Annual Report 2018/19

IDEAL Finance

YOUR IDEAL FINANCE PARTNER

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Our Vision & Mission

Our Vision

To be the Ideal financial partner in creating wealth and enriching lives for our customers

Our Mission

- ***Being the Most Credible, Trustworthy and Professional finance institution with a heart,***
- Which will ***deliver financial favours*** to our customers
- enhancing
  - ***professionalism*** & ***lives*** for our employees
  - to be the ***most sought*** after employer
- ***increasing shareholder wealth***
  - make them ***proud to be a shareholder*** of the Company

Corporate Values

Professionalism

We genuinely believe in our profession and take responsibility by saying “no” if saying “yes” would not do right by you. We create solutions that are simple, understandable and workable, and we strive to improve ourselves every day by working together and learning from one another – and from you.

We will work together as a team, supporting each other, respecting every individual and drawing strength from our diversity.

Innovative

We are always stretching our boundaries and striving to achieve more for you. We make it our business to know what’s going on in the market and to respond proactively, and we do everything possible to understand what you really need and to craft innovative solutions. Our optimism about the future drives our ambition to offer you more.

Service

We provide simple and transparent financial services which are most needed for small businesses and always strive for excellence in serving our internal and external customers, through professionalism, innovation and creativity. We are open-minded and embrace change in a globalised world.

We want our clients to succeed and know they can count on IFL for the financial support they need.

Supporting Enterprises and Individuals

We want to work with entrepreneurs who are striving to grow their businesses no matter how small the business may be IFL seeks to help in building vibrant business communities that will drive the Country’s economy forward. We want to inspire our customers as well as help tomorrow’s entrepreneurs to achieve their ambitions.

Respected Corporate Citizen

Good citizenship is about doing business in a responsible way that recognizes our wider influence as a company. This contains information on how we manage our impacts on society, from our tax contributions, the way we govern our environmental, social and ethical risks and our environmental impacts.

We commit to becoming a Financial Institution known for outstanding ethics and high quality governance, management and staff. Being a good corporate citizen also means playing a positive role in society and contributing financial and volunteering support to the communities we operate in.

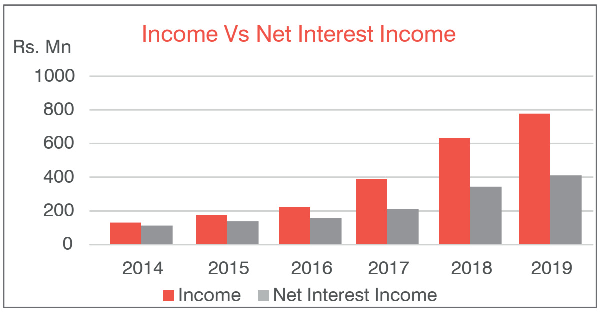
Good Employer

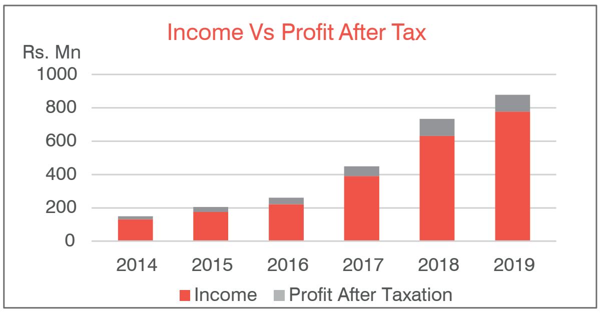
Our people are uniting behind our purpose of serving our customers well. Our job is to make sure every aspect of what it means to work at IFL is geared towards helping them be successful in that. That kind of simplicity and focus is what drives employee engagement and what builds a really good company.

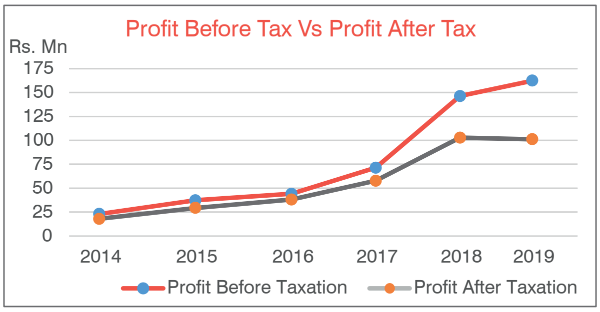
We work to attract and retain the best people, promote flexibility and diversity in the workplace and undertake comprehensive activity to understand and respond to our employee’s feedback.

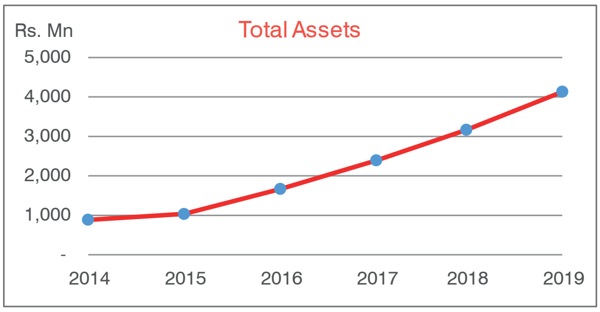
Financial Highlights

Financial Performance	2019/18 Rs.	2018/17 Rs.	Change %
Income	777,461,473	630,995,212	23%
Net Interest Income	411,333,146	344,422,545	19%
Total Operating Income	484,487,313	402,880,689	20%
Profit before Taxation	162,421,399	146,294,246	11%
Taxation	61,299,253	43,477,954	41%
Profit After Taxation	101,122,146	102,816,292	-2%
Financial Position			
Shareholders' Funds	1,116,744,254	1,043,829,755	7%
Customer Deposits	584,784,876	367,110,412	59%
Interest Bearing Borrowings	2,190,707,788	1,529,388,772	43%
Total Lease, Hire Purchase and Loans	3,285,742,697	2,536,520,579	30%
Gold Advances	456,564,892	177,748,346	157%
Total Assets	4,131,163,161	3,165,687,280	30%
Key Ratios			
Return on Equity (After Tax)	9.06%	9.85%	-
Return on Assets (After Tax)	2.45%	3.25%	-
Interest Margin	10.80%	12.39%	-
Debt to Equity	2.49	1.82	-
Statutory Ratios			
Core Capital Ratio (Minimum Requirement - 6%)	23.09%	36.27%	-
Total Risk Weighted Capital Ratio (Minimum Requirement - 10%)	23.09%	36.27%	-
Non Performing Loan Ratio (%)	2.73%	1.61%	-









Chairman's Message

At the conclusion of an eventful year of economic and political drama, I am pleased to present the annual report and audited accounts of Ideal Finance Ltd to our esteemed shareholders and to welcome them to the Company's seventh annual general meeting.

As our shareholders are aware, 2018 was a difficult year for the entire economy and the financial services sector in particular. The non bank finance sector meanwhile, continued to face additional regulatory changes as well as additional taxes, on top of market fluctuations. Therefore, it is indeed a pleasure to report a sustained and steady performance by your Company. We have maintained our strategic focus and retained tight controls over all operational aspects, to enable sustainable growth with a long term focus.

Global economic conditions

Globally, economic conditions remained turbulent in 2018. As noted by the International Monetary Fund's World Economic Outlook, after recording an encouraging growth rate of 3.8% within the first half of 2018 against the annual 4% growth rate in 2017, the global economy started decelerating to 3.2% in the second half of the year. This backtracking of economic activity at global level is attributed to the tariff hikes between the United States and China, a decline in business confidence, tighter financial conditions and greater policy uncertainty across many countries.

The Chinese economy for instance, faltered from 6.8% growth in the first half of 2018, to 6.0% in the second half, in the wake of US tariff actions and domestic regulatory changes. The resulting weaker import demand from China had a ripple effect across exports from countries in Asia and Europe. Among other emerging market economies, economic growth fell back due to weaker global financial market sentiments and country-specific factors. The Euro area slowed down due to weakening consumer and business sentiments and concerns about a no-deal Brexit, which may have also impacted investments. The United States remained robust, but investment appeared to soften in the second half of the year.

For 2019, global growth is forecast at 3.2% and is expected to improve to 3.5% in 2020. However, the IMF notes that global trade remains sluggish and the projected growth in 2020 is dependent on stabilisation of emerging markets and developing economies and progress towards resolving trade policy differences.

Sri Lankan economic performance

The economic growth in Sri Lanka declined to 3.2% in 2018, in real terms, compared to 3.4% in 2017. The agriculture sector recovered to mark a growth rate of 4.8 % in 2018 against the 0.4% contraction of 2017 and the value added of services activities registered a growth of 4.7%, in comparison to 3.6% growth recorded in 2017. The growth in services activities was primarily driven by financial services. However, industry activities slowed down, dampening economic growth. The value added of industry activities grew marginally by 0.9% in 2018, compared to

Chairman's Message cont….

the growth of 4.1% recorded in 2017. This slowdown in industry activities was mainly attributable to the contraction in construction and mining activities.

Meanwhile, monetary policy normalisation in the United States resulted in capital outflows from emerging market economies and increased pressure on exchange rates. Sri Lanka also experienced these headwinds, particularly from mid-April 2018, which were exacerbated following the political uncertainties and the downgrade of the country's Sovereign rating in the fourth quarter of the year. Consequently, the Sri Lankan Rupee depreciated by 16.4% against the US dollar in 2018.

On a positive note, GDP per capita was estimated at Rs. 666,817 in 2018 in comparison to Rs. 625,736 in 2017, recording an increase of 6.6% in 2018 compared to that of 10.6% in 2017. The slower growth rate in GDP per capita in rupee terms was mainly associated with the slowdown in GDP at current prices, since the mid-year population growth rate was stable.

Nonbank finance sector performance

In 2018, the non-bank finance sector comprised 43 Licensed Finance Companies (LFCs) and 5 Specialised Leasing Companies (SLCs).

The performance of the sector moderated during the year in terms of credit growth, profitability and non-performing loans. Fiscal and macro-prudential policy measures taken to curtail importation and credit granted for purchasing motor vehicles negatively affected the demand for core lending products in the sector. Further, it is observed that the LFCs and SLCs are gradually moving away from vehicle financing to other secured lending activities.

Asset growth of the sector expanded at 5.6%, compared to 11.8% in 2017, and represented 7.6% of Sri Lanka's financial sector assets by end 2018. The sector also exhibited a shift in the funding mix, as increased assets were mainly funded through borrowings, while deposits increased slightly compared to high growth recorded during the previous year. The asset base of the sector mainly consisted of loans and advance and finance leases accounted for the highest share of loans and advances at 52.8%. Customer deposits were 50.1% of the total liabilities of the sector but the growth rate slowed down to 4.4% from 29.4% in 2017. Borrowings recorded a growth of 17.1% (Rs. 67.8 billion) in 2018, compared to the negative growth recorded in the year 2017.

The capital elements of the sector increased by 8.2% to Rs. 183.7 billion at end 2018 to enhance the minimum core capital aimed at meeting the Rs. 1.5 billion requirement by 01st January 2019 and due to accumulation of profits for the financial year 2017/18.

The gross non-performing advances (NPAs) ratio increased to 7.7% in 2018 compared to 5.9% reported in 2017. This is the highest NPA ratio recorded since February 2015. The main reasons are unfavourable weather conditions during 2017 and slowing down in economic activities in 2018.

Our performance

Given the macro environment of slower economic growth and political uncertainty that prevailed during the year, I can confidently say Ideal Finance has returned a creditable performance. We have achieved growth across in almost all our income categories posting a 22.78% increase in the net operating income before taxes, despite the unavoidable increase in operating expenses. We recorded an after tax profit of Rs 101.12 million, which is a satisfactory outcome. While the after tax profit of the Company has actually deteriorated against the previous financial year by a marginal 1.6%, a consequence of the new Debt Repayment Levy (DRL), a 7% monthly charge on the value addition attributable to the supply of financial services is also reflected. Due to the DRL, our tax outflow pertaining to financial services increased by a massive 76%, from Rs 32.38 million last year to Rs 56.96 million in the current year.

Chairman's Message cont….

Another pivotal factor was the regulation to increase the minimum capital to Rs.1.5 billion by 01st January 2019, and again to Rs 2 billion by 01st January 2020. In 2018, your Company entered the Rs 1 billion capital category through a highly successful rights issue of Rs 205 million, which pushed up the capital base to Rs 1.044 billion. LFCs are required to maintain minimum Tier 1 capital adequacy ratio of 6% and total capital ratio of 10%. As at end March 2019, our Tier 1 and Total capital levels were 23.09%, which are well above the minimum requirement. For the financial year under review, Ideal Finance qualified for a B+ Stable credit rating from Fitch Ratings Lanka, aligned with the B category sovereign rating of the country.

With regards to the minimum capital requirement, I would like to assure our shareholders that a fresh capital injection is already on the cards. At the time of this report, we have successfully concluded negotiations with an eminently suitable investment partner and finalized an initial agreement between our two companies, on how we will move forward together.

Future direction

Within the current economic conditions in the country, IFL's business strategy will continue to rely on the principle of sustainable growth, to ensure financial sustainability and equitable returns for all stakeholders, over the long term. In this regard, based on our financial performance and market responses, I believe we have been successful in achieving our sustainable growth objectives for the medium term. We will continue to maintain our prudent business growth policies of continually monitoring and analysing market conditions, to identify growth sectors and emerging opportunities to maximise cost-benefit returns.

In addition, the proposed new capital injection will also facilitate stronger growth in business volumes in the medium term, through the expansion of our branch network into many more strategic locations and by facilitating the development of new products and services. In line with branch expansion, the Company is planning to create many new employment opportunities for young people.
I am confident IFL has the potential to reach the next rung of its growth trajectory within the medium term, backed by our business philosophy of continuously chasing excellence in all that we do.

Appreciations

Working together as a strong team has been the key to our success to date, and in particular during difficult times. Therefore, I would like to express my appreciations to the Board of Directors, the management and all our employees, for their contributions during the year. I would also like to express my gratitude to the Governor of the Central Bank and officials of the Non-Bank Financial Supervision Unit of the Central Bank, for their valuable guidance during the year. Our customers are the reason for our existence and I am always grateful for their loyalty and patronage and I look forward to enhancing our services in the future.

Sincerely,

Nalin J. Welgama
Chairman

27th June 2019

Chief Executive Officer's Message

As a young financial services provider, IFL has a youthful and fresh take on challenges, and our dynamisms and flexibility have opened up new opportunities for growth and given us the vigour to face the challenges we encounter in our strategic quest. The current financial year, is a case in point. While financial services markets decelerated the pace of growth and became increasingly more competitive, our sustainable business model has kept us on top of our game and delivered a commendable performance.

Our continued focus on strengthening our fundamentals has created a robust and agile business model that is quick to respond to market changes and is resilient in the face of unexpected risk factors that would otherwise disrupt revenues and business growth. During the year, we faced numerous obstacles to our growth plans. Despite the favourable weather conditions that prevailed for much of the year, which contributed to the recovery of the agricultural markets, the financial services industry faced a gamut of fresh challenges, as new regulations came into effect and the leasing industry was held back by a low demand environment. Nevertheless, through our collective efforts and in-depth market knowledge, we have continued to thrust forward in our strategic route, thereby continuously creating value for all stakeholders.

Enhancing customer value was a top sustainability focus during the year, not only to expand market share in a lacklustre market, but also to firmly pinion the Ideal brand above and beyond the competition in terms of public perception and brand awareness. Again, I believe our financial performance for the year amply demonstrates the effectiveness of our market development strategies, as we have continued to expand across almost all business categories, despite the market downturn.

Financial Performance

It is indeed encouraging to report a year-on-year top line growth of 23% in the current financial year to Rs 777.46 million, which in the prevalent market conditions is an extremely healthy rate of growth. Total assets of the Company grew by a remarkable 30%, backed by growth across all lending activities. While the leasing market was negatively impacted by the lower loan to value ratio and import control measures on vehicles introduced during the year, we have maintained a reasonable 12% year-on-year growth in our leasing portfolio, which reached Rs 2.28 billion.

With the leasing market losing momentum, we realigned our marketing strategies to capture other opportune segments that would make it possible to maintain growth impetus. The interest margins remained under pressure during the year as demand decelerated, and declined from 12.39% in the previous financial year to 10.80%. Therefore, we strengthened our marketing drive to significantly increase business volumes. I am pleased to report an impressive

Cheaf Executive Officer's Message cont….

102% growth in loans, reaching Rs 1 billion, from Rs 496 million one year ago.

We also aggressively marketed our gold loans as a secured lending instrument to enhance customer convenience by enabling customers to access credit fast and easily. Our efforts have achieved a solid 157% year-on-year growth, with the gold portfolio reaching Rs 456 million from Rs 177 million last year, again demonstrating the superior customer value we provide.

Boosted by this growth in all three areas of leasing, loans and gold advances, our total lending portfolio grew by 38% and our net interest income went up by 19% to Rs 411.33 million. Our total income surged by 23% to Rs 777.46 million from Rs 630.99 million last year.

Reflecting the existent economic conditions, the entire financial services industry experienced a spike in non-performing loans (industry NPL ratio-7.7%) during the year, which is also reflected in our financials with the gross NPL ratio climbing from 1.61% in the previous financial year, to 2.73% in the current year. However, I would like to assure our shareholders that we have maintained strict lending guidelines and diligent oversight across our lending portfolios, to contain our NPL levels and to safeguard the Company against lending risks. Despite the extremely competitive market, we also grew our deposit base by an impressive 59% to reach Rs 585 million, from Rs 367 million, demonstrating public confidence and trust in the Company.

This robust performance ensured that bottom line erosion was minimised against the expansion in the middle line and in particular the increased tax component levied on financial services providers. We recorded an 11% year-on-year growth in profit before tax, reaching Rs 162.42 million from Rs 146.29 million in the previous year, but suffered a minimum 1.6% decline in profit after tax from Rs 102.81 million in the previous financial year, to Rs 101.12 million in the current financial year. This marginal decline in profitability is primarily due to the higher tax payment for the year, following the imposition of a 7% debt repayment levy. Due to the dip in the bottom line, the ROA declined from 4.62%, to 3.93 (before tax), while the ROE also slipped from 9.85% to 9.06% (after tax).

Marketing and business expansion

During the year, we continued on track with our expansion strategy through the strategic increase of our branch network, to improve consumer accessibility to our products and services, while also ensuring a cost-benefit balance through the capital investments into new branches. By the close of the current financial year, we had added two new branches to our network in the key urban localities of Kandy and Matara, giving us increased market coverage in two rapidly developing areas of the country. The new additions have now increased our branch network to 10.

Our successful market expansion within a highly competitive environment in the context of lower economic activity and poor demand growth, is indicative of our operational efficiency and market standing. Throughout the year, containing costs through efficiency improvements and encouraging greater productivity from our team, remained a primary priority in order to maintain competitiveness and enhance our value proposition to existing and potential customers. Our untiring efforts have resulted in heightened brand recognition and consistent growth in market share in almost all market segments we operate in.

Plans for the future

Ideal Finance has now consolidated its strengths to expand its foot print and business volumes upon a sustainable business model that can weather macro unpredictability more effectively. In the new financial year, we will speed up this process of growth through a strategic partnership that will boost our financial reserves and strengthen our market position to take Ideal Finance into the next level of growth. We have already completed successful discussions with the highly respected Indian NBFI, for a mutually beneficial partnership. This union will enable fast paced geographic expansion within the country through a branch expansion plan, to take our services deeper into the regions. It would also facilitate portfolio expansion through the introduction

Cheaf Executive Officer’s Message cont….

of new financial products that are aimed at uplifting quality of life and supporting economic growth from the grassroots upwards. I am confident of enhanced returns for all stakeholders through our planned expansion within the medium term.

As we prepare to take on the opportunities and challenges of the future, I would like to take this opportunity to thank the Chairman, Deputy Chairman and Non-Executive Directors for their confidence in me, and for their valuable guidance in taking IFL towards its envisioned objectives. I would also like to thank the officers of the Non Bank Financial Institutions Unit of the Central Bank of Sri Lanka, for their advice and technical support during the year. As always, I am highly appreciative of the support and cooperation extend by my colleagues and look forward to working together as an empowered team with a single vision.

Sincerely,

Duminda M. Weerasekare
Chief Executive Officer

27th June 2019

Management Discussion & Analysis

Global Economy

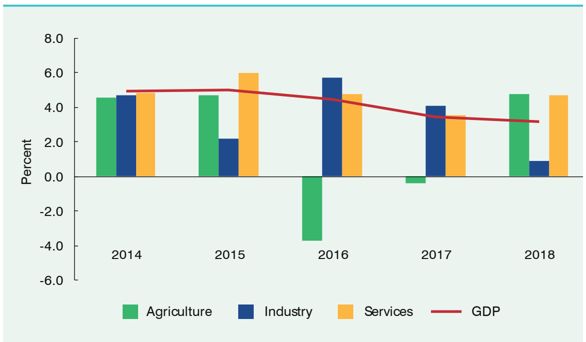
After strong growth in 2017 and early 2018, global economic activity slowed notably in the second half of 2018, following a combination of global developments. Global growth, which peaked at close to 4% in 2017, softened to 3.6% in 2018. Conditions eased in 2019 as the US Federal Reserve signaled a more accommodative monetary policy stance. However, global growth is projected to decline further to 3.2% in 2019 and the outlook for many countries is seen as very challenging, with considerable uncertainties in the short term.

The primary reasons for the global economic decline were the slowdown in the Chinese economy following regulatory tightening and increased trade tensions with the United States, and the euro area economy losing momentum. In addition, natural disasters hurt activity in Japan and financial conditions tightened for vulnerable emerging markets in the spring of 2018 and later in advanced economies that also weighed down growth. Outside the United States, industrial production decelerated, particularly of capital goods and global trade growth slowed to well below 2017 averages. Crude oil prices were also volatile since August 2018, reflecting supply influences, including US policy on Iranian oil exports. As of early January, crude oil prices stood at around US$55 a barrel, and markets expected prices to remain broadly at that level over the next 4–5 years. Prices of metals and agricultural commodities have softened slightly since August, in part due to subdued demand from China. At the projected 3.2% growth rate for 2019 the global economy is projected to accelerate to 3.5% in 2020.

Sri Lankan Economy

Sri Lanka became vulnerable to global and domestic disturbances in 2018, resulting in a lower than anticipated GDP rate of growth despite a low inflation environment during the year. Amidst the moderate growth in economic activity, a marginal increase in the unemployment rate and a decline in the labour force participation rate were observed. Sri Lanka recorded a 3.2% real economic growth rate in 2018, compared to 3.4% in 2017. The agriculture sector, which suffered under adverse climatic conditions recovered during the year and recorded a growth rate of 4.8% from the 0.4% contraction in 2017. The value added of services activities registered a growth of 4.7%, in comparison to 3.6% growth recorded in 2017. However, the value added of industry activities slowed down to 0.9% in 2018, compared to the growth of 4.1% in 2017. GDP at current prices was estimated at Rs. 14,449.9 billion (US dollars 88.9 billion) in 2018, while it was Rs. 13,418.3 billion (US dollars 88.0 billion) in 2017.

Figure 2.2
Annual GDP Growth Rate (a)



(a) based on the GDP estimates (base year 2010)
Source: Department of Census and Statistics

Real GDP growth is projected to gradually improve to around 5.0% by 2023 from the current 3.2%, following the successful implementation of the growth framework laid out in public policy documents along with higher participation of the private sector.

Prices

The general price level as measured by the National Consumer Price Index (NCPI, 2013=100) and Colombo Consumer Price Index (CCPI, 2013=100) exhibited mixed movements during 2018. Due to supply side improvements supported by favourable weather conditions that prevailed during most parts of 2018, prices of items in the food category mostly remained at low levels during the year. The prices of items in the non-food category, which moved on an increasing trend during the year, contributed partially

Management Discussion & Analysis cont….

towards the upward movement of the general price level. The NCPI based year-on-year headline inflation remained below 4.0% during 2018, except for January, which recorded 5.4% and the NCPI based annual average inflation reversed its increasing trend observed during 2017 and declined continuously from 7.6% in January 2018 to 2.1% in December 2018.

Headline inflation, as measured by the year-on-year change of CCPI, mostly remained within the target band of 4.0-6.0% during the first nine months of 2018 and decreased below 4.0% thereafter due to declining prices of items in the food category. The annual average CCPI inflation declined from 6.6% cent, in January 2018, to 4.3%, in December 2018.

Exchange rate

The broad-based strengthening of the US dollar globally, resulted in substantial outflows of foreign investments as in a number of other emerging markets, particularly countries with current account deficits. This, coupled with a surge in import expenditure, dried up liquidity in the domestic foreign exchange market, thereby exerting significant pressure on the Sri Lankan rupee. Given the significant intraday volatility in the exchange rate, which intensified in the fourth quarter of 2018, the Central Bank adopted a cautious approach in intervening in the domestic foreign exchange market, while also maintaining the official reserves at a prudent level. Consequently, the Sri Lankan rupee depreciated by 16.4% against the US dollar in 2018, while the Central Bank supplied US dollars 1,120 million to the domestic foreign exchange market on a net basis.

Further, the Real Effective Exchange Rate (REER) index, which is an indicator of Sri Lanka's external competitiveness, remained predominantly below the base year level in 2018, signifying Sri Lanka's sustained external competitiveness.

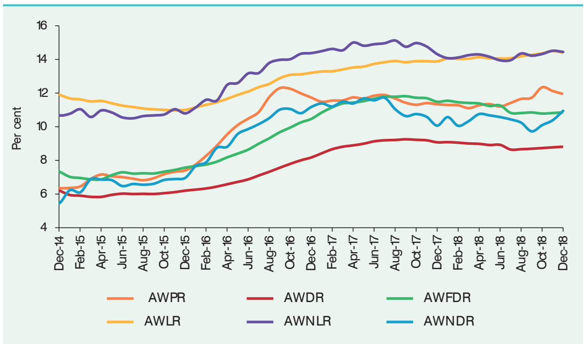
Interest rates

Tight liquidity conditions amidst continued high demand for credit caused lending rates of commercial banks to remain high in 2018. The weekly Average Weighted Prime Lending Rate (AWPR), increased by 54 basis points to 12.09% during 2018. The monthly average of weekly AWPR increased by 61 basis points to 11.94% during the period under review. The Average Weighted Lending Rate (AWLR), increased by 52 basis points to 14.40% during 2018. Meanwhile, bank-wise average weighted lending rates were in the range of 10.96 % -17.25% at end 2018 compared to the range of 10.22% - 16.23% observed at end 2017.

Lending rates against most types of securities also increased during 2018. In particular, interest rates on loans and advances secured by motor vehicles.

Figure 7.9

Commercial Bank Lending and Deposit Rates



Source: Central Bank of Sri Lanka

Non bank financial sector

In 2018, the performance of the sector moderated in terms of credit growth, profitability and non-performing loans. The expansion of total assets slowed down, recording a growth rate of 5.6% (Rs. 76.3 billion) during the year reaching Rs.1,431.3 billion compared to the 11.8% growth reported in 2017. The investment portfolio recorded a negative growth of 7.1% to Rs 109.7 billion in 2018 compared to a growth of 5.7% to Rs. 118.1 billion in 2017 mainly due to the decline in market value of investments in subsidiaries, associates and unit trusts. Customer deposits were the major portion of liabilities which accounted for 50.1% of the total liabilities of the sector. Borrowings recorded a growth of 17.1% (Rs. 67.8 billion) in 2018, a shift from the negative growth recorded in the year 2017. Deposit growth slowed down to 4.4%, compared with the growth of 29.4% recorded in the corresponding period of 2017. The sector showed a reliance on bank borrowings over deposits due to flexibility and negative public perception towards LFCs which reduced the funds mobilized through deposits. Despite the prevailing negative mismatch in the maturity profile of the interest-bearing assets and liabilities, the sector was able to maintain a positive net interest margin.

