LANKA CREDIT AND BUSINESS FINANCE PLC

FINANCIAL STATEMENTS

31 MARCH 2023

Building a better working world

Ernst & Young
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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF LANKA CREDIT AND BUSINESS FINANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Financial Statements of Lanka Credit and Business Finance PLC (the "Company"), which comprise the statement of financial position as at 31 March 2023, 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 2023, 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.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

(Contd…2/)

Partners: H M A Jayesinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajeewani FCA, N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: W S J De Silva BSc (Hons)-MIS MSc-IT, G B Goudian ACMA, D L B Karunathilaka ACMA, Ms. P S Paranavitane ACA ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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Key audit matter	How our audit addressed the key audit matter

Allowance for impairment losses on financial assets at amortised cost - Loans and receivables and Lease rentals receivables and hire purchases carried at amortized cost
 	
As at 31 March 2023, allowance for impairment losses on financial assets at amortised cost - Loans and receivables and Lease rental receivables and hire purchases carried at amortized cost net of allowance for impairment losses amounted to LKR 4,180 Mn and is disclosed in notes 21 & 22 to the financial statements.
 	
This was a key audit matter due to the materiality of the reported allowance for impairment losses which involved complex calculations; degree of significant judgements and assumptions and level of estimation uncertainty associated with estimating future cashflows management expects to receive from such financial assets at amortised cost - Loans and receivables and Lease rentals receivables and hire purchases.
 	
Key areas of significant judgments, estimates and assumptions used by management in the assessment of the allowance for impairment losses included the following;
 	
➢ Management overlays to incorporate the current economic contraction.
 	
➢ The Incorporation of forward-looking information such that expected cashflows reflect current and anticipated future external factors evaluated under different economic scenarios and the probability weighting determined for each of these scenarios.
	In addressing the adequacy of the allowance for impairment losses on financial assets at amortised cost - Loans and receivables and Lease rentals receivables and hire purchases carried at amortized cost, our audit procedures included the following key procedures.
	
	• We assessed the alignment of the Company's allowance for impairment losses computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of our report.
	
	• We evaluated the Internal controls over estimation of allowance for impairment losses, which included assessing the level of oversight, review and approval of impairment allowances policies and procedures by the Board and management
	
	• We checked the completeness, accuracy and classification of the underlying data used in the computation of allowance for impairment losses by agreeing details to relevant source documents and accounting records of the Company
	
	• In addition to the above, following procedures were performed.
	
	• For financial assets at amortised cost - Loan and receivables and Lease rentals receivables and hire purchases assessed on an individual basis for impairment:
	
	  • We evaluated the reasonableness of credit quality assessment.
	
	  • We checked the arithmetical accuracy of the underlying individual impairment calculations.
	
	  • We evaluated the reasonableness of key inputs used in allowance for impairment losses made with particular focus on current economic contraction. Such evaluations were carried out considering the customer exposure to elevated risk industries, debt moratoriums, status of recovery actions of collaterals in forecasting the value and timing of cashflows.

(Contd...3/)

Key audit matter	How our audit addressed the key audit matter
	• For financial assets at amortised cost - Loan and receivables and Lease rentals receivables and hire Purchases assessed on a collective basis for impairment: • We tested key inputs as disclosed in notes 21 and 22 and the calculations used in the allowance for impairment losses. • We assessed whether judgements used in assumptions and estimates made by the management when estimating future cashflows, in the underlying methodology and management overlays were reasonable. Our assessment included portfolio segmentation, elevated risk industries, evaluating the reasonableness of forward-looking information, different economic scenarios and probability weighting assigned to each of those scenarios. We assessed the adequacy of the related financial statement disclosures set out in notes 21 & 22 of the financial statements.
Information Technology (IT) systems and internal controls over financial reporting Company's financial reporting process is significantly reliant on IT system with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.	Our audit procedures included the following: • We obtained an understanding of the Internal control environment of the processes and checked relevant controls relating to financial reporting and related disclosures. • We involved our internal specialized resources to check and evaluate the design and operating effectiveness of IT systems and relevant controls, including those related to user access and change management. • We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the company and the actions taken to address these risks. • We checked source data of the reports used to generate disclosures for accuracy and completeness, including review of general ledger reconciliations.

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Other Information included in the 2023 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2023 annual report, but does not include the financial statements and our auditor's report thereon. The Company's 2023 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.

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.

(Contd...5/)

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2965.

Ernst & Young

19 June 2023
Colombo

Lanka Credit and Business Finance PLC

INCOME STATEMENT

Year ended 31 March 2023

	Note	31.03.2023 Rs.	31.03.2022 Rs.
Income	7	1,104,019,440	541,564,212
Interest Income	8	1,031,981,246	504,110,594
Less: Interest Expenses	9	(427,366,144)	(104,982,427)
Net Interest Income		604,615,102	399,128,168
Fee and Commission Income	10	39,592,621	45,836,522
Less: Fee and Commission Expenses		-	-
Net Fee and Commission Income		39,592,621	45,836,522
Net Other Operating Income/(Expense)	11	32,445,572	(8,382,904)
Total Operating Profit		676,653,295	436,581,786
Impairment(Charge)/Reversal	12	(90,994,761)	61,695,234
Net Operating Income		585,658,534	498,277,020
Less : Operating Expenses			
Personnel Costs	13	(145,811,074)	(106,401,014)
Depreciation and Amortization	14	(61,957,077)	(44,834,695)
Other Operating expenses	15	(117,459,076)	(67,109,515)
		(325,227,227)	(218,345,223)
Operating Profit before Tax on Financial Services		260,431,307	279,931,796
Taxes on Financial Services	16	(47,877,516)	(41,413,734)
Profit before tax		212,553,791	238,518,062
Less: Income tax (expense)/Reversal	17	(49,783,037)	(140,936,083)
Profit for the Year		162,770,755	97,581,979
Basic earnings per share (Rs.)	18	0.21	0.12

The accounting policies and notes on page 11 to 77 form an integral part of the Financial Statements.

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STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2023

	Note	31.03.2023 Rs.	31.03.2022 Rs.
Profit for the year		162,770,755	97,581,979
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	(84,936)	13,941
Deferred tax effect on actuarial gain/(loss)	31.0	25,481	(1,952)
		(59,455)	11,989
Other comprehensive income for the year, net of tax		(59,455)	11,989
Total comprehensive income for the year, net of tax		162,711,300	97,593,968
Attributable to :			
Equity holders of the parent company		162,711,300	97,593,968
		162,711,300	97,593,968

The accounting policies and notes on page 11 to 77 form an integral part of the Financial Statements.

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Lanka Credit and Business Finance PLC

STATEMENT OF FINANCIAL POSITION

As at 31 March 2023

	Note	31.03.2023 Rs.	31.03.2022 Rs.
Assets			
Cash and Cash Equivalent	19	179,594,556	229,434,047
Financial Investment at amortised Cost	20	809,683,821	746,819,780
Financial assets at amortised Cost - Loans and Receivables	21	3,738,803,049	2,634,321,859
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	22	441,429,394	392,635,779
Other Financial Assets	23	31,361,557	16,919,514
Financial Assets Measured at Fair value through Profit or Loss	24	219,753,524	19,508,717
Financial Investment at Fair value through Other Comprehensive Income	25	315,813	315,813
Other Non Financial Assets	26	56,320,987	55,345,017
Investment Property	27	180,000,000	-
Property, Plant and Equipment	28	97,223,763	84,108,889
Right of Use Assets	29	69,643,533	73,443,343
Intangible Assets	30	34,907,586	39,121,865
Deferred Tax Asset	31	18,462,799	64,691,455
Total Assets		5,877,500,382	4,356,666,078
Liabilities			
Financial Liabilities at amortised Cost - Due to Banks	32	566,941,929	586,370,993
Financial Liabilities at amortised Cost - Due to customers	33	2,380,339,395	962,635,583
Other Financial Liabilities	34	85,609,323	81,104,538
Other Non Financial Liabilities	35	42,055,952	40,778,035
Retirement Benefits Liabilities	36	6,363,350	4,887,670
Total Liabilities		3,081,309,949	1,675,776,819
Equity			
Stated Capital	37	2,539,133,400	2,539,133,400
Reserves	38	54,087,738	45,949,200
Retained Earnings	39	202,969,295	95,806,659
Total Equity		2,796,190,433	2,680,889,259
Total Equity and Liabilities		5,877,500,382	4,356,666,078
Net asset Value per share	37.4	3.54	3.39

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

....
Kelum Wannige
AGM - Finance & Strategic Planning

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

....
K.G.Leelananda
Director/CEO

....
Emeritus Professor W.M.Abeyrathne Bandara
Chairman

The accounting policies and notes on page 11 to 77 form an integral part of the Financial Statements.

19th June 2023
Colombo

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STATEMENT OF CHANGES OF EQUITY

Year ended 31 March 2023

	Stated Capital	Retained Earnings	Statutory Reserve	Total Equity
	Rs. (Note 37)	Rs. (Note 39)	Rs. (Note 38)	Rs.
Balance as at 01 April 2021	2,039,133,400	26,734,853	41,070,102	2,106,938,355
Net Profit / (Loss) for the Year	-	97,581,979	-	97,581,979
Other Comprehensive Income Net of Tax	-	11,989	-	11,989
Transfer to Statutory Reserve Fund	-	(4,879,099)	4,879,099	-
Total Comprehensive Income for the Year, Net of Tax	-	92,714,869	4,879,099	97,593,967
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners				
Shares issue during the year	500,000,000	-	-	500,000,000
Shares issue Cost	-	(23,643,063)	-	(23,643,063)
Total Transactions with Equity Holders	500,000,000	(23,643,063)	-	476,356,937
Balance as at 31 March 2022	2,539,133,400	95,806,659	45,949,200	2,680,889,259
Balance as at 01 April 2022	2,539,133,400	95,806,659	45,949,200	2,680,889,259
Net Profit / Loss) for the Year	-	162,770,755	-	162,770,755
Other Comprehensive Income Net of Tax	-	(59,455)	-	(59,455)
Transfer to Statutory Reserve Fund	-	(8,138,538)	8,138,538	-
Total Comprehensive Income for the Year, Net of Tax	-	154,572,762	8,138,538	162,711,300
Transactions with Owners, Recognised Directly in Equity, Contributions and Distributions to Owners				
Dividend Paid	-	(47,410,127)	-	(47,410,127)
Total Transactions with Equity Holders	-	(47,410,127)	-	(47,410,127)
Balance as at 31 March 2023	2,539,133,400	202,969,295	54,087,738	2,796,190,433

The accounting policies and notes on page 11 to 77 form an integral part of the Financial Statements.

