Corporate Governance Direction issued by the Central Bank of Sri Lanka.

We have performed the procedures agreed with you and enumerated in Annexure I to this report, with respect to the Governance Report of the Board of Directors prepared and presented to meet the compliance requirement of the corporate governance direction issued by the Central Bank of Sri Lanka (CBSL). Our engagement was undertaken in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the corporate governance directive.

We report our findings in the attached Annexure I to this report.

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, we do not express any assurance on the compliance with the directives of corporate governance issued by CBSL.

Had we performed additional procedures or had we performed an audit or review of the Governance Report in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties.
This report relates only to the items specified above and does not extend to any financial statements of Lanka Credit and Business Finance Ltd, taken as a whole.

Yours faithfully

Ernst & Young

Managing Risk

At Lanka Credit and Business Finance Limited, we consider risk management as a very important feature that has a bearing on all transactions undertaken by us and it is an integral part in development of financial products, services, dispensing credit and in investment actives.

RISK MANAGEMENT

Risk management is about understanding and managing the organization's risk environment in all business activities through the introduction of risk mitigates to contain such identified risk to acceptable levels which we consider as our risk appetite. This process takes into account full spectrum of risks including, liquidity, market, credit, interest, exchange, compliance and operational risks

Risk Governance Framework
A robust governance framework is the cornerstone for the implementation of effective risk management of the company. Governance is maintained by the Board of Directors, the Board appointed Audit Committee and Integrated Risk Management Committee as the Board of Directors has to exercise the overall control of risk management process and is responsible to ensure effective risk management of the company.

Board Committees

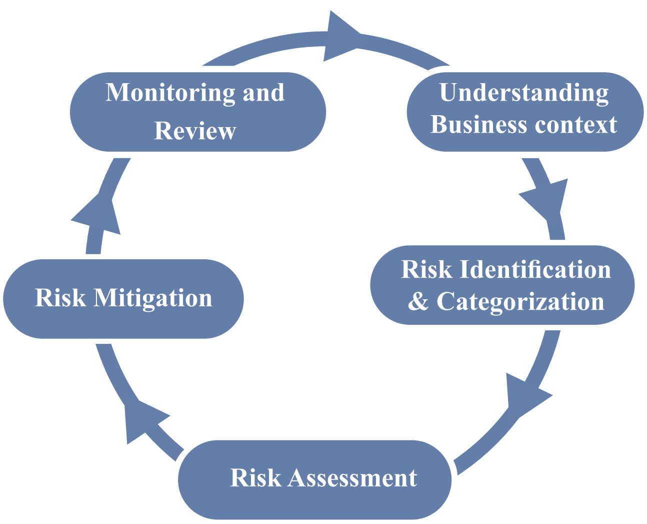
Board	The Board of Directors being responsible for the establishment and overseeing the risk management mechanisms and orderly implementation of the risk framework in the Company. The Board approves the policies, procedures, strategies covering all operations of the company. The Board appointed committees ensure compliance with the Directives of the Board across the company and report to the Board, areas of noncompliance for necessary action if observed.
Board Integrated Risk Management Committee (BIRMC)	BIRMC is the Board subcommittee responsible for overseeing the risk management function of the company in line with the directions of the regulatory authorities and those of the Board of Directors. The Committee interacts with the Chief Executive officer/ Executive Director to meet the terms of reference of Risk management.
Board Audit Committee	This committee looks into Operational Risks arising out of violation of Regulatory Directives and systems and procedures stipulated in Board approved operational Manuals and procedures and in house circulars issued to staff members across the company. The Board of Directors functions through the Head of internal audit who reports direct to the Board Audit Committee. The audit findings and implement related directives of the committee as appropriate and follow up compliance and rectification of shortcomings observed.

Management Committee

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

Risk Management Process

A risk management framework has been established to ensure that risks are identified and managed according to a consistent approach across all business areas and all risk types and all decisions are in line with the risk appetite of the Company.



Risk Categorization and Risk Management Strategies

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

RISK MANAGEMENT
We Concentrate lending to credit worthy borrowers through effective evaluation of credit application and strengthening the collateral cover and adopting prudent loan to value ratios and effective credit supervision.

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

RISK MANAGEMENT
The Assets and liabilities Management committee monitor liquidity position of the company on regular basis and recommend to the Management the necessary corrective measures.

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

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

OPERATIONAL RISK
Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies. Employee errors. Systems failures. Fraud or other criminal activity. Any event that disrupts business processes.

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

COMPLIANCE RISK
Compliance risk is exposure to legal penalties, financial forfeiture and material loss company faces when we fail to act in accordance with regulatory directions, industry laws and regulations, internal policies and procedures or prescribed best practices.

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

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

Mitigates

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

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

Technology risk

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

Mitigates

Head of IT identify risks, evaluate, and prioritiz and coordinate with the Management to eliminate or control the probability or impact due to unforeseen circumstances such as system failures, natural calamities, Virus attacks/ hacking etc using all available technical solution or through manual intervention. He is responsible for maintaining the off site back facility to meet any contingency.

Committee Reports

Audit Committee Report

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

COMMITTEE COMPOSITION

The Audit Committee is comprised of three Non-Executive Directors of whom one is an Independent Director. The Committee is chaired by Independent Director Mr.S.W.Subasinghe, who holds a Master of Business Administration Degree; university of Ballarat with considerable experience in the field of Auditing and Finance.

The following members served in the Board appointed Audit Committee during the twelve months period ended 31st March 2020.

Mr.S.W.Subasinghe (IND/NED)
Mr.A.G.M.Priyantha (NED)
Mr.G.K.Nanayakkara (NED)

(IND - Independent Director, NED - Non-Executive Director)

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

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

MEETINGS

The Audit Committee met 6 times during the year. The attendance of the members at Audit Committee Meetings was as follows:

Member	No.of Meetings
Mr.S.W.Subasinghe	6/6
Mr.A.G.M.Priyantha	6/6
Mr.G.K.Nanayakkara	6/6

Audit Committee Meetings to review the distribution of profits to shareholders.

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

AUDIT COMMITTEE CHARTER

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

ROLE OF THE AUDIT COMMITTEE

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

- Examine internally any matter within the scope of the charter relating to the financial and other related affairs of the Company

- Make recommendations on matters connected with the engagement, re-engagement, removal of external auditors, service period and audit fees. The Committee periodically reviews the independence, objectivity and effectiveness of the audit process in conformity with applicable standards and best practices.

- Monitor and follow-up the Internal Audit programme and External audit plan, review the External Auditors management letter and Internal Audit reports, and follow up on findings and recommendations.

- Review risk management measures and examine the adequacy, efficiency and effectiveness of the Internal Control System over financial reporting. Ensure that efficient and sound financial reporting system is in place to provide accurate, appropriate and timely information to the Board and other stakeholders.

- Review the quality and appropriateness of Accounting Policies, emerging accounting issues and disclosures according to Sri Lanka Accounting Standards.

- Review the compliance of financial reporting obligations under Finance Business Act No. 42 of 2011, Rules and Directions issued by the Central Bank of Sri Lanka, Companies Act No. 7 of 2007, Sri Lanka Accounting & Auditing Standards Monitoring Board Act No. 15 of 1995.

- Review and recommend Interim and Annual Financial Statements prepared for approval of the Board and submit to shareholders.

- Review the policy on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. Performance of the Head of Internal Audit was evaluated by the committee.

- Audit committee has discharged its duties during 2019/20 within the scope of the charter as stated above.

FINANCIAL REPORTING

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

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

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

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

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

EXTERNAL AUDIT

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

The annual financial statements 2019/20 was reviewed and recommended for the approval of the Board. The External Auditor's Engagement and Management Letters and Management's responses thereto were also reviewed. The Committee also met with the External Auditor at one meeting without the presence of management to discuss whether there have been any irregularities, constraints, reservations or any other unsatisfactory matters arising from the audit which the auditor wished to discuss with the Audit Committee.

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

The Committee assisted the Board of Directors in engaging the External Auditor for non-audit services in compliance with the statutes and ensured that engagement in non-audit services does not impair the external auditor's independence and objectivity. Policy of engagement of the external auditor to provide non-audit services had been reviewed and approved by the Committee. The Audit Committee has recommended to the Board of Directors that Messrs. E&Y be appointed as External Auditor of the Company for the financial year 2018/19 onwards up to 5 years.

INTERNAL CONTROL

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

Additionally, the Committee assessed the effectiveness of the company's internal controls over financial reporting as at 31st March 2020, as required by Finance Companies (Corporate Governance) Direction 03 of 2008, based on the "Guidance for Directors of Banks on the Directors' Statement on Internal Controls" issued by the Institute of Chartered Accountants of Sri Lanka.

INTERNAL AUDIT

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

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

REGULATORY COMPLIANCE

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

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

COMMITTEE EVALUATION

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

Chairman, Audit Committee

Colombo
29th June 2020

Integrated Risk Management Committee Report

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

Composition of the committee

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

Members of the Board	Position
Srinath Ajith Kumara Alahakoon- **Chairman**	Independent Non-Executive Director
Jagathraja Weerasinghe Nanayakkara	Non-Executive Director
Kandegoda Gamage Leelananda	Executive Director

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

Members of the Management	Position
Mr. Mr. S.S.S.Senanayake	Head of Compliance
Mr.R.M Gnanarathna	Chief Risk Officer

Committee Functions.

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

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

Roles and responsibilities

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

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

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

Meetings

The appointed Board Integrated Risk Management Committee met during the financial year to evaluate and address risks faced by the organization. During the year the Committee met three times on a quarterly basis.

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

Conclusion

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

Mr.S.A.K. Alahakoon
Chairman, Board Integrated Risk Management Committee

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GET RS. 50,000/= HIGHEST CASH ADVANCE for Sovereing Gold From LCB Gold Loan Service

- ***Friendly & Speedy Service***
- ***Lowest Annual Interest Rate***
- ***Easy Repayment Plans***
- ***Maximum Security***

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

The Directors of Lanka Credit and Business Finance Limited (formerly City Finance Corporation Limited) have pleasure in presenting to the shareholders their Annual Report together with the Audited Financial Statements for the year ended 31st March 2020. The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards.

General

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

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

Principle Activities

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

Financial Statement

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

Consequent to the Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 29th June 2020.

The Financial Statements for the year ended 31 March 2020 was completed and was duly signed by the Head of Finance, Chief Executive Officer and Chairman of the Company.

Auditors' Report

The Auditors of the Company are Messrs. Ernst & Young, Chartered Accountants. Messrs. Ernst & Young carried out the audit on the Financial Statements of the Company for the year ended 31st March 2020. The Auditors express a clean opinion of the financial position of the Company as at 31st March 2020 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Change in Accounting Policies

The significant accounting policies adopted and changes in accounting policies in the preparation of the Financial Statements are given on pages are as set out in the financial statements.

Financial Results & Appropriations

Interest Income

Total interest income of the Company for the year ended 31 March 2020 was Rs. 423.69 Mn (Rs.297.58 Mn in 2019). Components of interest income are given in Note 8 to the Financial Statements.

Profit and Appropriations

The Company has recorded Rs 20.98 Mn in profit before tax and Rs .11.43 Mn in profit after tax in 2020 (Profit for the year was Rs. 514.3 Mn in 2019). The Company's Total Comprehensive Income (net of tax) for the year is Rs. 11.48 Mn (Total Comprehensive income was Rs. 514.67 Mn in 2019).

Taxation

The Income Tax rate applicable to the Company's operations is 28% (2019:28%). The Company is also liable for VAT on financial services at 15% (2019: 15%), NBT on financial services at 2% until 30th November 2019 (2019:2%) and Crop insurance levy at 1% on PAT, ESC at 0.5% and Debt repayment levy on financial services at 7% (until 30th November 2019).

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

Dividend

The Board of Directors of the company do not recommend Dividends as there is no distributable profit for the year ended 31st March 2020.

Reserves

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

	2020 Rs "000"	2019 Rs"000"
Statutory Reserve Fund	39,819	39,248
Retained Earnings	(1,788,053)	(1,798,965)

Market value of Investment Property

The Company assessed the market value of the Investment Property in March 2020 through professionally qualified independent valuer, to ensure that the carrying amount of such Investment Property reflects the current market price. Accordingly, material market value change was not identified pertaining to Investment Property and its value was not changed during the year in the Financial Statements as at 31 March 2020. The Directors are of the opinion that the revalued amounts are not in excess of the current market value of properties. The details of Investment Property owned by the Company are given in Note 26 to the Financial Statements.

Donations

The total amount of donations made during the year under review is Rs. 619,000/-

Stated Capital

The Stated Capital of the Company as at 31st March 2020 was Rs. 3,231,604,341 represented by 4,739,271,722 Ordinary Shares.

Auditors

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

Audit fees paid to Ernst & Young for the year ended 31st March 2020 by the Company amounted to Rs. 1,430,000 (2019: Rs. 1,530,000). There were no non-audit fees paid (2019: Rs. 726,570) to Messrs Ernst & Young during the year ended 31st March 2020.

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

Directors

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

Executive Director

Kandegoda Gamage Leelananda

Non-Executive Directors

Ahelape Gamage Maheen Priyantha
Ranjan Lal Masakorala
Ukwatta Kankanamge Harith Ruwan Ranasinghe
Kapila Indika Weerasinghe
Gayan Kalhara Nanayakara
Vijitha Lokunarangoda

Independent Non-Executive Directors

Weerakoon Mudiyanselage Abeyrathne Bandara
Sathyananda Wijesekara Subasinghe

Interest Register

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

The relevant interests of Directors in the shares of the Company as at 31st March 2020 as recorded in the interests register are given in this report under Directors' shareholding.

Directors' Interest In Shares

	Name of the Director	No. of Directorates/equivalent positions held in companies/ societies/ bodies corporate
1	Prof. W. M. A. Bandara	United Engineering Services (Private) Limited (Chairman)
2	Mr. K. G. Leelananda	Lanka Credit and Business Limited
3	Mr. S. W. Subasinghe	NIL
4	Mr. K. I. Weerasinghe	Lanka Credit and Business Limited
5	Mr. R. L. Masakorala	Hotel Kabalana (Pvt) Ltd Yakkalamulla Tea Factory (Pvt) Ltd, Udumulla Tea Factory (Pvt) Ltd, Lanka Credit and Business Limited
6	Mr. U. K. H. R. Ranasinghe	L & H Capital Partners (Pvt) Ltd Sinhaputhra Finance PLC, Singhe Capital Investment Limited, Lanka Credit and Business Limited
7	Mr.A. G. M. Priyantha	Maweli Trasers (Pvt) Ltd Yakkalamulla Tea Factory (Pvt) Ltd, Udumulla Tea Factory (Pvt) Ltd, Royana Holding (Pvt) Ltd Lanka Credit and Business Limited
8	Mr. G. K. Nanayakkara	NIL
9	V. Lokunarangoda	NIL

Related Parties' Transactions with the Company

All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the interests register in due compliance with the provisions of the Companies Act, LKAS 24.
Transactions of related parties (as defined in LKAS 24 - Related Parties Disclosure) with the Company are as set out in the financial statements.