Table 8.10
Composition of Assets and Liabilities of the LFCs and SLCs Sector

Item	2017		2018 (a)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2017	2018 (a)
Assets						
Loans and Advances (net)	1,057.1	78.0	1,137.0	79.4	9.8	7.6
Investments	118.1	8.7	109.7	7.7	5.7	-7.1
Other	179.8	13.3	184.6	12.9	30.8	2.7
Liabilities						
Total Deposits	686.7	50.7	716.8	50.1	29.4	4.4
Total Borrowings	396.0	29.2	463.8	32.4	-9.7	17.1
Capital Elements	169.7	12.5	183.7	12.8	16.1	8.2
Other	102.6	7.6	67.0	4.7	6.4	-34.7
Total Assets/Liabilities	1,355.0	100.0	1,431.3	100.0	11.8	5.6

(a) Provisional *Source: Central Bank of Sri Lanka*

The gross non-performing advances (NPAs) ratio increased to 7.7%in 2018 compared to 5.9% reported in 2017. This is the highest NPA ratio recorded since February 2015. The main reasons attributable to this increase are unfavourable weather conditions during 2017 and slowing down in economic activities in 2018. Further, the provision coverage ratio declined to 57% in 2018 compared to 64% reported in 2017. As a result, the net NPA ratio also increased to 2.4% in 2018 from the reported ratio of 1.6% in 2017.

The capital elements of the sector increased by 8.2 % to Rs.183.7 billion at end 2018, mainly on account of the increase in capital due to steps taken by LFCs to enhance the minimum core capital to meet the Rs. 1.5 billion requirement by 01 January 2019 and due to accumulation of profits for the financial year 2017/18. The overall statutory liquid assets available in the sector during 2018 indicated a surplus of Rs.25.6 billion as against the stipulated minimum requirement of Rs.88.2 billion.

Operational review

Company Overview

Following the successful rights issue that transformed IFL into an over LKR 1 billion company in the previous financial year, IFL has continued its strategic path to expand its reach and market share in the current financial year. As a small player in the highly competitive financial services market, IFL's strategy of expanding geographic coverage to enhance market visibility and improve customer accessibility has generated tangible results as demonstrated in the growth in the lending and deposit portfolios. The gradual improvement in market coverage, coupled with the dedication towards continually improving customer service levels, have elevated IFLs brand profile in the non bank financial services market as a stable, reliable and high quality financial services provider for a wider segment of customer groups. The prudent lending policies, coupled with application of industry best practices in operational management have strengthened the financial fundamentals despite the economic downturn.

As at the close of the current financial year, IFL is again poised for further elevation in status and growth opportunities, through a planned capital augmentation lined up via a strategic partnership.

Strategic progress

Having complied with the Rs 1 billion capital adequacy provision, the main strategic priority for the current financial year was to plan a further enhancement of IFL's capital base, in line with the upward revision to the regulatory minimum capital requirement of Rs.1.5 billion by 01 January 2019, and Rs 2 billion by 01st of January 2020. The Company has been successful in negotiating an imminently suitable business partnership to inject fresh capital into the balance sheet in the new financial year. The new capital injection will comfortably situate IFL within the capital adequacy requirements set by the Central Bank for finance companies and will lay the foundation for accelerated expansion. The much stronger balance sheet that will result from this engagement will significantly increase IFL's competitiveness and capacity for growth in the future.

Management Discussion & Analysis cont….

Operating in an increasingly cost driven environment, it is vital to effectively manage available resources to optimize cost-benefit outcomes. Therefore, cost efficiency was a prime directive at operational level during the year. In addition, we have continually reviewed and strengthened the Company's internal control processes and risk management systems to ensure adequate oversight over all operational aspects. We have implemented industry best practices across all business activities, while all lending activities are conducted within strict guidelines to minimize lending risks. A key growth segment targeted for the year, was the gold loans category, which is on a growth trajectory on the back of growing demand from across the country. Responding to this market demand, we promoted and expanded our pawning facilities to provide consumers with easy access to credit.

We have also continued on track with our expansion strategy by adding new branches to our network following a full evaluation of all potential risk factors. The success of our expansion strategy, coupled with our operational efficiencies and streamlined cost management, is demonstrated by the robust growth in revenues and expansion of lending and deposit portfolios even during a year of demand downturn.

Performance of the branch network

During the current financial year we added two more branches in the emerging economic hubs of Kandy and Matara, taking our total branch network to ten. All IFL branches are professionally staffed with trained personnel and are fully equipped to provide a high quality service standard.

Our other seven branches are located in Anuradhapura, Kurunegala, Bandarawela, Elpitiya, Embilipitiya, Jaffna and Monaragala, which are also all in key growth cities of the country, thereby giving IFL a firm foothold on the national economy by making our services accessible to a wide customer base.

In line with our strategic decision to capture larger share of the country's growing gold loans market, we provide pawning centers in IFL branches in Anuradhapura, Kurunegala, Bandarawela, Elpitiya, Jaffna, Monaragala, Embilipitiya, Matara & Kandy

Lending

IFL's diversified lending portfolio contributed towards balancing the market risk profile during the year although we are proud to report strong and sustained growth across all lending segments. Supported by the expanded branch network, experienced and professional teams with market knowledge and stringent lending criteria, we have ensured market share growth across all lending facilities, while also containing expansion of the non-performing loans portfolio within manageable levels. However, reflecting the growing cost competition, the interest margins narrowed from 12.39% a year ago to 10.80% during the current year, eroding the margin gains from lending activities. As a small and flexible organization our key strength has been the ability to provide highly customized solutions with friendly, personalized services that reflect our understating of our customers' needs and also growth aspirations. We have also emphasized long term relationships through the provision of growth facilities and long term engagement opportunities.

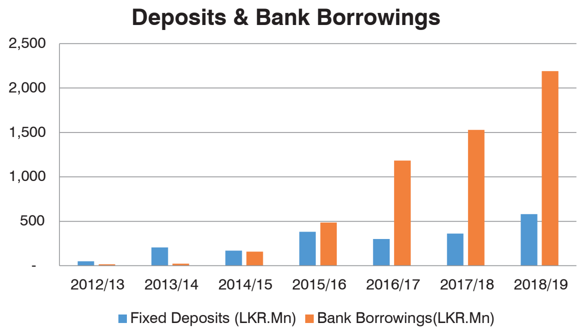
During the year under review, our total lending portfolio expanded from Rs 2.71 billion to Rs 3.74 billion which is a commendable 38% growth year-on-year. This growth has been achieved through a 12% year-on-year growth in leasing, from Rs 2.04 billion to Rs 2.26 billion, a 102% growth in loans, from Rs 496.5 million to Rs 1.00 billion, and a 157% growth in the pawning portfolio, which reached Rs 546.56 million from Rs 177.74 million. Against this impressive performance, we recorded a gross NPL increase from 1.61%, to 2.73% and the net NPL ratio also increased from 0.10% to 0.79%.

Deposits and bank borrowings

While deposits and bank borrowings remained IFL's primary funding source for the year, bank borrowings recorded a sharp increase year-on-year, as the most accessible source of funding to cater to market demand. Nevertheless, we are pleased to report a sustained growth in our deposit base

Management Discussion & Analysis cont….

during the year, despite the prevailing economic conditions. Supported by the wider branch network and regular marketing and promotional activities, the total deposit base surged by 59%, from Rs 367.10 million to Rs 584.80 million. Meanwhile, the total bank financing also increased by a 15% from Rs 1.52 billion to Rs 1.73 billion. The company faced a 35% increase in borrowing costs from Rs 173.8 million in the previous financial year, to Rs 237.40 million in the current year, reflecting the higher interest rates that prevailed in lending markets during 2018-19.



The ideal team

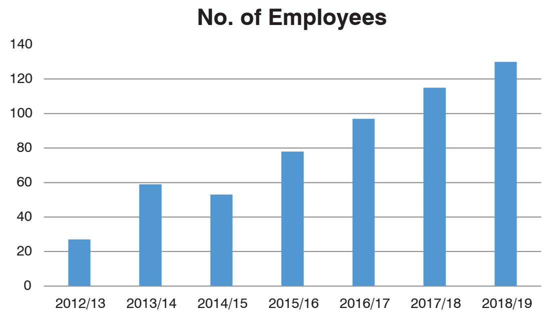
IFL maintains clearly articulated and transparent employment policies that ensure equitable and fair treatment of all employees, together with equal opportunities for growth that prevents discrimination and bias at all levels of the human resource administration system. In addition to a formal recruitment policy and equal opportunity policy, which ensure recruitment based on merit and talent, and retention and personal development of employees, IFL has also put in place a total reward policy, an attendance and leave policy, a medical insurance policy, a training and development policy and a health and safety policy. To maintain an equitable work environment IFL has in place a grievance handling policy and also a non harassment policy. All employees are also indoctrinated into a code of conduct that ensures professional integrity at all times in all types of transactions.

As a component of our employee welfare policies, we have continually enhanced benefits to our team, which has motivated employees towards higher levels of productivity and performance. During the current financial year, we more than doubled the existing employee benefits to support our employees.

Employee profile

As our business expands in terms of geographic coverage and types of products and services, it is essential to ensure to correct balance of talent, skills and experience to sustainably fuel this growth towards our strategic objectives. Therefore, IFL has in place highly competitive remuneration packages and regularly adds new personnel to our growing team. During the year under review our total workforce continued to expand by the addition of 15 new personnel, from 115 last year, to 130 as at end March 2019. This increase in human resources was mainly to man the two new branches with the correct skills, for which we invested in 11 personnel for the Matara branch and 8 for the Kandy branch.

The current male to female ratio is 80: 20, with 20% of total employees being women. As a youthful organization, our employee base is also largely driven by young people and the company's employee age averages at 30 years.



Training and development

We believe that in the current highly competitive market, professional and technical skills are essential to maintain competeviness and to differentiate our brand image against the competition in the minds of the public. Therefore, we organize regular training programs targeting required new skills and to update our cadre on regulatory changes, as the financial services industry is one of the most highly regulated industries in the country. During the current financial year,

Management Discussion & Analysis cont….

we ensured our employees completed training programs conducted by the sector regulator, the Central Bank of Sri Lanka (CBSL) and the Financial Information Unit of CBSL. In addition, our employees received training from the Inland Revenue Department, the subcommittee for Compliance of the Finance Houses Association and the Institute of Chartered Accountants of Sri Lanka.

Marketing and branding

As competition continues to escalate in the crowded financial services market, regular marketing and promotional activities are essential to maintain brand visibility and brand competitiveness among consumers, who are continually bombarded by new products and special offers. In order to sustain growth under slower economic conditions, we launched highly targeted and carefully planned promotions to maintain visibility of our products and to attract consumer interest in our offerings. These include ongoing promotions for vehicle leasing, while gearing up on promotional activities for our pawning services. In a creative and cost effective campaign, we launched a highly successful three wheeler sticker promotion that attracted much public interest. We will continue to maintain a high profile in the market as we drive towards our strategic goals in the new financial year.

New branch opening - Matara

New branch opening - Kandy

Board of Directors

Mr. Nalin J. Welgama
Founder and Chairman of Ideal Group

Nalin Jayaraj Welgama is a senior Accountant having managed a leading firm of Chartered Accounts in the United Kingdom for several years prior to embarking upon an entrepreneurial function as founder Chairman of Ideal Group. He conceptualized and founded Ideal Plant and Vehicles Ltd UK in 1986, a company engaged in the worldwide export of luxury motor vehicles, contractor's plant and machinery from the UK.

In 1996, with the formation of Ideal Automotive Parts (PVT) ltd. ,the seeds were sewn for the establishment of the group which at present comprises of 20 companies, each of which are playing a leading role in their respective business segments. The Group has diversified in to Passenger cars, commercial vehicles, heavy machinery, motor cycles, import and distribution of Tyres, financial services, automotive parts and renewable energy, and constitutes a combined turnover in excess of LKR 20 Bn annually and employs over 1000 people.

Nalin J. Welgama is the youngest son of the renowned philanthropist entrepreneur Mr.S.A.Welgama whose name is synonymous with road haulage (transport) in Sri Lanka, a company whose origins date back to 1931.

Mr. Aravinda De Silva
Deputy Chairman

Aravinda is a cricketing star and an all -time great in his own right. He retired from the sport at the pinnacle of his career in 2003. Aravinda holds the distinction of being the only cricketer in the world to have scored a century and taken 3 wickets in a world cup final (1996). He is currently an advisor to Sri Lanka Cricket.

After retiring from competitive cricket Aravinda brought his passion for premium automobiles and keen acumen perfacted by his aicketing exploits to the automotive industry by co-partnering in 2005 to establish the IDEAL Group of Companies.

The success thereon has been phenomenal with IDEAL venturing into automotive franchise business for Cars, Busses, Trucks, Three Wheelers and Motorcycles, franchise business for Tires, Green Energy solutions and Finance & Real Estate. Ideal Group is the partner for key global brands in automotive sector representing Mahindra & Mahindra the largest vehicle distributor in India which is a $20 billion conglomerate, Apollo Tyres, Cooper & Chery.

cont….

Board of Directors

cont….

Recognizing his business acumen and foresight Aravinda was appointed Chairman, Thomas Cook Lanka (Private) Limited in September 2017, which is a fully owned subsidiary of Thomas Cook (India) Ltd., another investment by Canada based Global Fund, Fairbridge Capital. Fairbridge Capital is also a key strategic Investor in Fair first Insurance and Nations Trust Bank in Sri Lanka.

Aravinda is also a business strategist in mergers and acquisitions (M&A) and a venture capital investor in technology based start-ups.

Mr. Duminda Weerasekare
Director/CEO

With an expansive knowledge, skill and experience garnered over three decades, he holds the distinction of being a Fellow of both the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of UK.

He has functioned in directorial, CEO and COO positions in a number of leading corporate entities. His work experience ranges from negotiating and sourcing funding from international funding organizations and agencies, to introducing pioneering funding sources into the country and being commissioned by international agencies to develop strategic plans for development in various financial strata and sectors.

A recipient of a Fellowship by the Netherlands Development Bank, he is a visiting resource person for the Industrial & Business Management Post-Graduate Programme conducted by the University of Kelaniya.

Board of Directors

Mr. Viraj Malawana
Non-Executive Director

Mr. Malawana has a long spanning career in the financial services industry. He held senior positions at Colombo Stock Exchange and Brunei Stock Exchange, HSBC Premier and Standard Chartered Bank and is credited for structuring and creating novel investment instruments tailored specifically for foreign investors into Sri Lanka. He later founded and served as Chief Executive Officer of New World Securities Pvt. Ltd, a trading member of the Colombo Stock Exchange.

Mr. Malawana is currently the Managing Director of the NWS Holdings Group of Companies whilst also sitting on the Board of Directors of Wealthtrust Securities Ltd, a registered Primary Dealer, Bansei Royal Resorts Hikkaduwa PLC, Strategic Business Innovator Pvt. Ltd, Veritas Holdings Pvt. Ltd, Sushi Bar Samurai Pvt. Ltd and SB Restaurants Pvt. Ltd, a partner company of Jetwing Hotels Ltd. He was also the former Chairman of Bansei Securities Capital Pvt. Ltd, a licensed Margin Provider and currently serves as a Consultant to the company.

His most recent appointment is Director of the Ministry of Fisheries and was previously a Member of the Advisory Committee to the Ministry of Tourism, specializing in the Japanese tourist segment.

Dr. Suren Peter
Senior Independent Non-Executive Director

Conferred a doctorate from the Maastricht School of Management in the Netherlands, he is a Fulbright scholar, holding a Master of Science in Management from Georgia Institute of Technology USA and a Master of Philosophy. His first degree was in Industrial Management in which he graduated with first class honours from the University of Kelaniya, Sri Lanka.

As a university academic, he has over 20 years of teaching, research and consulting experience and has served as the Head of the Department of Industrial Management at the University of Kelaniya. He has been the National Consultant on a number of projects for UNIDO and UNDP and been involved in consulting for numerous international development organizations and state and private sector entities.

Corporate Management

The Corporate Management of the Company is comprised of industry experts who combinedly count over 50 years of experience in both Finance & Banking sectors leads Ideal Finance Limited, whose profiles are given below.

Mr. Duminda Weerasekare
Chief Executive Officer

With an expansive knowledge and skill experience garnered over three decades, he holds the distinction of being a Fellow of both the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of UK.

He has functioned in directorial, CEO and COO positions in a number of leading corporate institutions.

His work experience ranges from negotiating and sourcing funding from international funding organisations and agencies to introducing pioneering funding sources into the country to being commissioned by international agencies to develop strategic plans for development in various financial strata and sectors.

A recipient of a Fellowship by the Netherlands Development Bank, he is a visiting resource person for the Industrial & Business Management Post-Graduate Programme conducted by the University of Kelaniya.

Mr. Rohitha Bandusena
Chief Operating Officer

Mr. Bandusena who counts over 15 years of experience in Finance, Operations, Treasury, Credit and Risk Management, holds a BSc (Hons) (Business Administration) special degree from the University of Sri Jayawardenapura.

Among the positions he has held are Senior Manager - Finance at Nations Leasing (Nations Trust Bank PLC), Assistant General Manager - Treasury and Operations at LB Finance PLC.

Prior to joining Ideal Finance Limited at the inception in April 2012 he served in the position of Head of Credit and Risk Management at Sampath Leasing and Factoring Limited.

Mr. Gaman Kithsiri
Chief Information Officer

Prior to taking up the Head of ICT position at IFL, Mr. Kithsiri held the position of Head of ICT in the capacity of Assistant General Manager grade at New World Securities (Pvt) Limited. He has rendered his service and expertise to NWS Financial Services (Pvt) Ltd & NWS Management (Pvt) Ltd.

Counting over 18 years of experience in the field of IT and over 6 years of ICT Management, Mr. Kithsiri was attached to Ceylinco Stock Brokers as Senior Manager IT, Assistant Manager IT, Senior Data Processing Executive where his contribution was rewarded as the best Y2K Project Co-ordinate from Ceylinco Stock Brokers.

He possesses the Chartered Information Technology Professional - MBCS-CITP (UK) from The Chartered Institute for IT, London, ACS from Australian Computer Society, High Diploma in Computer Software Engineering (HDCSE) from Londontec international, Sri Lanka and Network Design & maintenance from University of Colombo.

Mr. Prdeep De Silva
Assistant General Manager (Gold Loan)

Mr. De Silva counting over 31 years of experience in Finance, commenced his carrier with L B Finance PLC in 1987 and when gold loan operation was started in 1998 was placed in charge of Gold Loan operations and promoted to Senior Manager.

Joining Alliance Finance as an Assistant General Manager Gold Loan in 2008 continued in the same position at Orient Finance Ltd from 2016 for one year to join Ideal Finance as Assistant General Manager Gold loan.

Corporate Management cont….

Mr. Rohan Thennakoon

Compliance Officer

Mr. Thennakoon has completed the Advanced Diploma of the Chartered Institute of Management Accountants of UK and is at present reading for the Strategic level (Final). He is also a member of the Association of Accounting Technicians of Sri Lanka (AAT). He has completed the Awareness Level of Chartered Tax Advisor and has qualified for the CTA Advisory Level. He is a final year student of Bachelor of Information Technology (UOM) and is following the Bachelor of Business Administration Degree (UOP).

He counts over 10 years of experience in the finance field which includes Finance Operations, Reporting, MI, and Transfer Pricing and is a core member of the process of System Implementation including ERP systems.

He is currently functioning as Assistant Secretary of the Sub-committee for Compliance of the Finance House Association of Sri Lanka.

Immediately prior to this, he was employed at AIA Insurance Lanka PLC where he had a comprehensive exposure to International Accounting Standards and Accounting systems.

Ms. Madumali Munasingha

Manager – Treasury & Risk

Ms. Munasingha is an Associate Member of the Institute of Chartered Accountants of Sri Lanka with over 5 years of experience in the fields of Auditing and Finance including financial reporting and corporate taxation.

She started her career at Ernst and Young as an Audit Trainee and reached the level of Supervisor- Assurance. Ms. Munasingha completed her Bsc. Accounting (Special) Degree from the University of Sri Jayawardenepura.

Mr. Charitha Vithana

Manager - Finance

Mr. Charitha Vithana is an Associate member of the Institute of Chartered Accountants of Sri Lanka and holds a BSc special degree in Accounting from the University of Sri Jayewardenapura. He is also an Associate Chartered Professional Manager (ACPM) of the Institute of Chartered Professional Managers of Sri Lanka.

He counts over ten years of experience in the financial services and more than three years of experience in auditing. Prior to joining Ideal Finance Limited, he was served as an Accountant in AMW Capital Leasing and Finance PLC. Mr. Charitha Vithana was attached to KPMG and Amerasekera & Company and held the position of Senior in charge at the timing of leaving the firms.

Corporate Governance Report

Corporate Governance

Corporate Governance is defined as the system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers.

The Board of Directors is responsible for the governance of the Company and has placed significant prominence on developing rules, structures, policies and processes to ensure integrity and transparency in all of the Company's dealings and making the best effort in achieving performance and quality profits. We have continuously refined our structure and systems to ensure governance on the lines as defined, aware at all times that we are accountable to our stakeholders and the general public.

This statement describes the application of the Corporate Governance practices carried out within the Company during the year under review.

Board of Directors

The Board is the apex body of Ideal Finance Limited that carries the responsibilities of directing the Company. The responsibilities of the Board includes making an accurate assessment of the Company's position, taking strategic decisions, holding regular meetings of the Board and Board Sub Committees, ensuring good governance and overseeing the risk management of the Company.

Composition and Independence

The Board comprises of five (05) members, four (04) of whom, including the Chairman, are Non-Executive Directors with the balance of skills and experience appropriate for the business carried out by the Company.

The Board has determined that one (01) Non-Executive Director, namely, Dr. P.L Suren Peter is 'Independent'.

Chairman and Chief Executive Officer

The functions of the Chairman and the Chief Executive Officer are separated, with a clear distinction drawn between responsibilities, which ensure a balance of power and authority.

Mr. Nalin J Welgama is the Chairman of the Board of Directors and Mr. Duminda M Weerasekare serves as the Chief Executive Officer of the Company.

Tenure, Retirement and Re-election of Directors

There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board.

If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka with the reasons for such removal or resignation.

The provisions of the Company's Articles of Association also require Directors appointed by the Board to hold office until the next Annual General Meeting and seek appointment by the shareholders at such a meeting.

Board Meetings

The results of the Company are regularly considered and monitored against the budgets at Board meetings at which a standard agenda is discussed together with any other matter which requires the attention of the Board.

The Board meets once a month and wherever necessary, special meetings of the Board are held.

During the year ended 31st March 2019, twelve (12) meetings of the Board were held. The attendance at the meetings was:

Corporate Governance cont….

Name of Director	Executive/ Non- Executive/ Independent Non- Executive	Attendance
Mr. N J Welgama	Non-Executive	11/12
Mr. D M Weerasekare	Executive	12/12
Mr. P A De SIlva	Non-Executive	12/12
Mr. J V W Malawana	Non-Executive	12/12
Dr. P. L. Suren Peter	Independent Non-Executive	12/12

Board Sub-Committees

An Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Nomination Committee and an IT Steering Committee function as Sub-Committees of the Board. The names of the Directors who serve on the said Committees are mentioned below.

Audit Committee

The Audit Committee is currently comprised of Mr. J.V.W. Malawana & Dr. P.L. Suren Peter and is chaired by Mr. N. J. Welgama.

In compliance with the Finance Companies (Corporate Governance) Direction No.3 of 2008 and in the absence of a Head of Internal Audit, Company Secretary acts as the Secretary to the Audit Committee.

Integrated Risk Management Committee (IRMC)

In compliance with the Finance Companies (Corporate Governance) Direction No.3 of 2008 an Integrated Risk Management Committee was set up in May 2012.

The Committee is chaired by Dr. P.L. Suren Peter, an Independent Non-Executive Director and Mr. P.A. De Silva & Mr. J.V.W. Malawana are members of the IRMC which also consists of key management personnel supervising broad risk categories.

Remuneration Committee

The Remuneration Committee is currently comprised of Mr. P.A. De Silva and is chaired by Mr. N.J. Welgama.

Nomination Committee

Nomination Committee was formed in March 2014 and is comprised of Dr. P.L. Suren Peter while and Mr. P.A. De Silva chairs the committee.

IT Steering Committee

IT Steering Committee was formed in March 2014 and is chaired by Dr. P. L. Suren Peter. Mr. J.V.W. Malawana and Mr. P. A. De Silva are members of the committee.

Compliance Officer

Company has appointed a Compliance Officer at the inception to ensure compliance with the Regulatory and Statutory requirements and the laws and regulations governing Finance Companies, Public Listed Companies and business activities undertaken by the Company in general.

The Management

The day-to-day operations of the Company are entrusted to the Corporate and Senior Management headed by the Chief Executive Officer. They ensure that risks, uncertainties and opportunities are identified and necessary actions are taken to mitigate the risk exposure thus ensuring the achievement of targets within defined time frames and budgets.

Financial Disclosures and Transparency

Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards, International Financial Reporting Standards, the Companies Act, the Finance Companies Act and the directions and rules issued there under.

Messrs. Ernst & Young, Chartered Accountants acts as External Auditors of the Company. The Auditors are allowed to act independently and without intervention from the Management or the Board of the Company to express an opinion on the financial statements of the Company. The Auditors are provided with all required information for examinations.

Corporate Governance cont….

Ethical Standards

The Company requires that all its employees maintain the highest standards of integrity in the performance of their duties and dealings on behalf of the Company.

The Company focuses on the training and career development of employees for the creation of an empowered and committed group of employees.

Statutory Payments

All statutory payments due to the Government, which have fallen due, have been made or where relevant provided for.

Retirement gratuities have been provided for in accordance with Sri Lanka Accounting Standards No.16, Employee Benefits (Revised 2006).

Compliance with Central Bank Regulations

As both a Registered Finance Company and a Registered Finance Leasing establishment, the Company is governed by the Non-Bank Financial Institutions Directions & Rules issued by the Monetary Board of the Central Bank of Sri Lanka.

Accordingly the Company is required to carry out and maintain business activities in compliance with the Directions from time to time issued by the Central Bank of Sri Lanka.

Accountability and Disclosure

The members of the Board of Directors have reviewed in detail the Financial Statements in order to satisfy themselves that they present a true and fair view of the Company's affairs.

Outlook

Corporate Governance plays a vital role in business and future emphasis is to further satisfy the Company's stakeholders whilst sustaining the growth of the Company. Therefore we believe in implementing a broad operating structure, monitoring internal control review, benchmark, feedback effective and transparent communication

Nalin J Welgama
Chairman

27th June 2019

Corporate Governance cont….