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STATEMENT OF CASH FLOWS

Year ended 31 March 2023

	Note	31.03.2023 Rs.	31.03.2022 Rs.
Cash Flows Used in Operating Activities			
Profit before tax from continuing operations		212,553,791	238,518,062
Adjustments for			
Depreciation and Amortization	14	41,591,568	44,834,695
Provision/(Reversal) for Defined Benefit Plans	36.1	1,871,057	1,186,501
Gain/(Losses) from Change in fair value of Investment Properties	27	(20,457,020)	-
Fair Value (gain) / loss from Share Investments & Unit Trust	11	(7,189,330)	10,813,684
Dividend Received	11	(899,287)	(561,832)
Gain/(Loss) on Termination/Modification of ROU Assets	11	(2,648,282)	-
Impairment Reversal/(Charges) for Loans & receivable and Lease rentals receivables & Hire Purchases		85,073,977	(61,771,515)
Impairment Reversal/(Charges) for Financial Investments		554,874	76,281
Operating Profit before Working Capital Changes		310,451,349	233,095,876
Working Capital Adjustments			
(Increase) / Decrease Lease Rentals Receivables and Hire Purchases		(64,566,778)	(80,457,144)
(Increase) / Decrease Loans and Receivables		(1,312,267,120)	(578,879,103)
(Increase) / Decrease Other Financial Assets		(14,442,043)	(9,155,836)
(Increase) / Decrease Other Non Financial Assets		(975,969)	(17,482,541)
Increase / (Decrease) in Other Liabilities		6,923,343	(89,751,464)
Increase / (Decrease) in Due to Customers		1,417,703,812	131,051,653
Cash Flow from/(used in) Operating Activities		342,826,594	(411,578,560)
Gratuity Paid	36	(480,313)	(595,050)
Income Tax Paid		(3,528,900)	-
Net Cash from Operating Activities		338,817,381	(412,173,610)
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment	28.1	(49,208,365)	(69,630,765)
Acquisition of Intangible Assets	30	(1,283,800)	(2,600,000)
Net Investment Acquisition		(63,379,714)	(2,279,890)
Net Investments in Shares & Unit Trust		(193,055,478)	-
Dividend Received		899,287	561,832
Net Cash Flows from/(Used in) Investing Activities		(306,028,069)	(73,948,823)
Cash Flows from (used in) Financing Activities			
Proceeds from Issuance of Share Capital	37	-	500,000,000
Dividend Paid		(46,074,752)	-
Share Issue Cost		-	(23,643,063)
Net Proceeds from Interest Bearing Loans & Borrowings	32.2	8,326,228	51,048,930
Payment of Capital portion of Lease Liabilities	29.2	(14,480,696)	(12,127,180)
Net Cash used in Financing Activities		(52,229,219)	515,278,687
Net Increase in Cash and Cash Equivalents		(19,439,908)	29,156,255
Cash and Cash Equivalents at the beginning of the year		199,080,144	169,923,889
Cash and Cash Equivalents at the end of the year		179,640,236	199,080,144

The accounting policies and notes on page 11 to 77 form an integral part of the Financial Statements.

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1. CORPORATE INFORMATION

1.1 General

Lanka Credit and Business Finance PLC (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 listed 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 PLC for the year ended 31 March 2023 was authorized for issue in accordance with a Resolution of the Board of Directors on 19 June 2023.

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 the Statement of Financial Position, Statement of Profit or Loss and Other 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 and Finance Business Act No.42 of 2011 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.2 Basis of Measurement

The Financial Statements of the Company have been prepared on a historical cost basis, and applied consistently, with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following.

- 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 1stApril 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. No adjustments have been made for inflationary factors affecting the Financial Statements. 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 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.

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2.6 Comparative Information

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

2.7 Statement of Cash Flow

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

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

2.8 Events after the Reporting Date

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

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

2.9 Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 01 - "Presentation of Financial Statements".

2.10 Going Concern Basis for Accounting

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Therefore, the Financial Statements of the Company continue to be prepared on a going concern basis.

The ongoing economic crisis in the country has increased the estimation uncertainty in the preparation of these Financial Statements. The estimation uncertainty is associated with the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP and unemployment). This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn. However, in light of the ongoing economic crisis, the Company has assessed its going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

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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 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 and 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).

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- 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.

3.2 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.

3.3 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.

3.4 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.

3.5 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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3.6 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.

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 within 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.

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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 reflects how it manages groups of financial assets to achieve its business objective.

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

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

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

The SPPI test

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

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

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

In contrast, contractual terms that introduce a more than 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.

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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 Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

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

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

c) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized 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.

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

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

4.1.6 Reclassifications of Financial assets and Financial Liabilities

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

4.1.7 De recognition of Financial Assets and Financial Liabilities

a) De recognition of Financial Assets

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

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

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

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

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for de recognition if either:

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

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

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On der recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset de recognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognized only to the extent of the Company's continuing involvement, in which case, the Company also recognizes as associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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

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

b) De recognition - Financial Liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as 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

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- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

4.1.8 Impairment of Financial Assets

4.1.8.1 Expected Credit Loss Principles

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

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

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

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

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

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

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

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

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

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

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

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

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b. The Calculation of Expected Credit Loss (ECL)

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

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

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

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

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

The mechanism of the ECL method is summarized below

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

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

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

c. Loan Commitments:

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

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

d. Financial Guarantee contracts:

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

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e. Debt instruments measured at fair value through OCI

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

f. Debt factoring and revolving loans

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

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

g. Forward looking information

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

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

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

4.1.8.2 Reversals of impairment

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

4.1.8.3 Renegotiated Loans

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

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From 1 January 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 Stage 3.

If modifications are substantial, the loan is de recognized as explained in Note 4.1.7(a).

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.

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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.

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

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4.3 Property, Plant &Equipment

4.3.1 Recognition

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

4.3.2 Measurement

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

4.3.3 Cost Model

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

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

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

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

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

4.3.4 Subsequent Cost

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

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4.3.5 Repairs and Maintenance

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

4.3.6 Borrowing Costs

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

4.3.7 De-recognition

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

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

4.3.8 Depreciation

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

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

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

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4.4.1 Basis of Recognition

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

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

4.4.2 Subsequent Expenditure

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

4.4.3 Useful Economic life, Amortization and Impairment

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

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

4.4.4 Amortization

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

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

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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.

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Recognition of Actuarial Gains and Losses

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

Interest Cost

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

Funding Arrangements

The Gratuity liability is not externally funded.

4.8.2 Defined Contribution Plans

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

Employees' Provident Fund

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

Employees' Trust Fund

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

4.9 Statutory Reserve Fund

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

4.10 Provisions

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

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

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

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4.11 Recognition of Interest Income Interest Expense

4.11.1 Interest Income Interest Expense

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

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

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

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

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

4.11.2 Interest Income on 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.

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

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

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

b) Fee Income from providing transaction services

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

4.13 Other operating income

(a) Dividend Income

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

(b) Recovery of Bad Debts Written Off

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

(c) Other Income

Other income is recognized on an accrual basis.

4.14 Personnel Expenses

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

4.15 Taxes

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

4.15.1 Current tax

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

Accordingly, provision for taxation is based on the profit for the year 2018 adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017(Inland Revenue Act No.10 of 2006 and amendments thereto up to 31 March 2018) and the amendment thereto, at the rate specified in Note 17 to the Financial Statements.

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4.15.2 Deferred tax

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

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

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

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

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

4.15.3 Value Added Tax (VAT) on Financial Services

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

4.15.4 Nation Building Tax (NBT) on Financial Services

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

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

4.15.5 Debt Repayment Levy

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

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25C of the Value Added Tax (VAT) Act No. 14 of 2002.

As per notice published by the Department of Inland Revenue dated January 20, 2020, DRL was abolished with effect from January 1, 2020

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4.15.6 Withholding Tax (WHT) on Dividends

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

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

4.15.7 Economic Service Charge (ESC)

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

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

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

4.16 Regulatory provisions

4.16.1 Statutory Reserve Fund

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

4.16.2 Deposit Insurance and Liquidity Support Scheme

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

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

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Silence
- Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Finance Companies Act (Corporate Governance) Direction No.3 of 2008 for Registered Finance Companies
- Deposit liabilities held as collateral against any accommodation granted

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- 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 the end of the month within 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 April 2013.

4.17 Earnings per Share (EPS)

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

4.18 Segment Reporting

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

- Leasing
- Hire Purchase
- Term Loans
- Others

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

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

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

4.19 Commitments and Contingencies

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

Financial guarantees and undrawn loan commitments

Currently the Company has issued financial guarantees. The company has established a policy to recognize and measure its financial guarantees and undrawn loan commitments, Accordingly, the financial guarantees are initially recognized in the Financial Statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the

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higher of the amount initially recognized less cumulative amortization recognized in the income statement, and - under LKAS 39 - the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or - under SLFRS 9 - an ECL provision.

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

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

Currently the company has a commitment to settle the City Finance Fixed Deposits (FD) liability to its customers. It is required to settle the final 45% commencing from 30 September 2020.

5. CHANGES IN ACCOUNTING POLICIES

The Company applied for the first-time certain standards and amendments, if applicable, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

5.1 Amendments to SLFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021

On 4 December 2020, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued COVID-19-Related Rent Concessions - amendment to SLFRS 16 Leases. The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, On 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 01 April 2021.

However, the amendments to Sri Lanka Accounting Standard - SLFRS 16 (Leases): COVID-19 Related Rent Concessions also did not have a material impact on the Financial Statements of the Company.

5.2 Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2

- **IBOR reform Phase 1**

On 15 January 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform (Phase 1). A summary of Phase 1 amendments are as follows:

Highly Probable Requirement:

According to SLFRS 9 and LKAS 39, when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. By the Phase 1 amendments, when determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

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Prospective assessments:

A hedging relationship qualifies for hedge accounting only if there is an economic relationship between the hedged item and the hedging instrument (described in SLFRS 9) or the hedge is expected to be highly effective in achieving off-setting (described in LKAS 39). An entity must demonstrate such prospective assessments on a regular basis. By the Phase 1 amendments, when performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

LKAS 39 retrospective assessment:

To apply hedge accounting under LKAS 39, an entity must demonstrate that the actual results of the hedge are within a range of 80% - 125%. This requirement is commonly known as the 'LKAS 39 retrospective assessment. By the Phase 1 amendments, an entity is not required to undertake the LKAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.

Separately identifiable risk components:

While there are some differences between SLFRS 9 and LKAS 39 regarding designation of risk components, both Standards require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. An entity may designate an item in its entirety or a component of an item as a hedged item in a hedging relationship. SLFRS 9 and LKAS 39 require the component to be separately identifiable to qualify as a hedged item. By the Phase 1 amendments, for hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

- **IBOR reform Phase 2**

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to Interest Rate Benchmark Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients.

A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.

Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021.

The requirements under phase 1 amendments have to be applied retrospectively. However, the reliefs only apply to hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements. It follows that it is not possible to apply the reliefs retrospectively to hedge relationships that were not previously designated as such.

The requirements under phase 2 amendments have to be applied retrospectively. Hedge relationships are not designated retrospectively. However, discontinued hedging relationships must be reinstated if, and only if,

The hedging relationship was discontinued solely due to changes required by the Reform, and, therefore, the entity would not have been required to discontinue that hedging relationship if the Phase 2 Amendments had been applied at that time and;

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At the date of initial application of the Phase 2 Amendments, that discontinued hedge relationship continues to meet all the qualifying criteria for hedge accounting, after taking account of the Phase 2 Amendment.

The Company is in the process of assessing potential impact of implementation of the aforementioned amendments.

The Company has applied all relevant accounting standards which have been issued up to 31 March 2023 in the preparation of the Financial Statements for the year ended 31st March 2023

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 Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka

The new and amended standards and interpretations that are issued up to the date of issuance of the Company's financial statements but are not effective for the current annual reporting period, are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

6.2 SLFRS 17 Insurance Contracts

On 8 January 2020, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued SLFRS 17 Insurance Contracts (SLFRS 17). SLFRS 17 was amended by Amendments to SLFRS 17 - Insurance Contracts, issued on 28 June 2021. SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2025, with comparative figures required. Early application is permitted; provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

The Financial Statements of the Company is not expected to have a material impact from SLFRS 17 - Insurance Contracts.

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6.3 Amendments to LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

6.4 Amendments to LKAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgment is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

Also, under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

6.5 Amendments to LKAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements: Disclosure of Accounting Policies

Amendments to LKAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, provide guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

6.6 Amendments to LKAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current

Amendments to LKAS 1 Presentation of Financial Statements specify the requirements for classifying liabilities as current or non-current. The amendments clarify -

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification
- Disclosures

The amendments are effective for annual reporting periods beginning on or after 01 January 2023.