Directors' responsibility for Financial Reporting

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

Appointments during the financial year

NIL

Resignations during the financial year

Jagath Raja Weerasinghe Nanayakkara- Non-Executive Director
(Retirement as per the Section 210 of the Company Act No.07 of 2007)
Mr. S. A. K. Alahakoon - Independent Non-Executive Director
(Resigned with effect from 12th March 2020)

Board sub committees

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

The Board Audit Committee

Audit Committee as at 31st March 2020

- Sathyananda Wijesekara Subasinghe (Appointed w.e.f. 19.04.2018) Independent Non-Executive Director (Chairman)
-
- Ahalapa Gamage Maheen Priyantha (Appointed w.e.f. 9.05.2018)
-
- Gayan Kalhara Nanayakkara (Appointed w.e.f. 22.06.2018)

The Board Remuneration Committee

Remuneration committee as at 31st March 2020

- Jagathraja Weerasinghe Nanayakkara (Appointed w.e.f. 19.04.2018) Independent Director (Chairman)
-
- Kandegoda Gamage Leelananda (Appointed w.e.f. 19.04.2018)
-
- Kapila Indika Weerasinghe (Appointed w.e.f. 19.04.2018)

The Board Credit Committee

Board Credit committee as at 31st March 2020

- Vijitha Lokunarangoda (Appointed w.e.f. 9.05.2018) ndependent Director (Chairman)
-
- Ranjan Lal Masakorala (Appointed w.e.f. 19.04.2018)
-
- Ukwatta Kankanamge Harith Ruwan Ranasinghe (Appointed w.e.f. 19.04.2018)

Integrated Risk Management Committee

Board Integrated Risk Management Committee as at 31st March 2020

- Srinath Ajith Kumara Alahakoon Independent Non-Executive Director (Chairman)
- Jagathraja Weerasinghe Nanayakkara
- Kandegoda Gamage Leelananda

The Remuneration and Other Benefits of the Directors

Director's fees and other emoluments were

Executive Director	- Rs. 4,840,000/=
Non-Executive Directors	- Rs. 8,749,400/=

Annual General Meeting

The Annual General Meeting will be held on 18th September 2020 at 9.00 am Auditorium, Colombo Public Library, 15 Sir Marcus Fernando Mawatha, Colombo 07

…………………………………..
W.M.A.Bandara
Chairman

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

…………………………………..
Director
P.R.Secretarial services (Pvt) Ltd
Secretaries

29th June 2020
Colombo

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Ernst & Young
Chartered Accountants
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P.O. Box 101
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ey.com

INDEPENDENT ASSURANCE REPORT
TO THE BOARD OF DIRECTORS OF LANKA CREDIT AND BUSINESS FINANCE LIMITED

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Lanka Credit and Business Finance Limited ("The Company") to provide assurance on the Directors' Responsibility Statement on Internal Control over Financial Reporting ("The Statement") included in the annual report for the year ended 31 March 2020.

Management's responsibility

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

Our Independence and Quality Control

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

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

Our responsibilities and compliance with SLSAE 3051

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

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

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

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

Summary of work performed

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

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

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

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

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

Our conclusion

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

Ernst & Young

29 June 2020
Colombo

Lanka Credit and Business Finance Limited
Head Office
No. 76, S.De.S. Jayasinghe Mawatha, Kohuwala, Nugegoda, Sri Lanka.
Tel: 011 28 25 404 / 6
Fax: 011 28 25 404
Email: info@lcbfinance.lk
Web: www.lcbfinance.lk

Director's Statement on Internal Control Over Financial Reporting

Responsibility

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

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

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

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

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

The Company adopts Sri Lanka Accounting Standards comprising SLFRSs and LKAs and progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosures are being made whilst further strengthening of processes will take in its financial reporting and measurement information.

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

The Board also has taken into consideration the requirements of the Sri Lanka Financial Reporting Standards: SLFRS 16 on "Leases" that has been issued with effect from annual period beginning from 1 April 2019 by replacing LKAS 17 "Leases". All required adjustments have been made in the Financial Statements for the year ended 31 March 2020.

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

Review of the Statement by external auditors
The External Auditors have reviewed the process adopted by the Directors on the system of internal controls over financial reporting for the year ended 31 March 2020. The matters addressed by the External Auditors in this respect, are being looked into.

Chairman	CEOlExecutive Director
W.M.A.Bandara	K.G. Leelananda

Registered No PB 222
A Finance Company Licensed by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF LANKA CREDIT AND BUSINESS FINANCE LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Financial Statements of Lanka Credit and Business Finance Limited (the "Company"), which comprise the statement of financial position as at 31 March 2020 Income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Responsibilities of management and those charged with governance in the financial statement

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

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

(Contd…2/)

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evi dence 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 relevant ethical requirements 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.

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.

Ernst & Young

29 June 2020
Colombo

INCOME STATEMENT

Year ended 31 March 2020

	Note	2020	2019
		Rs.	Rs.
Income	7	456,046,898	362,904,331
Interest Income	8	423,691,108	297,584,244
Less: Interest Expenses	9	(131,466,397)	(76,118,218)
Net Interest Income		292,224,711	221,466,026
Fee and Commission Income	10	29,070,915	11,481,276
Less: Fee and Commission Expenses		-	-
Net fee and Commission Income		29,070,915	11,481,276
Other Operating Income	11	3,284,875	53,838,811
Fair Value Gain on Investment Property		-	202,166,845
Total Operating Profit		324,580,501	488,952,958
Impairment(Charge)/Reversal on Loan and Receivables	12	(100,901,199)	(117,654,841)
Net Operating Income		223,679,302	371,298,117
Less : Operating Expenses			
Personnel Costs		(76,424,817)	(57,068,742)
Depreciation and Amortization	14	(38,760,476)	(17,943,863)
Other Operating Expenses	15	(68,495,636)	(56,811,168)
		(183,680,929)	(131,823,773)
Operating Profit before Tax on Financial Services		39,998,373	239,474,344
Taxes on Financial Services	16	(19,018,216)	(15,616,053)
Profit Before Tax		20,980,157	223,858,291
Less: Income tax (expense)/Reversal	17	(9,547,327)	290,447,042
Profit for the Year		11,432,830	514,305,333
		-	-
Basic Earnings per Share (Rs.)	18	0.00	0.13
Dividend per Share (Rs.)			

The accounting policies and notes on page 64 to 124 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2020

		2020	2019
	Note	Rs.	Rs.
Profit for The Year		11,432,830	514,305,333
Other Comprehensive Income/ (expenses)			
Other comprehensive income that will not to be reclassified to profit or loss:			
Actuarial gain/(loss) on Defined Benefit Plan		71,186	513,969
Deferred tax Effect on Actuarial Gain/(loss)		(19,932)	(143,911)
		51,254	370,058
Other Comprehensive Income for The Year, Net of Tax		51,254	370,058
Total Comprehensive Income for The Year, Net of Tax		11,484,084	514,675,391
Attributable to:			
Equity Holders of the Parent Company		11,484,084	514,675,391
		11,484,084	514,675,391

The accounting policies and notes on page 64 to 124 form an integral part of the Financial Statements.

Lanka Credit and Business Finance Limited

STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	2020	2019
		Rs.	Rs.
Assets			
Cash and Cash Equivalent	19	138,048,368	72,899,960
Financial Investment at Amortised Cost	20	338,379,679	327,027,324
Financial Assets at Amortised Cost - Loans and Receivables	21	1,631,189,094	1,359,760,509
Financial Assets at Amortised Cost - Lease Rentals Receivables and Hire Purchases	22	180,419,278	165,984,370
Other Financial Assets	23	10,217,388	13,200,234
Financial Investment at Fair Value Through Other Comprehensive Income	24	315,813	315,813
Other Non Financial Assets	25	50,578,839	22,224,645
Investment Property	26	356,300,000	372,200,000
Property, Plant and Equipment	27	46,764,635	55,136,983
Right-of-Use-Assets	28	69,231,233	-
Intangible Assets	29	3,335,801	4,640,540
Deferred Tax Asset	30	280,735,872	290,303,131
Total Assets		3,105,516,000	2,683,693,509
Liabilities			
Financial Liabilities at Amortised Cost - Due to Banks	31	471,901,706	419,334,997
Financial Liabilities at Amortised Cost - Due to customers	32	1,012,235,643	884,650,674
Other Financial Liabilities	33	126,255,481	18,217,344
Other Non Financial Liabilities	34	9,213,410	27,948,872
Retirement Benefits Liabilities	35	2,538,429	1,654,374
Total Liabilities		1,622,144,669	1,351,806,261
Equity			
Stated Capital	36	3,231,604,341	3,091,604,341
Reserves	37	39,819,923	39,248,282
Retained Earnings	38	(1,788,052,934)	(1,798,965,375)
Total Equity		1,483,371,330	1,331,887,248
Total Equity and Liabilities		3,105,516,000	2,683,693,509

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

Finance Officer

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

Director	Director

The accounting policies and notes on pages 64 to 124 form an integral part of the financial statements.

29 June 2020
Colombo

STATEMENT OF CHANGE OF EQUITY

Year ended 31 March 2020

	Note	Page No.	Stated Capital	Retained Earnings	Statutory Reserve	Revaluation Reserve	Total Equity
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
			(Note 36)	(Note 38)	(Note 37)		
Balance at 01 April 2018			1,727,461,721	(2,287,925,500)	13,533,016	-	(546,930,764)
Net Profit / (loss) for the Year			-	514,305,333		-	514,305,333
Other Comprehensive Income Net of Tax			-	370,058	-	-	370,058
Transfer to Statutory Reserve Fund				(25,715,267)	25,715,267		-
Total Comprehensive Income for the Year, Net of Tax			-	488,960,124	25,715,267	-	514,675,391
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners							
Shares Issue During the Year			1,364,142,620	-	-	-	1,364,142,620
Total Transactions with Equity Holders			1,364,142,620	-	-	-	1,364,142,620
Balance as at 31 March 2019			3,091,604,341	(1,798,965,376)	39,248,283	-	1,331,887,247
Prior Year Adjustment to Opening Profit				-			-
Adjusted Balance as at 01 April 2019			3,091,604,341	(1,798,965,376)	39,248,283	-	1,331,887,247
Net Profit / (loss) for The Year				11,432,830			11,432,830
Other Comprehensive Income Net of Tax				51,254			51,254
Transfer to Statutory Reserve Fund				(571,641)	571,641		-
Total Comprehensive Income for the Year, Net of Tax				10,912,442	571,641	-	11,484,084
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners							
Shares Issue During the Year			140,000,000	-	-	-	140,000,000
Total Transactions with Equity Holders			140,000,000	-	-	-	140,000,000
Balance as at 31 March 2020			3,231,604,341	(1,788,052,934)	39,819,923	-	1,483,371,330

The Accounting Policies and Notes on Page 08 to 70 Form an Integral Part of the Financial Statements.

Lanka Credit and Business Finance Limited

STATEMENT OF CASH FLOWS

Year ended 31 March 2020

	Note	2020	2019
		Rs.	Rs.
Cash Flows Used in Operating Activities			
Profit before tax from continuing operations		20,980,157	223,858,292
Adjustments for			
Depreciation and Amortization		38,760,476	17,943,863
Loss/(Profit)on Disposal of Property, Plant and Equipment		(683,311)	898,332
Provision/(Reversal) for Defined Benefit Plans		955,241	583,056
Loss/(Profit)on sale of Investment Property		(1,305,000)	
Revaluation gain Investment Property		-	(202,166,845)
Impairment release/(Charges) for loan and receivables		100,901,199	-
Impairment release/(Charges) for Cash & Bank Balances		244,329	330,172
Write off balances		-	(7,150,015)
Operating Profit before Working Capital Changes		159,853,092	34,296,853
Working Capital Adjustments			
(Increase) / Decrease Hire Purchase Receivable		(25,684,682)	(52,984,309)
(Increase) / Decrease Loan Receivables		(360,835,681)	(520,381,877)
(Increase) / Decrease Other Financial assets		(11,990,339)	(13,200,234)
(Increase) / Decrease Other Non Financial assets		(28,354,194)	(22,224,645)
Increase / (Decrease) in Other Liabilities		25,239,496	(43,001,310)
Increase / (Decrease) in Due to Customers		127,584,969	142,461,557
Cash Flow from/(used in) Operating Activities		(114,187,338)	(475,033,965)
Tax Paid		-	(15,760,109)
Net Cash from Operating Activities		(114,187,338)	(490,794,074)
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment	27.1	(13,473,619)	(33,728,482)
Acquisition of Intangible Assets	29	(329,817)	(3,864,826.00)
Acquisition of Investments		(11,592,316)	(327,356,562)
Proceeds from Sales of Investment property and PPE		18,705,000	7,331,201
Net Cash Flows from/(Used in) Investing Activities		(6,690,752)	(357,618,668)
Cash Flows from (used in) Financing Activities			
Proceeds from Issuance of Share Capital	36.1	140,000,000	1,005,000,000
Proceeds from Interest Bearing Loans & Borrowings	31.2	60,293,296	(98,527,027)
Payment of Capital portion of Lease Liabilities	28.2	(6,534,908)	
Net Cash used in Financing Activities		193,758,387	906,472,973
Net Increase in Cash and Cash Equivalents		72,880,297	58,060,230
Cash and Cash Equivalents at the beginning of the year		58,072,213	11,982
Cash and Cash Equivalents at the end of the year		130,952,510	58,072,212

The accounting policies and notes on page 64 to 124 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

1. CORPORATE INFORMATION

1.1 General

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

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

1.2 Principal Activities and Nature of Operations

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

1.3 Parent Enterprise and Ultimate Parent Enterprise

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

1.4 Approval of Financial Statements by Directors

The Financial Statements of the Lanka Credit and Business Finance Limited for the year ended 31 March 2020 was authorized for issue in accordance with a Resolution of the Board of Directors on 29 June 2020.

1.5 Directors' Responsibility Statement

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

2. BASIS OF PREPARATION

2.1 Statement of Compliance

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

2.2 Basis of Measurement

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

- Financial Assets at fair value through other comprehensive income (applicable from 1stApril 2018) at fair value (Note 24)
- Investment properties, which is measured at cost at the time of acquisition subsequently, measured at revalued amounts, which are the fair values at the date of revaluation (Note 26)
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation based on actuarial valuation (Note 35)

2.3 Functional and Presentation Currency

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

2.4 Presentation of Financial Statements

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

2.5 Materiality and Aggregation

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

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

2.6 Comparative Information

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

2.7 Statement of Cash Flow

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

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

2.8 Events after the Reporting Date

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3.1 Going Concern

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

3.2 Impairment losses on loans and receivables

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates driven by a number of factors, changes which can result in different levels of allowances.

