

The background is a complex, abstract composition of geometric shapes and lines. It features a dark blue base with vibrant accents of purple, pink, orange, and yellow. The design includes various patterns such as dashed lines, solid lines, and small triangles, creating a sense of depth and movement. The overall aesthetic is modern and digital.


# JOURNEYING ON

IDEAL FINANCE LIMITED  
ANNUAL REPORT 2020/21





# JOURNEYING ON



At Ideal Finance (IFL) progressive plans and strategies have molded and motivated us throughout our journey; enabling us to exceed expectations in every performance indicator through both prosperous and turbulent periods in our nation's history. As we continue to invest in improving our business model, strengthening our capital positions and expanding our human resources – the power of remarkable leadership, team effort, and collaboration continued to strengthen our presence in a vast industry.

This report pays tribute to the Ideal Finance team who navigated through challenging terrains to deliver rewarding trust and value to all those we serve, and that's why we're journeying on today; hand-in-hand with our valued stakeholders.

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# About the Company

▲	Date of incorporation	24 January 2012
▲	Branches as at 31 March 2021	12 including the Head Office
▲	Credit Rating	BB- watch positive (Fitch)
▲	Shareholders	Total number of shareholders are limited to 7. This included 4 local individuals, 2 local institutions and 1 foreign institution The main Shareholders are Ideal Motors (Pvt) Limited and Mahindra and Mahindra Financial Services Ltd of India
	Capitalization	As at 31 March 2021, the Total Capital ratio was 44.83%, while the Tier 1 Capital ratio was 43.47% compared to the regulatory minimum ratios of 11% and 7%, respectively
	Total employees	168

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

# OUR VISION

To be the most credible, trustworthy  
and professional finance institution,  
with a heart.

Which will deliver financial favors to  
our customers.

# OUR MISSION

Enhance professionalism & lives of our  
employees to be the most sought after  
employer

Increase 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 pushing our boundaries 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 globalized 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

## PROFITABILITY

	2020/21	2019/20
Profit after taxation (LKR)	183,755,275	105,351,084
Earnings per share (Basic/Diluted)	1.26	1.11
Return on assets - pre tax	5.40%	3.53%
Return on assets - post tax	3.45%	2.24%
Return on equity - pre tax	11.95%	9.54%
Return on equity - post tax	7.64%	6.06%

## CREDIT QUALITY

	2020/21	2019/20
Gross NPL ratio	3.29%	5.18%
Net NPL ratio	-0.40%	1.99%
Provision coverage times	1.12	0.62

## STABILITY

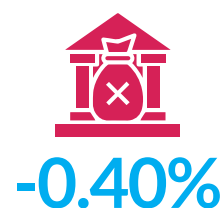
	2020/21	2019/20
Tier 1 capital ratio	43.47%	47.28%
Total capital ratio	44.83%	47.28%
Leverage ratio (debt equity ratio) times	1.05 times	1.10 times

## LIQUIDITY

	2020/21	2019/20
Statutory liquid assets ratio	182%	101%
Liquidity coverage ratio	934%	1009%

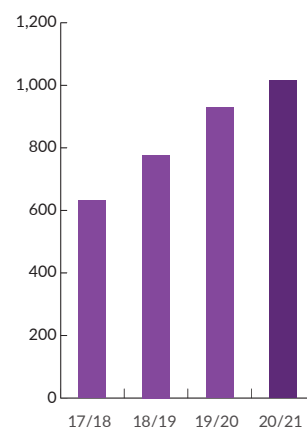
## SHARE VALUATION

	2020/21 LKR	2019/20 LKR
Net assets value per ordinary share	17.20	15.94

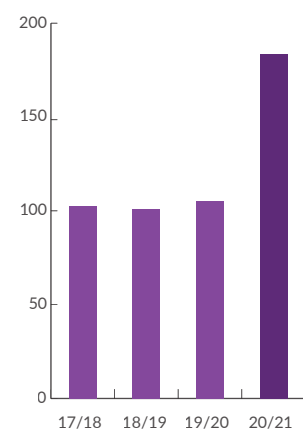


Net NPL Ratio

Revenue (LKR. Mn)



Profits (LKR. Mn)





**FINANCIAL HIGHLIGHTS**

	2020/21 LKR	2019/20 LKR
Gross income	1,015,293,382	927,784,733
Operating profit before taxes on financial services	360,214,781	234,416,189
Taxes on financial services	(71,777,093)	(70,381,010)
Profit before taxation (PBT)	288,437,688	164,035,179
Income tax expenses	(104,682,412)	(58,684,095)
Profit after tax (PAT)	183,755,275	105,351,084

**POSITION AT YEAR-END**

	2020/21 LKR	2019/20 LKR
Shareholders' funds (Stated capital and reserves)	2,505,427,388	2,320,989,977
Financial liabilities at amortized cost - due to depositors	929,639,458	671,917,133
Gross loans and advances	4,613,942,043	4,042,427,958
Total assets	5,519,828,611	5,166,387,981
Earnings (Basic)	1.26	1.11
Earnings (Diluted)	1.26	1.11
Net assets value (equity)	2,505,427,388	2,320,989,977

**RATIOS**

	2020/21	2019/20
Return on average shareholders' funds - (ROE) pre tax	11.95%	9.54%
Return on average shareholders' funds - (ROE) post tax	7.64%	6.06%
Return on average assets - (ROA) pre tax	5.40%	3.53%
Return on average assets - (ROA) post tax	3.45%	2.24%
Net interest margin	14.27%	11.83%
Total impairment provision as a % of gross loans and advances	4.37%	2.99%
Non-performing loans ratio - Gross	3.29%	5.18%
Non-performing loans ratio - Net	-0.40%	1.99%

# Operational Highlights

## ▶ STRATEGIC PARTNERSHIP

In February 2020 Mahindra and Mahindra Financial Services Limited (MMFSL) invested LKR 1.1 Bn for a stake of 38.2% in IFL. The final tranche of the investment will increase the MMFSL holding to 58.2% in the 2021/22 financial year. During the financial year 2020/21 IFL commenced working closely with MMFSL in preparation for this final change.

## ▶ WORK FORCE HEALTH AND SAFETY

The safety of our work force was a priority during the year and all recommendations of the health authorities were fully implemented at all our branches, by issuing guidelines and releasing funds. We are pleased to report that the Company was certified as a Great Place To Work in 2020/21 as well.

## ▶ RETAINING OUR PROFIT TARGETS

Despite the emergence of a global pandemic, it was decided to retain the profitability targets set for the year and revise strategies to sustain profitability.

## ▶ EXPANSION ON TRACK

Despite the prevalent market uncertainty, we continued with our planned expansion drive for the year, by opening two new branches and relocating two branches. We expanded our workforce to 168 and also recruited a Head of Human Resources to manage our growing human capital base.

## ▶ MARKETING & BUSINESS DEVELOPMENT

A corporate rebranding project was initiated in preparation for the brand transformation in 2021/22. Business expansion was supported by aggressive BTL promotions for targeted segments at branch level, focusing on leasing, gold loans and fixed deposits. We also initiated digital marketing activities on selected products and regions.

## ▶ PUSHING ASSET GROWTH

Strategies were deployed to sustain asset growth despite market disruptions, while also maintaining asset quality.

## ▶ FOCUS ON COLLECTION

All staff were deployed towards a collection drive spearheaded through a Daily Collection Monitoring Team. Weekly collection meetings were held with all branches and monthly progress reports were submitted to the Board.

## ▶ MAINTAINING CREDIT QUALITY

Stringent lending criteria were observed with continuous monitoring of portfolios to maintain credit quality.

## ▶ MANAGING OUR FUNDING

Cost of funds was optimized by renegotiating rates and initiating more advantageous credit lines with banks and other lending agencies, while also executing a deposit mobilization campaign through the branch network.

# Our Journey Over the Years

## 2020/2021

Even under pandemic conditions, IFL recorded the highest net profit of LKR 184.4 Mn

2 new branches were opened in Vavuniya and Gampaha

Elpitiya and Kurunegala Branches were relocated

BB- (lka) rating from Fitch Rating in June 2020.

Awarded a Great Place To Work for the 2nd consecutive year



## 2019/2020

MMFSL joins as the 2nd largest shareholder with an equity of LKR 1.1 Bn enabling IFL to comply with regulatory capital adequacy.

Awarded a Great Place To Work 2019-20



## 2013/2014

New branches were added in Anuradhapura, Elpitiya, Embilipitiya, Jaffna and Kurunegala. The Bandarawela service center was opened.

SME support was emphasized

## 2018/2019

Branch network grows to 10, with 2 new branches in Kandy and Matara

## 2016/2017

Monaragala branch was opened



## 2015/2016

Gold loans, business loans and personal loans were introduced

B+(lka) Stable rating from Fitch Ratings

## 2017/2018

Jaffna and Monaragala branches were relocated

## 2012/2013

IFL commenced operations on 27 March 2012

As at end March 2013:  
Portfolio : LKR 285.9 Mn Deposit base: LKR 48.8 Mn



# Chairman's Message



Nalin J. Welgama  
Chairman



**LKR 5,520 Mn**

Total Assets



**38%**

Increase in Customer Deposit Base



Against the backdrop of a global pandemic that caused both the global economy and the Sri Lankan economy to take a severe battering, I believe I am justified in claiming our performance has been extraordinary in terms of profitability and asset quality.

It is my great pleasure to present to our shareholders the annual report and audited accounts of Ideal Finance Limited (IFL), for the financial year 2020-21.

I am pleased to report to our shareholders that the financial year 2020-21 has been the best performing year of your Company to date, in spite of it being the most challenging year we have faced since inception. Against the backdrop of a global pandemic that caused both the global economy and the Sri Lankan economy to take a severe battering, I believe I am justified in claiming our performance has been extraordinary in terms of profitability and asset quality. We have journeyed-on, undaunted and undeterred by all challenges.

#### GLOBAL ECONOMY

Following the emergence of the COVID-19 pandemic, the global economy recorded its worst recession in decades in 2020. According to the World Economic Outlook (WEO) of the International Monetary Fund (IMF), released in April 2021, the global economy contracted by 3.3% in 2020, compared to a growth of 2.8% in 2019. Advanced economies were estimated to have contracted by 4.7%, while a contraction of 2.2% was estimated in relation to emerging markets and developing economies. Meanwhile, in China, where the COVID-19 pandemic originated, the economy recorded a growth of 2.3% in 2020. Unparalleled policy support on several fronts, including health, fiscal, monetary and social, facilitated an upturn in most economies towards the second half of 2020.

## Chairman's Message

Projections for global growth for 2021 has been revised upward by the IMF to 6.0%, reflecting a stronger-than-expected recovery from the pandemic. Advanced economies are projected to grow by 5.1% in 2021 with the United States projected to grow by 6.4% and the euro region is projected to pick up to 4.4% in 2021. Emerging markets and developing economies are projected to record a strong growth of 6.7% in 2021, with emerging and developing Asia, which contracted by 1.0% in 2020, expected to grow by 8.6% in 2021, driven by expected high growth of China and India.

### SRI LANKAN ECONOMY

Hard on the heels of the Easter Sunday attacks of 2019, the Sri Lankan economy had hardly any respite to recover, before the advent of the COVID-19 in 2020. Consequently, the GDP at constant market prices contracted by 3.6% in 2020, recording LKR 9,530.6 Bn, compared to the growth of 2.3% in 2019. The GDP per capita was estimated at LKR 683,106 (US dollars 3,682) in 2020, compared to LKR 688,573 (US dollars 3,852) in 2019. Agriculture activities recorded a contraction of 2.4% in 2020 in value added terms, compared to the growth of 1.0% in 2019, due to the considerable decline in some of the major agriculture activities, including fishing, growing of oleaginous fruits (including coconut), tea, forestry and logging, and animal production. Reflecting the adverse impacts of COVID-19 pandemic, mainly on construction, manufacturing, and mining and quarrying activities, industry activities contracted by 6.9% in 2020 in value added terms, compared to the growth of 2.6% in 2019.



**In spite of the economic downturn, we closed the year on a high note, by exceeding our financial targets with a 9% growth in total income which reached LKR 1,015 Mn.**

COVID-19 caused severe disturbances to mobility and tourism-related activities leading to an overall contraction in the services sector in 2020 by 1.5% in value added terms, against the growth of 2.2% in 2019. Tourist arrivals, which were affected by the Easter Sunday attacks in 2019, declined further by 73.5% in 2020 amidst the restrictions imposed on tourist arrivals to contain the spread of the pandemic. Transportation of goods and passengers, including warehousing activities, contracted by 6.7%, in comparison to the growth of 1.4% in 2019, mainly due to the COVID-19 related restrictions on mobility and the set back in the tourism industry. With the significant contraction in tourist arrivals, accommodation, food and beverage service activities contracted significantly by 39.4%, on top of the decline of 4.6% recorded in 2019. However, financial service activities and auxiliary financial services grew by 10.9% in 2020, compared to the growth of 2.0% recorded in 2019.

### THE NON-BANK FINANCE SECTOR

The non-bank financial sector in Sri Lanka contracted by 2.2% (LKR 31.0 Bn) reaching LKR 1,401.6 Bn compared to the 0.1% growth reported in 2019 as lending of the sector continued to slow down amidst COVID-19 lockdowns and curtailment of vehicle imports. Credit provided by the sector contracted by 5.7% to LKR 1,039.9 Bn compared to the contraction of 3.0% in the corresponding period of 2019. Against this backdrop, the net interest income declined by 5.3% to LKR 111.2 Bn and the net interest margin of the sector declined to 7.3% in 2020 from the 7.7% in 2019. The gross NPL ratio increased to 13.9% by end December 2020, from 10.6% reported as at end December 2019, showing a severe deterioration in the asset quality of the sector. The net NPL ratio also increased to 4.2% by end December 2020 from 3.4% reported at end December 2019. The sector profit after tax of LKR 13.7 Bn is a decline of 6.1% compared to the profit recorded in year 2019, mainly due to the significant decline in interest income recorded during the period.

## COMPANY PERFORMANCE

Against the above circumstances, IFL's performance is extremely encouraging in the context of our future plans, indicating the strong position of the Company and potential for enhanced performance in the future.

Economic conditions worsened in 2020, following the aftermath of the Easter Sunday attacks of 2019, with the imposition of COVID-19 containment measures, import restrictions, intensified competition due to interest rate cuts and the continued decline in the leasing and loan sectors. Within this unfavourable scenario, we anticipated a slower rate of growth than originally projected, as the Company's geographical expansion could not be executed as planned. Therefore, we emphasized prudent cash flow management, cost optimization and stringent risk monitoring to safeguard the Company assets. A major initiative during the year, was the launch of our digitization strategy, which is sure to generate multiple benefits for the Company in the coming years, in the form of cost and production efficiencies, service quality enhancements and product diversification. The safety of all our staff was given priority, while facilitating uninterrupted services to our

customers. I am pleased to report, that despite the economic uncertainty, we also continued to support suitable community welfare and social responsibility projects.

In spite of the economic downturn, we closed the year on a high note, by exceeding our financial targets with a 9% growth in total income which reached LKR 1,015 Mn. The total asset base has expanded by LKR 353 Mn, to reach LKR 5,520 Mn and we have achieved a remarkable 74% growth in profits totalling to LKR 184 Mn. We have also reduced our NPL levels against the previous year, while NPLs were increasing across the industry. The Credit rating improved to 'BB- watch positive' from 'B+ watch positive.'

However, it was the decision of the Board to withhold dividend payments in the current year in favour of reinvesting for growth and our shareholders will soon benefit from this long-term vision of the company.

### STRONG STEWARDSHIP

The highest standard of governance and compliance was maintained throughout the year, while continually monitoring all internal controls. Risk factors were closely monitored and risk appetites were



74%

Growth in Profits



9%

Growth in Total Income

redefined during the pandemic to enhance the risk management framework, with the Board, Board Committees, Sub Committees and Management Committees, actively participating in the continuous risk management process.

With Mahindra & Mahindra Financial Services Limited (MMFSL) joining as a majority shareholder with an equity contribution of LKR 1.1 Bn in February 2020, IFL commenced working closely with MMFSL during the 2020/21 financial year. MMFSL has nominated their directors as new directors on the IFL Board, while Mr Muffadaal Choonia has also been appointed as the MMFSL coordinator. However, these appointments are yet pending Central Bank approval, and the appointment of a CFO by MMFSL was also delayed due to COVID-19 disruptions.



The two capital injections have already been completed with the second tranche of LKR 1.1 Bn invested in 2020.

## Chairman's Message

However, the MMFSL Coordinator was an active participant in Board Subcommittee meetings and operational level monthly meetings. The MMFSL Board nominees and the Coordinator were invitees at the monthly board meetings. In addition, a new Independent Non-Executive Director Ms. Chrisanthi L. Jayawardena was appointed to the Board, in compliance with regulatory requirements.

### FUTURE DIRECTION AND PLANS

As our shareholders are aware, IFL and MMFSL entered into a shareholder agreement in August 2019 initiating a new strategic direction for IFL. This equity partnership was structured with two capital infusions and a share purchase from existing shareholders. The two capital injections have already been completed with the second tranche of LKR 1.1 Bn invested in February 2020. Therefore, as at end-March 2021, MMFSL's share ownership amounts to 38.2% of the Company. The share purchase is scheduled for June-July 2021, which will make MMFSL the primary shareholder with ownership of 58.2% of the Company.

The strategy map to guide IFL's next phase of growth has already been initiated and will move into full swing in the new financial year, with 16 new branches coming on line, dramatically expanding the Company's physical reach. All arrangements are underway to expand our staff to drive this growth and we have already recruited a Head of Human Resources and have commenced reorganizing the organization structure for optimum human resource utilization.



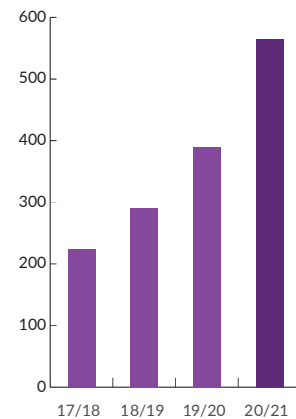
The strategy map to guide IFL's next phase of growth has already been initiated and will move into full swing in the new financial year, with 16 new branches coming on line, dramatically expanding the Company's physical reach.

While pushing business volume growth across the board, we will place emphasis on high demand sectors such as gold loans, while improving service channels. The new IT system, which is a core banking solution for IFL, will dramatically enhance efficiencies of service delivery and productivity gains, and will enable IFL to embrace digital banking and fintech as an initiative to propel growth. The Company will also benefit from the new branding strategy with MMFSL's branding expertise. Therefore, the new financial year of 2021/22 is earmarked as one of the most eventful years in the Company's history and our customers and shareholders will benefit from this transformation within the short to medium term.

### ACKNOWLEDGEMENTS

After completing nearly a decade, I can proudly say that we have transformed ourselves from a LKR 400 Mn asset base, to a financial institution with a LKR 5.5 Bn asset

Retained Earning (LKR Mn)



base, fulfilling all statutory requirements. We have also attracted and formed a major partnership with one of India's leading NBFCs, namely, MMFSL, whose total assets exceed a staggering US\$11 Bn. Looking back on the path we traveled, I have a sense of pride and confidence in our strong and diverse team, which is



capable of handling any challenge under the leadership of the CEO, as amply demonstrated during this financial year. I would like to thank our customers and other stakeholders for their continued faith in our capability and for helping us improve our processes to develop ourselves to this enviable position.

I also take this opportunity to thank our shareholders for their support and confidence in the company. I thank the Members of the Board, the Deputy Chairman, and Board Committees and the CEO, for their invaluable contributions in navigating the Company to its current successful conclusion during a universally difficult time. In this context, I would also like to formally acknowledge the supportive role of our internal and external auditors. I must also thank the Governor of the Central Bank and Officials of the Non-Bank Financial Institutions Supervision Division for their guidance during the year. I invite all our stakeholders to join us in our journey of growth that starts in the new financial year.



Sincerely,  
**Nalin J. Welgama**  
Chairman

15 April 2021

# Chief Executive Officer's Message



Duminda M. Weerasekare  
Director / CEO



## It is noteworthy that despite the hardships faced, IFL was once more designated a Great Place to Work.

While world trade and global economies were disrupted by a global pandemic, I am pleased to report steady progress of IFL's strategic vision during the financial year 2020/21. Against incredible headwinds that threatened to blow us off-course, we have remained firmly on course and journeyed-on as a team, striving together, towards our final objective.

The 2020/21 financial year was expected to have a strong start for IFL due to MMFSL's LKR 1.1 Bn investment in February 2020. This investment gave MMFSL a 38.2% stake of IFL and was



### LKR 1.1 Bn

MMFSL Investment



### 38.2%

MMFSL Stake in IFL

backed by a commitment to buy shares from the existing shareholders, to increase the MMFSL holding to 58.2% by January 2021. However, these plans were postponed following the unexpected emergence of the Covid-19 pandemic, and the financial year 2020/21 commenced in April 2020, on a much more unpredictable footing.

Given the global impact of the pandemic and wide-ranging risks to the Sri Lankan economy, IFL focused on the core values that had driven the Company's growth in the past 9 years, to sustain the Company in these uncertain times. These core principles of profitability, asset growth, credit quality and a work culture based on responsibility and integrity, were the keystones of our success during this unprecedented crisis.

#### IFL'S STRATEGIC RESPONSE

Following the sudden emergence of the global pandemic, the first step was to ensure the safety of all employees. All employees were given strict instructions to follow health guidelines and provided all necessary resources required to maintain a high level of compliance, thereby successfully avoiding infection of any IFL staff. To ensure business continuity under the new normal of Covid-19 restrictions, a work-from-home model was immediately deployed, with a vehicle pooling option for those who had to physically report to work. Continuous communications and work coordination were maintained across the Company through online meetings for staff, department heads and within departments. It is noteworthy that despite the hardships faced, IFL was once more designated a Great Place to Work.

## Chief Executive Officer's Message

It was decided to retain the profitability targets and devise strategies to sustain profitability coupled with a zero-based-budgeting strategy to optimize strategies to sustain cost conservation, starting with voluntary pay cuts for all managerial staff. However, the Company also gave employees two incentives during the year with a salary revision, to ensure the financial welfare of staff. The targeted cost containment measures generated excellent results with overall administration costs declining by 25%, while mobile phone bills were reduced by 50%. As interest rates started to decline rapidly, borrowing rates were renegotiated successfully, and new funding lines were initiated through investment banks and from institutional and high net worth investors, for a more competitive funding structure. With regards to safeguarding financial sustainability, managing collections and maintaining portfolio quality were targeted as crucial interventions. To sustain asset growth, the Company focused on more short-term lending products, such as gold loans and mobile phone loans for work and education.

### PERFORMING UNDER PANDEMIC CONDITIONS

IFL's range of quick and effective responses to the ground-level changes facilitated sustained growth in revenues and assets, while maintaining asset quality. Continuous market monitoring and close contact with customers made it possible to rapidly realign operations to meet changing customer needs with convenient and affordable solutions. Service quality was improved by setting up an in-house



## IFL's range of quick and effective responses to the ground-level changes facilitated sustained growth in revenues and assets, while maintaining asset quality.

call center for customer care and collections. While marketing and branding activities were restricted due to Covid-19 restrictions, below the line marketing activities at branches were continued wherever possible, thereby retaining brand visibility. Consequently, IFL's profitability and asset quality, exceeded expectations. The exception was assets under management, which faced extreme challenges to portfolio expansion due to restrictions on vehicle imports.

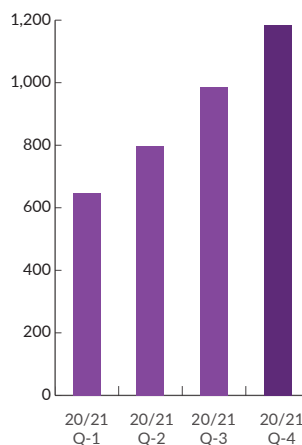
As new vehicle imports were restricted, leasing revenues were limited to

unregistered vehicles at car sales centers. Meanwhile, vehicle prices appreciated by as much as 50% and competition for the available vehicles intensified. Therefore, IFL focused on 3-wheeler leasing outside the Western Province, by re-launching the 3-wheeler product to sustain business growth in regional branches. This strategy was extremely successful and the segment enjoyed moderate growth.

The gold loan portfolio saw the highest year-on-year growth of 70% following the introduction of 1-month and less-than-1-month facilities, coupled with lower interest rates and service charges, in line with the lower interest rates. New financial products, such as mobile phone financing for work and education to salaried government employees, also contributed towards sustaining revenues.

Against the environment of travel restrictions, the branch network was reviewed to enhance customer accessibility, and the two branches of Kurunegala and Elpitiya were shifted to new locations. Two new branches were opened in Vavuniya and Gampaha. Despite the regional lockdowns and travel restrictions, all branches continued to

Gold Loans (LKR Mn)





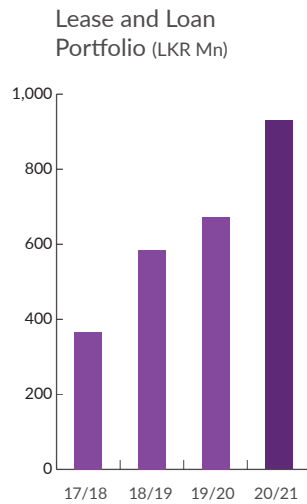
**LKR 11 Mn**  
Lease & Loan Portfolio Increase



**76%**  
PBT Increase

remain profitable, with the exception of the two new branches, which are also on track to profitability in the new financial year.

