

# TOWARDS A NEW ERA









## CORPORATE VALUES

### Professionalism

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

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

### Innovative

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

### Service

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

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

### Supporting Enterprises and Individuals

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

### Respected Corporate Citizen

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

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

### Good Employer

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

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

## FINANCIAL HIGHLIGHTS

| Financial Performance   | 2019/20<br>LKR | 2018/19<br>LKR | Change<br>% |
|---|----------------|----------------|-------------|
| Income  | 927,784,733    | 777,461,473    | 19%         |
| Net Interest Income   | 514,195,583    | 411,333,146    | 25%         |
| Total Operating Income  | 555,910,943    | 484,487,313    | 15%         |
| Profit before Taxation  | 164,035,179    | 162,421,399    | 1%          |
| Taxation  | 58,684,095     | 61,299,253     | -4%         |
| Profit after Taxation   | 105,351,084    | 101,122,146    | 4%          |
| <b>Financial Position</b>                                       |                |                |             |
| Shareholders' Funds   | 2,320,989,977  | 1,116,744,254  | 108%        |
| Customer Deposits   | 671,917,133    | 584,784,876    | 15%         |
| Interest Bearing Borrowings                                     | 1,877,769,625  | 2,190,707,788  | -14%        |
| Total Lease, Hire Purchase and Loans                            | 3,268,951,112  | 3,285,742,697  | -1%         |
| Gold Advances   | 672,715,396    | 456,564,892    | 47%         |
| Total Assets  | 5,166,387,981  | 4,131,163,161  | 25%         |
| <b>Key Ratios</b>   |                |                |             |
| Return on Equity (After Tax)                                    | 8.31%          | 9.06%          | -8%         |
| Return on Assets (After Tax)                                    | 2.04%          | 2.45%          | -17%        |
| Interest Margin   | 10.53%         | 10.80%         | -2%         |
| Debt to Equity  | 1.10           | 2.49           | -56%        |
| <b>Statutory Ratios</b>   |                |                |             |
| Core Capital Ratio (Minimum Requirement - 6.5%)                 | 47.28%         | 23.09%         | -           |
| Total Risk Weighted Capital Ratio (Minimum Requirement - 10.5%) | 47.28%         | 23.09%         | -           |
| Non Performing Loan Ratio (%)                                   | 5.24%          | 3.17%          | -           |



Gross Income  
**927.7** Million  
 2018/19 - **777.4** Million



Profit after Taxation  
**105.3** Million  
 2018/19 - **101.1** Million



Total Assets  
**5.16** Billion  
 2018/19 - **4.13** Billion



Equity Capital  
**2.3** Billion  
 2018/19 - **1.1** Billion

## CHAIRMAN'S MESSAGE

On behalf of the Board of Director's, I welcome our shareholders to the eighth annual general meeting of Ideal Finance Ltd (IFL) and present to you the annual report and audited accounts of the Company for the financial year 2019-20. It is also my great pleasure on behalf of the Board of IFL, to announce IFL's the new partnership with one of India's leading finance companies, Mahindra & Mahindra Financial Services Limited (MMFSL), as our second largest shareholder. The new partnership has taken IFL's capital base to the next level, ensuring a new era of advancement and progress for IFL.



Despite the many turbulences experienced throughout the year, I am pleased to report a satisfactory financial performance by IFL for the financial year 2019-20. The year commenced on a highly disturbing note with the Easter Sunday bombings in April 2019, which disrupted markets and economic activities. Against this operating environment, I believe IFL has performed commendably to report sustained income and profit growth.

### Global economic conditions

According to the World Economic Outlook (WEO) of the IMF, released in April 2020, global economic growth in 2019 was a lower 2.9%, compared to the 3.6% growth in 2018. Growth in advanced economies was estimated at 1.7% in 2019, compared to 2.2% in the previous year. Meanwhile, growth across emerging markets and developing economies moderated to 3.7% in 2019 from 4.5% in 2018, largely due to country specific shocks. Reflecting subdued economic activity across the globe, growth of world trade volume of merchandise and

trade in services moderated notably in 2019 to 0.9% in comparison to the growth of 3.8% in 2018.

Following the rapid spread of the corona virus across the globe, the global economy has been dramatically impacted. Advanced economies such as the United States, United Kingdom, Eurozone, and Japan are expected to contract in 2020 and other key trading partners of Sri Lanka including China and India, are also projected to slowdown. Across the globe, the World Trade Organization (WTO) forecasts that global merchandise trade can decline by as much as 32% in 2020. While the poor economic performance of key trading partners will directly impact Sri Lanka's export earnings due to weakened demand, the imposition of various measures domestically and abroad to dampen the spread and the short term economic impact of the outbreak can cause supply chain disruptions, thereby impacting the country's current and future export capacity. Therefore, the global economy is not expected to recover within 2020.