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

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

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

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

3.3 Fair Value of Financial Instruments

The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in Note 39 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 39 to the Financial Statements.

3.4 Taxation

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

The Company has adopted the requirements of the New Inland Revenue Act 24 of 2017 which was effective
from 1 April 2018 and deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

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

3.5 Revaluation of Investment Properties

Investment properties are initially recognized at cost. Subsequent to initial recognition the investment properties are stated at fair value, which reflect market conditions at the reporting date. Gains or losses arising from changes in fair value are included in the Statement of Profit or loss in the year in which they arise. External and independent valuers, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the investment property portfolio as at each reporting date. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value hierarchy and valuation techniques are given in Note 26 to the Financial Statements.

3.6 Defined Benefit Plans

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

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate for the Company. The sensitivity of assumptions used in actuarial valuations are set out in Note 35 to the Financial Statements.

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

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

3.8 Provisions, Commitments and Contingencies

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

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

3.9 The Impact of COVID 19

Since January 2020 the outbreak of COVID-19 pandemic spread uncertainty throughout the whole world leading to unimaginable economic disruption. By late March 2020 Sri Lanka as a country exposed to this risk and government imposed an island-wide lockdown by declaring a curfew. This process prevented the conduct of company's routine businesses activities. The company enacted "work from home" measures during that period. However, the subsequent declaration by the government that Licensed Financed Companies (LFCs) are an essential service provider resulted in the company re-commencing business operations to ensure uninterrupted service to customers.

Circular no 04 and 05 issued by Central Bank of Sri Lanka (CBSL) and subsequent clarification instructed licensed finance companies to assist businesses and individuals affected by the epidemic by way of debt moratorium. The company immediately adhered to these directions. Procedures were introduced and instructions were issued to branch Managers to educate the borrowers on the entitled concessions under the support scheme of the Central Bank of Sri Lanka. A separate team of was established at head office to handle the requests irrespective of the holiday and process the applications expeditiously on formats provided, adhering to the requirements of the aforesaid CBSL circulars.

Managing healthy liquidity position was the major concern and daily monitoring of cash flow requirement was immediately started. Grant of debt moratorium to performing borrowers, company had to operate under challenging environment facing negative consequences on liquidity, profitability and overall performance. In managing this situation prudent cost control procedures were introduced. The recovery and marketing teams were assigned with recovery targets to ensure inflow of cash to support the liquidity position of the company during this difficult period. The decision of the CBSL to relax the statutory reserve requirements also gave a positive impact in terms of liquidity.

The company carried out wide-ranging evaluation to perceive the resilience of its businesses considering various factors under multiple stress tested scenarios, relating to expected income, cost management, profitability, the ability to defer non-essential capital expenditure ,unused credit lines and the ability to continue providing services to ensure businesses continue as least impacted as possible. After due consideration of the range and likelihood of outcomes, the Management is satisfied that the Company have adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing and presenting these financial statements.

The exact impact on the business in the future is still to be realized given the volatility and unexpected developments caused by COVID – 19 pandemic globally. The company will continue to monitor the impacts to business operations and stakeholders and will take measures to ensure business continues with minimal interruptions.

4. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements except for the changes mentioned in Note 3.10 to the Financial Statements.

4.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

4.1.1 Date of Recognition

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

4.1.2 Initial measurement of Financial Instruments

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

4.1.3 'Day 1' profit or loss

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

4.1.4 Measurement categories of Financial Assets and Financial Liabilities

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

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

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

a) Financial Assets at Amortized cost:

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect con tractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of prin cipal and interest (SPPI) on the principal amount outstanding.
  Financial Assets consist of cash and bank balances, securities purchased under repurchase agreements, placement with banks, lease rentals receivable & stock out on hire, loan receivables, and other financial assets.

The details of the above conditions are outlined below.

Business model assessment

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

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

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

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

The SPPI test

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

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

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

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

b) Equity instruments at FVOCI

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

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

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

c) Debt issued and other borrowed funds

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

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

4.1.5 Classification and Subsequent Measurement of Financial Liabilities

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

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

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

The subsequent measurement of financial liabilities depends on their classification.

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

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

ii. Financial Liabilities at Amortized Cost

Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortized cost under 'bank overdraft', 'due to other customers', 'debt issued and other borrowed funds' and 'other payables' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortized cost using EIR method.

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

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

4.1.6 Reclassifications of Financial assets and Financial Liabilities

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

4.1.7 De recognition of Financial Assets and Financial Liabilities

a) De recognition of Financial Assets

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

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

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

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

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients

- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for de recognition if either:

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

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

On der recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset de recognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.
When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Company's continuing involvement, in which case, the Company also recognizes as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

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

b) De recognition - Financial Liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

Determination of Fair Value

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

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

4.1.8 Impairment of Financial Assets

4.1.8.1 Expected Credit Loss Principles

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

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

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

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

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

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

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

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

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

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

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

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

b. The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR.A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

PD : The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de recognized and is still in the portfolio.

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

LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method is summarized below

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

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

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

c. Loan Commitments:

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

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

d. Financial Guarantee contracts:

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

e. Debt instruments measured at fair value through OCI

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

f. Debt factoring and revolving loans

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

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

g. Forward looking information

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

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

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

4.1.8.2 Reversals of impairment

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

4.1.8.3 Renegotiated Loans

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

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

If modifications are substantial, the loan is de recognized as explained in Note 4.1.9(iv).

4.1.8.4 Write-off of Financial Assets at Amortized Cost

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

4.1.8.5 Collateral Valuation

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

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

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

4.1.8.6 Collateral repossessed

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

4.1.8.7 Offsetting Financial Assets and Liabilities

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

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

4.2 Leases

The Company applied Sri Lanka Accounting Standard -SLFRS 16 (Leases) with effect from 1 April 2019 using the modified retrospective approach. Accordingly, the comparative information has not been restated and continued to be reported under LKAS 17 and IFRIC 4.The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately if they are different from those under SLFRS 16.

4.2.1 Policy applicable from 01 January 2019

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

Application of SLFRS 16 for the Company is more fully given in note 3.10.1.1.

4.2.2 Policy applicable before 01 January 2019

Finance and Operating Lease

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

Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease Receivable". The finance income receivable is recognized in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Company is a lessee under finance leases, the leased assets are capitalized and included in 'Property, plant and equipment' and the corresponding liability to the lessor is including 'Other liabilities'. A finance lease and its corresponding liability are recognized initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognized in 'Net interest income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

The details of Finance Lease Receivables are given in Note 22 to the Financial Statements.

Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognized to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognized on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'other operating expenses' and 'other operating income', respectively.

4.3 Property, Plant &Equipment

4.3.1 Recognition

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

4.3.2 Measurement

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

4.3.3 Cost Model

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

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

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

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

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

4.3.4 Subsequent Cost

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

4.3.5 Repairs and Maintenance

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

4.3.6 Borrowing Costs

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

4.3.7 De-recognition

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

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

4.3.8 Depreciation

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

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

Category of Asset	Rate of Depreciation (per annum)
Office Equipment	25%
Computer Equipment	20%
Office furniture & Fittings	20%
Motor vehicles	25%
Name Board	50%
Machinery	25%
Computer Software	25%

4.3.9 Change in Estimates

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

4.4 Intangible Assets

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

4.4.1 Basis of Recognition

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses if any

4.4.2 Subsequent Expenditure

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

4.4.3 Useful Economic life, Amortization and Impairment

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

Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

4.4.4 Amortization

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

The Class of Intangible Assets	Useful Life	Amortization Method
Computer software	4 Years	Straight line method

The residual value of the intangible asset is zero.

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

4.4.5 De recognition

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

4.5 Impairment of Non-Financial Assets

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

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

4.6 Investment Property

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

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

4.7 Dividend Payable

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

4.8 Retirement Benefit Obligations

4.8.1 Defined Benefit Plan -Gratuity

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

The Company measures the present value of the promised retirement benefits for gratuity which is a defined benefit plan with the advice of an independent professional actuary using projected unit credit actuarial cost method as required by Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

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

Recognition of Actuarial Gains and Losses

The Company recognizes the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

Interest Cost

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

Funding Arrangements

The Gratuity liability is not externally funded.

4.8.2 Defined Contribution Plans

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

Employees' Provident Fund

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

Employees' Trust Fund

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

4.9 Statutory Reserve Fund

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

4.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with Sri Lanka Accounting Standard – LKAS 37 on 'provision, contingent liabilities and contingent assets'.

The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligations at that date.

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

4.11 Recognition of Interest Income Interest Expense

4.11.1 Interest Income Interest Expense

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

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

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

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

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

4.11.2 Interest Income on Over due Rentals

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

4.12 Fee and Commission Income and Expenses

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

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

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

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

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

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

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

b) Fee Income from providing transaction services

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

4.13 Other operating income

(a) Dividend Income

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

(b) Recovery of Bad Debts Written Off

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

(c) Other Income

Other income is recognized on an accrual basis.

4.14 Personnel Expenses

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

4.15 Taxes

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

4.15.1 Current tax

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

Accordingly, provision for taxation is based on the profit for the year 2018 adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017(Inland Revenue Act No.10 of 2006 and amendments thereto up to 31 March 2018) and the amendment thereto, at the rate specified in Note 14 to the Financial Statements.

4.15.2 Deferred tax

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

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

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

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

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

4.15.3 Value Added Tax (VAT) on Financial Services

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

4.15.4 Nation Building Tax (NBT) on Financial Services

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

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

4.15.5 Debt Repayment Levy

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

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25Cof the Value Added Tax (VAT) Act No. 14 of2002.
As per notice published by the Department of Inland Revenue dated January 20, 2020, DRL was abolished with effect from January 1, 2020

4.15.6 Withholding Tax (WHT) on Dividends

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

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

4.15.7 Economic Service Charge (ESC)

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

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

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

4.16 Regulatory provisions

4.16.1 Statutory Reserve Fund

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

4.16.2 Deposit Insurance and Liquidity Support Scheme

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

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

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

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

4.16.3 Crop Insurance Levy (CIL)

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

4.17 Earnings per Share (EPS)

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

4.18 Segment Reporting

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

- Leasing
- Hire Purchase
- Term Loans
- Others

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

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

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

4.19 Commitments and Contingencies

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on 'Provisions, Contingent liabilities and Contingent assets'.

Financial guarantees and undrawn loan commitments

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

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

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. Currently the company has a commitment to settle the City Finance Fixed Deposits (FD) liability to its customers. It is required to settle the final 45% commencing from 30 September 2020.

5. CHANGES IN ACCOUNTING POLICIES

5.1 New Accounting Standards and Interpretations Effective During the Year

In these Financial Statements, the Company has applied SLFRS 16, which is effective for the annual reporting periods beginning on or after January 1, 2019 for the first time. The Company has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

5.1.1 SLFRS 16 -Leases

SLFRS 16 issued in 2016, supersedes LKAS 17, SLFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

One of the most notable aspects of SLFRS 16 is that the lessee and lessor accounting models are asymmetrical. SLFRS 16 has retained LKAS 17's finance lease/operating lease distinction for lessors but this distinction is no longer relevant for lessees. Hence, the changes introduced in SLFRS 16 are not significant in respect of contracts in which the Company is the lessor. However, SLFRS 16 has introduced fundamental changes to accounting principles when the Company becomes the lessee of the contract.

The Company adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application being January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard being recognised at the date of initial application.

The Company has lease contracts for various branches. Before the adoption of SLFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 4.2 for the accounting policy prior to 1 January 2019.

The Company recognises a lease liability at the date of initial application for leases previously classified as operating leases applying LKAS 17. The lessee shall measure that lease liability at the present value of the remaining lease payments discounted using the lessee's IBR at the date of initial application. The Company recognises as right-of-use asset at the date of initial application for leases previously classified as operating leases applying LKAS 17.

The Company opted to measure the right-of-use asset at an amount equal to the lease liability, on a lease-by-lease basis, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the SOFP immediately before the date of initial application.

(a) The key changes of SLFRS 16 are as set out below:

Changes to identification of leases

SLFRS 16 has changed the recognition of leases by replacing the 'risk and reward' model in LKAS 17 with a 'right-of-use' model for lessees. The Company determines whether a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. SLFRS 16 introduces a single on-balance sheet model for lessees similar to the accounting for finance lease under LKAS 17. Accordingly, leases within the scope of SLFRS 16 are brought on to the balance sheet recognising a 'right-of-use' asset and related lease liability. As a result, the portion of off-balance sheet finance kept in the form of operating lease is recognised on balance sheet, except for short-term leases (lease term 12 months or less) and leases of low value.

(b) Separating components of a contract

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

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

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

(c) Determination of lease term

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

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

The full impact of adopting SLFRS 16 is set out in Note 28 to the Financial Statements.

5.1.2 IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment"

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within certain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex environment, it assessed whether the interpretation had an impact on its Financial Statements. Upon adoption of the interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Company in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be statements of the accepted by the taxation authorities. The interpretation did not have an impact on the Financial Statements of the Company.

Except for the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in these Financial Statements.

6. SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

The following Sri Lanka Accounting Standards and interpretations have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31st March 2020, and earlier application is permitted. However, the Company has not early adopted the following amendments to Accounting Standards in preparing these Financial Statements as they are not expected to have a significant impact on the Company's Financial Statements.

6.1 SLFRS 17 Insurance Contracts

SLFRS 17 Insurance Contracts, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 Insurance contracts. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first apply SLFRS17.

This standard is not applicable to the Company.

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

In November 2018, the CA Sri Lanka issued amendments to LKAS 1 and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.' The Company shall apply those amendments prospectively for annual financial periods beginning on or after April 1, 2020.

6.3 Amendments to SLFRS 3: Definition of a Business

Amendments to the definition of a business in SLFRS 3 Business Combinations are made to help the entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 01 January 2020with early application permitted.

6.4 Amendments to references to the conceptual framework in SLFRS standards

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

- Increasing the prominence of stewardship in the objective of financial reporting y reinstating prudence as a component of neutrality
- Defining a reporting entity, which may be a legal entity, or a portion of an entity y revising the definitions of an asset and a liability
- Removing the probability threshold for recognition and adding guidance on de recognition y 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.

Since the amendments are effective for annual periods beginning on or after 01 January 2020, the Company will not be affected by these amendments as at the reporting date. Further, the amendments to the references to the conceptual framework in SLFRS standards are not expected to have a significant impact on the Company's Financial Statements.