As the prudential regulator, the CBSL has issued a set of Directions on Corporate Governance – The Finance Companies (Corporate Governance) Direction, No. 3 of 2008 to promote prudent business behavior and risk management on the part of Regulated Financial Institutions such as banks and finance companies and insurance companies, so that these institutions are poised to meet their financial promises.

The Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) covers the key aspects such as Directors, Directors' remuneration, Relations with Shareholders, Accountability and Audit and Shareholders. These rules are indispensable in ensuring the creation and maintenance the confidence of the General Public of the country.

The Company's compliance with relevant directions, rules, notices, guidelines and codes are shown below.

Section	Agreed Upon Procedure	Status	Result of Procedure
2(1)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the Finance company.		
a)	Approving and overseeing the Company's objectives and corporate values and ensure that these are communicated throughout the Company.	Complied	Vision, mission and corporate values of the company are included in the procedure manual which is approved by the board on 26th March 2012. Board approved business plan for the next three years is in place for the period 2019- 2022 along with the budget. Annually reviewed Strategic objectives and corporate values are communicated throughout the company at Management & Staff meetings in order to enhance their understanding regarding the future goals and objectives of the company.
b)	Approving the overall business strategy of the Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals , for at least the next three years	Complied	The Board has an approved Business Plan for the three years 2019 - 2022 includes the overall business strategy of the company. Company has a Board approved Risk Manual which includes different types of risks faced by the company, responsible staff, Risk mitigation strategies and Risk Reporting formats to be used by the staff . Board approved Treasury and Liquidity Risk Management Policy is in place, defining identifying, measuring and monitoring the said risks.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
			The Integrated Risk Management (IRM) report defines the risk management strategies along with the key risk factors, related risk and risk mitigation action. Company's overall business strategy for the three years commencing from 2019-2022 is included with the measurable goals of the company.
c)	Identify the risk and ensuring implementation of appropriate system to manage the risk prudently.	Complied	Board has formed an Integrated Risk Management Committee (IRMC) and delegated the function to manage the risks identified to the Committee. Findings of the IRMC are reported to the Board at the subsequent Board meeting.
d)	Approving a policy of communication with all stake holders, including depositors, creditors, share-holders and borrowers;	Complied	Company has two board approved communication policies for shareholders and other internal and external stakeholders.
e)	Reviewing the adequacy and the integrity of the finance Company's internal control system and management information system; entail	Complied	Board reviews the adequacy and the integrity of the Company's internal control system by way of internal audit reports submitted to the board through the Board Audit Committee. A Board approved procedure manual is in place defining the decision flow and responsibility of each functional area of the company. Procedures for ICT controls are included in the procedure manual. Company has a Board approved Information Technology Policies and Procedures and an IT Steering Committee established by Board.
		Complied	Company evaluated the adequacy and integrity of the company's Management Information System and has carried out an IS Audit for 2017/18. Company will take necessary actions to strengthen the internal control system.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
f)	Identifying the designating key management personnel, who are in a position to (i) significantly influence policy (ii) Direct activities and (iii) exercise control over business activities, operations and risk management;	Complied	Key Management Personnel (KMP) have been defined as "Board of Directors (BOD), Chief Executive Officer (CEO), Chef Operating officer (COO), AGM–ICT, Management Accountant, Financial Accountant, Compliance Officer, Asst. Manager- Real Estate, Asst. Manager-Operations, Branch Manager.
g)	Defining the areas of authority and key responsibilities for the board and the key management personnel;	Complied	Corporate Governance policy approved by the Board of Directors includes an area specifying the responsibilities of the board of directors. Company has a Board approved schedule of matters specifically reserved to the Board of Directors. Further, Articles of Association briefly describes on the powers and duties of the Board of Directors. Key responsibilities of other Key Management Personnel have been defined briefly in Feasibility Report which is approved by the Board.
		Complied	Company has completed the key responsibilities (job descriptions) of KMPs.
h)	Ensuring that there is appropriate oversight of affairs of the finance Company by key management personnel , that is consistent with the finance Company's policy;	Complied	Key management personnel were invited to the Board meetings to make presentations on overall performance, collections and progress of the Company.
i)	Periodically assessing the effectiveness of its governance practice including	Complied	As per Articles of Association, Board has the power to make decisions on selection, nomination and election of directors.
	(i) selection, nomination and election of directors and key management personnel;	Complied	Further Articles of Association addresses the provisions on management of conflicts of interest of Directors.
	(ii) management of conflicts of interests; and	Complied	A self-evaluation process of the board members is in place to ensure the own performance, better governance and determination of weaknesses.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
	(iii) The determination of weaknesses and implementation of changes where necessary.	Complied	Self-performance evaluation of the Board of Directors for the year 2018/19 has been done.
j)	Ensuring the finance Company has an appropriate succession plan for key management personal.	Complied	Board approved Succession Plan & Policy guideline is in place. And in the process of developing Succession Plan for other KMPs
k)	Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Complied	CEO is represented at the Board, IRMC and IT Steering Committees. CEO attends the Audit Committee upon invitation. Key Management Personnel are invited as and when the need arises by the Board or the Committee to explain matters relating to their areas of functions.
l)	Understand the regulatory environment.	Complied	All new CBSL directions issued by the Central Bank have been submitted to the Board by the Compliance Officer and approved thereof. A summary of returns are presented to the board by the Compliance Officer at each board meeting.
m)	Exercising due diligence in the hiring and oversight of external auditors.	Complied	Company's Articles of Association reveals that there is a process for hiring of external auditors at their AGM. Oversight of external auditors is carried out by the Board Audit Committee. The process on engaging with external auditors is included in the Audit Committee Charter under Authority & Responsibility.
2(2)	The board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer.	Complied	Board has appointed a Chairman and a CEO. Functions and responsibilities of the Chairman have been defined in the Corporate Governance Policy. Company has completed defining the functions and responsibilities of the CEO.
2(3)	There shall be a procedure determined by the Board to enable directors, upon reasonable request to seek independent professional advice in appropriate circumstances at the finance Company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance Company.	Complied	Procedure manual of the company contains with a section providing the procedures on seeking independent professional advice by directors at company expense.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
2(4)	Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relatives or a concern, in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied	Articles of the Association give evidences on the procedure for "Restrictions on Voting" by Board of Directors when they have a substantial interest on any matter and not to count for the quorum. No such transaction has taken place during the year.
2(5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Company is firmly under its authority.	Complied	Company has a Board approved schedule of matters specifically reserved to the board for decision making.
2(6)	The Board shall, if it considers that the finance Company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Non-Bank Supervision of Non-Bank Financial Institution of the situation of the Company prior to taking any decision or action.	Complied	Such a situation has not been arisen during the year 2018/19.
2(7)	The Board shall publish in the Company's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	Complied	This has been disclosed in the Annual Report on page 25 to 46.
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied	Company has a process of evaluating the self-performance of the Board of Directors.
(3)	**Meetings of the Board**		
3(1)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible	Complied	Board has met 12 times during the year 2018/19. There were instances where the Board's consent has been obtained through the circulation of written resolutions/papers during the year 2018/19.
3(2)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance Company.	Complied	Agenda is drafted by the compliance officer & then circulated by the company secretary, among the board members by electronic mail prior to the meeting, which enables directors to communicate any matters which they wish to be discussed at the meeting to be included in the agenda Procedure manual of the company includes the procedure on enabling all directors to include matters and proposals in the agenda.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
3(3)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice shall be given.	Complied	The date of the next meeting is decided at the end of the current meeting of the Board. Agenda letters and previous month board minutes are sent to the board members by the company secretary via e-mail. Further, as a practice, Directors are given a notice of at least 7 days for regular Board Meetings. Previous month board meeting minutes are sent to the board members by the company secretary via e-mail.
3(4)	A Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	Complied	Such a situation has not been arisen during the year in concern.
3(5)	Board shall appoint a Company Secretary, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied	SSP Corporate Services (Private) Limited was appointed by the Board as their company secretary.
3(6)	If the chairman has delegated to the Company secretary the function of preparing the agenda for a Board meeting, the Company secretary shall be responsible for carrying out such function.	Complied	Agenda is prepared by the compliance officer & given for company secretary for clearance to circulate among the board members.
3(7)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions rules and regulations are followed.	Complied	All directors have access to advice and services of the Company Secretary. Company has drafted a procedure in this regard.
3(8)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied	Company Secretary maintains the minutes of Board Meetings. Procedure Manual of the company includes a chapter; "Maintaining Minutes of the Board Meetings" in this regard.
3(9)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following:	Complied	Detailed minutes are kept covering the given criteria. Board minutes contain the required details as specified.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
	a) a summary of data and information used by the Board in its deliberations;		.
	b) the matters considered by the Board;		
	c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence, including the name of the directors.		
	d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations;		
	e) the Board's knowledge and understanding of the risks to which the Company is exposed and an overview of the risk management measures adopted; and		
	f) the decisions and Board resolutions.		
(4)	**Composition of the Board**		
4(1)	The number of Directors on the Board shall not be less than 5 and not more than 13. A transitional provision will apply if the number of Directors on the Board of the finance Company is either less than 5 or exceed 13 such Companies may continue for a maximum of three years commencing 01.01.2009.	Complied	Board comprised of 5 members during the current year.
4(2)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer or executive director shall not exceed nine years, and such period in office of a non-executive director shall be inclusive of the total period of service served by such Director up to January 1, 2009.	Complied	None of the Directors have exceeded 9 years of service since the company was incorporated in January 2012.
4(3)	An employee of a finance Company may be appointed, elected or nominated as a Director of the finance Company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive of the Company**.**	Complied	There are 5 members in the Board out of which one is an Executive Director thus complies with the requirement.
4(4)	From 1st January, 2012 , the total number of independent non-executive Directors, of the board shall be at least one fourth of the total number of directors . A Non-Executive Director shall not be considered independent if he/she:	Not Complied	The Board comprised of 5 members which consists of an Independent Non-Executive Directors.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
a)	Holds shares exceeding 2% of the paid up capital of the finance company or more than 10% of paid up capital of any other finance company;		
b)	has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding at a particular time exceeding 10 per cent of the capital funds of the finance company as shown in its last audited B/S.		
c)	has been employed by the finance company during the two year period immediately preceding the appointment as director.		
d)	has a relative; who is a director, CEO, key management personnel, or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5 % of the paid up capital of the another finance company.		
e)	represents a shareholder , debtor, or such other similar stakeholder of the finance company		
f)	is an employee or a director or has a share holding of 10% or more of the paid up capital in a company or business organization:		
	(i) which has a transaction with the finance company as defined in paragraph 9 , aggregate value outstanding of which at any particular time exceeds 10% of the capital funds (regulatory capital)as shown in its last audited B/s of the finance company, or		
	(ii) in which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10% of the capital funds (material share holding) as shown in its last audited B/s of the finance company, or (iii) in which any of the other directors of the finance company have a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds (regulatory capital)as shown in its last audited B/s of the finance company.		

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
4(5)	In the event an alternate Director is appointed to represent an Independent non – executive Director, the person so appointed shall also meet the criteria that apply to the Independent non-executive Director.	Complied	Such an incident has not taken place during the year 2018/19.
4(6)	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied	Articles of Association address the appointment and removal of Directors. Company has drafted a procedure on appointing NEDs.
4(7)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one-half of the number of Directors present at such meeting are Non-Executive.	Complied	During the financial year 2018/19 more than 50% of the directors participated for board meetings are non-executive. Company shall initiate action to make the quorum to read as more than 50% of the existing members and out of them more than 50% to be Non- Executive Directors.
4(8)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Finance Company. The Finance Company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non- Executive Directors in the Annual Corporate Governance Report.	Complied	Company has disclosed the composition of the Board as required in the direction on page 51 of the Annual Report.
4(9)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied	Company's Articles of Association addresses a general procedure for appointment of new Directors. Company has drafted a procedure on appointing new members to the Board. Company has a policy of appointing a member to the board, where the responsibility has been given to the nomination committee.
4(10)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied	No Directors have been appointed during the year 2018/19.
4(11)	If a Director resigns or is removed from office , the board shall announce to the Shareholders and notify the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka ,regarding the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Company, if any	Complied	No Directors have resigned from office during the year.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
(5)	**Criteria to assess the fitness and propriety of directors**		
5(1)	The age of a person who serves as Director shall not exceed 70 years.	Complied	None of the Directors exceeded 70 years of age.
5(2)	A person shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/ bodies corporate including Subsidiaries or Associate Companies of the Finance Companies Provided that such 20 companies/entities/ institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.	Complied	No Director holds directorships of more than 20 companies / entities / Institutes inclusive of subsidiaries or associate companies during the year 2018/19.
(6)	**Management functions delegated by the board**		
6(1)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	The Board is empowered by the Articles of Association to delegate its powers to a committee of directors or to a director or employee upon such terms and conditions and with such restrictions as the Board may think fit.
6(2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.	Complied	The delegated powers are reviewed by the Board to ensure that they remain relevant to the needs of the company.
(7)	**The Chairman and CEO**		
7(1)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual	Complied	Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.
7(2)	The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Non – Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Finance Company Annual Report.	Complied	Chairman is a non- executive director of the Company. Company has designated an Independent Non-Executive Director as the Senior Director of the Company. (This is disclosed in the Annual Report page 19.)
7(3)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	Company has a process to identify the relationship between Chairman, CEO and the Board members and the nature of any relationship amongst the members of the Board.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
			The Board is aware that there are no material relationships whatsoever, including financial, business, family and any other material relationship between the Chairman and the CEO and the other members of the Board as per the annual declarations made by the Directors and disclose in their annual corporate governance report any relationship between the Chairman and the CEO and the board members and the nature of any relationships among members of the board. This is disclosed in the Annual Report page 22.
7(4)	The Chairman shall: (i) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied	Company has a Board Approved Corporate Governance Policy which defines the Functions and Responsibilities of Chairman. The Company expanded the format of annual assessment by including an area to measure the effective discharge of Board functions." All key and appropriate issues are discussed by the Board on a timely basis.
7(5)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	Complied	Agenda is drafted by the compliance officer & sent to company secretary for clearance & then circulated to the board members under the instructions of the Chairman.
7(6)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied	The Chairman ensures, that all Directors are properly briefed on issues arising at Board Meetings by submission of the agenda and board papers with sufficient time prior to the meetings. Agenda and the minutes of the previous board meeting are sent to the directors at least 7 days prior to the next meeting for their review. Further, minutes of previous month's board meeting are distributed to the Board members and tabled at the next board meeting for review and approval.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
7(7)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Finance Company.	Complied	The Chairman has ensured the contribution of fullest participation of all members' and their fullest contribution.
7(8)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors.	Complied	The Chairman facilitates the contribution of all directors including non-executive directors.
7(9)	Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied	Chairman is a non-executive director. The Chairman does not directly get involved in the supervision of key management personnel or any other executive duties.
7(10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied	AGM of the company is the main forum where the Board maintains effective communication with shareholders. Further a Board approved Communication Policy for shareholders, is in place.
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-today-management of the Finance Company's operations and business.	Complied	As per the functions and responsibilities of the CEO, he is the apex executive-in charge of the day-to-day management of the company's operations and business as mentioned in the Corporate Governance Policy.
(8)	**Board appointed committees**		
8(1)	Every Finance Company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The board shall present a report on the performance, duties and functions of each committee, at an annual general meeting of the Company.	Complied	At present company has established 05 board committees including Audit Committee (AC) and Integrated Risk Management Committee (IRMC) as set out in paragraphs 8(2) and 8(3) of the direction. Both committees submit their reports to the main board for their review and approved thereon. A report on each committee on its performance, duties and functions has been disclosed in the Annual Report on pages 47 to 49.
8(2)	Audit Committee:		
	a) The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy) and/or audit.	Complied	Chairman of the Audit Committee is a non-executive director and possesses qualifications and related experience.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
b)	Check that all members of the committee are non-executive directors.	Complied	All other members of the committee are non-executive directors.
c)	The Committee shall make recommendations on matters in connection with:	Complied	Committee has discussed the issues in Corporate Governance Factual Finding Report issued by the External Auditors.
	i. The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; ii. The implementation of the Central Bank guidelines issued to Auditors from time to time; iii. The application of the relevant accounting standards; and		Audit partner completed five years of service for FY 2018/19.
d)	The service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit Partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.		Board approved the re-appointment of Auditors and the audit fee with regard to the current financial year.
e)	The committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	External Auditor is independent since they directly report to the Board Audit Committee and their Report on the financial statements of the company for the year 2018/19 indicates that the audit is carried out in accordance with SLAuS.
f)	The Committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non- audit services, the Committee shall consider: (i) Whether the skills and experience of the audit firm make it a suitable provider of the non-audit services	Complied	Board approved the policy on engagement of an external auditor to provide non-audit services.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
	(ii) Whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and (iii) Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor		
g)	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including:		
	(i) An assessment of the Finance Company's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting;	Complied	Committee has developed a mechanism to meet the auditors before commencing the audit to inquire about the nature and scope of the audit, with the external auditors in accordance with SLAuS.
	(ii) The preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and	Complied	BAC has discussed the preparation of financial statements in accordance with relevant accounting principles.
	(iii) The co-ordination between firms where more than one audit firm is involved.	N/A	
h)	The Committee shall review the financial information of the Finance Company, in order to Complied with monitor the integrity of the financial statements of the Finance Company, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments (i) Major judgemental areas; (ii) Any changes in accounting policies and practices; (iii) Significant adjustments arising from the audit; (iv) The going concern assumption; and (v) The compliance with relevant accounting standards and other legal requirements.	Complied	Committee has a process to review the financial information of the company. Company is in the process of further strengthening the Financial Statements and said areas.
i)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	Complied	Committee has met the external auditors during the year at committee meeting in the absence of the executive management.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
j)	The Committee shall review the External Auditor's management letter and the management's response thereto.	Complied	Committee has reviewed the external auditor's management letter for the year end 31 March 2019 and the management's response thereto. Management letter for the year ended 31 March 2019 will be reviewed upon receipt of the same.
k)	Committee shall take the following steps with regard to the internal audit function of the Finance Company		
	(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work.	Complied	Internal audit function of the company has been outsourced to a firm of Chartered Accountants and their scope of the audit has been included in their audit reports. Internal Audit Reports have been submitted to the Audit Committee for their review.
	(ii) Reviewed the resources of the internal audit department, and satisfy itself that the department has the necessary resources to carry out its work;		
	(iii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department.	Complied	Audit Committee has reviewed the internal audit program and the audit reports were reviewed and discussed thereon.
	(iv) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	N/A	Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants.
	(v) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function	N/A	Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants.
	(vi) Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	N/A	Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants
	(vii) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied	Internal audit function is independent since Internal audit function is outsourced and report directly to the Board Audit Committee and also performed with impartiality, proficiency and due professional care.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
	(viii) Ensure that a process has been documented which addresses that the audit work has been performed with impartiality, proficiency and due professional care.	Complied	Documented process in the Internal audit charter approved by the Board.
l)	The Committee shall consider the major findings of internal investigations and management's responses thereto;	Complied	No such major findings have been reported to the committee during the year.
m)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at once in six months, the Committee shall meet with the External Auditors without the Executive Directors being present.	Complied	Audit Committee has met the external auditors without the executive directors being present.
n)	The Committee shall have; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied	An Audit Committee Charter is in place included with terms of reference of the committee which is approved by the board.
o)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied	During the year the committee has met 6 times and has maintained the minutes appropriately.
p)	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the duties and functions of the committee (ii) details of the activities of the audit committee (iii) the number of audit committee meetings held during the year; and (iv) details of attendance of each individual director at such meetings	Complied	Company has disclosed the required details in the Annual Report on pages 47 to 48.
q)	The Secretary of the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	Complied	Company Secretary has been appointed as the secretary to the Audit Committee.
r)	Company shall have a "whistle blower" policy which covers the process of dealing with; (i) The improprieties in financial reporting, internal control or other matters.	Complied	Company has developed a whistle blower policy to deal with matters mentioned.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
	(ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and (iii) Appropriate follow-up action. (iv) Protection of the whistle blower		
8(3)	**Integrated Risk Management Committee (IRMC):**		
a)	The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.	Complied	Committee consists of the following NEDs. Dr. P. L. Suren Peter (Chairman) Mr. Viraj Malawana (Non-executive director) Mr. Aravinda De Silva (Non-executive director) CEO, COO, Compliance Officer and other executive management personnel participate to the committee meetings whenever necessary.
b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Finance Company on a monthly basis through appropriate risk indicators and management information. In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on the finance Company basis and group basis.	Complied	IRMC assesses the risks such as credit/ default risk, interest rate risk, currency risk, collateral risk, strategic risk, regulatory risk, operational risk and reputational risk on a quarterly basis through risk indicators and management information. Company has identified more risk indicators and risk limits and the procedure manual has been updated. There are no subsidiaries or associates under this Company.
c)	The Committee shall review the adequacy and effectiveness of all management level Committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied	Company has established the Credit Committee and Credit Committee approves the facilities within the given authority limits of the committee. The committee has taken steps to review the adequacy & effectiveness of all management level committees. It is being reviewed and the procedure manual has been updated.
d)	The Committee shall take prompt corrective action to mitigate the effects of Complied with specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Finance Company's policies and regulatory and supervisory requirements.	Complied	Committee has reviewed and considered all risk indicators. Company has strengthened risk indicators by introducing more quantitative and qualitative risk limits and the procedure manual has been updated.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied	IRMC has met 04 times during the financial year.
f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied	At the company specific risks and the limits are identified by the Risk Management Committee and decisions are taken collectively. Further Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka has issued any directions to the company in this regard during the current financial year.
g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied	IRMC findings are submitted to the subsequent board meeting for their review, in order to identify the potential Risks of the Company and the impact caused by them.
h)	The Committee shall establish a compliance function to assess the Finance Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied	A dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically. The appointment of the Compliance officer has been approved by the Board at the meeting and CBSL approval on this regard has been obtained.
9.	**Related party transactions**		
9(1)	The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, **No.1 of 2007** and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, **No.2 of 2007** or such other directions that shall repeal and replace the said directions from time to time.		
9(2)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Finance Company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A director of the finance company; d) A key management personnel of the finance company;	Complied	Corporate Governance Policy of the company includes a section regarding the related parties. Company is in the process of strengthening the RPT Police.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
e)	A relative of a director or a key management personnel of the finance company;		
f)	A shareholder who owns shares exceeding 10% of the paid up capital of the finance company;		
g)	A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.		
9(3)	The transactions with a related party that are covered in this Direction shall be the following: Type of transactions are as follows: a) The grant of any type of accommodation b) The creation of any liabilities of the finance company in the form of deposits, borrowings and investments.	Complied	In the Corporate Governance Policy, the company has identified the types of related party transactions as mentioned in the direction. Through the procedure manual the responsibility on identification of related party transactions have been delegated to the Accountant/ COO.
	c) The providing financial or non-financial services to the finance company or received the same from the finance company		
	d) The creation or maintenance of reporting lines and information flows between the finance company and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.		
9(4)	The Board shall ensure that the finance Company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance Company. For the purpose of this paragraph, "more favourable treatment" shall mean:	Complied	Company has defined the related party transactions and more favourable treatment in its' Corporate Governance Policy. Company will strengthen the existing system to input the RPT data to the system and extract a report with required data/ details of such transactions with the said related parties and to monitor such reports to ensure that no such "More favorable treatment" is offered to related parties than that accorded to other constituents of the finance company carrying on the same business.

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
	a) Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the Finance Company's regulatory capital, as determined by the board. For purposes of this sub-direction: The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Finance Company's share capital and debt instruments with a maturity of 5 years or more.	N/A	Such a situation has not arisen.
	b) Charging of a lower rate of interest than the Finance Company's best lending rate or paying more than the Finance Company's deposit rate for a comparable transaction with an unrelated comparable counter party.		
	c) Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;		
	d) Providing services to or receiving services from a related-party without a proper evaluation procedure;		
	e) Maintaining reporting lines and information flows between the finance company and any related party that may lead to sharing potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.		
10	**Disclosures**		
10(1)	The Board shall ensure that:		
	a) Annual audited financial statements and periodical financial statements (6 months ended end Sept.) are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English.(RFC guideline No. 2 of 2006)	Complied	Annual and periodic Financial statements are prepared and published in accordance with the defined standards. Company has published its' Interim financial statements in the Newspapers in all three languages.

Corporate Governance cont….

Section		Agreed Upon Procedure	Status	Result of Procedure
10(2)	The Board shall ensure that at least the following disclosures are made in the Annual Report :			
	a)	The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied	Company has disclosed the relevant statement in the Annual Report on page 57, Statement of Directors' Responsibilities for Financial Reporting.
	b)	The report by the board on the Finance Company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied	A report by the board on the company's internal control mechanism is disclosed in the Annual Report on page 60, Directors' Statement on Internal Control over Financial Reporting.
	c)	Details of directors, including names, transactions with the finance company.	Complied	Details of directors disclosed on page 17 to 19 and the transactions with the Company disclosed on page 108 under notes (Note 40) to the Financial Statements. Other than Directors emoluments no other transactions recorded.
	d)	Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.	Complied	The required information has been disclosed in the Annual Report on page 84.
	e)	Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Finance Company's capital funds.	Complied	During the Financial Year there were no accommodation granted to the related parties except for the Related Party Transaction
	f)	The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied	The aggregate amount of remuneration paid to the Key Management Personnel of the company and the aggregate value of transactions done with KPMs have been disclosed in the annual reports on page 108, under note 40, transactions with Key Management Personnel. There are no accommodations granted to the KMPs. Total deposits made by KMPs during the year 2018/19 was 1,319,602.00

Corporate Governance cont….

Section	Agreed Upon Procedure	Status	Result of Procedure
g)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance	Complied	The required information regarding the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance has been disclosed in the Annual Report on page 26. CBSL has approved the proposal submitted by the company to meet the Core Capital requirement and until such a time CBSL has imposed a deposit cap for the Company.
h)	A statement of the regulatory and supervisory concerns on lapses in the Finance Company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Complied	Such a situation has not arisen.
i)	Check that the board has obtained the external auditor's certification of the compliance with the Corporate Governance directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011	Complied	External auditors have issued the Corporate Governance Factual Finding report in this regard.
11	**Disclosures**		
	Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred in 10(2) (b) above.	Complied	Board has obtained the external auditor's report on the effectiveness of the internal control mechanism and disclosed in Directors' responsibility statement on internal control over financial reporting and disclosed on page 58 of the Annual Report.

Report of the Audit Committee

Composition

The composition of the Audit Committee during the year was as follows

Mr. N. J. Welgama	–	Chairman - Non-Executive Director
Dr. P. L. Suren Peter	–	Independent Non-Executive Director
Mr. J.V.W. Malawana	–	Non-Executive Director

The Chairman Mr. N.J. Welgama, is a Member of the Association of Chartered Certified Accountants of the United Kingdom with over 30 years of experience in auditing, accounting, and international automotive.

Meetings

The Committee met six times during the year under review.

The Chief Executive Officer and the Senior Management attended the meetings by invitation. Internal audit consultants and the external auditors were invited to participate at the meetings as and when required.

The Company Secretaries, S S P Corporate Services (Private) Limited. acted as Secretaries to the Audit Committee.