While the entire industry experienced a sharp increase in NPLs, IFL is proud to report the opposite, despite the enhanced risk environment. All moratorium requests were responded to immediately, and constant communications were maintained with recipients of moratoria. A special training was given to frontline and call center staff to explain to customers the advantages and disadvantages of the moratorium. This resulted in many opting out of moratoria in place of customized repayment programs, which was beneficial to all parties. All moratorium customers were physically visited to ensure adequate capacities to sustain payments, and



in unviable situations assistance was provided to dispose the asset with no loss to the customer. A daily collection monitoring team was set up and weekly collection meetings were held with all branches. A monthly report was submitted to the board. Prompt decisions were taken in cases where probability of disputes was high. These proactive measures facilitated higher than expected collections. Within this prudent supervision framework, the Gross NPL ratio improved to 3.3% from 5.2% in the last year, while the Net NPL ratio improved to -0.40%, demonstrating the quality of financial management maintained at IFL during one of the most stressful years in history.

A key strategic initiative during the year, was the project with MMFSL to acquire next generation software and technology for IFL. Installation of a new, digital, core banking solution is already underway and will significantly contribute towards future growth targets.

With the expansion of 16 branches, the Company expects a growth of 27% in revenue and 42% in total asset growth.

With the final stage of the partnership with MMFSL on track for June-July 2021, we are upbeat and positive about the new financial year. The growth in capital base, coupled with funds from new funding lines, will place IFL in a sound financial footing to expand its physical reach. Already, 16 new branches have been earmarked in key strategic locations across the country. This growth drive will be backed by new, sophisticated digital systems that will enhance capacity, flexibility, speed and product development capabilities, enabling faster expansion and better service standards. The recruitment drive to attract key staff to drive the expansion plans is already underway.

The expansion plans are expected to meet higher profitability and ROA targets. We hope to simultaneously also improve our position in the Great Place to Work standards, thereby making IFL one of the most desired employers in Sri Lanka.

#### ACKNOWLEDGEMENTS

I extend my heartfelt appreciations to all our staff, for being responsible during the pandemic and would like to make a special mention of our managerial staff who accepted a voluntary salary cut during the onset of the pandemic in May and June 2020, and our Senior Management who motivated their teams to continue our journey with renewed vigor. The Chief Operations Officer, Rohitha Bandusena, was instrumental in maintaining credit quality during this unprecedented time and

## Chief Executive Officer's Message

Mr Choonia Muffadel, the Vice President, must be saluted for his contributions towards introducing new initiatives, while facilitating a smooth transition to introduce MMFSL's strengths into the IFL business model. I cannot forget the Chairman, who gave unwavering leadership to the IFL team for the past nine years and steered us safely and surely during all corporate thunderstorms. I also acknowledge the Deputy Chairman for being an inspiring coach and guide in developing the current business model and for extending unhesitant support whenever requested, during the past nine years. A Founder Director and a source of strength and guidance over the past nine years, Mr Viraj Malawana was another pillar of support. I also thank Dr Suren Peter, our Senior Independent Director, for the invaluable advice and value additions through the committees that he is heading and representing. I would like to express my sincere gratitude to the three

Founder Directors Mr. Nalin Weligama, Mr. Aravinda de Silva and Mr. Viraj Malawana for giving me the strength and confidence to develop IFL to its current level. I wish them well as they retire on completion of nine years as per CBSL corporate Governance Directions.

We face the new financial year with strength of purpose and determination to continue our journey against all odds.



Sincerely,  
**Duminda M. Weerasekare**  
Chief Executive Officer

15 April 2021

# Sustaining

Understanding the needs of all stakeholder groups enabled us to remain flexible and responsive to sustain long-term relationships based on mutual trust as we journey onwards.

# Our Team

Employees were given top priority during the year and the human capital of the Company was safeguarded both in terms of physical health and safety as well as financial security, to ensure the welfare of all employees amidst the unprecedented challenges experienced during the year. Despite the prevailing uncertain conditions and against the backdrop of layoffs and salary cuts, IFL viewed employees' financial stability as non-negotiable, and employees were granted two incentives (bonus payments) in December and March and a salary revision was executed in November. In fact, the current year records the highest ever incentive payment to employees.

The primary focus was to ensure the safety of the work force and all health and safety recommendations were implemented at all branches. To facilitate work from home, new laptops were made available to

back office staff at the head office, and employees were empowered to work from home under a roster scheme. All staff were provided private transport and were prohibited from using any public transport. Travel passes were obtained to allow staff to travel under recommended health protocols, without any security risk. Health Insurer approval was obtained to reimburse any private sector PCR tests. Insurance cover on critical illnesses was extended and a special reimbursement of hospitalization expense, which exceeds the cover value, was allocated on a selective basis for managers and lower category. These safety measures built confidence in the staff to engage themselves with a high level of commitment.

The high standard of employee welfare systems and facilities made available to IFL employees was independently recognized, with IFL once more qualifying as a Great Place to Work in 2020/21.

## EMPLOYEES BY TYPE AND GENDER

	2020/21	2019/20
<b>Female Employees</b>		
↳ Permanent	45	32
↳ Contract	1	-
<b>Male Employees</b>		
↳ Permanent	119	99
↳ Contract	3	2

## EMPLOYEE BY CATEGORY AND GENDER

	Age 18-30 years		Age 31-50 years		Age over 50 years		Total
	Male	Female	Male	Female	Male	Female	
Corporate Management (Includes CEO, COO and AGMs)	-	-	-	1	5	-	6
Senior Managers / Managers / Assistant Managers	2	3	27	6	2	1	41
Executives/ Senior Executives /Junior Executives	55	29	25	7	1	-	117
Office Assistant Trainees	3	-	1	-	-	-	4
<b>Total</b>	<b>60</b>	<b>32</b>	<b>53</b>	<b>14</b>	<b>8</b>	<b>1</b>	<b>168</b>



# Operating Context

## GLOBAL ECONOMY

According to International Monetary Fund's World Economic Outlook report of April 2021, the global economy contracted by an estimated 3.3% in 2020. Close to 95 Mn more people are estimated to have fallen below the threshold of extreme poverty in 2020 compared with pre-pandemic projections. Output losses have been particularly large for countries that rely on tourism and commodity exports and for those with limited policy space to respond. Many of these countries entered the crisis in a precarious fiscal situation and with less capacity to mount major health care policy responses or support livelihoods. The projected recovery follows a severe contraction that has had particularly adverse employment and earnings impacts on certain groups. Youth, women, workers with relatively lower educational attainment, and the informally employed have generally been hit hardest. Income inequality is likely to increase significantly because of the pandemic.

The global economy is projected to grow at 6% in 2021, moderating to 4.4% in 2022. Thanks to unprecedented policy response, the COVID-19 recession is likely to leave smaller scars than the 2008 global financial crisis. However, emerging market economies and low-income developing countries have been hit harder and are expected to suffer more significant medium-term losses

## SRI LANKAN ECONOMY

The Sri Lankan economy contracted by 3.6% in 2020, compared to the 2.3% growth recorded in the preceding year. During the second quarter of the year, growth contracted by 16.4% year-on-year, due to the nationwide lockdown measures but during the second half of the year, a real growth of 1.3%, was registered. All sectors of the economy contracted during 2020 with agriculture shrinking by 2.4%, industry by 6.9%, and services by 1.5%, compared to the previous year.

In the weak economic environment, maximum interest rates on deposits and debt instruments were further reduced since April 2020 with the objective of reducing interest rates on lending. Consequently, market deposit rates decreased and the Average Weighted New Deposit Rate (AWNDR) and the Average Weighted New Fixed Deposit Rate (AWNDFDR) recorded their lowest levels of 4.93% in December 2020. Meanwhile, the weekly Average Weighted Prime Lending Rate (AWPR) reduced to 5.81% by end 2020 and the Average Weighted New Lending Rate (AWNLR) and the Average Weighted Lending Rate (AWLR) declined to 8.38% and 10.29 %, respectively, by end 2020.

Credit extended to the private sector, which was significantly affected by the onset of the pandemic, recorded a gradual expansion since August 2020 supported by accommodative monetary conditions.

Accordingly, credit extended to the private sector increased by LKR 374.1 Bn during the year, recording a growth of 6.5%, year-on-year, by end 2020. The expansion of credit to the private sector in the second half of 2020 was mainly driven by Personal Loans and Advances, while direct credit to activities in the Agriculture, Industry and Services sectors of the economy remained low during the year. Growth of credit in the form of Personal Loans and Advances accelerated notably to 15.1%, year-on-year, by end 2020. Credit granted under Pawning Advances grew by 17.9%. However, Credit Card advances contracted by 2.5%, year-on-year, by end 2020, in comparison to the growth of 22.9% as at end 2019.

## NON-BANK FINANCIAL SECTOR

The Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) sector performance deteriorated during the year, with negative credit growth and high NPLs. At end-2020, the sector comprised 40 LFCs and 3 SLCs. There were 1,517 branches and 460 other outlets of the sector, of which 1,001 branches (66.0%) were concentrated outside the Western Province.

During the year, assets of the sector contracted, recording a negative growth rate of 2.2% (LKR 31.0 Bn) reaching LKR 1,401.6 Bn compared to the 0.1% growth reported in 2019. Net interest income of the sector during the year was LKR 111.2 Bn, which was a decline of 5.3%

## Operating Context

(LKR 6.2 Bn) compared to 2019. This was due to the decline in economic activities with the COVID-19 outbreak. The interest income and interest expenses declined by 12.0% (LKR 31.3 Bn) and 17.6% (LKR 25.0 Bn), respectively. The net interest margin of the sector declined to 7.3% in 2020 from the 7.7% in 2019.

The loan loss provisions made against NPLs during the year was LKR 38.2 Bn, which was an increase of 26.4 % (LKR 8.0 Bn), when compared with the provision made in 2019. The gross NPL ratio increased to 13.9% by end December 2020 from 10.6% reported as at end December 2019, showing a severe deterioration in the asset quality of the sector. The net NPL ratio also increased to 4.2% by end December 2020 from 3.4% reported at end December 2019.

The sector posted a profit after tax of LKR 13.7 Bn, a decline of 6.1% compared to the profit recorded in year 2019, mainly due to the significant decline in interest income recorded during the period.

The Financial Sector Consolidation Master Plan (FSCMP) was introduced to address non-compliance with the minimum core capital requirement and/or the minimum capital adequacy ratios by several LFCs during the year. The sector core capital and total risk weighted capital ratios increased to 14.5% and 15.7%, respectively, by end December 2020 from the reported levels of 11.1% and 12.5% at end December 2019.

# Operational Excellence

The unprecedented challenges of an ongoing pandemic environment required unprecedented responses in order to retain sustainable business operations with the resilience to withstand macroeconomic and market stress elements. Cognizant of the risks, IFL adopted a range of counter measures to enhance operational productivity and efficiency that sustained competitiveness, while continuing undeterred on its charted expansion path. The key priority was to facilitate business continuity in an environment where employees could not report to work as per the working norms and customers could not physically visit service points. The next priority was to improve cost efficiencies across the operation.

## WORK FROM HOME MODEL

An effective work from home model was implemented rapidly, by providing laptops and dongals for employees, together with supervision and monitoring mechanisms, which made it possible for employees to continue working from home to achieve the set corporate targets, despite restrictions on travel and gatherings.

## COST CONTROLS

The customer for life philosophy was retained, fortified by stringent cashflow controls and focused approach towards decreasing the NPL ratio, against the previous financial year. Administrative

costs were reduced by 25% against the previous financial year through cost controls and concessions on rents, while the deployment of digital solutions for customers and employees contributed towards efficiency gains while containing costs. The cost of finance was contained by the process of renegotiating rates with banks and finance intermediaries.

## COVID-19 RELATED EXPENSES

Employee safety was given priority during the year and the Company invested in a wide range of safety measures for all employees, in addition to the safety protocols recommended by the national health authorities. The use of high-risk public transport was avoided by introducing vehicle sharing arrangements, and when this option was not possible, employees were authorized to work from home. In addition to the mandatory face masks and sanitizers, the company provided every employee and their family members with an immunity boosting herbal treatment. The following expenses were incurred by the company for the health and safety of employees.

COVID-19 Related Expenses (LKR)	2020/21
· Thermometers	164,500
· Surgical gloves	30,000
· Sanitizer cans	186,801
· Surgical masks	266,250
· Face shields for employees interacting with customers	13,750
· Herbal immunity boosters	480,025

## PRODUCTIVITY AND EFFICIENCY RATIOS

Despite the growth in employee base and establishment of new branches and additional health and safety related costs due to COVID-19 prevention, IFL has successfully maintained a steady improvement in key productivity and efficiency ratios, demonstrating the effectiveness of operational controls exerted during the year. The cost to income has shown significant improvement, while the profit per branch and profit per employees have also increased.

## Operational Excellence

	2020/21	2019/20
Cost to income ratio (Including taxes on financial services)	50.30%	64.70%
Cost to income ratio (Excluding taxes on financial services)	40.90%	52.10%
Revenue per employee (LKR Mn)	6.31	6.87
Profit per branch (LKR Mn)	15.00	10.54
Profit per employee (LKR Mn)	1.00	0.78

### CONTINUOUS EXPANSION

While maintaining prudent financial controls, IFL continued its strategic expansion drive by opening two new branches to extend its market reach. Two branches were relocated to more competitive locations. The expansion has facilitated access to a greater customer base and extended IFL's range of service delivery enabling faster and more convenient services for existing and potential customers, which effectively translates into a market advantage in the highly competitive financial services industry. Together with the physical infrastructure required to sustain the expansion drive, a Head of Human Resources was recruited to effectively deploy plans for growth of the workforce, and training and development of employees to equip IFL staff with the technical and soft skills required to drive business growth. The total staff cadre was increased to 168 during the year. Approval has been obtained from the Central Bank to open 16 additional branches in 2021 calendar year.

# Financial Review

The financial stability of the Company was enhanced in February 2020 by the LKR 1.1 Bn capital injection by MMFSL. However, the financial year 2020/21, took an unexpected turn with emergence of the COVID-19 pandemic which completely disrupted business activities planned for the year. Pandemic conditions were hitherto never before experienced in the country, and within the unpredictable environment that prevailed, strict financial management became crucial for survival.

Continually monitoring the market and market changes, the IFL Board and management decided to retain profitability targets set for the year. The strategic priority for the year, was to defend the bottomline by effecting cost savings, while simultaneously pushing business growth. Maintaining asset quality, cash flow monitoring and containing the NPL rates, were core concerns in managing this growth.

## FINANCIAL PERFORMANCE OVERVIEW

All managerial staff starting from the CEO, voluntarily halted all managerial perks and took pay cuts starting from 5% to 30%. The status quo was reinstated following the gradual return to normalcy. Extended working hours was replaced by controlled working hours, which was supported by the environment of low business volumes and the trend towards working from home. Fuel and phone bills were controlled according to official requirements. A 25% reduction in administration expenses was achieved through these operational adjustments. Overall, the Cost to Income ratio was improved to 40.9 % from 52.1% in the previous financial year.

Following policy rate reductions, cost of finance was renegotiated with banks and lenders and new credit lines were activated, which reduced the Company's average borrowing rate to 9.39%, from 12.71%. The strong brand image made it possible to attract fixed deposits at favorable rates. The interest income was improved through better lending rates and the interest yield was maintained at 19.4%, for a strong Net Interest Margin of 14.3%.

Specialized training was provided for frontline and call center staff to educate customers regarding the application of moratoria, and disadvantages and advantages of moratoria. This resulted in many customers opting out of moratoria in favor of customized repayment programs, which was beneficial to all parties. Collections were organized by communicating with customers and visiting them to collect, whenever requested. All customers under moratoria were visited regularly to ensure payments can be



## LKR 184 Mn

PAT for the Year 2020/21



## 5.4%

ROA (Pre Tax)



Maintaining asset quality, cash flow monitoring and containing the NPL rates, were core concerns in managing this growth.

## Financial Review

sustained. A Daily Collection Monitoring Team was set up by the Finance Division and weekly collection meetings were held with all branches. A monthly report was submitted to the Board. Prompt decisions were taken at higher level to facilitate this process. The NPL status was continually monitored to prevent deterioration, as industry NPL levels continued to rise.

The leasing and loan segments faced severe challenges during the year. However, IFL's flexible responses enabled strategic refocusing of revenues to sustain continues growth of these portfolios. Due to the embargo on vehicle imports, all vehicles appreciated in value by over 25% to 50% creating a bubble market and the new leasing market was limited to the unregistered vehicles at car sales centers. Consequently, this limited market became unviable, as finance companies and even banks began competing for market share. Therefore, IFL made a strategic choice to move to non-leasing markets. Instead, of the over crowded new vehicle market, IFL targeted registered vehicles, particularly 3-wheelers, outside the Western Province, as a majority of IFL branches are outside the Western Province. While this segment had its own share of challenges, the Company was able to sustain the portfolio by refocusing on the existing customer base and retaining a reasonable rate of return, while managing the LTV risk.

Demand for gold loans experienced a spike during the pandemic as consumers required urgent short-term financing due to income disruptions caused by COVID-19 containment measures.

IFL promptly responded to this emerging demand by taking gold loans services to a wider customer base and by enhancing the flexibility of its gold loan services. The Kurunegala and Elpitiya branches were relocated to more gold loan customer centric locations and two new branches in Vavuniya and Gampaha were opened to allow these communities access to gold loan facilities. These measures contributed towards the rapid growth of the gold loan portfolio.

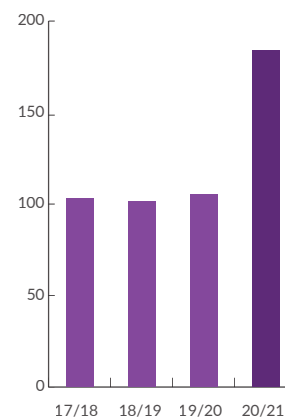
A highlight of the year, was IFL's new loan scheme for the Sri Lankan Armed Forces personnel to facilitate smart phone purchases for their families, and to support online education activities for children of armed forces personnel. This product was extremely successful and gave the Company access to over 11,000 personnel. While growing this market, the Company has also commenced cross selling gold loans and 2-wheel and 3-wheel financing to this customer base.

### INCOME STATEMENT

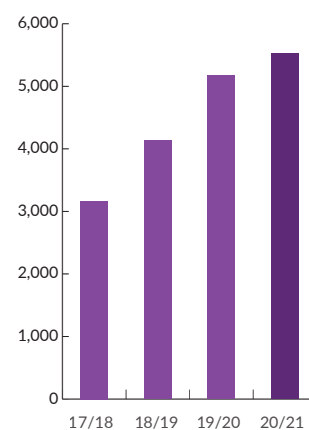
#### Income

The Company's total income increased to LKR 1,015 Mn, which is a 9% year on year growth of LKR 88 Mn. This growth was achieved mainly through growth in the leasing and gold loan portfolios, while maintaining the average interest yield for an Interest Income increase of 10%, or LKR 88 Mn. The largest contribution was from gold loans, with this portfolio growing by 76% against the previous year. Interest income from investments in government securities, and fee and commission incomes also recorded growth.

Profits (LKR. Mn)



Assets (LKR Mn)





We closed the year with the PAT growing by a commendable LKR 78 Mn, which is increase of 74% year on year. The PAT of LKR 184 Mn recorded for the year is the best performance of the Company to date.

#### **Fund based operations**

The Company accumulated LKR 40 Mn from investments in government securities during the current financial year, as a part of the capital investment from MMFSL was invested in government securities to be used for future expansion. Another LKR 1 Mn was received from placements with banks and other financial institutions. These gains added to the interest income of the year.

Fee and commission income increased by 22% year on year to LKR 11 Mn.

#### **Impairment charges**

The impairment cost for the period came to LKR 89 Mn, with impairment costs for loans and other losses increasing by 176%, or LKR 57 Mn. To withstand the impact from the negative growth of the economy and to be more prudent with current pandemics situations, additional provisions

were maintained in the loan book. These precautions resulted in a -0.40% net NPL position as at the year end.

#### **Operating expenses**

Operating expenses were brought under strict controls during the year, which resulted in significant cost savings compared to the previous financial year. Total operating expenses came to LKR 310 Mn for the year, of which, LKR 194 Mn was on personnel expenses and LKR 62 Mn was on other operating expenses. Personnel expenses increased by LKR 26 Mn due to the increase in the number of employees from 133 to 168. However, the Company did not cut salaries in this difficult time, as all members of the team contributed to the great performance of the Company. Meanwhile, other operating expenses were well managed and reduced during the period by cutting down on expenses such as electricity, water and advertising.

#### **Profitability**

The PBT increased by 76%, or by LKR 124 Mn, to LKR 288 Mn buoyed by the growth in the Net Interest Margin of 14.3% and improved operating cost efficiencies.

The Income Tax charges also increased by 78%, or LKR 46 Mn, to LKR 105 Mn due to the effective tax rate increasing to 36.29%, from 35.78% in the previous year.

We closed the year with the PAT growing by a commendable LKR 78 Mn, which is increase of 74% year on year. The PAT of LKR 184 Mn recorded for the year is the best performance of the Company to date. Consequently, the Return On Assets improved from 3.53% pre-tax in the previous financial year to 5.40%, while post tax, it improved to 3.45% from 2.24% in the previous year. The Return on Equity - pre tax, improved from 9.54% to 11.95%, while post tax it improved from 6.06% to 7.64%.

#### **STATEMENT OF FINANCIAL POSITION**

##### **Assets**

The total assets of the Company increased to LKR 5,520 Mn, which is a 7% year on year growth of LKR 353 Mn. The total earning assets came to LKR 5,177 Mn, which is 94 % of the total asset base. Asset growth was driven by the growth in gold loans, leasing and loans. Investments in Government Securities reduced by 45% to LKR 502 Mn, from LKR 917 Mn Placements with banks and other financial institutions increased by LKR 188 Mn, to LKR 211 Mn.

## Financial Review

### Loans and advances

In spite of the widespread market disruptions and lower overall economic activity in the country, IFL managed to grow its lending portfolios during the year. The gross loans and advances value grew to LKR 4,614 Mn, from LKR 4,042 Mn, fueled by the growth in gold loans, leasing and other lending.

The gold loans portfolio grew by 76% to LKR 1,184 Mn and became the fastest growing product, as the growth rate of vehicle leasing slowed down, due to vehicle import restrictions. During the year, the gold loan portfolio was securitized with HNB and MPower capital, which enabled the growth of the portfolio. Even with the vehicle import restrictions, IFL's lease and loan portfolio expanded by LKR 11 Mn, to LKR 3,280 Mn.



# 76%

Growth in Gold Loans



# LKR 930 Mn

Total Deposits with the Company



## The gold loans portfolio grew by 76% to LKR 1,184 Mn and became the fastest growing product.

### Asset quality

Although the finance company sector in Sri Lanka experienced a general deterioration in asset quality and expansion in NPLs during the year due to the pandemic and repeated moratoria, we are pleased to report that our asset quality recorded an improvement against our strong framework of stringent credit approval and monitoring. Credit quality was closely monitored throughout the year to manage credit risks during the weakened economic conditions of the year. The unrelenting focus on cash flows and close customer relationships made it possible to reign-in, the NPL ratios, and the Gross NPL ratio improved to 3.3% from 5.2% from the last year. The Net NPL ratio meanwhile, improved to -0.40% as at the end of the year, due to the decision to allocate additional provisions in the loan book.

### Deposits

The well-coordinated, branch based deposit mobilization drive resulted in continuous growth of the deposit base. IFL's strong credit rating, personalized services and long standing customer relationships were other factors that attracted deposits.

The customer deposit base grew by 38% year on year, by LKR 258 Mn, as the public were willing to place their money in trustworthy and stable institutions during this time of uncertainty. As at the end of the year, total deposits with IFL came to LKR 930 Mn.

### Other liabilities

Mainly due to the increase in trade payables and accrued expenses, the Other Financial and Non-Financial Liabilities increased by LKR 68 Mn, or 35%, compared to the previous year, adding up to LKR 263 Mn.

### Capital

The total equity of the Company stood at LKR 2,505 Mn, as at end March 2021, which is an increase of 8% year on year. Following the first and second tranche of capital infusion in February 2020 by MMFSL, the Company complied with the LKR 2 Bn requirement for 1 January 2021.





A highlight of the year, was IFL's new loan scheme for the Sri Lankan Armed Forces personnel to facilitate smart phone purchases for their families, and to support online education activities for children of armed forces personnel. This product was extremely successful and gave the Company access to over 11,000 personnel.

The equity of the Company stood at LKR 2.5 Bn as at 31 March 2021, fulfilling the minimum capital requirement of the Central Bank as at 1 January 2022. The Tier 1 Capital Ratio was 43.47% against the minimum statutory requirement of 7%, while the Total Capital Ratio was 44.83% against the minimum statutory requirement of 11%, resulting in an exceptionally stable and well capitalized entity.

