LANKA CREDIT AND BUSINESS FINANCE LIMITED

FINANCIAL STATEMENTS

31 MARCH 2021

Building a better working world

Ernst & Young
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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 2021 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (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.

Other Information included in the 2021 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2021 annual report, but does not include the financial statements and our auditor's report thereon. The Company's 2021 annual report is expected to be made available after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance 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.

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Auditor's responsibilities for the audit of the Financial Statements

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

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

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

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

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

25 May 2021
Colombo

INCOME STATEMENT

Year ended 31 March 2021

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Income	7.	461,375,089	456,046,898
Interest Income	8.	456,255,319	423,691,108
Less: Interest expenses	9.	(108,199,704)	(131,466,397)
Net interest income		348,055,615	292,224,711
Fee and commission income	10.	29,024,159	29,070,915
Less: Fee and commission expenses		-	-
Net fee and commission income		29,024,159	29,070,915
Net Other Operating Income/(Expense)	11.	(23,904,388)	3,284,875
Total Operating Profit		353,175,385	324,580,501
Impairment(Charge)/Reversal on Loan and Receivables	12.	(22,885,058)	(100,901,199)
Net Operating Income		330,290,327	223,679,302
Less : Operating Expenses			
Personnel Costs	13.	(93,716,366)	(76,424,817)
Depreciation and Amortization	14.	(41,129,767)	(38,760,476)
Other Operating expenses	15.	(73,210,778)	(68,495,636)
		(208,056,913)	(183,680,929)
Operating Profit before Tax on Financial Services		122,233,416	39,998,373
Taxes on Financial Services	16.	(21,943,495)	(19,018,216)
Profit before tax		100,289,920	20,980,157
Less: Income tax (expense)/Reversal	17.	(75,286,361)	(9,547,327)
Profit for the Year		25,003,559	11,432,830
Basic earnings per share (Rs.)	18.	0.04	0.00
Dividend per share (Rs.)			

The accounting policies and notes on page 08 to 68 form an integral part of the Financial Statements.

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Lanka Credit and Business Finance Limited

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2021

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Profit for the year		25,003,559	11,432,830
Other comprehensive income/ (expenses)			
Other comprehensive income that will not to be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan	36.2	(749,914)	71,186
Deferred tax effect on actuarial gain/(loss)	31.0	179,979	(19,932)
		(569,935)	51,254
Other comprehensive income for the year, net of tax		(569,935)	51,254
Total comprehensive income for the year, net of tax		24,433,624	11,484,084
Attributable to :			
Equity holders of the parent company		24,433,624	11,484,084
		24,433,624	11,484,084

The accounting policies and notes on page 08 to 68 form an integral part of the Financial Statements.

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STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Assets			
Cash and Cash Equivalent	19	218,507,168	138,048,368
Financial Investment at amortised Cost	20	662,295,154	338,379,679
Financial assets at amortised Cost - Loans and Receivables	21	1,969,102,470	1,631,189,094
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	22	336,747,406	180,419,278
Other Financial Assets	23	7,763,678	10,217,388
Financial Assets Measured at Fair value through Profit or Loss	24	100,463,534	-
Financial Investment at Fair value through Other Comprehensive Income	25	315,813	315,813
Other Non Financial Assets	26	37,862,474	50,578,839
Investment Property	27	-	356,300,000
Property, Plant and Equipment	28	39,025,049	46,764,636
Right of Use Assets	29	52,982,570	69,231,233
Intangible Assets	30	42,186,213	3,335,801
Deferred Tax Asset	31	205,629,491	280,735,872
Total Assets		3,672,881,020	3,105,516,000
Liabilities			
Financial Liabilities at amortised Cost - Due to Banks	32	518,414,541	471,901,706
Financial Liabilities at amortised Cost - Due to customers	33	831,583,929	1,012,235,643
Other Financial Liabilities	34	175,135,322	126,255,481
Other Non Financial Liabilities	35	36,498,714	9,213,410
Retirement Benefits Liabilities	36	4,310,160	2,538,429
Total Liabilities		1,565,942,666	1,622,144,669
Equity			
Stated Capital	37	2,039,133,400	3,231,604,341
Reserves	38	41,070,101	39,819,923
Retained Earnings	39	26,734,853	(1,788,052,934)
Total Equity		2,106,938,354	1,483,371,330
Total Equity and Liabilities		3,672,881,020	3,105,516,000

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

....
Head of Finance

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 page 08 to 68 form an integral part of the Financial Statements.

ERNST & YOUNG
25 May 2021
Colombo
Chartered Accountants
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STATEMENT OF CHANGES OF EQUITY

Year ended 31 March 2021

	Stated Capital Rs. '000 (Note 37)	Retained Earnings Rs. '000 (Note 39)	Statutory Reserve Rs. '000 (Note 38)	Total Equity Rs. '000
Balance 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)	39,819,924	1,483,371,331
Prior year adjustment to opening profit	-	-	-	-
Adjusted Balance as at 01 April 2020	**3,231,604,341**	**(1,788,052,934)**	**39,819,924**	**1,483,371,331**
Net Profit / (loss) for the Year	-	25,003,559	-	25,003,559
Other Comprehensive Income Net of Tax	-	(569,935)	-	(569,935)
Transfer to Statutory Reserve Fund	-	(1,250,178)	1,250,178	-
Total Comprehensive Income for the Year, Net of Tax	-	23,183,446	1,250,178	24,433,624
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners				
Shares issue during the year	599,133,400	-	-	599,133,400
Capital Reduction from existing capital	(1,791,604,341)	1,791,604,341	-	-
Total Transactions with Equity Holders	(1,192,470,941)	1,791,604,341	-	599,133,400
Balance as at 31 March 2021	2,039,133,400	26,734,853	41,070,102	2,106,938,355

The accounting policies and notes on page 08 to 68 form an integral part of the Financial Statements.

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Lanka Credit and Business Finance Limited

STATEMENT OF CASH FLOWS

Year ended 31 March 2021

	Note	31.03.2021 Rs.	31.03.2020 Rs.
Cash Flows Used in Operating Activities			
Profit before tax from continuing operations		100,289,920	20,980,157
Adjustments for			
Depreciation and Amortization		41,129,767	38,760,476
Loss/(Profit)on Disposal of Property, Plant and Equipment		-	(683,311)
Provision/(Reversal) for Defined Benefit Plans		1,337,130	955,241
Loss/(Profit)on sale of Investment Property		45,300,000	(1,305,000)
Impairment release/(Charges) for loan and receivables		(303,694,156)	100,901,199
Impairment release/(Charges) for Cash & Bank Balances		217,985	244,329
Write off balances		326,361,229	-
Operating Profit before Working Capital Changes		210,941,875	159,853,092
Working Capital Adjustments			
(Increase) / Decrease Hire Purchase Receivable		(156,024,954)	(25,684,682)
(Increase) / Decrease Loan Receivables		(360,385,171)	(360,835,681)
(Increase) / Decrease Other Financial assets		2,235,724	(11,990,339)
(Increase) / Decrease Other Non Financial assets		12,216,365	(28,354,194)
Increase / (Decrease) in Other Liabilities		85,302,195	25,239,496
Increase / (Decrease) in Due to Customers		(180,651,714)	127,584,969
Cash Flow from/(used in) Operating Activities		(386,365,679)	(114,187,338)
Gratuity Paid		(315,313)	-
Net Cash from Operating Activities		(386,680,991)	(114,187,338)
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment	28.1	(14,503,182)	(13,473,619)
Acquisition of Intangible Assets	30	(41,488,747)	(329,817.00)
Acquisition of Investments		(424,379,008)	(11,592,316)
Proceeds from Sales of Investment property and PPE		311,000,000	18,705,000
Net Cash Flows from/(Used in) Investing Activities		(169,370,937)	(6,690,752)
Cash Flows from (used in) Financing Activities			
Proceeds from Issuance of Share Capital	37	599,133,400	140,000,000
Proceeds from Interest Bearing Loans & Borrowings	32.2	5,026,960	60,293,296
Payment of Capital portion of Lease Liabilities	29.2	(9,137,052)	(6,534,908)
Net Cash used in Financing Activities		595,023,308	193,758,387
Net Increase in Cash and Cash Equivalents		38,971,379	72,880,297
Cash and Cash Equivalents at the beginning of the year		130,952,510	58,072,213
Cash and Cash Equivalents at the end of the year		169,923,889	130,952,510

The accounting policies and notes on page 08 to 68 form an integral part of the Financial Statements.