The attendance of the members of the Committee are as follows.

Name	Description	Attendance
Mr. N. J. Welgama	Chairman – Audit Committee	5/6
Dr. P .L. Suren Peter	Member	6/6
Mr. J.V.W. Malawana	Member	6/6

The proceedings of the Audit Committee were reported to the Board of Directors on a regular basis.

Role of the Committee

The main objective of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities in the financial reporting process, the system of internal controls and risk management, the independence and audit process of the external auditors, and the process for monitoring compliance with laws and regulations.

Summary of activities

The Committee carried out the following activities during the year.

Reviewed the consistency and appropriateness of the accounting policies adopted by the Company to ensure compliance with the Sri Lanka Accounting Standards.

Reviewed the effectiveness of the internal financial controls to ensure reasonable assurance that the financial reporting system adopted by the Company can be relied upon in the preparation and presentation of the quarterly and annual financial statements

Considered the internal and external audit reports and identified the control weaknesses and accounting issues highlighted and directed management to take appropriate and relevant follow up actions.

Held two special meetings with the external auditors without the presence of management to discuss the matters relating to management co-operation, quality, timeliness and accuracy of the accounting and management information provided.

Internal Audit

The Internal Audit function is outsourced to T & D Associates Chartered Accountants.

The scope of work covers the head office functions and all branches. The scope of work of the internal audit consultants includes the review of the efficacy of the internal controls and the actions taken to mitigate operational and business risks. In addition they monitor and report on compliance with statutory requirements and the Company's accounting and operational policies. Internal audit representatives are present at all Audit Committee meetings during discussion of the respective internal audit reports.

Report of the Audit Committee Cont...

External Audit

The Committee ensured that the Auditors have not carried out any non-audit services that would have impaired their independence.

The Audit Committee has recommended to the Board of Directors that Messrs. Ernst & Young be reappointed as Auditors for the financial year ending 31st March 2019 subject to the approval of the shareholders at the Annual General Meeting. The Committee has also made its recommendations in regard to the remuneration of the Auditors.

Risk Management

In terms of the Central Bank's Direction No. 03 of 2008 under the Finance Companies Act, the Company has appointed an Integrated Risk Management Committee during the year. The Committee's decree is to identify the business and operational risks the Company is exposed to and develop appropriate strategies to manage and monitor these risks and thereby eliminate /mitigate its adverse impacts.

Conclusion

The Audit Committee is satisfied that the internal controls and the procedure in place for assessing and managing risk are adequately designed and operate effectively and is of the view that they provide reasonable assurance that the Company's assets are safe guarded, and that the financial statements are reliable.

Nalin J. Welgama
Chairman
Audit Committee

27th June, 2019

Report of the Integrated Risk Management Committee

Composition

The Integrated Risk Management Committee for the financial year ended 31st March 2019 comprised the following members.

Dr. P. L. Suren Peter (Director/Chairman-IRMC)
Mr. P. A. De Silva (Director)
Mr. J. V. W. Malawana (Director)

The following members participate for the Integrated Risk Management Committee

Mr. Duminda Weerasekare (CEO/Director)
Mr. Rohitha Bandusena – (Chief Operating Officer)
Mr. Pradeep De silva – (AGM-Gold Loan)
Mr. Charitha Vithana (Manager - Finance)
Mr. Gaman Kithsiri (Chief Information Officer)
Mr. Rohan Thennakoon (Compliance Officer)
Ms. Madumali Munasinghe (Manager – Treasury and Risk)
Mr. T.M.M.B. Tennakoon (Manager – Real Estate)

Meetings

The Committee met on a quarterly basis of which attendance of the members of the board are as follows.

Name	Description	Attendance
Dr. P. L. Suren Peter	Director/ Chairman – IRMC	4/4
Mr. J. V. W. Malawana	Director	3/4
Mr. P. A. De Silva	Director	4/4

Role of the Committee

Assessing all risks, i.e., credit, market, liquidity, operational, interest rate, foreign currency, strategic and reputational risks to the finance company on a quarterly basis through appropriate risk indicators and management information.
Reviewing the adequacy and effectiveness of all management level committees such as credit committee and the asset-liability committee decisions to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
Taking prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.

Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

The committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations.

Conclusion

The Integrated Risk Management Committee is satisfied about comprehensive risk management strategies and procedures that are in place in order to mitigate IFL risk exposure.

Dr. P. L. Suren Peter
Chairman
Integrated Risk Management Committee

27th June, 2019

Report of the Remuneration Committee

The Remuneration Committee, appointed by the Board of Directors comprised of two Non-Executive Directors

Composition

Mr. N. J. Welgama (Chairman)/(Non-Executive Director)
Mr. P. A. De Silva (Non-Executive Director)

Meetings

The Committee met three times during the period under review to make recommendations on salaries, bonuses and increments, and also on matters relating to recruitment of key management personnel to ensure that the management and staff at all levels are adequately rewarded for their performance and commitment. The Chief Executive Officer shall attend meetings of the Committee by invitation and provide relevant information and his view to the Committee for its considerations except when his own remuneration package and other matters relating to him are discussed.

Functions

The primary objective of the committee is to attract, motivate and retain talent with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company.

The Company remuneration framework for the Executive Directors and Corporate Management Team is designed to ensure alignment between short and long term interests of the Company and thereby create and enhance value for all stakeholders of the Company.

Directors' remuneration

The total of Directors' remuneration paid during the year under review is set out in note 9 to the Financial Statements.

N. J. Welgama
Chairman
Remuneration Committee

27th June, 2019

Report of the Directors on the State of Affairs of the Company

The Board of Directors is pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31st March 2019. The details set out herein provide pertinent information required by the Companies Act, No.7 of 2007 and are guided by recommended best accounting practices.

1. Principal Activities

The principal activity of the Company is to carry on finance business in conformity with the provisions of the Finance Business Act, No. 42 of 2011 as amended or superseded from time to time and in conformity with provisions of all written laws for the time being in force and all regulations, directions, determinations, rules, orders or requires the manufacture and sale of aluminium extrusions.

2. Financial Statements

The financial statements of the Company are given on pages 61 to 118

3. Auditor's Report

The Auditor's report on the financial statements is given on page 59-60

4. Accounting Policies

The accounting policies adopted in preparation of Financial Statements and the other explanatory notes are given on pages 65 to 118. There were no material changes in the Accounting Policies adopted.

5. Interest Register

The Company maintains an Interest Register and the particulars of those Directors who were directly or indirectly interested in a contract of the Company are stated therein.

6. Directors' Interest

None of the directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed in Note 40, related party transactions to the financial statements.

7. Directors Remuneration and Other Benefits

Directors' remuneration in respect of the Company for the year ended 31st March 2019 is given in Note 9 to the financial statements.

8. Corporate Donations

Company has donated Rs.134,634 for the year ended 31st March 2019.

9. Directors

The Directors of the Company as at 31st March 2019.

Mr. N.J. Welgama	-	Non Executive Chairman
Mr. D.M. Weerasekare	-	Executive Director/CEO
Mr. P. A. De Silva	-	Non Executive Director
Mr. J.V.W. Malawana	-	Non Executive Director
Dr. P.L.S. Peter	-	Non Executive Independent Director

In terms of Article 24(6) of the Articles of Association of the Company Messers. N.J. Welgama and P.A.De Silva retire by rotation at the Annual General Meeting and being eligible themselves for re-election.

10. Board Sub-Committees

The following Board Sub-Committees are functional.

- **Audit Committee**

  Mr. N.J. Welgama
  - Chairman/Non Executive Director

  Dr. P.L. Suren Peter
  - Member/Non Executive Independent Director

  Mr. J.V.W. Malawana
  - Member/Non Executive Director

- **Integrated Risk Management Committee**

  Dr. P.L. Suren Peter
  - Chairman/Non Executive Independent Director

  Mr. P.A. De Silva
  - Member/Non Executive Director

  Mr. J.V.W. Malawana
  - Member/Non Executive Director

Report of the Directors on the State of Affairs of the Company Cont...

- **Remuneration Committee**
  Mr. N.J. Welgama
  - Chairman/Non Executive Director
  Mr. P.A. De Silva
  - Member/Non Executive Director

- **Nomination Committee**
  Dr. P.L. Suren Peter
  - Member/Non Executive Independent Director
  Mr. P.A. De Silva
  - Member/Non Executive Director

- **IT Steering Committee**
  Dr. P.L. Suren Peter
  - Chairman/Non Executive Independent Director
  Mr. J.V.W. Malawana
  - Member/Non Executive Director
  Mr. P.A. De Silva
  - Member/Non Executive Director

11. Directors Shareholding

The shareholding of the Directors of the Company as at 31st March 2019.

Mr. N.J. Welgama	-	2,632,652
Mr. P.A. De Silva	-	2,632,652
Mr. D.M. Weerasekare	-	1,800,000
Mr. J.V.W. Malawana	-	10,400,000
Dr. P.L. Suren Peter	-	Nil

12. Auditors

The financial statements for the year ended 31st March 2019 have been audited by Messrs Ernst & Young, Chartered Accountants, who express their willingness to continue in office. In accordance with the Companies Act No.07 of 2007, a resolution relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

The fees paid to the Auditors are disclosed in Note 9

As far as the Directors are aware, the Auditors do not have any relationship (other than that of an Auditor) with the Company other than those disclosed above.

The Auditors also do not have any interest in the Company.

13. Dividends

The directors do not recommend a dividend for the year ended 31st March 2019.

14. Investments

Details of investments held by the Company are disclosed in Note 15 and 16 to the financial statements.

15. Intangible Assets

There were no intangible assets, other than Computer System Software, which is disclosed in Note 25 to the financial statements.

16. Property, Plant and Equipment

An analysis of the property, plant and equipment of the Company, additions and disposals made during the year and depreciation charged during the year are set out in Note 24 to the financial statements.

17. Capital Commitments

There were no capital commitments outstanding as at the Balance Sheet date.

18. Stated Capital

The Stated Capital of the Company is Rs. 808,247,125./-

19. Taxation

The tax position of the Company is given in Note 11 and 31 to the Financial Statements.

20. Statutory Payments

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to the government and the employees have been made on time.

21. Corporate Social Responsibility

Our Company specializes in maintaining high standards of Corporate Social Responsibilities such

Report of the Directors on the State of Affairs of the Company Cont...

as carrying out management practices and decisions which have no negative impact on the environment and on the community around which we operate.

Our products go a long way towards minimizing the felling of trees and are completely recyclable without any negative impact on the environment. Schemes are in place to collect off-cuts and waste which are recycled in-house for special applications.

22. Contingent Liabilities

There were no material contingent liabilities outstandings as at 31st March 2019.

23. Post Balance Sheet Events

Subsequent to the date of the Balance Sheet no circumstances have arisen which would require adjustments to the accounts. There are also no significant post balance sheet events which in the opinion of the Directors require disclosure.

For and on behalf of the Board of Directors of
IDEAL FINANCE LIMITED

Director

Director

S S P CORPORATE
SERVICES (PRIVATE) LIMITED
Secretaries

S S P Corporate Services (Private)Limited,
Secretaries

24th June 2019

Risk Management Report

Introduction

As a financial service provider Ideal Finance Limited (IFL) currently offers various ranges of financial products such as leases, loans, hire purchases, fixed deposits, real estate, pawning and mortgage loans. The Company also planning to expand its operations by opening new branches in potential areas.

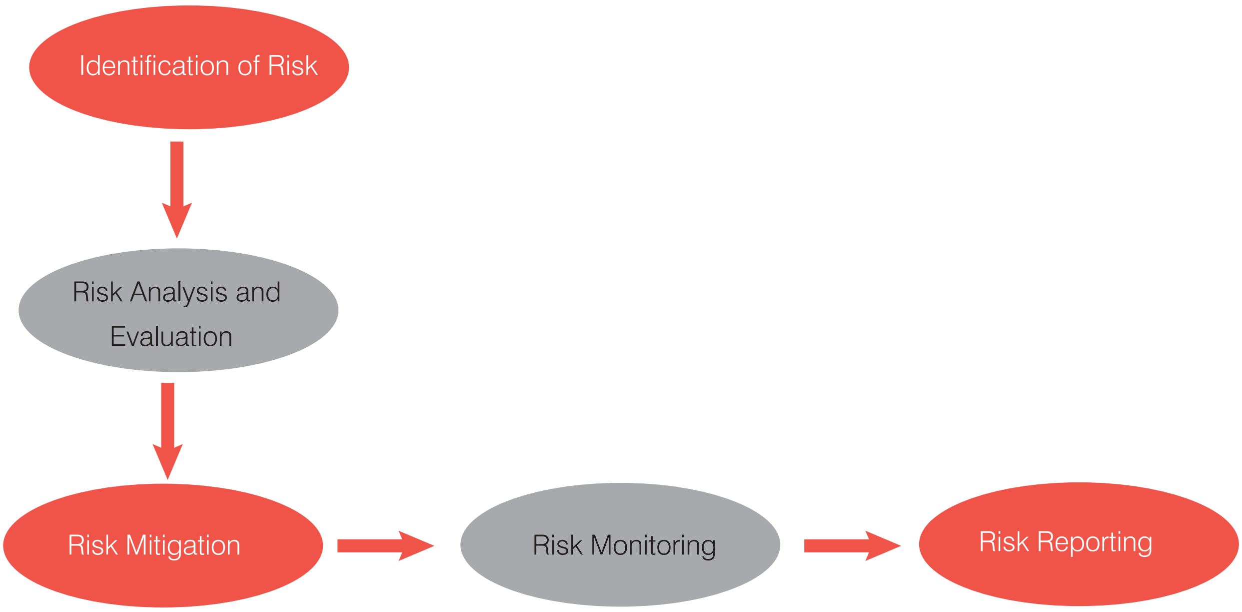
The Board of directors of the company is very keen on active risk management practices. Therefore all possible risk mitigation strategies are introduced and implemented in order to make sure that company operates at its best while minimising it's financial and business risks.

The Integrated Risk Management Committee (IRMC) is a board appointed committee which meets quarterly to discuss and evaluate the present risk management procedures, the risk levels that the company is currently facing and the risks that company will have to face in the future. Integrated Risk Management report will be presented to the committee and the directors will analyse the report to evaluate whether the risk mitigation strategies are adequate for the business.

An effective risk management strategy will ensure that all applicable risks to the company will be identified and evaluated at an early stage and necessary measures will be taken in order to avoid and reduce the impact of the risk.

Risk Manaagement Process

Managing the risk within the company takes place in different stages. This involves,



Under Risk Identification, all risk categories and the sub categories that the business is exposed are identified. If the business environment is changing or new products are going to be introduced, all risks involved have to be identified. Whenever IFL is planning to introduce a new product to the market, the inherent risks shall be identified in order to avoid facing unexpected and adverse outcomes.

Once the risk is identified it will be analysed and measured by using both quantitative and qualitative techniques. Thereafter necessary actions shall be taken in order to manage the risks and reduce the impact of risk occurrence. These will then be monitored to avoid the accumulation of risks. Subsequently all findings shall be reported to the Board.

Risk Management Report cont….

Key Risks Faced by the Company

The Company is exposed to the following risks due to the nature of the business we are into and as a result of the macro economic conditions of which majority are inherent.

- Credit risk / Default risk
- Liquidity risk
- Interest rate risk
- Currency risk
- Collateral risk
- Strategic risk
- Operational risk
- Regulatory risk
- Reputational risk

Credit Risk

Credit risk is the largest risk that the company is exposed which can be mainly categorised in to two parts namely default risk and concentration risk.

Default risk

Default risk is the risk that arises due to customers being unable to meet their debt obligation. The company has a well-defined credit procedure in place to mitigate the credit risk that arises when doing day to day business activities. This includes credit appraisal, credit operations, credit approval and monitoring and recovering debt. IFL obtains sufficient collateral as security in case of a default of payment by borrower as all non performing facilities are analysed periodically to make sure that the company maintains a very low non-performing loan ratio (NPL ratio).

The Company had a NPL ratio of 2.73% where average industry NPL ratio is approximately 7.7%.

Concentration Risk

Concentration risk occurs when the facilities are given to a single counterparty, Industry or geographical area. The company has set prudential limits on maximum exposure which is being reviewed periodically as well as single borrower limits defined by the Finance Companies Direction No 4 of 2006 issued by Central Bank of Sri Lanka.

Liquidity Risk

Liquidity risk is the risk that arises when the company does not have enough funds to meet its obligations which arises due to unmatched maturities of assets and liabilities. Company has a liquidity management policy where the primary objective is to ensure adequate funding for its day to day business activities. Furthermore, the company maintains the statutory liquid assets ratio at its required level as a method of measure and control of liquidity risk.

Company takes following precautionary measures in order to maintain a healthy liquidity position.

- Prepares an annual budget and identifies the average amount of money needed to finance facilities.
- Identify the cumulative gap of current year assets and liabilities.
- Identify the amount of unpredicted cash requirements that arose during the past 6 months.
- Identify the cash flow arising from interest earning assets.

Interest Rate Risk

Interest rate risk arises due to adverse and unanticipated movements in future interest rate which arises due to granting of credit facilities and accepting deposits. Out of the several factors that gives rise to interest rate risk the main two types of risks that IFL is exposed to includes,

- Term structure risk - which arises due to mismatches in the maturities of assets and liabilities
- Basis risk which arises due to differences in the bases of interest rates.

Company perform periodic reviews of the interest rates by

- Analysing the past fluctuation of interest rate patterns and forecasting the Interest rate movements based on past trends.
- Monitoring other market factors. E.g. liquidity of the market, T Bill rate, etc.
- Identifying the gap analysis of Interest earning assets & Interest Paying Liabilities.
- Identifying the effect on Net Interest Income.

Risk Management Report cont….

Currency risk

Currency risk is a form of financial risk that arises from the potential change in the exchange rate of one currency against another. IFL is exposed to Currency Risk provided the Exchange Rate Risk is not transferred at the time of transacting. Company monitors the fluctuation of USD/LKR exchange rates and forecast Exchange rate trends based on the past behaviour of the currencies.

Collateral risk

Collateral risk is the risk of the value of security held, being not sufficient to meet the capital outstanding of a facility in the event of a default of payment by the customer. When IFL grants credit facility to its customers, company ensures that the value of the collateral held as security is sufficient to meet the facility amount in case of a default of payment by borrower. In order to mitigate the collateral risk the company takes the following measures.

- Physically verify the asset before granting facilities.
- Checks the absolute ownership of the asset.
- Obtain a valuation report from a CBSL approved valuer.
- Obtain a full Insurance policy for the asset.

Strategic risk

Strategic risk can be seen as the impact on the company's earnings or equity due to the business decisions taken by the Company, improper implementation of business strategies or lack of responsiveness to industry changes. All strategic decisions are taken at board level where the Board obtains professional expertise advice as and when required. IFL has appropriately addressed the Strategic Risk exposure of the Company throughout the period thus minimizing the level of risk exposure.

Operational risk

Operational risk is the risk of financial losses due to the failure or inadequacy of internal processes or systems, human error or external events. The sources of Operational Risk includes People, Internal Processes, Systems and External events. Operational risk can be mainly analysed under fraud risk and technological risk. IFL manages operational risks by maintaining a comprehensive system of internal controls and using technology to automate processes and reduce manual errors. The company has in place a process of continuous internal audit utilizing the services of T & D Chartered Accountants.

Regulatory risk

Regulatory risk is the financial loss and damage to the reputation of the company that arises from failing to comply with the laws and regulations applicable. As the financial industry is highly regulated and is continuously monitored for compliance by the regulatory bodies. Company has set internal deadlines and monitor whether CBSL reports are submitted on time. Also company make sure all statutory payments are paid before the due date.

Reputational risk

Reputation risk exposure of IFL is minimal given the implementation of comprehensive risk management strategies and procedure. Reputation risk cannot be managed in isolation from other forms of Risks, since all risks can have an impact on reputation, which in turn can impact the IFL brand, earnings and capital. Credit, liquidity, interest rate, operational, and regulatory risks of IFL are managed effectively in order to safeguard the company's reputation as IFL has identified company's reputation is a valuable business asset in its own right, essential to optimize shareholder value.

Statement of Directors' Responsibilities for Financial Reporting

The Directors are required by the Companies Act, No. 7 of 2007 to prepare financial statements for each financial year, which give a true and fair view of the statement of affairs of the Company as at the end of the financial year and the income and expenditure of the Company for the financial year.

The Directors are also responsible to ensure that the financial statements comply with any regulations made under the Companies Act which specifies the form and content of financial statements and any other requirements which apply to the Company's financial statements under any other law.

The Directors consider that the financial statements presented in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards, Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 and Finance Business Act No. 42 of 2011 and the relevant Directions issued in respect of Registered Finance Companies.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records, which disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the financial statements have been prepared and presented as aforesaid. They are also responsible for taking measures to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the financial statements. The Directors, after making inquiries and review of the Company's Business Plan for the financial year 2018/19, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation. By Order of the Board

IDEAL FINANCE LIMITED

D. M. Weerasekare
Chief Executive Officer

27th June, 2019

REGISTERED OFFICE
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DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

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

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

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting which, regularly reviewed by the Board.

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

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

In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS progressive improvements on processes to comply with requirements of recognition, measurement, classification and disclosure are being made whilst further strengthening of processes will take place pertaining to Financial Statements risk management disclosures, related party disclosures and management information system.

Board has given due consideration for the adoption of SLFRS 9 "Financial Instruments" which was applicable for financial reporting periods. The required modules have been implemented and progressive improvements on processes and controls are being made to strengthen the processes and controls around the management information systems and report required for validation and compliance in line with SLFRS 9.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditor, Messrs Ernst & Young, has reviewed the above Directors' Statement on Internal Control for the year ended 31st March 2019 and reported to the Board that nothing has come to their attention that causes them to believe that the Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Company.

ERNST & YOUNG
Chartered Accountants
COLOMBO

Nalin Welgama
Chairman

D.M. Weerasekare
Chief Executive Officer

24th June 2019

Building a better working world

Ernst & Young
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BW/PATR

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF IDEAL FINANCE LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of IDEAL Finance Limited ("the Company"), which comprise the statement of financial position as at 31 March 2019, and the 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 of the Company give a true and fair view of the financial position of the Company as at 31 March 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

Independent Auditor's Report Contd….

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

24th June 2019
Colombo

Statement of Comprehensive Income

Year ended 31 March 2019

	Notes	2019 Rs.	2018 Rs.
Income	3	777,461,473	630,995,212
Interest Income	4.1	704,307,306	572,537,068
Interest Expenses	4.2	(292,974,160)	(228,114,523)
Net Interest Income		411,333,146	344,422,545
Fees and Commission Income	5	9,298,176	8,099,316
Net Fee and Commission Income		9,298,176	8,099,316
Other Operating Income	6	63,855,991	50,358,828
Total Operating Income		484,487,313	402,880,689
Impairment Charges for Loans and other Losses	7	(24,551,990)	(18,602,824)
Net Operating Income		459,935,323	384,277,865
Operating Expenses			
Personnel Expenses	8	(129,979,352)	(109,148,019)
Depreciation of Property Plant & Equipment	24.2	(20,959,443)	(18,340,347)
Amortization of Intangible Assets	25	(5,101,180)	(4,757,292)
Other Operating Expenses	9	(84,512,604)	(73,350,687)
Operating Profit before Taxes on Financial Services		219,382,744	178,681,520
Value Added Tax, NBT & DRL on Financial Services	10	(56,961,345)	(32,387,274)
Profit before Taxation		162,421,399	146,294,246
Income Tax Expenses	11	(61,299,253)	(43,477,954)
Profit/ (Loss) for the period		101,122,146	102,816,292
Basic and Diluted Earnings Per Share (Rs)	12	1.12	1.29
Profit/ (Loss) for the period		101,122,146	102,816,292
Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods			
Actuarial Gain/(Loss) on Defined Benefit Obligations		(68,851)	(1,592,699)
Deferred Tax (Charge)/Reversal on Other Comprehensive Income		19,278	445,956
Other Comprehensive Income for the period, Net of Tax		(49,573)	(1,146,743)
Total Comprehensive Income for the period, Net of Tax		101,072,573	101,669,549

The Accounting Policies and Notes on pages 65 through 118 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31 March 2019

	Notes	2019 Rs.	2018 Rs.
ASSETS			
Cash and Bank Balances	14	42,822,230	51,593,413
Investment in Government Securities	15	51,670,419	26,566,794
Placements with Banks and Other Financial Institutions	16	15,362,258	39,934,643
Gold Advances	17	456,564,892	177,748,346
Lease Rentals Receivable and Stock out on Hire	18	2,282,389,816	2,040,010,374
Loans and Advances	19	1,003,352,881	496,510,205
Other Financial Assets	20	42,662,018	46,820,823
Other Non Financial Assets	21	29,674,991	16,665,058
Financial Investments-Measured at Fair Value through OCI/ Available for Sale	22	457,700	457,700
Inventories	23	70,754,807	150,280,432
Property, Plant and Equipment	24	112,358,368	94,701,119
Intangible Assets	25	23,092,781	24,398,373
TOTAL ASSETS		**4,131,163,161**	**3,165,687,280**
LIABILITIES			
Interest Bearing Borrowings	26	2,190,707,788	1,529,388,772
Due to the Customers	27	584,784,876	367,110,412
Other Financial Liabilities	28	96,219,835	145,886,468
Other Non Financial Liabilities	29	48,716,913	15,978,566
Retirement Benefit Liability	30	11,448,517	8,433,608
Current Tax Liabilities		19,629,876	9,730,702
Deferred Tax Liabilities	31	62,911,102	45,328,996
TOTAL LIABILITIES		**3,014,418,907**	**2,121,857,524**
EQUITY			
Stated Capital	32	808,247,125	808,247,125
Retained Earnings		291,212,571	223,351,702
Reserves	33	17,284,558	12,230,929
TOTAL EQUITY		1,116,744,254	1,043,829,755
TOTAL LIABILITIES AND EQUITY		**4,131,163,161**	**3,165,687,280**

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

Finance Manager

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

Chairman

Chief Executive Officer

The Accounting Policies and Notes on pages 65 through 118 form an integral part of the Financial Statements.

24th June 2019
Colombo

Statement of Changes in Equity

Year ended 31 March 2019

	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserve Fund Rs.	Total Rs.
Balance As at 1 April 2017	603,247,125	127,834,330	7,147,451	738,228,906
Total Income /(Loss) for the Period	-	102,816,292	-	102,816,292
Share Issue	205,000,000	-	-	205,000,000
Dividend Paid during the Period	-	(1,068,699)	-	(1,068,699)
Other Comprehensive Income (Net of Tax)	-	(1,146,743)	-	(1,146,743)
Transfer to Statutory Reserve Fund	-	(5,083,478)	5,083,478	-
Balance As at 31 March 2018	808,247,125	223,351,702	12,230,929	1,043,829,756
Impact of application of SLFRS 9 - Net of Deferred Tax	-	(13,984,820)	-	(13,984,820)
Impact of application of SLFRS 15 - Real Estate Income - (Net of Deferred Tax)	-	(14,173,255)	-	(14,173,255)
Restated Balance as at 31 March 2018 under SLFRS 9	808,247,125	195,193,627	12,230,929	1,015,671,681
Balance As at 1 April 2018	808,247,125	195,193,627	12,230,929	1,015,671,681
Total Income /(Loss) for the Period	-	101,122,146	-	101,122,146
Dividend Paid during the Period	-	-	-	-
Other Comprehensive Income (Net of Tax)	-	(49,573)	-	(49,573)
Transfer to Statutory Reserve Fund	-	(5,053,629)	5,053,629	-
Balance As at 31 March 2019	808,247,125	291,212,571	17,284,558	1,116,744,254

The Accounting Policies and Notes on pages 65 through 118 form an integral part of the Financial Statements.