# Our Value Creation Model



## Outputs

- Loans & advances,
- Investments
- Deposits
- Fee-based services

## Outcomes

### Natural Capital

- Green processes and facilities
- Saving of non-renewable energy sources
- Environmental Protection
- Improvements in quality of life

### Social & Network Capital

- Customer centricity
- Growth in customer base
- Customer satisfaction
- Customer convenience
- CSR activities

### Human Capital

- Operational excellence
- Empowerment and engagement
- Training & development

### Intellectual Capital

- New products
- Compliance
- Simplicity

### Manufactured Capital

- Growth in capacity
- Safe work environment
- Enhanced productivity

### Financial Capital

- Profits, taxes, donations
- Being well capitalized, funded and liquid
- Optimum risk-return trade-off

# Stakeholder Engagement

Our stakeholder engagement process has been developed to identify distinct stakeholder groups based on their specific characteristics and potential and actual impacts on the Company and company plans. A stakeholder assessment is conducted prior to developing different stakeholder communications strategies. The objective is to engage all key stakeholder groups in mutually beneficial relationships, which are also long term and sustainable.

Our primary stakeholder groups are:






				
Employees	Customers	Shareholders	Government	Society

IFL has in place, formal transparent policies to engage with each of the above stakeholder groups to facilitate regular communications and to accommodate stakeholder feedback.

Stakeholder Engagement Process				
	Identify Stakeholders	Identify Assessment	Plan Communication	Engage Stakeholder
Tasks	<ul style="list-style-type: none"> <li>Identify Stakeholder Groups</li> </ul>	<ul style="list-style-type: none"> <li>Conduct high-level Stakeholder Assessment</li> </ul>	<ul style="list-style-type: none"> <li>Create Stakeholder Communication Planning Sheet</li> </ul>	<ul style="list-style-type: none"> <li>Maintain Plain to Support Ongoing Engagement activities</li> </ul>
	<ul style="list-style-type: none"> <li>Identify Individual Stakeholder Representatives</li> </ul>	<ul style="list-style-type: none"> <li>Prioritise Stakeholder</li> </ul>	<ul style="list-style-type: none"> <li>Identify Engagement Activities</li> </ul>	<ul style="list-style-type: none"> <li>Execute Stakeholder Communication Plan</li> </ul>
	<ul style="list-style-type: none"> <li>Create Initial Stakeholder List</li> </ul>	<ul style="list-style-type: none"> <li>Develop Stakeholder Map</li> </ul>	<ul style="list-style-type: none"> <li>Develop Detailed Engagement Plans</li> </ul>	<ul style="list-style-type: none"> <li>Monitor Progress</li> </ul>
Output	<ul style="list-style-type: none"> <li>Stakeholder List</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Map</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Communications Planning Sheet</li> </ul>	<ul style="list-style-type: none"> <li>Updated Stakeholder Communication Plan</li> </ul>
		<ul style="list-style-type: none"> <li>Engagement Grid</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Communications Planning Sheet</li> </ul>	<ul style="list-style-type: none"> <li>Communication and Engagement Activities</li> </ul>
		<ul style="list-style-type: none"> <li>Updated Stakeholder List</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Communications Plan</li> </ul>	<ul style="list-style-type: none"> <li>Feedback Mechanisms Implemented</li> </ul>

## CONNECTING WITH STAKEHOLDERS

IFL's stakeholder engagement strategies are tabulated below, indicating how we respond to different stakeholder requirements from the Company.

Stakeholder Group	How we respond
 Customers	<ul style="list-style-type: none"> <li>↳ Ensure security and privacy</li> <li>↳ Continually improve service quality</li> <li>↳ Affordability of services and convenience</li> <li>↳ Maintain a grievance handling mechanism</li> <li>↳ Provide financial education and literacy</li> </ul>
 Shareholders	<ul style="list-style-type: none"> <li>↳ Maintain a strong financial performance</li> <li>↳ Good governance</li> <li>↳ Transparency and disclosure</li> <li>↳ Device strategies and plans for business expansion</li> <li>↳ Manage risks</li> <li>↳ Invest in sustainable growth</li> <li>↳ Build resilience to the effects of the pandemic</li> <li>↳ Manage NPAs and impairment charges</li> </ul>
 Employees	<ul style="list-style-type: none"> <li>↳ Provide training and development opportunities</li> <li>↳ Provide career advancement opportunities</li> <li>↳ Encourage a work-life balance</li> <li>↳ Ensure safety at work</li> </ul>
 Government	<ul style="list-style-type: none"> <li>↳ Total compliance with regulations, directives and codes at all times</li> <li>↳ Supporting economic recovery and growth</li> </ul>
 Society	<ul style="list-style-type: none"> <li>↳ Adhere to ethical business practices</li> <li>↳ Safeguard the environment</li> <li>↳ Provide employment opportunities</li> <li>↳ Conduct community welfare projects</li> </ul>

During the current financial year, we maintained close contact with all stakeholder groups, in order to respond to changes in stakeholder expectations during pandemic conditions. The flexible and responsive attitude of the Company have contributed towards building stronger relationships based on mutual understanding and trust, as we journey onwards.

# Customer Centricity

Since its inception, IFL's success has been linked to the high degree of customer centricity in service delivery and continuous improvements of service standards through ongoing evaluations of customer expectations and delivery standards. The current financial year was particularly significant in this context within the framework of sudden and extreme changes to daily lives of customers, following the emergence of COVID-19. Fully cognizant of the hardships experienced by its customer base the IFL team has extended itself to alleviate difficulties of customers through a prompt, considerate and humane service philosophy that endeavoured to assist the recovery and regeneration of their lives and livelihoods.

## CUSTOMER BASE GROWTH

IFL's primary customer segments are the SME sector and rural customers. During the year under review the customer base continued to expand despite economic unpredictability, indicating the high degree of public trust in IFL as a stable financial intuition.

### Deposit holders

The total deposit base increased from LKR 671.91 Mn to LKR 929.64 Mn during the 12 months under review, as a result of regular marketing and promotional activities. The deposit mobilization drive was strengthened with the addition of new staff to FD Departments in selected branches.

### Gold loan customers

The gold loan customer base has increased steadily due to personalized services and relationships.



**உங்களது நட்பிற்கு எங்களின் பரிசு**



**உமீடு சூழலில் உமீடு அனைத்து நிதித் தேவைகளுக்கும்**



	As at 31 March 2020	As at 31 March 2021
Total portfolio (LKR)	672,715,396	1,183,764,064
Customer base (Nos)	6,908	8,513

### Leasing and loan customers

The COVID-19 pandemic restrictions on vehicle imports had an adversely impact on the leasing and loan market, which experienced lower demand. Nevertheless, IFLs loans and leases portfolio expanded by LKR 75 Mn from the previous financial year, based on the capital outstanding, with the number of customers also increasing.

	As at 31.03.2020	As at 31 March 2021
Total portfolio (LKR)	3,319,823,882	3,395,412,139
Customer base (Nos)	10,175	17,083

## SUPPORTING OUR CUSTOMERS DURING COVID DIFFICULTIES

The IFL team unhesitatingly stepped up to support our customers during the difficult times by providing prompt services to all customers to facilitate urgent financial transactions and responding to all customer inquiries and requests. In addition, all efforts were made to help customers in difficulty by extending repayment periods and providing other concessions.

Value added services were made available to retail fixed deposit holders and retail customers, such as transferring their monthly interest payments and withdrawals, to their accounts with no delays, even under pandemic operating conditions. In order to extend time to customers to repay their gold loans, IFL did not conduct auctions for 9 months on unpaid loans, and followed Central Bank (CBSL) guidelines in extending this grace period. With regards to lease and loan facilities, IFL followed CBSL guidelines and provided concessions to customers in the form of moratoria and by halting repossession of vehicles during the first wave and second wave of the pandemic. IFL also did not claim penalty charges on cheques that were returned and during March to September, overdue interest was waived.

Two moratoria were granted for the sectors of agriculture, construction, hotels and tourism, manufacturing, trading and transportation, that totaled to LKR 727.37 Mn in 920 facilities.

#### ANALYSIS OF MORATORIUMS GRANTED UNDER COVID-19, AS OF 31 MARCH 2021 (WAVE -1 AND 2)

Sector	Moratorium No 01		Moratorium No 2		Total	
	Grant Amount LKR	No of Facilities	Grant Amount LKR	No of facilities	Grant Amount LKR	No of facilities
Agriculture	15,831,868	66	3,563,000	10	19,394,868	76
Construction	6,316,0008	4	276,000	1	6,592,000	5
Hotel & Tourism	10,486,8278	5	-	-	10,486,827	5
Manufacturing	3,334,3008	8	623,000	1	3,957,300	9
Trading	32,680,2508	38	3,530,000	8	36,210,250	46
Transportation	41,476,090	752	9,258,700	27	650,734,790	779
<b>Total</b>	<b>710,125,335</b>	<b>873</b>	<b>17,250,700</b>	<b>47</b>	<b>727,376,035</b>	<b>920</b>

#### INVESTING IN CUSTOMER RELATIONSHIPS

During the year, IFL continued to emphasize close relationships with customers, based on mutual trust and understanding. IFL responded with flexible services and practical solutions that enhanced customer confidence in the Company and encouraged customer retention. IFL marketing officers are highly trained and have the skills to offer a discerning service to existing customers, through proactive responses to customer requirements. The long-term relationship strategy is mobilized through:

- ↘ Personalized services: Going one-step above the norm, IFL officers provide a door-step service where they will personally deliver FD certificates, mandates and cheques to customers.
- ↘ Continuous engagement with our customers
- ↘ Updating customers about the gold loan prices and lending rates
- ↘ Provide attractive lending facilities with flexible repayments

#### Prioritizing the customer experience

The customer experience at any contact point with a service provider, can make or break a customer relationship by contributing towards the formation of perceptions regarding the Company and its business ethics. Therefore, IFL prioritizes a positive customer experience for all customers whatever their socio economic background, at every point of contact. This objective is enforced by:

- ↘ Regular customer feedback: Customers are contacted for their feedback on services from staff
- ↘ Customer complaints handling: All customer inquiries and complaints are solved within the day and feedback is obtained from the customer.
- ↘ Call centre : A call centre has been established to enhance the quality of customer communications

# Marketing and Branding

The current financial year, was the pivotal point in the Company's historic journey where the IFL brand commenced transforming into a new brand identity . The rebranding process was initiated during the year and will be aggressively pursued in the new financial year facilitating the emergence of the stronger brand position.

Maintaining brand visibility is essential in the highly competitive financial services market and while pandemic related restrictions resulted in lower opportunities for traditional branding and marketing activities during the year, IFL conducted a number of successful marketing campaigns to promote products and services. Aggressive Below The Line promotions were continued on targeted segments at branch level focusing on leasing,

Gold Loans and fixed deposits. Several promotional events were conducted successfully, to raise awareness regarding IFL gold loans, special sales promotions for three wheelers and to mobilize fixed deposits. These included leaflet campaigns, sticker promotions, corrugated boards and also door-to-door promotions. The best gold loan customers were identified and rewarded with valuable phones and other promotional gifts.

## THREEWHEEL PROMOTIONS



## STICKER CAMPAIGNS



## LEAFLET CAMPAIGNS





# IT and Technology

## DIGITAL MARKETING AND BRANDING

In another strategic move, digital marketing activities were initiated for selected products and regions to capture the digital audience, which had expanded exponentially under pandemic conditions. The social media advertising spend was increased to maintain customer relationships by enabling continuous customer communications and engagement. The use of digital platforms makes it possible to identify important financial moments in the lives of customers and to respond to these needs. Facebook and SMS campaigns were leveraged to reach a wider audience. The digital marketing strategy will be expanded in 2021 with optimized advertising and online campaigns to fulfil customer needs.



As IFL approaches a key juncture in its journey through its strategic partnership, a new growth phase has been initiated based on modern digital technologies and cutting edge digital financial solutions. IFL's digital strategy has been designed to support the Company's expansion drive by enabling efficiency and cost gains, coupled with faster response times. As a long term strategy the Company will migrate to a new software platform, specialized for Non-Bank Finance Companies, which facilitates the provision of financial services in remote geographical locations, providing enhanced flexibility and a faster services. The system will also strengthen internal controls, while accommodating business volume expansion, and will generate benefits from technology integration for business synergies. The new platform will make it possible to offer value added services to customers and heighten competitiveness of the Company in the financial sector.

# Corporate Social Responsibility (CSR)

IFL remained staunchly committed towards its social obligations despite the economic concerns raised by the COVID-19 pandemic and continued to support worthy causes and community welfare initiatives, during the year. As a financial services provider with a strong social conscience, IFL's philosophy has been to reach beyond the provision of financial services to underserved communities and extend a helping hand for community welfare through corporate social responsibility projects.

In 2020, the focus of IFL's community initiatives was supporting education of children from under privileged communities, to assist these children overcome obstacles in continuing their education. Essential stationery items, school bags and other material were distributed to over 1,000 children from both rural and urban areas. IFL also responded to urgent safety needs in public transport during the COVID-19 pandemic by contributing towards the safety of 3-wheel passengers and drivers.

The ultimate objective of IFL's CSR projects, is to be sensitive to societal needs as a core component of the IFL business philosophy of 'Doing Well by Doing Good.'

## PIPENA KEKULU CSR PROGRAM

Working with schools and villages, this IFL CSR project provided face masks for the safety of school children in extremely rural parts of the country, as well as stationery and school use items, such as school bags, shoes, books, pens, pencils, white boards, lunch boxes and water bottles, through IFL branches.

Branch	School/Area	No. of Beneficiaries
Kurunegala	Ku/Sri Medhankara Vidyalaya , Edandawala	75 children
Bandarawela	Kirioruwa Vidyalaya-Bandarawela	90 children
Jaffna	Navanthurai, Kurunagar, Pasaiyoor, Maniyam Thoddam, Araly, Vaddu Koddai Velanai and Nainativu	more than 100 children
Anuradhapura	Dewanam Piyathissa –Tisawewa	50 children
Kandy	Rasindew Vidyalaya Uduwela Vidyalaya Kirimetiya T.V	40 children 30 children 38 children
Matara	Matara – Ihalavitiya	53 children
Vavuniya	Kovil Kulam Hindu College Ichchamkulam Kanista Vidyalaya Vilaththikulam Maha Vidyalayam	140 children
Elpitiya	Divithura Kanishta Vidyalaya	102 children
Monaragala	Suduwathurara School Thambana School	100 children
Embilipitiya	Kachchigalara School	50 children

**PIPENA KAKULU – CSR PROJECT - MATARA BRANCH**



**ELPITIYA BRANCH**



**KANDY BRANCH**



**HELPING HANDS FOR EDUCATION PROJECT**

IFL branches celebrated their branch anniversaries by donating education-related items and food items to children of gold loan customers from low income families and to children in an orphanage. Given the hardships faced by low income families due to COVID-19 containment measures and livelihood losses, these contributions alleviated the burden of educational expenses from parents and helped children continue their education.

**HELPING HANDS FOR EDUCATION ACTIVITIES DONE DURING BRANCH ANNIVERSARIES (CSR) -JAFFNA BRANCH**



## Corporate Social Responsibility (CSR)

Branch	Date	No. of Beneficiaries
Matara (02nd Anniversary)	04 October 2020	Donated gift items to 35 children in an orphanage
Bandarawela (08th Anniversary)	13 November 2020	Donated grocery items to 15 low income families
Jaffna (07th Anniversary)	04 January 2021	Donated stationery items to more than 100 school children from low income families

### SAFETY PARTITIONS FOR 3-WHEELERS

The travel safety conditions during the COVID-19 outbreak required safety partitioning between 3-wheeler drivers and passengers. IFL responded immediately to this new public health and safety need by providing safety partitions to IFL 3-wheel customers, thereby contributing towards safe travel for both the public and 3-wheel drivers.

CORPORATE STEWARDSHIP

# OUTSTANDING

The solid foundation of responsible governance and stewardship has contributed in ensuring sustainable long-term wealth creation - enabling us to excel in all we do.

# Board of Directors

Left to Right

**ARAVINDA DE SILVA**  
Deputy Chairman

**NALIN J WELGAMA**  
Chairman

**DUMINDA WEERASEKARE**  
Director/CEO



Left to Right

**VIRAJ MALAWANA**

Non – Executive Director

**CHRISHANTHI JAYAWARDENA**

Independent Non Executive Director

**DR SUREN PETER**

Senior Independent Non-Executive Director



## Board of Directors

### NALIN J WELGAMA

Chairman

Nalin Jayaraj Welgama is a senior Accountant having managed a leading firm of Chartered Accountants 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 and contractor 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 lead role in their respective business segments. The Group has diversified into passenger cars, commercial vehicles, heavy machinery, motor cycles, import and distribution of tyres, financial services, automotive parts and renewable energy, constituting a combined turnover in excess of LKR 20 Bn annually employing over one thousand people.

He was able to realize his dream of launching the first Sri Lankan company to partner a world renowned automobile giant in setting up a fully-fledged auto assembly plant which was launched in August 2019. Thus, Mahindra Ideal Lanka Private Ltd, was mooted to offer a selection of locally assembled vehicles to the Sri Lankan market.

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

### ARAVINDA DE SILVA

Deputy Chairman

An all-time legend on the cricket field, Aravinda De Silva is the only cricketer in the world to have scored a century and taken three wickets at a Cricket World Cup. This was in 1996. He is currently an Advisor to Sri Lanka Cricket.

He retired at the pinnacle of his career in 2003 and infused the combination of his passion for automobiles and keen acumen in cricket to establish and become co-partner of the Ideal Group of Companies in 2005. The success of the Group has been phenomenal with the Group venturing into numerous business sectors including automotive vehicles and tyres, green energy solutions, finance and real estate. The Group represents a global giant in automotives, Mahindra & Mahindra.

His experience as a business strategist in Mergers & Acquisitions and as a venture capital investor in tech start-ups is renowned.

In 2017, he was appointed Chairman of Thomas Cook Lanka (Pvt) Ltd, a fully owned subsidiary of Thomas Cook (India) Ltd, an investment by Fairbridge Capital Canada, which is a strategic investor in Fairfirst Insurance and Nations Trust Bank, Sri Lanka.

### 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.

He was conferred a Fellowship by the Netherlands Development Bank.



### **VIRAJ MALAWANA**

Non – Executive Director

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

He is currently the Managing Director of NWS Holdings Group of Companies, while also being on the Boards of Bansei Royal Resorts Hikkaduwa PLC, Strategic Business Innovator Pvt. Ltd (a subsidiary of SBI Japan), Veritas Holdings Pvt. Ltd, Sushi Bar Samurai Pvt. Ltd, Aspen Hills Capital Inc. and SB Restaurants Pvt. Ltd, a partner company of Jetwing Hotels Ltd. He was also a former Director of Wealthtrust Securities Ltd, a registered Primary Dealer under the Central Bank of Sri Lanka and former Chairman of Bansei Securities Capital Pvt. Ltd, a licensed Margin Provider, where he currently serves as a Consultant.

He previously served as 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 (MSM) in the Netherlands, he is a Fulbright Scholar and holds a M.Sc in Management from Georgia Institute of Technology USA and a Master of Philosophy from MSM. His Bachelors was in Industrial Management from the University of Kelaniya Sri Lanka.

As a university academic, he has over 25 years' experience in teaching, research and consulting, and is currently serving as the Head of Department of Industrial Management at the University of Kelaniya. He has been the national consultant on numerous projects for UNIDO and UNDP and consulted for several international development organisations, state and private sector entities. He serves as a national reviewer for university degree programmes, and also serves on the Board of a few private companies as well.

### **CHRISHANTHI JAYAWARDENA**

Independent Non Executive Director

Chrisanthi Jayawardena is an Attorney at Law and currently serves as the legal consultant in a large public sector organization. She has wide and varied experience in the application of corporate law and in the management of corporate services in the financial services industry. Following her early career at the F J & G de Saram, a top law firm in Sri Lanka, she served at the NDB Bank for nearly two decades as its head of legal and the Company Secretary and thereafter was the Bank's Chief Operating Officer (Services). She served as a Board Director in several companies in the financial services sector and presently is a director of a stated-owned company as well.

# Corporate Management



**DUMINDA WEERASEKARE**  
Director/CEO



**ROHITHA BANDUSENA**  
Chief Operating Officer



**GAMAN KITHSIRI**  
Assistant General Manager ICT



**PRADEEP DE SILVA**  
Assistant General Manager Gold Loan



**ROCHELLE VANDORT**  
Assistant General Manager (HR)



**MADUMALI MUNASINGHA**  
Senior Manager Risk & Compliance



**CHARITHA VITHANA**  
Manager Finance

### 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 organizations 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.

He is a recipient of a Fellowship by the Netherlands Development Bank.

### ROHITHA BANDUSENA

Chief Operating Officer

Counting over 20 years' experience in Finance, Operations, Treasury, Credit and Risk Management, he holds a BSc (Hons) in Business Administration - Special Degree from the University of Sri Jayawardenepura.

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

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

### GAMAN KITHSIRI

Assistant General Manager ICT

Prior to being appointed Head of ICT, he was in a similar post at New World Securities (Pvt) Limited, additionally lending his expertise to both NWS Financial Services (Pvt) Ltd and NWS Management (Pvt) Ltd. He has also been the Senior Manager IT, Manager IT and Assistant Manager at Ceylinco Stock Brokers, contributing significantly to the Y2K project, for which he was recognized as the Best Project Manager.

With over 20 years' experience in IT and over 15 years in ICT Management, he has managed numerous system implementation projects in capital markets, NBFIs and ERP for Automotive industries.

He is a qualified Chartered Information Technology Professional - MBCS-CITP (UK) from The Chartered Institute for IT London and is an ACS from Australian Computer Society. He also has an Advanced Diploma in Software Engineering (HDCSE) from Londontec City Campus, Sri Lanka and Network Design & Implementation from the University of Colombo.

### PRADEEP DE SILVA

Assistant General Manager Gold Loan

With over 34 years' experience in Finance, he commenced his career with L B Finance PLC in 1987 and once the gold business was inceptioned in 1998 was placed in charge of Gold Loan operations and promoted to Senior Manager.

In 2008, he joined Alliance Finance as an Assistant General Manager Gold Loans, continuing in a similar position at Orient Finance Ltd from 2016 until he joined Ideal Finance in 2017. With proven skills he is responsible for promoting and expanding the gold loan products through the entire branch network.

### ROCHELLE VANDORT

Assistant General Manager (HR)

Having held management positions in diversified conglomerates including Abans PLC and Diesel and Motor Engineering PLC, she has more than a decade of professional experience in Human Resources. She holds a BSc in Human Resource Management with First Class Honours from University College Dublin and an Advanced Diploma and Higher Diploma in Business Management from NIBM.

### MADUMALI MUNASINGHA

Senior Manager Risk & Compliance

An Associate Member of the Institute of Chartered Accountants of Sri Lanka, she holds a First Class degree in B.Sc. Accounting (Special) from the University of Sri Jayawardenepura. She possesses over nine years' experience in Finance and Auditing, combined with extensive knowledge in Financial Reporting, Taxation, Treasury & Risk Management and Auditing & Assurance.

Prior to joining Ideal Finance Limited, she was the Supervisor - Assurance at EY, which fueled a sound knowledge in the banking and finance sectors in Sri Lanka.

### CHARITHA VITHANA

Manager Finance

With over twelve years' experience in the financial services sector and three years in auditing, he is an Associate Member of the Institute of Chartered Accountants of Sri Lanka. He also holds a BSc Special Degree in Accounting from the University of Sri Jayawardenepura and is an Associate Chartered Professional Manager (ACPM) of the Institute of Chartered Professional Managers of Sri Lanka.

Prior to joining Ideal Finance Limited, he was an Accountant at AMW Capital Leasing and Finance PLC, the Senior in Charge at Amerasekera & Company and also worked at KPMG.

# Corporate Governance Report

## CORPORATE GOVERNANCE

Corporate Governance is the system of law, rules, practices and processes by which a company is directed and controlled. It focuses on internal and external corporate structures to monitor the actions of management and directors and thereby mitigate agency risks which may stem from the misdeeds or offences of corporate officers.

The Board of Directors is responsible for the governance of the Company, placing significant prominence on developing corporate governance rules, structures, policies and processes to ensure integrity and transparency in all Company dealings. Keeping this in focus, the Board optimizes all efforts to achieve performance and quality profits. IFL has continuously refined its corporate governance structure and systems to ensure compliance at all times, being aware of accountability and transparency to stakeholders and the public.

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

## BOARD OF DIRECTORS

The Board is the apex body of Ideal Finance Limited tasked with the responsibility of directing the Company. The overarching responsibilities of the Board includes making an accurate

assessment of the Company's position, 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 six (06) members, five (05) 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 two (02) Non-Executive Directors, namely, Dr. P.L Suren Peter & Chrisanithi Jayawardena are 'Independent'.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

## TENURE, RETIREMENT AND RE-ELECTION OF DIRECTORS

There is 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 announces this resignation or removal to the shareholders. In addition, the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka is notified, detailing 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. A standard agenda is discussed together with any other matters requiring 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 31 March 2021, twelve (12) meetings of the Board were held.