7. INCOME

	2020	2019
	Rs.	Rs.
Interest Income (Note 8)	423,691,108	297,584,244
Fee and Commission Income(Note 10)	29,070,915	11,481,276
Other Operating Income (Note 11)	3,284,875	53,838,811
	456,046,898	362,904,331

8. INTEREST INCOME

	2020	2019
	Rs.	Rs.
Interest Income on Loans and Advances (Note 8.1)	337,605,853	206,919,563
Interest Income on Lease and Hire Purchases (Note 8.2)	41,995,755	27,301,335
Interest Income on Financial Investments	43,893,474	63,164,700
Penalty Interest	196,027	198,647
	423,691,108	297,584,244

8.1 Interest Income on Loans and Receivables

	2020	2019
	Rs.	Rs.
Interest Income on Term Loans	271,881,146	137,829,902
Interest Income on Housing Loans	52,225,081	38,662,411
Interest Income on Gold Loans	13,499,626	8,246,535
Interest Income on Factoring	-	22,180,715
	337,605,853	206,919,563

8.2 Interest Income on Lease & Hire Purchases

Interest Income on Lease	25,889,347	5,891,893
Interest Income on Hire Purchase	16,106,408	21,409,442
	41,995,755	27,301,335

9. INTEREST EXPENSE

	2020	2019
	Rs.	Rs.
Due to Banks	68,672,556	34,712,739
Due to Customers (Note 9.1)	62,793,841	41,405,479
	131,466,397	76,118,218

9.1 Due to Customers

Interest Expense on Fixed deposits	56,357,443	37,922,355
Interest Expense on Savings	6,436,398	3,483,124
	62,793,841	41,405,479

10. NET FEE AND COMMISSION INCOME

	2020	2019
	Rs.	Rs.
Documentation and processing fees	29,070,915	11,481,276
	29,070,915	11,481,276

11 OTHER OPERATING INCOME

	2020	2019
	Rs.	Rs.
Gain from disposal of Investment property(Note 11.1)	1,305,000	5,239,793
Bank borrowing Interest and Capital write back	-	42,001,819
Dividend Income	280,000	240,000
Gain/(Loss) on sale of Property Plant and Equipment	683,311	(898,332)
Other income	1,016,565	7,255,531
	3,284,875	53,838,811

11.1 Gain from disposal of Investment property

Sales Proceeds	17,205,000	7,741,994
Cost	(15,900,000)	(2,502,201)
Gain/(Loss)	1,305,000	5,239,793

12 IMPAIRMENT CHARGES/ (REVERSAL) FOR LOANS AND OTHER LOSSES

12.1 Collective

	2020	2019
	Rs.	Rs.
Loans and Advances	90,416,186	111,396,277
Lease rentals receivables and Hire Purchases	15,895,779	7,909,425
Other Financial Assets	244,329	330,172
	106,556,294	119,635,874

12.2 Individual

	2020	2019
	Rs.	Rs.
Loans and Advances	(1,009,089)	(688,764)
Lease Rentals Receivable & Stock Out on Hire	(4,646,006)	(1,292,269)
	(5,655,095)	(1,981,033)
Total Impairment charges/ (Reversal) for Loans and Advances and Cash ,Bank & Other assets	100,901,199	117,654,841

12.3 The table below shows the expected credit loss (ECL) charges for financial instruments for the year 2019/2020 recorded in the income statement.

	Stage 01	Stage 02	Stage 03	Individually	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Loans and Advances	10,713,927	2,983,299	76,718,960	(1,009,089)	89,407,097
Lease rentals receivables and Hire Purchases	(933,972)	14,765	16,814,987	(4,646,006)	11,249,774
Other Debtors	244,329	-	-		244,329
	10,024,284	2,998,064	16,814,987	(5,655,095)	100,901,199

13. PERSONNEL COSTS

	2020	2019
	Rs.	Rs.
Salaries and Other Related Expenses	63,708,209	48,327,984
Defined Contribution Plan cost EPF and ETF	6,921,367	4,499,345
Directors' emoluments	4,840,000	3,380,000
Provision for Gratuity	955,241	583,056
Other personal costs	-	278,357
	76,424,817	57,068,742

14. DEPRECIATION & AMORTIZATION

	2020	2019
	Rs.	Rs.
Depreciation of Property, Plant & Equipment	21,851,041	17,079,431
Amortization of intangible assets	1,634,557	864,432
Depreciation of Leased Assets	15,274,879	-
	38,760,476	17,943,863

15. OTHER OPERATING EXPENSES

	2020	2019
	Rs.	Rs.
Audit and Non-Audit Fee	1,620,525	3,020,579
Professional & Legal Expenses	2,458,060	5,031,473
Office Administration & Establishment Expenses	35,788,896	37,036,222
Advertising & Business Promotion Expenses	13,791,741	3,480,020
Other Operating Expenses	6,237,135	8,242,873
Interest Expenses on Leased Assets (Note 28)	8,599,280	-
	68,495,636	56,811,168

16. TAXES ON FINANCIAL SERVICES

	2020	2019
	Rs.	Rs.
Value Added Tax on Financial Services	12,560,015	10,996,973
Nation Building Tax on Financial Services	1,110,011	1,466,263
Debt Repayment Levy on Financial Services	5,348,190	3,152,817
	19,018,216	15,616,053

17. TAXATION

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

		2020	2019
(A)	**Statement of Profit or Loss**	**Rs.**	**Rs.**
	Current Income Tax		
	Income Tax for the year	-	-
	Deferred Tax		
	Deferred Taxation Charge/ (Reversal) (Refer Note 30)	9,547,327	(290,447,042)
		9,547,327	(290,447,042)
(B)	**Other Comprehensive Income**		
	Deferred Tax		
	Deferred Taxation Charge/ (Reversal) (Refer Note 30)		
		-	-
(C)	**Total Tax Expense for the year**	9,547,327	(290,447,042)

17.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 March 2020 and 2019 is as follows.

	2020	2019
	Rs.	**Rs.**
Accounting Profit Before Income Taxation	20,980,157	223,858,292
Adjustments		
Non-taxable Income/ Losses	(963,311)	(214,796,653)
Disallowable Expenses	167,346,672	153,482,291
Allowable Expenses	(144,252,963)	(79,659,619)
Loss on PPE disposal	683,311	(50,800)
Gain on Investment Property disposal	-	5,640,669
Total Statutory Income	43,793,868	88,474,178
Claim on Carried Forward Tax Losses	(43,793,868)	(88,474,178)
Taxable Income	NIL	NIL
Income Tax Rate (%)	28%	28%
Income Tax	-	-
Deferred Taxation Charge/(Reversal) (Note 30)	9,547,327	(290,447,042)
Total Tax Expense (Note 17.1 (A))	9,547,327	(290,447,042)
Effective tax rate	46%	0%

18. EARNINGS PER ORDINARY SHARE

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

18.1

	2020	2019
Weighted Average Number of Ordinary Shares for Basic / Diluted EPS as at 1st April 2019	4,062,554,034	727,435,668
Add : Weighted Average Number of shares issued under private placement 2019/2020	676,717,688	3,335,118,366
Weighted Average Number of Ordinary Shares for Basic / Diluted EPS as 31st March 2020	4,739,271,722	4,062,554,034
Profit Attributable to Ordinary share holders	11,432,830	514,305,334
Basic/Diluted Earnings per Ordinary Share (Rs.)	0.00	0.13

19. CASH AND CASH EQIVALENT

	2020	2019
	Rs.	Rs.
Cash in hand	11,929,227	7,370,853
Balances with banks	38,710,813	12,474,383
Securities purchased under repurchase agreement maturing with in 3months	87,413,631	53,055,657
	138,053,671	72,900,893
Less: Allowance for Impairment	(5,302)	(933)
	138,048,368	72,899,960

20. FINANCIAL INVESTMENTS AT AMORTISED COST

	2020	2019
	Rs.	Rs.
Fixed Deposit & Commercial Papers	338,948,878	327,356,562
Less: Allowance for Impairment	(569,199)	(329,239)
	338,379,679	327,027,324

21. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES

	2020	2019
	Rs.	Rs.
Term Loans	1,508,977,286	1,128,819,666
Housing Loans	238,796,195	251,694,550
Gold Loans	71,756,637	47,539,228
Factoring Loans	74,053,459	108,261,750
Staff Loans	6,519,163	2,951,865
	1,900,102,740	1,539,267,059
Less : Allowance for Impairment Losses (Note 21.1)	(268,913,647)	(179,506,550)
	1,631,189,094	1,359,760,509

21.1 Analysis of Loans and Advances on Maximum Exposure to credit Risk as at 31 March 2020

	Stage 01	Stage 02	Stage 03	Total
	Rs.	Rs.	Rs.	Rs.
Individually Impaired Loans and Advances	-	-	41,299,064	41,299,064
Loans and Advances subject to Collective Impairment	1,120,987,973	130,217,493	607,598,210	1,858,803,676
Allowances for Expected Credit Losses	(53,468,930)	(14,599,051)	(200,845,666)	(268,913,647)
	1,067,519,043	115,618,442	448,051,608	1,631,189,094

21.2 Allowance for Impairment Losses

	2020	2019
	Rs.	Rs.
Movement of collective Impairment Allowance for Loans and Advances		
As at 01 April	137,198,397	-
Transferred during the year	-	25,802,120
Net Impairment Charge / (Reversal) for the year	90,416,186	111,396,277
Write off during the year	-	-
Balance as at 31 March	227,614,583	137,198,397
Movement in Individual Impairment Allowance for Loans and Advances		
As at 01 April	42,308,153	42,996,917
Transferred during the year	-	-
Net Impairment Charge / (Reversal) for the year	(1,009,089)	(688,764)
Write off during the year	-	-
Balance as at 31 March	41,299,064	42,308,153
Individual Impairment	41,299,064	42,308,153
Collective Impairment	227,614,583	137,198,397
	268,913,647	179,506,550

21.3 Movement in Allowance for Expected Credit Loss (ECL)

	Stage 01	Stage 02	Stage 03	Total
	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2019	42,755,003	11,615,752	125,135,795	179,506,550
Transferred during the year	-	-	-	-
Charge/(Reversal) to Income Statement (Note 12.3)	10,713,927	2,983,299	75,709,871	89,407,097
Amounts written off	-	-	-	-
Balance as at 31 March 2020	53,468,930	14,599,051	200,845,666	268,913,647

22. FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLE & HIRE PURCHASE

	2020	2019
	Rs.	Rs.
Gross rentals receivables	586,878,434	541,721,927
Lease Rentals	416,532,257	270,254,002
Amounts Receivable from Hirers	170,346,177	271,467,925
	586,878,434	541,721,927
Less: Unearned Income	(86,904,079)	(67,432,253)
Net rentals receivables	499,974,355	474,289,674
	499,974,355	474,289,674
Less : Allowance for Impairment Losses (Note 22.1)	(319,555,077)	(308,305,304)
Total net rentals receivable	180,419,278	165,984,370

22.1 Analysis of Lease Rental Receivable & Stock Out on Hire on Maximum Exposure to credit Risk as at 31 March 2020

	Stage 01	Stage 02	Stage 03	Total
	Rs.	Rs.	Rs.	Rs.
Individually Impaired Lease Receivables	-	-	295,749,873	295,749,873
Lease Rental Receivable & Stock out of Hire subject to Collective Impairment	93,006,058	33,594,743	77,608,854	204,209,655
Allowances for Expected Credit Losses	(2,870,090)	(2,313,587)	(314,371,400)	(319,555,077)
	90,135,968	31,281,156	58,987,327	180,404,451

22.2 Allowance for Impairment Losses

	2020	2019
	Rs.	Rs.
Movement In Individual Impairment Allowance For - Lease Rentals Receivable & Hire Purchase		
As at 01 April	300,395,879	301,688,148
Net Impairment Charge / (Reversal) for the year	(4,646,006)	(1,292,269)
Write off during the year	-	-
Balance as at 31 March	295,749,873	300,395,879
Movement in Collective Impairment Allowance for- Lease Rentals Receivable & Hire Purchase		
As at 01 April	7,909,425	-
Net Impairment Charge / (Reversal) for the year	15,895,779	7,909,425
Write off during the year	-	-
Balance as at 31 March	23,805,204	7,909,425
Individual Impairment	295,749,873	300,395,879
Collective Impairment	23,805,204	7,909,425
	319,555,077	319,555,077

22.3 As at 31 March 2020

	Within one year	1 - 5 years	Over 5 years	Total
	Rs.	Rs.	Rs.	Rs.
Gross rentals receivables	426,920,464	159,901,699	56,271	586,878,434
Lease Rentals	281,837,651	134,694,606	-	416,532,257
Amounts Receivable from Hirers	145,082,813	25,207,093	56,271	170,346,177
	426,920,464	159,901,699	56,271	586,878,434
Less: Unearned Income	(63,299,409)	(23,596,366)	(8,304)	(86,904,079)
Net rentals receivables	363,621,055	136,305,333	47,967	499,974,355
				499,974,355
Allowances for Expected Credit Losses				(319,555,077)
Total net rentals receivable				180,419,278

FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLE & HIRE PURCHASE (Contd…)

22.3 As at 31 March 2019

	Within one year	1 - 5 years	Over 5 years	Total
	Rs.	Rs.	Rs.	Rs.
Gross rentals receivables	312,211,144	54,815,991	174,694,793	541,721,927
Lease Rentals	157,166,403	12,365,986	100,721,614	270,254,003
Amounts Receivable from Hirers	155,044,741	42,450,005	73,973,179	271,467,925
	312,211,144	54,815,991	174,694,793	541,721,928
Less: Unearned Income	(1,223,520)	(10,861,140)	(55,347,593)	(67,432,253)
Net rentals receivables	310,987,624	43,954,851	119,347,200	474,289,675
				474,289,675
Allowances for Expected Credit Losses				(308,305,304)
Total net rentals receivable				165,984,371

22.4 Movement in Allowance for Expected Credit Loss (ECL)

	Stage 01	Stage 02	Stage 03	Total
	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2019	3,804,062	2,298,822	302,202,419	308,305,303
Charge/(Reversal) to Income Statement (Note 12.3)	(933,972)	14,765	12,168,981	11,249,774
Amounts written off	-	-	-	-
Balance as at 31 March 2019	2,870,090	2,313,587	314,371,400	319,555,077

23. OTHER FINANCIAL ASSETS

	2020	2019
	Rs.	Rs.
Amount due from Holding Company	7,585,645	7,751,888
Other Receivables	2,631,743	5,448,346
	10,217,388	13,200,233

24. FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
	Rs.	Rs.
Investment in CRIB	315,813	315,813
	315,813	315,813

25. OTHER NON FINANCIAL ASSETS

	2020	2019
	Rs.	Rs.
WHT Receivable	7,678,050	6,155,120
Advance & Prepayments	4,821,870	10,719,551
Stationary and Gift stock	10,062,514	2,793,082
Other Non financial assets	28,016,405	2,556,892
	50,578,839	22,224,645

26. INVESTMENT PROPERTY

	2020	2019
	Rs.	Rs.
Balance as at 1st April	372,200,000	-
Transferred during the year	-	172,535,356
Disposals	(15,900,000)	(2,502,201)
Change in fair value	-	202,166,845
Balance as at 31st March	356,300,000	372,200,000

Investment Properties includes bare lands and land and buildings acquired by the company from clients who defaulted on accommodations granted and purchased properties. These properties are held by the Company for capital appreciation and rental purposes.