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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 2021 was authorized for issue in accordance with a Resolution of the Board of Directors on 25 May 2021.

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 "SLFRS").

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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 profit or loss at fair value (Note 24)
- Financial Assets at fair value through other comprehensive income (applicable from 1st April 2018) at fair value (Note 25)
- Investment properties, which is measured at cost at the time of acquisition subsequently, measured at fair value, which reflects market conditions at the reporting date (Note 27)
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation based on actuarial valuation (Note 36)

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.

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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.

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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 40 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 40 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 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 Fair Valuation 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 27 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 36 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.

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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

When COVID–19 commenced spreading across nations the World Health Organization ("WHO") declared Covid-19 as a global pandemic in March 2020,

Several levels of public health measures, including nationwide curfew, travel bans and border closures were introduced by the government to inhibit the spread of COVID-19 pandemic. These measures introduced to safeguard the citizens of Sri Lanka also caused enormous impact on the lives of communities and repercussions on the national economies and our global trade.

The impact of island wide curfew prevented access to office and the company reacted by adopted the "work from home" model and facilitated the key management personnel to work from home.

As the announcement by the Government that Non-Bank Financial Institutions are an essential Service Provider as we operated our critical functions to ensure uninterrupted service to our valued customers such as servicing Fixed Depositors timely interest payments and executing standing orders.

The Company could maintain a healthy liquidity position even during the hard time of outbreak due to daily monitoring of cash flow requirement, and adopting all possible cost reduction measures.

The Central Bank of Sri Lanka (CBSL) issued circular No.04 and 05 of 2020 on debt moratorium for performing borrower's creating a direct impact to instalments rental collection of the Company.

However, the Management introduced procedures to entertain all applications for moratorium from eligible borrowers ensuring the Covid – 19 impacted customers are given the relief envisaged by the aforesaid circulars of CBSL and addenda thereto.

The CBSL introduction of Covid-19 moratorium, other relief measures and the Government's decision of country lock down will have negative consequences on the Company's performance. The Company has assessed the probable impact stemming from Covid – 19 outbreak and the key assessments are listed below.

- Based on the available information and management's best judgement, it is determined the appropriateness of the Going concern assumptions in preparing Financial Statements for the year ended 31 March 2021.
- Despite the difficulties in collecting the company dues, the Company was able to maintain a stable liquidity position and safeguard the interest of the stakeholders.
- The available excess investment and were used as a cushion to absorb any sudden liquidity shocks.
- A cost control mechanism was introduced at different operational levels in the Company.

As the actual economic conditions are likely to be different from the anticipated events assumptions are subject to certain level of uncertainty and are beyond the control of the Company. Therefore, the effect of those differences may have significant impact on accounting judgement and estimates included in the Financial Statements.

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

Financial Reporting impact due to COVID 19 Guidance notes on accounting considerations of the COVID 19 outbreak issued by Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has provided following measures which have been applied in preparation of these Annual Financial Statements;

- In relation to Expected Credit Loss Assessment Company has used Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustments in comparison to the industry averages after making necessary risk adjustments to elevated risk industries to assess the expected credit losses as at 31 March 2021 due to uncertainties and lack of sufficient information available to make any adjustments to factor the impact of COVID 19. Moreover, the Company has increased the weightages assigned to worst case scenarios as at 31 March 2021 to capture potential impact of COVID 19.
- With the COVID 19 outbreak the Company has introduced more rigour to its existing processes to manage the liquid assets at the required levels. While closely monitoring any changing circumstances with regard to the pandemic the Company has been able to maintain its liquid assets. Thereby mitigating any adverse effects on the liquidity arising due to this continuous developing nature of the pandemic. The Company has been able to maintain the liquidity ratio prescribed by the Directions of the Central Bank of Sri Lanka.
- Stringent cost control mechanisms were followed to ensure an effective cost model in the Company
- The Company has been critically assessing estimates, judgements and assumptions used in the preparation of the financial statements during the pandemic times which affects the Company's economic conditions.
- Other potential COVID 19 impacts were evaluated in the preparation of the Financial Statements. For this the external publications and the market communication networks were researched and reviewed.
- Contemporary market practices and trends and the regulatory pronouncements were assessed and considered to ensure the completeness of the impacts assessed in the preparation of the financial statements.
- Determined the COVID 19 effects on the reported amounts and disclosures of the Financial Statements and ensured the completeness of the financial statement amounts and disclosures accordingly.

4. SUMMARY OF SIGNIFICANT ACCOUTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these 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 contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal 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.

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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.

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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.

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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.

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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 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.

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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.

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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.

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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 4.1.7(a).

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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.

At the commencement date of a lease, the Company recognise a liability to make future lease payments (i.e., the lease liabilities) and an asset representing the right to use of the underlying asset during the lease term (i.e., the right-of-use asset), the interest expense on the lease liabilities and the depreciation expense on the right-of-use asset are recognized separately in line with the requirements of SLFRS 16-Leases.

Further the lease liabilities will be remeasured upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The Company will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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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.

(a) 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.

d) Amortization of Right to Use Asset

Company amortized it's Right to Use Assets over the lease period of the respective asset

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.

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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.

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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%
Computer Software- E-finance system	10%

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.

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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
Computer software (new e-finance system)	10 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.

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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).

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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 Overdue 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.

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(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 17 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.

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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.

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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.

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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.

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5. CHANGES IN ACCOUNTING POLICIES

There are no changes in Accounting Policies when compared to the previous accounting period.

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

The new and amended standards and interpretations that are issued, but not yet effective, upto the date of issuance of Financial Statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

6.1 Amendments to SLFRS 09, LKAS 39, SLFRS 07, SLFRS 04 and SLFRS 16: Interest Rate Benchmark Reform (Phase 1 & 2)

The amendments to Sri Lanka Accounting Standard - SLFRS 09 (Financial Instruments) & Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments Recognition & Measurement) provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 1 January 2021.

6.2 Amendments to SLFRS 16: COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying Sri Lanka Accounting Standard - SLFRS 16 (Leases) guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from COVID-19 related rent concession the same way it would account for the change under SLFRS16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020.

None of the new or amended pronouncements are expected to have a material impact on the Financial Statements of the Company in the foreseeable future.

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7. INCOME

	31.03.2021 Rs.	31.03.2020 Rs.
Interest Income (Note 8)	456,255,319	423,691,108
Fee and Commission Income(Note 10)	29,024,159	29,070,915
Other Operating Income (Note 11)	(23,904,388)	3,284,875
	461,375,089	456,046,898

8. INTEREST INCOME

	31.03.2021 Rs.	31.03.2020 Rs.
Interest Income on Loans and Advances (Note 8.1)	340,695,691	337,605,853
Interest Income on Lease and Hire Purchases (Note 8.2)	52,349,578	41,995,755
Interest Income on Financial Investments	54,109,986	43,893,474
Penalty Interest	9,100,064	196,027
	456,255,319	423,691,108

8.1 Interest Income on Loans and Receivables

	31.03.2021 Rs.	31.03.2020 Rs.
Interest Income on Term Loans	288,391,250	271,881,146
Interest Income on Housing Loans	37,815,685	52,225,081
Interest Income on Gold Loans	14,488,756	13,499,626
Interest Income on Factoring	-	-
	340,695,691	337,605,853

8.2 Interest Income on Lease & Hire Purchases

Interest Income on Lease	40,547,614	25,889,347
Interest Income on Hire Purchase	11,801,964	16,106,408
	52,349,578	41,995,755

9. INTEREST EXPENSE

	31.03.2021 Rs.	31.03.2020 Rs.
Due to Banks	46,794,005	68,672,556
Due to Customers (Note 9.1)	61,405,699	62,793,841
	108,199,704	131,466,397

9.1 Due to Customers

Interest Expense on Fixed deposits	54,410,978	56,357,443
Interest Expense on Savings	6,994,721	6,436,398
	61,405,699	62,793,841

10. NET FEE AND COMMISSION INCOME

	31.03.2021 Rs.	31.03.2020 Rs.
Documentation and processing fees	29,024,159	29,070,915
	29,024,159	29,070,915

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11. NET OTHER OPERATING INCOME/(EXPENSE)