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7.	INCOME	31.03.2023 Rs.	31.03.2022 Rs.
	Interest Income (Note 8)	1,031,981,246	504,110,594
	Fee and Commission Income (Note 10)	39,592,621	45,836,522
	Other Operating Income (Note 11)	32,445,572	(8,382,904)
		1,104,019,440	541,564,212

8.	INTEREST INCOME	31.03.2023 Rs.	31.03.2022 Rs.
	Interest Income on Loans and Receivables (Note 8.1)	710,915,003	371,014,154
	Interest Income on Lease rentals receivables and Hire Purchases (Note 8.2)	82,127,242	42,392,025
	Interest Income on Financial Investments	212,432,725	62,203,880
	Penalty Interest	26,506,276	28,500,535
		1,031,981,246	504,110,594

8.1	Interest Income on Loans and Receivables	31.03.2023 Rs.	31.03.2022 Rs.
	Interest Income on Term Loans	571,165,487	311,614,006
	Interest Income on Housing Loans	49,810,067	40,535,903
	Interest Income on Gold Loans	89,939,449	18,864,245
		710,915,003	371,014,154

8.2	Interest Income on Lease rentals receivables and Hire Purchases		
	Interest Income on Lease rentals receivables	78,940,496	37,823,587
	Interest Income on Hire Purchases	3,186,747	4,568,438
		82,127,242	42,392,025

9.	INTEREST EXPENSE	31.03.2023 Rs.	31.03.2022 Rs.
	Due to Banks	117,951,320	37,574,478
	Due to Customers (Note 9.1)	295,865,294	58,974,553
	Interest Expenses on Lease Liability (Note 29.2)	13,549,530	8,433,395
		427,366,144	104,982,427

9.1	Due to Customers		
	Interest Expense on Fixed deposits	284,850,166	43,326,791
	Interest Expense on Savings	11,015,128	15,647,762
		295,865,294	58,974,553

10.	NET FEE AND COMMISSION INCOME	31.03.2023 Rs.	31.03.2022 Rs.
	Documentation and processing fees	39,592,621	45,836,522
		39,592,621	45,836,522

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11. NET OTHER OPERATING INCOME/(EXPENSE)

	31.03.2023 Rs.	31.03.2022 Rs.
Dividend Income	899,287	561,832
Other Income	1,251,654	1,868,948
Fair Value gain/(loss) from Share Investments	2,751,307	(10,813,684)
Adjustment for change in fair value of Unit trust	4,438,023	-
Gain/(Loss) from change in fair value of Investment Properties	20,457,020	-
Gain/(Loss) on Termination of ROU Assets	503,577	-
Gain/(Loss) on Modification of ROU Assets	2,144,705	-
	32,445,572	(8,382,904)

12. IMPAIRMENT CHARGE/(REVERSAL)

		Note	31.03.2023 Rs.	31.03.2022 Rs.
12.1	**Collective**			
	Loans and Receivables	21.2	60,561,186	(93,678,871)
	Lease rentals receivables and Hire Purchases	22.2	(4,327,469)	27,688,681
	Other Financial Assets		2,965,642	76,281
			59,199,359	(65,913,909)
12.2	**Individual**			
	Loans and Receivables		22,238,950	7,338,585
	Lease Rentals Receivable & Hire Purchases		9,556,453	(3,119,911)
	Other Financial Assets		-	-
			31,795,402	4,218,674
	Financial assets		90,994,761	(61,695,235)

12.3 The table below shows the allowance for impairment on financial instruments for the year 2022/2023 recorded in the income statement.

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Individually Rs.	Total Rs.
Loans and Receivables	1,126,811	2,064,624	57,369,750	21,578,929	82,140,114
Lease rentals receivables and Hire Purchases	(81,894)	(710,277)	(3,535,297)	9,556,453	5,228,984
Write off Debtors	-	-	-	660,021	660,021
Other Receivables	2,965,642	-	-	-	2,965,642
	4,010,559	1,354,347	53,834,453	31,795,402	90,994,761

12.4 The table below shows the allowance for impairment on financial instruments for the year 2021/2022 recorded in the income statement.

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Individually Rs.	Total Rs.
Loans and Receivables	9,616,127	(8,666,101)	(94,628,897)	7,338,585	(86,340,286)
Lease rentals receivables and Hire Purchases	12,009,136	3,918,429	11,761,116	(3,119,911)	24,568,770
Write off	-	-	-	-	-
Other Receivables	76,281	-	-	-	76,281
	21,701,544	(4,747,672)	(82,867,781)	4,218,674	(61,695,235)

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13. PERSONNEL COSTS

	31.03.2023 Rs.	31.03.2022 Rs.
Salaries and Other Related Expenses	125,104,794	90,423,178
Defined Contribution Plan cost EPF and ETF	8,705,223	7,566,335
Directors' Emoluments	10,130,000	7,225,000
Provision for Gratuity	1,871,057	1,186,501
	145,811,074	106,401,014

14. DEPRECIATION AND AMORTIZATION

	31.03.2023 Rs.	31.03.2022 Rs.
Depreciation of Property Plant & Equipment	36,093,489	22,704,785
Amortization of intangible assets	5,498,079	5,665,548
Depreciation of ROU Assets	20,365,509	16,464,362
	61,957,077	44,834,695

15. OTHER OPERATING EXPENSES

	31.03.2023 Rs.	31.03.2022 Rs.
Audit Related Fees and Expenses	1,987,200	1,581,000
Professional & Legal Expenses	11,167,323	6,419,459
Office Administration & Establishment Expenses	76,303,613	35,143,064
Advertising & Business Promotion Expenses	19,812,977	15,940,139
Other Operating Expenses	8,187,964	8,025,853
	117,459,076	67,109,515

16. TAXES ON FINANCIAL SERVICES

	31.03.2023 Rs.	31.03.2022 Rs.
Value Added Tax on Financial Services	44,227,355	41,413,734
Social Security Contribution Levy on Financial Services	3,650,160	-
	47,877,516	41,413,734

17. TAXATION

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

		31.03.2023 Rs.	31.03.2022 Rs.
(A)	**Statement of Profit or Loss**		
	Current Income Tax		
	Income Tax for the year	3,528,900	-
	Deferred Tax		
	Deferred Taxation Charge/ (Reversal) (Refer Note 31)	46,254,137	140,936,083
		49,783,037	140,936,083
(B)	**Other Comprehensive Income**		
	Deferred Tax		
	Deferred Taxation Charge/ (Reversal) (Refer Note 31)	(25,481)	1,952
		(25,481)	1,952
(C)	**Total Tax Expense for the year**	49,757,556	140,938,035

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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 2023 and 2022 is as follows.

		31.03.2023 Rs.	31.03.2022 Rs.
Accounting Profit Before Income Taxation		212,553,791	238,518,062
Adjustments			
Non-Taxable (Income)/ Losses		(31,193,919)	10,251,852
Disallowable Expenses		208,519,333	35,381,783
Allowable Expenses		(169,886,440)	(181,464,721)
Total Statutory Income		219,992,765	102,686,977
IPO tax Relief		-	51,343,489
Claim on Carried Forward Tax Losses		(206,922,765)	-
Taxable Income		13,070,000	-
Income Tax Rate (%)	Note 17.2 (A)	30% & 24%	24%
Income Tax		3,528,900	-
Deferred Taxation Charge/(Reversal)	(Note 31)	46,228,656	140,938,035
Total Tax Expense		49,757,556	140,938,035
Effective tax rate		23%	59%

17.2 (A) Inland Revenue (Amendment) Act, No. 45 of 2022 certified on December 19, 2022 effected several tax changes including increase in corporate tax rates with effect from 01st October 2022. As per the amendment, for the period from 01st April 2022 to 30th September 2022 (first six months) shall be taxed at the rate of 24% and for the period from 01st October 2022 to 31st March 2023 (second six months) shall be taxed at the rate of 30%.

17.2 (B) As a result of the Company's shares been listed on the Colombo Stock Exchange in November 2021, the Company was eligible for tax benefits as follows in terms of the Inland Revenue (Amendment) Act No 10 of 2021,

i. Income tax payable calculated shall be reduced by 50% for the year of assessment 2021/2022
ii. Gains and profits for 3 Years of assessment from 01.04.2022 will be taxable at the reduces rate of 14%

However, such exemption was removed by the Inland Revenue (Amendment) Act, No. 45 of 2022 certified on December 19, 2022.

17.2 (C) Company received an additional assessment notice from Inland Revenue Department subsequent to the financial year ending 31st March 2023 after agreeing with the management, where some adjustments have been made to the declared profit in income tax return submitted for financial year 2019/2020 for an amount of Rs. 18,782,972/- and disallowed the entire loss of Rs. 8,703,256/- declared in income tax return submitted for financial year 2017/2018. Consequently, the total amount of Rs. 27,486,228/- is adjusted to the carried forward tax losses of 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.

		31.03.2023 Rs.	31.03.2022 Rs.
18.1	Weighted Average Number of Ordinary Shares for Basic/Diluted EPS as at 01 April	790,168,780	6,651,699,935
	Add : Weighted Average Number of shares issued under private placement	-	1,912,428,213
	Weighted Average Number of Ordinary Shares for Basic/Diluted EPS as 31 March	790,168,780	8,564,128,148
	Weighted Average Number of Ordinary Shares for Basic/Diluted EPS as 31 March (After consolidation of shares)	790,168,780	790,168,780
	Profit Attributable to Ordinary share holders	162,770,755	97,581,979
	Basic/Diluted Earnings per Ordinary Share (Rs.)	0.21	0.12

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19.	CASH AND CASH EQUIVALENT	31.03.2023 Rs.	31.03.2022 Rs.
	Cash in hand	29,681,117	24,009,276
	Balances with banks	149,959,121	89,148,104
	Securities purchased under repurchase agreement maturing with in 3 months	-	116,283,149
	Cash and Cash Equivalent before impairment	179,640,237	229,440,529
	Less: Allowance for Impairment	(45,684)	(6,482)
	Cash and Cash Equivalent after impairment	179,594,554	229,434,047

19.1	Cash and Cash Equivalent - Cash Flow Purpose		
	Cash and Cash Equivalent before allowance for impairment	179,640,237	229,440,529
	Bank Overdraft	-	(30,360,385)
		179,640,237	199,080,144

20.	FINANCIAL INVESTMENTS AT AMORTISED COST	31.03.2023 Rs.	31.03.2022 Rs.
	Fixed Deposits & Commercial Papers	402,525,682	747,107,564
	Treasury Bills	407,961,595	-
	Less: Allowance for Impairment Losses	(803,457)	(287,784)
		809,683,821	746,819,780

21.	FINANCIAL ASSETS AT AMORTISED COST - LOANS AND RECEIVABLES	31.03.2023 Rs.	31.03.2022 Rs.
	Term Loans	3,164,401,077	2,397,994,236
	Housing Loans	218,215,850	248,365,798
	Gold Loans	576,906,978	114,119,012
	Factoring Loans	18,679,000	26,347,000
	Staff Loans	12,829,068	17,584,622
		3,991,031,973	2,804,410,668
	Less : Allowance for Impairment Losses **(Note 21.1)**	(252,228,923)	(170,088,809)
	Less : Day 1 loss Moratorium interest income **(Note 21.1)**	-	-
		3,738,803,049	2,634,321,859

21.1	Analysis of Loans and Receivables on Maximum Exposure to Credit Risk as at 31 March 2023	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
	Individually Impaired Loans and Receivables	-	-	246,735,812	246,735,812
	Loans and Receivables subject to Collective Impairment	2,546,350,195	452,616,053	745,329,913	3,744,296,161
	Allowance for Impairment Losses	(60,892,331)	(21,437,425)	(169,899,167)	(252,228,923)
		2,485,457,864	431,178,628	822,166,558	3,738,803,049