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

26.1 Measurement of fair values

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

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

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

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

2.1) Value

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

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Gross Carrying Amounts

Cost	Balance As at 01.04.2019	Additions	Disposals	Balance As at 31.03.2020
	Rs.	Rs.	Rs.	Rs.
Freehold Assets				
Motor Vehicles	38,807,591	3,627,775	(6,000,000)	36,435,366
Machinery	882,727	3,489,000	-	4,371,727
Office Equipment	7,994,017	1,014,450	-	9,008,467
Furniture and Fittings	20,369,805	2,689,382	-	23,059,187
Fixture & Fittings	348,406	37,713	-	386,119
Name Board	5,867,039	753,400	-	6,620,440
Computer Equipment and Software	6,704,732	1,861,900	-	8,566,632
Total Value of Depreciable Assets	80,974,318	13,473,619	(6,000,000)	88,447,937

27.2 Depreciation

	Balance As at 01.04.2019	Additions	Disposals	Balance As at 31.03.2020
	Rs.	Rs.	Rs.	Rs.
Motor Vehicles	13,371,760	8,776,605	(5,996,535)	16,151,831
Machinery	440,781	2,275,699	-	2,716,480
Office Equipment	2,449,953	2,262,973	-	4,712,926
Furniture and Fittings	5,329,139	4,743,118	-	10,072,257
Fixture & Fittings	45,729	72,909	-	118,637
Name Board	2,777,051	2,112,564	-	4,889,615
Computer Equipment and Software	1,422,923	1,598,634	-	3,021,557
	25,837,335	21,842,502	(5,996,535)	41,683,302

27.3 Net Book Values

	2020	2019
	Rs.	Rs.
At Cost		
Motor Vehicles	20,283,536	25,435,831
Machinery	1,655,247	441,946
Office Equipment	4,295,541	5,544,064
Furniture and Fittings	12,986,930	15,040,666
Fixture & Fittings	267,482	302,677
Name Board	1,730,826	3,089,989
Computer Equipment and Software	5,545,076	5,281,809
Total Carrying Amount of Property, Plant & Equipment	46,764,635	55,136,983

27.4
During the Financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 13,473,619. (2019 - 33,728,482)

27.5
Cost of fully depreciated assets of the company as at 31 March 2020 is Rs.8,357,413. (2019 - 7,548,580/-)

28. RIGHT OF USE ASSETS
Set out below are the carrying amounts of right-of-use-assets recognised and movements during the year.

28.1 Cost

	2020	2019
	Rs.	Rs.
Balance as at 01 April 2019	-	-
Effect of adoption of SLFRS 16 as at 1 April 2019	69,145,859	-
Additions and Improvements	15,360,253	-
Cost as at 31 March 2020	84,506,112	-
Accumulated Amortisation		
Balance as at 01 April 2019	-	
Charge for the year (Note 12)	(15,274,879)	-
Accumulated Amortisation as at 31 March 2020	(15,274,879)	-
Net Book Value as at 31 March 2020	69,231,233	-

28.2 Lease Liability
Set out below are the carrying amounts of Lease Liabilities (Included under Other Financial Liabilities in Note 33) and movements during the year

	2020	2019
	Rs.	Rs.
Balance as at 01 April 2019	-	-
Effect of Adoption SLFRS 16 as at 01 April 2019	57,037,834	-
Additions	13,560,253	-
Accretion of Interest (Note 6.2)	8,599,280	-
Payments	(15,134,188)	-
Balance as at 31 March	64,063,179	-

The amount for the year ended 31 March 2020 has been disclosed in accordance with Sri Lanka Accounting Standard -SLFRS 16 (Leases), whereas prior period amount has not been restated. Reconciliation of the lease liability as at 31 March 2020 to the opening lease liability as at 01 April 2019 is given in Note 28.4

28.3 Maturity Analysis of Lease Liability

	2020	2019
	Rs.	Rs.
As at 31 March		
Less than 01 year	15,507,622	-
02 to 05 years	36,745,433	-
More than 05 years	11,810,124	-
	64,063,179	-

28.4 Reconciliation of Operating Lease Commitments as at 01 April 2019 to Lease Liabilities as at 31 March 2020

	Balance
	Rs.
Operating Lease Commitments as at 31 March 2019	94,706,056
Impact on discounting	(37,173,735)
New branches opening during the period	6,530,857
Lease Liability as at 31 March 2020	64,063,178

The Present value of operating lease commitments as at 31 March 2020 has been calculated using weighted average incremental borrowing rate of 15% for the Company.

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

Sensitivity to Discount Rates
1% increase/(Decrease) in discount rate as at 31 March 2020 would have impact the lease liability by approximately Rs.1,362,815/ (Rs. 1,405,861) respectively with a similar increase/(decrease) in the Right- of-use Assets. The impact on company's profit before tax for the year would (decreased)/increased by approximately (Rs.92,298)/Rs. 102,555 respectively.

29. INTANGIBLE ASSETS

	2020	2019
	Rs.	**Rs.**
Computer Software		
Cost		
Cost as at 01 April	5,504,972	-
Transfers	-	1,640,146
Additions and Improvements	329,817	3,864,826
Cost as at end of the year	5,834,789	5,504,972
Amortisation & impairment		
Cost as at 01 April	(864,432)	-
Charge for the year	(1,634,557)	(864,432)
Amortisation as at end of the year	(2,498,988)	(864,432)
Net book value as at end of the year	3,335,801	4,640,540

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

30. DEFERRED TAXATION

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

	Statement of Financial Position		Recognized in Statement of Other Comprehensive Income		Recognized in Statement of Profit or Loss	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Deferred Tax Liability						
Capital Allowances for Tax Purposes						
-Property Plant & Equipment	(1,194,318)	1,424,187	-	-	(2,618,505)	1,424,187
-Intangible Assets	336,129	(164,971)	-	-	501,100	(164,971)
Fair value gain on Investment Property	19,376,685	20,216,685	-	-	(840,000)	20,216,685
	18,518,496	21,475,901	-	-	(2,957,405)	21,475,901
Deferred Tax Assets						
Capital Allowances for Tax Purposes - Leased Assets	1,447,056	-			1,447,056	
Provision for Impairment on Financial Assets	118,126,333	118,562,758			(436,425)	118,562,758
Defined Benefit Plans	710,760	607,136	(19,932)	(143,911)	123,556	607,136
Brought Forward Tax Losses	178,970,219	192,753,049			(13,782,830)	192,753,049
	299,254,368	311,779,032	(19,932)	(143,911)	(12,504,732)	311,922,943
Deferred income tax charge/(reversal)			(19,932)	(143,911)	9,547,327	(290,447,042)
Net Deferred Tax Liability/ (Asset)	(280,735,872)	(290,303,131)				

Deffered Tax asset is recognised by considering the brought forward tax losses and temporary difference of impairment provision for loans and advances and leases. The Company is planning to go for an IPO on or before 31 December 2020 for minimum Capital required as per the regulations of Central Bank of Sri Lanka. Also the company is planning to expand its business operations through opening new branches covering all geographical segments. Based on that management of the Company believes that Company will be able to generate more and adequate profits with in the next 5 years. Accordingly the differed tax assets could be set off against the income tax lability arising in future periods.

31. DUE TO BANKS

	2020	2019
	Rs.	**Rs.**
Bank Overdrafts	7,101,160	14,827,747
Securitised Borrowings and Other Bank Facilities (Note 31.2)	464,800,546	404,507,250
	471,901,706	419,334,997

31. DUE TO BANKS (Contd…)

31.1 Due to Banks

	2020			2019		
	Amount repayable within 1 year	Amount repayable after 1 year	Total	Amount repayable within 1 year	Amount repayable after 1 year	Total
	Rs.	Rs	Rs	Rs	Rs	Rs
Bank Overdrafts	7,101,160	-	7,101,160	14,827,747	-	14,827,747
Term Loan facilities from Banks	141,474,351	323,326,195	464,800,546	52,715,818	351,791,432	404,507,250
	148,575,511	323,326,195	471,901,706	67,543,565	351,791,432	419,334,997

31.2 Term Loan facilities from Banks

	As at	Loans	Loans	Interest	Repayments		As at	Period	Security
	01.04.2019	Transferred	Obtained	Recognized	Capital	Interest	31.03.2020		
	Rs.	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Direct Bank Borrowings									
Term Loans									
LOLC PLC	-	-	-	-	-	-	-		
Term Loan 01 - Sampath Bank PLC	195,372,078	-	40,000,000	26,541,600	51,710,078	26,541,600	183,662,000	5 Years	Personal Guarantee
Term Loan 02 - Sampath Bank PLC	35,066,591	-	-	4,422,470	9,252,591	4,422,470	25,814,000	5 Years	Personal Guarantee
Term Loan 03 - Sampath Bank PLC	-	-	-	-	-	-	-		
Sri Lanka Saving Bank Ltd	12,613,589	-	-	1,181,776	7,831,644	1,181,776	4,781,945	3 years	Personal Guarantee
Term Loan 01 Cargills Bank	96,787,526	-	-	12,888,297	18,168,822	13,174,101	78,332,900	5 years	Personal Guarantee
Term Loan 02 Cargills Bank	-	-	200,000,000	20,698,967	36,850,000	20,698,967	163,150,000	5 years	Personal Guarantee
Commercial Bank of Ceylon PLC	2,000,000	-	-	-	2,000,000	-	-		
Hatton National Bank PLC	1,618,446	-	-	-	1,615,326	-	3,120	5 years	Personal Guarantee
Reverse Repo	47,651,145	-	460,047,586	1,377,756	507,698,731	1,377,756			
Sampath Bank PLC	13,397,875	-	-	1,561,692	4,307,672	1,595,315	9,056,580	4 years	Personal Guarantee
Bank Overdraft	14,827,747	-	-		7,726,587	-	7,101,160		
	419,334,997	-	700,047,586	68,672,558	647,161,452	68,991,985	471,901,706		

	As at	Loans	Loans	Interest	Repayments		As at	Period	Security
	01.04.2018	Transferred	Obtained	Recognized	Capital/ Capital Write off	Interest/ Interest Writeoff	31.03.2019		
	Rs.	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Direct Bank Borrowings									
Term Loans									
LOLC PLC	-	9,238,623	-	601,207	9,238,623	601,207	-		
Term Loan 01 - Sampath Bank PLC	-	178,176,000	53,000,000	21,528,847	36,090,000	20,054,372	195,372,078	5 Years	Personal Guarantee
Term Loan 02 - Sampath Bank PLC	-	43,328,000	-	4,577,292	8,340,000	4,498,701	35,066,591	5 Years	Personal Guarantee
Term Loan 03 - Sampath Bank PLC	-	100,000,000	-	1,482,709	100,000,000	1,482,709	0		Personal Guarantee
Sri Lanka Saving Bank Ltd	-	25,674,132	-	2,217,589	13,113,910	2,164,222	12,613,589	3 years	Personal Guarantee
Term Loan 01 Cargills Bank	-	-	100,000,000	2,433,556	3,333,400	2,312,630	96,787,526	5 Years	Debtors List
Commercial Bank of Ceylon PLC	54,678,168	-	-	1,686,772	24,983,370	27,694,798	2,000,000	5 Years	Debtors List
Hatton National Bank PLC	4,897,627	-	-	-		3,279,181	1,618,446	5 Years	Personal Guarantee
Seylan Bank PLC	85,044,470	-	-	-	59,566,612	25,477,858	-	5 Years	Property Mortgage
Reverse Repo	-	-	197,500,000	151,145	150,000,000	605,625	47,651,145	2 weeks	Underlien Repo
Sampath Bank PLC	-	16,539,523	-	33,622	3,175,270	1,686,772	13,397,875	4 years	Vehicle Lease
Bank Overdraft	188,367				159,124		14,827,747		
	144,808,632	372,956,278	350,500,000	34,712,739	408,000,309	89,858,075	419,334,997		

32. FINANCIAL LIABILITIES AT AMORTISED COST- DUE TO CUSTOMERS

	2020	2019
	Rs.	Rs.
Fixed Deposits	848,901,716	749,648,288
Savings Deposits	140,701,246	126,149,234
Interest Payable	22,632,681	8,853,152
	1,012,235,643	884,650,674

33. OTHER FINANCIAL LIABILITIES

	2020	2019
	Rs.	Rs.
Sundry Creditors	-	2,339,959
Lease Creditors	64,063,179	-
Other Payables (Note 33.1)	56,564,124	10,234,541
Provisions and Accruals (Note 33.2)	5,628,176	5,642,844
	126,255,479	18,217,344

33.1 Other Payables

	2020	2019
	Rs.	Rs.
Advance received from Customers	34,884,285	6,508,002
Other Payables	21,679,839	3,726,539
	56,564,124	10,234,541

33.2 Accrued Expenses

	2020	2019
	Rs.	Rs.
Salary Payable	147,862	126,475
Professional fee Payable	1,418,080	2,295,900
Other Expenses Payable	4,062,235	3,220,470
	5,628,176	5,642,845

34. OTHER NON FINANCIAL LIABILITIES

	2020	2019
	Rs.	Rs.
Payable - EPF	1,592,983	736,966
Payable - ETF	223,765	107,489
Payable - Payee Tax	(109,418)	162,703
Payable for VAT on Financial Services	(6,701,981)	2,331,776
Other Payables	17,402,302	18,349,489
Other Taxes	(3,194,241)	6,260,449
	9,213,410	27,948,872

35. RETIREMENT BENEFIT OBLIGATIONS

	2020	2019
	Rs.	**Rs.**
Balance at the beginning of the year	1,654,374	991,562
Transferred from LCB Limited	-	593,725
Current Service Cost	773,260	583,056
Payments made during the year	-	-
Interest Charged/(Reversed) for the year	181,981	-
(Gain)/loss arising from changes in the assumption	(71,186)	(513,969)
Balance at the end of the year	2,538,429	1,654,374

35.1 Expenses on Defined Benefit Plan

	2020	2019
	Rs.	**Rs.**
Current Service Cost for the year	773,260	583,056
Interest Charge for the year	181,981	-
	955,241	583,056

35.2 Amount Recognized in the Other Comprehensive Income

	2020	2019
	Rs.	**Rs.**
(Gain)/Loss arising from changes in the assumption (Note 35)	(71,186)	(583,056)
	(71,186)	(583,056)

Actuarial valuation of Retiring Gratuity Obligation as at 31 March 2020 was carried out by Messrs. Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries using "Projected Unit Credit Method" as recommended by LKAS 19-'Employee Benefits'.