	31.03.2021 Rs.	31.03.2020 Rs.
Gain/(loss) from disposal of Investment property(Note 11.1)	(45,300,000)	1,305,000
Consumer Loan Commision Income	373,500	
Dividend Income	320,000	280,000
Gain/(Loss) on sale of Property Plant and Equipment	-	683,311
Other income	20,702,112	1,016,565
	(23,904,388)	3,284,875

11.1 Gain/(loss) from disposal of Investment property

Sales Proceeds	311,000,000	17,205,000
Cost	(356,300,000)	(15,900,000)
Gain/(Loss)	(45,300,000)	1,305,000

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

12.1 Collective

		31.03.2021 Rs.	31.03.2020 Rs.
Loans and Advances	21.2	20,834,545	90,416,186
Lease rentals receivables and Hire Purchases	22.2	1,026,042	15,895,779
Other Financial Assets		217,985	244,329
		22,078,572	106,556,294

12.2 Individual

Loans and Advances	1,637,250	(1,009,089)
Lease Rentals Receivable & Stock Out on Hire	(1,330,763)	(4,646,006)
Other Sundry Receivable	500,000	-
	806,487	(5,655,095)

Total Impairment charges/ (Reversal) for Loans and Advances and Cash ,Bank & Other assets	22,885,058	100,901,199

12.3 The table below shows the expected credit loss (ECL) charges for financial instruments for the year 2020/2021 recorded in the income statement.

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Individually Rs.	Total Rs.
Loans and Advances	(3,319,537)	13,439,851	(24,242,116)	1,637,250	(12,484,553)
Lease rentals receivables and Hire Purchases	3,004,019	5,174,953	(297,983,310)	(1,330,763)	(291,135,101)
Write off	-	-	-	325,786,726	325,786,726
Other Debtors	217,985	-	-	500,000	717,985
	(97,533)	18,614,804	(322,225,426)	326,593,212	22,885,058

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 Rs.	Stage 02 Rs.	Stage 03 Rs.	Individually Rs.	Total 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	93,533,947	(5,655,095)	100,901,200

13. PERSONNEL COSTS

	31.03.2021 Rs.	31.03.2020 Rs.
Salaries and Other Related Expenses	78,742,636	63,708,209
Defined Contribution Plan cost EPF and ETF	7,186,601	6,921,367
Directors' emoluments	6,450,000	4,840,000
Provision for Gratuity	1,337,130	955,241
	93,716,366	76,424,817

14. DEPRECIATION AND AMORTIZATION

	31.03.2021	31.03.2020
	Rs.	Rs.
Depreciation of Property Plant & Equipment	22,242,769	21,851,041
Amortization of intangible assets	2,638,335	1,634,557
Depreciation of Leased Assets	16,248,663	15,274,879
	41,129,767	38,760,476

15. OTHER OPERATING EXPENSES

	31.03.2021	31.03.2020
	Rs.	Rs.
Audit and Non Audit Fee	1,621,695	1,620,525
Professional & Legal Expenses	6,706,645	2,458,060
Office Administration & Establishment Expenses	31,230,985	35,788,896
Advertising & Business Promotion Expenses	8,068,701	13,791,741
Other Operating Expenses	16,685,129	6,237,135
Interest Expenses on Leased Assets (Note 28)	8,897,625	8,599,280
	73,210,779	68,495,636

16. TAXES ON FINANCIAL SERVICES

	31.03.2021	31.03.2020
	Rs.	Rs.
Value Added Tax on Financial Services	21,943,495	12,560,015
Nation Building Tax on financial services	-	1,110,011
Debt repayment levy on financial services	-	5,348,190
	21,943,495	19,018,215

17. TAXATION

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

		31.03.2021	31.03.2020
(A)	**Statement of Profit or Loss**	Rs.	Rs.
	Current Income Tax		
	Income Tax for the year	-	-
	Deferred Tax		
	Deferred Taxation Charge/ (Reversal) (Refer Note 31)	75,286,361	9,547,327
		75,286,361	9,547,327
(B)	**Other Comprehensive Income**		
	Deferred Tax		
	Deferred Taxation Charge/ (Reversal) (Refer Note 31)		
		-	-
(C)	**Total Tax Expense for the year**	75,286,361	9,547,327

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17. TAXATION (Contd...)

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 2021 and 2020 is as follows.

	31.03.2021 Rs.	31.03.2020 Rs.
Accounting Profit Before Income Taxation	100,289,920	20,980,157
Adjustments		
Non-taxable Income/ Losses	44,980,000	(963,311)
Disallowable Expenses	101,922,521	167,346,672
Allowable Expenses	(378,072,144)	(144,252,963)
Loss on PPE disposal		683,311
Gain on Investment Property disposal	-	-
Total Statutory Income	(130,879,704)	43,793,868
Claim on Carried Forward Tax Losses	-	(43,793,868)
Taxable Income	NIL	NIL
Income Tax Rate (%)	24%	28%
Income Tax	-	-
Deferred Taxation Charge/(Reversal) (Note 30)	75,286,361	9,547,327
Total Tax Expense (Note 17.1 (A))	75,286,361	9,547,327
Effective tax rate	75%	46%

Revised income tax rates proposed to the Inland Revenue Act, No. 24 of 2017 by Circular No. PN/IT/2020-03 (Revised), be implemented with effect from January 01, 2020. On 23 April 2021, CA Sri Lanka issued Guideline on Application of Tax Rates in Measurement of Current Tax and Deferred Tax in LKAS 12 Income Tax to provide an interpretation on the application of tax rates which is substantively enacted in the measurement of current tax and deferred tax for financial reporting period ending 31st March 2021. Due to revised income tax rates from 28% to 24% deferred tax asset decreased by 34.2 Mn for the company.

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	31.03.2021	31.03.2020
Weighted Average Number of Ordinary Shares for Basic / Diluted EPS as at 1st April	4,739,271,722	4,062,554,034
Add : Weighted Average Number of shares issued under private placement	1,912,428,213	676,717,688
Weighted Average Number of Ordinary Shares for Basic / Diluted EPS as 31st March	6,651,699,935	4,739,271,722
Weighted Average Number of Ordinary Shares for Basic / Diluted EPS as 31st March (After consolidation of shares)	665,168,780	
Profit Attributable to Ordinary share holders	25,003,559	11,432,830
Basic/Diluted Earnings per Ordinary Share (Rs.)	0.0376	0.0021

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19. CASH AND CASH EQIVALENT

	31.03.2021 Rs.	31.03.2020 Rs.
Cash in hand	22,155,868	11,929,227
Balances with banks	133,241,054	38,710,813
Securities purchased under repurchase agreement maturing with in 3months	63,114,003	87,413,631
Cash and Cash Eqivalent before impairment	218,510,925	138,053,671
Less: Allowance for Impairment	(3,758)	(5,302)
Cash and Cash Eqivalent after impairment	218,507,168	138,048,368

19.1 CASH AND CASH EQIVALENT - CASH FLOW PURPOSE

Cash and Cash Eqivalent before impairment	218,510,925	138,053,671
Bank Overdraft	(48,587,036)	(7,101,161)
	169,923,889	130,952,510

20. FINANCIAL INVESTMENTS AT AMORTISED COST

	31.03.2021 Rs.	31.03.2020 Rs.
Fixed Deposit & Commercial Papers	662,509,381	338,948,878
Less: Allowance for Impairment	(214,227)	(569,199)
	662,295,154	338,379,679

21. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES

	31.03.2021 Rs.	31.03.2020 Rs.
Term Loans	1,719,661,182	1,508,977,286
Housing Loans	363,188,451	238,796,195
Gold Loans	84,543,985	71,756,637
Factoring Loans	29,737,000	74,053,459
Staff Loans	28,400,946	6,519,163
	2,225,531,564	1,900,102,740
Less : Allowance for Impairment Losses **(Note 21.1)**	(256,429,094)	(268,913,647)
	1,969,102,470	1,631,189,094

21.1 Analysis of Loans and Advances on Maximum Exposure to credit Risk as at 31 March 2021

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Loans and Advances	-	-	101,579,530	101,579,530
Loans and Advances subject to Collective Impairment	1,009,323,847	499,322,377	615,305,810	2,123,952,033
Allowances for Expected Credit Losses	(50,149,393)	(28,038,902)	(178,240,799)	(256,429,094)
Moratorium Loan Impairment				
	959,174,454	471,283,475	538,644,541	1,969,102,470