	Analysis of Loans and Receivables on Maximum Exposure to credit Risk as at 31 March 2022	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
	Individually Impaired Loans and Receivables	-	-	221,478,391	221,478,391
	Loans and Receivables subject to Collective Impairment	1,858,844,562	261,172,603	462,915,111	2,582,932,277
	Allowance for Impairment Losses	(59,765,520)	(19,372,801)	(90,950,488)	(170,088,809)
	Moratorium Loan Impairment				
		1,799,079,042	241,799,802	593,443,014	2,634,321,859

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

21.2 Allowance for Impairment Losses

	31.03.2023 Rs.	31.03.2022 Rs.
Movement in Individual Impairment Allowance for Loans and Receivables		
As at 01 April	15,318,553	7,979,967
Net Impairment Charge / (Reversal) for the year	21,578,929	7,338,586
Balance as at 31 March	36,897,482	15,318,553
Movement of Collective Impairment Allowance for Loans and Receivables		
As at 01 April	154,770,256	248,449,127
Net Impairment Charge / (Reversal) for the year	60,561,186	(93,678,871)
Balance as at 31 March	215,331,442	154,770,256
Individual Impairment	36,897,482	15,318,553
Collective Impairment	215,331,442	154,770,256
	252,228,923	170,088,809

21.3 Movement in Allowance for Impairment Losses

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2022	59,765,520	19,372,801	90,950,488	170,088,809
Charge/(Reversal) to Income Statement (Note 12.3)	1,126,811	2,064,624	78,948,679	82,140,114
Balance as at 31 March 2023	60,892,331	21,437,425	169,899,167	252,228,923

22. FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLES & HIRE PURCHASES

	31.03.2023 Rs.	31.03.2022 Rs.
Gross rentals receivables	690,206,506	592,084,186
-Lease Rentals Receivables	677,806,921	553,041,085
-Amounts Receivable from Hire Purchases	12,399,585	39,043,101
	690,206,506	592,084,186
Less: Unearned Income	(190,559,382)	(146,459,661)
Net rentals receivables	499,647,124	445,624,525
Less : Allowance for Impairment Losses (Note 22.1)	(58,217,730)	(52,988,746)
Total net rentals receivable	441,429,394	392,635,779

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22. FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLES & HIRE PURCHASES (Contd…)

22.1 Analysis of Lease Rentals Receivables & Hire Purchases on Maximum Exposure to credit Risk as at 31 March 2023

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Lease Rentals Receivables & Hire Purchases	-	-	71,501,778	71,501,778
Lease Rentals Receivable & Hire Purchases subject to Collective Impairment	250,748,972	93,189,953	84,206,422	428,145,347
Allowance for Impairment Losses	(17,801,351)	(10,696,692)	(29,719,687)	(58,217,730)
	232,947,621	82,493,261	125,988,512	441,429,394

Analysis of Lease Rentals Receivables & Hire Purchases on Maximum Exposure to credit Risk as at 31 March 2022.

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Lease Rentals Receivables & Hire Purchases	-	-	15,747,327	15,747,327
Lease Rentals Receivables & Hire Purchases subject to Collective Impairment	256,919,729	85,139,408	87,818,061	429,877,198
Allowance for Impairment Losses	(17,883,245)	(11,406,969)	(23,698,532)	(52,988,746)
	239,036,484	73,732,439	79,866,856	392,635,779

22.2 Allowance for Impairment Losses

Movement In Individual Impairment Allowance For - Lease Rentals Receivables & Hire Purchases

	31.03.2023 Rs.	31.03.2022 Rs.
As at 01 April	868,498	3,988,409
Net Impairment Charge / (Reversal) for the year	9,556,453	(3,119,911)
Balance as at 31 March	10,424,951	868,498
Movement in Collective Impairment Allowance for- Lease Rentals Receivables & Hire Purchases		
As at 01 April	52,120,248	24,431,568
Net Impairment Charge / (Reversal) for the year	(4,327,469)	27,688,680
Balance as at 31 March	47,792,779	52,120,248
Individual Impairment	10,424,951	868,498
Collective Impairment	47,792,779	52,120,248
	58,217,730	52,988,746

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22. FINANCIAL ASSETS AT AMORTISED COST - LEASE RENTALS RECEIVABLES & HIRE PURCHASES (Contd…)

22.3 As at 31 March 2023

Gross rentals receivables	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
-Lease Rentals Receivables	306,292,941	371,513,980	-	677,806,921
-Amounts Receivable from Hire Purchases	5,974,511	6,425,074	-	12,399,585
	312,267,452	377,939,054	-	690,206,506
Less: Unearned Income	(88,076,579)	(102,482,803)	-	(190,559,382)
Net rentals receivables	224,190,873	275,456,251	-	499,647,125
Less : Allowance for Impairment Losses				(58,217,730)
Total net rentals receivable				441,429,395

As at 31 March 2022	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables	13,573,665	569,251,649	9,258,872	592,084,186
-Lease Rentals Receivables	9,574,902	536,242,668	9,258,872	555,076,442
-Amounts Receivable from Hire Purchases	3,998,763	33,008,981	-	37,007,744
	13,573,665	569,251,649	9,258,872	592,084,186
Less: Unearned Income	(1,401,292)	(141,783,865)	(3,274,504)	(146,459,661)
Net rentals receivables	12,172,373	427,467,784	5,984,368	445,624,525
Less : Allowance for Impairment Losses				(52,988,746)
Total net rentals receivable				392,635,779

22.4 Movement in Allowance for Impairment Losses

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2022	17,883,245	11,406,969	23,698,532	52,988,746
Charge/(Reversal) to Income Statement (Note 12.3)	(81,894)	(710,277)	6,021,155	5,228,984
Balance as at 31 March 2023	17,801,351	10,696,692	29,719,687	58,217,730

23. OTHER FINANCIAL ASSETS

	31.03.2023 Rs.	31.03.2022 Rs.
Amount due from Holding Company	-	7,585,645
Prov. for Amount due from Holding Company	-	(7,585,645)
Other Receivables	31,361,557	16,919,514
	31,361,557	16,919,514

Long outstanding receivable amount of Rs. 7,585,645/- due from Holding Company (Lanka Credit and Business Ltd) on expenses incurred by the Company on behalf of the parent was fully written off during the year due to irrevocability. This amount had been fully provided for impairment as at the end of the previous year.

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

	31.03.2023 Rs.	31.03.2022 Rs.
Unit Trust	205,018,109	-
Investment in Shares	14,735,415	19,508,717
	219,753,524	19,508,717

25. FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.03.2023 Rs.	31.03.2022 Rs.
Investment in CRIB	315,813	315,813
	315,813	315,813

26. OTHER NON FINANCIAL ASSETS

	31.03.2023 Rs.	31.03.2022 Rs.
WHT Receivable	1,009,123	4,281,407
Advance & Prepayments	42,737,486	39,716,499
Stationary and Gift stock	7,382,958	5,371,950
Other Non Financial Assets	5,191,420	5,218,521
NBT on Financial Services	-	756,640
	56,320,987	55,345,017

27. INVESTMENT PROPERTY

	31.03.2023 Rs.	31.03.2022 Rs.
Balance as at 1st April	-	-
Additions to Investment Properties from foreclosure of contracts	129,384,000	-
Additions;		
On Improvements	30,158,980	-
Net Gain/(Losses) from change in fair value	20,457,020	-
Balance as at 31st March	180,000,000	-

Investment Properties includes land and building acquired by the Company from clients who defaulted on accommodations granted. These properties were held by the Company for Capital appreciation and rental purposes.

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 31st March 2023.

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.

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27. INVESTMENT PROPERTY (Contd…)

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	Description	Name of the Valuer	Value per Perch /Sqft	Extent (Perches/ Sqft)	Value
			Rs.		
01. Commercial Building	Land Area	Vlr Gunasekara.A.A.P.D			
Situated at No.634,	Front	AIV (Sri Lanka)	1,400,000	20.00 Perches	28,000,000
Galle Road, Rajgama	Rear	Incorporated Valuer	900,000	15.28 Perches	13,752,000
	Building				
	Ground Floor		7,500	4,986 Sqft	37,395,000
	First Floor		7,000	4,986 Sqft	34,902,000
	Second Floor		6,500	4,986 Sqft	32,409,000
	Value of Property after depreciation for building @ 15%				130,000,000
	Market value				**120,000,000**
02. Commercial Building	Land Area	Vlr Gunasekara.A.A.P.D	2,800,000	14.35 Perches	40,180,000
Mahaedanda,	Building	AIV (Sri Lanka)			
Karandeniya.	Ground Floor	Incorporated Valuer	9,000	1,471 Sqft	13,239,000
	Upper Floor		8,500	1,330 Sqft	11,305,000
	Value of Property after depreciation for building @ 15%				60,000,000
	Market value				**60,000,000**
			Total value of the properties		180,000,000

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28. PROPERTY, PLANT AND EQUIPMENT

28.1 Gross Carrying Amounts

Cost	Balance As at 01.04.2022 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2023 Rs.
Freehold Assets				
Motor Vehicles	44,808,165	5,659,730	-	50,467,895
Machinery	40,280,828	1,010,000	-	41,290,828
Office Equipment	15,873,115	8,433,775	-	24,306,890
Furniture and Fittings	34,804,898	17,999,055	-	52,803,952
Fixture & Fittings	529,019	2,006,900	-	2,535,919
Name Board	13,511,828	6,504,436	-	20,016,264
Computer Equipment & Accessories	17,686,453	7,594,469	-	25,280,922
Total Value of Depreciable Assets	167,494,305	49,208,365	-	216,702,670

28.2 Depreciation

	Balance As at 01.04.2022 Rs.	Charge for the Period Rs.	Disposals Rs.	Balance As at 31.03.2023 Rs.
Motor Vehicles	34,056,482	5,952,915	-	40,009,396
Machinery	2,834,081	8,936,726	-	11,770,806
Office Equipment	9,523,923	3,484,950	-	13,008,873
Furniture and Fittings	19,749,634	7,555,582	-	27,305,216
Fixtures & Fittings	283,776	383,754	-	667,530
Name Board	8,726,651	5,701,205	-	14,427,856
Computer Equipment & Accessories	8,210,870	4,078,359	-	12,289,229
	83,385,417	36,093,490	-	119,478,906

28.3 Net Book Values

	31.03.2023 Rs.	31.03.2022 Rs.
At Cost		
Motor Vehicles	10,458,499	10,751,683
Machinery	29,520,022	37,446,747
Office Equipment	11,298,017	6,349,192
Furniture and Fittings	25,498,736	15,055,264
Fixture & Fittings	1,868,389	245,243
Name Board	5,588,408	4,785,177
Computer Equipment & Accessories	12,991,694	9,475,583
Total Carrying Amount of Property, Plant & Equipment	97,223,763	84,108,889

28.4 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 49,208,365/- (2021/22 - Rs.69,630,765/-).

28.5 Cost of fully depreciated assets of the company as at 31 March 2023 is Rs. 70,851,152/- (2021/22 - Rs.38,150,181/-).

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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

	31.03.2023 Rs.	31.03.2022 Rs.
Balance as at 01 April	121,431,246	84,506,112
Additions and Improvements	27,616,525	36,925,134
Adjustment on Terminations & Modifications	(24,002,074)	-
Cost as at 31 March	125,045,697	121,431,246
Accumulated Amortisation		
Balance as at 01 April	(47,987,903)	(31,523,542)
Charge for the year	(20,365,509)	(16,464,361)
Adjustment on Terminations & Modifications	12,951,249	-
Accumulated Amortisation as at 31 March	(55,402,164)	(47,987,903)
Net Book Value as at 31 March	69,643,533	73,443,343

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.