Name of Director	Executive/ Non- Executive/ Independent Non- Executive	Attendance
N J Welgama	Non-Executive	12/12
D M Weerasekare	Executive	12/12
P A De Silva	Non-Executive	12/12
J V W Malawana	Non-Executive	12/12
Dr. P L S Peter	Senior Independent Non- Executive	12/12
Chrishanthi Jayawardena	Independent Non-Executive	2/12

#### 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 in the sections pertaining to the relevant committees.

#### AUDIT COMMITTEE

The Audit Committee currently comprises J.V.W. Malawana, Dr. Suren Peter and Chrishanthi Jayawardena. It is chaired by the Chairman Nalin Welgama.

In compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and in the absence of a Head of Internal Audit, the Company Secretary acts as 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 established in May 2012.

The Committee is chaired by Independent Non-Executive Director Dr. Suren Peter and comprises Aravinda De Silva, Viraj Malawana and Chrishanthi Jayawardena as member. The IRMC also consists of key management personnel who supervise broad risk categories.

#### REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Chairman Nalin Welgama and has Aravinda De Silva as a member.

#### NOMINATION COMMITTEE

The Nomination Committee was formed in March 2014 and comprises Dr. Suren Peter, while Aravinda De Silva chairs the Committee.

#### IT STEERING COMMITTEE

IT Steering Committee was formed in March 2014. It is chaired by Dr. Suren Peter, while Viraj Malawana and Aravinda De Silva are members of the Committee.

#### COMPLIANCE OFFICER

The Company appointed a Compliance Officer 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 action is taken to mitigate 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.

# Corporate Governance Report

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

## ETHICAL STANDARDS

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

The Company focuses on training and career development of its 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 issued by the Central Bank of Sri Lanka from time to time.

## ACCOUNTABILITY AND DISCLOSURE

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

## OUTLOOK

Corporate governance plays a vital role in business. Our future emphasis is to further satisfy the Company's stakeholders whilst sustaining the growth of the Company. Therefore, by implementing a broad operating structure, monitoring internal controls, benchmarking and ensuring effective and transparent communication, our corporate governance will continue to demonstrate and display stringent adherence to compliance in the rule of law, ethical diktats and sustainable business practices.



Nalin J Welgama  
Chairman

15 April 2021

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.	<b>Complied</b>	<p>Vision, mission and corporate values of the company are included in the procedure manual which is approved by the board on 26 March 2012.</p> <p>Board approved business plan for the next four years is in place for the period 2021-2025 along with the budget. Annually reviewed Strategic objectives and corporate values are communicated throughout the company at Management &amp; Staff meetings in order to enhance their understanding regarding the future goals and objectives of the company.</p>
(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	<b>Complied</b>	<p>The Board has an approved Business Plan for the four years 2021-2025 includes the overall business strategy of the company with measurable goals.</p> <p>However, the company will revisit the existing risk manual to ensure that it is adequately linked with the overall business strategy of the company.</p> <p>Board approved Treasury and Liquidity Risk Management Policy is in place, defining identifying, measuring and monitoring the said risks.</p>

# Corporate Governance Report

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.
(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 is in the process of reviewing the existing communication policies for shareholders and other internal and external.
(e)	Reviewing the adequacy and the integrity of the finance Company's internal control system and management information system;	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 Systems.
(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), Chief Operating Officer (COO), AGM-ICT, AGM- Gold Loan, Manager-Finance, Senior Manager Risk & Compliance, Consultant and Compliance Officer.



Section	Agreed Upon Procedure	Status	Result of Procedure
(g)	Defining the areas of authority and key responsibilities for the board and the key management personnel;	<b>Complied</b>	<p>Corporate Governance policy approved by the Board of Directors includes an area specifying the responsibilities of the Board of Directors.</p> <p>Company has a Board approved schedule of matters specifically reserved to the Board of Directors.</p> <p>Further, Articles of Association briefly describes on the powers and duties of the Board of Directors.</p> <p>Key responsibilities of other Key Management Personnel have been defined briefly in KMP Policy which is approved by the Board.</p> <p>Job Descriptions of Key Management Personnel are in place.</p>
(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;	<b>Complied</b>	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		
	(i) selection, nomination and election of directors and key management personnel;	<b>Complied</b>	As per Articles of Association, Board has the power to make decisions on selection, nomination and election of directors.
	(ii) management of conflicts of interests; and	<b>Complied</b>	Further Articles of Association addresses the provisions on management of conflicts of interest of directors.
	(iii) The determination of weaknesses and implementation of changes where necessary	<b>Non Complied</b>	<p>A self-evaluation process of the board members is in place to ensure the own performance, better governance and determination of weaknesses.</p> <p>Company will ensure to comply with requirement going forward.</p>
(j)	Ensuring the finance Company has an appropriate succession plan for key management personal.	<b>Complied</b>	Company is in the process of establishing an one to one succession plan for all key management personnel being in line with the Succession Planning Policy of the company.

## Corporate Governance Report

Section	Agreed Upon Procedure	Status	Result of Procedure
(k)	Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	<b>Complied</b>	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.	<b>Complied</b>	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.	<b>Complied</b>	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.	<b>Complied</b>	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.	<b>Complied</b>	Procedure manual of the company contains with a section providing the procedures on seeking independent professional advice by directors at company expense.

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.	<b>Complied</b>	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.	<b>Complied</b>	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.	<b>Complied</b>	Such a situation has not been arisen during the year 2020/21.
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.	<b>Complied</b>	This has been disclosed in the Annual Report on page 52 to 77.
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	<b>Complied</b>	Company has a process of evaluating the self-performance of the Board of Directors.
<b>(3)</b>	<b>Meetings of the Board</b>		
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	<b>Complied</b>	Board has met 12 times during the year 2020/21.  There were instances where the Board's consent has been obtained through the circulation of written resolutions/papers during the year 2020/21

# Corporate Governance Report

Section	Agreed Upon Procedure	Status	Result of Procedure
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.	<b>Complied</b>	<p>Agenda is drafted by the compliance officer and 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.</p> <p>Procedure manual of the company includes the procedure on enabling all directors to include matters and proposals in the agenda.</p>
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.	<b>Complied</b>	<p>Agenda letters and previous month board minutes are sent to the board members by the company secretary via e-mail.</p> <p>Further, as a practice, Directors are given a notice of at least 7 days for regular Board Meetings.</p>
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.	<b>Complied</b>	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.	<b>Complied</b>	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.	<b>Complied</b>	Agenda is prepared by the compliance officer & given for company secretary for clearance to circulate among the board members.

Section	Agreed Upon Procedure	Status	Result of Procedure
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. A provision in this regard is included in the Corporate Governance Policy of the Company.
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.
	(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.		

# Corporate Governance Report

Section	Agreed Upon Procedure	Status	Result of Procedure
4)	<b>Composition of the Board</b>		
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 1 January 2009.	<b>Complied</b>	Board comprised of 6 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 1 January 2009.	<b>Non Complied</b>	Company is in the process to comply with the requirement.
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.	<b>Complied</b>	Company has an Executive Director and thus complies with the requirement.
4(4)	From 1 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:	<b>Complied</b>	The Board comprised 6 members with the appointment of an Independent Non Executive Director in February 2021.
(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;		

Section	Agreed Upon Procedure	Status	Result of Procedure
(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 Report

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.	<b>Complied</b>	Such an incident has not taken place during the year 2020/21.
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.	<b>Complied</b>	Articles of Association address the appointment and removal of Directors.  The Company has a procedure for appointing the Non-Executive Directors, which has been approved by the Board.
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.	<b>Complied</b>	During the financial year 2020/21 more than 50% of the directors participated for board meetings are non-executive.
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.	<b>Complied</b>	Company has disclosed the composition of the Board as required in the direction on page 82 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.	<b>Complied</b>	Company's Articles of Association addresses a general procedure for appointment of new directors.  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.	<b>Complied</b>	No Directors have been appointed during the year 2020/21.



Section	Agreed Upon Procedure	Status	Result of Procedure
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	<b>Complied</b>	No Directors have resigned from office during the year.
5)	<b>Criteria to assess the fitness and propriety of directors</b>		
5(1)	The age of a person who serves as Director shall not exceed 70 years.	<b>Complied</b>	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.	<b>Complied</b>	No Director holds directorships of more than 20 companies / entities / Institutes inclusive of subsidiaries or associate companies during the year 2020/21.
6)	<b>Management functions delegated by the board</b>		
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.	<b>Complied</b>	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.	<b>Complied</b>	The delegated powers are reviewed by the Board to ensure that they remain relevant to the needs of the company.
7)	<b>The Chairman and CEO</b>		
7(1)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual	<b>Complied</b>	Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.

# Corporate Governance Report

Section	Agreed Upon Procedure	Status	Result of Procedure
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.	<b>Complied</b>	<p>Chairman is a non- executive director of the Company.</p> <p>Company has designated an Independent Non- Executive Director as the Senior Director of the Company.</p> <p>(This is disclosed in the Annual Report page 47.)</p>
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.	<b>Complied</b>	<p>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.</p> <p>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. This is disclosed in the Annual Report page 50.</p>
7(4)	<p>The Chairman shall:</p> <p>(a) provide leadership to the Board;</p> <p>(b) ensure that the Board works effectively and discharges its responsibilities; and</p> <p>(c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.</p>	<b>Complied</b>	<p>Company has a Board Approved Corporate Governance Policy which defines the Functions and Responsibilities of Chairman.</p> <p>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.</p>

Section	Agreed Upon Procedure	Status	Result of Procedure
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.	<b>Complied</b>	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.	<b>Complied</b>	<p>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.</p> <p>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.</p> <p>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.</p>
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.	<b>Complied</b>	The Chairman has ensured the fullest contribution and participation of all members.
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.	<b>Complied</b>	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.	<b>Complied</b>	<p>Chairman is a non-executive director.</p> <p>The Chairman does not directly get involved in the supervision of key management personnel or any other executive duties.</p>
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.	<b>Complied</b>	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.

# Corporate Governance Report

Section	Agreed Upon Procedure	Status	Result of Procedure
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Finance Company's operations and business.	<b>Complied</b>	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.
<b>8)</b>	<b>Board appointed committees</b>		
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.	<b>Complied</b>	At present company has established 05 board committees including Board Audit Committee (BAC) 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 78 to 80.
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.	<b>Complied</b>	Chairman of the Audit Committee is a non-executive director and possesses qualifications and related experience.
(b)	Check that all members of the committee are non-executive directors	<b>Complied</b>	All other members of the committee are non-executive directors.
(c)	The Committee shall make recommendations on matters in connection with:	<b>Complied</b>	
(i)	The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;		Committee has discussed the issues in Corporate Governance Factual Finding Report issued by the External Auditors.
(ii)	The implementation of the Central Bank guidelines issued to Auditors from time to time;		Committee has made recommendations on matters in connection with the application of accounting standards as and when required.
(iii)	The application of the relevant accounting standards; and		

Section	Agreed Upon Procedure	Status	Result of Procedure
(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.	<b>Complied</b>	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.	<b>Complied</b>	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 2020/21 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:	<b>Complied</b>	Board approved the policy on engagement of an external auditor to provide non-audit services.
(i)	Whether the skills and experience of the audit firm make it a suitable provider of the non-audit services		
(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		

## Corporate Governance Report

Section	Agreed Upon Procedure	Status	Result of Procedure
(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;	<b>Complied</b>	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	<b>Complied</b>	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.	<b>N/A</b>	
(h)	The Committee shall review the financial information of the Finance Company, in order to 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	<b>Complied</b>	Committee has a process to review the financial information of the company.
(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.		
(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.	<b>Complied</b>	Committee has met the external auditors during the year at committee meeting in the absence of the executive management.
(j)	The Committee shall review the External Auditor's management letter and the management's response thereto.	<b>Complied</b>	Committee has reviewed the external auditor's management letter for the year end 31 March 2020 and the management's response thereto. Management letter for the year ended 31 March 2021 will be reviewed upon receipt of the same.

Section	Agreed Upon Procedure	Status	Result of Procedure
(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.	<b>Complied</b>	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;	<b>N/A</b>	Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants.
(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.	<b>Complied</b>	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;	<b>N/A</b>	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	<b>N/A</b>	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;	<b>N/A</b>	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;	<b>Complied</b>	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.
(viii)	Ensure that a process has been documented which addresses that the audit work has been performed with impartiality, proficiency and due professional care.	<b>Complied</b>	Documented process in the Internal audit charter approved by the Board.

## Corporate Governance Report

Section	Agreed Upon Procedure	Status	Result of Procedure
(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;	Complied	An Audit Committee Charter is in place included with terms of reference of the committee which is approved by the board.
(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.		
(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 5 times and has maintained the minutes appropriately.
(p)	The Board shall, in the Annual Report, disclose in an informative way,	Complied	Company has disclosed the required details in the Annual Report on pages 78 to 79.
(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		
(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.



Section	Agreed Upon Procedure	Status	Result of Procedure
(r)	Company shall have a "whistle blower" policy which covers the process of dealing with;	<b>Complied</b>	Company has established a Whistle Blower policy approved by the Board.
(i)	The improprieties in financial reporting, internal control or other matters.		
(ii)	In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and		
(iii)	Appropriate follow-up action.		
(iv)	Protection of the whistle blower		
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.	<b>Complied</b>	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)  Ms Chrishanthi Jayawardane (Independent Non Executive Director)
(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.	<b>Complied</b>	CEO, COO, Compliance Officer and other executive management personnel participate to the committee meetings whenever necessary  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.  There are no subsidiaries or associates under this Company.

## Corporate Governance Report

Section	Agreed Upon Procedure	Status	Result of Procedure
(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	<b>Complied</b>	<p>Company has established two management level committees such as Credit Committee and Assets and Liability Committee.</p> <p>The committee has taken steps to review the adequacy &amp; effectiveness of all management level committees.</p>
(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.	<b>Complied</b>	Committee has reviewed and considered all risk indicators. Company is in the process of strengthening this by setting more risk appetite limits.
(e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	<b>Complied</b>	IRMC has met 06 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.	<b>Complied</b>	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 not 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.	<b>Complied</b>	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.	<b>Complied</b>	A dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.

Section	Agreed Upon Procedure	Status	Result of Procedure
9)	<b>Related party transactions</b>		
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:	<b>Complied</b>	Board approved Related Party Transaction Policy is in place to comply with the 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;		
	(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:	<b>Complied</b>	In the replace with Related Party Policy, the company has identified the types of related party transactions as mentioned in the direction.
	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.		

# Corporate Governance Report

Section	Agreed Upon Procedure	Status	Result of Procedure
	(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:	<b>Complied</b>	<p>Company has defined the related party transactions and more favourable treatment in its’ Related Party Transaction Policy.</p> <p>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.</p>
	(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.		
	(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;		

Section	Agreed Upon Procedure	Status	Result of Procedure
	(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.		
<b>10</b>	<b>Disclosures</b>		
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)	<b>Complied</b>	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.
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.	<b>Complied</b>	Company has disclosed the relevant statement in the Annual Report on page 88, Statement of Directors' Responsibilities for Financial Reporting.

# Corporate Governance Report

Section	Agreed Upon Procedure	Status	Result of Procedure
(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 89, Directors' Statement on Internal Control over Financial Reporting.
(c)	Details of directors, including names, transactions with the finance company.	Complied	<p>Details of directors disclosed on page 46 to 47 and the transactions with the Company disclosed on page 137 under notes (Note 39) to the Financial Statements.</p> <p>Other than Directors emoluments no other transactions recorded.</p>
(d)	Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after 1 January 2010.	Complied	The required information has been disclosed in the Annual Report on page 115.
(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.
(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	<p>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 137, under note 39, transactions with Key Management Personnel.</p> <p>There are no accommodations granted to the KMPs.</p> <p>Total deposits made by KMPs during the year 2020/21 was LKR 1,876,365.90</p>
(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 54.

Section	Agreed Upon Procedure	Status	Result of Procedure
(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.
	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 1 January 2011.	Complied	External auditors have issued the Corporate Governance Factual Finding report in this regard.
11	<b>Disclosures</b>		
	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 pages 90 and 91 of the Annual Report.

# Report of the Audit Committee

## COMPOSITION

Mr. Nalin J. Welgama (Chairman/Non-Executive Director)\*

Dr. Suren Peter (Senior Independent Non-Executive Director)

Mr. J.V.W. Malawana (Non-Executive Director)

Ms. Chrishanthi L Jayawardena (Independent Non-Executive Director)

\*The Chairman Nalin J. Welgama, is a Member of the Association of Chartered Certified Accountants of the United Kingdom and has over 30 years' experience in auditing and accounting, and the international automotive industry

## MEETINGS

The Committee met five times during the year under review.

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

Company Secretaries S S P Corporate Services (Private) Limited also functioned as Secretaries to the Audit Committee.

All proceedings were regularly reported to the Board of Directors.

## ATTENDANCE

Mr. Nalin J Welgama (Chairman) 5/5

Dr. Suren Peter (Director) 5/5

Mr. J.V.W Malawana (Director) 5/5

Ms. Chrishanthi L Jayawardena (Director)\*

\*No meetings were held after Ms Jayawardena's appointment in February 2021

## 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

Reviewed the consistency and appropriateness of 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; directed management to take appropriate and relevant follow up action

held two special meetings with the external auditors without the presence of management to discuss 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 BDO Partners, 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 internal controls and actions taken to mitigate operational and business risks. In addition, 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.

## 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 31 March 2021 subject to the approval of the shareholders at the Annual General Meeting. The Committee has also made its recommendations with regard to the remuneration of the Auditors.

#### **RISK MANAGEMENT**

In terms of the Central Bank's Direction No. 3 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 any adverse impacts.

#### **CONCLUSION**

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



Nalin J. Welgama  
Chairman  
Audit Committee

15 April 2021

# Report of the Integrated Risk Management Committee

## COMPOSITION

Membership for financial year ended 31 March 2021.

Dr. Suren Peter (Director/Chairman - IRMC)  
Mr. Aravinda De Silva (Director)  
Mr. Viraj Malawana (Director)  
Ms. Chrisanthi L Jayawardena (Director)

## PARTICIPANTS IN COMMITTEE MEETINGS

Mr. Duminda Weerasekare (CEO/Director)  
Mr. Rohitha Bandusena (Chief Operating Officer)  
Mr. Gaman Kithsiri (Assistant General Manager - ICT)  
Mr. Pradeep De Silva (Assistant General Manager - Gold Loan)  
Mr. Anura Fernando (Consultant - Recovery)  
Ms. Madumali Munasingha (Senior Manager - Risk & Compliance)  
Mr. T.M.M.B. Tennakoon (Senior Manager - Mortgage Loans & Fixed Deposits)  
Mr. Charitha Vithana (Manager - Finance)  
Ms. Sarini Mallawarachchi (Assistant Manager - Compliance)

## MEETINGS

The Committee met quarterly.

Attendance of Board members below:

Dr. Suren Peter (Chairman)	6/6
Mr. P.A.Desilva (Director)	6/6
Mr. J.V.W Malawana (Director)	6/6
Ms. Chrisanthi L Jayawardena (Director)*	

\*No meetings were held after Ms Jayawardena's appointment in February 2021

## ROLE OF THE COMMITTEE

- Assess all risks pertaining to the Company, i.e., credit, market, liquidity, operational and strategic risks through appropriate risk indicators and management information
- Review the adequacy and effectiveness of all management level committees including 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
- Take prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels decided

by the Committee on the basis of the Company's policies and regulatory and supervisory requirements

- Take appropriate action against officers responsible for failure to identify specific risks and implement prompt corrective action 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
- Establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies in all areas of business operation

## CONCLUSION

The Integrated Risk Management Committee is satisfied with the comprehensive risk management strategies and procedures that have been established to mitigate the Company's risk exposure.



**Dr. Suren Peter**  
Director/Chairman  
Integrated Risk Management Committee

15 April 2021

# Report of the Remuneration Committee

## COMPOSITION

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

Mr. P. A. De Silva (Non-Executive Director)

Mr. Duminda Weerasekara (CEO) by invitation

## MEETINGS

The Committee met twice in the financial year ending 31st March 2021.

## ROLE OF THE COMMITTEE

- ↘ Attract, motivate and retain talent with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company
  
- ↘ Ensure the Company's remuneration framework for Executive Directors and Corporate Management Team is aligned between short and long term interests of the Company, to create and enhance value for all stakeholders

## FUNCTIONS

Make recommendations on salaries, bonuses, increments and matters relating to recruitment of key management personnel, ensuring that management and staff at all levels are adequately rewarded for their performance and commitment

CEO attends all meetings and provides relevant information and his view on all matters pertaining to remuneration except his own and other matters related to him.

## DIRECTORS' REMUNERATION

Directors' remuneration paid during the year under review is set out in Note 9 to the Financial Statements.



**N. J. Welgama**  
Chairman  
Remuneration Committee

15 April 2021

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

## ANNUAL REPORT OF THE BOARD OF 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 31 March 2021. 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 94 to 149.

### 3. AUDITOR'S REPORT

The Auditor's report on the financial statements is given on page 92.

### 4. ACCOUNTING POLICIES

The accounting policies adopted in preparation of Financial Statements and the other explanatory notes are given on pages 98 to 149. 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 39, related party transactions to the financial statements.

### 7. DIRECTORS REMUNERATION AND OTHER BENEFITS

Directors' remuneration in respect of the Company for the year ended 31 March 2021 is given in Note 9 to the financial statements.

### 8. CORPORATE DONATIONS

There were no donations made by the Company for the year ended 31 March 2021.

### 9. DIRECTORS

The Directors of the Company as at 31 March 2021

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  
Mrs. C.L. Jayawardena  
Non Executive Independent Director

Mrs. C.L. Jayawardena, Non Executive Independent Director was appointed to the Board with effect from 25 February 2021.

In terms of Article 24 (2) of the Articles of Association of the Company, Mrs. C.L. Jayawardena retires at the Annual General Meeting and being eligible offers herself for re-election.

In terms of Article 24(6) of the Articles of Association of the Company Dr. P.L. Suren Peter and Mr. N.J. Welgama retire by rotation at the Annual General Meeting and being eligible offer 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  
Mrs. C.L. Jayawardena  
Member/Non Executive Independent 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  
Mrs. C.L. Jayawardena  
Member/Non Executive Independent Director

#### 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 2021.

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 2021 have been audited by Messrs Ernst & Young, Chartered Accountants, who express their willingness to continue in office. In accordance with Section 158 of the Companies Act No.07 of 2007, the Auditors are deemed to be re-appointed 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 financial year ended 31 March 2021.

## 14. INVESTMENTS

Details of investments held by the Company are disclosed in Note 14 and 15 to the financial statements.

## 15. INTANGIBLE ASSETS

There were no intangible assets, other than Computer System Software, which is disclosed in Note 24 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 23 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 LKR 1,908,247,125/-.

## 19. TAXATION

The tax position of the Company is given in Note 11 and 30 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 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 outstanding as at 31 March 2021.

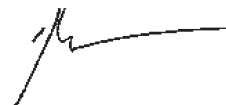
## 23. POST BALANCE SHEET EVENTS

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

15 April 2021

# Risk Management Report

### INTRODUCTION

Ideal Finance Limited (IFL) works in the space of being a financial services provider offering an expansive range of financial products including leases, loans, fixed deposits, gold loans and mortgage loans. The Company’s expansion plans also revolves on extending its branch network for more accessibility.

The IFL Board of Directors remains very proactive in the Company’s risk management, with expansive risk mitigation strategies introduced and implemented to ensure that operations are at its optimum while financial and business risks are minimised.

The Integrated Risk Management Committee (IRMC) is a Board appointed committee which meets quarterly to discuss and evaluate the prevalent risk management procedures and risk levels being faced by the company at present and in the future. The integrated risk management report presented to the IRMC and committee analyses and evaluates the adequacy and efficacy of the current risk mitigation strategies in place.

This is an imperative at IFL as we remain aware that an effective risk management strategy will flag risks pertaining to the Company and evaluate these at its early stages in order to implement necessary measures to mitigate or minimise the risks impact.

### RISK MANAGEMENT PROCESS

Managing risk is a multi-stage process as seen below.



The Risk Identification process involves identifying all risk categories and sub categories the business is exposed to. In the event of changes to the business environment or new products to be introduced, all risks must be identified. If IFL plans on introducing a new product to the market, all inherent risks are identified to minimise and avoid unexpected and adverse outcomes being faced.

Once risks are identified, these are analysed and evaluated using both quantitative and qualitative techniques. Based on these findings, necessary action is taken to manage risk and reduce impact of risk occurrence.

These are then monitored to avoid accumulation of risk. Findings are reported to the Board through IRMC.

### KEY RISKS FACED BY THE COMPANY

Due to the nature of our business and resulting from the macro-economic environment which poses a majority of the inherent risks, the Company is exposed to the following risks:

- ⌵ 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 major risk the Company is exposed to and can be categorised mainly into two - default risk and concentration risk.

### DEFAULT RISK

Default risk is the risk arising due to customers being unable to meet their debt obligations. The company has well-defined credit procedures to mitigate the default risk in daily business operations which includes credit appraisal, credit approval, monitoring and recovering debt. IFL obtains sufficient collateral as security in the event of non-payment by the borrower and all non performing facilities are analysed periodically to make sure the Company maintains a very low non-performing loan (NPL) ratio.