21.2 Allowance for Impairment Losses

	31.03.2021 Rs.	31.03.2020 Rs.
Movement of collective Impairment Allowance for Loans and Advances		
As at 01 April	227,614,583	137,198,397
Transferred during the year	-	
Net Impairment Charge / (Reversal) for the year	20,834,545	90,416,186
Write off during the year	-	-
Balance as at 31 March	248,449,127	227,614,583
Movement in Individual Impairment Allowance for Loans and Advances		
As at 01 April	41,299,064	42,308,153
Transferred during the year	-	-
Net Impairment Charge / (Reversal) for the year	1,637,250	(1,009,089)
Write off during the year	(34,956,347)	-
Balance as at 31 March	7,979,967	41,299,064
Individual Impairment	7,979,967	41,299,064
Collective Impairment	248,449,127	227,614,583
Moratorium Loan Impairment	-	-
	256,429,094	268,913,647

21. FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES (Contd...)

21.3

Movement in Allowance for Expected Credit Loss (ECL)	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2020	53,468,930	14,599,051	200,845,666	268,913,647
Transferred during the year	-	-	-	-
Charge/(Reversal) to Income Statement (Note 12.3)	(3,319,537)	13,439,851	(22,604,867)	(12,484,553)
Amounts written off	-	-	-	-
Balance as at 31 March 2021	50,149,393	28,038,902	178,240,799	256,429,094

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

	31.03.2021 Rs.	31.03.2020 Rs.
Gross rentals receivables	490,477,277	586,878,434
-Lease Rentals	424,591,890	416,532,257
-Amounts Receivable from Hirers	65,885,387	170,346,177
	490,477,277	586,878,434
Less: Unearned Income	(125,309,895)	(86,904,079)
Net rentals receivables	365,167,382	499,974,355
	365,167,382	499,974,355
Less : Allowance for Impairment Losses (Note 22.1)	(28,419,976)	(319,555,077)
Total net rentals receivable	336,747,406	180,419,278

22.1 Analysis of Lease Rental Receivable & Stock Out on Hire on Maximum Exposure to credit Risk as at 31 March 2021

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Lease Receivables	-	-	40,495,596	40,495,596
Lease Rental Receivable & Stock out of Hire subject to Collective Impairment	198,162,069	82,221,087	44,288,630	324,671,786
Allowances for Expected Credit Losses	(5,874,109)	(7,488,540)	(15,057,327)	(28,419,976)
	192,287,960	74,732,547	69,726,899	336,747,406

22.2 Allowance for Impairment Losses

	31.03.2021 Rs.	31.03.2020 Rs.
Movement In Individual Impairment Allowance For - Lease Rentals Receivable & Hire Purchase		
As at 01 April	295,749,873	300,395,879
Net Impairment Charge / (Reversal) for the year	(1,330,763)	(4,646,006)
Write off during the year	(290,430,702)	-
Balance as at 31 March	3,988,409	295,749,873
Movement in Collective Impairment Allowance for- Lease Rentals Receivable & Hire Purchase		
As at 01 April	23,805,204	7,909,425
Net Impairment Charge / (Reversal) for the year	1,026,042	15,895,779
Write off during the year	(399,678)	-
Balance as at 31 March	24,431,568	23,805,204
Individual Impairment	3,988,409	295,749,873
Collective Impairment	24,431,568	23,805,204
	28,419,976	319,555,077

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

22.3 As at 31 March 2021

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables	7,884,231	482,593,046	-	490,477,277
-Lease Rentals	1,954,283	422,637,607	-	424,591,890
-Amounts Receivable from Hirers	5,929,948	59,955,439	-	65,885,387
	7,884,231	482,593,046	-	490,477,277
Less: Unearned Income	(38,979,578)	(86,330,317)		(125,309,895)
Net rentals receivables	(31,095,347)	396,262,729	-	365,167,382
				365,167,382
Less : Allowance for Impairment Losses				(28,419,976)
Total net rentals receivable				336,747,406

As at 31 March 2020

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total 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
Less : Allowance for Impairment Losses				(319,555,077)
Total net rentals receivable				180,419,278

22.4 Movement in Allowance for Expected Credit Loss (ECL)

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2020	2,870,090	2,313,587	314,371,400	319,555,077
Charge/(Reversal) to Income Statement (Note 12.3)	3,004,019	5,174,953	(299,314,073)	(291,135,101)
Amounts written off	-	-	-	-
Balance as at 31 March 2021	5,874,109	7,488,540	15,057,327	28,419,976

23. OTHER FINANCIAL ASSETS

	31.03.2021 Rs.	31.03.2020 Rs.
Amount due from Holding Company	7,585,645	7,585,645
Prov. For Amount due from Holding Company	(7,585,645)	-
Other Receivables	7,763,678	2,631,743
	7,763,678	10,217,388

24. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OF LOSS

	31.03.2021 Rs.	31.03.2020 Rs.
Unit Trust	100,463,534	-
	100,463,534	-

25. FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.03.2021 Rs.	31.03.2020 Rs.
Investment in CRIB	315,813	315,813
	315,813	315,813

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26. OTHER NON FINANCIAL ASSETS

	31.03.2021 Rs.	31.03.2020 Rs.
WHT Receivable	5,250,682	7,678,050
Advance & Prepayments	23,451,084	4,821,870
Stationary and Gift stock	3,185,547	10,062,514
Other Non financial assets	5,218,521	28,016,405
NBT on Financial Services	756,640	-
	37,862,474	50,578,839

27. INVESTMENT PROPERTY

	31.03.2021 Rs.	31.03.2020 Rs.
Balance as at 1st April	356,300,000	372,200,000
Disposals	(356,300,000)	(15,900,000)
Balance as at 31st March	0.00	356,300,000

- 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 were held by the Company for capital appreciation and rental purposes. During the year 2020/21 land were sold out.

27.1 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
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio 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 (purchase)	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			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

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28. PROPERTY, PLANT AND EQUIPMENT

28.1 Gross Carrying Amounts

Cost	Balance As at 01.04.2020 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2021 Rs.
Freehold Assets				
Motor Vehicles	36,435,366	523,900	-	36,959,266
Machinery	4,371,727	292,680	-	4,664,407
Office Equipment	9,008,467	1,147,427	-	10,155,894
Furniture and Fittings	23,059,187	2,004,931	-	25,064,117
Fixture & Fittings	386,119	6,950	-	393,069
Name Board	6,620,440	2,981,049	-	9,601,489
Computer Equipment and Software	8,566,632	7,546,246	-	16,112,878
Total Value of Depreciable Assets	88,447,938	14,503,182	-	102,951,120

28.2 Depreciation

	Balance As at 01.04.2020 Rs.	Charge for the Period Rs.	Disposals Rs.	Balance As at 31.03.2021 Rs.
Motor Vehicles	16,151,831	9,758,950	-	25,910,781
Machinery	2,716,480	1,087,205	-	3,803,685
Office Equipment	4,712,926	2,407,962	-	7,120,888
Furniture and Fittings	10,072,257	4,846,633	-	14,918,890
Fixture & Fittings	118,637	79,659	-	198,296
Name Board	4,889,615	1,968,187	-	6,857,802
Computer Equipment and Software	3,021,557	2,094,172	-	5,115,729
	41,683,302	22,242,769	-	63,926,071

28.3 Net Book Values

	31.03.2021 Rs.	31.03.2020 Rs.
At Cost		
Motor Vehicles	11,048,485	20,283,536
Machinery	860,722	1,655,247
Office Equipment	3,035,006	4,295,541
Furniture and Fittings	10,145,228	12,986,930
Fixture & Fittings	194,773	267,482
Name Board	2,743,687	1,730,826
Computer Equipment and Software	10,997,149	5,545,076
Total Carrying Amount of Property, Plant & Equipment	39,025,049	46,764,636

28.4 During the Financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs.14,503,182. (2020/19 - 13,473,619).

28.5 Cost of fully depreciated assets of the company as at 31 March 2021 is Rs.11,896,686.90. (2020/19 - 8,357,413/-).

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29. RIGHT OF USE ASSETS

Set out below are the carrying amounts of right-of-use-assets recognised and movements during the year.