Statement of Cash Flows

Year ended 31 March 2019

Cash Flows From/(Used in) Operating Activities	Notes	2019 Rs.	2018 Rs.
Profit before Income Tax Expense		162,421,399	146,294,246
Adjustment for Other Non Cash Items Included in Profit Before Tax			
Depreciation of Property, Plant and Equipment	24.2	20,959,443	18,340,347
Amortization of Intangible Assets	25	5,101,180	4,757,292
Provision for Impairment		24,551,990	18,602,824
Interest expenses on Bank Borrowings		235,399,243	173,873,276
Defined Benefit Obligation	8	3,146,058	2,091,047
Dividend Income		(206,400)	(58,500)
Gain on Sale of Shares		-	(1,094,853)
Operating Profit before Working Capital Changes		**451,372,913**	**362,805,679**
(Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire		(273,629,911)	(305,573,120)
(Increase)/Decrease in Loan Stock		(514,500,128)	(203,597,521)
(Increase)/Decrease in Gold Advance		(278,816,546)	(161,628,571)
(Increase)/Decrease in Other Financial Assets		1,277,441	19,017,966
(Increase)/Decrease in Other Non Financial Assets		(13,009,933)	3,656,392
(Increase)/Decrease in Inventories		79,525,625	(71,634,256)
Increase/(Decrease) in Amounts Due to Customers		217,674,464	65,989,393
Increase/(Decrease) in Other Financial Liabilities		(49,666,633)	37,768,297
Increase/(Decrease) in Other Non Financial Liabilities		13,053,768	(12,949,892)
Cash Generated from Operations		**(366,718,941)**	**(266,145,634)**
Retirement Benefit Liabilities Paid	30.2	(200,000)	(412,500)
Income Tax Paid		(25,034,395)	(14,058,484)
Net Cash Flows from/(Used in) Operating Activities		**(391,953,335)**	**(280,616,618)**
Cash Flows from/(Used in) Investing Activities			
Purchase of Property, Plant and Equipment	24.1	(38,617,192)	(42,690,779)
Purchase of Intangible Assets	25	(3,795,588)	(3,702,594)
Dividend Received		206,400	58,500
Investing in Shares		-	(12,000,000)
Net Cash Flows from/(Used in) Investment Activities		**(42,206,380)**	**(58,334,873)**
Cash Flows from/(Used in) Financing Activities			
Net Proceeds from Bank Borrowings		2,135,000,000	1,300,000,000
Repayment of Bank Borrowings		(1,823,749,730)	(1,084,541,829)
Repayment of Other Borrowed Funds		(7,000,605)	(7,037,688)
Net Proceeds from Share Issue		-	205,000,000
Dividend Paid		-	(106,870)
Net Cash Flows from/(Used in) Financing Activities		**304,249,665**	**413,313,613**
Net Increase/(Decrease) in Cash & Cash Equivalents		(129,910,050)	74,362,122
Cash and Cash Equivalents at the Beginning of the Period		70,090,208	(4,271,914)
Cash and Cash Equivalents at the End of the Year	34	**(59,819,843)**	**70,090,208**

The Accounting Policies and Notes on pages 65 through 118 form an integral part of the Financial Statements.

Notes to the Financial Statements

Year ended 31 March 2019

1. CORPORATE INFORMATION

1.1 General

IDEAL Investment Limited is a limited liability company, incorporated on 24 January 2012 under companies Act No.7 of 2007 and then changed the name as IDEAL Finance Limited on 12 March 2012 and domiciled in Sri Lanka. The registered office of the company is situated at No.299, Dr. Colvin R De. Silva Mawatha (Union Place), Colombo 02.

IDEAL Finance Limited is licensed by Monetary Board of The Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, and also registered under the Finance Leasing Act No.56 of 2000.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were Acceptance of Deposits, Granting Lease, Hire Purchase, Loan Facilities and Gold Advances.

1.3 Parent Entity and Ultimate Parent Entity

IDEAL Holding (Private) Limited is the parent of IDEAL Finance Limited. Further the company does not have any investments in the form of subsidiary, joint venture or associate.

1.4 Date of Authorization for Issue

The financial statements of IDEAL Finance Limited for the period ended 31 March 2019 were authorized for issue in accordance with a resolution of the Board of Directors on 24 June 2019.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

2.1.1 Statement of Compliance

The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with Accounting Policies and Notes, ('Financial Statements'),as at 31 March 2019 and for the period then ended, have been prepared in accordance with Sri Lanka Accounting Standards (hereafter referred as "SLFRS"), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and amendments thereto.

2.1.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for these Financial Statements of the Company as per Sri Lanka Accounting Standards (SLFRSs and LKASs) and the provisions of the Companies Act No 7 of 2007.

2.1.3 Basis of measurement

The financial statements have been prepared on a historical cost basis except retirement benefits obligation, which was ascertained by an actuarial valuation.

2.1.4 Presentation of Financial Statements

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items are presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

The company presents its Statements of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 37.

2.1.5 Functional and presentation currency

The financial statements are presented in Sri Lanka Rupees, except when otherwise is indicated. No adjustments have been made for inflationary factors.

Notes to the Financial Statements cont….

2.1.6 Materiality, Aggregation Offsetting and Rounding Off

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

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 Statement of Profit or Loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

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 1) – 'Presentation of Financial Statements

2.1.7 Comparative Information

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous financial year. Further comparative information is reclassified whenever necessary to comply with the current presentation in the Financial Statements.

2.1.8 Events After the Reporting Date

Events after the Reporting Date are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in note no 39 to the Financial Statements.

2.2 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 assets, liabilities, income and expenses. Actual results may differ from these estimates.

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:

i. Going Concern

The board has made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the board is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the company. Therefore, the financial statements continue to be prepared on the going concern basis.

ii. Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent it is possible that future taxable profits will be available against which such

Notes to the Financial Statements cont….

tax losses can be set off. Judgments is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

iii. Defined Benefit Plan

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed in Note 30.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company in preparation of its Financial Statements are included in below.

2.3.1 Financial Instruments

(Applicable up to 31 March 2018)

2.3.1.1 Initial recognition and subsequent measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. The Company's financial assets include cash and bank balances, placement with banks and other financial institutions, lease rentals receivable and stock out on hire, loan stock and other financial assets.

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities include, due to bank, due to the other customers and other financial liabilities

a) 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, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

b) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

c) Subsequent measurement of financial instruments

(i) The subsequent measurement of financial assets depends on their classification as described below:

Available-for-sale financial investments

Available-for-sale investments include unquoted equity. Equity investments classified as available-for- sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. The company has not designated any loans or receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealized gains and losses are recognized

Notes to the Financial Statements cont….

directly in equity (Other comprehensive income) in the available-for- sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income in (Net Gain/ (Loss) From Financial Investments'. Where the company holds more than one investment in the same security, they are deemed to be disposed of on a first –in first-out basis. Dividends earned whilst holding available-for-sale financial investments are recognized in the statement of comprehensive income as (Net Gain/ (Loss) from Financial Investments when the right of the payment has been established.

The losses arising from impairment of such investments are recognized in the statement of comprehensive income in 'Impairment losses on financial investments' and removed from the Available-for-sale reserve.

Available - for - sale financial instrument which fair value is not reliably measurable are stated at cost.

Financial Assets Classified as Lease Rental Receivables, Stock out on Hire, Placement with Banks & Other Financial Institutions and Other Financial Assets

This includes non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the company intends to sell immediately or in the near term and those that the company, upon initial recognition, designates as at fair value through profit or loss
- Those that the company, upon initial recognition, designates as available-for-sale
- Those for which the company may not recover substantially all of its initial investment, other than because of credit deterioration

After initial measurement, Financial Assets Classified as Lease Rental Receivables, Stock out on Hire, Placement with Banks & Other Financial Institutions and Other Financial Assets are subsequently measured at amortized cost using the Effective Interest Rate, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate. The amortization is included in Interest and similar income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in 'Impairment for Loans and Other Losses' and Detailed under Note 18 and 19.

(ii) The subsequent measurement of financial liabilities depends on their classification as described below:

Loans and borrowings:

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method (EIR). Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

2.3.1.2 Derecognition of Financial Assets and Liabilities

(i) 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 asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement and either:
  - The company has transferred substantially all the risks and rewards of the asset

Notes to the Financial Statements cont….

Or

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the company's continuing involvement in the asset. In that case, the company also recognizes an 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 that the company could be required to repay.

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition 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.

2.3.1.3 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations without any deduction for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exists, pricing models and other relevant valuation models.

2.3.1.4 Impairment of Financial Assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

(i) Financial assets carried at amortized cost – Lease rental receivables, Hire Purchase receivables, Gold Advance and Loans and Advances

For financial assets carried at amortized cost (such as amounts due from banks, loans and advances to customers as well as held to maturity investments), the company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

Notes to the Financial Statements cont….

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to the 'Other Operating Income'.

The present value of the estimated future cash flows is discounted at the financial asset's original Effective Interest Rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current Effective Interest Rate. If the Company has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new Effective Interest Rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the company's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past–due status and other relevant factors. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive

Notes to the Financial Statements cont….

income. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income. If, in a subsequent period, the fair value of an equity instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The company treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income – is removed from equity and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in the fair value after impairment are recognized in other comprehensive income.

2.3.2 SLFRS 09 Financial Instrument

(Applicable After 1 April 2018)

SLFRS 9 –Financial Instruments replaces LKAS 39 for annual periods on or after 1 January 2018. The company has adopted SLFRS-09 Financial Instruments with an initial application date of 1 April 2018 and the company have not restated comparative information for 31 March 2018 for the financial instruments in the scope of SLFRS 9. Therefore, the comparative information for 31 March 2018 is reported under LKAS 39 and is not comparable to the information presented for 31 March 2019. Differences arising from the adoption of SLFRS 9 have been recognized directly in retained earnings as of 1 April 2018 and are disclosed in Note 13.

2.3.2.1 Changes to Classification and Measurement

To determine their classification and measurement category, SLFRS 9 requires all financial assets, to be assessed based on a combination of the Company's business model for managing the assets and the instruments' contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held to- maturity and amortized cost) have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets FVPL
- The accounting for financial liabilities remains largely the same as it was under LKAS 39.

The Company and classification of its financial assets and liabilities is explained in Note 13 The quantitative impact of applying SLFRS 9 as at 1 April 2018 is disclosed in the Transitional Disclosures detailed in Note 13 to these Financial Statements.

2.3.2.2 Measurement Categories of Financial Assets and Liabilities

From 1 April 2018, the Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized Cost,
- Fair Value through Other Comprehensive Income (FVOCI),
- Fair Value through Profit or Loss

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Before 1 April 2018, the Company classified its financial assets as loans and receivables (amortized cost), FVPL, available-for-sale or held-to-maturity (amortized cost), as explained in Note 2.2.1.1.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL or the fair value designation is applied.

2.3.2.3 Financial Assets and liabilities

2.3.2.3.1 Lease Rental Receivables, Loans and Receivables to Other Customers, Financial Investments at Amortized Cost.

Before 1 April 2018, Lease rental receivable and Loans and receivables to other customers, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- Those that the company intends to sell immediately or in the near term and those that the company, upon initial recognition, designates as at fair value through profit or loss
- Those that the company, upon initial recognition, designates as available-for-sale
- Those for which the company may not recover substantially all of its initial investment, other than because of credit deterioration

From 1 April 2018, the Company only measures Lease, Loans and advances to customers 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.

The classification of financial liabilities under SLFRS 9 does not follow the approach for the classification on financial assets; rather it remains broadly the same as under LKAS 39. Financial liabilities are measured at amortized cost or fair value through profit or loss.

The details of conditions of business model assessment and the SPPI test are outlined below.

(a) 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 value 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

(b) The SPPI Test

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

An entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash

Notes to the Financial Statements cont….

flows are that of solely payments of the principal amount and interest (referred to as “SPPI”).

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.

2.3.2.3.2 *Reclassification of Financial Assets and Liabilities*

From 1 April 2018, 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 year 2018/19.

2.3.2.4 *De-recognition of Financial Instruments*

2.3.2.4.1 *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.

2.3.2.4.2 *Financial Liabilities*

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

2.3.2.5 *Impairment of Financial Assets (Policy Applicable from 1 April 2018)*

Overview of the Expected Credit Loss (ECL) Principles

As described in Note 2.3.2 the adoption of SLFRS 9 has fundamentally changed the Company’s loan loss impairment method by replacing LKAS 39’s incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. From 1 April 2018, the Company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, in this section all referred to as ‘financial instruments’. 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 12 months ECL is the portion of Life time ECLs 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 Life time ECLs and 12 months ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an 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 and Stage 3.

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Stage 1 : When loans are first recognized, the Company recognizes an allowance based on 12 months ECLs. 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 Life time ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

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

2.3.2.5.1 The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs under three staging approaches 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:

Probability of Default (PD)

The Probability of Default (PD) 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 recognized and is still in the portfolio.

However, for placements with Banks and other financial investments classified as amortized cost and fair value through other comprehensive income the Company relies on external credit rating in determining their respective PDs.

EAD

The Exposure at Default (EAD) 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 (LGD) 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.

2.3.2.5.2 The mechanics of the ECL method are summarized below:

Stage 1 : The 12 months ECL is calculated as the portion of Life Time Expected Credited Loss (LTECL) that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12 months ECL 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 to the original EIR. This calculation is made for each of the three scenarios, as explained above.

Stage 2 : 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 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.

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Stage 3 : For loans considered credit-impaired, the Company recognizes the LTECL for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%. The Company recognizes the interest income on loans classified under stage 3 at the effective interest rate on amortized cost.

Forward Looking Information

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

Quantitative	Qualitative
GDP Growth	Government Policies
Inflation	Status of the Industry Business
Unemployment	Regulatory Impact
Interest Rates	
Exchange Rates	

The inputs and models used for calculating ECLs may not always capture all the characteristics of the market at the date of the financial statements.

2.3.2.6 *Significant Accounting Judgments, Estimates and Assumptions on Impairment losses on financial assets*

The measurement of impairment losses both under SLFRS 9 and LKAS 39 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 are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- Number of days past due and the guidelines issued by the Central Bank of Sri Lanka
- 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 LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL 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 PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

2.3.2.7 *Transition to SLFRS 9 –Financial instruments*

Changes in accounting policies resulting from the adoption of SLFRS 9 – Financial Instruments have been applied modified retrospectively. Comparative periods have been restated commencing from 01 April 2018. Differences in the carrying amounts of financial assets and financial liabilities as at 31 March 2018 resulting from the adoption of SLFRS 9 – Financial Instruments are recognized in retained earnings and reserves as at 1 April 2018.

2.3.3 *SLFRS 15 Revenue from Contracts with Customers*

(Applicable After 1 April 2018)

2.3.3.1 SLFRS 15 – Revenue from Contracts with Customers replaces LKAS 18 for annual reporting periods on or after 1 January 2018. The company has adopted SLFRS-15 Revenue from Contracts with Customers with an initial application date of 1 April 2018 and the company have not restated comparative information for 31 March 2018 for the

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Revenue from Contracts with Customers in the scope of SLFRS 15. Therefore, the comparative information for 31 March 2018 is reported under LKAS 18 and is not comparable to the information presented for 31 March 2019. Differences arising from the adoption of SLFRS 15 have been recognized directly in retained earnings as of 1 April 2018 and are disclosed in Note 13.

Changes in accounting policies resulting from the adoption of SLFRS 15 – Revenue from Contracts with Customers have been applied modified retrospectively. Comparative periods have been restated commencing from 01 April 2018.

2.3.4 Lease

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

2.3.4.1 Operating Lease

Company as a lessee

Leases that do not transfer to the company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

2.3.4.2 Finance Lease

Company as a lessor

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as ''Finance Lease". Amount receivables under finance lease are included under 'Lease Rentals Receivable and Stock Out on Hire' in the Statement of Financial Position after deduction of unearned lease income and accumulated impairment losses. When assets are held subject to a finance lease, the present value of the lease payments, discounted at the rate of interest implicit in the lease, is recognized as a receivable. The difference between the total payments receivable under the lease and the present value of the receivable is recognized as unearned finance income, which is allocated to accounting periods reflect a constant periodic rate of return.

2.3.5 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, and amounts due from banks on demand or with an original maturity of three months or less.

2.3.6 Property, Plant and Equipment

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

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Category	**Years**
Furniture & Fittings	05
Office Equipment	05
Motor Vehicles	05
Computer Equipment	05

The depreciation method and residual values of assets are reviewed at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

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Property plant & Equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and carrying amount of the assets) is recognized in 'Other Operating Income' in the Statement of Comprehensive Income (Profit or Loss) in the year the asset is derecognized.

2.3.7 *Intangible assets*

The company's other intangible assets include the value of computer software. 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. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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 presented as a separate line item in the statement of comprehensive income.

Computer System software is amortized over: 10 years.

2.3.8 *Other Assets*

All other assets are stated at amortized cost less accumulated impairment losses.

2.3.9 *Inventories*

Inventories include stationeries, Trading stock and Land stock and these are valued at the lower of cost and net realizable value.

Land Stock

Land stock comprises all costs of purchase, cost of conversion and other costs incurred in bringing to its saleable condition.

Purchase Cost - Land Cost with Legal Charges.

Cost of Conversion - Actual Development Costs.

Land stocks are valued at the lower of cost and net realisable value, after making due allowances for slow moving items. Net realisable value is the price at which the real estate stocks can be sold in the ordinary course of business less estimated cost necessary to make the sale.

2.3.10 *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 indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

An assessment is made at each reporting date as to whether there is any indication that previously

Notes to the Financial Statements cont….

recognized impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the asset's or cash generating unit'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 statement of comprehensive income.

2.3.11 Employee Retirement Benefits

Defined Contribution Plan Costs

Defined contribution plan is a post- employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to a defined contribution plan are recognized as a Personnel Expenses in the Statement of comprehensive income in the periods during which services are rendered by employees. Employees are eligible for employees' Provident Fund and Employees Trust Fund Contributions in line with the respective Statutes and regulations. Accordingly, the company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employee Trust Fund respectively and is recognized as an expense under "Personnel Expenses".

Defined Benefit Plan Costs

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognized in the Statement of Financial Position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rate that are denominated in the currency in which the benefit will be paid, and that have terms of maturity approximating to the terms of the liability.

Provision has been made in the Financial Statements for retiring gratuities from the first year of service for all employees, in conformity with LKAS 19-"Employee Benefits".

However, according to the payment of Gratuity Act No.12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued services. The liability is not externally funded.

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

2.3.13 Other Liabilities

Other liabilities are recorded at the cash value to be realized when settled.

2.3.14 Foreign Currency Transaction

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non–trading activities are taken to 'Other operating income' in the income statement.

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2.3.15 *Recognition of income and expenses*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest income and interest expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate. Effective Interest Rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original Effective Interest Rate and the change in carrying amount is recorded as 'Interest Income' for financial assets and Interest Expense for financial liabilities. However, for a reclassified financial asset for which the company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the Effective Interest Rate from the date of the change in estimate.

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

(ii) Fee and commission income

The company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- 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. These fees include commission income and service charges.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Dividend Income

Dividend Income is recognized when the company's right to receive the payment is established.

(iv) Expenditure Recognition

Expenses are recognized in profit or loss in the statement of comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the statement of Comprehensive Income (Profit or loss). For the purpose of presentation of the statement of comprehensive Income, the "function of expenses" method has been adopted, on the basis that it presents fairly the element of the company's performance.

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2.3.16 Taxes

a. Current Tax

The provision for the income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of Inland Revenue Act, No. 24 of 2017.

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

b. Deferred Tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are 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 tax rates and tax laws that have been enacted at the reporting date.

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

c. Value Added Tax on Financial Services

Value Added Tax on Financial Services is calculated at the rate of 15% in accordance with the provisions of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

d. Crop Insurance Levy (CIL)

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

e. 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.

f. Debt Repayment Levy (DRL) on Financial Services

Debt Repayment Levy has been imposed by the Finance Act No. 35 of 2018 for a limited period of time from 1 October 2018 to 31 December 2021. A levy of 7% is charged monthly on the value addition attributable to the supply of financial services.

2.3.17 Related Party Transactions

Disclosure has been made in respect of the transactions in which one party has the liability to control or exercise significant influence over the financial and operating policies/ decisions of the other, irrespective of whether a price is being charged.

Notes to the Financial Statements cont….

2.3.18 Segment Reporting

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

- Finance Lease
- 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.

2.4 SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM JANUARY 2019

SLFRS 16- Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 introduces a single lessee accounting model for lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new standard requires a lessee to:

Recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS -16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

SLFRS 16 will become effective on 1st January 2019. The impact on the implementation of the above Standard has not been quantified yet.

Notes to the Financial Statements

Year ended 31 March 2019

3.	**INCOME**	**2019 Rs.**	**2018 Rs.**
	Interest Income (4.1)	704,307,306	572,537,068
	Fee and Commission Income (5)	9,298,176	8,099,316
	Other Operating Income (6)	63,855,991	50,358,828
	Total Income	**777,461,473**	**630,995,212**

4.	**NET INTEREST INCOME**	**2019 Rs.**	**2018 Rs.**
4.1	**Interest Income**		
	From Placements with Banks and Other Financial Institutions	3,980,282	2,331,486
	From Government Securities	4,416,498	2,568,319
	From Lease Rental Receivable & Stock Out on Hire	456,720,362	441,888,221
	From Loans and Advances	156,153,788	114,000,952
	From Gold Advances	82,361,778	11,407,566
	From Refundable Deposits	674,598	340,524
	Total Interest Income	**704,307,306**	**572,537,068**

4.2	**Interest Expense**	**2019 Rs.**	**2018 Rs.**
	Due to Banks	235,399,243	173,873,276
	Due to Customers	57,574,917	54,241,247
	Total Interest Expenses	**292,974,160**	**228,114,523**
	Net Interest Income	**411,333,146**	**344,422,545**

5.	**FEE AND COMMISSION INCOME**	**2019 Rs.**	**2018 Rs.**
	Commission Income	9,298,176	8,099,316
	Fee and Commission Income	**9,298,176**	**8,099,316**

6.	**OTHER OPERATING INCOME**	**2019 Rs.**	**2018 Rs.**
	Dealership Commission	-	769,500
	Dividend Income	206,400	58,500
	Net Income from Real Estate Operations	43,148,752	33,790,918
	Vehicle Hiring Income	5,376,623	6,020,432
	Other Operating Income	15,124,216	9,719,478
	Total Other Operating Income	**63,855,991**	**50,358,828**

* Other Operating Income includes Rs.5,862,761/- from settled facilities and Rs. 9,026,442/- from Pawning Auctions.

Notes to the Financial Statements cont….

Year ended 31 March 2019

7. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES	2019 Rs.	2018 Rs.
Charge/(write-back) to the statement of comprehensive income		
Impairment on individually significant loans	4,140,777	-
Impairment on collective loan portfolio	20,931,986	15,506,989
write-offs/(recoveries)	-	-
Impairment on Other Financial Assets	(520,773)	3,095,835
Total Impairment Charge	**24,551,990**	**18,602,824**

	2019 Rs.
Lease Rentals Receivable and Stock out on Hire	
Stage 1	3,107,603
Stage 2	1,528,530
Stage 3	18,100,268
	22,736,401
Loans and Advances	
Stage 1	1,306,820
Stage 2	(2,214,773)
Stage 3	3,244,315
	2,336,362
Other Financial Assets	48,864
Stage 1	634
Stage 2	(570,271)
Stage 3	**(520,773)**

8. PERSONNEL EXPENSES	2019 Rs.	2018 Rs.
Salaries	90,137,676	71,299,967
Employers' Contribution to Employee's Provident Fund	10,684,392	8,552,588
Employers' Contribution to Employee's Trust Fund	2,671,098	2,138,147
Gratuity Charge for the year	3,146,058	2,091,047
Other Staff Related Expenses	23,340,128	25,066,270
	129,979,352	**109,148,019**

Notes to the Financial Statements cont….

Year ended 31 March 2019

9.	OTHER OPERATING EXPENSES	2019 Rs.	2018 Rs.
	Directors' Emoluments	4,310,500	2,815,000
	Auditors' Remuneration	1,773,374	1,900,000
	Professional and Legal Expenses	2,900,286	2,349,538
	Office Administration and Establishment Expenses	47,648,259	33,999,831
	Advertising and Promotional Expenses	9,545,781	5,638,962
	Disallowable Input VAT and VAT on Other Income Sources	3,541,158	9,266,186
	License and Renewal Fees	1,744,991	2,484,438
	Other Expenses	13,048,255	14,896,732
	Other Expenses	**84,512,604**	**73,350,687**

10.	VALUE ADDED TAX AND NBT ON FINANCIAL SERVICES	2019 Rs.	2018 Rs.
	VAT on Financial Services	39,309,625	28,562,454
	NBT on Financial Services	5,241,281	3,824,820
	Debt Repayment Levy	12,410,439	-
	Other Expenses	**56,961,345**	**32,387,274**

11.	INCOME TAX EXPENSES	2019 Rs.	2018 Rs.
11.1	**The major component of income tax for the year ended 31 March 2019 as follows;**		
	Income Statement		
	Current Income Tax		
	Income Tax for the year	34,933,569	16,730,702
	Deferred Tax		
	Deferred Tax Charge (Note 30)	26,365,684	26,747,252
	Income Tax Expenses reported in the Income Statement	**61,299,253**	43,477,954
	Statement of Other Comprehensive Income		
	Deferred Tax related to items recognized in OCI during the year		
	Net Gain/(Loss) on Actuarial Gains/(Losses) during the year	(19,278)	(445,956)
	Income Tax Expenses reported in the Other Comprehensive Income	(19,278)	(445,956)
	Total Income Tax Expense for the year	**61,279,975**	**43,031,998**

Notes to the Financial Statements cont….

Year ended 31 March 2019

11.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Income tax rate for the year ended 31 March 2019 as follows.

	2019 Rs.	2018 Rs.
Accounting Profit / (Loss) Before Income Taxation	162,421,399	146,294,246
Aggregate allowable expenditure	(898,201,569)	(26,395,380)
Tax loss utilized	(152,318,595)	(134,723,431)
Aggregate disallowable expenditure	1,012,861,510	74,577,073
	124,762,745	59,752,508
Tax at applicable rate of 28%	34,933,569	16,730,702
	34,933,569	16,730,702
Deferred taxation charged	26,365,684	26,747,252
	26,365,684	**26,747,252**

12. BASIC AND DILUTED EARNING PER ORDINARY SHARES

12.1 Basic and diluted earning per share is calculated by dividing net profit for the period attributable to ordinary share holders by weighted average number of ordinary shares outstanding during the period, as per LKAS-33-Earning Per Share.