	31.03.2023 Rs.	31.03.2022 Rs.
Balance as at 01 April	72,804,080	54,926,127
Additions	22,341,213	30,005,134
Accretion of Interest	13,549,530	8,433,395
Payments	(28,030,226)	(20,560,576)
Derecognition on Termination	(6,086,243)	-
Corrections & modifications	(2,914,917)	-
Balance as at 31 March	71,663,438	72,804,080

29.3 Maturity Analysis of Lease Liability

As at 31 March	31.03.2023 Rs.	31.03.2022 Rs.
Less than 01 year	17,964,636	15,235,635
02 to 05 years	33,418,762	38,457,243
More than 05 years	20,280,040	19,111,202
	71,663,438	72,804,080

29.4 Undiscounted Maturity Analysis of Lease Liability

	31.03.2023 Rs.	31.03.2022 Rs.
Up to 03 Months	7,016,869	6,052,119
03 to 12 Months	21,069,007	18,444,357
01 to 03 Years	33,192,807	42,382,683
03 to 05 Years	23,146,150	16,236,900
Over 05 Years	24,807,458	24,956,928
Total	109,232,291	108,072,987

29.5 Reconciliation of Operating Lease Commitments

	31.03.2023 Rs.	31.03.2022 Rs.
Operating Lease Commitments as at 31 March	72,804,080	54,926,127
Impact on discounting	(15,329,645)	(12,127,181)
Impact on Derecognition & Modifications	(8,152,210)	-
New branches opening during the period	22,341,213	30,005,134
Lease Liability as at 31 March	71,663,438	72,804,080

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29.6 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 2023 would have impact the lease liability by approximately Rs.1,590,906/(Rs. 1,656,505) 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.10,724)/Rs. 16,439 respectively.

30. INTANGIBLE ASSETS

	31.03.2023 Rs.	31.03.2022 Rs.
Computer Software		
Cost		
As at 01 April	49,923,536	47,323,536
Additions	1,283,800	2,600,000
Cost as at end of the year	51,207,336	49,923,536
Amortisation & impairment		
As at 01 April	(10,801,671)	(5,137,323)
Charge for the year	(5,498,079)	(5,664,348)
Amortisation as at end of the year	(16,299,750)	(10,801,671)
Net book value as at end of the year	34,907,586	39,121,865

Nature and Amortization Method

Intangible Assets represent acquisition of computer softwares from third parties. These softwares are amortized over the estimated useful life as mentioned in the accounting policies in note no. 4.4.4

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	
	31.03.2023 Rs.	31.03.2022 Rs.	31.03.2023 Rs.	31.03.2022 Rs.	31.03.2023 Rs.	31.03.2022 Rs.
Deferred Tax Liability						
Capital Allowances for Tax Purposes						
- Property Plant & Equipment	4,232,269	736,765	-	-	3,495,504	650,392
- Intangible Assets	6,681,765	2,312,223	-	-	4,369,542	25,383
Define Benefit Plan- Other Comprehensive Income	25,481	-	25,481	-	25,481	-
Investment Property	6,137,106	-	-	-	6,137,106	-
	17,076,621	3,048,988	25,481	-	14,027,633	675,775
Deferred Tax Assets						
Right of Use Assets	605,972	727,632	-	-	(121,660)	1,194,085
Allowance for Impairment Losses	32,998,963	4,091,630	-	-	28,907,333	(40,588,005)
Defined Benefit Plans	1,934,486	931,235	-	1,952	977,770	(101,252)
Defined Benefit Plan- Other Comprehensive Income		1,952	-	-	(1,952)	1,952
Brought Forward Tax Losses	-	61,987,994	-	-	(61,987,994)	(100,767,090)
	35,539,420	67,740,442	-	1,952	(32,226,503)	(140,260,310)
Deferred income tax charge/(reversal)			(25,481)	1,952	46,254,137	140,936,083
Net Deferred Tax Liability/ (Asset)	(18,462,799)	(64,691,455)				

With the enactment of Inland Revenue (Amendment) Act No 45 of 2022, income tax rate was revised from 24% to 30% with effect from 01st October 2022. Accordingly, the Company applied 30% income tax rate for the determination of deferred tax in 2023 and recognised an adjustment to deferred tax assets amounting to Rs. 3,692,560/- resulting from increasing in income tax rate.

32. DUE TO BANKS

	31.03.2023 Rs.	31.03.2022 Rs.
Bank Overdrafts	-	30,360,385
Securitised Borrowings and Other Bank Facilities (Note 32.1)	566,941,929	556,010,608
	566,941,929	586,370,993

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32. DUE TO BANKS (Contd…)

32.1 Due to Banks

	31.03.2023 Amount repayable within 1 year	31.03.2023 Amount repayable after 1 year	31.03.2023 Total	31.03.2022 Amount repayable within 1 year	31.03.2022 Amount repayable after 1 year	31.03.2022 Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank Overdrafts	-	-	-	30,360,385	-	30,360,385
Term Loan facilities from Banks	371,267,209	195,674,720	566,941,929	221,172,181	334,838,427	556,010,608
	371,267,209	195,674,720	566,941,929	251,532,566	334,838,427	586,370,993

32.2 Term Loan facilities from Banks

Direct Bank Borrowings	As at 01.04.2022 Rs.	Loans Transferred Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Repayments Interest Rs.	As at 31.03.2023 Rs.	Period Rs.	Security Rs.
Term Loans									
Term Loan 01 - Sampath Bank PLC	114,202,359	-	100,000,000	38,879,384	(63,270,020)	(37,106,418)	152,705,305	5 Years	Personal Guarantee
Term Loan 02 - Sampath Bank PLC	7,224,681	-	-	893,521	(7,224,681)	(893,521)	-	5 Years	Personal Guarantee
Term Loan 01 - Cargills Bank	46,579,501	-	-	9,648,104	(20,000,400)	(9,562,005)	26,665,200	5 years	Personal Guarantee
Term Loan 02 - Cargills Bank	99,273,908	-		882,809	(99,273,908)	(882,809)	-	5 years	FD Against
Pan Asia Bank	288,730,159	-	-	62,761,412	(101,904,762)	(62,761,412)	186,825,397	3 years	Loan / Lease Portfolio Mortgage
	556,010,608	-	100,000,000	113,065,231	(291,673,772)	(111,206,166)	366,195,902		
Repurchase Agreements (REPO)	-	-	200,000,000	746,027	-	-	200,746,027		Treasury Bills
Bank Overdrafts	30,360,385	-	-	-	-	-	-		
	586,370,993	-	300,000,000	113,811,258	(291,673,772)	(111,206,166)	566,941,929		

Direct Bank Borrowings	As at 01.04.2021 Rs.	Loans Transferred Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Repayments Interest Rs.	As at 31.03.2022 Rs.	Period Rs.	Security Rs.
Term Loans									
Term Loan 01 - Sampath Bank PLC	128,880,715	-	50,000,000	10,836,060	(66,086,675)	(9,427,741)	114,202,359	5 Years	Personal Guarantee
Term Loan 02 - Sampath Bank PLC	17,232,681	-	-	1,045,497	(10,008,000)	(1,045,497)	7,224,681	5 Years	Personal Guarantee
Sri Lanka Saving Bank Ltd	154,167	-	-	1,964	(154,167)	(1,964)	-	3 years	Personal Guarantee
Sri Lanka Saving Bank Ltd	96,217,057	-	-	6,300,232	(96,217,057)	(6,300,232)	-		
Term Loan 01 - Cargills Bank	72,319,480	-	-	5,663,578	(24,630,958)	(6,772,599)	46,579,501	5 years	Personal Guarantee
Term Loan 02 - Cargills Bank	150,881,698	-	-	7,820,038	(49,860,463)	(9,567,365)	99,273,908	5 years	FD Against
Pan Asia Bank	-	-	300,000,000	3,232,675	(11,269,841)	(3,232,675)	288,730,159	3 years	Loan / Lease Portfolio Mortgage
Sampath Bank PLC	4,141,707	-	-	234,130	(4,141,707)	(234,130)	-	4 years	Motor Vehicle
	469,827,505	-	350,000,000	35,134,174	(262,368,867)	(36,582,203)	556,010,608		
Bank Overdrafts	48,587,036	-	-	-	-	-	30,360,385		
	518,414,541	-	350,000,000	35,134,174	(262,368,867)	(36,582,203)	586,370,993		

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33. FINANCIAL LIABILITIES AT AMORTISED COST- DUE TO CUSTOMERS

	31.03.2023 Rs.	31.03.2022 Rs.
Fixed Deposits	1,958,300,564	643,984,165
Savings Deposits	254,699,944	273,266,346
Interest Payable	167,338,886	45,385,072
	2,380,339,395	962,635,583

34. OTHER FINANCIAL LIABILITIES

	31.03.2023 Rs.	31.03.2022 Rs.
Lease Creditors (Note 29.2)	71,663,438	72,804,080
Other Payables	9,056,569	4,823,556
Provisions and Accruals (Note 34.1)	4,889,315	3,476,902
	85,609,323	81,104,538

34.1 Provisions and Accruals

	31.03.2023 Rs.	31.03.2022 Rs.
Salary Payable	342,285	148,212
Professional Fee Payable	2,470,981	1,918,781
Other Expenses Payable	2,076,049	1,409,909
	4,889,315	3,476,902

35. OTHER NON FINANCIAL LIABILITIES

	31.03.2023 Rs.	31.03.2022 Rs.
Payable - EPF	1,095,607	795,856
Payable - ETF	161,286	116,323
Payable - PAYE Tax	574,006	(58,114)
Payable - WHT	916,035	-
Payable for Tax on Financial & Non Financial Services	8,020,300	12,514,909
Other Payable	28,441,253	24,752,668
Other Tax Payable	2,847,466	2,656,393
	42,055,952	40,778,035

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36.	RETIREMENT BENEFIT OBLIGATIONS	31.03.2023 Rs.	31.03.2022 Rs.
	Balance at the beginning of the year	4,887,670	4,310,160
	Past Service Cost	-	(247,366)
	Current Service Cost	1,186,783	1,089,054
	Payments made during the year	(480,313)	(595,050)
	Interest Charged/(Reversed) for the year	684,274	344,813
	(Gain)/Loss arising from changes in the assumption	84,936	(13,941)
	Balance at the end of the year	6,363,350	4,887,670

36.1	Expenses on Defined Benefit Plan	31.03.2023 Rs.	31.03.2022 Rs.
	Current Service Cost for the year	1,186,783	1,089,054
	Interest Charge for the year	684,274	344,813
	Past Service Cost	-	(247,366)
		1,871,057	1,186,501

36.2	Amount Recognized in the Other Comprehensive Income		
	(Gain)/Loss arising from changes in the assumption (Note 36)	84,936	(13,941)
		84,936	(13,941)

Actuarial valuation of Retiring Gratuity Obligation as at 31 March 2023 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	31.03.2023	31.03.2022
36.3.1	**Financial Assumptions**		
	Discount Rate	20.00%	14.00%
	Salary Increment Rate	17% p.a.	10% p.a.
36.3.2	**Demographic Assumptions**		
	Staff Turnover	17%	27%
	Retirement Age	60 years	60 years
	Mortality	A 1967/70 Mortality table	A 1967/70 Mortality table

Expected average future working life of the active participants is 5.12 years (2022: 3.18 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.