29.1 Cost

	31.03.2021	31.03.2020
	Rs.	Rs.
Balance as at 01 April	84,506,112	-
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	84,506,112	84,506,112
Accumulated Amortisation		
Balance as at 01 April	(15,274,879)	-
Charge for the year (Note 14)	(16,248,663)	(15,274,879)
Accumulated Amortisation as at 31 March	(31,523,542)	(15,274,879)
Net Book Value as at 31 March	52,982,570	69,231,233

29.2 Lease Liability

Set out below are the carrying amounts of Lease Liabilities (Included under Other Financial Liabilities in Note 34) and movements during the year

	31.03.2021	31.03.2020
	Rs.	Rs.
Balance as at 01 April	64,063,179	-
Effect of Adoption SLFRS 16 as at 01 April 2019	-	57,037,834
Additions	-	13,560,253
Accretion of Interest (Note 15)	8,897,625	8,599,280
Payments	(18,034,676)	(15,134,188)
Balance as at 31 March	54,926,127	64,063,179

29.3 Maturity Analysis of Lease Liability

	31.03.2021	31.03.2020
	Rs.	Rs.
As at 31 March		
Less than 01 year	12,251,524	15,507,622
02 to 05 years	42,674,603	36,745,433
More than 05 years	-	11,810,124
	54,926,127	64,063,179

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29. RIGHT OF USE ASSETS (Contd...)

29.4 Reconciliation of Operating Lease Commitments

	31.03.2021 Rs.	31.03.2020 Rs.
Operating Lease Commitments as at 31 March	64,063,178	94,706,056
Impact on discounting	(9,137,051)	(37,173,735)
New branches opening during the period	-	6,530,857
Lease Liability as at 31 March	54,926,127	64,063,178

*The Present value of operating lease commitments as at 31 March 2021 has been calculated using weighted average incremental borrowing rate of 15% for the Company.

29.5 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 2021 would have impact the lease liability by approximately Rs.417,601/(Rs. 436,341) respectively with a similar increase/(decrease) in the Right- of-use Assets. The impact on company's profit before tax for the year would (decrease)/increase by approximately (Rs.98,834)/Rs. 106,134 respectively.

30. INTANGIBLE ASSETS

	31.03.2021 Rs.	31.03.2020 Rs.
Computer Software		
Cost		
Cost as at 01 April	5,834,789	5,504,972
Transfers	-	-
Additions and Improvements	41,488,747	329,817
Cost as at end of the year	47,323,536	5,834,789
Amortisation & impairment		
Cost as at 01 April	(2,498,988)	(864,432)
Charge for the year	(2,638,335)	(1,634,557)
Amortisation as at end of the year	(5,137,323)	(2,498,988)
Net book value as at end of the year	42,186,213	3,335,801

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. In year 2020/21 company has acquired new computer system for 41 Mn and its amortized over the estimated useful life of 10 years on a straight line basis.

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31. 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	
	31.03.2021	31.03.2020	31.03.2021	31.03.2020	31.03.2021	31.03.2020
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Deferred Tax Liability						
Capital Allowances for Tax Purposes						
-Property Plant & Equipment	86,373	(1,194,318)	-	-	1,280,691	(2,618,305)
-Intangible Assets	2,286,840	336,129			1,950,711	501,[illegible]00
Fair value gain on Investment Property	-	19,376,685	-	-	(19,376,685)	(840,600)
	2,373,213	18,518,496	-	-	(16,145,283)	(2,957,405)
Deferred Tax Assets						
Capital Allowances for Tax Purposes - Leased Assets	(466,453)	1,447,056	-	-	(1,913,509)	1,447,056
Provision for Impairment on Financial Assets	44,679,635	118,126,333	-	-	(73,446,698)	(436,[illegible]25)
Defined Benefit Plans	1,034,438	710,760	179,979	(19,932)	143,699	123,556
Defined Benefit Plan- Other Comprehensive Income	-	-	-	-	-	143,911
Brought Forward Tax Losses	162,755,084	178,970,219	-	-	(16,215,135)	(13,782,830)
	208,002,704	299,254,368	179,979	(19,932)	(91,431,644)	(12,504,[illegible]32)
Deferred income tax charge/(reversal)			179,979	(19,932)	75,286,361	9,547,[illegible]27
Net Deferred Tax Liability/ (Asset)	(205,629,491)	(280,735,872)				

Deferred Tax asset is recognised by considering the brought forward tax losses and temporary difference of impairment provision for loans and advances. The Company is planning to go for an Initial Public Offering during next Financial Year. 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.

32. DUE TO BANKS

	31.03.2021	31.03.2021
	Rs.	Rs.
Bank Overdrafts	48,587,036	7,101,160
Securitised Borrowings and Other Bank Facilities (Note 32.1)	469,827,505	464,800,546
	518,414,541	471,901,706

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32. DUE TO BANKS (Contd...)

32.1 Due to Banks

	31.03.2021 Amount repayable within 1 year Rs.	31.03.2021 Amount repayable after 1 year Rs.	31.03.2021 Total Rs.	31.03.2020 Amount repayable within 1 year Rs.	31.03.2020 Amount repayable after 1 year Rs.	31.03.2020 Total Rs.
Bank Overdrafts	48,587,036	-	48,587,036	7,101,160	-	7,101,160
Term Loan facilities from Banks	130,758,526	339,068,979	469,827,505	141,474,351	323,326,195	464,800,546
	179,345,562	339,068,979	518,414,541	148,575,511	323,326,195	471,901,706

32.2 Term Loan facilities from Banks

	As at 01.04.2020 Rs.	Loans Transferred Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Repayments Interest Rs.	As at 31.03.2021 Rs.	Period Rs.	Security Rs.
Direct Bank Borrowings									
Term Loans									
LOLC PLC	-	-	-	-	-	-	-		
Term Loan 01 - Sampath Bank PLC	183,662,000	-	-	14,116,410	51,600,000	17,297,695	128,880,715	5 Years	Personal Guarantee
Term Loan 02 - Sampath Bank PLC	25,814,000	-	-	2,356,612	8,340,000	2,597,931	17,232,681	5 Years	Personal Guarantee
Term Loan 03 - Sampath Bank PLC	-	-	-	-	-	-	-		
Sri Lanka Saving Bank Ltd	4,781,945	-	-	327,251	4,627,778	327,251	154,167	3 years	Personal Guarantee
Sri Lanka Saving Bank Ltd	-	-	100,000,000	2,777,256	3,782,943	2,777,256	96,217,057		
Term Loan 01 Cargills Bank	78,332,900	-	3,891,475	8,476,426	10,927,816	7,453,504	72,319,480	5 years	Personal Guarantee
Term Loan 02 Cargills Bank	163,150,000	-	8,881,389	16,386,663	22,670,926	14,865,428	150,881,698	5 years	Fixed Deposit
Commercial Bank of Ceylon PLC	-	-	-	-	-	-	-		
Hatton National Bank PLC	3,120	-	-	-	3,120	-	-	5 years	Personal Guarantee
Reverse Repo	-	-	-	-	-	-	-		
Sampath Bank PLC	9,056,580	-	-	917,077	4,914,873	917,077	4,141,707	4 years	Motor Vehicle
Bank Overdrafts	7,101,160	-	-		7,094,971	-	48,587,036		
	471,901,705	-	112,772,864	45,357,694	113,962,430	46,236,141	518,414,541		

	As at 01.04.2019 Rs.	Loans Transferred Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital/Capital Write off Rs.	Repayments Interest/Interest Write-off Rs.	As at 31.03.2020 Rs.	Period Rs.	Security 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	Property Mortgage
Term Loan 02 Cargills Bank	-	-	200,000,000	20,698,967	36,850,000	20,698,967	163,150,000	5 years	Property Mortgage
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	Motor Vehicle
Bank Overdrafts	14,827,747	-	-		7,726,587	-	7,101,160		
	419,334,997	-	700,047,586	68,672,558	647,161,451	68,991,985	471,901,706		

33. FINANCIAL LIABILITIES AT AMORTISED COST- DUE TO CUSTOMERS

	31.03.2021	31.03.2020
	Rs.	Rs.
Fixed Deposits	618,181,876	848,901,716
Savings Deposits	179,453,834	140,701,246
Interest Payable	33,948,219	22,632,681
	831,583,929	1,012,235,643

34. OTHER FINANCIAL LIABILITIES

	31.03.2021	31.03.2020
	Rs.	Rs.
Lease Creditors	54,926,127	64,063,179
Other Payables (Note 34.1)	115,726,682	56,564,124
Provisions and accruals (Note 34.2)	4,482,512	5,628,176
	175,135,322	126,255,479