Chairman's Message cont....

### Sri Lankan economic performance

Sri Lanka's economy declined to a 2.3% growth rate in 2019, compared to the growth of 3.3% in 2018, as per the provisional estimates of GDP of the Department of Census and Statistics (DCS). Due to extreme weather conditions, the agriculture sector recorded a growth of 0.6% in 2019 compared to the growth of 6.5 % in 2018. The industry sector registered a growth of 2.7% in 2019, compared to the growth of 1.2 % in the previous year. With the impact of the Easter Sunday attacks on tourism related activities, the growth of the services sector decelerated significantly to 2.3% in 2019, compared to the growth of 4.6% in 2018.

### Non-bank finance sector performance

At end-2019, the sector comprised 42 LFCs and 4 SLCs. There were 1,432 branches and 599 other outlets of which 952 branches (66.0%) were located outside the Western Province. Total assets of the sector stood at Rs. 1,432.7 billion by end-December 2019, representing 7.6% of Sri Lanka's financial system.

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

Credit provided by the LFCs and SLCs sector declined by 3.0% (Rs. 34.3 billion) to Rs. 1,102.7 billion, compared to the growth of 7.6 % in the corresponding period of 2018. Customer deposits still dominated the major portion of liabilities, and increased assets were mainly funded through deposits, which accounted for 52.8% of the total liabilities of the sector. The deposit growth

accelerated to 5.6% (Rs. 39.9 billion), while borrowings declined by 12.6% (Rs. 58.2 billion) in 2019.

The gross non-performing advances (NPA) ratio increased to 10.6% at end-December 2019, from 7.7% reported at end-December 2018, reflecting deterioration in the asset quality of the sector. The provision coverage ratio slightly deteriorated to 56.6% by end-December 2019, compared to 57.0% reported at end-December 2018. With the implementation of SLFRS 9, NPA will rise further which would highlight the significant credit risk of the sector.

The sector maintained adequate liquidity buffers well above the regulatory minimum levels. The overall regulatory liquid assets available in the sector at end-December 2019 indicated a surplus of Rs. 41.6 billion as against the stipulated minimum requirement of Rs. 89.8 billion. The liquidity ratio (liquid assets on deposits and borrowing) increased to 11.3% at end-December 2019, compared to 9.6% recorded at end-December 2018.

### Our performance

In spite of the notable decline in economic activities and consumer demand, IFL was able to grow its income by 19% year-on-year, to Rs. 927.78 million, while the Profit After Tax increased by 4%, to Rs. 105.35 million.

In 2018, IFL expanded its capital base to Rs. 1 billion through a highly successful rights issue of Rs 205 million. With our new partner MMFSL investing Rs. 1.1 billion in equity, IFL's capital base has now grown by 108%, and currently stands at Rs. 2.3 billion, complying with the regulatory requirements of Central Bank of Sri Lanka. As at the end of the 2019-20 financial year, IFL's stated capital stood at Rs. 1.9 billion, while retained earnings came to Rs. 390.24 million and reserves stood at to Rs. 22.49 million, for the current total equity of Rs. 2.3 billion. IFL's core capital ratio stands at 23.09%. We are therefore now working towards meeting the Central

Chairman's Message cont....

Bank's new minimum core capital requirement of Rs. 2.5 billion by January 1st 2021. While this deadline was extended by another year due to the market disruptions stemming from Covid-19, we are confident of meeting this deadline.

IFL is also working towards the appointment of an additional Independent Non-Executive Director to meet the requirement of Independent Non-Executive Directors accounting for one fourth of the total number of Directors. This appointment was delayed due to the Covid-19 pandemic disruptions, but we have kept the regulators informed and this shortcoming will be rectified soon.

### Future direction

With a stronger capital base and a tried-and-tested market position of public trust and confidence, IFL is poised for rapid growth in the new financial year. Our new investor Mahindra & Mahindra Financial Services Limited (MMFSL) brings in new knowledge and expertise, in addition to the enhanced financial stability we now enjoy. We are now planning to expand our branch network to at least twenty, extending our reach further inland towards those communities in most need of financial services, and to enhance value creation for our existing customer base with the introduction of new products and customized solutions. In tandem with the branch expansion, the Company aims to recruit new members into our team. This move will take the Company to the next level with professionalism, experience and competence in order to drive and sustain higher volumes of business. Therefore, I am confident of better returns for all stakeholders in the new financial year.

### Appreciations

Focused on a new vision of growth, I would like to extend my appreciations to the Board of Directors and the IFL team, including the management, who have been crucial to the growth and welfare of the company. Our customers are our mainstay and I am grateful for their loyal patronage over the years and I look forward to working with them even closer in the new financial year. I would also like to express my appreciations to the Governor of the Central Bank and the officials at the Non-Bank Financial Institutions Supervision division, for their guidance during the year.