### CONCENTRATION RISK

Concentration risk occurs when facilities are extended to a single counterparty, industry or geographical area. IFL sets prudential limits on maximum exposure which are reviewed periodically and single borrower limits as defined by the Finance Companies Direction No. 4 of 2006 issued by Central Bank of Sri Lanka.

### LIQUIDITY RISK

Liquidity risk arises when the Company has insufficient funds to meet obligations due to unmatched maturities in assets and liabilities. The primary objective of IFL's liquidity management policy is to ensure availability of adequate funding for its daily business activities. The Company also maintains the statutory liquid asset ratios at required levels as a method that measures and controls liquidity risk.

The following precautionary measures are implemented to maintain a healthy liquidity position.

- ↳ Preparation of an annual budget and identification of future funding requirement
- ↳ Identification of the cumulative gap in the current year's assets and liabilities
- ↳ Identification of the amount of unpredicted cash requirements arose during the past 6 months
- ↳ Identification of the cash flows arising from interest earning assets

### INTEREST RATE RISK

Interest rate risk is resulted from adverse and unanticipated movements in future interest rates impacting credit facilities granted and deposits accepted by the company. Several factors give rise to interest rate risk. Where main two types are identified as;

- ↳ Term structure risk – due to the mismatch in maturity of assets and liabilities
- ↳ Basis risk – arising due to differences in interest rates bases

IFL conducts periodic review of interest rates by,

- ↳ Analysing past fluctuations of interest rate patterns and forecasting Interest rate movements based on these past trends
- ↳ Monitoring other market factors including market liquidity and Treasury bill rates

- ↳ Identifying the gap analysis of interest earning assets and interest paying liabilities
- ↳ Identifying the effect on net interest income.

### CURRENCY RISK

Currency risk is defined as the potential changes arising from exchange rates of various currencies. IFL is exposed to currency risk if the exchange rate risk is not transferable at the time of transaction. The Company monitors currency rate fluctuations and forecasts exchange rate trends based on past movements.

### COLLATERAL RISK

Collateral risk arises due to the value of security held being insufficient to meet the capital outstanding of the facilities in event of default of payment by the customer. IFL ensures at all times that the value of collateral held as security is sufficient to meet the facility amount in case of default and have the following in place to mitigate the collateral risk:

- ↳ Physical verification of the asset before granting facilities
- ↳ Check 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 is defined as the adverse impact on company's earnings and/ or equity due to improper implementation of strategies and decisions or unresponsiveness

# Risk Management Report

to industry changes. At IFL, all strategic decisions are discussed and decided at board level, with the board obtaining professional and/or external expertise advices when required. Having appropriately addressed the company's strategic risk indicators, IFL has minimised the level of strategic 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. Mainly placed 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 minimise manual errors. The company has established a continuous internal audit process using the services of BDO Partners 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 applicable laws and regulations. As the financial industry is highly regulated and is continuously monitored for compliance by the regulatory bodies, the Company has set internal procedures to ensure that all regulatory reporting requirements are met and all statutory payments are paid before due dates.

## REPUTATIONAL RISK

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





FINANCIAL STATEMENTS

Our progressive strategies have enabled us to secure enduring stakeholder value to thrive in an immensely vast and competitive industry.

# PROGRESSING

# 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.

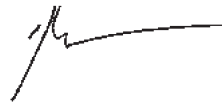
The Directors are also responsible to ensure that the financial statements comply with any regulations made under the Companies Act which specifies the form and content of financial statements and any other requirements which apply to the Company's financial statements under any other law.

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 2020/21, 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  
Director / CEO

15 April 2021

# 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 Limited. (“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 observe and checked by the Internal Auditors of the Company for suitability of the 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. 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.

During the period the Company further strengthened its internal control processes to ensure that the impact of the COVID-19 debt moratorium and impairment provisions were accurately captured in the financial reporting. The Management also ensured that all critical reconciliations were performed without interruption during the lockdown periods. All required adjustments have been made in the Financial Statements for the year ended 31 March 2021 and progressive improvements on processes and controls are being made to strengthen the process.

## CONFIRMATION

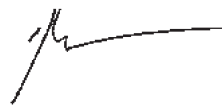
Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been prepared in accordance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

## REVIEW OF THE STATEMENT BY EXTERNAL AUDITOR

The External Auditor, Messrs Ernst & Young, has reviewed the above Directors’ Statement on Internal Control for the year ended 31 March 2021 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.



P. A. De Silva  
Deputy Chairman



D. M. Weerasekara  
Chief Executive Officer/Director

15 April 2021

# Independent Assurance Report



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
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Sri Lanka

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Tax : +94 11 5578180  
eysl@lk.ey.com  
ey.com

TO THE BOARD OF DIRECTORS OF IDEAL FINANCE LIMITED

## REPORT ON THE DIRECTOR'S STATEMENT ON INTERNAL CONTROL

We were engaged by the Board of Directors of Ideal Finance Limited ("The Company") to provide assurance on the Directors' Responsibility Statement on Internal Control over Financial Reporting ("The Statement") included in the annual report for the year ended 31 March 2021.

### MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with section 10(2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008/ section 10 (2) (b) of the finance Leasing (Corporate Governance) Direction no. 4 of 8 2009, by the Institute of Chartered Accountants of Sri Lanka.

### OUR INDEPENDENCE AND QUALITY CONTROL

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

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

## OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3051

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

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

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

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

### SUMMARY OF WORK PERFORMED

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

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

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

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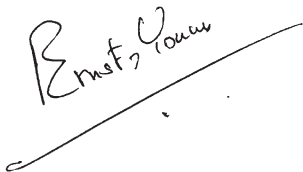
SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control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

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

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

#### **OUR CONCLUSION**

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

A handwritten signature in black ink, appearing to read "Ernst & Young", is written over a long, thin horizontal line that extends across the width of the signature.

15 April 2021  
Colombo

# INDEPENDENT AUDITOR'S REPORT



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
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eysl@lk.ey.com  
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## 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 2021, 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 2021, 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.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional scepticism 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

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Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

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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.

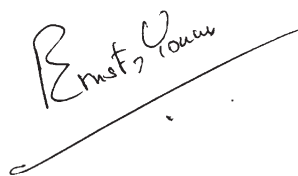
- ↘ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ↘ Evaluate the appropriateness of accounting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



15 April 2021  
Colombo

# Statement of Comprehensive Income

Year ended 31 March 2021

	Notes	2021 LKR	2020 LKR
<b>Income</b>	3	<b>1,015,293,382</b>	<b>927,784,733</b>
Interest Income	4.1	973,813,610	886,069,373
Interest Expenses	4.2	(256,037,926)	(371,873,790)
<b>Net Interest Income</b>		<b>717,775,684</b>	<b>514,195,583</b>
Fees and Commission Income	5	10,904,398	8,940,422
<b>Net Fee and Commission Income</b>		<b>10,904,398</b>	<b>8,940,422</b>
Other Operating Income	6	30,575,374	32,774,938
<b>Total Operating Income</b>		<b>759,255,456</b>	<b>555,910,943</b>
Impairment Charges for Loans and Other Losses	7	(88,586,557)	(32,076,446)
<b>Net Operating Income</b>		<b>670,668,899</b>	<b>523,834,497</b>
<b>Operating Expenses</b>			
Personnel Expenses	8	(194,494,202)	(168,327,971)
Depreciation of Property Plant & Equipment	23.2	(48,991,168)	(45,780,259)
Amortization of Intangible Assets	24	(5,376,310)	(5,358,030)
Other Operating Expenses	9	(61,592,438)	(69,952,048)
<b>Operating Profit before Taxes on Financial Services</b>		<b>360,214,781</b>	<b>234,416,189</b>
Value Added Tax, NBT & DRL on Financial Services	10	(71,777,093)	(70,381,010)
<b>Profit before Taxation</b>		<b>288,437,688</b>	<b>164,035,179</b>
Income Tax Expenses	11.1	(104,682,413)	(58,684,095)
<b>Profit/ (Loss) for the period</b>		<b>183,755,275</b>	<b>105,351,084</b>
Basic and Diluted Earning per Share	12.2	1.26	1.11
Profit/ (Loss) for the period		183,755,275	105,351,084
<b>Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods</b>			
Actuarial Gain/ (Loss) on Defined Benefit Obligations	29.3	947,411	(1,454,422)
Deferred Tax (Charge)/Reversal on Other Comprehensive Income	30	(265,275)	349,061
<b>Other Comprehensive Income for the period, Net of Tax</b>		<b>682,136</b>	<b>(1,105,361)</b>
<b>Total Comprehensive Income for the period, Net of Tax</b>		<b>184,437,411</b>	<b>104,245,723</b>

The Accounting Policies and Notes on pages 98 through 149 form an integral part of the Financial Statements.



# Statement of Financial Position

As at 31 March 2021

	Notes	2021 LKR	2020 LKR
<b>ASSETS</b>			
Cash and Bank Balances	13	71,609,393	44,196,582
Investment in Government Securities at Amortized cost	14	502,394,473	916,546,358
Placements with Banks and Other Financial Institutions	15	211,016,918	22,876,022
Gold Advances	16	1,183,764,064	672,715,396
Lease Rentals Receivable and Stock out on Hire	17	2,414,429,648	2,309,893,463
Loans and Advances	18	865,820,622	959,057,649
Other Financial Assets	19	41,054,449	32,232,575
Other Non Financial Assets	20	27,054,720	23,024,762
Financial Investments-Measured at Fair Value through OCI	21	457,700	457,700
Inventories	22	511,273	917,715
Property, Plant and Equipment	23	188,756,810	166,334,908
Intangible Assets	24	12,958,541	18,134,851
<b>TOTAL ASSETS</b>		<b>5,519,828,611</b>	<b>5,166,387,981</b>
<b>LIABILITIES</b>			
Interest Bearing Borrowings	25	1,706,358,102	1,877,769,625
Due to the Customers	26	929,639,458	671,917,133
Other Financial Liabilities	27	236,443,617	161,746,680
Other Non Financial Liabilities	28	26,294,479	33,366,905
Retirement Benefit Liability	29	23,049,390	17,883,134
Current Tax Liabilities		87,363,461	38,024,293
Deferred Tax Liabilities	30	5,252,716	44,690,234
<b>TOTAL LIABILITIES</b>		<b>3,014,401,223</b>	<b>2,845,398,004</b>
<b>EQUITY</b>			
Stated Capital	31	1,908,247,125	1,908,247,125
Retained Earnings		565,461,548	390,246,008
Reserves	32	31,718,715	22,496,844
<b>TOTAL EQUITY</b>		<b>2,505,427,388</b>	<b>2,320,989,977</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,519,828,611</b>	<b>5,166,387,981</b>

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

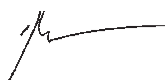


Finance Manager

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 98 through 149 form an integral part of the Financial Statements.

15 April 2021

Colombo

# Statement of Changes in Equity

Year ended 31 March 2021

	Stated Capital LKR	Retained Earnings LKR	Statutory Reserve Fund LKR	Total LKR
Balance As at 31 March 2019	808,247,125	291,212,571	17,284,558	1,116,744,254
Total Income / (Loss) for the Period	-	105,351,084	-	105,351,084
Share Issue	1,100,000,000	-	-	1,100,000,000
Dividend Paid during the Period	-	-	-	-
Other Comprehensive Income (Net of Tax)	-	(1,105,361)	-	(1,105,361)
Transfer to Statutory Reserve Fund	-	(5,212,286)	5,212,286	-
<b>Balance As at 31 March 2020</b>	<b>1,908,247,125</b>	<b>390,246,008</b>	<b>22,496,844</b>	<b>2,320,989,977</b>
Balance As at 1 April 2020	1,908,247,125	390,246,008	22,496,844	2,320,989,977
Total Income / (Loss) for the Period	-	183,755,275	-	183,755,275
Other Comprehensive Income (Net of Tax)	-	682,136	-	682,136
Transfer to Statutory Reserve Fund	-	(9,221,871)	9,221,871	-
<b>Balance As at 31 March 2021</b>	<b>1,908,247,125</b>	<b>565,461,548</b>	<b>31,718,715</b>	<b>2,505,427,388</b>

The Accounting Policies and Notes on pages 98 through 149 form an integral part of the Financial Statements.

# Statement of Cash Flows

Year ended 31 March 2021

	Notes	2021 LKR	2020 LKR
<b>Cash Flow from/ (Cussed in) Operating activities</b>			
Profit before Income Tax Expense		288,437,688	164,035,179
Adjustment for Other Non Cash Items Included in Profit Before Tax			
Depreciation of Property, Plant and Equipment & ROU Assets	23.2	48,991,168	45,780,259
Amortization of Intangible Assets	24	5,376,310	5,358,030
Provision for Impairment	7	88,586,557	32,076,446
Interest expenses on Borrowings	4.2	166,134,545	282,777,104
Defined Benefit Obligation	8	6,113,667	4,980,195
Dividend Income	6	(320,000)	(240,800)
Disposal (Gain)/Loss on Fixed Assets		235,561	924,062
<b>Operating Profit before Working Capital Changes</b>		<b>603,555,496</b>	<b>535,690,475</b>
(Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire		(148,487,441)	(51,767,780)
(Increase)/Decrease in Loan Stock		88,022,024	36,871,685
(Increase)/Decrease in Gold Advance		(511,048,668)	(216,150,504)
(Increase)/Decrease in Other Financial Assets		(9,443,491)	10,040,678
(Increase)/Decrease in Other Non Financial Assets		(4,029,958)	2,651,229
(Increase)/Decrease in Inventories		406,442	69,837,092
Increase/(Decrease) in Amounts Due to Customers		257,722,325	87,132,257
Increase/(Decrease) in Other Financial Liabilities		66,019,178	(10,504,509)
Increase/(Decrease) in Other Non Financial Liabilities		(7,072,427)	(15,350,008)
<b>Cash Generated from Operations</b>		<b>335,643,480</b>	<b>448,450,615</b>
Retirement Benefit Liabilities Paid	29.2	-	-
Income Tax Paid		(94,550,893)	(58,161,484)
<b>Net Cash Flows from/(Used in) Operating Activities</b>		<b>241,092,587</b>	<b>390,289,131</b>
<b>Cash Flows from / (Used in) Investing Activities</b>			
Purchase of Property, Plant and Equipment	23.1	(42,271,115)	(12,405,987)
Purchase of Right of Use Assets	23.1	(29,377,517)	-
Purchase of Intangible Assets	24	(200,000)	(400,100)
Disposal of Property, Plant and Equipment		-	6,865,780
Dividend Received	6	320,000	240,800
Investing in Fixed Deposits	15	(210,000,000)	-
<b>Net Cash Flows from/(Used in) Investment Activities</b>		<b>(281,528,632)</b>	<b>(5,699,507)</b>
<b>Cash Flows from / (Used in) Financing Activities</b>			
Proceeds from Bank Borrowings		1,397,000,000	1,310,000,000
Repayment of Bank Borrowings		(1,782,714,413)	(1,777,098,221)
Rental Paid for Right of Use Assets		(28,001,970)	(26,159,216)
Repayment of Other Borrowed Funds		(3,631,013)	(3,252,417)
Net Proceeds from Share Issue		-	1,100,000,000
Dividend Paid		-	-
<b>Net Cash Flows from/(Used in) Financing Activities</b>		<b>(417,347,396)</b>	<b>603,490,146</b>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		<b>(457,783,441)</b>	<b>988,079,770</b>
Cash and Cash Equivalents at the Beginning of the Period		928,259,927	(59,819,843)
Cash and Cash Equivalents at the End of the Year	33	470,476,486	928,259,927

The Accounting Policies and Notes on pages 98 through 149 form an integral part of the Financial Statements.

# Notes to the Financial Statements

Year ended 31 March 2021

## 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, Loan Facilities and Gold Advances.

### 1.3 Parent Entity and Ultimate Parent Entity

IDEAL Motors (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 2021 were authorized for issue in accordance with a resolution of the Board of Directors on 15 April 2021.

## 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 2021 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 36.

#### 2.1.5 Functional and presentation currency

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

#### 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.

Year ended 31 March 2021

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 Sri Lankan 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. However, the Company has not restated comparative information for 2020.

#### 2.1.8 Statement of Cash Flow

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

Cash and cash equivalents include cash in hand, balances with banks, placements with banks (less than 3 months), net of unfavorable bank balances and securities purchased under repurchase agreement (less than three months).

#### 2.1.9 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 38 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 recognised in the period in which the estimate is revised and in any future periods affected.

#### COVID-19 impact on the use of estimates and assumptions

The Company has considered the impact of COVID-19 when preparing the financial statements and related note disclosures. While the effects of COVID-19 do not change the significant estimates, judgments and assumptions in the preparation of financial statements, it has resulted in increased estimation uncertainty and application of further judgment within those identified areas.

COVID-19 financial reporting considerations in the preparation of the financial statements

Given the increased economic uncertainties from COVID-19, the Company has enhanced its financial reporting procedures and governance practices

# Notes to the Financial Statements

Year ended 31 March 2021

surrounding the preparation of the financial statements. In addition to standard financial year end reporting practices, the Company has:

- ↘ Developed a detailed program of work to understand and analyse how COVID-19 may impact key disclosures in the financial statements;
- ↘ Critically assessed estimates, judgments and assumptions used in the preparation of the financial statements, including updating the Company's outlook on economic conditions arising from COVID-19;
- ↘ Reviewed external publications and market communications to identify other potential COVID-19 impacts in the preparation of the financial statements;
- ↘ Considered emerging market practice and trends along with regulatory pronouncements to assess the completeness of assessed COVID-19 impacts in the preparation of the financial statements;
- ↘ Determined the impact of COVID-19 has had on the reported amounts and disclosures in the financial statements and updated these disclosures accordingly.

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised 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. Further, the Directors have considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the Company, in making this assessment. Therefore, the financial statements continue to be prepared on the going concern basis.

## ii. *Impairment losses on loans and receivables*

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, 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 judgements 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

In response to COVID-19 and the Company's expectations of economic impacts, key assumptions used in the calculation of ECL have been revised. The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are outlined in Note 2.3.1.4.2, while the impact on changing the weightages of different macroeconomic scenarios during the year are given in Note 41.5.3. As at

Year ended 31 March 2021

the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19. Although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the COVID-19 pandemic, the fundamental credit model mechanics and methodology underpinning the calculation of ECL have remained consistent with prior periods.

The Company is focused on supporting customers who are experiencing financial difficulties because of the COVID-19 pandemic and has offered a range of industry-wide financial assistance measures including the debt moratorium initiated by the Central Bank of Sri Lanka. As per industry guidance given by the Central Bank and the Institute of Chartered Accountants of Sri Lanka, eligibility for the debt moratorium does not automatically result in a significant increase in credit risk (SICR) which moves an exposure from stage 1 (12-month ECL) to stage 2 (lifetime ECL). A case-by-case analysis has been conducted on the most significant exposures and only those exposures with increased credit risk has been moved to stage 2 and stage 3. Further, the exposures which are not individually significant has been moved to stage 2 and stage 3 based on the industry risk of the underlying borrowers. This approach ensures the volume of exposures in stage 2 & stage 3 reflects a forward-looking view of the economy as at the reporting date.

### iii. *Fair Value of Financial Instruments*

The determination of fair values of financial assets and financial liabilities recorded in the Statement of Financial Position for which there is no observable market price is based on using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instruments is described in Note 35 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is given in Note 35.1 to the Financial Statements. The determination of the fair value of the financial instruments of the Company were not materially affected by the significant volatility in financial markets created by the COVID – 19 pandemic.

### iv. *Financial Assets and Financial Liabilities Classification*

The Company's accounting policies provide scope for assets and liabilities to be classified, at inception in to different accounting categories. The classification of financial instruments is given in Note 34 "Analysis of Financial Instruments by Measurement Basis". The COVID-19 pandemic has resulted in significant volatility in the financial markets. However, the Company did not require to reclassify any of its financial assets as a result of the significant volatility created by the pandemic.

### v. *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 29.

### vi. *Useful Life-time of the Property, Plant, Equipment and Intangible Assets*

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

### vii. *Fair value of Property, Plant & Equipment*

The free hold land of the Company is reflected at fair value at the date of revaluation less any accumulated impairment losses. The Company engages an independent valuation specialist to determine the fair value of free hold land in terms of Sri Lanka Accounting Standard –SLFRS 13, (Fair Value Measurement). The details of freehold land including methods of valuation are given in Note 26 to the Financial Statements. The Company has not revalued its freehold lands and buildings during this year for accounting purposes, on the basis that changes in property prices were not significant compared to the previous year

# Notes to the Financial Statements

Year ended 31 March 2021

## 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 SLFRS 09 Financial Instrument

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.

#### 2.3.1.1 Classification & Measurement of Financial Assets and Liabilities

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:

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

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

#### 2.3.1.2 Financial Assets and liabilities

##### 2.3.1.2.1 Lease rental receivables, Loans and Receivables to Other Customers, Financial Investments at Amortised Cost.

The company only measures Lease, Loans and advances to customers and other financial investments at amortised 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. Financial liabilities are measured at amortised 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 flows are that of solely payments of the principal amount and interest (referred to as "SPPI").



Year ended 31 March 2021

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 amortisation 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 judgement 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.

#### 2.3.1.2.2 Reclassification of Financial Assets and Liabilities

The company does not reclassify its financial assets or liability subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. The Company did not reclassify any of its financial assets or liabilities in year 2020/21.

#### 2.3.1.3 De-recognition of Financial Instruments

##### 2.3.1.3.1 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.

##### 2.3.1.3.2 Financial Liabilities

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

##### 2.3.1.4 Impairment of Financial Assets

Overview of the Expected Credit Loss (ECL) Principles

The Company's loan loss impairment method by using 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.

##### Stage 1

When loans are first recognised, the Company recognises 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.

#### 2.3.1.4.1 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

# Notes to the Financial Statements

Year ended 31 March 2021

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 recognised and is still in the portfolio.

However, for placements with Banks and other financial investments classified as amortised 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 drawdowns 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.

2.3.1.4.2 The mechanics of the ECL method are summarized below:

#### *Stage 1*

The 12 months ECL is calculated as the portion of 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.

#### *Stage 3*

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

#### *Forward Looking Information*

In its ECL models, the Company 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	

#### *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.

Year ended 31 March 2021

The COVID-19 pandemic has significantly impacted the local economy. The economic environment remains uncertain and future impairment charges may be subject to further volatility depending on the longevity of the COVID-19 pandemic and related containment measures. To reflect these uncertainties in the calculation of expected credit losses, the Company has changed the weightages assigned for multiple economic scenarios during the year. Weightages assigned for each scenario is given below along with the weightages used in 2020/21.

	2020/21	2019/20
Base case	20%	20%
Best case	15%	30%
Worst case	65%	50%

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

To ensure completeness and accuracy, the company obtains necessary data primarily from publications of Central Bank of Sri Lanka.

#### 2.3.1.5 Determination of Fair Value

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the

# Notes to the Financial Statements

Year ended 31 March 2021

hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 35 to the Financial Statements.

## 2.3.2 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.

### 2.3.2.1 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.

### 2.3.2.2 SLFRS 16 – Leases

#### *Company as a lessee*

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. lessee and lessor. SLFRS 16 supersedes Sri Lanka Accounting Standard - LKAS 17 (Leases) and related interpretations, SLFRS 16 introduces

a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The company has adopted SLFRS 16 using modified retrospective method from 1 April 2019, without restating comparatives for the 2018/19 reporting period, as permitted under the specific transitional provisions in the standard. At the date of adoption, right of use was recognized as amount equal to the lease liability, adjusted by the amount of prepaid lease rentals.

Under this method, the standard is applied retrospectively and the cumulative effect as at initial date of application of the standard i.e 1 April 2019 has been duly adjusted. The company elected to use the transitional practical expedient to not reassess whether an existing contract forms a lease as at 1st April 2019, under the definitions provided in the standard. Instead, the company applied the standard only to contracts that were previously identified as leases applying LKAS 17 at the date of initial application.

The contracts which were previously classified as "operating leases" under the principles of LKAS 17 -Leases, have been recognize as "right of- use assets" with the adoption of SLFRS 16 -Leases.

## 2.3.3 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.

## 2.3.4 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 amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Year ended 31 March 2021

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.

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 recognized.

### 2.3.5 Right-Of-Use Assets

#### 2.3.5.1 Basis of recognition

The Company applies Sri Lanka Accounting Standard SLFRS 16 "Leases" in accounting for all lease hold rights except for leases due to expire during the financial year and leases on which implications to the financial statements are not considered to be material. The company uses its judgment to determine whether an operating lease contract qualifies for recognition of right-of-use assets. The company applies judgements in evaluating the level of certainty whether the option of renewing the lease exists or otherwise. That is, it considers all relevant factors that create an economic benefits for it to exercise either the renewal or termination.

#### *Basis of measurement*

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

When measuring lease liabilities for leases that were classified previously as operating leases, the company discounted future lease payments due as of 1 April 2019 using the incremental borrowing rate as at 1 April 2019. The rate applicable was 14%.

The Company has elected not to recognise right of use assets and lease liabilities for leases of low value assets and short term leases. The company recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

### 2.3.6 Intangible assets

The company's other intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the company. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation 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 amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

# Notes to the Financial Statements

Year ended 31 March 2021

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is presented as a separate line item in the statement of comprehensive income.