		2023		2022	
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%	-	(364,764)	364,764	(159,662)	159,662
-1%	-	403,148	(403,148)	168,691	(168,691)
-	1%	430,699	(430,699)	191,856	(191,856)
-	-1%	(394,253)	394,253	(183,986)	183,986

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;

	31.03.2023 Years	31.03.2022 Years
Weighted Average Duration of the Defined Benefit Obligation	7.20	3.79
Average Time to Benefit Payout	5.12	3.18
(Maturity Profile of Defined Benefit Obligation)-Present Value of Expected benefit Payments		
within the next 12 months	861,532	566,156
between 2 to 5 years	1,853,166	3,664,766
between 6 to 10 years	1,401,340	548,249
beyond 10 years	2,247,311	108,499
	6,363,350	4,887,670

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37. STATED CAPITAL

37.1 Issued and Fully Paid-Ordinary Shares

	31.03.2023		31.03.2022	
	No. of Shares	Rs.	No. of Shares	Rs.
At the Beginning of the Year	790,168,780	2,539,133,400	665,168,780	2,039,133,400
New share issued during the Year	-	-	125,000,000	500,000,000
At the End of the Year	790,168,780	2,539,133,400	790,168,780	2,539,133,400

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 Net Asset Value per Share

As at 31st March	2023	2022
Equity Holders Funds	2,796,190,433	2,680,889,259
Total No. of Shares	790,168,780	790,168,780
Net Asset Value per ordinary share	3.54	3.39

38. RESERVES

	Statutory Reserve Rs.	Total Rs.
As at 31 March 2022	45,949,200	41,070,101
Transfers During the Year	8,138,538	4,879,099
As at 31 March 2023	54,087,738	45,949,200

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

	2023 Rs.	2022 Rs.
Balance as at 01 April	95,806,659	26,734,853
Dividend Paid	(47,410,127)	-
Profit for the Year	162,770,755	97,581,979
Other Comprehensive Income not to be Reclassified to Profit or Loss	(59,455)	11,989
Transfers During the Year	(8,138,538)	(4,879,099)
Share Issue Cost	-	(23,643,063)
Balance as at 31 March	202,969,295	95,806,659

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 dividend 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 observable 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.

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

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-23 Rs. Fair value measurement using					31-Mar-22 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 Assets Measured at Fair value through Profit or Loss	219,753,524	-	219,753,524	-	219,753,524	19,508,717	-	19,508,717	-	19,508,717
Financial Investment as Fair Value through Other Comprehensive Income	315,813	-	-	315,813	315,813	315,813	-	-	315,813	315,813
TOTAL FINANCIAL ASSETS	220,069,337	-	219,753,524	315,813	220,069,337	19,824,530	-	19,508,717	315,813	19,824,530

Set out below is the comparison, by class, of the carrying amounts and 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-23 Rs. Fair value measurement using					31-Mar-22 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	809,683,821	-	809,683,821	-	809,683,821	746,819,780	-	746,819,780	-	746,819,780
Financial assets at amortised Cost - Loans and Receivables	3,738,803,049	-	-	-	-	2,634,321,859	-	2,973,161,482	-	2,973,161,482
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	441,429,394	-	-	-	-	392,635,779	-	510,381,939	-	510,381,939
	4,989,916,264	-	809,683,821	-	809,683,821	3,773,777,418	-	4,230,363,201	-	4,230,363,201
FINANCIAL LIABILITIES										
Due to Customers	2,380,339,395	-	-	-	-	962,635,583	-	654,584,559	-	654,584,559
	2,380,339,395	-	-	-	-	962,635,583	-	654,584,559	-	654,584,559

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.

	2023		2022	
	Carrying Amount Rs.	**Fair Value Rs.**	**Carrying Amount Rs.**	**Fair Value Rs.**
Financial Assets				
Cash and Cash Equivalent	179,594,556	179,594,556	229,434,047	229,434,047
Financial Investment at amortised Cost	809,683,821	809,683,821	746,819,780	746,819,780
Other Financial Assets	31,361,557	31,361,557	16,919,514	16,919,514
Total Financial Assets	1,020,639,934	1,020,639,934	993,173,341	993,173,341
Financial Liabilities				
Financial Liabilities at amortised Cost - Due to Banks	566,941,929	566,941,929	586,370,993	586,370,993
Other Financial Liabilities	85,609,323	85,609,323	81,104,538	81,104,538
	652,551,251	652,551,251	667,475,531	667,475,531

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The management of the company believes that the fair value of the financial assets which matured within one year is equal to its amortized cost.

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

41. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	2023 Rs.	2022 Rs.
Loan Lease Portfolio	450,000,000	450,000,000
Treasury Bills	259,000,000	-
Fixed Deposit Investment	-	155,000,000

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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 face for the economic crisis 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 economic crisis.

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.

Financial Risks		Risk Measures	Mitigates
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

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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.

Stressed macroeconomic conditions in 2022 have an impact on the Credit risk of the company. Since importers continued to be stymied by the restriction of non-essential imports, while the ban on the import of chemical fertilisers had a direct impact on some of the agriculture sector customers. At the same time, construction sector ,Transport sector and consumer sector customers appeared to be under stress due to the prolonged economic downturn attributed.For the mittigation of Credit risk arise due to the above stress situation the management has decided to reduce 50% monthly Credit disbursement and further limit to disburse to stress sectors while increasing interest rates.

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 Assessment of Expected Credit Losses

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.

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42. RISK MANAGEMENT (Contd…)

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.

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

As at 31st March	2023			
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Cash and Cash Equivalent	849,141	-	-	849,141
Term loan Personal Guarantees	12,363,689	2,852,465	52,704,870	67,921,023
Term loan Property Mortgage	44,335,541	17,841,472	85,359,827	147,536,840
Gold Loans	599,617	231,640	9,348,424	10,179,681
Factoring Loans	-	-	18,679,000	18,679,000
Government Undertake Loan	3,593,485	511,848	3,807,045	7,912,379
Lease rentals receivables and Hire Purchases	17,801,351	10,696,692	29,719,687	58,217,730
Sundry Debtors			500,000	500,000
Total allowance for expected credit losses	79,542,823	32,134,117	200,118,854	311,795,794

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-23 Rs.
Balance as at 01st April 2022	223,871,822
Net Charge/(Reversal) Profit and loss	87,923,972
Balance as at 31 Mar 2023	311,795,794

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	111,676,940	95,235,039	(16,441,901)

	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 2	Impact of staging
	Rs.	Rs.	Rs.
Total allowance for expected credit losses	111,676,940	157,197,860	45,520,920

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.

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As at 31st March	2023		
	31- 60 Days	61- 90 Days	Total
	Rs.	Rs.	Rs.
Gold loan receivables	73,976,331	35,411,362	109,387,693
Term loan Personal Guarantees	12,535,321	50,554,890	63,090,210
Term loan Property Mortgage	132,608,781	190,643,233	323,252,014
Government Undertake	7,853,438	4,133,187	11,986,625
Lease rentals receivables and Hire Purchases	70,534,321	46,792,664	117,326,986
	297,508,192	327,535,337	625,043,529

42. RISK MANAGEMENT (Contd…)

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

As at 31st March	2023						
	Gross Carrying Value			Allowance for ECL			Net Carrying Value
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term loan Property Mortgage	8,393,316	26,434,513	34,827,829	582,080	4,320,150	4,902,230	29,925,599
Term loan Personal Guarantees	547,763	6,246,739	6,794,502	78,103	1,792,015	1,870,118	4,924,384
	8,941,079	32,681,252	41,622,331	660,183	6,112,165	6,772,348	34,849,983

As at 31st March	2022						
	Gross Carrying Value			Allowance for ECL			Net Carrying Value
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Term loan Property Mortgage	-	59,276,851	59,276,851	-	20,919,645	20,919,645	38,357,206
Term loan Personal Guarantees	-	16,662,203	16,662,203	-	2,145,217	2,145,217	14,516,986
	-	75,939,054	75,939,054	-	23,064,862	23,064,862	52,874,192

42.4.1(h) Sensitivity of Impairment Provision on Loans and Advances to Customers

The Company has estimated the impairment provision on Loan and advances to customers as at 31st March 2023,subject to various assumptions. The Changes to such assumption may lead to changes in the Impairment provision recorded in the Financial Position.

The following table demonstrates the sensitivity of Impairment provision of the company as at 31st March 2023 to feasible changes in PD LGD and forward looking macro economic information.

	Sensitivity effect on statement of financial position Increase/Decrease in Impairment Provision				Sensitivity Impact of Income statement
	Stage 01	Stage 02	Stage 03	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.
PD/LGD				-	-
PD 1% Increment across all Buckets	3,435,089	666,162	-	**4,101,251**	**(4,101,251)**
PD 1% Decrease across all Buckets	(3,435,089)	(666,162)	-	**(4,101,251)**	**4,101,251**
LGD 5% Increment	18,211,271	6,406,553	38,452,376	**63,070,200**	**(63,070,200)**
LGD 5% Decrease	(18,211,271)	(6,406,553)	(38,452,376)	**(63,070,200)**	**63,070,200**
Probability Weighted forward looking Macro Economic Indicators				-	
Best Case 10% increase, Worst case 5% decrease and base case 5% decrease	(1,113,138)	(390,647)	-	**(1,503,784)**	**1,503,784**
				-	-
Best Case 10% decrease, Worst case 5% increase and base case 5% increase	1,113,138	390,647	-	**1,503,784**	**(1,503,784)**
				-	-

42.4.1(i) Sensitivity of Impairment Provision on Lease and Hire Purchases to Customers

The Company has estimated the impairment provision on Lease and Hire Purchases to customers as at 31st March 2023, subject to various assumptions. The Changes to such assumption may lead to changes in the Impairment provision recorded in the Financial Position.

The following table demonstrates the sensitivity of Impairment provision of the company as at 31st March 2023 to feasible changes in PD LGD and forward looking macro economic information.

	Sensitivity effect on statement of financial position Increase/Decrease in Impairment Provision				Sensitivity Impact of Income statement
	Stage 01	Stage 02	Stage 03	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.
PD/LGD				-	-
PD 1% Increment across all Buckets	902,065	289,989	-	**1,192,054**	**(1,192,054)**
PD 1% Decrease across all Buckets	(902,065)	(289,989)	-	**(1,192,054)**	**1,192,054**
LGD 5% Increment	3,897,255	2,341,830	4,224,203	**10,463,289**	**(10,463,289)**
LGD 5% Decrease	(3,897,255)	(2,341,830)	(4,224,203)	**(10,463,289)**	**10,463,289**
Probability Weighted forward looking Macro Economic Indicators					
Best Case 10% increase, Worst case 5% decrease and base case 5% decrease	(352,737)	(120,839)	-	**(473,576)**	**473,576**
Best Case 10% decrease, Worst case 5% increase and base case 5% increase	352,737	120,839	-	**473,576**	**(473,576)**
				-	-

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42. RISK MANAGEMENT (Contd…)

42.4.2 Credit Quality by Class of Financial Assets

	31-Mar-23					31-Mar-22				
	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	179,594,556	-	-	179,594,556	3.31%	229,434,047	-	-	229,434,047	5.68%
Financial instruments at amortised cost	809,683,821	-	-	809,683,821	14.94%	746,819,780	-	-	746,819,780	18.49%
Financial assets at amortised Cost - Loans and Receivables	2,390,178,967	1,372,796,194	228,056,812	3,991,031,973	73.62%	1,627,387,873	981,891,404	195,131,391	2,804,410,668	69.42%
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	199,226,495	229,196,489	71,224,141	499,647,124	9.22%	206,383,718	223,493,480	15,747,327	445,624,525	11.03%
Other Financial Assets	31,361,557	-	-	31,361,557	0.58%	16,919,514	-	-	16,919,514	0.42%
Financial Assets Measured at Fair value through Profit or Loss	219,753,524	-	-	219,753,524	4.05%	19,508,718	-	-	19,508,718	0.48%
Financial Investment as Fair Value through Other Comprehensive Income	315,813	-	-	315,813	0.01%	315,813	-	-	315,813	0.01%
Allowance for impairment				(310,446,653)	-5.73%				(223,077,555)	-5.52%
Total	3,830,114,733	1,601,992,683	299,280,952	5,420,941,714	100.00%	2,846,769,462	1,205,384,884	210,878,718	4,039,955,510	100.00%

* **Past due but not impaired Leases & Loans**

Past due but not impaired Leases & Loans are those for which contractual interest or principal payments are past due up to 90 days, however as per the Company's assessment do not need to be impaired.