Sincerely,



**Nalin J. Welgama**

Chairman

26th June 2020



## CHIEF EXECUTIVE OFFICER'S MESSAGE

I am pleased to report a landmark year for IFL in 2019-20 in terms of our future potential and strategic vision for enhanced value creation for all our stakeholders. The financial year 2019-20 will be remembered as a turning point in the annals of IFL's corporate history with the formal entry of Mahindra & Mahindra Financial Services Limited (MMFSL) to the Board of IFL as the Company's second largest shareholder, with an equity investment of Rs 1.1 Billion. The stronger capital base not only secures IFL's regulatory capital adequacy compliance, but also opens up a new era of growth for IFL.



The Company's financial stability and strength was reflected in the credit rating of B+ with a Stable Outlook by Fitch Ratings, which heralds the Company's future growth opportunities.

Adding to the good news, IFL was awarded the coveted 'Great Place to Work 2019-20' title which has definitely boosted the Company's brand image within the industry and showcased our exceptional human resource welfare practices and management practices to the entire nation. With this recognition of human resource excellence, we are now better positioned to attract and retain high quality talent to realize our vision of growth.

### Financial Performance

Whilst economic conditions remained extremely challenging during the year with a sharp decline in economic activity and investor confidence, coupled with rising competition, I am happy to report steady financial progress by IFL.

The below par economic growth rate of the previous year was further disrupted and undermined by the Easter Sunday bombings in April 2019 preventing the anticipated economic recovery during the current financial year. The ensuing security concerns following the Easter attacks had a detrimental impact on the tourism industry and many other sectors also experienced the negative fallout of this incident, causing a sharp decline in demand for credit, coupled with lower investment activity and damp consumer sentiments. In addition, banks and finance companies were required to extend a debt moratorium for leases and loans provided to the tourism industry placing an additional strain on the entire financial sector.

Newly introduced taxes exacerbated financial problems within the prevailing environment of constrained cashflows and declining demand, until they were discontinued in January 2020. The cost of living continued to increase, which compounded financial difficulties for businesses and households. Although the emergence of COVID-19 had a direct and widespread

Chief Executive Officer's Message cont....

negative impact across the Sri Lankan economy, IFL did not experience significant impacts from COVID-19 within the financial year 2019-2020, as the major outcomes were during the month of March. Therefore, the actual higher impact has been passed through to the new financial year, which will be reflected in the recovery of the country's economy as businesses struggle to restart and realign to the post-COVID environment.

In spite of the downturn in the economy, IFL achieved a revenue increase of 19% year-on-year, reaching Rs. 927.78 million, supported by a 25% growth in Net Interest Income, which came to Rs. 514.19 million. This was achieved despite a slight decline in the Net Interest Margin from 10.80% in the previous financial year, to 10.53% in the current year.

While market demand for both leasing and loans declined during the year, IFL's total lending portfolio achieved a growth of 5% year-on-year, to Rs. 3.94 billion, mainly due to the growth of the gold loans segment. Under the prevailing market conditions, where leasing and loan products were under pressure with rising risk profiles, IFL took the prudent decision to focus on expanding its gold loan business. Due to the strong marketing drive to promote this product among consumers, IFL's gold loan portfolio expanded by a substantial 47% compared to the previous year. However, competition within the gold loan segment is rising rapidly with banks and finance companies also targeting the gold loans market as a growth segment.

Reflecting the overall industry situation, IFL's Non Performing Loan (NPL) portfolio expanded during the year, with the gross NPL ratio increasing from 3.17% to 5.24% year-on-year, and the net NPL ratio also increasing from 0.79% to 2.04%.

The tax structure remained almost the same during the year. However, the Debt Repayment Levy, imposed last year, which is a 7% tax charged monthly on the value addition attributable to the supply of financial services, was cancelled from January 2020 onwards,

providing some degree of relief to the financial sector. Consequently, the total income tax expenses declined by 4% against the previous year, to Rs. 58.68 million from Rs. 61.29 million. IFL's Profit After Tax increased by 4.2% to a healthy Rs. 105.35 million for the current financial year. The Return on Assets (before tax) declined from 3.93%, to 3.07%, while the Return on Equity (after tax) also fell from 9.06%, to 8.31%.

Operating within a declining market-demand scenario, and with the emergence of COVID-19, we did not invest in expanding our network, and instead, focused on consolidating our existing markets and customer segments. However, we have successfully introduced a new consumer finance product to the market, which we are confident will continue to capture market share in the new financial year, boosting IFL's overall revenues.

### Plans for the future

While the economic outlook for the new financial year is somewhat under a cloud due to the global fallout of COVID-19, which will impact Sri Lankan companies both directly and indirectly, I am fairly optimistic and upbeat about IFL's outlook over the short to medium term.