35.3 Assumptions

	2020	2019
Discount Rate	9.87%	11%
Salary Increment Rate	8% p.a.	10% p.a.
Staff Turnover	25%	22%
Retirement Age	57 years	57 years
Mortality	A1967/70	A1967/70
	Mortality table	Mortality table

35.4 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

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

		2020		2019	
"Increase/ (Decrease) in Discount Rate"	"Increase/ (Decrease) in Salary Increment Rate"	Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation	Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation
1%	-	(76,383)	76,383	66,942	(66,942)
-1%	-	81,046	(81,046)	(71,895)	71,895
-	1%	48,720	(48,720)	(66,277)	66,277
-	-1%	(46,970)	46,970	62,879	(62,879)

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

	2020	2019
	Years	Years
Weighted Average Duration of the Defined Benefit Obligation	3.37	4.63
Average Time to Benefit Payout	3.45	-
(Maturity Profile of Defined Benefit Obligation)-Present Value of Expected benefit Payments		
within the next 12 months	478,962	84,917
between 2 to 5 years	1,757,192	1,234,200
between 6 to 10 years	243,358	256,602
beyond 10 years	58,917	78,656
	2,538,429	1,654,374

36. STATED CAPITAL

36.1 Issued and Fully Paid-Ordinary Shares

	2020		2019	
	No. of Shares	Rs.	No. of Shares	Rs. '000
At the Beginning of the Year	4,624,986,008	3,091,604,341	727,435,668	1,727,461,721
New share issued during the Year	400,000,000	140,000,000	3,897,550,340	1,364,142,620
At the End of the Year	5,024,986,008	3,231,604,341	4,624,986,008	3,091,604,341

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

37. RESERVES

	Statutory Reserve	Total
	Rs.	Rs.
As at 31 March 2019	39,248,282	39,248,282
Transfers During the Year	571,641	571,641
As at 31 March 2020	39,819,923	39,819,923

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

38. RETAINED EARNINGS

	2020	2019
	Rs.	Rs.
Balance as at 01 April	(1,798,965,376)	(2,287,925,500)
Dividend Paid	-	-
Profit for the Year	11,432,830	514,305,333
Other Comprehensive Income not to be Reclassified to Profit or Loss	51,254	370,058
Transfers During the Year (Note 4.33)	(571,641)	(25,715,267)
Balance as at 31 March	(1,788,052,934)	(1,798,965,376)

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

39. FAIR VALUE OF ASSET AND LIABILITIES

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

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

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

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

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

Key Methodologies and assumptions used are as follows.

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

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

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

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

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

	31-Mar-20					31-Mar-19				
	Rs.					Rs.				
		Fair value measurement using					Fair value measurement using			
FINANCIAL ASSETS	**Carrying value**	**Level 01**	**Level 02**	**Level 03**	**Total**	**Carrying value**	**Level 01**	**Level 02**	**Level 03**	**Total**
Financial Investment as Fair Value through Other Comprehensive Income	315,813	-	-	315,813	315,813	315,813	-	-	315,813	315,813
TOTAL FINANCIAL ASSETS	315,813	-	-	315,813	315,813	315,813	-	-	315,813	315,813

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

	31-Mar-20					31-Mar-19				
	Rs.					Rs.				
		Fair value measurement using					Fair value measurement using			
FINANCIAL ASSETS	**Carrying value**	**Level 01**	**Level 02**	**Level 03**	**Total**	**Carrying value**	**Level 01**	**Level 02**	**Level 03**	**Total**
Financial assets at amortised Cost - Loans and Receivables	1,631,189,094	-	1,553,430,251	-	1,553,430,251	1,359,760,509	-	1,484,642,109	-	1,484,642,109
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	180,419,278	-	147,201,450	-	147,201,450	165,984,370	-	154,768,909	-	154,768,909
	2,149,988,051	-	2,039,011,380	-	2,039,011,380	1,852,772,203	-	1,966,438,342	-	1,966,438,342
FINANCIAL LIABILITIES										
Due to Customers	1,012,235,643		1,034,631,094		1,034,631,094	884,650,674		887,697,992		887,697,992
	1,012,235,643	-	1,034,631,094	-	1,034,631,094	884,650,674	-	887,697,992	-	887,697,992

39. FAIR VALUE OF ASSET AND LIABILITIES (Contd…)

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

	2020		2019	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Financial Assets				
Cash and Cash Equivalent	138,048,368	138,048,368	72,899,960	72,899,960
Financial Investment at amortised Cost	338,379,679	338,379,679	327,027,324	327,027,324
Other Financial Assets	10,217,388	10,217,388	13,200,233	15,452,903
Total Financial Assets	486,645,435	486,645,435	413,127,517	415,380,187
Financial Liabilities				
Financial Liabilities at amortised Cost - Due to Banks	471,901,706	471,901,706	419,334,997	419,334,997
Other Financial Liabilities	126,255,481	126,255,481	18,353,570	18,353,570
	598,157,187	598,157,187	437,688,567	437,688,567

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

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

40. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	**2020**	**2019**
	Rs.	**Rs.**
Motor Vehicle	18,000,000	22,000,000
Investment Property	350,000,000	350,000,000
Investment in Repo	-	53,055,657

41. RISK MANAGEMENT

41.1 Introduction

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

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

41.2 Risk Management Framework

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

41.2 Risk Management Framework (Contd…)

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

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

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

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

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

Above committees closely monitors any developments related to the COVID 19 pandemic and reviews measures undertaken by the company in response to resulting risk. These actions has helped the company mitigating any adverse effect on its asset liability position that may arise due to the continuously evolving nature of the pandemic.

41.3 Risk measurement & Reporting System and Risk Mitigation

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

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

41.3 Risk measurement & Reporting System and Risk Mitigation (Contd…)

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

41.1 Credit Risk

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

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

Management of Credit Risk

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

41.1 Credit Risk (Contd…)

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

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

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

41.4.1 Impairment Assessment

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

The Impact on COVID 19- Impairment of Financial Assets - Expected Credit Loss calculation

The Company considered the Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment (EFA) computed as at February 29, 2020, in order to estimate the Expected Credit Loss (ECL) as at March 31, 2020, due to uncertainty and lack of sufficient information to make any adjustments to capture the potential impact of COVID 19 based on the "COVID - 19 Pandemic: Guidance Notes on the Implications on Financial Reporting" issued by the institute of chartered accountants of Sri Lanka has provided reporting guidelines

41.4.1 (a) Definition of default and cure

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

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

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

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

41.4.1 (b) Significant increase in credit risk

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

41. RISK MANAGEMENT (Contd...)

41.4.1 Assessment of Expected Credit Losses

41.4.1 (c) Analysis of the total allowance for expected credit losses is as follows.

As at 31st March	2020			
	Stage 01	Stage 02	Stage 03	Total
	Rs.	Rs.	Rs.	Rs.
Cash and Cash Equivalent	574,501	-	-	574,501
Term Loan Personal Guarantees	36,983,572	9,920,935	153,260,861	200,165,368
Term Loan Property Mortgage	9,937,125	4,640,606	47,150,932	61,728,663
Gold Loans	1,799,316	37,510	433,873	2,270,700
Factoring Loans	4,748,916	-	-	4,748,916
Lease rentals receivables and Hire Purchases	2,870,090	2,313,587	314,371,400	319,555,077
Total allowance for expected credit losses	56,913,521	16,912,639	515,217,066	589,043,225

The methodology used in the determination of expected credit losses is explained in Note 4.1.8 to Financial Statements.

41.4.1 (d) Movement of the total allowance for expected credit losses during the period

	31-Mar-20
	Rs.
Balance as at 01st April 2019	488,142,026
Transfer during the year	-
Net Charge to Profit and loss	100,901,199
Interest income accrued on impaired loans & receivables	-
Recovered during the year	-
Balance as at 31 Mar 2020	589,043,225

41.4.1 (e) Sensitivity Analysis : Impact of staging of loans on collective allowance for expected credit losses
The following table illustrates the impact of staging of loans by comparing the allowance, if all performing financial assets were in stage 1 or if all such assets were in stage 2 to the actual expected credit loss recorded on these assets.

	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 1	Impact of staging
	Rs.	Rs.	Rs.
Total allowance for expected credit losses	73,251,658	64,629,522	(8,622,137)

	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 2	Impact of staging
	Rs.000	Rs.000	Rs.000
Total allowance for expected credit losses	73,251,658	129,030,329	55,778,671

The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

41.4.1 (f) A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 90 days past due. Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

As at 31st March	2020		
	31- 60 Days	61- 90 Days	Total
	Rs.	Rs.	Rs.
Factoring receivables	-	-	-
Gold loan receivables	14,786	22,724	37,510
Term loan Personal Guarantees	5,159,143	4,761,792	9,920,935
Term loan property mortgage	3,496,911	1,143,695	4,640,606
Lease rentals receivables and Hire Purchases	1,160,728	1,152,859	2,313,587
	9,831,569	7,081,070	16,912,639

41. RISK MANAGEMENT (Contd...)

41.4.1(g) Overview of rescheduled / restructured loans and advances (except individually impaired loans and advances)

As at 31st March	2020						
	Gross Carrying Value			Allowance for ECL			Net Carrying Value
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
Term loan property mortgage	-	81,034,325	81,034,325	-	10,127,817	10,127,817	70,906,508
Term loan Personal Guarantees	-	74,688,559	74,688,559	-	31,705,443	31,705,443	42,983,116
	-	155,722,884	155,722,884	-	41,833,260	41,833,260	113,889,624

41.4.2 Credit Quality by Class of Financial Assets

	31-Mar-20					31-Mar-19				
	Neither Past Due nor Individually Impaired	Past Due Not Individually Impaired	Individually Impaired	Total	Percentage	Neither Past Due nor Individually Impaired	Past Due Not Individually Impaired	Individually Impaired	Total	Percentage
Assets										
Cash and bank balances	138,048,368	-	-	138,048,368	6.01%	72,899,960	-	-	72,899,960	3.76%
Financial instruments at amortised cost	338,379,679	-	-	338,379,679	14.72%	327,356,562	-	-	327,356,562	16.88%
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	61,532,145	142,692,337	295,749,873	499,974,355	21.76%	100,987,839	72,905,957	300,395,878	474,289,675	24.46%
Financial assets at amortised Cost - Loans and Receivables	851,721,538	1,007,082,138	41,299,064	1,900,102,740	82.69%	936,096,920	560,861,986	42,308,153	1,539,267,059	79.38%
Other Financial Assets	10,217,388	-	-	10,217,388	0.44%	13,200,233	-	-	13,200,233	0.68%
Financial Investment as Fair Value through Other Comprehensive Income	315,813	-	-	315,813	0.01%	315,813	-	-	315,813	0.02%
									-	
Allowance for impairment				(589,043,225)	(0.26)				(488,142,026)	-25%
Total	1,400,214,931	1,149,774,475	337,048,937	2,297,995,118	100%	1,450,857,328	633,767,943	342,704,032	1,939,187,276	100%

41. RISK MANAGEMENT (Contd...)

41.4.2.1 Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

	Past due				
	Less than 30 days 2020	31 to 60 days 2020	61 to 90 days 2020	More than 90 days 2020	Total 2020
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	37,328,402	23,913,162	9,681,581	71,769,192	142,692,337
Financial assets at amortised Cost - Loans and Receivables	269,266,435	90,633,868	39,583,626	607,598,210	1,007,082,139
	306,594,837	114,547,030	49,265,207	679,367,402	1,149,774,476

41.4.3 Maximum Exposure to Credit Risk

The following tables shoes the maximum exposure to credit risk by class of financial assets. It further shows the net exposure to credit risk.

As at 31 March	Note	2020		2019	
		Maximum Exposure To Credit Risk	Net Exposure	Maximum Exposure To Credit Risk	Net Exposure
		Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalent	19	138,048,368	138,048,368	72,899,960	25,249,748
Financial Investment at amortised Cost	20	338,379,679	338,379,679	327,027,324	327,027,324
Financial assets at amortised Cost					
- Loans & Receivables	21	1,631,189,094	843,462,922	1,359,760,509	1,135,909,608
- Lease rentals receivables and Hire Purchases	22	180,419,278	56,934,622	165,984,370	165,984,370
Other Financial assets	23	10,217,388	10,217,388	13,200,233	13,200,233
Financial Investment as Fair Value through Other Comprehensive Income	24	315,813	315,813	315,813	315,813
Total Financial Assets		2,298,569,620	1,387,358,792	1,939,188,209	1,667,687,096

41.4.4 Offsetting financial assets and liabilities

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed.

	2020			2019		
	Gross amount	Amount subject to netting but do not qualify for offsetting	Net amount	Gross amount	Amount subject to netting but do not qualify for offsetting	Net amount
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Securities sold under repurchase agreements	87,413,631	-	87,413,631	53,055,657	47,651,145	5,404,512
	87,413,631	-	87,413,631	53,055,657	47,651,145	5,404,512

41.4.5 Analysis of Risk Concentration

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position.

As at 31 March 2020

	Manu-facturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and Cash Equivalent	-	-	-	-	-	-	-	-	138,048,368	-	-	138,048,368
Financial Investment at amortised Cost	-	-	-		-	-	-	-	338,379,679	-	-	338,379,679
Financial assets at amortised Cost - Loans and Receivables	-	-	39,059,275	867,832,875	238,796,195	-	6,256,065	-	-	71,089,025	677,069,305	1,900,102,740
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	-	-		-	-	-	-	-	-	-	499,974,355	499,974,355
Other Financial Assets	-	-		-	-	-	-	-	-	-	10,217,388	10,217,388
Financial Investment as Fair Value through Other Comprehensive Income	-	-		-	-	-	-	-	315,813	-	-	315,813
Allowance for Impairment												(589,043,225)
Total	-	-	39,059,275	867,832,875	238,796,195	-	6,256,065	-	476,743,860	71,089,025	1,187,261,048	2,297,995,118

As at 31 March 2019

	Manu-facturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	72,900,893	-	-	72,900,893
Financial Investment at amortised Cost	-	-	-		-	-	-	-	327,356,562	-	-	327,356,562
Financial assets at amortised Cost - Loans and Receivables	-	-	17,576,372	748,505,162	257,042,583	-	2,870,965	-	-	45,122,930	468,149,047	1,539,267,059
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	-	-		-	-	-	-	-	-	-	474,289,674	474,289,674
Other Financial Assets	-	-		-	-	-	-	-	13,200,233	-	-	13,200,233
Financial Investments	-	-		-	-	-	-	-	315,813	-	-	315,813
Allowance for Impairment												(488,142,026)
Total	-	-	17,576,372	748,505,162	257,042,583	-	2,870,965	-	413,773,501	45,122,930	942,438,722	1,939,188,209

41.5 Interest Rate Risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rates affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

The fluctuation of interest rates is an external factor which is beyond the control of the Company. Though the Company is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

Management of Interest Rate Risk

Interest rate risk is managed principally through monitoring interest rate gaps and by the having pre-approved limits for re-pricing brands. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing.

Asset liability management encompasses the complete set of techniques used to manage interest rate risk within the broader risk management framework. Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of the Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

In setting the Tolerance levels for Interest rate risk, the following metrics are used.

Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.

Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.

41.5.1 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, in the Company's Income Statement & Equity.

			Rs'000
Currency of Borrowings/ Advance	**Increase (Decrease) in basis points**	**Sensitivity of Profit or Loss**	**Sensitivity of Equity**
	2020	**2020**	**2020**
Long Term Loans linked to AWPLR	1/ (-1)	4510/(4510)	0.30%
	0.5 / (0.5)	2255/(2255)	0.15%
	0.25 / (0.25)	1127/(1127)	0.08%

The base ratio is considered in the Interest Rate Sensitivity Analysis is the AWPLR. Since 95.23% (2019-95%) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on the Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

41.5.2 Interest Rate Risk

Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

As at 31 Mar 2020	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets							
Cash and csh Equivalants	126,119,142	-	-	-	-	11,929,227	138,048,369
Financial Investment at amortised Cost	330,984,936	7,394,744	-				338,379,680
Financial Investment at amortised Cost-Loans and Receivable	643,824,270	439,717,009	406,793,006	51,720,088	89,134,721	-	1,631,189,094
Lease receivables & Hire Purchase	43,181,765	40,276,594	85,851,111	11,094,604	15,204	-	180,419,278
Other Financial Assets						10,217,388	10,217,388
Financial Investment as Fair Value through Other Comprehensive Income						315,813	315,813
Total Financial Assets	1,144,110,113	487,388,347	492,644,117	62,814,692	89,149,925	22,462,428	2,298,569,621
Financial Liabilities							
Due to Bank	7,101,780	2,527,778	139,514,248	322,757,900	-	-	149,143,800
Due to customers	568,688,009	313,974,182	13,530,582	116,042,870	-	-	1,012,235,644
Other Financial Liabilities	-	-	-	-	-	126,255,481	126,255,481
Total Financial Liabilities	575,789,789	316,501,960	153,044,830	438,800,770	-	126,255,481	1,287,634,925
Interest Sensitivity Gap	568,320,324	170,886,386	339,599,287	(375,986,078)	89,149,925	(103,793,054)	1,010,934,696

41. RISK MANAGEMENT (Contd...)

As at 31 Mar 2019	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets							
Cash and csh Equivalants	65,530,040	-	-	-	-	7,369,920	72,899,960
Financial Investment at amortised Cost	320,512,660	5,514,745	999,920				327,027,324
Financial Investment at amortised Cost-Loans and Receivable	207,188,650	210,171,331	224,259,214	160,381,486	557,759,829	-	1,359,760,509
Lease receivables & Hire Purchase	2,710,473	7,137,150	70,699,610	80,005,373	5,431,763	-	165,984,370
Other Financial Assets						13,200,233	13,200,233
Financial Investment as Fair Value through Other Comprehensive Income						315,813	315,813
Total Financial Assets	595,941,822	222,823,226	295,958,744	240,386,859	563,191,593	20,885,966	1,939,188,209
Financial Liabilities							
Due to Bank	394,432,439	337,329	24,565,235	-	-	-	419,334,997
Due to customers	717,912,709	121,756,457	29,125,846	15,855,661	-	-	884,650,674
Other Financial Liabilities	-	-	-	-	-	18,217,344	18,217,344
Total Financial Liabilities	1,112,345,148	122,093,786	53,691,081	15,855,661	-	18,217,344	1,322,203,015
Net Financial Assets / Liabilities	(516,403,325)	100,729,440	242,267,662	224,531,198	563,191,593	2,668,622	616,985,194

41.6 Liquidity Risk

Liquidity is generally defined as the ability of a financial institution to meet its debt obligations without incurring unacceptably large losses. Liquidity risk refers to the non-availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments.

An institution might lose liquidity if its credit rating falls, it experiences sudden, unexpected cash outflows, or some other event causing counter parts to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

Management of Liquidity Risk

The Company's risk for managing liquidity risk and oversight of the implementation is administered by ALCO. The Finance Department manages the Company's liquidity position on a day to day basis.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. A key element of these systems is monitoring and assessing the firm's current and future fund requirement, including debt obligations and planning for any unexpected funding needs, regardless of whether they arise from firm-specific factors, or from systemic (economy-wide) factors.

The key elements of the Company's liquidity strategy are as follows.

The Company assesses available lines of credit, GAP analysis and volatile liability dependency ratio in order to assess the liquidity risk. In setting the Tolerance levels for Liquidity risk, the following metrics are used.

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.

- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.

- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 years as a percentage of total lending assets).

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more sensitive market conditions.

Management of the Company maintains a stable liquidity position even during this challenging period due to COVID 19 outbreak and closely monitoring the position on a daily basis and taking necessary measures to ensure the safeguard of the entity. The company introduced more rigor to the processes already in place to manage its liquid assets. These actions taken will help to maintain suitable liquidity position while ensuring the interest of the company's stakeholders, despite of disruptive effect on liquidity that may arise due to the continually evolving nature of the pandemic.

41.6.1 Statutory Liquid Asset Ratio

Statutory Liquid Asset Calculation is performed based on the following calculations as prescribed in section 2, 3 & 4 of the Finance Companies (Liquid Assets) Direction No.04 of 2013.

The Company's liquid asset ratio is 6.85% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction). Liquid assets are maintained with Sri Lanka Government securities.

42.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 March 2020. The estimated maturity profiles of undiscounted cash flows may differ, due to Covid-19 related events.

41. RISK MANAGEMENT (Contd...)

42.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities (Contd...)

As at 31 Mar 2020	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and csh Equivalants	138,583,419	-	-	-	-	138,583,419
Financial Investment at amortised Cost	337,986,433	7,190,084	-	-	-	345,176,516
Financial Investment at amortised Cost-Loans and Receivable	688,226,113	802,115,100	708,342,005	257,121,779	60,612,109	2,516,417,106
Lease receivables & Hire Purchase	49,257,324	68,020,054	122,691,515	37,210,184	56,271	277,235,348
Other Financial Assets	417,574	-	-	-	9,799,814	10,217,388
Financial Investment as Fair Value through Other Comprehensive Income		-	-	-	315,813	315,813
Total Financial Assets	1,214,470,862	877,325,238	831,033,521	294,331,963	70,784,006	3,287,945,591
Financial Liabilities						
Due to Bank	-	13,000,000	292,000,000	393,000,000	-	698,000,000
Due to customers	568,688,009	313,974,182	13,530,582	116,042,870	-	1,012,235,643
Other Financial Liabilities	-	-	-	-	9,213,410	9,213,410
Total Financial Liabilities	568,688,009	326,974,182	305,530,582	509,042,870	9,213,410	1,719,449,053
Net financial Assets / Liabilities	645,782,853	550,351,056	525,502,939	(214,710,906)	61,570,596	1,568,496,537

41. RISK MANAGEMENT (Contd...)

As at 31 Mar 2019	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and csh Equivalants	72,899,960	-	-	-	-	72,899,960
Financial Investment at amortised Cost	329,354,588	6,642,500	999,920	-	-	336,997,008
Financial Investment at amortised Cost-Loans and Receivable	288,647,764	395,323,288	497,884,871	187,209,446	566,980,809	1,936,046,178
Lease receivables & Hire Purchase	26,092,484	46,647,311	121,334,514	81,260,286	5,432,756	280,767,351
Other Financial Assets	-	-	-	-	13,200,233	13,200,233
Financial Investment as Fair Value through Other Comprehensive Income		-	-	-	315,813	315,813
Total Financial Assets	716,994,796	448,613,099	620,219,305	268,469,732	585,929,611	2,640,226,543
Financial Liabilities					-	
Due to Bank	87,221,579	52,849,365	125,444,779	332,104,003	-	597,619,726
Due to customers	719,631,017	154,199,746	30,718,408	15,855,661	-	920,404,832
Other Financial Liabilities	-	18,217,344	-	-	-	18,217,344
Total Financial Liabilities	806,852,596	225,266,455	156,163,187	347,959,664	-	1,536,241,902
Net financial Assets / Liabilities	(89,857,800)	223,346,644	464,056,118	(79,489,932)	585,929,611	1,103,984,641

43 MATURITY ANALYSIS

An analysis of interest bearing assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is as follows. The estimated maturity profiles of may differ, due to Covid-19 related events.

As at 31 Mar 2020	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and csh Equivalants	138,048,368	-	-	-	-	138,048,368
Financial Investment at amortised Cost	330,984,936	7,394,744	-	-	-	338,379,680
Financial assets at amortised Cost - Loans and Receivables	643,824,270	439,717,009	406,793,006	51,720,088	89,134,721	1,631,189,094
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	43,181,765	40,276,594	85,851,111	11,094,604	15,204	180,419,278
Other Financial Assets	-	417,574	-	-	9,799,814	10,217,388
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Assets	1,156,039,339	487,805,921	492,644,117	62,814,692	99,265,552	2,298,569,620
Financial Liabilities						
Due to Bank	7,101,780	2,527,778	139,514,248	322,757,900		471,901,706
Due to customers	568,688,009	313,974,182	13,530,582	116,042,870	-	1,012,235,643
Other Financial Liabilities	-	126,255,479	-	-	-	126,255,481
Total Liabilities	575,789,789	442,757,440	153,044,830	438,800,770	-	1,610,392,830

43 MATURITY ANALYSIS (Contd...)

As at 31 Mar 2019	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and Bank Balance	72,899,960	-	-	-	-	72,899,960
Financial Investment at amortised Cost	320,512,660	5,514,745	999,920	-	-	327,027,324
Financial assets at amortised Cost - Loans and Receivables	207,188,650	210,171,331	224,259,214	160,381,486	557,759,829	1,359,760,509
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	2,710,473	7,137,150	70,699,610	80,005,373	5,431,763	165,984,369
Other Financial Assets	-	-	-	-	13,200,233	13,200,233
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Assets	603,311,743	222,823,226	295,958,744	240,386,859	576,707,638	1,939,188,209
Liabilities						-
Due to Bank	67,206,236	337,329	24,565,235	327,226,196	-	419,334,997
Due to customers	717,912,709	121,756,458	29,125,864	15,855,661	-	884,650,692
Other Financial Liabilities	-	18,217,344	-	-	-	18,217,344
Total Liabilities	785,118,945	140,311,131	53,691,099	343,081,857	-	1,322,203,033

44. COMMITMENTS AND CONTINGENCIES

	2020					2019				
	Rs.					Rs.				
	On Demand	With in 01 year	1-5 years	More than 5 years	Total	On Demand	With in 01 year	1-5 years	More than 5 years	Total
Commitments										
City Finance Deposits (Note)	92,762,435	241,811,835		-	334,574,270	267,833,920	253,222,744	-		521,056,664
	92,762,435	241,811,835	-	-	334,574,270	267,833,920	253,222,744	-		521,056,664

In addition to that, the company has given a Letter of guarantees to its customers amounting to 18 Mn

Note : In the light of COVID 19, The company has obtained an approval from Central Bank to differ the repayment of 3rd tranche (45%) of Deposits to depositors of City Finance Corporation Limited by 6 months from the date of 01.04.2020

44.1 Capital commitments

The Company has no commitments for acquisition of Property, Plant & Equipment and Intangible assets incidental to the ordinary course of business.

44.2 Litigation filed by the Company/ against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigation against the Company as at 31 Mar 2020 which would have a material impact on the Financial Statements.

45. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date of the financial statements are authorised to issue.

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

46. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with the parties who are defined as Sri Lanka Accounting Standard No.24 Related Party Disclosure, details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

46.1 Parent and Ultimate Controlling Party

The Company is 86.70% owned by LCB Limited. Hence, LCB Limited is the parent company and the ultimate controlling party.

47. RELATED PARTY TRANSACTIONS

47.1 Transactions with Key Managerial Personnel

According to Sri Lanka Accounting Standard-LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all of the three activities mentioned in the above definition(i.e. planning, directing and controlling the activities of the entity). Such KMPs include the Board of Directors of the Company Managing Director and the KMPs of the Lanka Credit and Business Finance Ltd.

	2019/2020	2018/2019
	Rs.	Rs.
Remuneration and other expenses of directors	4,840,000	3,370,000
Total	4,840,000	3,370,000

The Company has also paid for fuel benefits to KMP who are employees of the Company in line with the approved benefit plans of the Company.

47.2 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)

47.2.1 Loans and advances granted to KMPs are detailed below.

	31-Mar-20	31-Mar-19
	Rs.	Rs.
Loans granted during the year	137,562,527	37,008,000
Loans held at the end of the year	102,212,527	31,843,484
Interest receivable on loan	-	1,093,336
Interest received on Loans	7,302,376	756,528

47.2.2 Deposits and Borrowings from KMPs are detailed below.

	31-Mar-20	31-Mar-19
	Rs.	Rs.
Term/Savings deposits accepted during the year	5,490,246	82,197,593
Term/Savings deposits held at the end of the year	6,570,444	44,723,306
Interest payable on Term/Savings deposits	-	1,699,387
Interest paid on Term/Savings deposits	375,047	80,000

No borrowing through debt instruments were made or no investments were made by key management personnel during the year 31 Mar 2020. (31 March 2019- Nil)

47.3 Transactions, Arrangements and Agreements involving with Related Entities of KMPs

47.3.1 Due from Related party

	31-Mar-20	31-Mar-19
	Rs.	Rs.
Lanka Credit and Business Ltd	7,751,888	7,751,888

The detailed movement of the transactions made with the Lanka Credit and Business Ltd is shown bellow

The transactions made with the Parent Company is as follows.

	31-Mar-20	31-Mar-19
	Rs.	Rs.
Cash Investments made during the year	140,000,000	1,005,000,000
Expences incured by LCB Finance Company Limited on behalf of the parent	-	3,940,950
Total Assets transferred	-	1,007,568,330
Total Liabilities transferred	-	648,425,710
Net assets Transferred from LCB Limited	-	359,142,620

48. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of the Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by the Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed finance companies. Accordingly finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 10.5% and a minimum core capital adequacy ratio (Tier I) of 6.5%.The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.

LCB Finance Company Limited is in compliance with the minimum core capital set out in terms of Section 2.1 of Finance Business Act Direction No. 02 of 2017 following the decision by CBSL to defer the requirement of Rs 2.0 Bn until 31.12.2020. The company has a plan to raise additional capital to fill the gap until 2Bn.

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Capital Adequacy

Capital Adequacy is one of the Key measures which shows the financial strength and the stability of a finance company. By having a healthy capital adequacy ratio, LCB Finance Limited can create confidence among its investors and create a positive image among prospective investors. Central bank of Sri Lanka issued a new direction (Finance Business Act Direction No. 03 of 2018) with effect from 01st July 2018. The New Capital adequacy framework has introduced a more risk sensitive approach covering credit risk and operational risk. Market risk was not considered under this framework because the sector exposure to market risk was considered to be minimal.