12.2 The following reflect the income and share details used in Basic and Diluted Earning Per Share computation;

	2019	2018
Amount Used as Numerators		
Profit attributable to Ordinary Share Holders	101,122,146	102,816,292
Number of Ordinary shares used as Denominator		
Weighted Average Number of Ordinary Shares	90,000,000	80,000,000
Basic and Diluted Earning Per Ordinary Shares	1.12	1.29

Company's ordinary shares were increased in 31 March 2018 with the right issue of 10,000,000 shares at Rs. 20.50 each. As a result the number of shares increased to 90,000,000.

Year ended 31 March 2019

13. TRANSITIONAL DISCLOSURE - FINANCIAL INSTRUMENTS, SLFRS - 09 & REVENUE FROM CONTRACTS WITH CUSTOMERS, SLFRS - 15

The following tables set out the transition impact of adoption of SLFRS - 09 financial instruments and SLFRS - 15 Revenue from contracts with Customers on the Statement of Financial Position, and the retained earnings including the effect of replacing LKAS - 39 financial instruments recognition and measurement incurred credit loss calculations with SLFRS - 09's Expected Credit Losses (ECLs) and impact on revenue recognition of income from real estate operations.

The reconciliation between the carrying amount under LKAS - 39 to the balances reported under SLFRS - 09 and revenue recognition under SLFRS - 15 as of 01 April 2018 is as follows.

Financial Assets	LKAS 39 Measurement		Re-classification	Re-measurement	SLFRS 15	SLFRS 9	
	Category	Amount		ECL	Adjustment	Category	Amount
Cash and Bank Balances	Loans & Receivable	51,593,413	-	-	N/A	Amortized Cost	51,593,413
Investment in Government Securities	Held to Maturity	26,566,794	-	-	N/A	Amortized Cost	26,566,794
Placements with Banks and Other Financial Institutions	Held to Maturity	39,934,643	-	-	N/A	Amortized Cost	39,934,643
Gold Advances	Loans & Receivable	177,748,346	-	-	N/A	Amortized Cost	177,748,346
Lease Rentals Receivable and Stock out on Hire	Loans & Receivable	2,040,010,374	-	(1,872,173)	N/A	Amortized Cost	2,038,138,201
Loans and Advances	Loans & Receivable	496,510,205	-	(6,341,681)	N/A	Amortized Cost	490,168,524
Other Financial Assets	Loans & Receivable	46,820,823	-	(3,402,138)	N/A	Amortized Cost	43,418,685
Financial Investments-Available for Sale	Held to Maturity	457,700	(457,700)	-	N/A	N/A	-
Equity Instrument - Measured at Amortized cost	N/A	-	457,700	-	N/A	Fair value through other comprehensive income	457,700
Total Financial Assets		2,879,642,298	-	(11,615,992)	-		2,868,026,306
Non Financial Assets							
Other Non Financial Assets	N/A	16,665,058	-	-	N/A	N/A	16,665,058
Inventories	N/A	150,280,432	-	-	N/A	N/A	150,280,432
Property, Plant and Equipment	N/A	94,701,119	-	-	N/A	N/A	94,701,119
Intangible Assets	N/A	24,398,373	-	-	N/A	N/A	24,398,373
Deferred Tax Impact	N/A	-	-	3,252,478	N/A	N/A	-
		286,044,982	-	3,252,478	-		286,044,982
Total Assets		**3,165,687,280**	-	**(8,363,514)**	-		**3,154,071,288**

Year ended 31 March 2019

13. TRANSITIONAL DISCLOSURE - FINANCIAL INSTRUMENTS, SLFRS - 09 & REVENUE FROM CONTRACTS WITH CUSTOMERS, SLFRS - 15 Cont...

Liabilities	LKAS 39 Measurement		Re-classification	Re-measurement	SLFRS - 15	SLFRS - 09	
	Category	Amount		ECL	Adjustment	Category	Amount
Financial Liabilities							
Interest Bearing Borrowings	Other Financial Liabilities	1,529,388,772	-	-	N/A	Other Financial Liabilities	1,529,388,772
Due to the Customers	Other Financial Liabilities	367,110,412	-	-	N/A	Other Financial Liabilities	367,110,412
Other Financial Liabilities	Other Financial Liabilities	145,886,468	-	-	N/A	Other Financial Liabilities	145,886,468
Non Financial Liabilities							
Other Non Financial Liabilities	N/A	15,978,566	-	-	19,685,077	N/A	35,663,643
Retirement Benefit Liability	N/A	8,433,608	-	-	N/A	N/A	8,433,608
Current Tax Liabilities	N/A	9,730,702	-	-	N/A	N/A	9,730,702
Deferred Tax Liabilities	N/A	45,328,996	-	-	(5,511,822)	N/A	39,817,174
Total Liabilities		**2,121,857,524**	-	-	14,173,256		2,136,030,780

Notes to the Financial Statements cont….

Year ended 31 March 2019

13.1 The impact of transition to SLFRS - 09 and SLFRS -15 on Equity is as follows:

	Retained Earnings
Balance as at 31st March 2018 (as per LKAS-39 & LKAS-18)	223,351,702
Impact on reclassification and re-measurement	-
Impact on recognition of expected credit losses under SLFRS - 09	
Gold Advances	-
Lease Rentals Receivable and Stock out on Hire	(1,872,173)
Loans and Advances	(6,341,681)
Other Financial Assets	(3,402,137)
Deferred Tax Impact on Impairment adjustment	3,252,477
Interest In Suspense	(5,621,306)
Impact on re-measurement under SLFRS - 15	
Impact of Real Estate Income Adjustment	(19,685,077)
Deferred Tax Impact on Real Estate Income	5,511,822
Balance as at 1st April 2018 (as per SLFRS-09 & SLFRS-15)	195,193,627

13.2 Transitional Disclosure - Revenue from Contracts with Customers, SLFRS - 15

With the adoption of SLFRS 15, the company revisited the revenue recognition policy for income from real estate operation. Accordingly, the company reassessed the Risk and reward transferring point of real estate transactions in line with the SLFRS 15. The impact arose due to adoption of SLFRS 15 up to 31 March 2018 has been recognized in the retained earnings.

Without adjusting the impact of the SLFRS 15, the total real estate sales value could have been Rs. 160,234,775/- , the cost could have been Rs. 118,315,897/- and the profit from the real estate business could have been Rs. 41,918,878/ in the Statement of Comprehensive Income. Contract liability on real estate business as at 31 March 2019 were Rs. 19,459,440/-.

14. CASH AND BANK BALANCES	2019 Rs.	2018 Rs.
Cash in Hand	15,694,773	15,575,591
Bank Balances	27,127,457	36,017,822
	42,822,230	51,593,413

Notes to the Financial Statements cont….

Year ended 31 March 2019

15.	**INVESTMENT IN GOVERNMENT SECURITIES**	**2019 Rs.**	**2018 Rs.**
	Treasury Bills - at amortized cost (Held to Maturity)	51,670,419	26,566,794
		51,670,419	26,566,794

16.	**PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**	**2019 Rs.**	**2018 Rs.**
	Placement With Banks (Fixed Deposits)	15,362,258	39,934,643
		15,362,258	**39,934,643**

17.	**GOLD ADVANCES**	**2019 Rs.**	**2018 Rs.**
	Gold Advances	456,564,892	177,748,346
		456,564,892	**177,748,346**

18.	**LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE**	**2019 Rs.**	**2018 Rs.**
	Rental Receivable on Lease	3,143,826,598	2,755,200,052
	Rental Receivable on Hire Purchase	2,597,730	11,708,387
	Gross Rentals Receivables	3,146,424,328	2,766,908,439
	Less: Unearned Income	(795,245,502)	(681,504,938)
		2,351,178,826	2,085,403,501
	Less : Rentals Received in Advance	(20,396,521)	(21,609,212)
	Net Rentals Receivables before charging Allowance for Impairment Losses	2,330,782,305	2,063,794,289
	Less : Allowance for Impairment Losses (Note 18.2)	(48,392,489)	(23,783,915)
	Total Net Rentals Receivable	**2,282,389,816**	**2,040,010,374**

18.1	**Net Rentals Receivable on Lease and Stock Out on Hire**	**Net Rentals Receivables**	**Allowance for Impairment Losses**	**Total Net Rentals Receivable**
	Stage - 1	1,558,775,120	8,729,181	1,550,045,939
	Stage - 2	558,266,341	8,575,148	549,691,193
	Stage - 3	213,740,844	31,088,160	182,652,684
		2,330,782,305	**48,392,489**	**2,282,389,816**

Notes to the Financial Statements cont….

Year ended 31 March 2019

18. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE (Contd...)

18.2 Allowance for Impairment Losses

2019 Rs.

(a) Impairment allowance	Collective			Individual	Total
	Stage -1	Stage -2	Stage -3	Stage -3	
Balance as at 01 April 2018 (LKAS 39)					23,783,915
Transition impact on adoption of SLFRS 9					1,872,173
Balance as at 01 April 2018 (SLFRS 09)	5,621,578	7,046,618	12,987,892	-	25,656,088
Charges/(Reversals) for the year	3,107,603	1,528,530	15,734,772	2,365,496	22,736,401
Amount written off	-	-	-	-	-
Balance as at 31 March 2019	**8,729,181**	**8,575,148**	**28,722,664**	**2,365,496**	**48,392,489**

(b) Movement in impairment allowance	2019 Rs.	2018 Rs.
As at 01 April	23,783,915	15,195,062
Transition impact on adoption of SLFRS 9	1,872,173	-
Charges/(reversals) for the year	22,736,401	8,588,853
Amounts written off	-	-
As at 31 March	**48,392,489**	23,783,915
Individual impairment	2,365,496	-
Collective impairment	46,026,993	23,783,915
Total	**48,392,489**	23,783,915

(c) Movements in Individual and Collective impairment allowance for Leasing & Hire Purchase Rentals Receivables during the year

	2019 Rs.	2018 Rs.
Individual Impairment		
As at 1 April	-	-
Transition impact on adoption of SLFRS - 09	-	-
Charges/(reversals) for the year	2,365,496	-
Amounts written off	-	-
As at 31 March	**2,365,496**	-
Collective Impairment		
As at 1 April (as per LKAS - 39)	23,783,915	15,195,062
Transition impact on adoption of SLFRS - 09	1,872,173	-
Charges/(reversals) for the year	20,370,905	8,588,853
Amounts written off	-	-
As at 31 March	**46,026,993**	**23,783,915**
Total allowance for impairment	**48,392,489**	**23,783,915**

Notes to the Financial Statements cont….

Year ended 31 March 2019

18. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE (Contd...)

18.3 Sensitivity Analysis of Accumulated Impairment for Lease Rentals Receivable and Stock Out on Hire as at 31.03.2019

Changed Criteria	Changed Factor	Sensitivity effect on Impairment Allowance Increase
Loss Given Default (LGD)	Increase by 1%	3,026,430
Probability of Default (PD)	Increase by 1%	2,953,947
Economic Factor Adjustment (EFA)	Increase by 5%	748,512

18.4 Rental Receivable on Lease

	Within One Year Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Rentals Receivables	1,215,596,124	1,923,871,947	4,358,528	3,143,826,599
Less: Unearned Income	(360,825,624)	(434,063,618)	(305,011)	(795,194,253)
	854,770,500	1,489,808,329	4,053,517	2,348,632,346
Less : Rentals Received in Advance				(20,347,385)
Net Rentals Receivable before charging Allowance for Impairment Losses				**2,328,284,961**

18.5 Rental Receivable on Hire Purchase

	Within One Year Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Rentals Receivables	2,597,729	-	-	2,597,729
Less: Unearned Income	(51,249)	-	-	(51,249)
	2,546,480	-	-	2,546,480
Less : Rentals Received in Advance				(49,136)
Net Rentals Receivable before charging Allowance for Impairment Losses				**2,497,344**

Total Net Rentals Receivables before charging Allowance for Impairment Losses	**2,330,782,305**

19. LOANS AND ADVANCES

	2019 Rs.	2018 Rs.
Loan Rental Receivable	1,385,232,905	731,710,550
Less : Unearned Interest Income	(353,262,961)	(216,493,844)
Net Receivable	1,031,969,944	515,216,706
Less : Rental Received In Advance	(7,935,782)	(6,703,262)
Net Rentals Receivables before charging Allowance for Impairment Losses	1,024,034,162	508,513,444
Less : Allowance for Impairment Losses (Note 19.2)	(20,681,281)	(12,003,239)
Total Net Rentals Receivable	**1,003,352,881**	**496,510,205**

Notes to the Financial Statements cont..

Year ended 31 March 2019

19. LOANS AND ADVANCES (Contd...)

19.1 Net Rentals Receivable on Loans

	Net Rentals Receivables	Allowance for Impairment Losses	Total Net Rentals Receivable
Stage - 1	765,494,259	5,708,159	759,786,100
Stage - 2	187,761,549	3,118,705	184,642,844
Stage - 3	70,778,354	11,854,417	58,923,937
	1,024,034,162	**20,681,281**	**1,003,352,881**

19.2 Allowance for Impairment Losses

2019
Rs.

(a) Impairment allowance	Collective			Individual	Total
	Stage -1	Stage -2	Stage -3	Stage -3	
Balance as at 01 April 2018 (LKAS 39)					12,003,239
Transition impact on adoption of SLFRS 9					6,341,681
Balance as at 01 April 2018 (SLFRS 09)	4,401,339	5,333,478	8,610,103	-	18,344,920
Charges/(Reversals) for the year	1,306,820	(2,214,773)	1,469,034	1,775,280	2,336,362
Amount written off	-	-	-	-	-
Balance as at 31 March 2019	**5,708,159**	**3,118,705**	**10,079,137**	**1,775,280**	**20,681,281**

(b) Movement in impairment allowance	2019 Rs.	2018 Rs.
As at 01 April	12,003,239	5,085,103
Transition impact on adoption of SLFRS - 09	6,341,681	-
Charges/(reversals) for the year	2,336,362	6,918,136
Amounts written off	-	-
As at 31 March	**20,681,282**	12,003,239
Individual impairment	1,775,280	-
Collective impairment	18,906,001	12,003,239
Total	**20,681,281**	12,003,239

Notes to the Financial Statements cont….

Year ended 31 March 2019

19. LOANS AND ADVANCES (Contd...)

(c) Movements in Individual and Collective impairment allowance for Loans & Advances during the year

	2019 Rs.	2018 Rs.
Individual Impairment		
As at 1 April	-	-
Transition impact on adoption of SLFRS - 09	-	-
Charges/(reversals) for the year	1,775,280	-
Amounts written off	-	-
As at 31 March	**1,775,280**	-
Collective Impairment		
As at 1 April (as per LKAS 39)	12,003,239	5,085,103
Transition impact on adoption of SLFRS - 09	6,341,681	-
Charges/(reversals) for the year	561,081	6,918,136
Amounts written off	-	-
As at 31 March	**18,906,001**	**12,003,239**
Total Allowance for Impairment	**20,681,281**	**12,003,239**

19.3 Sensitivity Analysis of Accumulated Impairment for Loan Rentals Receivable as at 31.03.2019

Changed Criteria	Changed Factor	Sensitivity effect on Impairment Allowance Increase
Loss Given Default (LGD)	Increase by 1%	1,065,026
Probability of Default (PD)	Increase by 1%	1,585,575
Economic Factor Adjustment (EFA)	Increase by 5%	343,989

19.4 Rental Receivable on Loan Stock

	Within One Year Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Rentals Receivables	591,884,754	783,315,822	10,032,329	1,385,232,905
Less: Unearned Income	(169,125,162)	(182,791,155)	(1,346,644)	(353,262,961)
	422,759,592	600,524,667	8,685,685	1,031,969,944
Less : Rentals Received in Advance				(7,935,782)
Net Rentals Receivable before charging Allowance for Impairment Losses				**1,024,034,162**

Notes to the Financial Statements cont….

Year ended 31 March 2019

20.	OTHER FINANCIAL ASSETS	2019 Rs.	2018 Rs.
	Refundable Deposit	9,112,468	5,442,338
	Sundry Debtors	8,140,219	5,035,453
	Other Receivable (Note 20.1)	25,409,331	36,343,032
		42,662,018	**46,820,823**

20.1	Other Receivable	2019 Rs.	2018 Rs.
	Other Charges Recoverable	2,750,940	7,685,707
	Insurance Recoverable	24,857,615	16,325,450
	Other Receivable	3,777,975	15,427,710
	Less : Allowance for Impairment Losses	(5,977,199)	(3,095,835)
		25,409,331	**36,343,032**

20.2 Impairment Allowance for Other Receivables

(a) Impairment allowance	Collective			Individual	2019 Rs.
	Stage -1	Stage -2	Stage -3	Stage -3	Total
Balance as at 01 April 2018 (LKAS 39)					3,095,835
Transition impact on adoption of SLFRS 9					3,402,137
Balance as at 01 April 2018 (SLFRS 09)	30,078	37,738	6,430,156	-	6,497,972
Charges/(Reversals) for the year	48,864	634	(570,271)	-	(520,773)
Amount written off	-	-	-	-	-
Balance as at 31 March 2019	**78,942**	**38,372**	**5,859,885**	**-**	**5,977,199**

(b) Movement in impairment allowance	2019 Rs.	2018 Rs.
As at 01 April	3,095,835	-
Transition impact on adoption of SLFRS 9	3,402,137	-
Charges/(reversals) for the year	(520,773)	3,095,835
Amounts written off	-	-
As at 31 March	**5,977,199**	3,095,835
Individual impairment	-	-
Collective impairment	5,977,199	3,095,835
Total	**5,977,199**	3,095,835

Notes to the Financial Statements cont….

Year ended 31 March 2019

20. OTHER FINANCIAL ASSETS (Contd...)

(c) Movement in collective impairment allowance for the receivables	2019 Rs.	2018 Rs.
Collective Impairment		
As at 1 April (as per LKAS - 39)	3,095,835	-
Transition impact on adoption of SLFRS - 09	3,402,137	-
Charges/(reversals) for the year	(520,773)	3,095,835
Amounts written off	-	-
As at 31 March	**5,977,199**	**3,095,835**
Total Allowance for Impairment	**5,977,199**	**3,095,835**

20.3 Sensitivity Analysis of Accumulated Impairment for Other Receivable as at 31.03.2019

Changed Criteria	Changed Factor	Sensitivity effect on Impairment Allowance Increase
Loss Given Default (LGD)	Increase by 1%	82,670
Probability of Default (PD)	Increase by 1%	24,031
Economic Factor Adjustment (EFA)	Increase by 5%	4,983

21. OTHER NON FINANCIAL ASSETS

	2019 Rs.	2018 Rs.
With Holding Tax	773,095	489,976
Advances and Prepayment	28,901,896	16,175,082
	29,674,991	**16,665,058**

22. FINANCIAL INVESTMENT- MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / AVAILABLE FOR SALE

	2019 Rs.	No. of Shares	2018 Rs.	No. of Shares
Equity Instrument - Unquoted				
Credit Information Bureau of Sri Lanka	457,700	100	457,700	100
	457,700	100	457,700	100

All unquoted equity shares are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and company intend to hold these for long term.

23. INVENTORIES

	2019 Rs.	2018 Rs.
Stationeries	788,780	730,619
Trading Stock	-	3,800,000
Land stock	69,966,027	145,749,813
	70,754,807	**150,280,432**

Notes to the Financial Statements cont..

Year ended 31 March 2019

24. PROPERTY, PLANT & EQUIPMENT

24.1 Gross Carrying Amounts

At Cost	Balance As at 01.04.2018 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2019 Rs.
Freehold Assets				
Furniture & Fittings	51,173,788	18,585,361	-	69,759,149
Office Equipment	25,024,297	12,256,338	-	37,280,635
Computer Equipment	25,453,042	3,975,493	(78,500)	29,350,035
Motor Vehicles	7,144,190	3,800,000	-	10,944,190
	108,795,317	38,617,192	(78,500)	147,334,009
Assets on Finance Lease				
Motor Vehicles	46,220,330	-	-	46,220,330
Total Value of Depreciable Assets	**155,015,647**	**38,617,192**	**(78,500)**	**193,554,339**

24.2 Depreciation

At Cost	Balance As at 01.04.2018 Rs.	Charge for the year Rs.	Disposals Rs.	Balance As at 31.03.2019 Rs.
Freehold Assets				
Furniture & Fittings	21,569,430	10,064,490	-	31,633,920
Office Equipment	12,031,524	5,121,205	-	17,152,729
Computer Equipment	19,789,671	1,866,241	(78,000)	21,577,912
Motor Vehicles	1,158,937	673,930	-	1,832,867
	54,549,561	17,725,866	(78,000)	72,197,428
Assets On Finance Leases				
Motor Vehicles	5,764,966	3,233,577	-	8,998,543
Total Depreciation	**60,314,527**	**20,959,443**	**(78,000)**	**81,195,971**

24.3 Fully Depreciated Property, Plant and Equipment

The initial cost of fully-depreciated property, plant and equipment as at 31 March 2019, which are still in use as at the reporting date is as follows;

	2019 Rs.	2018 Rs.
Furniture & Fittings	16,483,083	2,165,024
Office Equipment	9,002,804	2,121,770
Computer Equipment	18,055,112	16,218,910
Motor Vehicles	424,540	424,540
	43,965,539	**20,930,244**

Notes to the Financial Statements cont..

Year ended 31 March 2019

24. PROPERTY, PLANT & EQUIPMENT (Contd...)

24.4 Net Book Values

At Cost	2019 Rs.	2018 Rs.
Furniture & Fittings	38,125,229	29,604,358
Office Equipment	20,127,906	12,992,773
Computer Equipment	7,772,123	5,663,371
Motor Vehicles	9,111,323	5,985,253
	75,136,581	**54,245,755**
Assets on Finance Leases		
Motor Vehicles	37,221,787	40,455,364
Total Carrying Amount of Property, Plant & Equipment	112,358,368	94,701,119

25. INTANGIBLE ASSETS

	2019 Rs.	2018 Rs.
Computer System Software		
Cost:		
Balance as at 1 April	49,564,080	45,861,486
Addition	3,795,588	3,702,594
Less: Amortization		
Balance as at 1 April	25,165,707	20,408,415
Amortization Charge for the Period	5,101,180	4,757,292
Balance as at 31 March	**30,266,887**	**25,165,707**
Net Book Value as at 31 March	**23,092,781**	**24,398,373**

26. INTEREST BEARING BORROWINGS

	2019 Rs.	2018 Rs.
Finance Lease (26.1)	8,065,481	15,066,086
Bank Over Draft	169,674,750	48,004,642
Bank Borrowings (26.2)	1,477,967,557	1,278,825,674
Intercompany Borrowings	535,000,000	187,492,370
	2,190,707,788	**1,529,388,772**

Notes to the Financial Statements cont….

Year ended 31 March 2019

26. INTEREST BEARING BORROWINGS (Contd...)

26.1 Finance Lease	**2019 Rs.**	**2018 Rs.**
Gross liability	9,194,135	17,893,605
Less: Finance Charge Allocated to Future Period	(1,128,654)	(2,827,519)
Net Liability	**8,065,481**	**15,066,086**
Repayable Within one year		
Gross Liability	3,987,785	5,937,523
Less: Finance Charge Allocated to Future Period	(735,346)	(1,474,534)
Net Liability	**3,252,439**	**4,462,989**
Repayable After one year (1-5 Year)		
Gross Liability	5,206,350	11,956,082
Less: Finance Charge Allocated to Future Period	(393,308)	(1,352,985)
Net Liability	4,813,042	10,603,097
Total Net Liability	**8,065,481**	**15,066,086**

26.2 Bank Borrowings	**2019 Rs.**	**2018 Rs.**
Gross liability	1,735,794,391	1,514,113,117
Less: Finance Charge Allocated to Future Period	(257,826,834)	(235,287,443)
Net Liability	**1,477,967,557**	**1,278,825,674**
Repayable Within one year		
Gross Liability	877,355,147	639,165,548
Less: Finance Charge Allocated to Future Period	(157,268,124)	(127,298,251)
Net Liability	**720,087,023**	**511,867,297**
Repayable After one year (1 to 5 Year)		
Gross Liability	858,439,244	874,947,569
Less: Finance Charge Allocated to Future Period	(100,558,710)	(107,989,192)
Net Liability	757,880,534	766,958,377
Total Net Liability	**1,477,967,557**	**1,278,825,674**

Notes to the Financial Statements cont….

Year ended 31 March 2019

26. INTEREST BEARING BORROWINGS (Contd...)

26.2.1 Bank Loan Facilities	As at 31.03.2019 Rs.	As at 01.04.2018 Rs.	Interest Rate	Period (Months)	Security
BOC Loan 1	-	7,318,117	-	48	Mortage over Lease and Loan receivables
BOC Loan 2	-	15,790,198	-	48	Mortage over Lease and Loan receivables
BOC Loan 4	-	1,587,013	-	36	Mortage over Lease and Loan receivables
BOC Loan 6	-	2,796,700	-	24	Mortage over Lease and Loan receivables
BOC Loan 7	1,119,156	4,398,412	14.27%	36	Mortage over Lease and Loan receivables
BOC Loan 10	-	348,093	-	24	Mortage over Lease and Loan receivables
BOC Loan 11	-	596,371	-	24	Mortage over Lease and Loan receivables
BOC Loan 12	544,991	3,812,506	15.46%	36	Mortage over Lease and Loan receivables
BOC Loan 13	21,324,132	39,594,993	14.41%	48	Mortage over Lease and Loan receivables
BOC Loan 15	-	1,768,935	-	24	Mortage over Lease and Loan receivables
BOC Loan 16	2,680,943	13,393,366	14.71%	36	Mortage over Lease and Loan receivables
BOC Loan 17	42,193,631	75,906,244	14.33%	48	Mortage over Lease and Loan receivables
BOC Loan 18	55,179,004	89,990,241	14.24%	48	Mortage over Lease and Loan receivables
BOC Loan 19	6,442,612	17,479,176	14.28%	36	Mortage over Lease and Loan receivables
BOC Loan 20	-	6,537,860	-	24	Mortage over Lease and Loan receivables
BOC Loan 22	39,411,905	59,091,042	14.29%	48	Mortage over Lease and Loan receivables
BOC Loan 23	5,352,205	10,705,289	14.36%	36	Mortage over Lease and Loan receivables
BOC Loan 24	-	2,965,700	-	24	Mortage over Lease and Loan receivables
BOC Loan 25	-	1,803,271	-	12	Mortage over Lease and Loan receivables
BOC Loan 26	951,523	6,662,083	14.63%	24	Mortage over Lease and Loan receivables
BOC Loan 27	2,181,209	4,051,797	14.42%	36	Mortage over Lease and Loan receivables
BOC Loan 28	39,170,030	57,262,188	14.40%	48	Mortage over Lease and Loan receivables
BOC Loan 29	44,893,499	63,454,451	14.30%	48	Mortage over Lease and Loan receivables
BOC Loan 30	7,760,693	13,235,337	14.33%	36	Mortage over Lease and Loan receivables
BOC Loan 31	1,260,430	4,283,915	14.50%	24	Mortage over Lease and Loan receivables
BOC Loan 32	-	1,679,961	-	12	Mortage over Lease and Loan receivables
BOC Loan 33	85,162,861	116,457,522	14.27%	48	Mortage over Lease and Loan receivables
BOC Loan 34	15,190,547	23,876,501	14.37%	36	Mortage over Lease and Loan receivables
BOC Loan 35	46,341,031	-	14.37%	48	Mortage over Lease and Loan receivables
BOC Loan 36	40,975,173	-	14.30%	48	Mortage over Lease and Loan receivables
BOC Loan 37	35,354,912	-	14.24%	48	Mortage over Lease and Loan receivables
BOC Loan 38	70,275,146	-	14.35%	48	Mortage over Lease and Loan receivables
BOC Loan 39	86,619,273	-	14.36%	36	Mortage over Lease and Loan receivables
BOC Loan 40	36,896,442	-	14.30%	48	Mortage over Lease and Loan receivables
BOC Loan 41	46,304,681	-	14.38%	40	Mortage over Lease and Loan receivables
BOC Loan 42	94,779,545	-	14.39%	36	Mortage over Lease and Loan receivables
BOC Loan 43	97,370,051	-	13.87%	36	Mortage over Lease and Loan receivables
BOC Loan 44	50,171,055	-	13.87%	48	Mortage over Lease and Loan receivables
PABC Loan	14,817,555	40,204,905	15.00%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 1	8,333,978	20,858,984	10.22%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 2	9,379,344	21,906,509	11.27%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 3	10,424,010	22,952,059	11.70%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 4	19,828,269	32,356,462	14.23%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 5	42,025,127	67,197,714	14.27%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 6	21,943,237	34,481,689	14.33%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 7	23,094,430	35,681,541	14.15%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 8	24,219,284	36,821,966	14.15%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 9	24,042,125	36,585,777	14.04%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 10	106,573,699	144,170,616	13.90%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 11	36,580,381	49,118,676	14.06%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 12	37,871,535	50,474,055	14.06%	48	Mortage over Lease and Loan receivables
Seylan Bank Loan 13	100,534,247	-	15.00%	3	Unsecured
NSB Loan	22,393,656	39,167,440	14.82%	36	Mortage over Lease and Loan receivables
	1,477,967,557	**1,278,825,674**			

Notes to the Financial Statements cont….