34.1 Other Payables

	31.03.2021	31.03.2020
	Rs.	Rs.
Advance received from customers	-	34,884,285
Long Term Investment Payable	100,000,000	-
Other Payables	15,726,682	21,679,839
	115,726,682	56,564,124

34.2 Accrued Expenses

	31.03.2021	31.03.2020
	Rs.	Rs.
Salary Payable	175,752	147,862
Professional fee Payable	1,083,805	1,418,080
Other Expenses Payable	3,222,955	4,062,235
	4,482,512	5,628,176

35. OTHER NON FINANCIAL LIABILITIES

	31.03.2021	31.03.2020
	Rs.	Rs.
Payable - EPF	827,083	1,592,983
Payable - ETF	121,007	223,765
Payable - PAYE Tax	(58,114)	(109,418)
Payable for VAT on Financial Services	1,006,258	(6,701,981)
Other Payable	33,482,408	17,402,302
Other Tax	1,120,071	(3,194,241)
	36,498,714	9,213,410

36. RETIREMENT BENEFIT OBLIGATIONS

	31.03.2021	31.03.2020
	Rs.	Rs.
Balance at the beginning of the year	2,538,429	1,654,374
Current Service Cost	1,086,587	773,260
Payments made during the year	(315,313)	-
Interest Charged/(Reversed) for the year	250,543	181,981
(Gain)/loss arising from changes in the assumption	749,914	(71,186)
Balance at the end of the year	4,310,160	2,538,429

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36.1 Expenses on Defined Benefit Plan

	31.03.2021	31.03.2020
	Rs.	Rs.
Current Service Cost for the year	1,086,587	773,260
Interest Charge for the year	250,543	181,981
	1,337,130	955,241

36.2 Amount Recognized in the Other Comprehensive Income

(Gain)/Loss arising from changes in the assumption (Note 36)	749,914	(71,186)
	749,914	(71,186)

Actuarial valuation of Retiring Gratuity Obligation as at 31 March 2021 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'.

36.3 Assumptions

	31.03.2021	31.03.2020
36.3.1 Financial Assumptions		
Discount Rate	8.00%	9.87%
Salary Increment Rate	6% p.a.	8% p.a.
36.3.2 Demographic Assumptions		
Staff Turnover	25%	25%
Retirement Age	57 years	57 years
Mortality	A1967/70 Mortality table	A1967/70 Mortality table

Expected average future working life of the active participants is 3.47 year (2020: 3.45 years)

36.4 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.

		2021		2020	
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%	-	(123,557)	123,557	(76,383)	76,383
-1%	-	130,879	(130,879)	81,046	(81,046)
-	1%	147,808	(147,808)	48,720	(48,720)
-	-1%	(141,872)	141,872	(46,970)	46,970

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36. RETIREMENT BENEFIT OBLIGATIONS (Contd...)

36.5 Maturity Profile of the Defined Benefit Obligation Plan

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

	31.03.2021	31.03.2020
	Years	Years
Weighted Average Duration of the Defined Benefit Obligation	3.15	3.37
Average Time to Benefit Payout	3.47	3.45
(Maturity Profile of Defined Benefit Obligation)-Present Value of Expected benefit Payments		
within the next 12 months	465,615	478,962
between 2 to 5 years	3,180,810	1,757,192
between 6 to 10 years	539,429	243,358
beyond 10 years	124,306	58,917
	4,310,160	2,538,429

37. STATED CAPITAL

37.1 Issued and Fully Paid-Ordinary Shares	31.03.2021		31.03.2020	
	No. of Shares	Rs.	No. of Shares	Rs. '000
At the Beginning of the Year	5,024,986,008	3,231,604,341	4,624,986,008	3,091,604,341
New share issued during the Year	1,626,713,927	599,133,400	400,000,000	140,000,000
Capital Reduction from existing capital		(1,791,604,341)	-	-
At the End of the Year	6,651,699,935	2,039,133,400	5,024,986,008	3,231,604,341
At the End of the Year (After consolidation of shares)	**665,168,780**	**2,039,133,400**		

37.2 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.

37.3 Capital Reduction

The company had brought forward losses of Rs. 1,798,965,375 as at 31st March 2019. The aforementioned losses adversely affected the company's ability to pay dividends to its shareholders since, in terms of the companies Act No. 7 of 2007, the "solvency test" requirements had to be satisfied prior to any dividend distribution in the future. The capital reduction was effected to improve the solvency margin of the company. Although this procedure reduced the stated capital attributable to the shareholders the number of ordinary shares held by each shareholder remain unchanged.

38. RESERVES

	Statutory Reserve	Total
	Rs.	Rs.
As at 31 March 2020	39,819,923	39,819,923
Transfers During the Year	1,250,178	1,250,178
As at 31 March 2021	41,070,101	41,070,101

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.

39. RETAINED EARNINGS

	31.03.2021	31.03.2020
	Rs.	Rs.
Balance as at 01 April	(1,788,052,934)	(1,798,965,376)
Dividend Paid	-	-
Profit for the Year	25,003,559	11,432,830
Other Comprehensive Income not to be Reclassified to Profit or Loss	(569,935)	51,254
Transfers During the Year (Note 4.33)	(1,250,178)	(571,641)
Capital Reduction from existing capital	1,791,604,341	-
Balance as at 31 March	26,734,854	(1,788,052,934)

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.

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40. 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 observerable inputs: Quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar assets and liabilities in active markets 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-21 Rs.					31-Mar-20 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 Measured at Fair value through Profit or L	100,463,534		100,463,534	-	100,463,534	-	-	-	-	-
Financial Investment as Fair Value through Other Compreh	315,813	-	-	315,813	315,813	315,813	-	-	315,813	315,813
TOTAL FINANCIAL ASSETS	100,779,346	-	100,463,534	315,813	100,779,347	315,813	-	-	315,813	315,813

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40. FAIR VALUE OF ASSET AND LIABILITIES (Contd...)

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-21 Rs.	Fair value measurement using				31-Mar-20 Rs.	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 at amortised Cost	662,295,154	-	662,295,154	-	662,295,154	338,379,679	-	338,379,679	-	338,379,679
Financial assets at amortised Cost - Loans and Receivables	1,969,102,470	-	1,575,188,399	-	1,575,188,399	1,631,189,094	-	1,553,430,251	-	1,553,430,25
Financial assets at amortised Cost - Lease rentals receivable	336,747,406	-	288,613,665	-	288,613,665	180,419,278	-	147,201,450	-	147,201,450
	2,968,145,030	-	2,526,097,218	-	2,526,097,218	2,149,988,051	-	2,039,011,380	-	2,039,011,380
FINANCIAL LIABILITIES										
Due to Customers	831,583,929	-	856,531,447	-	856,531,447	1,012,235,643	-	1,034,631,094	-	1,034,631,094
	831,583,929	-	856,531,447	-	856,531,447	1,012,235,643	-	1,034,631,094	-	1,034,631,094

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.

	2021 Carrying Amount Rs.	2021 Fair Value Rs.	2020 Carrying Amount Rs.	2020 Fair Value Rs.
Financial Assets				
Cash and Cash Equivalent	218,507,168	218,507,168	138,048,368	138,048,368
Financial Investment at amortised Cost	662,295,154	533,931,081	338,379,679	338,379,679
Other Financial Assets	7,763,678	7,763,678	10,217,388	10,217,388
Total Financial Assets	888,566,000	760,201,928	486,645,435	486,645,435
Financial Liabilities				
Financial Liabilities at amortised Cost - Due to Banks	518,414,541	518,414,541	471,901,706	471,901,706
Other Financial Liabilities	175,135,322	175,135,322	126,255,481	126,255,481
	693,549,863	693,549,863	598,157,187	598,157,187

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

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 City Finance corporation within next year.

41. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	2021 Rs.	2020 Rs.
Motor Vehicle	18,000,000	18,000,000
Investment Property	-	350,000,000
Investment in Repo	-	-
Fixed Deposit Investment	155,000,000	-

42. RISK MANAGEMENT

42.1 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.

42.2 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.

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.

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42. RISK MANAGEMENT (Contd...)

42.3 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.

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
Liquidity Risk	Inability to meet obligations as they fall due	· Gaps in dynamic liquidity flows · Stocks of high quality liquid assets	· Gaps limits for structural liquidity, · Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets · Volatile Liability Dependency measures · Balance sheet ratios

42. RISK MANAGEMENT (Contd...)

42.4 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.