* **Past due and impaired Leases & Loans**

Past due and impaired Leases & Loans are those for which contractual interest or principal payments are past due over 90 days, however as per the Company's assessment need to be impaired.

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	31 to 60 days	61 to 90 days	More than 90 days	Total
	2023	2023	2023	2023	2023
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	63,053,036	48,729,283	42,263,135	146,375,176	300,420,630
Financial assets at amortised Cost - Loans and Receivables	237,848,347	248,778,909	285,272,202	828,953,548	1,600,853,005
	300,901,383	297,508,192	327,535,337	975,328,723	1,901,273,635

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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	2023		2022	
		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	179,594,556	179,594,556	229,434,047	229,434,047
Financial Investment at amortised Cost	20	809,683,821	809,683,821	746,819,780	746,819,780
Financial assets at amortised Cost ;					
Loans & Receivables	21	3,738,803,049	1,151,985,536	2,634,321,859	1,373,339,367
Lease rentals receivables and Hire Purchases	22	441,429,394	419,214,394	392,635,779	392,635,779
Other Financial Assets	23	31,361,557	31,361,557	16,919,514	16,919,514
Financial Assets Measured at Fair value through Profit or Loss	24	219,753,524	219,753,524	19,508,717	19,508,717
Financial Investment as Fair Value through Other Comprehensive Income	25	315,813	315,813	315,813	315,813
Total Financial Assets		**5,420,941,714**	**2,811,909,201**	**4,039,955,509**	**2,778,973,017**

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 as follows;

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As at 31 March	Note	2023			2022		
		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							
Financial assets at amortised Cost - Loans and Receivables		373,573,229	482,365,181	(108,791,952)	-	-	-
		373,573,229	482,365,181	(108,791,952)	-	-	-
Financial Liabilities							
Repurchase Agreements (REPO)	32.2	200,746,027	262,547,656	(61,801,629)	-	-	-
		200,746,027	262,547,656	(61,801,629)	-	-	-

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 2023 Rs.

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and Cash Equivalent	-	-	-	-	-	-	-	-	179,594,556	-	-	179,594,556
Financial Investment at amortised Cost	-	-	-	-	-	-	-	-	809,683,821	-	-	809,683,821
Financial assets at amortised Cost - Loans and Receivables	127,869,333	100,331,334	156,658,272	693,376,162	373,796,834	46,486,013	869,489,074	-	-	-	1,623,024,950	3,991,031,973
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	52,694,007	593,053	145,429,298	41,498,242	19,740,795	57,012,111	25,295,319	-	-	-	157,384,300	499,647,124
Other Financial Assets	-	-	-	-	-	-	-	-	-	-	31,361,557	31,361,557
Financial Assets Measured at Fair value through Profit or Loss	-	-	-	-	-	-	-	-	219,753,524	-	-	219,753,524
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	-	315,813	-	-	315,813
Allowance for Impairment												(310,446,653)
Total	180,563,340	100,924,387	302,087,570	734,874,405	393,537,629	103,498,123	894,784,393	-	1,209,347,714	-	1,811,770,807	5,420,941,714

As at 31 March 2022 Rs.

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	229,434,047	-	-	229,434,047
Financial Investment at amortised Cost	-	-	-	-	-	-	-	-	746,819,780	-	-	746,819,780
Financial assets at amortised Cost - Loans and Receivables	66,918,817	111,292,739	157,020,227	735,493,297	337,592,460	21,755,913	522,143,978	-	-	-	852,193,237	2,804,410,668
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	59,047,042	-	197,503,913	21,589,349	22,315,879	22,370,152	21,327,708	-	-	-	101,470,482	445,624,525
Other Financial Assets	-	-	-	-	-	-	-	-	-	-	16,919,513	16,919,513
Financial Assets Measured at Fair value through Profit or Loss	-	-	-	-	-	-	-	-	19,508,717	-	-	19,508,717
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	-	315,813	-	-	315,813
Allowance for Impairment												(223,077,555)
Total	125,965,859	111,292,739	354,524,140	757,082,646	359,908,339	44,126,065	543,471,686	-	996,078,359	-	970,583,232	4,039,955,508

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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**
	2023	**2023**	**2023**
Long Term Loans linked to AWPLR	1/ (-1)	3,661/(3,661)	0.13%
	0.5 / (0.5)	1,830/(1,830)	0.07%
	0.25 / (0.25)	915/(915)	0.03%

			Rs'000
Currency of Borrowings/ Advance	**Increase (Decrease) in basis points**	**Sensitivity of Profit or Loss**	**Sensitivity of Equity**
	2022	**2022**	**2022**
Long Term Loans linked to AWPLR	1/ (-1)	4,588/(4,588)	0.16%
	0.5 / (0.5)	2,294/(2,294)	0.08%
	0.25 / (0.25)	1,147/(1,147)	0.04%

The base ratio considers in the Interest Rate Sensitivity Analysis is the existing Loan rates. Since only 65% (2022-82%) 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.

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 2023	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 cash Equivalents	149,913,437	-	-	-	-	29,681,117	179,594,554
Financial Investment at amortised Cost	621,989,164	187,694,656	-	-	-	-	809,683,820
Financial assets at amortised Cost - Loans and Receivables	1,163,525,226	1,248,104,377	849,489,103	336,421,320	141,263,023	-	3,738,803,050
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	68,865,516	97,107,627	204,312,486	71,143,765	-	-	441,429,394
Other Financial Assets	-	-	-	-	-	31,361,557	31,361,557
Financial Assets Measured at Fair value through Profit or Loss	-	-	-	-	-	219,753,524	219,753,524
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	315,813	315,813
Total Financial Assets	2,004,293,344	1,532,906,660	1,053,801,590	407,565,085	141,263,023	281,112,011	5,420,941,712
Financial Liabilities							
Financial Liabilities at amortised Cost - Due to Banks	243,376,323	127,890,887	161,522,475	34,152,245	-	-	566,941,929
Financial Liabilities at amortised Cost - Due to customers	1,626,448,536	626,134,507	98,045,000	29,711,352	-	-	2,380,339,395
Other Financial Liabilities	4,234,211	13,730,425	19,388,933	14,029,829	20,280,039	13,945,884	85,609,321
Total Financial Liabilities	1,874,059,069	767,755,819	278,956,408	77,893,426	20,280,039	13,945,884	3,032,890,645
Interest Sensitivity Gap	130,234,275	765,150,841	774,845,182	329,671,659	120,982,984	267,166,127	2,388,051,067

As at 31 March 2022	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 cash Equivalents	205,424,771	-	-	-	-	24,009,276	229,434,047
Financial Investment at amortised Cost	406,480,643	340,339,138	-	-	-	-	746,819,780
Financial assets at amortised Cost - Loans and Receivables	265,168,554	874,939,963	596,312,013	738,209,010	159,692,319	-	2,634,321,859
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	3,476,592	13,069,480	147,144,085	223,313,942	5,631,680	-	392,635,779
Other Financial Assets	-	-	-	-	-	16,919,513	16,919,514
Financial Assets Measured at Fair value through Profit or Loss	-	-	-	-	-	19,508,717	19,508,717
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	-	315,813	315,813
Total Financial Assets	880,550,559	1,228,348,581	743,456,097	961,522,952	165,323,999	60,753,319	4,039,955,509
Financial Liabilities							
Due to Bank	92,707,171	160,163,887	321,331,637	12,168,298	-	-	586,370,993
Due to customers	541,414,560	333,933,438	77,287,586	10,000,000	-	-	962,635,583
Other Financial Liabilities	-	-	-	-	-	81,104,538	81,104,538
Total Financial Liabilities	634,121,731	494,097,324	398,619,223	22,168,298	-	81,104,538	1,630,111,113
Interest Sensitivity Gap	246,428,828	734,251,257	344,836,874	939,354,654	165,323,999	(20,351,219)	2,409,844,395

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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 has been maintaining a stable liquidity position to meet strongly any liquidity shock will arise due to any economic crises since the COVID 19 pandemic period and closely monitoring the position on daily basis and taking necessary measures to ensure the safeguard of the entity. The company introduced more rigor to the processes already in place to manage its liquid assets. These actions taken will help to maintain suitable liquidity position while ensuring the interest of 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 Direction No.07 of 2020.

The Company's liquid asset ratio is 31.3% 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). Such Liquid assets are maintained in the form of 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 2023.

As at 31 Mar 2023	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and cash equivalents	179,594,554	-	-	-	-	179,594,554
Financial Investment at amortised Cost	646,474,877	205,159,259	-	-	-	851,634,135
Financial assets at amortised Cost - Loans and Receivables	1,486,825,369	1,563,728,200	1,300,546,374	492,459,821	210,647,955	5,054,207,720
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	134,162,876	159,920,537	291,839,958	86,099,096	-	672,022,468
Other Financial Assets	29,097,527	-	-	-	-	29,097,527
Financial Assets Measured at Fair value through Profit or Loss	219,753,524	-	-	-	-	219,753,524
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Financial Assets	2,695,908,727	1,928,807,996	1,592,386,333	578,558,917	210,963,768	7,006,625,741
Financial Liabilities						
Financial Liabilities at amortised Cost - Due to Banks	266,165,665	178,688,901	206,049,707	40,046,660	-	690,950,933
Financial Liabilities at amortised Cost - Due to customers	1,760,974,624	759,472,255	122,910,355	44,242,063	-	2,687,599,297
Other Financial Liabilities	20,962,753	21,069,007	33,192,807	23,146,150	24,807,458	123,178,175
Total Financial Liabilities	2,048,103,042	959,230,163	362,152,869	107,434,873	24,807,458	3,501,728,405
Net Financial Asset/Liabilities	647,805,685	969,577,833	1,230,233,464	471,124,045	186,156,310	3,504,897,336

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42. RISK MANAGEMENT (Contd…)

42.6 Liquidity Risk (Contd..)

As at 31 Mar 2022	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 equivalents	228,268,809	-	-	-	-	228,268,809
Financial Investment at amortised Cost	407,679,513	357,899,131	-	-	-	765,578,644
Financial assets at amortised Cost - Loans and Receivables	268,799,925	936,544,074	705,125,066	1,059,760,678	317,207,428	3,287,437,171
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	3,553,901	14,654,375	188,546,651	356,902,143	8,866,221	572,523,291
Other Financial Assets	16,919,513	-	-	-	-	16,919,513
Financial Assets Measured at Fair value through Profit or Loss	19,508,717	-	-	-	-	19,508,717
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Financial Assets	944,730,378	1,309,097,580	893,671,717	1,416,662,821	326,389,462	4,890,551,958
Financial Liabilities						
Due to bank	109,650,425	209,696,692	431,938,094	21,467,656	-	772,752,867
Due to customers	545,636,361	361,116,690	105,621,429	15,030,500	-	1,027,404,980
Other Financial Liabilities	11,419,964	18,444,357	42,382,683	16,236,900	24,956,928	113,440,832
Total Financial Liabilities	666,706,750	589,257,739	579,942,206	52,735,056	24,956,928	1,913,598,679
Net Financial Asset/Liabilities	278,023,628	719,839,841	313,729,511	1,363,927,765	301,432,534	2,976,953,279

42.7 EXCHANGE RATE RISK

Exchange rate risk is the risk of loss as a result of unhedged exposure to volatility in the local (LKR) exchange rate with other major currencies. Exchange risk could materialize as an indirect risk too, affecting local gold prices resulting in exaggerated commodity risk.