Year ended 31 March 2019

27. DUE TO CUSTOMERS	2019 Rs.	2018 Rs.
Fixed Deposit	584,784,876	367,110,412
	584,784,876	**367,110,412**

28. OTHER FINANCIAL LIABILITIES	2019 Rs.	2018 Rs.
Trade Payable	47,311,307	41,666,649
Accrued Expense	24,889,173	9,966,429
Sundry Creditors	24,019,355	94,253,390
	96,219,835	**145,886,468**

29. OTHER NON FINANCIAL LIABILITIES	2019 Rs.	2018 Rs.
WHT Payable	1,278,265	486,191
Stamp Duty Payable	4,711,949	2,282,621
VAT Payable	1,283,145	1,215,785
ESC Payable	2,128,265	-
Dividend Payable	961,829	961,829
Other Liabilities*	38,353,460	11,032,140
	48,716,913	**15,978,566**

* Other Liabilities include Rs. 8,017,754/- of unidentified direct deposits received from customers.

30. RETIREMENT BENEFIT LIABILITY	2019 Rs.	2018 Rs.
30.1 Defined Benefit Liability		
Defined Benefit Liability (30.2)	11,448,517	8,433,608
	11,448,517	**8,433,608**

30.2 Changes in the Defined benefit obligation are as follows		
Opening Liability	8,433,608	5,162,362
Net Benefit expense (30.3)	3,214,909	3,683,746
Benefit paid	(200,000)	(412,500)
Defined Benefit Liability as of 31 March	**11,448,517**	**8,433,608**

30.3 Net Benefit expense		
Interest Cost	871,191	650,457
Current Service Cost	2,274,867	1,440,590
Actuarial Loss on obligations	68,851	1,592,699
	3,214,909	**3,683,746**

Notes to the Financial Statements cont….

Year ended 31 March 2019

30. RETIREMENT BENEFIT LIABILITY (Contd...)

30.4 The principal financial assumptions used are as follows

Messrs. Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 March 2019. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2019 Rs.	2018 Rs.
Discount Rate	11.28%	10.33%
Future Salary Increment Rate	9.00%	9.00%
Retirement age	55 Years	55 Years
Expected Average Future Working Life	10.3 Years	10.4 Years
Mortality - GA 1983 Mortality Table issued by the Institute of Actuaries London		

30.5 Sensitivity Analysis

+/- 1% change on Discount Rate and Salary Increase- present value of defined benefit obligation as at 31 March 2019.

	Present Value of Defined Benefit Obligation		
	31-Mar-19	31-Mar-19	31-Mar-19
Discount Rate	10.28%	11.28%	12.28%
Basic Salary Scale	9.0%	9.0%	9.0%
Census at	31-Mar-19	31-Mar-19	31-Mar-19
Total PVDBO	11,933,837	11,448,517	11,028,931

	Present Value of Defined Benefit Obligation		
	31-Mar-19	31-Mar-19	31-Mar-19
Discount Rate	11.28%	11.28%	11.28%
Basic Salary Scale	8.0%	9.0%	10.0%
Census at	31-Mar-19	31-Mar-19	31-Mar-19
Total PVDBO	11,026,192	11,448,517	11,929,177

Sensitivity Analysis

+/- 1% change on Discount Rate and Salary Increase- present value of defined benefit obligation as at 31 March 2018.

	Present Value of Defined Benefit Obligation		
	31-Mar-18	31-Mar-18	31-Mar-18
Discount Rate	9.33%	10.33%	11.33%
Basic Salary Scale	9.0%	9.0%	9.0%
Census at	31-Mar-18	31-Mar-18	31-Mar-18
Total PVDBO	8,847,905	8,433,608	8,078,152

	Present Value of Defined Benefit Obligation		
	31-Mar-18	31-Mar-18	31-Mar-18
Discount Rate	10.33%	10.33%	10.33%
Basic Salary Scale	8.0%	9.0%	10.0%
Census at	31-Mar-18	31-Mar-18	31-Mar-18
Total PVDBO	8,077,710	8,433,608	8,841,035

Notes to the Financial Statements cont….

Year ended 31 March 2019

31. DEFERRED TAX LIABILITY	**Statement of Financial Position**		**Statement of Comprehensive Income**		**Statement of Other Comprehensive Income**	
	2019 Rs.	**2018 Rs.**	**2019 Rs.**	**2018 Rs.**	**2019 Rs.**	**2018 Rs.**
Deferred Tax Liability						
Property Plant & Equipment	5,791,079	3,737,501	2,053,577	858,620	-	-
Intangible Assets	5,380,764	5,840,586	(459,823)	(918,807)	-	-
Lease Rental	65,042,553	85,731,911	(20,689,358)	11,436,756	-	-
Lease Creditor	7,631,984	5,916,851	1,715,134	941,529	-	-
	83,846,380	101,226,850	(17,380,470)	12,318,097	-	-
Deferred Tax Assets						
Lease Creditor	-		-	-	-	-
Defined Benefit Plan Obligation	3,205,585	2,361,410	(824,896)	(469,993)	(19,278)	(445,956)
Impairment of Loans and Receivables	14,985,078	14,139,715	(845,364)	(5,208,790)	-	-
Tax Paid in advance for Real Estate Income	2,744,614	5,511,822	2,767,207	-		
Brought Forward Tax Loss	-	42,649,207	42,649,207	20,107,938	-	-
	20,935,278	64,662,153	43,746,154	14,429,155	(19,278)	(445,956)
Deferred Income Tax Income/(Expense)			26,365,684	26,747,252	(19,278)	(445,956)
Net Deferred Tax (Asset)/Liabilities	62,911,102	36,564,697				

32. STATED CAPITAL

Issued and Fully Paid-Ordinary Shares	**No of Shares**	**Rs.**
Balance as of 1 April 2017	80,000,000	603,247,125
Issued during the Period		
Share Issue	10,000,000	205,000,000
Balance as of 31 March 2018	90,000,000	808,247,125
Balance as of 1 April 2018	90,000,000	808,247,125
Issued during the Period	-	-
Balance as of 31 March 2019	90,000,000	808,247,125

Transaction cost on share issued is deducted from the equity.

33. RESERVES	**2019 Rs.**	**2018 Rs.**
Statutory Reserve Fund	17,284,558	12,230,929
Closing Balance	**17,284,558**	**12,230,929**

The company's reserve fund is maintained in accordance with Direction No. 1 of 2003 issued by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

Notes to the Financial Statements cont….

Year ended 31 March 2019

34.	CASH AND CASH EQUIVALENTS FOR THE PURPOSE OF CASH FLOW STATEMENT	2019 Rs.	2018 Rs.
	Components of Cash and Cash Equivalents		
	Favorable Cash & Cash Equivalents Balance		
	Cash and Bank Balance (Note 14)	42,822,230	51,593,413
	Investment in government securities	51,670,419	26,566,794
	Investment in FD with short Term Maturities (Note 16)	15,362,258	39,934,643
		109,854,907	**118,094,850**
	Un-Favorable Cash & Cash Equivalents Balance		
	Bank Over Draft (Note 26)	169,674,750	48,004,642
		169,674,750	48,004,642
	Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	**(59,819,843)**	**70,090,208**

35. ANALYSIS OF FINANCIAL ASSETS & LIABILITIES BY MEASUREMENT BASIS

As at 31 March 2019	Financial Assets at Fair Value Income Statement Rs.	Financial Assets at Fair Value Other Comprehensive Income Rs.	Financial Assets and Liabilities at Amortized Cost Rs.	Total Rs.
Financial Assets				
Cash & Bank Balances	-	-	42,822,230	42,822,230
Investment in government Securities	-	-	51,670,419	51,670,419
Placements with Other Banks & Financial Institutions	-	-	15,362,258	15,362,258
Lease Rentals Receivable and Stock out on Hire	-	-	2,282,389,816	2,282,389,816
Loans and Advances	-	-	1,003,352,881	1,003,352,881
Gold Advances	-	-	456,564,892	456,564,892
Financial Investments-measured at Fair Value through OCI	-	457,700	-	457,700
Other Financial Assets	-	-	42,662,018	42,662,018
Total Financial Assets	**-**	**457,700**	**3,894,824,514**	**3,895,282,214**
Financial Liabilities				
Interest Bearing Borrowings	-	-	2,190,707,788	2,190,707,788
Due to the Customers	-	-	584,784,876	584,784,876
Other Financial Liabilities	-	**-**	**96,219,835**	**96,219,835**
Total Financial Liabilities	**-**	**-**	**2,871,712,499**	**2,871,712,499**

Notes to the Financial Statements cont….

Year ended 31 March 2019

35. ANALYSIS OF FINANCIAL ASSETS & LIABILITIES BY MEASUREMENT BASIS (Contd...)

As at 31 March 2018 in accordance with SLFRS 09

As at 31 March 2018	Financial Assets at Fair Value Income Statement Rs.	Financial Assets at Fair Value Other Comprehensive Income Rs.	Financial Assets and Liabilities at Amortized Cost Rs.	Total Rs.
Financial Assets				
Cash & Bank Balances	-	-	37,998,795	37,998,795
Investment in government Securities	-	-	24,255,603	24,255,603
Placements with Other Banks & Financial Institutions	-	-	17,579,371	17,579,371
Lease Rentals Receivable and Stock out on Hire	-	-	1,743,026,107	1,743,026,107
Loans and Advances	-	-	299,830,820	299,830,820
Gold Advances	-	-	16,119,775	16,119,775
Financial Investments-measured at Fair Value through OCI	-	457,700	-	457,700
Other Financial Assets	-	-	26,329,179	26,329,179
Total Financial Assets	**-**	**457,700**	**2,165,139,649**	**2,165,597,349**
Financial Liabilities				
Interest Bearing Borrowings	-	-	1,183,196,053	1,183,196,053
Due to the Customers	-	-	301,121,019	301,121,019
Other Financial Liabilities	-	-	**108,118,171**	**108,118,171**
Total Financial Liabilities	**-**	**-**	**1,592,435,243**	**1,592,435,243**

As at 31 March 2018 in accordance with LKAS 39

	Available for Sale Financial Assets at Fair Value Rs.	Financial Assets and Liabilities at Amortized Cost Rs.	Total Rs.
Financial Assets			
Cash & Bank Balances	-	37,998,795	37,998,795
Investment in government Securities	-	24,255,603	24,255,603
Placements with Other Banks & Financial Institutions	-	17,579,371	17,579,371
Lease Rentals Receivable and Stock out on Hire	-	1,743,026,107	1,743,026,107
Loans and Advances	-	299,830,820	299,830,820
Gold Advances	-	16,119,775	16,119,775
Financial Investments-Available for Sale	457,700	-	457,700
Other Financial Assets	-	26,329,179	26,329,179
Total Financial Assets	**457,700**	**2,165,139,649**	**2,165,597,349**
Financial Liabilities			
Interest Bearing Borrowings			
Due to the Customers	-	1,183,196,053	1,183,196,053
Other Financial Liabilities	-	301,121,019	301,121,019
Total Financial Liabilities	**-**	**108,118,171**	**108,118,171**
	-	**1,592,435,243**	**1,592,435,243**

Notes to the Financial Statements cont….

Year ended 31 March 2019

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

36.1 Determination of Fair Value and Fair Value Hierarchy

The company use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1 : Quoted prices in active markets for identical assets and liabilities.

Level 2 : Other technique for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 : Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March 2019	Level 1	Level 2	Level 3	Total
Financial Investments - Measured at Fair Value through other comprehensive income				
Unquoted Equity	-	-	457,700	457,700
	-	-	457,700	457,700

There were no financial liabilities recorded at the fair value as at 31 March 2019.

As at 31 March 2018	Level 1	Level 2	Level 3	Total
Financial Investments - Available for Sale				
Unquoted Equity	-	-	457,700	457,700
	-	-	457,700	457,700

There were no financial liabilities recorded at the fair value as at 31 March 2018.

36.2 Fair Value of the Financial Instrument Carried at Amortized Cost

Set out below is a 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 liabilities.

As at 31 March 2019	Level	Carrying Amount Rs.	Fair Value Rs.
Financial Assets			
Lease Rentals Receivable and Stock out on Hire	Level 02	2,281,999,574	2,305,967,281
Loans and Advances	Level 02	1,002,628,977	1,080,841,985
Financial Liabilities			
Interest Bearing Borrowings	Level 02	1,477,967,557	1,245,482,536
Finance Lease	Level 02	8,065,481	8,026,899

Notes to the Financial Statements cont….

Year ended 31 March 2019

36. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd...)

As at 31 March 2018	Level	Carrying Amount Rs.	Fair Value Rs.
Financial Assets			
Lease Rentals Receivable and Stock out on Hire	Level 02	1,743,026,107	1,735,386,393
Loans and Advances	Level 02	299,830,820	291,651,059
Financial Liabilities			
Interest Bearing Borrowings	Level 02	1,071,468,846	872,684,958
Finance Lease	Level 02	24,931,293	19,355,478

For the following list of Financial Instrument whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently.

Assets

Cash and Bank Balances
Investment in government Securities
Placements with Banks and Other Financial Institutions
Gold Advances
Other Financial Assets

Financial Liabilities

Bank Overdraft
Due to the Customers
Other Financial Liabilities

37. CURRENT AND NON CURRENT ANALYSIS OF ASSETS & LIABILITIES

Table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

	2019		
As at 31 March 2019	Within 12 Months Rs.	After 12 Months Rs.	Total as at 31.03.2019 Rs.
ASSETS			
Cash and Bank Balances	42,822,230	-	42,822,230
Investment in Government Securities	51,670,419	-	51,670,419
Placements with Banks and Other Financial Institutions	15,362,258	-	15,362,258
Gold Advances	456,564,892	-	456,564,892
Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances	1,182,670,499	2,103,072,198	3,285,742,697
Other Financial Assets	34,004,549	8,657,469	42,662,018
Other Non Financial Assets	24,318,273	5,356,718	29,674,991
Financial Investments- Measured at Fair Value through OCI	-	457,700	457,700
Inventories	70,754,807	-	70,754,807
Property, Plant and Equipment	-	112,358,368	112,358,368
Intangible Assets	-	23,092,781	23,092,781
Total Assets	**1,878,167,927**	**2,252,995,235**	**4,131,163,161**

Notes to the Financial Statements cont….

Year ended 31 March 2019

37. CURRENT AND NON CURRENT ANALYSIS OF ASSETS & LIABILITIES (Contd...)

LIABILITIES			
Interest Bearing Borrowings	1,428,014,212	762,693,576	2,190,707,788
Due to the Customers	212,230,989	372,553,887	584,784,876
Other Financial Liabilities	96,219,835	-	96,219,835
Other Non Financial Liabilities	48,716,913	-	48,716,913
Current Tax Liabilities	19,629,876	-	19,629,876
Retirement Benefit Liability	-	11,448,517	11,448,517
Deferred Tax Liabilities	-	62,911,102	62,911,102
Total Liabilities	**1,804,811,825**	**1,209,607,083**	**3,014,418,908**
Net Assets	**73,356,101**	**1,043,388,152**	**1,116,744,253**

	2018		
As at 31 March 2018	**Within 12 Months Rs.**	**After 12 Months Rs.**	**Total as at 31.03.2018 Rs.**
ASSETS			
Cash and Bank Balances	51,593,413	-	51,593,413
Investment in Government Securities	26,566,794	-	26,566,794
Placements with Banks and Other Financial Institutions	39,934,643	-	39,934,643
Gold Advances	177,748,346	-	177,748,346
Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances	1,037,528,521	1,498,992,058	2,536,520,579
Other Financial Assets	5,876,382	4,601,408	10,477,790
Other Non Financial Assets	50,736,240	2,271,850	53,008,090
Financial Investments-Available for Sale	-	457,700	457,700
Inventories	150,280,432	-	150,280,432
Property, Plant and Equipment	-	94,701,119	94,701,119
Intangible Assets	-	24,398,373	24,398,373
Total Assets	**1,540,264,771**	**1,625,422,508**	**3,165,687,279**
LIABILITIES			
Interest Bearing Borrowings	751,827,298	777,561,474	1,529,388,772
Due to the Customers	246,103,688	121,006,724	367,110,412
Other Financial Liabilities	145,886,468	-	145,886,468
Other Non Financial Liabilities	15,978,566	-	15,978,566
Current Tax Liabilities	9,730,702	-	9,730,702
Retirement Benefit Liability	-	8,433,608	8,433,608
Deferred Tax Liabilities	-	45,328,996	45,328,996
Total Liabilities	**1,169,526,722**	**952,330,802**	**2,121,857,524**
Net Assets	**370,738,049**	**673,091,706**	**1,043,829,755**

Notes to the Financial Statements cont….

Year ended 31 March 2019

38. COMMITMENT AND CONTINGENCIES

There were no significant capital commitment and contingencies as of the reporting date.

38.1 Litigation Against Company

The company does not have contingent liabilities in respect of legal claims arising in the ordinary course of business.

38.2 Assets Pledged

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2019 Rs.	2018 Rs.	Included Under
Lease Rentals Receivable and Stock out on Hire *	Bank Loans and Overdrafts	3,146,424,328	2,766,908,439	Lease Rentals Receivable and Stock out on Hire
		3,146,424,328	2,766,908,439	

* The receivables and cash flows that have been included in securitization transactions are only available for payment of the debt and other obligations issued or arising in the securitization transactions. However, the Company hold the right to the excess cash flows not needed to pay the debt and other obligations issued or arising in each of the securitization transactions.

39. EVENT OCCURRING AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen which would require adjustment or disclosure in financial statement.

40. RELATED PARTY TRANSACTIONS

The company carries out transactions in the ordinary course of business with the parties who are defined as "Related Parties" in LKAS-24-Related Party Disclosures.

Details of related party transactions which the company had during the year are as follows:

40.1 Transactions with Key Managerial Personnel (KMPs)

The company has identified and disclosed personnel those having authority and responsibility for planning, directing and controlling the activities of the company as "Key Management Personnel" in accordance with LKAS 24- "Related Party Disclosure''. Accordingly, Board of Directors, Chief Executive Officer and Members of Corporate Management team have been identified as "Key Management Personnel".

	2019 Rs.	2018 Rs.
Short Term Employment Benefits	26,318,750	20,665,000

In addition to the above, the Company has also paid non cash benefits such as vehicles and fuel to key management personnel in line with the approved employment benefits of the Company.

Notes to the Financial Statements cont….

Year ended 31 March 2019

40. RELATED PARTY TRANSACTIONS (Contd...)

40.2 Transaction, arrangements and agreements involving with Entities which are controlled, and/or jointly controlled by the KMP's and their CFMs or shareholders.

	Nature of Relationship	Amount of the Transactions had During the year	Outstanding Receivable/ (Payable) Balance as at 31-3-2019	Outstanding Receivable/ (Payable) Balance as at 31-3-2018
Ideal Motors (Pvt) Ltd.	Affiliate Company			
Fixed Deposits		-	-	(10,000,000)
Withdrawal of Fixed Deposits		(10,000,000)	-	-
Receivables from Dealership Commission		267,667	-	267,667
Finance Lease Equipment Purchase		459,180,900	(25,510,300)	(30,444,800)
Interest Expenses - Fixed Deposits		(5,479)	-	(335,702)
Intercompany Borrowing		353,100,000	(535,000,000)	(181,900,000)
Interest Expense - Intercompany Borrowing		40,513,909	-	(5,592,370)
Sale of Shares		13,094,853	-	13,094,853
Ideal Automobile (Pvt) Ltd	Affiliate Company			
Finance Lease Equipment Purchase		10,672,000	-	-
Fixed Deposits		25,000,000	(115,000,000)	(115,000,000)
Withdrawal of Fixed Deposits		(25,000,000)	-	-
Interest Expenses - Fixed Deposits		11,769,341	(613,014)	(3,218,672)
Ideal Chery Automobiles (Pvt) Ltd	Affiliate Company			
Finance Lease Equipment Purchase		1,225,000	-	-
Ideal Investment Lanka (Pvt) Ltd	Affiliate Company			
Rent Expenses		9,951,513	(897,141)	(658,903)
Rent Deposit		-	450,000	450,000
Ideal Choice (Pvt) Ltd	Affiliate Company			
Vehicle Hire Income		1,386,800	341,800	-
Ideal First Choice (Pvt) Ltd	Affiliate Company			
Fixed Deposits		80,000	(80,000)	-
Interest Expense - Fixed Deposits		(710)	(710)	-
Digital Tech Creations (Pvt) Limited	Affiliate Company			
Call Centre charges		1,189,033	-	-

All related party transactions are at arm's length and on normal commercial terms.

Notes to the Financial Statements cont….

Year ended 31 March 2019

41. CAPITAL

The Company maintains capital in order 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.

As per the direction no. 2 of 2017 dated 23 February 2017, Ideal Finance Limited should maintain an unimpaired core capital of Rs. 1.5 bn by 01.01.2019. Hence currently the company has obtained approval in principle in terms of Finance Companies (Structural Changes) Direction no. 1 of 2013 for a foreign investor to infuse the required capital short fall of Rs.456,170,244/-. The company is in the process of finalizing the legal terms relating to the capital infusion by a foreign investor.

41.1 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.

42. RISK MANAGEMENT

42.1 Introduction

Risk is inherent in the company's activities, but is 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.

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 Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring Company's risk management policies. The Committee is headed by an Independent Non-Executive Director and is comprised of Executive and Non-Executive Directors and Officers performing Executive functions. Meetings of IRMC are held regularly, and the Board of Directors are duly updated of its activities.

RISK MANAGEMENT AND REPORTING

Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept.

41.2 CREDIT RISK

Credit risk is risk arise due to the uncertainty in counterparty's ability to meet its obligations. The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation.

Notes to the Financial Statements cont….

Year ended 31 March 2019

42. RISK MANAGEMENT (Contd...)

42.2.1 Credit quality by class of financial assets

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk. The amount presented are gross of impairment allowances.

As at 31 March 2019	Note	Neither Past Due Not Impaired Rs.	Past Due But Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
ASSETS					
Cash and Bank Balances	13	42,822,230	-	-	42,822,230
Investment in Government Securities and Placements with Banks and Other Financial Institutions	14,15	67,032,677	-	-	67,032,677
Gold Advances	16	456,564,892	-	-	456,564,892
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	17,18	3,196,816,450	153,705,779	4,294,239	3,354,816,467
Other Financial Assets	19	42,662,018	-	-	42,662,018
Financial Investments - Measured at Fair Value through OCI	21	457,700	-	-	457,700
		3,806,355,966	**153,705,779**	**4,294,239**	**3,964,355,984**

As at 31 March 2018	Note	Neither Past Due Not Impaired Rs.	Past Due But Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
ASSETS					
Cash and Bank Balances	13	51,593,413	-	-	51,593,413
Investment in Government Securities and Placements with Banks and Other Financial Institutions	14,15	66,501,437	-	-	66,501,437
Gold Advances	16	177,748,346	-	-	177,748,346
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	17,18	2,455,234,966	117,072,767	-	2,572,307,733
Other Financial Assets	19	46,820,823	-	-	46,820,823
Financial Investments-Available for Sale	21	457,700	-	-	457,700
		2,798,356,685	**117,072,767**	**-**	**2,915,429,452**

Notes to the Financial Statements cont….

Year ended 31 March 2019

42. RISK MANAGEMENT (Contd...)

42.2.1 Credit quality by class of financial assets (Contd...)

Past Due But Not Impaired

Past due but not impaired financial assets are those with contractual interest or principal payments are past due but the company believes that impairment is not appropriate on the basis of the stage of collection amounts owed, level of security /collateral available and significance of the financial assets.

Individually Impaired

All individual significant financial assets which the company determines that there are objective evidence of impairment loss and therefore, may not be able or unable to collect all principal and interest due according to the contractual terms are classified as impaired financial assets.

42.2.1.1 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 Not Impaired				
As at 31 March 2019	**Less than 31 days Rs.**	**31 to 60 days Rs.**	**61 to 90 days Rs.**	**More than 90 days Rs.**	**Total Rs.**
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	19,219,670	36,086,925	16,715,219	81,683,964	153,705,779
	19,219,670	**36,086,925**	**16,715,219**	**81,683,964**	**153,705,779**

	Past Due Not Impaired				
As at 31 March 2018	**Less than 31 days Rs.**	**31 to 60 days Rs.**	**61 to 90 days Rs.**	**More than 90 days Rs.**	**Total Rs.**
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	22,847,356	47,920,379	10,724,637	35,580,395	117,072,767
	22,847,356	**47,920,379**	**10,724,637**	**35,580,395**	**117,072,767**

Notes to the Financial Statements cont….