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.

42.4.1 Impairment Assessment

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

42.4.1. (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.

42.4.1.(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 12 month ECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

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42. RISK MANAGEMENT (Contd...)

42.4.1 Assessment of Expected Credit Losses

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

As at 31st March	2021			
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Cash and Cash Equivalent	217,985	-	-	217,985
Term loan Personal Guarantees	37,332,901	16,131,074	123,517,631	176,981,606
Term loan property mortgage	10,590,973	11,775,434	52,546,308	74,912,714
Gold Loans	2,225,519	132,394	269,880	2,627,793
Factoring Loans	-	-	1,906,980.67	1,906,981
Lease rentals receivables and Hire Purchases	5,874,109	7,488,540	15,057,327	28,419,976
Sundry	-	-	500,000	500,000
Total allowance for expected credit losses	56,241,488	35,527,442	193,798,126	285,567,056

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

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

	31-Mar-21 Rs.
Balance as at 01st April 2020	589,043,225
Transfer during the year	(326,361,228)
Net Charge to Profit and loss	22,885,058
Interest income accrued on impaired loans & receivables	-
Recovered during the year	-
Balance as at 31 Mar 2021	285,567,056

42.4.1(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	91,550,944	73,295,911	(18,255,033)

	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	91,550,944	145,259,180	53,708,236

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

42.4.1(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	2021		
	31- 60 Days Rs	61- 90 Days Rs	Total Rs
Factoring receivables	-	-	-
Gold loan receivables	1,605,164	1,024,400	2,629,564
Term loan Personal Guarantees	91,257,091	31,831,069	123,088,159
Term loan property mortgage	163,299,813	40,304,840	203,604,653
Lease rentals receivables and Hire Purchases	32,636,855	49,584,232	82,221,087
	288,798,923	122,744,541	411,543,464

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

As at 31st March	2021						
	Gross Carrying Value			Allowance for ECL			Net Carrying Value
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
Term loan property mortgage	-	53,715,682	53,715,682	-	8,057,352	8,057,352	45,658,330
Term loan Personal Guarantee	-	30,046,895	30,046,895	-	13,521,103	13,521,103	16,525,792
	-	83,762,577	83,762,577	-	21,578,455	21,578,455	62,184,122

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42. RISK MANAGEMENT (Contd...)

42.4.2 Credit Quality by Class of Financial Assets

	31-Mar-21					31-Mar-20				
	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
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.	
Assets										
Cash and bank balances	219,256,527	-	-	219,256,527	7.28%	138,048,368	-	-	138,048,368	6.01%
Financial instruments at amortised cost	662,295,154	-	-	662,295,154	22.00%	338,379,679	-	-	338,379,679	14.72%
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	198,162,069	98,089,741	40,495,596	336,747,406	11.18%	61,532,145	142,692,337	295,749,873	499,974,355	21.76%
Financial assets at amortised Cost - Loans and Receivables	1,009,323,847	858,199,093	101,579,530	1,969,102,470	65.40%	851,721,538	1,007,082,138	41,299,064	1,900,102,740	82.69%
Other Financial Assets	7,763,678	-	-	7,763,678	0.26%	10,217,388	-	-	10,217,388	0.44%
Financial Investment as Fair Value through Other Comprehensive Income	315,813	-	-	315,813	0.01%	315,813	-	-	315,813	0.01%
Allowance for impairment				(285,067,056)	(0.09)				(589,043,225)	-26%
Financial Assets Measured at Fair value through Profit or Loss	100,463,534	-	-	100,463,534	3.34%	-	-	-	-	0.00%
Total	2,197,580,622	956,288,834	142,075,126	3,010,877,526	97%	1,400,214,931	1,149,774,475	337,048,937	2,297,995,118	100%

42.4.2.1 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 2021 Rs.	31 to 60 days 2021 Rs.	61 to 90 days 2021 Rs.	More than 90 days 2021 Rs.	Total 2021 Rs.
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	195,489,166	32,636,855	39,584,232	69,037,153	336,747,406
Financial assets at amortised Cost - Loans and Receivables	1,009,323,847	256,162,067	73,160,309	630,456,246	1,969,102,470
	1,204,813,013	288,798,923	112,744,541	699,493,399	2,305,849,876

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42. RISK MANAGEMENT (Contd...)

42.4.3 Maximum Exposure to Credit Risk

The following tables shows 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	2021		2020	
		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	219,256,527	219,256,527	138,048,368	138,048,368
Financial Investment at amortised Cost	20	662,295,154	662,295,154	338,379,679	338,379,679
Financial assets at amortised Cost					
Loans & Receivables	21	1,969,102,470	1,712,673,376	1,631,189,094	843,462,922
Lease rentals receivables and Hire Purchases	22	336,747,406	308,327,429	180,419,278	56,934,622
Other Financial assets	23	7,763,678	7,763,678	10,217,388	10,217,388
Financial Assets Measured at Fair value through Profit or Loss	24	100,463,534	100,463,534	-	-
Financial Investment as Fair Value through Other Comprehensive Income	25	315,813	315,813	315,813	315,813
Total Financial Assets		3,295,944,582	3,011,095,512	2,298,569,620	1,387,358,792

42.4.4 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.

	2021			2020		
	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	9,204,000	-	9,204,000	87,413,631	-	87,413,631
	9,204,000	-	9,204,000	87,413,631	-	87,413,631

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42 RISK MANAGEMENT (Contd...)

42.4.5 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 2021

Rs

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and Cash Equivalent	-	-	-	-	-	-	-	-	219,256,527	-	-	219,256,[illegible]
Financial Investment at amortised	-	-	-	-		-	-	-	662,295,154	-	-	662,29[illegible]
Financial assets at amortised Cost - Loans and Receivables	14,940,453	18,278,516	55,117,860	1,096,202,052	284,008,663	10,405,537	38,282,400	-	-		451,866,989	1,969,102,[illegible]
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	-	-	-	-	-	-	-	-				
Other Financial Assets	-	-	-	-	-	-	-	-	-	-	336,747,406	336,747,[illegible]
Financial Assets Measured at Fair value through Profit or Loss									-	-	7,763,678	7,763,[illegible]
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	-	100,463,534	-	-	100,463,[illegible]
	-	-	-	-	-	-	-	-	315,813	-	-	315,[illegible]
Allowance for Impairment												(285,067,[illegible])
Total	14,940,453	18,278,516	55,117,860	1,096,202,052	284,008,663	10,405,537	38,282,400	-	982,331,028	-	796,378,073	3,010,877,[illegible]

As at 31 March 2020

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	138,048,368	-	-	138,048,[illegible]
Financial Investment at amortised Cost	-	-	-	-		-	-	-	338,379,679	-	-	338,379,[illegible]
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,[illegible]
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	-	-	-	-	-	-	-	-				
Other Financial Assets	-	-	-	-	-	-	-	-	-	-	499,974,355	499,974,[illegible]
Financial Investments	-	-	-	-	-	-	-	-	-	-	10,217,388	10,217,[illegible]
								-	315,813	-	-	315,[illegible]
Allowance for Impairment												(589,043,[illegible])
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,[illegible]

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42. RISK MANAGEMENT (Contd...)

42.5 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 rate 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 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 broad 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.

42.5.1 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of 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**
	2021	**2021**	**2021**
Long Term Loans linked to AWPLR	1/ (-1)	1461/(1461)	0.07%
	0.5 / (0.5)	730.5/(730.5)	0.03%
	0.25 / (0.25)	365.25/(365.25)	0.02%

The base ratio considers in the Interest Rate Sensitivity Analysis is the existing Loan rates. Since only 28%(2020-95.23%) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

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42. RISK MANAGEMENT (Contd...)