In accordance with Finance Business Act Direction No. 03 of 2018, every finance company shall at all times maintain the minimum capital adequacy ratios of Tier I - 6.5% and Tier II - 10.5% in relation to total risk weighted assets. Tier I, Tier II and Risk weighted assets are defined under this new capital adequacy framework as follows.
TIER I -CORE CAPITAL

Tier I capital represents the core capital of the company. Core capital includes shareholder's equity and reserves

$$\text{Tier I Ratio} = \frac{\text{Tier I Capital}}{\text{Total Risk Weighted Amount}}$$

TIER II-SUPPLEMENTARY CAPITAL

Tier II capital represents supplementary capital such as instruments containing characteristics of equity and debt, revaluation gains and general provisioning/impairment allowances.

$$\text{Total Capital ratio} = \frac{\text{Total Capital}}{\text{Total Risk Weighted Amount}}$$

Risk Weighted Assets
Risk weighted assets are a measure of company's assets and off balance sheet exposures, weighted according to their risks, with each asset class assigned a different risk weightage.

As at 31 March 2020, the Company maintained a Tier I Capital ratio of 28.68% and a Total Capital ratio of 28.68% same as Tier I ratio because LCB Finance Limited has no any debt capital as at 31 march 2020. Finally, Tier 1 ratio and Total Capital ratio are above the minimum regulatory requirements set by CBSL.

Item	**Amount Rs "000"**
Tier 1 Capital	1,177,471
Total Capital	1,177,471
Total Risk Weighted Amount	4,105,447
Risk Weighted Amount for Credit Risk	3,526,736
Risk Weighted Amount for Operational Risk	578,711
Tier 1 Capital %	28.68
Total Capital Ratio %	28.68

Glossary of financial terms

A

ACCOUNTING POLICIES
Principles, bases, conventions, rules and practices that are applied in recording transactions and in preparing and presenting Financial Statements.

ACCRUAL BASIS
The system of accounting wherein revenue was recognized at the time it is earned and expenses at the time they are incurred, regardless of whether cash has actually been received or paid out.

ALLOWANCE FOR IMPAIRMENT
Provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

AMORTIZED COST
The systematic allocation of the depreciable amount of an intangible asset over its useful life. The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any deduction (directly or through the use of an allowance account) for impairment or uncollectability.

ASSET AND LIABILITY COMMITTEE (ALCO)
The committee that is responsible for managing assets and liabilities of the Company.

AVERAGE WEIGHTED DEPOSIT RATE (AWDR)
AWDR is calculated by the Central Bank on a monthly basis based on the weighted average of all outstanding interest bearing deposits of commercial banks and the corresponding interest rates. Average weighted prime lending rate (AWPLR) is calculated by the Central Bank weekly based on commercial bank's lending rates offered to their prime customers during the week.

B

BASIS POINT (BP)
One hundred of a percentage point (0.01 per cent); 100 basis points are 1 percentage points: Used in quoting movements in interest rates or yields on securities.

C

CAPITAL ADEQUACY RATIO
The relationship between capital and risk weighted assets as prescribed by the Central Bank of Sri Lanka.

CASH EQUIVALENTS
Short-term, highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Flows
Inflows and outflows of cash and cash equivalents.

Cash Generating Unit (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Collectively Assessed Impairment
Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

Contractual Maturity
Contractual Maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

Commercial Paper (CP)
An unsecured, short-term debt instrument issued by a company, typically for the financing of accounts receivable, inventories and meeting short-term liabilities.

Commitments
Credit facilities approved but not yet disbursed to the customers as at the date of the Statement of Financial Position.

Contingencies
A condition or situation existing at reporting date, where the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or nonoccurrence of one or more uncertain future events.

Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of the entity, the supervision of executive actions and accountability to owners and other stakeholders.

COST METHOD
A method of accounting whereby the investment is recorded at cost. The income statement reflects income from the investment only to the extent that the investor receives distributions of accumulated net profits of the investee rising subsequent to the date of acquisition.

Cost/Income Ratio
Operating expenses, excluding the impairment charge as a percentage of net operating income (net of interest expenses).

Credit Ratings
An evaluation of a corporate's ability to repay its obligation or the likelihood of non-defaulting, carried out by an independent rating agency.

Credit Risk
Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

CUSTOMER DEPOSITS
Money deposited by account holders. Such funds are recorded as liabilities.

D

DEFERRED TAXATION
The Sum set aside for income tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

DEPRECIATION
The systematic allocation of the depreciable amount of an asset over its useful life.

DERECOGNITION
Removal of a previously recognized financial asset or liability from an entities Statement of Financial Position.

DISCOUNT RATE
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

E

EARNINGS PER SHARE (EPS)
Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue. Indicates the proportion of current year's earnings attributable to an ordinary share in issue.

EFFECTIVE INTEREST RATE (EIR)
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

EFFECTIVE TAX RATE
Provision for taxation, including deferred tax divided by the profit before taxation.

EQUITY METHOD
This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

Events after the Reporting Period
Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized to issue.

Exposure
A claim, contingent claim or position which carries a risk of financial loss.

Equity Instrument
Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Equity
Total of shareholders' funds: share capital + statutory reserves + other reserves.

Expected Credit Loss
The amount expected to be lost on an exposure over the life of the asset. ECL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

Exposure at default
A claim, contingent or position which carries a risk of financial loss.

F

FAIR VALUE
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FAIR VALUE THROUGH PROFIT OR LOSS
A financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as fair value through profit or loss.

FINANCE LEASE
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time, which is sufficient to amortize the capital outlay of the lessor. The lessor retains ownership of the asset, but transfers all risks and rewards of the ownership to the lessee.

FINANCIAL ASSETS
Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

FINANCIAL LIABILITIES
A contractual obligation to deliver cash or another financial asset to another entity.

G

GLOBAL REPORTING INITIATIVE (GRI)
GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisation to become more sustainable and contribute to sustainable development.

GEARING
Long-term borrowings divided by the total funds available for shareholders.

GOING CONCERN
The Financial Statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

GROSS DIVIDEND
The portion of profits distributed to the shareholders, including the tax withheld.

GUARANTEES
A promise made by a third party (Guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual obligations.

H

HIRE PURCHASE
A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

IMPAIRMENT
The value of an asset when the recoverable amount is less than its carrying amount.

IMPAIRED LOAN
Loans where the group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT ALLOWANCE FOR LOAN AND RECEIVABLE
The amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

INDIVIDUALY ASSESSED IMPAIRMENT
When the impairment is measured on an individual basis for non- homogenous groups of lending facilities that are considered as individually significant.

INTANGIBLE ASSETS
An intangible asset is an identifiable non-monetary asset without physical substance.

INTEGRATED REPORTING
A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long- term in its economic, social and environmental context.

INTEREST COVER
Earnings before interest and taxes for the year divided by total interest expenses. This provides the number of times interest expenses is covered before interest and tax; the ability to cover interest expenses.

INTERST IN SUSPENSE
Interest suspended for non-performing accommodations. (Leases, hire purchases, loans and other advances)

INTEREST MARGIN
Net interest income, expressed as a percentage of average total assets.

INTEREST RATE RISK
The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between the two rates, in the shape of the yield curve or in any other interest rate relationship.

INTERST SPREAD
The difference between the average yield a financial institution receives from loans and other interest-accruing activities and the average rate it pays on deposits and borrowings.

INVSTMENT PROPERTIES
Property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

INVESTMENT SECURITES
Securities acquired and held for yield and capital growth purposes which are usually held to maturity.

K

KEY MANAGEMENT PERSONNEL (KMP)
People having authority and responsibility for planning, directing and controlling the activities of an entity, either directly or indirectly. (The Board of Directors and Corporate Management).

L

LIQUID ASSETS
Assets that are held in cash or can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills and Bonds.

LIQUIDITY RISK
The risk that an entity will encounter due to difficulty in meeting obligations associated with financial liabilities.

LOANS PAYABLE
Loan payable is financial liabilities, other than short-term trade payable on normal credit terms.

LOANS AND RECEIVABLES
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

LOSS GIVEN DEFUALT
The estimated ratio (percentage) of the loss of an exposure to the amount outstanding in default upon default of counter party.

LOAN TO VALUE RATIO (LTV)
The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

M

MARKET CAPITALIZATION
The Number of ordinary shares in issue multiplied by the market value of a share as at date.

MARKET RISK
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates,credit spreads and other asset prices.

MATERIALITY
The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

NET ASSETS VALUE PER SHARE (NAV)
The total net asset value of a Company divided by the total number of ordinary shares in issue.

NET INTERST INCOME
Difference between revenue generated from interest bearing assets and interest incurred on interest bearing liabilities.

NET INTERST MARGIN (NIM)
Net interest income as a percentage of average assets.

NON PERFORMING LOANS/ADVANCES (NPL)
A sum of borrowed money upon which the debtor has not made scheduled payments above 180 days.

NPL RATIO
Total Non-Performing Accommodations (net of interest in suspense and other adjustments) divided by total accommodations (net of interest in suspense and other adjustments).

O
OPERATIONAL RISK
The losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P
PARENT
An entity that controls one or more subsidiaries.

PROBABILITY OF DEFULT (PD)
The probability that an obligor will default on an obligation within a given period of time.

PROJECTED UNIT CREDIT METHOD (PUC)
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (Sometimes known as the accrued benefit method pro-rated for service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income is not overstated and liabilities or expenses are not understated.

PROVISION
The amount of an expense that an entity elects recognize now, before it has precise information about the exact amount of the expense.

R
RELATED PARTIES
Parties where one party has the ability to control the other party or exercise a significant influence over the other party in making financial and operating decisions, directly or indirectly.

RELATED PARTY TRANSACTION
Is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged or not.

REPURCHASE AGREEMENT
Contracts to sell and subsequently repurchase securities at a specified price at a specified future date.

RETURN ON AVERAGE ASSETS (ROA)
Profit before tax divided by total average assets.

RETURN OF EQUITY
Profit after tax divided by total average equity.

RISK WIGHTED ASSET
On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by relevant factors weighted by risk.

S
SHAREHOLDERS' FUND
This consists of issued and fully paid up ordinary shares and reserves.

STATUTORY REVERSE FUND
A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 01 of 2003.

SPECIFIC IMPAIRMENT PROVISION
Impairment is measured individually for loans that are individually significant to the Company.

T
Tier I Capital – Core Capital
Representing permanent shareholders’ equity (paid-up shares) and reserves created or increased by appropriations of retained earnings or other surplus, i.e., retained profits and other reserves.

Tier II Capital
Supplementary capital representing revaluation reserves, general provisions and debt instruments such as subordinated term debts and other hybrid capital instruments which combine certain characteristics of equity and debt.

USEFUL LIFE
Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity

V
VALUE ADDED
The value of wealth created by providing financial and other related services less the cost of providing such services. The value added is allocated among employees, the providers of capital, to the government by way of taxes and retained for expansion and growth.

Y
YEILD
Rate or return on an investment in percentage terms taking into account annual income.

Investor Information

Information on Ordinary Shares

Share Holder Base

The Total Number of Ordinary voting shares 4,627,228,855 Ordinary Non voting shares 112,042,867 as at 31st March 2020

Top Twenty Shareholders

Ordinary Voting Shares

Top 20 shareholders-Lanka Credit and Business Finance Ltd- As at 31 March 2020

	Name of the Shareholder	No : of shares	Percentage
01	Lanka Credit and Business Limited	4,011,836,054	86.70%
02	Helios Ventures (Private) Limited	440,000,000	9.50%
03	Invest Lanka Investments(Private) Limited	100,000,000	2.16%
04	People's Leasing & Finance PLC	50,000,000	1.08%
05	Aspic Corporation Limited	24402288	0.52%
06	Iris Bertha De Costa	328,368	0.00%
07	Nawaloka Construction Com. Ltd	96,345	0.00%
08	Ananda Upali Wethasinghe	43,862	0.00%
09	Hema K. Wethasinghe	39,628	0.00%
10	Michael Lloyd Mack	38,718	0.00%
11	Reginald Frederick Poulier	37,800	0.00%
12	Kaluarachige Ananda Nimalachandra De Silva	28,738	0.00%
13	Fleur Annaleen Mack	19,359	0.00%
14	Mrs. Shiela Wambeek	17,437	0.00%
15	Wanniaratchige Newton Donald Chandraratne	16,592	0.00%
16	Rohan Rukmin Tudawe	15,423	0.00%
17	Bhadra Investments Ltd	15,400	0.00%
18	Electro Plastics Ltd	15,400	0.00%
19	Radio Electrons (Cable Industry)	15,400	0.00%
20	Don Bugghadasa Wethasinghe	13,809	0.00%
	Other	248,234	0.01%
	Total	**4,627,228,855**	**100%**

LCB සිහින

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- ***High Interest Rate***
- ***Short Term Flexible Investment Plan***
- ***Option to choose your Investment Plan***

LANKA CREDIT AND BUSINESS FINANCE LIMITED

(Formerly City Finance Corporation Limited)

FORM OF PROXY

I/We………
of……………………..………………………………………………………………being a Member/Members* of the above named Company, hereby appoint (1)…………………………………………………of………………………………………… ……………………………………...failing him/her.

2. Mr.W. M. A. Bandara	or failing him	7.Mr. U. K. H. R. Ranasinghe	or failing him
3. Mr.K. G. Leelananda	or failing him	8.Mr. A. G. M. Priyantha	or failing him
4. Mr. S. W. Subasinghe	or failing him	9.Mr. V. Lokunarangoda	or failing him
5. Mr.K. I. Weerasinghe	or failing him	10.Mr.G. K. Nanayakkara	or failing him
6. Mr. R. L. Masakorala	or failing him		

as my/our* Proxy to represent me/us* and vote and speak for me/us* on my/our* behalf at the 58th Annual General Meeting of Lanka Credit and Business Finance Limited to be held on 18th September 2020 at 9.00 am at The Auditorium of Public Library , Colombo Municipal Council , Colombo 7 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

I/WE INDICATE MY/OUR VOTE ON THE RESOLUTIONS BELOW AS FOLLOWS;

	For	Against
1. To receive and consider the Annual Report of the Board of Directors together with the Financial Statements of the Company for the year ended 31st March 2020 together with the report of the Auditors thereon.		
2. To re-appoint M/s. Earnest & Young Charted Accountants Charted Accountants as the Auditors to the Company for the ensuing year and to authorize the Directors to determine their remuneration.		

Signed this ……………day of…………………………..2020.

……………………………………
Signature of shareholder

Note:

i) Please delete the inappropriate words.

ii) Instructions for completion of Proxy are noted below.

iii) A proxy need to be a member of the Company.

iv) Please mark “X” in appropriate cages, to indicate your instructions as to voting.

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 No.59, Gregory’s Road, Colombo 07 not less than 48 hours before the time appointed for the holding of the meeting (Between 8.00 am to 5.00 pm)

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.

ATVITHTHRA
atviththra@gmail.com
0769952555 call or text
Whatsapp / Viber