Year ended 31 March 2019

42. RISK MANAGEMENT (Contd...)

42.2.2 Analysis of Risk Concentration

42.2.2.1 Industry Analysis

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

Sector wise Break Down as at 31st March 2019	Cash & Bank Balances	Placement with Bank & Other Financial Institutions	Lease Rental Receivable & Stock out on Hire & Loan	Financial Assets-Measured at Fair Value through OCI	Gold Advances	Other Financial Assets	Total Financial Assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	964,621,799	-	-	-	964,621,799
Manufacturing	-	-	62,202,644	-	-	-	62,202,644
Construction	-	-	71,062,456	-	-	-	71,062,456
Financial Services	42,822,230	15,362,258	66,012,590	-	-	-	124,197,078
Trading	-	-	245,706,609	-	-	-	245,706,609
Hotels	-	-	27,184,757	-	-	-	27,184,757
Services	-	-	71,849,961	457,700	-	-	72,307,661
Transport	-	-	1,443,517,440	-	-	-	1,443,517,440
Consumer	-	-	402,658,212	-	456,564,892	42,662,018	901,885,122
Total	**42,822,230**	**15,362,258**	**3,354,816,467**	**457,700**	**456,564,892**	**42,662,018**	**3,912,685,565**

Provincial break down for lease rental receivables and stock out on hire within Sri Lanka as follows.

Province	Lease Rental Receivable & Stock Out on Hire Purchase	Loan Stock	Gold Advances
Central	71,214,710	25,532,405	7,853,684
North Central	462,867,306	92,634,009	19,884,191
North Western	644,565,089	226,393,392	1,021,928
Northern	201,581,253	33,262,921	230,636,480
Sabaragamuwa	136,480,940	66,163,231	15,792,182
Southern	220,202,627	195,080,342	18,556,517
Uva	346,096,497	81,398,133	162,819,910
Western	247,773,883	303,569,731	-
Total	**2,330,782,304**	**1,024,034,163**	**456,564,892**

Notes to the Financial Statements cont….

Year ended 31 March 2019

42. RISK MANAGEMENT (Contd...)

Sector wise Break Down as at 31st March 2018

	Cash & Bank Balances	Placement with Bank & Other Financial Institutions	Lease Rental Receivable, Stock out on Hire purchase and Loans and Advances	Financial Assets- Available for Sale	Gold Advances	Other Financial Assets	Total Financial Assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	749,297,992	-	-	-	749,297,992
Manufacturing	-	-	48,902,706	-	-	-	48,902,706
Construction	-	-	65,667,321	-	-	-	65,667,321
Financial Services	51,593,413	39,934,643	53,449,297	-	-	-	144,977,353
Trading	-	-	204,635,656	-	-	-	204,635,656
Hotels	-	-	10,868,151	-	-	-	10,868,151
Services	-	-	9,947,059	457,700	-	-	10,404,759
Transport	-	-	1,094,705,930	-	-	-	1,094,705,930
Consumer	-	-	334,833,621	-	177,748,346	46,820,823	559,402,790
Total	**51,593,413**	**39,934,643**	**2,572,307,733**	**457,700**	**177,748,346**	**46,820,823**	**2,888,862,659**

Provincial break down for lease rental receivables and stock out on hire within Sri Lanka as follows.

Province	Lease Rental Receivable & Stock Out on Hire purchase	Loan Stock	Gold Advances
North Central	519,700,349	66,304,942	18,963,964
North Western	474,702,723	95,087,072	3,140,667
Northern	207,942,810	17,016,301	85,447,045
Sabaragamuwa	109,118,853	19,058,918	-
Southern	115,706,947	33,217,423	7,955,928
Uva	327,903,634	55,163,279	62,240,743
Western	308,718,973	222,665,509	-
Total	**2,063,794,289**	**508,513,444**	**177,748,346**

42.2.2.2 Analysis of Maximum Exposure to Credit Risk

The following table shows the maximum exposure to credit risk by class of financial assets. It further shows the total fair value of collateral and exposure to credit risk.

Maximum Exposure to Credit	2019		2018	
	Gross Exposure	Net Exposure	Gross Exposure	Net Exposure
Cash and Bank Balances	42,822,230	-	51,593,413	-
Investment in Government Securities and Placements with Banks and Other Financial Institutions	67,032,677	67,032,677	66,501,437	66,501,437
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	3,354,816,467	607,066,341	2,572,307,733	350,612,427
Gold Advances	456,564,892	-	177,748,346	-
Other Financial Assets	42,662,018	42,662,018	46,820,823	46,820,823
Financial Investments- Measured at FVTOCI/AFS	457,700	457,700	457,700	457,700
Total Financial Assets	**3,964,355,984**	**717,218,736**	**2,915,429,452**	**464,392,387**

Notes to the Financial Statements cont….

Year ended 31 March 2019

42. RISK MANAGEMENT (Contd...)

42.3 Liquidity Risk & Funding Management

Liquidity risk refers to the possibility of Company not having sufficient cash to meet its payment obligations. This arises primarily due to mismatches in the maturity profile of Company's assets and liabilities. Adequate liquidity is critical to meet the Company's financial commitment and to accommodate additional funding needs of the growing business volumes.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles.

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control the liquidity risk.

42.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities..

As at 31 March 2019	On Demand Rs.	Less Than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets						
Cash and Bank Balances	42,822,230	-	-	-	-	42,822,230
Investment in Government Securities and Placements with Banks and Other Financial Institutions	-	25,608,902	42,764,100	-	-	68,373,002
Gold Advances	-	454,626,900	2,839,325	-	-	457,466,225
Lease Rentals Receivable and Stock out on Hire purchase	117,100,983	296,541,446	817,523,155	1,923,871,947	4,358,528	3,159,396,060
Loans and Advances	40,899,034	168,157,002	385,839,625	783,315,822	10,032,329	1,388,243,812
Financial Investments - Measured at FVTOCI	-	-	-	-	457,700	457,700
Other Financial Assets	455,000	35,015,815	3,222,656	12,990,000	-	51,683,471
Total Financial Assets	**201,277,247**	**979,950,065**	**1,252,188,861**	**2,720,177,769**	**14,848,557**	**5,168,442,500**
Financial Liabilities						
Interest Bearing Borrowings	169,674,750	245,031,560	1,162,872,157	863,645,594	-	2,441,224,061
Due to the Customers	-	132,457,216	80,385,953	373,301,887	-	586,145,056
Other Financial Liabilities	-	96,985,929	1,419,330	-	-	98,405,259
Total Financial Liabilities	**169,674,750**	**474,474,705**	**1,244,677,440**	**1,236,947,481**	**-**	3,125,774,376
Total Net Financial Assets/ (Liabilities)	**31,602,497**	**505,475,360**	**7,511,421**	**1,483,230,288**	**14,848,557**	**2,042,668,124**

Notes to the Financial Statements cont….

Year ended 31 March 2019

42. RISK MANAGEMENT (Contd...)

As at 31 March 2018	On Demand Rs.	Less Than 3 Months Rs.	3 to 12 Months Rs.	1 to 5 years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets						
Cash and Bank Balances	51,593,413	-	-	-	-	51,593,413
Investment in Government Securities and Placements with Banks and Other Financial Institutions	-	62,486,280	4,945,942	-	-	67,432,222
Gold Advances	-	173,299,452	4,448,894	-	-	177,748,346
Lease Rentals Receivable and Stock out on Hire	87,977,031	245,161,349	725,645,811	1,685,585,183	930,054	2,745,299,427
Loans and Advances	29,095,736	82,976,622	173,446,470	417,035,414	22,453,047	725,007,289
Financial Investments- Available for Sale	-	-	-	-	457,700	457,700
Other Financial Assets	455,000	3,515,388	1,905,995	4,601,408	-	10,477,791
Total Financial Assets	**169,121,180**	**567,439,091**	**910,393,112**	**2,107,222,005**	**23,840,801**	**3,778,016,189**
Financial Liabilities						
Interest Bearing Borrowings	48,004,642	120,331,111	728,991,081	886,903,651	-	1,784,230,485
Due to the Customers	-	105,538,283	136,858,068	121,006,724	-	363,403,076
Other Financial Liabilities	-	144,288,078	1,598,391	-	-	145,886,468
Total Financial Liabilities	**48,004,642**	**370,157,472**	**867,447,540**	**1,007,910,375**	**-**	**2,293,520,028**
Total Net Financial Assets/ (Liabilities)	**121,116,538**	**197,281,619**	**42,945,572**	**1,099,311,631**	**23,840,801**	**1,484,496,160**

42.4 INTEREST RATE RISK

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;

Interest Rate Risk Exposure on 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 repricing or maturity dates.

Notes to the Financial Statements cont.…

Year ended 31 March 2019

42. RISK MANAGEMENT (Contd...)

As at 31 March 2019	Total As at 31-03-2019 Rs.	Interest Bearing Less Than 3 Months Rs.	3 to 12 Month Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Non Interest Bearing Rs.
Financial Assets						
Cash and Bank Balances	42,822,230	-	-	-	-	42,822,230
Investment in Government Securities and Placements with Banks and Other Financial Institutions	67,032,677	25,270,367	41,762,310	-	-	-
Gold Advances	456,564,892	454,098,237	2,466,656	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	2,330,782,305	284,946,113	551,974,345	1,489,808,329	4,053,517	-
Loans and Advances	1,024,034,162	154,024,000	260,799,810	600,524,667	8,685,685	-
Financial Investments - Measured at FVTOCI	457,700	-	-	-	-	457,700
Other Financial Assets	42,662,018	-	-	-	-	42,662,018
Total Financial Assets	**3,964,355,983**	**918,338,716**	**857,003,121**	**2,090,332,996**	**12,739,202**	**85,941,948**
Financial Liabilities						
Interest Bearing Borrowings	2,190,707,788	387,600,448	1,040,413,751	762,693,589	-	-
Due to the Customers	584,784,876	135,166,347	77,064,642	372,553,887	-	-
Other Financial Liabilities	96,219,835	-	-	-	-	96,219,835
Total Financial Liabilities	**2,871,712,500**	**522,766,795**	**1,117,478,393**	**1,135,247,476**	**-**	**96,219,835**
Interest Sensitivity Gap	**1,092,643,484**	**395,571,921**	(260,475,272)	**955,085,520**	**12,739,202**	**(10,277,887)**

As at 31 March 2018	Total As at 31-03-2018 Rs.	Interest Bearing Less Than 3 Months Rs.	3 to 12 Month Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Non Interest Bearing Rs.
Cash and Bank Balances	51,593,413	-	-	-	-	51,593,413
Investment in Government Securities and Placements with Banks and Other Financial Institutions	66,501,437	61,762,705	4,738,732	-	-	-
Gold Advances	177,748,346	173,299,452	4,448,894	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	2,063,794,289	287,350,819	560,124,170	1,215,769,300	550,000	-
Loans and Advances	508,513,444	98,693,086	127,147,600	271,803,373	10,869,385	-
Financial Investments- Available for Sale	457,700	-	-	-	-	457,700
Other Financial Assets	46,820,823	-	-	-	-	46,820,823
Total Financial Assets	**2,915,429,453**	**621,106,063**	**696,459,396**	**1,487,572,673**	**11,419,385**	**98,871,936**

Notes to the Financial Statements cont….

Year ended 31 March 2019

42. RISK MANAGEMENT (Contd...)

As at 31 March 2018	Total As at 31-03-2018 Rs.	Interest Bearing Less Than 3 Months Rs.	Interest Bearing 3 to 12 Month Rs.	Interest Bearing 1 to 5 Years Rs.	Interest Bearing Over 5 Years Rs.	Non Interest Bearing Rs.
Financial Liabilities						
Interest Bearing Borrowings	1,529,388,772	154,797,610	597,029,689	777,561,473	-	-
Due to the Customers	367,110,412	110,282,050	135,821,638	121,006,724	-	-
Other Financial Liabilities	145,886,468	-	-	-	-	145,886,468
Total Financial Liabilities	**2,042,385,652**	**265,079,660**	**732,851,327**	**898,568,197**	**-**	**145,886,468**
Interest Sensitivity Gap	**873,043,801**	**356,026,403**	**(36,391,931)**	**589,004,476**	**11,419,385**	**(47,014,532)**

43. OPERATING SEGMENTS

43.1 Entity-Wide Disclosures: Analysis of Gross Income on Product Basis

As at 31 March 2019	Finance Lease Rs.	Hire Purchase Rs.	Loans and Advances Rs.	Other Rs.	Total Rs.
Interest Income	455,748,600	971,762	156,153,788	91,433,156	704,307,306
Commission Income	-	-	-	9,298,176	9,298,176
Other Income	-	-	-	63,855,991	63,855,991
	455,748,600	**971,762**	**156,153,788**	**164,587,323**	**777,461,473**

As a t 31 March 2018	Finance Lease Rs.	Hire Purchase Rs.	Loans and Advances Rs.	Other Rs.	Total Rs.
Interest Income	437,122,660	4,765,561	114,000,952	16,647,895	572,537,068
Commission Income	-	-	-	8,099,316	8,099,316
Other Income	-	-	-	50,358,828	50,358,828
	437,122,660	**4,765,561**	**114,000,952**	**75,106,039**	**630,995,212**

44. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Sri Lanka Accounting Standards LKAS 7 (Statement of Cash Flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31 March 2019 are disclosed below.

	Bank Borrowing Rs.	Finance Lease Liabilities Rs.	Inter company Borrowing Rs.
Balance as at 31 March 2018	1,278,825,674	15,066,086	187,492,370
Net cash flows from financing activities	190,702,146	(7,000,605)	347,507,630
Non cash changes			
Foreign exchange movements	-	-	-
Accrual for interest expense	8,439,737	-	-
Balance as at 31 March 2019	**1,477,967,557**	**8,065,481**	**535,000,000**

Value Added Statement

Value Added	2019 Rs.	2018 Rs.
Income from Interest Related Activities	704,307,306	572,537,068
Income from Other Activities	73,154,167	58,458,144
	777,461,473	**630,995,212**
Depositors & Lenders	292,974,160	228,114,523
Cost of Sales & Services	84,512,604	73,350,687
Provision for Bad & Doubtful Debts	24,551,990	18,602,824
	402,038,754	**320,068,034**
Total Value Added	**375,422,719**	**310,927,178**
Distribution of Value Added		
To Employees as Remuneration	129,979,352	109,148,019
To Government as Taxation	118,260,598	75,865,228
Depreciation	26,060,623	23,097,639
Retained Profits	101,122,146	102,816,292
	375,422,719	**310,927,178**

Information of Ordinary Shares

DISTRIBUTION OF SHAREHOLDING AS AT 31ST MARCH 2019

	31 March 2019			
Shares	**No of Shareholders**	**% Shareholders**	**No of Shares**	**% No of Shares**
Up to 2,000,000	3	42.85%	7,065,304	7.85%
2,000,001 - 6,000,000	1	14.29%	4,000,000	4.44%
6,000,001 - 14,000,000	1	14.29%	10,400,000	11.56%
Over 14,000,000	2	28.57%	68,534,696	76.15%
	7	100.00%	90,000,000	100.00%

CATEGORIES OF SHAREHOLDERS

	31 March 2019			
Type of Investor	**No of Shareholders**	**% Shareholders**	**No of Shares**	**% No of Shares**
Local Individuals	4	57.14%	17,465,304	19.41%
Local Institutions	3	42.86%	72,534,696	80.59%
	7	100.00%	90,000,000	100.00%

Glossary of Financial Statements

Earning Assets
Income earning assets held by the Company. Typically include interest bearing balances, Investment securities and loans.

Interest Bearing Liabilities
Liabilities on which the Company is paying interest.

Investment Securities
Securities acquired and held for yield or capital growth purposes and are usually held to Maturity.

Net Interest Margin
Ratio of net interest income to earning assets.

Interest Spread
Represents the difference between the average interest rate earned and the average interest rate paid on funds.

Non-Performing loan (NPL) Ratio
The net Non-Performing Loans as a percentage of the total loan portfolio.

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange, Treasury Bills.

Provision for Bad Debts
Amounts set aside against possible losses on financial leases, hire purchases, advances and other credit facilities according to the Finance Companies Direction 3 of 2006.

Materiality
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of financial statements.

Net Assets Value per Ordinary Share
Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

Risk Weighted Assets
On Balance Sheet Assets and the credit equivalent of off Balance Sheet Assets multiplied by the relevant risk weighting factors.

Segmental Analysis
Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

Repurchase Agreement
Contract to sell and subsequently repurchase securities at a specified date and price.

Return on Average Equity (ROE)
Net income, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve
Reserves set aside for future distribution and investment.

Shareholders' Funds
Total of issued and fully paid share capital and capital and revenue reserves.

Net Interest Income
The difference between income earned from interest earning assets and cost incurred on interest bearing liabilities.

Non-Performing Loans
Loan advances and hire purchase/lease finance of which interest or capital is in arrears six months or more.

Prudence
Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Return on Average Assets (RoA)
Profit After Tax divided by the average assets.

Substance over Form
The consideration that the accounting treatment and the presenting in financial statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

Tier I Capital
Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital
Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Value Added
Value of wealth created by providing financial and other related services less the cost of providing such services.

Debt to Equity Ratio
Long term Borrowings of the Company including Debentures divided by shareholders funds.

Interest Cover
Earnings before interest and taxes divided by interest cost.

Liquid Assets Ratio
Liquid Assets divided by public Deposits.

Capital Adequacy Ratios
The relationship between capital and the risk weighted assets as prescribed by the Central Bank of Sri Lanka developed by modifying international best practices on maintenance of capital for financial institutions, to suit the local requirements.

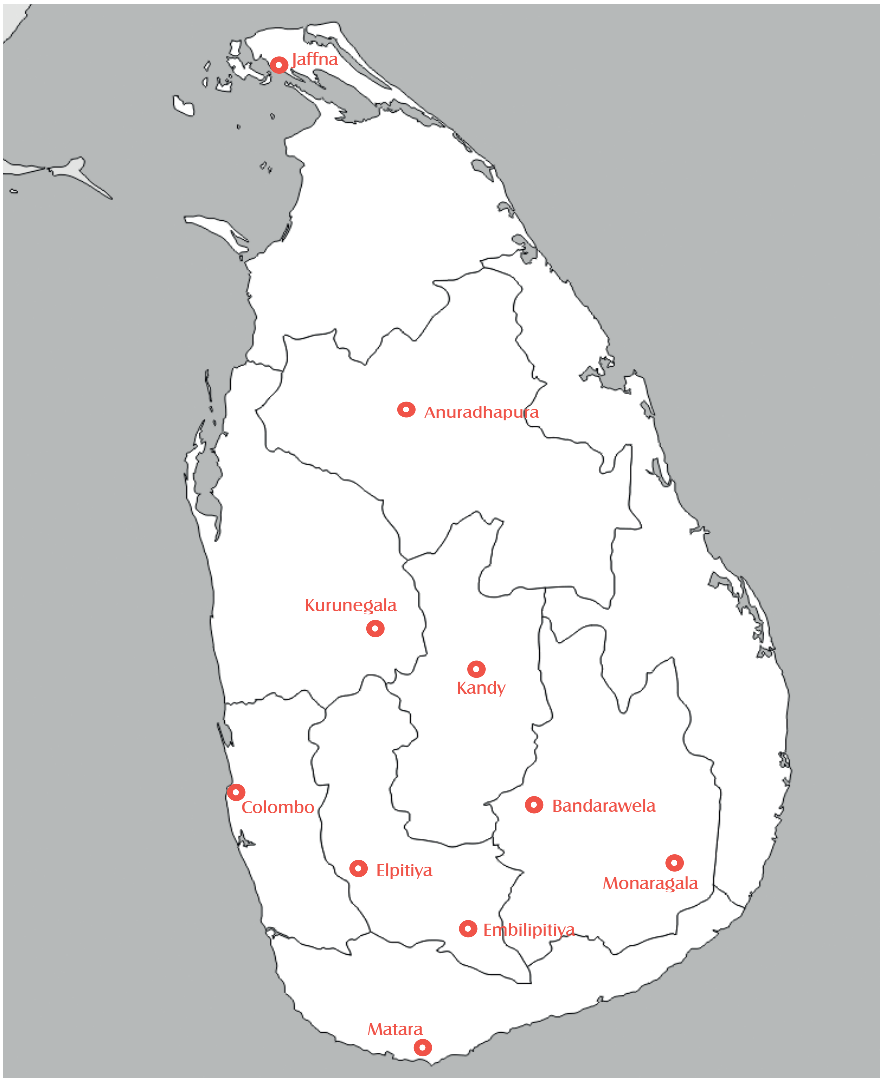
Interest in suspense
Interest suspended on non-performing contracts without recognizing to the Income.

Earnings per Share
Net profit after tax divided by the number of ordinary shares in issue.

Deferred Tax
Sum set aside in the financial statements for taxation that may become payable / receivable in a financial year other than the current financial year.

Related Parties
Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Distribution Channels



S/N	BRANCH NAME	ADDRESS	TELEPHONE NUMBER	FAX NUMBER
01	Head Office	299, Union Place, Colombo 02	0112396060	0112396757
02	Bandarawela	187, Main Rd, Bandarawela	0572230022 / 0572221025	0572230030
03	Jaffna	408, Hospital Rd, Jaffna	0212219990	0212219991
04	Kurunegala	262/A, Puttalam Rd, Kurunegala	0372232110	0372232010
05	Elpitiya	10/B, Pituwala Rd, Elpitiya	0912291427	0912291428
06	Anuradhapura	9C, Main Street, Anuradhapura	0252237925	0252237905
07	Embilipitiya	28, Pallegama, Embilipitiya.	0472261467/ 0473620040	0472261468
08	Monaragala	100, New Bus Stand, Monaragala	0552055858	0552055588
09	Matara	91, Anagarika Dharmapala Rd, Matara	0412226916	0412226912
10	Kandy	119 A, Kotugodella Weediya, Kandy	0812208708	0812208709

Notice of Annual General Meeting

IDEAL FINANCE LIMITED

Notice is hereby given that the Seventh Annual General Meeting of Ideal Finance Limited will be held at the Board Room of Ideal Motors (Pvt) Limited, No.299, Union Place, Colombo 02 on Friday, 20th September 2019 at 4.00 p. m. and the business to be brought before the meeting will be:

AGENDA

1. To receive and consider the Annual Report of the Board of Directors on the State of Affairs of the Company and the Audited Financial Statements for the year ended 31st March 2019 with the Report of the Auditors thereon.

2. To re-elect as a Director Mr. N.J. Welgama who retires by rotation in terms of Article No.24 (6) of the Articles of Association of the Company.

3. To re-elect as a Director Mr. P.A. De Silva who retires by rotation in terms of Article No. 24(6) of the Articles of Association of the Company.

4. To authorize Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been re-appointed as Auditors in terms of Section 158 of the Companies Act No.07 of 2007.

By Order of the Board of Directors of Ideal Finance Limited

S S P CORPORATE SERVICES (PRIVATE) LIMITED
SECRETARIES

Colombo
27th August 2019

The member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend and vote instead of him/her. Such proxy need not be a member of the Company.

A Form of Proxy is enclosed.

Note:-
The completed Form of Proxy should be deposited at the Registered Office of the Company, at No.299, Union Place, Colombo 2, not later than 48 hours before the time appointed for the holding of the meeting.

Notes

IDEAL FINANCE LIMITED

FORM OF PROXY

I……………………………………………...………………(NIC No……................………………)
of…………………………..…………………being a member of the above Company, hereby appoint:

Mr. Nalin Jayaraj Welgama	of Colombo or failing him
Mr. Pinnaduwage Aravinda De Silva	of Colombo or failing him
Mr. John Viraj Winston Malawana	of Colombo or failing him
Mr. Duminda Mahali Weerasekare	of Colombo or failing him
Dr. Paul Leslie Suren Peter	of Colombo or failing him

Mr./Mrs./Miss ....(NIC No.………......…………..)
of.. as my proxy to represent me and vote on my behalf at the Annual General Meeting of the Company to be held on 20th September 2019 and at any adjournment thereof and at every poll which may be taken in consequence of the aforesaid meeting and to VOTE as indicated below:

		FOR	AGAINST
1.	To receive and consider the Report of the Board of Directors on the State of Affairs of the Company and the Audited Financial Statements for the year ended 31st March 2019 with the Report of the Auditors thereon.		
2.	To re-elect as a Director Mr. N.J. Welgama who retires by rotation in terms of Article No.24(6) of the Articles of Association of the Company.		
3.	To re-elect as a Director Mr. P.A. De Silva who retires by rotation in terms Article No.24(6) of the Articles of Association of the Company.		
4.	To authorise Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed have been re-appointed as Auditors.		

Signed this .... day of ....Two Thousand and Nineteen.

....
Signature

Note :

1. Please delete the inappropriate words.
2. Instructions for completion of form of proxy are noted on the reverse
3. A proxy need not be a member of the Company

INSTRUCTIONS FOR COMPLETION OF FORM OF PROXY

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, and your instructions as to voting, by signing in the space provided and filling in the date of signature.

2. Please indicate with a 'X' in the cages provided how your proxy is to vote on the Resolutions. If no indication is given or if there is any doubt as to how the Proxy should vote by reason of the manner in which the instructions are carried out, the proxy in his/her discretion may vote as he/she thinks fit.

3. The completed Form of Proxy should be deposited at the Registered Office of the Company at No.299, Union Place, Colombo – 02, not less than 48 hours before the time appointed for holding the meeting.

4. If the Form of Proxy is signed by an attorney, the relative power of attorney should accompany the completed form of proxy for registration, if such power of attorney has not already been registered with the Company.

Note:

If the shareholder is a Company or body corporate, Section 138 of the Companies Act No.7 of 2007 applies to corporate shareholders of Ideal Finance Limited. Section 138 provides for representation of Companies at meetings of other Companies. A Corporation, whether a Company within the meaning of this Act or not, may, where it is a member of another Corporation, being a Company within the meaning of this Act, by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company. A person authorised as aforesaid shall be entitled to exercise the same power on behalf of the Corporation which it represents as that Corporation could exercise if it were an individual shareholder of that other Company.

Corporate Values

Name of the Company	:	IDEAL FINANCE LIMITED
Date of incorporation	:	24th January, 2012
Head Office	:	No 299, Dr. Colvin R De Silva Mawatha, (Union Place) Colombo 02 Telephone: +94112396060 Fax : +94112396757 E-mail : info@idealfinance.lk Website: www.idealfinance.lk
Legal Form	:	Limited Liability Company incorporated in Sri Lanka under The Companies Act No.7 of 2007. A Finance Company registered under the Finance Companies Act No. 42 of 2011. A registered Finance Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000.
Secretaries	:	SSP Corporate Services (Private) Limited 101, Inner Flower Road, Colombo 03
Bankers	:	Bank of Ceylon Seylan Bank PLC Commercial Bank of Ceylon PLC Pan Asia Banking Corporation PLC Cargills Bank Limited
Company Registration	:	PB 4963
VAT Registration	:	134049634 7000
Auditors	:	Ernst & Young Chartered Accountants 201, De Saram Place, Colombo 10.
Directors	:	Mr. Nalin Welgama (Chairman) Mr. Duminda Weerasekare (Chief Executive Officer) Mr. Aravinda De Silva (Non-Executive Director) Mr. Viraj Malawana (Non-Executive Director) Dr. Suren Peter (Independent Non-Executive Director)

Share Holding :

Ideal Holdings (Pvt) Ltd.	-	51.04%
Ideal Motors (Pvt) Ltd	-	25.11%
Mr. Viraj Malawana	-	11.56%
Veritas Holdings (Pvt) Ltd	-	04.44%
Mr. N.J Welgama	-	02.93%
Mr. P. A.De Silva	-	02.93%
Mr. D. M Weerasekare	-	02.00%

IDEAL Finance Limited
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