Computer System software is amortised over: 10 years

## 2.3.7 Other Assets

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

## 2.3.8 Inventories

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

## 2.3.9 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 recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

## 2.3.10 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

Year ended 31 March 2021

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.

#### 2.3.11 Provisions

Provisions are recognised 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.

#### 2.3.12 Other Liabilities

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

#### 2.3.13 Foreign currency translation

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.

#### 2.3.14 Recognition of income and expenses

Revenue is recognised 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 recognised.

##### (i) *Interest income and interest expense*

For all financial instruments measured at amortised 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 recognised 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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

# Notes to the Financial Statements

Year ended 31 March 2021

## (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 recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

## (iii) *Dividend income*

Dividend income is recognised 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.

### 2.3.15 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.



Year ended 31 March 2021

**d. Nation Building Tax (NBT) and Debt Repayment Levy (DRL) 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 was calculated as 2% of the value addition used for the purpose of VAT on financial services.

However the Company was not liable for NBT during the year 2020/21 as NBT abolished with effective from 1st December 2019.

**e. Debt Repayment Levy (DRL) on Financial Services**

Debt Repayment Levy has been imposed by the Finance Act, No. 35 of 2018 commencing from 1 October 2018. The base for the computation of Debt Repayment Levy is the value addition attributable to the supply of financial services computed for VAT on financial services before deducting for VAT and NBT on financial services and DRL. The DRL rate was 7%.

The Company was not liable for DRL during the year 2020/21 as DRL abolished with effective from 1st January 2020.

### 2.3.16 Regulatory provisions

**a) Deposit Insurance and Liquidity Support Scheme**

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

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

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

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

**b) 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.

### 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

Year ended 31 March 2021

## 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 and Stock Out on Hire
- Term Loans
- Gold 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.

## 2.3.19 Sri Lanka Accounting Standards Not Yet Effective as at 31 March 2021

The following Sri Lanka Accounting Standards and interpretations have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2020. The Company intends to adopt these new and amended standards, if applicable, when they become effective.

### 1. Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 and Phase 2)

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

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

These amendments to various standards are effective for the annual reporting periods beginning on or after 01 January 2021. The Company is in process of assessing the potential impact of implementation of the aforementioned amendments.

### 2. SLFRS 17 Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace IFRS 4 Insurance Contracts (SLFRS 4). SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The Financial Statements of the Company is not expected to have a material impact from SLFRS 17 - Insurance Contracts.

Year ended 31 March 2021

### 3. INCOME

	2021 LKR	2020 LKR
Interest Income (4.1)	973,813,610	886,069,373
Fee and Commission Income (5)	10,904,398	8,940,422
Other Operating Income (6)	30,575,374	32,774,938
<b>Total Income</b>	<b>1,015,293,382</b>	<b>927,784,733</b>

### 4. NET INTEREST INCOME

#### 4.1 Interest Income

	2021 LKR	2020 LKR
From Placements with Banks and Other Financial Institutions	1,129,155	2,181,694
From Government Securities	39,567,391	11,787,670
From Lease Rental Receivable & Stock Out on Hire	529,397,365	520,330,613
From Loans and Advances	214,963,320	213,876,437
From Gold Advances	187,899,111	136,946,583
From Refundable Deposits	857,268	946,376
<b>Total Interest Income</b>	<b>973,813,610</b>	<b>886,069,373</b>

#### 4.2 Interest Expense

	2021 LKR	2020 LKR
Due to Banks	147,091,025	215,756,960
Due to Customers	78,550,860	78,047,770
On Intercompany Borrowings	19,043,520	67,020,144
On Obligation to Make the Lease Payment for Right of Use Assets	11,352,521	11,048,916
<b>Total Interest Expenses</b>	<b>256,037,926</b>	<b>371,873,790</b>
<b>Net Interest Income</b>	<b>717,775,684</b>	<b>514,195,583</b>

### 5. FEE AND COMMISSION INCOME

	2021 LKR	2020 LKR
Commission Income	10,904,398	8,940,422
<b>Fee and Commission Income</b>	<b>10,904,398</b>	<b>8,940,422</b>

# Notes to the Financial Statements

Year ended 31 March 2021

## 6. OTHER OPERATING INCOME

	2021 LKR	2020 LKR
Dividend Income	320,000	240,800
Net Income from Real Estate Operations	9,303,534	10,439,872
Vehicle Hiring Income	1,815,807	3,254,628
Other Operating Income	19,136,033	18,839,638
<b>Total Other Operating Income</b>	<b>30,575,374</b>	<b>32,774,938</b>

## 7. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

	2021 LKR	2020 LKR
Charge/(write-back) to the statement of comprehensive income		
- Impairment on individually significant loans	10,499,229	16,166,556
- Impairment on collective loan portfolio	39,062,330	15,521,124
- write-offs/(recoveries)	39,024,998	-
- Impairment on Other Financial Assets	-	388,766
<b>Total Impairment Charge</b>	<b>88,586,557</b>	<b>32,076,446</b>

Lease Rentals Receivable and Stock out on Hire (Note 17.2.a)	2021 LKR	2020 LKR
Stage 1	14,694,031	2,252,429
Stage 2	7,205,209	3,937,694
Stage 3	22,052,015	18,074,010
	43,951,256	24,264,133

Loans and Advances (Note 18.2.a)	2021 LKR	2020 LKR
Stage 1	3,738,733	(62,145)
Stage 2	(993,262)	719,919
Stage 3	2,469,531	6,765,773
	5,215,003	7,423,547

Year ended 31 March 2021

## 7. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES (CONTD...)

Other Financial Assets (Note 19.1.a)	2021 LKR	2020 LKR
Stage 1	200,355	(36,874)
Stage 2	38,762	(5,069)
Stage 3	156,183	430,709
	395,300	388,766

## 8. PERSONNEL EXPENSES

	2021 LKR	2020 LKR
Salaries	133,094,858	117,261,239
Employers' Contribution to Employee's Provident Fund	15,299,974	13,720,558
Employers' Contribution to Employee's Trust Fund	3,824,993	3,430,140
Gratuity Charge for the year	6,113,667	4,980,195
Other Staff Related Expenses	36,160,710	28,935,839
	194,494,202	168,327,971

## 9. OTHER OPERATING EXPENSES

	2021 LKR	2020 LKR
Directors' Emoluments	5,000,000	4,600,000
Auditors' Remuneration	1,759,537	2,100,263
Professional and Legal Expenses	3,171,753	5,702,528
Office Administration and Establishment Expenses	29,791,038	31,498,695
Advertising and Promotional Expenses	10,937,397	13,378,633
Disallowable Input VAT and VAT on Other Income Sources	-	1,283,698
License and Renewal Fees	1,714,960	1,677,350
Other Expenses	9,217,753	9,710,881
	61,592,438	69,952,048

## 10. VALUE ADDED TAX AND NBT ON FINANCIAL SERVICES

	2021 LKR	2020 LKR
VAT on Financial Services	71,777,093	47,282,296
NBT on Financial Services	-	3,886,679
Debt Repayment Levy	-	19,212,035
	71,777,093	70,381,010

# Notes to the Financial Statements

Year ended 31 March 2021

## 11. INCOME TAX EXPENSES

11.1 The major component of income tax for the period ended 31 March 2021 as follows;

	2021 LKR	2020 LKR
<b>Income Statement</b>		
<b>Current Income Tax</b>		
Income Tax for the Period	144,385,206	76,555,902
<b>Deferred Tax</b>		
Deferred Tax Charge (Note 30)	(39,702,793)	(17,871,807)
<b>Income Tax Expenses reported in the Income Statement</b>	<b>104,682,413</b>	<b>58,684,095</b>
<b>Statement of Other Comprehensive Income</b>		
Differed Tax related to items recognized in OCI during the year		
Net Gain/(Loss) on Actuarial Gains/Losses during the year	265,275	(349,061)
<b>Income Tax Expenses reported in the Other Comprehensive Income</b>	<b>265,275</b>	<b>(349,061)</b>
<b>Total Income Tax Expense for the year</b>	<b>104,947,688</b>	<b>58,335,034</b>

## 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 2021 as follows.

	2021 LKR	2020 LKR
Accounting Profit / (Loss) Before Income Taxation	288,437,688	164,035,179
Aggregate allowable expenditure	(337,641,799)	(639,894,973)
Tax loss utilised	-	-
Aggregate disallowable expenditure	564,865,559	757,697,761
	515,661,448	281,837,967
Tax at statutory rates	144,385,205	76,096,251
Add : Under provision adjustments	-	459,651
	144,385,205	76,555,902
Deferred taxation charged/(Reversal)	(39,702,793)	(17,871,807)
	(39,702,793)	(17,871,807)
Effective Tax Rate	36.29%	35.78%

### Amendments to the Income Tax Law announced by the Government

As per the announcement dated 12 February 2020, income tax rate applicable for the Finance sector has been reduced to 24% with effect from 01 January 2020. However, as the said amendment is yet to be enacted, both income tax and deferred tax were calculated at the rate of 28% for the year ended 31 March 2021.

Year ended 31 March 2021

## 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;

	2021 LKR	2020 LKR
<b>Amount Used as Numerators</b>		
Profit attributable to Ordinary Share Holders	183,755,275	105,351,084
<b>Number of Ordinary shares used as Denominator</b>		
Weighted Average Number of Ordinary Shares	145,639,098	94,636,592
<b>Basic and Diluted Earning Per Ordinary Shares</b>	<b>1.26</b>	<b>1.11</b>

Company's ordinary shares were increased on 28 February 2020 with the issue of 36,842,105 shares at LKR 19.00 each and 18,796,993 shares at LKR 21.28 each. As a result the number of shares increased to 145,639,098.

## 13. CASH AND BANK BALANCES

	2021 LKR	2020 LKR
Cash in Hand	22,483,451	12,823,559
Bank Balances	49,125,942	31,373,023
	<b>71,609,393</b>	<b>44,196,582</b>

## 14. INVESTMENT IN GOVERNMENT SECURITIES

	2021 LKR	2020 LKR
Treasury Bills - at Amortized cost	-	67,765,783
REPO Investment - at Amortized Cost	502,394,473	848,780,575
	<b>502,394,473</b>	<b>916,546,358</b>

## 15. PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2021 LKR	2020 LKR
Placement With Banks (Fixed Deposit)	211,016,918	22,876,022
	<b>211,016,918</b>	<b>22,876,022</b>

# Notes to the Financial Statements

Year ended 31 March 2021

## 16. GOLD ADVANCES

	2021 LKR	2020 LKR
Gold Advances	1,183,764,064	672,715,396
	<b>1,183,764,064</b>	<b>672,715,396</b>

## 17. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE

	2021 LKR	2020 LKR
Rental Receivable on Lease	3,402,853,160	3,150,108,160
Rental Receivable on Hire Purchase	-	1,238,382
<b>Gross Rentals Receivables</b>	<b>3,402,853,160</b>	<b>3,151,346,542</b>
Less: Unearned Income	(844,689,833)	(753,131,978)
	2,558,163,327	2,398,214,564
Less : Rentals Received in Advance	(27,125,801)	(15,664,479)
<b>Net Rentals Receivables before charging Allowance for Impairment Losses</b>	<b>2,531,037,526</b>	<b>2,382,550,085</b>
Less : Allowance for Impairment Losses (Note 17.2)	(116,607,878)	(72,656,622)
<b>Total Net Rentals Receivable</b>	<b>2,414,429,648</b>	<b>2,309,893,463</b>

### 17.1 NET RENTALS RECEIVABLE ON LEASE AND STOCK OUT ON HIRE

	Net Rentals Receivables LKR	Allowance for Impairment Losses LKR	Total Net Rentals Receivable LKR
Stage - 1	1,580,761,114	25,675,641	1,555,085,471
Stage - 2	541,148,014	19,718,051	521,429,963
Stage - 3	409,128,399	71,214,185	337,914,214
	<b>2,531,037,527</b>	<b>116,607,878</b>	<b>2,414,429,649</b>

### 17.2 ALLOWANCE FOR IMPAIRMENT LOSSES

#### (a) Allowance for Impairment with stage wise

	Stage -1 LKR	Collective Stage -2 LKR	Stage -3 LKR	Individual Stage -3 LKR	Total LKR
Balance as at 01 April 2020	10,981,610	12,512,842	31,187,392	17,974,778	72,656,622
Charges/(Reversals) for the year	14,694,031	7,205,209	35,976,847	14,378,801	72,254,889
Amount written off	-	-	(23,972,487)	(4,331,146)	(28,303,634)
<b>Balance as at 31 March 2021</b>	<b>25,675,641</b>	<b>19,718,051</b>	<b>43,191,752</b>	<b>28,022,433</b>	<b>116,607,878</b>



Year ended 31 March 2021

## 17.2 ALLOWANCE FOR IMPAIRMENT LOSSES (CONTD...)

### (b) Movement in allowance for impairment

	2021 LKR	2020 LKR
As at 01 April	72,656,622	48,392,489
Charges/(reversals) for the year	72,254,889	24,264,133
Amounts written off	(28,303,634)	-
As at 31 March	116,607,878	72,656,622
Individual impairment	28,022,433	17,974,778
Collective impairment	88,585,445	54,681,844
<b>Total</b>	<b>116,607,878</b>	<b>72,656,622</b>

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

	2021 LKR	2020 LKR
<b>Individual Impairment</b>		
As at 1 April	17,974,778	2,365,496
Charges/(reversals) for the year	14,378,801	15,609,282
Amounts written off	(4,331,146)	-
As at 31 March	28,022,433	17,974,778

	2021 LKR	2020 LKR
<b>Collective Impairment</b>		
As at 1 April	54,681,844	46,026,993
Charges/(reversals) for the year	57,876,088	8,654,851
Amounts written off	(23,972,487)	-
As at 31 March	88,585,444	54,681,844
<b>Total</b>	<b>116,607,877</b>	<b>72,656,622</b>

# Notes to the Financial Statements

Year ended 31 March 2021

## 17.3 Sensitivity Analysis of Accumulated Impairment for Lease Rentals Receivable and Stock Out on Hire as at 31st March

Changed Criteria	Changed Factor	2021	2020
		Sensitivity effect on Impairment Allowance Increase LKR	Sensitivity effect on Impairment Allowance Increase LKR
Loss Given Default (LGD)	Increase by 1%	5,273,674	4,080,965
Probability of Default (PD)	Increase by 1%	3,805,608	2,911,393
Economic Factor Adjustment (EFA)	Increase by 5%	1,668,815	873,803

## 17.4 Rental Receivable on Lease

	Within One Year LKR	1 to 5 Years LKR	Over 5 Years LKR	Total LKR
Gross Rentals Receivables	1,269,174,736	2,131,050,541	2,627,883	3,402,853,160
Less: Unearned Income	(388,067,020)	(456,395,916)	(226,896)	(844,689,833)
	881,107,716	1,674,654,625	2,400,987	2,558,163,328
Less : Rentals Received in Advance				(27,125,801)
<b>Net Rentals Receivable before charging Allowance for Impairment Losses</b>				<b>2,531,037,527</b>

## 18. LOANS AND ADVANCES

	2021 LKR	2020 LKR
Loan Receivable	1,120,740,415	1,269,399,742
Less : Unearned Interest Income	(212,396,098)	(266,256,300)
Net Receivable	908,344,317	1,003,143,442
Less : Loan Received In Advance	(9,203,864)	(15,980,965)
Net Loan Receivables before charging Allowance for Impairment Losses	899,140,453	987,162,477
Less : Allowance for Impairment Losses (Note 18.2)	(33,319,831)	(28,104,828)
<b>Total Net Loan Receivable</b>	<b>865,820,622</b>	<b>959,057,649</b>

### 18.1 Net Receivable on Loans

	Net Loan Receivables LKR	Allowance for Impairment Losses LKR	Total Net Loan Receivable LKR
Stage - 1	676,119,224	9,384,747	666,734,476
Stage - 2	90,751,861	2,845,362	87,906,499
Stage - 3	132,269,367	21,089,721	111,179,646
	<b>899,140,452</b>	<b>33,319,831</b>	<b>865,820,621</b>

Year ended 31 March 2021

## 18. LOANS AND ADVANCES (CONTD...)

### 18.2 Allowance for Impairment Losses

#### (a) Allowance for Impairment with stage wise

	Stage -1 LKR	Collective Stage -2 LKR	Stage -3 LKR	Individual Stage -3 LKR	Total LKR
Balance as at 01 April 2020	5,646,014	3,838,624	16,287,636	2,332,554	28,104,828
Charges/(Reversals) for the year	3,738,733	(993,262)	12,739,322	451,573	15,936,367
Amount written off	-	-	(10,721,364)	-	(10,721,364)
Balance as at 31 March 2021	9,384,747	2,845,362	18,305,594	2,784,127	33,319,831

#### (b) Movement in allowance for impairment

	2021 LKR	2020 LKR
As at 01 April	28,104,828	20,681,281
Charges/(reversals) for the year	15,936,367	7,423,547
Amounts written off	(10,721,364)	-
As at 31 March	33,319,831	28,104,828
Individual impairment	2,784,127	2,332,554
Collective impairment	30,535,704	25,772,273
<b>Total</b>	<b>33,319,831</b>	<b>28,104,828</b>

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

	2021 LKR	2020 LKR
<b>Individual Impairment</b>		
As at 1 April	2,332,554	1,775,280
Charges/(reversals) for the year	451,573	557,274
Amounts written off	-	-
As at 31 March	2,784,127	2,332,554

#### Collective Impairment

	2021 LKR	2020 LKR
<b>Collective Impairment</b>		
As at 1 April	25,772,274	18,906,001
Charges/(reversals) for the year	15,484,794	6,866,273
Amounts written off	(10,721,364)	-
As at 31 March	30,535,703	25,772,274
<b>Total</b>	<b>33,319,831</b>	<b>28,104,828</b>

# Notes to the Financial Statements

Year ended 31 March 2021

## 18.3 Sensitivity Analysis of Accumulated Impairment for Loan Receivable as at 31st March

Changed Criteria	Changed Factor	2021	2020
		Sensitivity effect on Impairment Allowance Increase LKR	Sensitivity effect on Impairment Allowance Increase LKR
Loss Given Default (LGD)	Increase by 1%	1,716,371	1,349,229
Probability of Default (PD)	Increase by 1%	1,253,202	1,380,219
Economic Factor Adjustment (EFA)	Increase by 5%	448,319	375,580

## 18.4 Receivable on Loan Stock

	Within One Year LKR	1 to 5 Years LKR	Over 5 Years LKR	Total LKR
Gross Receivables	658,187,378	455,856,459	6,696,578	1,120,740,415
Less: Unearned Income	(131,455,298)	(80,131,691)	(809,108)	(212,396,098)
	526,732,079	375,724,768	5,887,470	908,344,317
Less : Rentals Received in Advance				(9,203,864)
<b>Net Receivable before charging Allowance for Impairment Losses</b>				<b>899,140,453</b>

## 19. OTHER FINANCIAL ASSETS

	2021 LKR	2020 LKR
Refundable Deposit	9,001,709	8,223,011
Sundry Debtors	1,543,016	4,540,721
Other Receivable	30,509,724	19,468,843
	<b>41,054,449</b>	<b>32,232,575</b>

### 19.1 Other Receivable

	2021 LKR	2020 LKR
Other Charges Recoverable	2,463,497	1,869,042
Insurance Recoverable	23,545,255	12,914,429
Other Receivable	6,574,698	6,363,798
Less : Allowance for Impairment Losses	(2,073,726)	(1,678,426)
	<b>30,509,724</b>	<b>19,468,843</b>

Year ended 31 March 2021

## 19. OTHER FINANCIAL ASSETS (CONTD...)

### Impairment Allowance for Other Receivables

#### (a) Allowance for Impairment with stage wise

	Stage -1 LKR	Collective Stage -2 LKR	Stage -3 LKR	Individual Stage -3 LKR	Total LKR
Balance as at 01 April 2019	42,068	33,303	1,603,055	-	1,678,426
Charges/(Reversals) for the year	200,355	38,762	156,183	-	395,300
Amount written off	-	-	-	-	-
Balance as at 31 March 2020	242,423	72,065	1,759,238	-	2,073,726

#### (b) Movement in allowance for impairment

	2021 LKR	2020 LKR
As at 01 April	1,678,426	5,977,199
Charges/(reversals) for the year	395,300	388,766
Amounts written off	-	(4,687,539)
As at 31 March	2,073,726	1,678,426
Individual impairment	-	-
Collective impairment	2,073,726	1,678,426
<b>Total</b>	<b>2,073,726</b>	<b>1,678,426</b>

	2021 LKR	2020 LKR
<b>Collective Impairment</b>		
As at 1 April	1,678,426	5,977,199
Charges/(reversals) for the year	395,300	388,765
Amounts written off	-	(4,687,539)
As at 31 March	2,073,726	1,678,426
<b>Total Allowance for Impairment</b>	<b>2,073,726</b>	<b>1,678,426</b>

## 19.2 Sensitivity Analysis of Accumulated Impairment for Other Receivable as at 31st March

	Changed Factor	2021 Sensitivity effect on Impairment Allowance Increase LKR	2020 Sensitivity effect on Impairment Allowance Increase LKR
Loss Given Default (LGD)	Increase by 1%	123,566	118,104
Probability of Default (PD)	Increase by 1%	32,271	10,638
Economic Factor Adjustment (EFA)	Increase by 5%	11,548	2,818

# Notes to the Financial Statements

Year ended 31 March 2021

## 20. OTHER NON FINANCIAL ASSETS

	2021 LKR	2020 LKR
With Holding Tax	-	514,443
Advances and Prepayment	27,054,720	22,510,319
	<b>27,054,720</b>	<b>23,024,762</b>

## 21. FINANCIAL INVESTMENT- MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 LKR	No. of Shares	2020 LKR	No. of Shares
<b>Equities-Unquoted</b>				
Credit Information Bureau of Sri Lanka	457,700	100	457,700	100
	<b>457,700</b>	<b>100</b>	<b>457,700</b>	<b>100</b>

All unquoted equities 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.