The Sri Lankan Rupee witnessed a sharp depreciation against the US Dollar in March 2020 on the back of economic fallout, resulting from the COVID-19 pandemic. Management analyses the market condition of foreign exchange and its likely impact to the company

However, the impact on Exchange rate risk is minimal as the company does not have a material foreign currency position.

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43. MATURITY ANALYSIS

An analysis of financial assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is as follows.

As at 31 March 2023	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Assets						
Cash and bank balances	179,594,556	-	-	-	-	179,594,556
Financial Investment at amortised Cost	621,989,164	187,694,656	-	-	-	809,683,820
Financial assets at amortised Cost - Loans and Receivables	1,163,525,226	1,248,104,377	849,489,103	336,421,320	141,263,023	3,738,803,050
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	68,865,516	97,107,627	204,312,486	71,143,765	-	441,429,394
Other Financial Assets	31,361,557	-	-	-	-	31,361,557
Financial Assets Measured at Fair value through Profit or Loss	219,753,524	-	-	-	-	219,753,524
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Assets	2,285,089,544	1,532,906,660	1,053,801,590	407,565,085	141,578,836	5,420,941,714
Liabilities						
Financial Liabilities at amortised Cost - Due to Banks	243,376,323	127,890,887	161,522,475	34,152,245	-	566,941,929
Financial Liabilities at amortised Cost - Due to customers	1,626,448,536	626,134,507	98,045,000	29,711,352	-	2,380,339,395
Other Financial Liabilities	18,180,095	13,730,425	19,388,933	14,029,829	20,280,039	85,609,321
Total Liabilities	1,888,004,953	767,755,819	278,956,408	77,893,426	20,280,039	3,032,890,645

As at 31 March 2022	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Assets						
Cash and bank balances	229,434,047	-	-	-	-	229,434,047
Financial Investment at amortised Cost	406,480,642	340,339,138	-	-	-	746,819,780
Financial assets at amortised Cost - Loans and Receivables	265,168,554	874,939,963	596,312,013	738,209,010	159,692,319	2,634,321,859
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	3,476,592	13,069,480	147,144,085	223,313,942	5,631,680	392,635,779
Other Financial Assets	16,919,514	-	-	-	-	16,919,514
Financial Assets Measured at Fair value through Profit or Loss	19,508,717	-	-	-	-	19,508,717
Financial Investment as Fair Value through Other Comprehensive Income	-	-	-	-	315,813	315,813
Total Assets	940,988,066	1,228,348,581	743,456,098	961,522,952	165,639,812	4,039,955,509
Liabilities						
Financial Liabilities at amortised Cost - Due to Banks	92,707,171	160,163,887	321,331,637	12,168,298	-	586,370,993
Financial Liabilities at amortised Cost - Due to customers	541,414,560	333,933,438	77,287,586	10,000,000	-	962,635,583
Other Financial Liabilities	8,756,662	11,252,252	29,827,651	9,224,157	22,043,816	81,104,538
Total Liabilities	642,878,393	505,349,577	428,446,874	31,392,455	22,043,816	1,630,111,114

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44. COMMITMENTS AND CONTINGENCIES

As at 31st March	2023					2022				
	Rs.					Rs.				
	On Demand	With in 01 year	1-5 years	More than 5 years	Total	On Demand	With in 01 year	1-5 years	More than 5 years	Total
Commitments										
City Finance Deposits	83,304,693	-	-	-	83,304,693	80,263,540	-	-	-	80,263,540
	83,304,693	**-**	**-**	**-**	**83,304,693**	**80,263,540**	**-**	**-**	**-**	**80,263,540**
Contingencies										
Letter of Guarantees Granted	106,500,000	-	-	-	106,500,000	116,100,000	-	-	-	116,100,000
Total Commitments & Contingencies	**189,804,693**	**-**	**-**	**-**	**189,804,693**	**196,363,540**	**-**	**-**	**-**	**196,363,540**

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 31st Mar 2023 which would have a material impact on the Financial Statements.

45. EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the Reporting date that require adjustments to or disclosure in the Financial Statements

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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 Related Parties in 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 72.08% owned by Lanka Credit and Business Limited. Hence, Lanka Credit and Business Limited is the parent company and the ultimate controlling party.

46. RELATED PARTY TRANSACTIONS (Contd..)

46.2 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 Parent Company, the Board of Directors of the Company (including Executive & Non Executive) and Chief Executive Officer of the Company.

	2023 Rs.	2022 Rs.
Short Term Employee Benefits		
Remuneration and other expenses of directors	21,320,000	5,725,000
Total	21,320,000	5,725,000

46.3 Transactions, Arrangements and Agreements involving KMPs and their Close Family Members (CFMs)

46.3.1 Loans and advances granted to KMPs are detailed below.	2023 Rs.	2022 Rs.
Loans granted during the year	-	-
Loans held at the end of the year	-	-
Interest received on Loans	-	-

46.3.2 Deposits and Borrowings from KMPs are detailed below.	2023 Rs.	2022 Rs.
Term/Savings deposits accepted during the year	42,046,719	30,000,000
Term/Savings deposits held at the end of the year	15,739,087	41,506,770
Interest payable on Term/Savings deposits	338,064	-
Interest paid on Term/Savings deposits	874,827	1,433,446

No borrowing through debt instruments were made or no investments were made by key management personnel and their close family members during the year 31 Mar 2023. (31 March 2022- Nil)

46.4 Transactions, Arrangements and Agreements involving with Related Entities of KMPs and their CMFs

46.4.1 Loans and Advances	2023 Rs.	2022 Rs.

There were no transactions involving with Related Entities of KPMs and their Close Family members during the financial year 2022/2023 (2021/2022 - Nil).

46.5 Transactions with Group Entities

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46.5.1 Transactions with Parent Company	2023 Rs.	2022 Rs.
Due from Parent Company		
Lanka Credit and Business Ltd	-	7,585,645
Provision	-	(7,585,645)
	-	-

Long outstanding receivable amount of Rs. 7,585,645/- due from Holding Company (Lanka Credit and Business Ltd) on expenses incurred by the Company on behalf of the parent was fully written off during the year due to irrevocability. This amount had been fully provided for impairment as at the end of the previous year.

47. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31st March	**2023**			**2022**		
	Within 12 Months	**After 12 Months**	**Total**	**Within 12 Months**	**After 12 Months**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Assets						
Cash and Cash Equivalent	179,594,556	-	179,594,556	229,434,047	-	229,434,047
Financial Investment at amortised Cost	809,683,820	-	809,683,820	746,819,780	-	746,819,780
Financial assets at amortised Cost - Loans and Receivables	2,411,629,603	1,327,173,447	3,738,803,050	1,140,108,517	1,494,213,342	2,634,321,859
Financial assets at amortised Cost - Lease rentals receivables and Hire Purchases	165,973,143	275,456,251	441,429,394	16,546,072	376,089,707	392,635,778
Other Financial Assets	31,361,557	-	31,361,557	16,919,514	-	16,919,514
Financial Assets Measured at Fair value through Profit or Loss	219,753,524	-	219,753,524	19,508,717	-	19,508,717
Financial Investment at Fair value through Other Comprehensive Income	-	315,813	315,813	-	315,813	315,813
Other Non Financial Assets	56,320,987	-	56,320,987	55,345,017	-	55,345,017
Investment Property	180,000,000	-	180,000,000	-	-	-
Property, Plant and Equipment	-	97,223,763	97,223,763	-	84,108,889	84,108,889
Right of Use Assets	-	69,643,533	69,643,533	-	73,443,343	73,443,343
Intangible Assets	-	34,907,586	34,907,586	-	39,121,865	39,121,865
Deferred Tax Asset	-	18,462,799	18,462,799	-	64,691,455	64,691,455
Total Assets	**4,054,317,190**	**1,823,183,192**	**5,877,500,383**	**2,224,681,663**	**2,131,984,413**	**4,356,666,077**
Liabilities						
Financial Liabilities at amortised Cost - Due to Banks	371,267,209	195,674,720	566,941,929	252,871,058	333,499,935	586,370,992
Financial Liabilities at amortised Cost - Due to customers	2,252,583,043	127,756,352	2,380,339,395	875,347,997	87,287,586	962,635,583
Other Financial Liabilities	31,910,520	53,698,801	85,609,321	20,008,914	61,095,625	81,104,539
Other Non Financial Liabilities	42,055,952	-	42,055,952	40,778,035	-	40,778,035
Retirement Benefits Liabilities	-	6,363,350	6,363,350		4,887,670	4,887,670
Total Liabilities	**2,697,816,724**	**383,493,223**	**3,081,309,947**	**1,189,006,004**	**486,770,815**	**1,675,776,819**
Maturity Gap	**1,356,500,466**	**1,439,689,970**	**2,796,190,436**	**1,035,675,659**	**1,645,213,598**	**2,680,889,257**
Cumulative Gap	**1,356,500,466**	**2,796,190,436**	**-**	**1,035,675,659**	**2,680,889,257**	**-**

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48. SEGMENTAL ANALYSIS

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

For management purposes, the Company has identified operating segments based on products and services. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on turnover.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company’s total revenue in 2023 or 2022.

There were no transactions between reportable segments in 2023 or 2022.

	Loans		Lease & Hire Purchase		Others		Total	
For the Year ended 31st March	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Income								
Interest Income	732,664,038	395,114,991	86,884,483	46,791,723	212,432,725	62,203,880	1,031,981,246	504,110,594
Other Income	35,395,207	40,983,077	4,197,414	4,853,445	32,445,572	(8,382,904)	72,038,194	37,453,618
Total Income	768,059,246	436,098,068	91,081,897	51,645,168	244,878,297	53,820,976	1,104,019,440	541,564,212
Unallocated Expenses							(891,465,648)	(303,046,150)
Profit / (Loss) Before Tax							212,553,792	238,518,062
Income tax (expense)/Reversal							(49,783,037)	(140,936,083)
Net Profit / (Loss) for the period							162,770,756	97,581,979
Segment Assets	3,738,803,049	2,634,321,859	441,429,394	392,635,779	1,029,437,345	766,328,496	5,209,669,788	3,793,286,135
Unallocated Assets							667,830,594	563,379,943
Total Assets	3,738,803,049	2,634,321,859	441,429,394	392,635,779	1,029,437,345	766,328,496	5,877,500,382	4,356,666,078
Unallocated Liabilities							3,081,309,949	1,675,776,819
Total Liabilities							3,081,309,949	1,675,776,819

Figures in brackets indicate deductions

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49. 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 12.5% and a minimum core capital adequacy ratio (Tier I) of 8.5%. The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.

50. COMPARATIVE INFORMATION

Reclassification of comparative Information

The presentation and classification of the Financial Statements of the previous year is amended for better presentation and to be comparable with that of the current year presentation.

	Note	As Previously Reported 2022 Rs.	Reclassification	Current Presentation 2022 Rs.
Income Statement				
Interest Expenses	(a)	96,549,031	8,433,395	104,982,427

(a) Interest Expenses on Lease Liability which was previously reported under 'Other Operating Expenses' has been re-arranged to ‘Interest Expenses’ to confirm to the current year presentation.

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