42.5.2 Interest Rate Risk (Contd..)

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 March 2021	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 cssh Equivalants	197,104,416	-	-	-	-	21,402,752	218,507,168
Financial Investment at amortised Cost	284,206,643	378,088,511	-	-	-	-	662,295,154
Financial Investment at amortised Cost-Loans and Receivable	334,582,201	707,754,728	611,315,088	266,899,201	48,551,252	-	1,969,102,470
Lease receivables & Hire Purchase	34,292,194	88,556,668	126,124,517	87,774,027	-	-	336,747,406
Other Financial Assets	-	-	-	-	-	7,763,678	7,763,678
Financial Assets Measured at Fair value through Profit or Loss	100,463,534	-	-	-	-	-	100,463,534
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	315,813	315,813
Total Financial Assets	950,648,988	1,174,399,907	737,439,605	354,673,229	48,551,252	29,482,243	3,295,195,224
Financial Liabilities							
Due to Bank	154,167	69,961,423	-	448,298,950	-	-	518,414,541
Due to customers	422,570,786	310,011,381	9,753,913	89,247,848	-	-	831,583,929
Other Financial Liabilities	-	-	-	-	-	175,135,322	175,135,322
Total Financial Liabilities	422,724,953	379,972,805	9,753,913	537,546,798	-	175,135,322	1,525,133,792
Interest Sensitivity Gap	527,924,036	794,427,102	727,685,692	(182,873,569)	48,551,252	(145,653,079)	1,770,051,432

As at 31 March 2020	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Tota
	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	-	-	149,143,806
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

42. RISK MANAGEMENT (Contd…)

42.6 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 counterparties 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. 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.

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 year 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 maintaining a stable liquidity position even during this challenging period due to COVID 19 outbreak and closely monitoring the position on daily basis and taking necessary measures to ensure the safeguard of the entity. The company introduced more rigour 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 company's stakeholders despite of disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

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42. RISK MANAGEMENT (Contd...)

42.6 Liquidity Risk (Contd..)

42.6.1 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 and Diretion No.07 of 2020.

The Company's liquid asset ratio is 35.33% 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 2021. The estimated maturity profiles of undiscounted cash flows may differ, due to Covid-19 related events.

As at 31 Mar 2021	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and cash equivalants	219,260,284	-	-	-	-	219,260,284
Financial Investment at amortised Cost	285,436,482	398,633,726	-	-	-	684,070,208
Financial assets at amortised Cost - Loans and Receivables	466,523,600	991,386,654	879,566,107	378,595,806	68,869,821	2,784,941,988
Lease receivables & Hire Purchase	50,491,249	130,102,984	187,948,543	127,978,495	-	496,521,271
Other Financial Assets	7,763,678	-	-	-	7,763,678	15,527,356
Financial Assets Measured at Fair value through Profit or Loss	100,484,219	-	-	-	-	100,484,219
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Financial Assets	1,129,959,512	1,520,123,363	1,067,514,650	506,574,301	76,949,312	4,301,121,139
Financial Liabilities						
Due to bank	46,442,299	170,627,987	241,091,392	83,197,226	-	541,358,904
Due to customers	425,082,179	327,523,767	12,094,852	124,946,987	-	889,647,786
Other Financial Liabilities	4,803,669	18,999,419	132,678,252	12,064,350	15,726,682	184,272,373
Total Financial Liabilities	476,328,147	517,151,173	385,864,497	220,208,563	15,726,682	1,615,279,063
Net Financial Asset/Liabilities	653,631,365	1,002,972,190	681,650,153	286,365,738	61,222,630	2,685,842,077

As at 31 Mar 2020	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and cash equivalants	138,583,419	-	-	-	-	138,583,419
Financial Investment at amortised Cost	337,986,433	7,190,084	-	-	-	345,176,516
Financial assets at amortised Cost - Loans and Receivables	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 Asset/Liabilities	645,782,853	550,351,056	525,502,939	(214,710,906)	61,570,596	1,568,496,537

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 may differ, due to Covid-19 related events.

As at 31 March 2021	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 balances	218,507,168	-	-	-	-	218,507,168
Financial Investment at amortised Cost	284,206,643	378,088,511	-	-	-	662,295,154
Financial assets at amortised Cost - Loans and Receivables	334,582,201	707,754,728	611,315,088	266,899,201	48,551,25[illegible]	1,969,102,470
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	34,292,194	88,556,668	126,124,517	87,774,027	-	336,747,406
Other Financial Assets	-	-	-	-	7,763,67[illegible]	7,763,678
Financial Assets Measured at Fair value through Profit or Loss	100,463,534	-	-	-	-	100,463,534
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,81[illegible]	315,813
Total Assets	**972,051,740**	**1,174,399,907**	**737,439,605**	**354,673,229**	**56,630,74[illegible]**	**3,295,195,224**
Liabilities						
Due to bank	154,167	69,961,423	-	448,298,950	-	518,414,541
Due to customers	423,104,367	310,011,381	9,753,913	88,714,267	-	831,583,929
Other Financial Liabilities						-
Total Liabilities	423,258,534	379,972,805	9,753,913	537,013,217	-	1,349,998,470

As at 31 March 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 bank balances	138,048,368	-	-	-	-	138,048,368
Financial Investment at amortised Cost	330,984,936	7,394,744	-	-	-	338,379,679
Financial assets at amortised Cost - Loans and Receivables	643,824,270	439,717,009	406,793,006	51,720,088	89,134,721	1,631,189,093
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	43,181,765	40,276,594	85,851,111	11,094,604	15,2[illegible]	180,419,278
Other Financial Assets	-	417,574	-	-	9,799,81[illegible]	10,217,388
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,81[illegible]	315,813
Total Assets	1,156,039,339	487,805,921	492,644,117	62,814,692	99,265,55[illegible]	2,298,569,619
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

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44. COMMITMENTS AND CONTINGENCIES

	2021 Rs.					2020 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)	80,263,540	-	-	-	80,263,540	92,762,435	241,811,835	-	-	334,574,270
	80,263,540	**-**	**-**	**-**	**80,263,540**	**92,762,435**	**241,811,835**	**-**	**-**	**334,574,270**

In addition to that, the company has given Letter of gurantees to its customers amounting to 58.1 Mn

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 2021 which would have a material impact on the Financial Statements.

45. EVENTS AFTER THE REPORTING PERIOD

As the third wave of COVID-19 pandemic evolves, governments are implementing additional measures to address the resulting public health issues and the economic impact. To meet the additional challenges, we supplemented our existing approach to risk management with additional tools and practices. We increased our focus on the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and other key stakeholders.Company will continues to monitor the COVID-19 situation and will take further action as necessary in response to the economic disruption.

Other than above, no circumstances have arisen subsequent to the reporting date which would require adjustment 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 83.76% owned by LCB Limited. Hence, LCB Limited is the parent company and the ultimate controlling party.

46. RELATED PARTY TRANSACTIONS (Contd..)

46.1 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.

Short Term Employee Benefits	**2021/2020 Rs.**	**2020/2019 Rs.**
Remuneration and other expenses of directors	6,450,000	4,840,000
Total	6,450,000	4,840,000

46.2 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)

46.2.1 Loans and advances granted to KMPs are detailed below.

	31-Mar-21 Rs.	**31-Mar-20 Rs.**
Loans granted during the year	10,000,000	137,562,527
Loans held at the end of the year	39,707,075	102,212,527
Interest receivable on loan	638,192	-
Interest received on Loans	1,329,599	7,302,376

46.2.2 Deposits and Borrowings from KMPs are detailed below.

	31-Mar-21 Rs.	**31-Mar-20 Rs.**
Term/Savings deposits accepted during the year	29,000,000	5,490,246
Term/Savings deposits held at the end of the year	99,998,955	6,570,444
Interest payable on Term/Savings deposits	212,478	-
Interest paid on Term/Savings deposits	6,002,418	375,047

No borrowing through debt instruments were made or no investments were made by key management personnel during the year 31 Mar 2021. (31 March 2020- Nil)

46.3 Transactions, Arrangements and Agreements involving with Related Entities of KMPs

46.3.1 Due from Related party	**31-Mar-21 Rs.**	**31-Mar-20 Rs.**
Lanka Credit and Business Ltd	7,585,645	7,751,888
Provision	(7,585,645)	-
	-	7,751,888

The detailed movement of the transactions made with the Lanka Credit and Business Ltd is shown below

The transactions made with the Parent Company is as follows.	**31-Mar-21 Rs.**	**31-Mar-20 Rs.**
Cash Investments made during the year	460,369,700	140,000,000
Expences incured by LCB Finance Company Limited on behalf of the parent.	-	-
Total Assets transferred	-	-
Total Liabilities transferred	-	-
Net assets Transferred from LCB Limited	-	-

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47. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by 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 11% and a minimum core capital adequacy ratio (Tier I) of 7%.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 requirement 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 31.03.2021 through its letter. However the company fulfilled this regulatory requirment by 28th February 2021.