## 22. INVENTORIES

	2021 LKR	2020 LKR
Stationeries	511,273	917,715
	<b>511,273</b>	<b>917,715</b>

## 23. PROPERTY, PLANT & EQUIPMENT

### 23.1 GROSS CARRYING AMOUNTS

At Cost	Balance As at 31.03.2020 LKR	Additions/ Transfers LKR	Disposals/ Transfers LKR	Balance As at 31.03.2021 LKR
<b>Freehold Assets</b>				
Furniture & Fittings	78,481,850	18,708,914	(12,815,358)	84,375,406
Office Equipment	40,456,271	14,390,616	(4,792,782)	50,054,105
Computer Equipment	29,857,685	3,421,585	(11,381,886)	21,897,384
Motor Vehicles	25,997,000	5,750,000	-	31,747,000
	<b>174,792,806</b>	<b>42,271,115</b>	<b>(28,990,026)</b>	<b>188,073,895</b>
<b>Assets on Leases</b>				
Motor Vehicles	21,800,000	-	-	21,800,000
Right of Use Assets	95,140,653	29,377,517	-	124,518,171
<b>Total Value of Depreciable Assets</b>	<b>291,733,459</b>	<b>71,648,632</b>	<b>(28,990,026)</b>	<b>334,392,065</b>

Year ended 31 March 2021

## 23. PROPERTY, PLANT & EQUIPMENT (CONTD...)

### 23.2 Depreciation

At Cost	Balance As at 31.03.2020 LKR	Additions/ Transfers LKR	Disposals/ Transfers LKR	Balance As at 31.03.2021 LKR
<b>Freehold Assets</b>				
Furniture & Fittings	43,209,503	13,488,308	(12,707,637)	43,990,174
Office Equipment	23,039,459	6,601,632	(4,692,651)	24,948,441
Computer Equipment	23,872,797	2,374,541	(11,354,178)	14,893,160
Motor Vehicles	8,273,664	2,560,618	-	10,834,282
	<b>98,395,423</b>	<b>25,025,099</b>	<b>(28,754,466)</b>	<b>94,666,056</b>
<b>Assets On Leases</b>				
Motor Vehicles	4,701,817	1,282,720	-	5,984,538
Right of Use Assets	22,301,312	22,683,349	-	44,984,661
<b>Total Depreciation</b>	<b>125,398,552</b>	<b>48,991,168</b>	<b>(28,754,466)</b>	<b>145,635,255</b>

### 23.3 Net Book Values

	2021 LKR	2020 LKR
<b>Furniture &amp; Fittings</b>	40,385,232	35,272,347
Office Equipment	25,105,664	17,416,812
Computer Equipment	7,004,224	5,984,888
Motor Vehicles	20,912,718	17,723,336
	<b>93,407,838</b>	<b>76,397,383</b>
<b>Assets on Leases</b>		
Motor Vehicles	15,815,462	17,098,183
Right of Use Assets	79,533,510	72,839,342
<b>Total Carrying Amount of Property, Plant &amp; Equipment</b>	<b>188,756,810</b>	<b>166,334,908</b>

### 23.4 Fully Depreciated Property, Plant and Equipment

The initial cost of fully-depreciated property, plant and equipment as at 31 March 2021, which are still in use as at the reporting date is as follows;

	2021 LKR	2020 LKR
Furniture & Fittings	9,512,357	17,268,844
Office Equipment	8,322,700	9,518,869
Computer Equipment	8,527,645	18,541,782
Motor Vehicles	3,257,000	262,000
	<b>29,619,703</b>	<b>45,591,495</b>

# Notes to the Financial Statements

Year ended 31 March 2021

## 24. INTANGIBLE ASSETS

	2021 LKR	2020 LKR
<b>Computer System Software</b>		
<b>Cost:</b>		
Opening Balance	53,759,768	53,359,668
Addition	200,000	400,100
Disposal	-	-
<b>Closing Balance</b>	<b>53,959,768</b>	<b>53,759,768</b>
<b>Less: Amortization</b>		
Opening Balance	35,624,917	30,266,887
Amortization Charge for the Period	5,376,310	5,358,030
<b>Closing Balance</b>	<b>41,001,227</b>	<b>35,624,917</b>
<b>Net Book Value as at 31 March</b>	<b>12,958,541</b>	<b>18,134,851</b>

## 25. INTEREST BEARING BORROWINGS

	2021 LKR	2020 LKR
Leases	1,182,051	4,813,064
Bank Over Draft	103,527,380	55,359,035
Bank Borrowings	1,283,279,661	1,377,425,197
Intercompany Borrowings	-	440,172,329
Securitization Borrowings	318,369,010	-
	<b>1,706,358,102</b>	<b>1,877,769,625</b>

### 25.1 Lease Liability

	2021 LKR	2020 LKR
Gross liability	1,218,044	5,206,388
Less: Finance Charge Allocated to Future Period	(35,993)	(393,324)
<b>Net Liability</b>	<b>1,182,051</b>	<b>4,813,064</b>
<b>Repayable Within one year</b>		
Gross Liability	1,218,044	3,988,358
Less: Finance Charge Allocated to Future Period	(35,993)	(357,334)
<b>Net Liability</b>	<b>1,182,051</b>	<b>3,631,024</b>
<b>Repayable After one year (1-5 Year)</b>		
Gross Liability	-	1,218,030
Less: Finance Charge Allocated to Future Period	-	(35,990)
<b>Net Liability</b>	<b>-</b>	<b>1,182,040</b>
<b>Total Net Liability</b>	<b>1,182,051</b>	<b>4,813,064</b>



Year ended 31 March 2021

## 25. INTEREST BEARING BORROWINGS (CONTD...)

### 25.2 Bank Borrowings

	2021 LKR	2020 LKR
Gross liability	1,396,835,211	1,530,349,543
Less: Finance Charge Allocated to Future Period	(113,555,550)	(152,924,346)
<b>Net Liability</b>	<b>1,283,279,661</b>	<b>1,377,425,197</b>
<b>Repayable Within one year</b>		
Gross Liability	873,808,750	965,746,487
Less: Finance Charge Allocated to Future Period	(75,635,276)	(109,170,640)
<b>Net Liability</b>	<b>798,173,474</b>	<b>856,575,847</b>
<b>Repayable After one year (1 to 5 Year)</b>		
Gross Liability	523,026,461	564,603,056
Less: Finance Charge Allocated to Future Period	(37,920,274)	(43,753,706)
<b>Net Liability</b>	<b>485,106,187</b>	<b>520,849,350</b>
<b>Total Net Liability</b>	<b>1,283,279,661</b>	<b>1,377,425,197</b>

### 25.2 Securitization Borrowings

	2021 LKR	2020 LKR
Gross liability	340,464,393	-
Less: Finance Charge Allocated to Future Period	(22,095,382)	-
<b>Net Liability</b>	<b>318,369,010</b>	<b>-</b>
<b>Repayable Within one year</b>		
Gross Liability	233,506,372	-
Less: Finance Charge Allocated to Future Period	(7,137,362)	-
<b>Net Liability</b>	<b>226,369,010</b>	<b>-</b>
<b>Repayable After one year (1 to 5 Year)</b>		
Gross Liability	106,958,021	-
Less: Finance Charge Allocated to Future Period	(14,958,021)	-
<b>Net Liability</b>	<b>92,000,000</b>	<b>-</b>
<b>Total Net Liability</b>	<b>318,369,010</b>	<b>-</b>

# Notes to the Financial Statements

Year ended 31 March 2021

## 25.2.1 Bank Loan Facilities

	As at 31.03.2021 LKR	As at 01.04.2020 LKR	Security
<b>Short Term</b>			
Seylan Bank PLC	-	237,910,119	Unsecured
Hatton National Bank PLC	75,096,233	-	Mortgage over Loan receivables
Commercial Bank of Ceylon PLC	140,030,137	-	Lien over Corporate Deposit
	<b>215,126,370</b>	<b>237,910,119</b>	
<b>Long Term</b>			
Bank of Ceylon	743,801,635	948,692,221	Mortgage over Lease and Loan receivables
Seylan Bank PLC	60,558,251	185,232,396	Mortgage over Lease and Loan receivables
National Savings Bank	-	5,590,461	Mortgage over Lease and Loan receivables
Hatton National Bank PLC	66,026,255	-	Mortgage over Lease and Loan receivables
M Power Capital	315,987,557	-	Mortgage over Loan receivables
NDB Investment Bank	200,148,603	-	Mortgage over Loan receivables
	1,386,522,301	1,139,515,078	
	<b>1,601,648,671</b>	<b>1,377,425,197</b>	

## 26. DUE TO CUSTOMERS

	2021 LKR	2020 LKR
Fixed Deposit	929,639,458	671,917,133
	<b>929,639,458</b>	<b>671,917,133</b>

## 27. OTHER FINANCIAL LIABILITIES

	2021 LKR	2020 LKR
Trade Payable	73,917,533	39,663,271
Accrued Expense	43,381,234	23,881,998
Obligation to Make the Lease Payment (Note 27.1)	84,559,422	76,031,354
Sundry Creditors	34,585,428	22,170,057
	<b>236,443,617</b>	<b>161,746,680</b>

Year ended 31 March 2021

## 27. OTHER FINANCIAL LIABILITIES (CONTD...)

### 27.1 Obligation to Make the Lease Payment

	2021 LKR	2020 LKR
As at 1 April	76,031,354	-
Impact from initial application of SLFRS 16	-	58,653,788
Additions during the year	25,177,517	32,487,866
Accretion of interest	11,352,521	11,048,916
Payments to lease creditors	(28,001,970)	(26,159,216)
<b>As at 31 March</b>	<b>84,559,422</b>	<b>76,031,354</b>

## 28. OTHER NON FINANCIAL LIABILITIES

	2021 LKR	2020 LKR
Stamp Duty Payable	3,531,243	1,659,960
Dividend Payable	961,829	961,829
Other Liabilities	21,801,407	30,745,116
	<b>26,294,479</b>	<b>33,366,905</b>

## 29. RETIREMENT BENEFIT LIABILITY

### 29.1 Defined Benefit Liability

	2021 LKR	2020 LKR
Defined Benefit Liability	23,049,390	17,883,134
	<b>23,049,390</b>	<b>17,883,134</b>

### 29.2 Changes in the Defined benefit obligation are as follows

	2021 LKR	2020 LKR
Opening Liability	17,883,134	11,448,517
Net Benefit expense	5,166,256	6,434,617
Benefit paid	-	-
<b>Closing Liability</b>	<b>23,049,390</b>	<b>17,883,134</b>

# Notes to the Financial Statements

Year ended 31 March 2021

## 29.3 Net Benefit expense

	2021 LKR	2020 LKR
Interest Cost	1,738,240	1,291,392
Current Service Cost	4,375,427	3,688,803
Actuarial Loss on obligations	(947,411)	1,454,422
	5,166,256	6,434,617

## 29.4 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 2021. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2021 LKR	2020 LKR
Discount Rate	7.20%	9.72%
Future Salary Increment Rate	6.00%	9.00%
Retirement age	55 Years	55 Years
The weighted average duration of the defined benefit obligation	5.5 Years	5.7 Years
Mortality - GA 1983 Mortality Table issued by the Institute of Actuaries London		

## 29.5 Sensitivity Analysis

+/- 1% change on Discount Rate and Salary Increase- present value of defined benefit obligation as at 31 March 2021.

	Present Value of Defined Benefit Obligation (PVDBO)		
	31-Mar-21	31-Mar-21	31-Mar-21
Discount Rate	6.20%	7.20%	8.20%
Basic Salary Scale	6.0%	6.0%	6.0%
Census at	31-Mar-21	31-Mar-21	31-Mar-21
<b>Total PVDBO</b>	<b>24,274,895</b>	<b>23,049,390</b>	<b>22,004,540</b>

	Present Value of Defined Benefit Obligation (PVDBO)		
	31-Mar-21	31-Mar-21	31-Mar-21
Discount Rate	7.20%	7.20%	7.20%
Basic Salary Scale	5.0%	6.0%	7.0%
Census at	31-Mar-21	31-Mar-21	31-Mar-21
<b>Total PVDBO</b>	<b>22,006,321</b>	<b>23,049,390</b>	<b>24,251,222</b>

Year ended 31 March 2021

### Sensitivity Analysis

+/- 1% change on Discount Rate and Salary Increase- present value of defined benefit obligation as at 31 March 2020.

	Present Value of Defined Benefit Obligation (PVDBO)		
	31-Mar-20	31-Mar-20	31-Mar-20
Discount Rate	8.72%	9.72%	10.72%
Basic Salary Scale	9.0%	9.0%	9.0%
Census at	31-Mar-20	31-Mar-20	31-Mar-20
<b>Total PVDBO</b>	<b>18,834,238</b>	<b>17,883,134</b>	<b>17,069,273</b>

	Present Value of Defined Benefit Obligation (PVDBO)		
	31-Mar-20	31-Mar-20	31-Mar-20
Discount Rate	9.72%	9.72%	9.72%
Basic Salary Scale	8.0%	9.0%	10.0%
Census at	31-Mar-20	31-Mar-20	31-Mar-20
<b>Total PVDBO</b>	<b>17,072,337</b>	<b>17,883,134</b>	<b>18,813,480</b>

### 30. DEFERRED TAX LIABILITY

	Statement of Financial Position		Statement of Comprehensive Income		Statement of Other Comprehensive Income	
	2021 LKR	2020 LKR	2021 LKR	2020 LKR	2021 LKR	2020 LKR
<b>Deferred Tax Liability</b>						
Property Plant & Equipment	10,380,765	9,086,767	1,293,998	3,295,689	-	-
Intangible Assets	3,374,646	4,437,958	(1,063,312)	(942,806)	-	-
Lease Rental	17,597,132	45,413,346	(27,816,214)	(19,629,207)	-	-
Lease Creditor	4,087,294	3,298,924	788,371	(4,333,061)	-	-
	<b>35,439,837</b>	<b>62,236,995</b>	<b>(26,797,157)</b>	<b>(21,609,385)</b>	-	-
<b>Deferred Tax Assets</b>						
Defined Benefit Plan Obligation	6,453,829	5,007,278	(1,711,827)	(1,452,631)	265,275	(349,061)
Impairment of Loans and Receivables	19,946,810	8,887,109	(11,059,701)	6,097,969	-	-
Tax Paid in advance for Real Estate Income	842,168	1,952,771	1,110,603	791,843	-	-
Brought Forward Tax Loss	-	-	-	-	-	-
Right of Use Assets	2,944,315	1,699,603	(1,244,712)	(1,699,603)	-	-
	<b>30,187,122</b>	<b>17,546,761</b>	<b>(12,905,636)</b>	<b>3,737,578</b>	<b>265,275</b>	<b>(349,061)</b>
<b>Deferred Income Tax Income/(Expense)</b>	<b>-</b>	<b>-</b>	<b>(39,702,793)</b>	<b>(17,871,807)</b>	<b>265,275</b>	<b>(349,061)</b>
<b>Net Deferred Tax (Asset)/Liabilities</b>	<b>5,252,716</b>	<b>44,690,234</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

Year ended 31st March 2021

## 31. STATED CAPITAL

	No. of Shares	LKR
Issued and Fully Paid-Ordinary Shares		
Balance as of 1 April 2019	90,000,000	808,247,125
Issued during the Period	55,639,098	1,100,000,000
Balance as of 31 March 2020	145,639,098	1,908,247,125
Balance as of 1 April 2020	145,639,098	1,908,247,125
Issued during the Period	-	-
Balance as of 31 March 2021	145,639,098	1,908,247,125

Transaction cost on share issued is deducted from the equity.

Company issued 55,639,098 ordinary shares to Mahindra & Mahindra Financial Services Limited, India. As a result, the number of shares increased to 145,639,098. Hence, liability of the Mahindra & Mahindra Financial Services Limited shall be limited to the equity capital invested in Ideal Finance Limited.

## 32. RESERVES

	2021 LKR	2020 LKR
Statutory Reserve Fund	31,718,715	22,496,844
Closing Balance	31,718,715	22,496,844

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.

## 33. CASH AND CASH EQUIVALENTS FOR THE PURPOSE OF CASH FLOW STATEMENT

Components of Cash & Cash Equivalents	2021 LKR	2020 LKR
Favourable Cash & Cash Equivalents Balance		
Cash and Bank Balance (Note 13)	71,609,393	44,196,582
Investment in government securities (Note 14)	502,394,473	916,546,358
Investment in FD with short Term Maturities (Note 15)	-	22,876,022
	574,003,866	983,618,962
UN-Favorable Cash & Cash Equivalents Balance		
Bank Over Draft (Note 25)	103,527,380	55,359,035
	103,527,380	55,359,035
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	470,476,486	928,259,927

Year Ended 31st March 2021

### 34. ANALYSIS OF FINANCIAL ASSETS & LIABILITIES BY MEASUREMENT BASIS

As at 31 March 2021	Financial Assets at Fair Value Income Statement	Financial Assets at Fair Value Other Comprehensive Income	Financial Assets and Liabilities at Amortized Cost	Total
	LKR	LKR	LKR	LKR
<b>Financial Assets</b>				
Cash & Bank Balances	-	-	71,609,393	71,609,393
Investment in government Securities	-	-	502,394,473	502,394,473
Placements with Other Banks & Financial Institutions	-	-	211,016,918	211,016,918
Lease Rentals Receivable and Stock out on Hire	-	-	2,414,429,648	2,414,429,648
Loans and Advances	-	-	865,820,622	865,820,622
Gold Advances	-	-	1,183,764,064	1,183,764,064
Financial Investments-measured at Fair Value through OCI	-	457,700	-	457,700
Other Financial Assets	-	-	41,054,449	41,054,449
<b>Total Financial Assets</b>	<b>-</b>	<b>457,700</b>	<b>5,290,089,567</b>	<b>5,290,547,267</b>
<b>Financial Liabilities</b>				
Interest Bearing Borrowings	-	-	1,706,358,102	1,706,358,102
Due to the Customers	-	-	929,639,458	929,639,458
Other Financial Liabilities	-	-	236,443,617	236,443,617
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>2,872,441,177</b>	<b>2,872,441,177</b>
As at 31 March 2020	Financial Assets at Fair Value Income Statement	Financial Assets at Fair Value Other Comprehensive Income	Financial Assets and Liabilities at Amortized Cost	Total
	LKR	LKR	LKR	LKR
<b>Financial Assets</b>				
Cash & Bank Balances	-	-	44,196,582	44,196,582
Investment in government Securities	-	-	916,546,358	916,546,358
Placements with Other Banks & Financial Institutions	-	-	22,876,022	22,876,022
Lease Rentals Receivable and Stock out on Hire	-	-	2,309,893,463	2,309,893,463
Loans and Advances	-	-	959,057,649	959,057,649
Gold Advances	-	-	672,715,396	672,715,396
Financial Investments-measured at Fair Value through OCI	-	457,700	-	457,700
Other Financial Assets	-	-	32,232,575	32,232,575
<b>Total Financial Assets</b>	<b>-</b>	<b>457,700</b>	<b>4,957,518,045</b>	<b>4,957,975,745</b>
<b>Financial Liabilities</b>				
Interest Bearing Borrowings	-	-	1,877,769,625	1,877,769,625
Due to the Customers	-	-	671,917,133	671,917,133
Other Financial Liabilities	-	-	161,746,680	161,746,680
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>2,711,433,438</b>	<b>2,711,433,438</b>

# Notes to the Financial Statements

Year ended 31st March 2021

## 35. FAIR VALUE OF FINANCIAL INSTRUMENTS

### 35.1 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 2021

#### Financial Investments - Measured at Fair Value through other comprehensive income

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

### 35.2 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 2021	Level	Carrying Amount LKR	Fair Value LKR
<b>Financial Assets</b>			
Lease Rentals Receivable and Stock out on Hire	Level 02	2,414,429,648	2,533,566,709
Loans and Advances	Level 02	865,820,622	901,171,057
<b>Financial Liabilities</b>			
Interest Bearing Borrowings	Level 02	1,601,648,671	1,435,344,492
Finance Lease	Level 02	1,182,051	1,180,714



Year Ended 31st March 2021

### 35.2 Fair Value of the Financial Instrument Carried at Amortized Cost

As at 31 March 2020	Level	Carrying Amount LKR	Fair Value LKR
<b>Financial Assets</b>			
Lease Rentals Receivable and Stock out on Hire	Level 02	2,309,893,463	2,388,020,674
Loans and Advances	Level 02	959,057,649	1,001,492,409
<b>Financial Liabilities</b>			
Interest Bearing Borrowings	Level 02	1,817,597,526	1,667,739,779
Finance Lease	Level 02	4,813,064	4,799,083

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

### 36. 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.

As at 31 March 2021	Within 12 month LKR	After 12 month LKR	Total LKR
<b>ASSETS</b>			
Cash and Bank Balances	71,609,393	-	71,609,393
Investment in Government Securities	502,394,473	-	502,394,473
Placements with Banks and Other Financial Institutions	211,016,918	-	211,016,918
Gold Advances	1,183,764,064	-	1,183,764,064
Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances	1,221,582,422	2,058,667,850	3,280,250,271
Other Financial Assets	35,457,503	5,596,946	41,054,448
Other Non Financial Assets	25,424,773	1,629,947	27,054,720
Financial Investments-Measured at Fair Value through OCI	-	457,700	457,700
Inventories	511,273	-	511,273
Property, Plant and Equipment	-	188,756,810	188,756,810
Intangible Assets	-	12,958,541	12,958,541
<b>Total Assets</b>	<b>3,251,760,819</b>	<b>2,268,067,793</b>	<b>5,519,828,611</b>

## Notes to the Financial Statements

	Within 12 month	After 12 month	Total
	LKR	LKR	LKR
<b>LIABILITIES</b>			
Interest Bearing Borrowings	1,129,251,916	577,106,187	1,706,358,103
Due to the Customers	463,800,283	465,839,175	929,639,458
Other Financial Liabilities	172,982,759	63,460,859	236,443,618
Other Non Financial Liabilities	26,294,479	-	26,294,479
Current Tax Liabilities	87,363,461	-	87,363,461
Retirement Benefit Liability	-	23,049,390	23,049,390
Deferred Tax Liabilities	-	5,252,716	5,252,716
<b>Total Liabilities</b>	<b>1,879,692,898</b>	<b>1,134,708,327</b>	<b>3,014,401,224</b>
<b>Net Assets</b>	<b>1,372,067,921</b>	<b>1,133,359,466</b>	<b>2,505,427,387</b>
<b>As at 31 March 2020</b>			
	Within 12 month	After 12 month	Total
	LKR	LKR	LKR
<b>ASSETS</b>			
Cash and Bank Balances	44,196,582	-	44,196,582
Investment in Government Securities	916,546,358	-	916,546,358
Placements with Banks and Other Financial Institutions	22,876,022	-	22,876,022
Gold Advances	672,715,396	-	672,715,396
Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances	1,327,445,112	1,941,506,000	3,268,951,112
Other Financial Assets	24,875,030	7,357,545	32,232,575
Other Non Financial Assets	20,045,184	2,979,578	23,024,762
Financial Investments-Measured at Fair Value through OCI	-	457,700	457,700
Inventories	917,715	-	917,715
Property, Plant and Equipment	-	166,334,908	166,334,908
Intangible Assets	-	18,134,851	18,134,851
<b>Total Assets</b>	<b>3,029,617,399</b>	<b>2,136,770,582</b>	<b>5,166,387,981</b>
<b>LIABILITIES</b>			
Interest Bearing Borrowings	1,355,738,235	522,031,390	1,877,769,625
Due to the Customers	417,937,133	253,980,000	671,917,133
Other Financial Liabilities	101,907,628	59,839,052	161,746,680
Other Non Financial Liabilities	33,366,905	-	33,366,905
Current Tax Liabilities	38,024,293	-	38,024,293
Retirement Benefit Liability	-	17,883,134	17,883,134
Deferred Tax Liabilities	-	44,690,234	44,690,234
<b>Total Liabilities</b>	<b>1,946,974,194</b>	<b>898,423,809</b>	<b>2,845,398,004</b>
<b>Net Assets</b>	<b>1,082,643,205</b>	<b>1,238,346,773</b>	<b>2,320,989,977</b>

Year ended 31 March 2021

### 37. COMMITMENT AND CONTINGENCIES

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

#### 37.1 Litigation Against Company

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

#### 37.2 Assets Pledged

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2021 LKR	2020 LKR	
Lease Rentals Receivable and Stock out on Hire *	Bank Loans and Overdrafts	1,587,623,358	2,329,815,679	Lease Rentals Receivable
Loan Receivable*		665,760,262	-	Loan Receivable
		<b>2,253,383,620</b>	<b>2,329,815,679</b>	

\* 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.

### 38. EVENT OCCURRING AFTER THE REPORTING DATE

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

### 39. 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:

# Notes to the Financial Statements

Year ended 31 March 2021

## 39.1 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 Disclosures'. Accordingly, Board of Directors, Chief Executive Officer, Members of Corporate Management team have been identified as "Key Management Personnel".

Other related parties include CFMs of the KMPs who are family members who may be expected to influence or be influenced by that KMP in their dealings with the entity. They may include KMP's Spouse, children, domestic partner and dependents of KMP, KMP's spouse/domestic partner.

### 39.1.1 Compensation to KMP

	2021 LKR	2020 LKR
Short Term Employment Benefits	28,958,000	32,118,750
Post Employment Benefits	-	-
	28,958,000	32,118,750

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.

### 39.1.2 Transaction with KMP and their Close Family Members

Aggregate value of transactions with KMP and their CFM are disclosed below. These transactions are carried out at Arm's length prices.

	2021 LKR	2020 LKR
Fixed Deposits accepted during the year	-	-
Fixed Deposits held at the end of the year	-	-
Interest paid during the year	-	-

Year ended 31 March 2021

**39.2 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 31/03/2021	Outstanding Receivable/ (Payable) Balance as at 31/03/2020
		LKR	LKR	LKR
<b>Ideal Motors (Pvt) Ltd.</b>				
Finance Lease Equipment Purchase	Parent Company	69,217,250	-	(2,430,000)
Intercompany Borrowing		435,000,000	-	(435,000,000)
Interest Expense - Intercompany Borrowing		19,043,520	-	(5,172,329)
Other Purchases & Services		6,739,205	(1,257,093)	-
Vehicle Repair Services		7,431,134	(825,682)	-
<b>Ideal Automobile (Pvt) Ltd</b>				
Gross Advances	Affiliate Company	(57,344,108)	-	57,344,108
Fixed Deposits		(36,510,000)	(151,510,000)	(115,000,000)
Interest Expenses - Fixed Deposits		12,659,208	(513,417)	(614,596)
<b>Ideal Investment Lanka (Pvt) Ltd</b>				
Rent Expenses	Affiliate Company	1,452,588	-	(764,520)
Electricity Expenses		376,880	-	-
<b>Ideal Choice (Pvt) Ltd</b>				
Vehicle Hire Income	Affiliate Company	665,000	-	95,000
Vehicle Repair Services		915,245	-	-
<b>Ideal First Choice (Pvt) Ltd</b>				
Fixed Deposits	Affiliate Company	16,521	(72,568)	(89,089)
Interest Expense - Fixed Deposits		6,534	(263)	(576)
Vehicle Repair Services		290,807	-	-
<b>Digital Tech Creations (Pvt) Limited</b>				
Call Centre charges	Affiliate Company	1,510,345	-	(198,172)
<b>Arcasia Private Limited</b>				
Fixed Deposits	Affiliate Company	35,779,939	-	(35,779,939)
Interest Expense - Fixed Deposits		60,659	-	(17,331)
<b>Prompt Express Private Limited</b>				
Gross Advances	Affiliate Company	3,510,000	6,994,743	8,417,493
Courier Service Charges		857,446	(157,308)	(304,068)
<b>Ideal Drive Private Limited</b>				
Vehicle Hire Expense	Affiliate Company	5,552,048	(427,081)	-
Vehicle Repair Services		266,179	-	-
<b>Ideal Greentech (Pvt) Ltd</b>				
Advances	Affiliate Company	-	42,947	117,348
<b>Mahindra &amp; Mahindra Financial Services Limited</b>				
Share Issue		-	1,100,000,000	1,100,000,000

# Notes to the Financial Statements

Year ended 31 March 2021

## 40. 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.

### 40.1 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.

#### Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed finance companies. Accordingly, finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 11% and a minimum core capital adequacy ratio (Tier I) of 7%. The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.

## 41. RISK MANAGEMENT

### 41.1 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.

#### RESPONDING TO COVID - 19 PANDEMIC RISKS

The Company's risk measurement and reporting functions were further strengthened during the year amidst the COVID - 19 pandemic. The credit risk of the Company's loan book increased as the loan repayments were impacted by the lock downs and movement restrictions imposed locally and globally. Further, the Company monitored the liquidity position with concern as it was under pressure due to the payment holidays offered under moratoriums. The operational risks too increased owing to the work from home arrangements etc. during the lock down periods.

Year ended 31 March 2021

In this back drop, the Company took additional measures to ensure that the risks caused by the pandemic are adequately managed.

Continuous reviews of the limits, policies and performance were carried out during the period. Some of these include;

- ↳ Reviewed risk elevated industries in the context of COVID – 19 pandemic.
- ↳ Assessed the impact of the COVID – 19 lock downs and moratoriums (payment holidays) on the portfolio staging.
- ↳ Used of a range of additional stress tests to assess the impact on Company's performance and capital.
- ↳ Strengthened Cyber Security Management in light of the increase in use of digital platforms.
- ↳ Ensured adequate liquidity resources were held to meet Company's obligation, given the uncertainties caused by the pandemic.

## 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.

### 41.2.2 Analysis of Risk Concentration

#### 41.2.2.1 Industry Analysis

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

##### Sector wise breakdown

As at 31st March 2021	Cash & Bank Balances	Investment in Government Securities at Amortized cost	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
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Agriculture	-	-	-	568,322,939	-	-	-	568,322,939
Manufacturing	-	-	-	51,293,836	-	-	-	51,293,836
Construction	-	-	-	87,367,918	-	-	-	87,367,918
Financial Services	71,609,393	502,394,473	211,016,918	20,952,943	-	-	-	805,973,727
Trading	-	-	-	226,558,611	-	-	-	226,558,611
Hotels	-	-	-	21,606,448	-	-	-	21,606,448
Services	-	-	-	154,687,078	457,700	-	-	155,144,778
Transport	-	-	-	1,927,423,143	-	-	-	1,927,423,143
Consumer	-	-	-	371,965,063	-	1,183,764,064	41,054,449	1,596,783,575
<b>Total</b>	<b>71,609,393</b>	<b>502,394,473</b>	<b>211,016,918</b>	<b>3,430,177,979</b>	<b>457,700</b>	<b>1,183,764,064</b>	<b>41,054,449</b>	<b>5,440,474,975</b>

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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
	LKR	LKR	LKR
Central	166,495,719	55,465,250	65,673,893
North Central	244,197,126	218,145,462	77,953,060
North Western	587,528,394	145,064,861	47,609,591
Northern	171,296,248	17,166,897	372,113,878
Sabaragamuwa	367,289,886	34,436,224	66,954,467
Southern	355,217,182	115,838,419	143,102,921
Uva	411,213,116	62,747,258	377,536,819
Western	227,799,857	241,705,904	32,819,434
<b>Total</b>	<b>2,531,037,527</b>	<b>890,570,275</b>	<b>1,183,764,064</b>

## Sector wise breakdown

As at 31 March 2020	Cash & Bank Balances	Investment in Government Securities at Amortized cost	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
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Agriculture	-	-	-	910,555,059	-	-	-	910,555,059
Manufacturing	-	-	-	47,856,808	-	-	-	47,856,808
Construction	-	-	-	55,655,877	-	-	-	55,655,877
Financial Services	44,196,582	916,546,358	22,876,022	33,586,925	-	-	-	973,009,305
Trading	-	-	-	252,721,069	-	-	-	252,721,069
Hotels	-	-	-	18,012,608	-	-	-	18,012,608
Services	-	-	-	105,385,145	457,700	-	-	105,842,845
Transport	-	-	-	1,660,204,653	-	-	-	1,660,204,653
Consumer	-	-	-	285,734,418	-	672,715,396	32,232,575	990,682,389
<b>Total</b>	<b>44,196,582</b>	<b>916,546,358</b>	<b>22,876,022</b>	<b>3,369,712,562</b>	<b>457,700</b>	<b>672,715,396</b>	<b>32,232,575</b>	<b>5,014,540,613</b>



Year ended 31 March 2021

41.2.2.1 PROVINCIAL BREAK DOWN FOR LEASE RENTAL RECEIVABLES AND STOCK OUT ON HIRE WITHIN SRI LANKA AS FOLLOWS. (CONTD...)

Province	Lease Rental Receivable & Stock Out On Hire Purchase	Loan Stock	Gold Advances
	LKR	LKR	LKR
Central	165,440,498	34,410,283	41,702,570
North Central	369,922,224	118,022,403	41,224,250
North Western	659,138,209	198,398,876	393,308
Northern	138,827,388	31,736,714	266,445,320
Sabaragamuwa	221,289,410	63,838,551	28,950,108
Southern	283,627,816	193,682,834	80,310,260
Uva	326,968,941	72,369,194	213,689,580
Western	217,335,599	274,703,622	-
<b>Total</b>	<b>2,382,550,085</b>	<b>987,162,477</b>	<b>672,715,396</b>

### 41.3 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.

# Notes to the Financial Statements

Year ended 31 March 2021

## 41.3.1 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 31st March 2021	On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 years	Over 5 Years	Total
	LKR	LKR	LKR	LKR	LKR	LKR
<b>Financial Assets</b>						
Cash and Bank Balances	71,609,393	-	-	-	-	71,609,393
Placements with Banks and Other Financial Institutions	-	-	211,016,918	-	-	211,016,918
Investment in Government Securities and Placements with Banks and Other Financial Institutions	-	502,394,473	-	-	-	502,394,473
Gold Advances	-	1,171,625,032	14,695,445	-	-	1,186,320,477
Lease Rentals Receivable and Stock out on Hire purchase	135,897,406	298,034,352	849,731,622	2,131,050,541	2,627,883	3,417,341,804
Loans and Advances	59,166,659	150,640,138	445,819,383	455,856,459	6,696,578	1,118,179,218
Financial Investments-Measured at Fair Value through OCI	-	-	-	-	457,700	457,700
Other Financial Assets	-	34,586,549	2,944,680	5,144,209	452,736	43,128,175
<b>Total Financial Assets</b>	<b>266,673,458</b>	<b>2,157,280,544</b>	<b>1,524,208,048</b>	<b>2,592,051,210</b>	<b>10,234,897</b>	<b>6,550,448,157</b>
<b>Financial Liabilities</b>						
Interest Bearing Borrowings	103,527,380	370,738,454	751,369,330	629,984,482	-	1,855,619,646
Due to the Customers	-	139,496,864	322,164,313	473,975,315	-	935,636,491
Other Financial Liabilities	-	125,192,916	26,691,280	-	-	151,884,196
Obligation to Make the Lease Payment	-	7,870,067	23,372,677	61,742,143	29,513,525	122,498,411
<b>Total Financial Liabilities</b>	<b>103,527,380</b>	<b>643,298,301</b>	<b>1,123,597,599</b>	<b>1,165,701,940</b>	<b>29,513,525</b>	<b>3,065,638,745</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>163,146,078</b>	<b>1,513,982,243</b>	<b>400,610,449</b>	<b>1,426,349,271</b>	<b>(19,278,628)</b>	<b>3,484,809,413</b>

Year ended 31 March 2021

#### 41.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities (Contd...)

As at 31st March 2020	On Demand	Less Than 3 Months	3 to 12 Months	1 to 5 years	Over 5 Years	Total
	LKR	LKR	LKR	LKR	LKR	LKR
<b>Financial Assets</b>						
Cash and Bank Balances	44,196,582	-	-	-	-	44,196,582
Placements with Banks and Other Financial Institutions	-	-	-	-	-	-
Investment in Government Securities and Placements with Banks and Other Financial Institutions	-	872,681,964	70,301,780	-	-	942,983,744
Gold Advances	-	669,918,900	3,639,590	-	-	673,558,491
Lease Rentals Receivable and Stock out on Hire purchase	203,848,540	294,314,652	793,611,571	1,876,961,662	1,103,839	3,169,840,264
Loans and Advances	79,633,920	211,753,140	403,927,618	581,881,854	2,347,848	1,279,544,379
Financial Investments-Measured at Fair Value through OCI	-	-	-	-	457,700	457,700
Other Financial Assets	-	22,940,791	3,617,198	9,020,000.00	1,500,000	37,077,989
<b>Total Financial Assets</b>	<b>327,679,042</b>	<b>2,071,609,447</b>	<b>1,275,097,757</b>	<b>2,467,863,516</b>	<b>5,409,387</b>	<b>6,147,659,149</b>
<b>Financial Liabilities</b>						
Interest Bearing Borrowings	55,359,035	427,043,623	980,461,601	565,377,690	-	2,028,241,949
Due to the Customers	-	195,867,633	189,368,333	288,831,698	-	674,067,664
Other Financial Liabilities	-	73,767,176	11,948,147	-	-	85,715,323
Obligation to Make the Lease Payment	-	6,312,048	21,628,372	83,103,116	39,395,295	150,438,831
<b>Total Financial Liabilities</b>	<b>55,359,035</b>	<b>702,990,480</b>	<b>1,203,406,453</b>	<b>937,312,504</b>	<b>39,395,295</b>	<b>2,938,463,768</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>272,320,007</b>	<b>1,368,618,966</b>	<b>71,691,304</b>	<b>1,530,551,011</b>	<b>(33,985,908)</b>	<b>3,209,195,381</b>

#### 41.4 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;

# Notes to the Financial Statements

Year ended 31 March 2021

## 41.4 Interest Rate Risk (Contd...)

### 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.

As at 31st March 2021	Total	Interest Bearing				Non Interest Bearing
	LKR	Less Than 3 Months LKR	3 to 12 Months LKR	1 to 5 years LKR	Over 5 Years LKR	LKR
<b>Financial Assets</b>						
Cash and Bank Balances	71,609,393	-	-	-	-	71,609,393
Investment in Government Securities and Placements with Banks and Other Financial Institutions	713,411,390	502,394,473	211,016,918	-	-	-
Gold Advances	1,183,764,064	1,169,103,439	14,660,625	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	2,530,610,528	291,402,817	562,152,099	1,674,569,064	2,486,547	-
Loans and Advances	899,567,452	164,885,646	353,069,568	375,724,768	5,887,470	-
Financial Investments-Measured at Fair Value through OCI	457,700	-	-	-	-	457,700
Other Financial Assets	41,367,103	-	-	-	-	41,367,103
<b>Total Financial Assets</b>	<b>5,440,787,629</b>	<b>2,127,786,375</b>	<b>1,140,899,209</b>	<b>2,050,293,832</b>	<b>8,374,017</b>	<b>113,434,196</b>
<b>Financial Liabilities</b>						
Interest Bearing Borrowings	1,752,092,266	370,738,454	751,369,330	629,984,482	-	-
Due to the Customers	929,639,458	150,845,312	312,954,971	465,839,175	-	-
Other Financial Liabilities	236,443,618	5,061,423	16,037,141	40,421,425	23,039,434	151,884,196
<b>Total Financial Liabilities</b>	<b>2,918,175,343</b>	<b>526,645,189</b>	<b>1,080,361,442</b>	<b>1,136,245,082</b>	<b>23,039,434</b>	<b>151,884,196</b>
<b>Interest Sensitivity Gap</b>	<b>2,522,612,286</b>	<b>1,601,141,186</b>	<b>60,537,767</b>	<b>914,048,750</b>	<b>(14,665,416)</b>	<b>(38,450,000)</b>

Year ended 31 March 2021

**Interest Rate Risk Exposure on Financial Assets & Liabilities (Cont....)**

Year ended 31 March 2020	Total	Interest Bearing			Non	
	LKR	Less Than 3 Months LKR	3 to 12 Months LKR	1 to 5 years LKR	Over 5 Years LKR	Interest Bearing LKR
<b>Financial Assets</b>						
Cash and Bank Balances	44,196,582	-	-	-	-	51,593,413
Investment in Government Securities and Placements with Banks and Other Financial Institutions	939,422,380	871,656,597	67,765,783	-	-	-
Gold Advances	672,715,396	669,531,948	3,183,448	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	2,382,550,085	371,812,286	531,898,717	1,477,778,645	1,060,437	-
Loans and Advances	987,162,476	224,462,306	300,033,253	460,605,052	2,061,865	-
Financial Investments-Measured at Fair Value through OCI	457,700	-	-	-	-	457,700
Other Financial Assets	32,232,575	-	-	-	-	46,820,823
<b>Total Financial Assets</b>	<b>5,058,737,194</b>	<b>2,137,463,138</b>	<b>902,881,201</b>	<b>1,938,383,697</b>	<b>3,122,302</b>	<b>98,871,936</b>
<b>Financial Liabilities</b>						
Interest Bearing Borrowings	1,863,561,230	431,220,442	910,746,986	521,593,802	-	-
Due to the Customers	663,934,800	193,568,498	183,288,927	287,077,375	-	-
Other Financial Liabilities	161,746,680	3,756,647	12,435,655	48,529,696	11,309,356	145,886,468
<b>Total Financial Liabilities</b>	<b>2,689,242,709</b>	<b>628,545,587</b>	<b>1,106,471,567</b>	<b>857,200,873</b>	<b>11,309,356</b>	<b>145,886,468</b>
<b>Interest Sensitivity Gap</b>	<b>2,369,494,486</b>	<b>1,508,917,551</b>	<b>(203,590,366)</b>	<b>1,081,182,824</b>	<b>(8,187,055)</b>	<b>(47,014,532)</b>

# Notes to the Financial Statements

Year ended 31 March 2021

## 41.5 The Impact of Covid - 19 on the Risk Management

The unexpected interruptions to business from start of financial year due to the COVID-19 pandemic resulted slowdown in business transactions of the company. With the developments in certain work measures such as “Work from Home” and re-commencing business operations in the curfew and non-curfew areas, company ensured uninterrupted service to our customers.

The Central Bank of Sri Lanka (CBSL) issued directions and guidelines for financial institutions to offer concessions on individuals and private companies who has adverse short-term impact on their sources of income. Being inline with these directions & guidelines, the company initiated appropriate measures for offering relief to affected customers.

### 41.5.1 Impact on Liquidity Risk

The company was able to maintain a strong liquid asset portfolio during this uncertain period while achieving key activities of the company. This was further strengthen by the funds collect from new share issue, which was taken place in the month of February 2020. In addition, the company took necessary actions to ensure continuation of credit lines with banking institutions and benefited with the debt moratorium offered by banking institutions.

### 41.5.2 Impact on Credit Risk

Business operations of the company are spread around the country and majority of loan and lease advance granted to the customers located outside the western province. This was more helpful to the company to improve the collection from the advance portfolio while reducing the credit risk. In addition, advance portfolio consists with less significant amount of facilities granted to business areas which were effected by Covid-19 such as hotel and tourism industry.

### 41.5.3 Impact of assessment of ECL

SLFRS-09 requires the application of judgements and assumptions, both require and allow entities to adjust their approach to determine ECLs in different circumstances. A number of assumptions and linkages underlying the way ECLs have been implemented to date may no longer hold in the current environment due to Covid-19. The company has assessed ECL based on the available information during the financial period and published guideline of CA Sri Lanka and forecasts of economic conditions by being alert with Covid -19 pandemic.

The extension of payment holiday granted to borrowers in specific industries under government approved debt moratorium shall not automatically result in all those instruments being consider to have suffered a significant increase in credit risk. Consideration also needed to be given on whether the concessions under moratoriums could enable certain borrowers to resume regular payments in foreseeable future and such that significant increase in credit risk would not occur over expected remaining period of the receivables.

The company re-assessed and adjusted certain cash flows to reflect the impact on Covid-19 outbreak in the impairment assessment.

### 41.5.4 Impact on Interest Rate Risk

Due to the impact of Covid-19 pandemic, Central Bank of Sri Lanka reduced policy rates and implemented monetary easing policies to enhance the liquidity of the market to stimulate the economic activities of the country. Company evaluated the impact of the interest rate revisions with the long-term debt obligations obtained with floating rates from banking institutions.

## 42. OPERATING SEGMENTS

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

As at 31st March 2021	Finance Lease	Gold Loan	Loans and Advances	Other	Total
	LKR	LKR	LKR	LKR	LKR
Interest Income	529,397,365	187,899,111	214,963,320	41,553,814	973,813,610
Commission Income	-	-	-	10,904,398	10,904,398
Other Income	-	-	-	30,575,374	30,575,374
	<b>529,397,365</b>	<b>187,899,111</b>	<b>214,963,320</b>	<b>83,033,586</b>	<b>1,015,293,382</b>

As at 31st March 2020	Finance Lease	Hire Purchase	Loans and Advances	Other	Total
	LKR	LKR	LKR	LKR	LKR
Interest Income	520,330,613	136,946,583	213,876,437	14,915,740	886,069,373
Commission Income	-	-	-	8,940,422	8,940,422
Other Income	-	-	-	32,774,938	32,774,938
	<b>520,330,613</b>	<b>136,946,583</b>	<b>213,876,437</b>	<b>56,631,100</b>	<b>927,784,733</b>

## 43. 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 2021 are disclosed below.

As at 31st March 2021	Securitization Borrowing	Bank Borrowing	Finance Lease Liabilities	Intercompany Borrowing
	LKR	LKR	LKR	LKR
Balance as at 01 April 2020	-	1,377,425,197	4,813,064	440,172,329
Net cash flows from financing activities	306,905,950	(97,475,137)	(3,631,013)	(440,172,329)
<b>Non cash changes</b>				
Foreign exchange movements	-	-	-	-
Accrual for interest expense	11,463,059	3,329,602	-	-
<b>Balance as at 31 March 2021</b>	<b>318,369,010</b>	<b>1,283,279,661</b>	<b>1,182,051</b>	<b>-</b>

# Value Added Statement

Value Added	2021 LKR	2020 LKR
Income from Interest Related Activities	973,813,610	886,069,373
Income from Other Activities	41,479,772	41,715,360
	<b>1,015,295,403</b>	<b>927,784,733</b>
Depositors & Lenders	256,037,926	371,873,790
Cost of Sales & Services	61,592,438	69,952,048
Provision for Bad & Doubtful Debts	88,586,557	32,076,441
	<b>406,216,921</b>	<b>473,902,279</b>
<b>Total Value Added</b>	<b>609,078,482</b>	<b>453,882,454</b>
<b>Distribution of Value Added</b>		
To Employees as Remuneration	194,494,202	168,327,971
To Government as Taxation	176,459,506	129,065,105
Depreciation	54,367,478	51,138,289
Retained Profits	183,755,275	105,351,084
	<b>609,076,461</b>	<b>453,882,449</b>



# Information of Ordinary Shares

## DISTRIBUTION OF SHAREHOLDING AS AT 31 MARCH 2021

Shares	31 March 2021			
	No of Shareholders	% Shareholders	No of Shares	% No of Shares
Up to 2,000,000	3	42.86%	7,065,304	4.85%
2,000,001 - 6,000,000	1	14.29%	4,000,000	2.75%
6,000,001 - 14,000,000	1	14.29%	10,400,000	7.14%
Over 14,000,000	2	28.57%	124,173,794	85.26%
	<b>7</b>	<b>100.00%</b>	<b>145,639,098</b>	<b>100.00%</b>

## CATEGORIES OF SHAREHOLDERS

Type of Investor	31 March 2021			
	No of Shareholders	% Shareholders	No of Shares	% No of Shares
Local Individuals	4	57.14%	17,465,304	11.99%
Local Institutions	2	28.57%	72,534,696	49.80%
Foreign Institutions	1	14.29%	55,639,098	38.20%
	<b>7</b>	<b>100.00%</b>	<b>145,639,098</b>	<b>100.00%</b>

# 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**

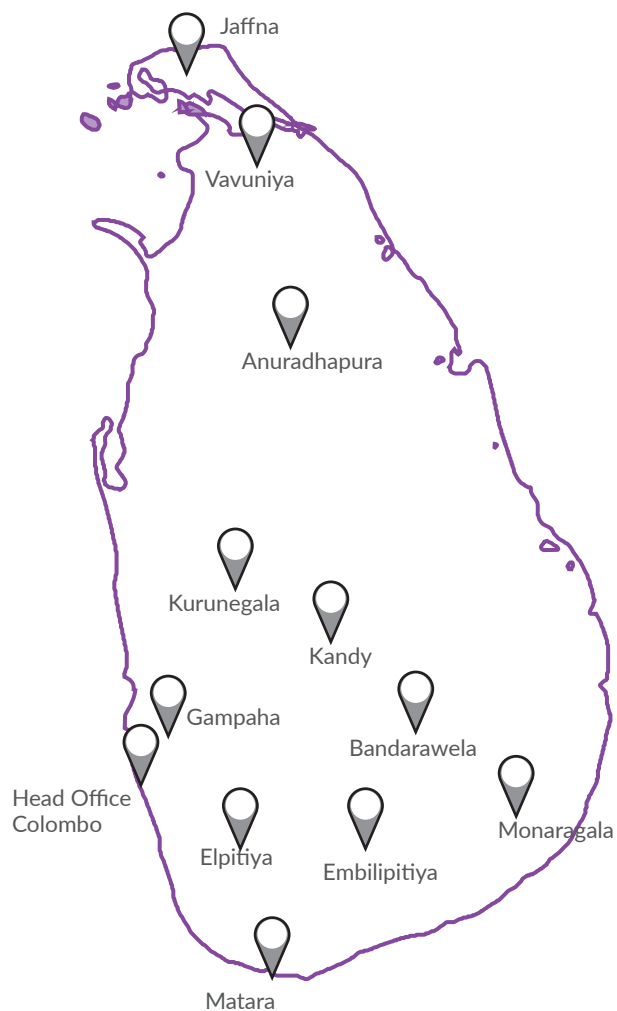
Sum set aside in the financial statements for taxation that may become payable / receivable in a financial year other than the current financial year.

#### **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	339, Main Street, Bandarawela	0572230022 / 0572221025	0572230030
03	Jaffna	408, Hospital Rd, Jaffna	0212219990	0212219991
04	Kurunegala	262/A, Puttalam Rd, Kurunegala	0372232110	0372232010
05	Elpitiya	117, Main street, 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
11	Vavuniya	164, Bazaar street , Vavuniya	0242228989	0242228997
12	Gampaha	03, Bauddhaloka Mawatha, Gampaha	0332121321	033212142



# Notice of Meeting

IDEAL FINANCE LIMITED- PB 4963


Notice is hereby given that the Ninth 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, 24th September 2020 at 4.00 p. m. and the business to be brought before the meeting will be:

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## AGENDA

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 2021 with the Report of the Auditors thereon.
2. To re-elect as a Director Ms. C.L. Jayawardena who retires in terms of Article 24(2) of the Articles of Association of the Company.
3. To re-elect as a Director Dr. P.L. Suren Peter who retires by rotation in terms of Article 24(6) of the Articles of Association of the Company.
4. To re-elect as a Director Mr. N.J. Welgama who retires by rotation in terms of Article 24(6) of the Articles of Association of the Company.
5. 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  
30 August 2021

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.









# Form of Proxy

IDEAL FINANCE LIMITED - PB 4963

I .....(NIC No.....) of  
 .....being a member of

the above Company, hereby appoint:

|                                    |                           |
|------------------------------------|---------------------------|
| Mr. Nalin Jayaraj Welgama          | of Colombo or failing him |
| Mr. Pinnaduwege 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 |
| Ms.Chrishanthi Lucilla Jayawardena | of Colombo or failing her |

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 24th September 2021 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 2021 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To re-elect as a Director Ms. C.L. Jayawardena who retires by rotation in terms of Article 24(2) of the Articles of Association of the Company.                                                                      | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To re-elect as a Director Dr. P.L. Suren Peter who retires by rotation in terms Article 24(6) of the Articles of Association of the Company.                                                                         | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To re-elect as a Director Mr. N.J. Welgama who retires by rotation In terms of Article 24(6) of the Articles of Association of the Company.                                                                          | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To authorise Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed have been re-appointed as Auditors.                                                 | <input type="checkbox"/> | <input type="checkbox"/> |

Signed this ..... day of .....Two Thousand and Twenty One.

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 INFORMATION

## NAME OF THE COMPANY

IDEAL FINANCE LIMITED

## COMPANY REGISTRATION

PB 4963

## DATE OF INCORPORATION

24th January, 2012

## AUDITORS

Ernst & Young  
Chartered Accountants  
201, De Saram Place, Colombo 10.

## 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

## 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 ( Senior Independent Non-Executive Director)  
Ms. Chrishanthi Jayawardena ( Independent Non – Executive Director)

## LEGAL FORM

Limited Liability Company incorporated in Sri Lanka under The Companies Act No.7 of 2007.

## SHARE HOLDING

A Finance Company registered under the Finance Companies Act No. 42 of 2011.

|                                                |          |
|------------------------------------------------|----------|
| Ideal Motors (Pvt) Ltd.                        | - 47.06% |
| Mahindra & Mahindra Financial Services Limited | - 38.20% |
| Mr. Viraj Malawana                             | - 07.14% |
| Veritas Holdings (Pvt) Ltd                     | - 02.75% |
| Mr. N.J Welgama                                | - 01.81% |
| Mr. P. A.De Silva                              | - 01.81% |
| Mr. D. M Weerasekare                           | - 01.24% |

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  
Hatton National Bank  
NDB Bank

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