I believe our strategic blueprint for growth is now ready to be rolled out and the Company is equipped with the apt skills and competencies to enable rapid recovery and growth. With MMFSL entry as an equity partner, IFL is now on a stronger financial footing than ever before, with the financial capacity to offer both enhanced volumes and range in terms of financial services. Therefore, while we did not embark on an expansion drive during the 2019-20 financial year, we will be monitoring the market and will deploy our strategic growth plan in the new financial year. In fact, we have already requested approval from the Central Bank to launch our expansion program. With the Company on growth gear, we are confident of achieving higher financial targets and new customers, over the coming months.

Chief Executive Officer's Message cont....

With this positive mindset regarding our future, I extend my sincere gratitude to the Chairman, the Deputy Chairman and the Non-Executive Directors of IFL for their confidence on me and for their guidance in navigating this difficult year to a successful conclusion. My colleagues at Team IFL are the driving force of our success and I thank them wholeheartedly for their dedicated work during the year. I also thank the officers of the Non-Bank Financial Institutions Division of the Central Bank of Sri Lanka for their support. Let us work towards a positive future to achieve our vision of growth together!

Sincerely,



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

26th June 2020

# MANAGEMENT DISCUSSION & ANALYSIS

## Global Economy

Global economic growth continued to decline to 2.9% in 2019 from 3.6 % in 2018, according to the World Economic Outlook (WEO) of the IMF, due to lower growth in advanced economies at 1.7 % in 2019, compared to 2.2% in 2018 and growth across emerging market and developing economies also declining to 3.7 % in 2019 from 4.5% in 2018.

Within the post-COVID environment, global growth is projected to contract by 3.0 % in 2020, followed by an expansion of 5.8 % in 2021. The growth in Advanced Economies is expected to contract by 6.1% in 2020, led by a contraction in most economies including the United States, Japan, the United Kingdom, Germany, France, Italy, and Spain. The emerging market and developing economies are expected to suffer from the health crisis as well as the severe external demand shock and tightening of global financial conditions. Accordingly, the growth in emerging market and developing economies is expected to contract by 1.0% in 2020. Notably, Emerging Asia is the only region that is expected to record a positive growth of 1.0% in 2020, despite the downward revision from 5.8% in the January update of the WEO. Economies in this group such as China, India, and Thailand are expected to grow moderately in 2020.

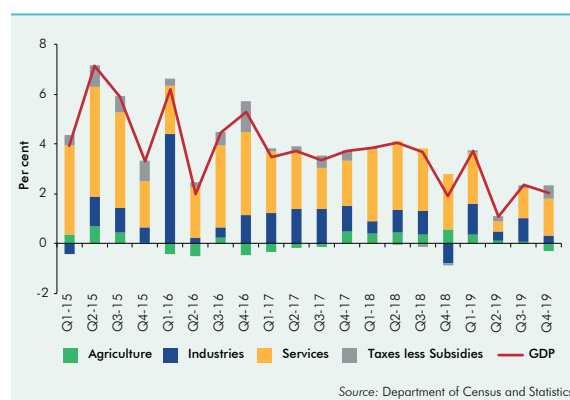
## Sri Lankan Economy

In 2019, Sri Lanka graduated to the upper middle-income country status in terms of per capita Gross National Income (GNI), according to the World Bank's country classification. The value of the country's Gross Domestic Product (GDP) at current market prices was USD 84.0 billion in 2019, compared to USD 88.4 billion in 2018. Per capita GDP and per capita GNI at current market prices were estimated at USD 3,852 and USD 3,741, respectively, in 2019, in comparison to USD 4,079 and USD 3,968 respectively, in the previous year.

However, Sri Lanka's agriculture sector and services sector both declined in 2019, contributing to the continued fall in the GDP from 3.3% in 2018 to 2.3% in 2019. Due to extreme weather conditions, the agriculture sector growth reduced from 6.5% to 0.6%, while the impact of the

Easter Sunday attacks on tourism related activities, caused the services sector growth to decelerate from 4.6% in 2018 to 2.3% in 2019. The industry sector registered a growth of 2.7% in 2019, compared to the growth of 1.2 % in the previous year.

**Figure 1.1**  
Activity-wise Contribution to GDP Growth



## Prices

Despite transient supply side disturbances, both headline and core inflation moved broadly in the desired range of 4-6% during 2019. Headline inflation as measured by the Colombo Consumer Price Index (CCPI, 2013=100) accelerated from 3.7% in January 2019 to the peak of 5.4% in October 2019. Headline inflation, based on the National Consumer Price Index (NCPI, 2013=100) that attributes a higher weight to food items, accelerated during the second half of 2019, reflecting the impact of supply side disruptions, and reached 6.2% in December 2019, compared to 0.4% recorded at end 2018.

Meanwhile, the year-on-year headline inflation based on the CCPI reached 6.2% in February 2020, while year-on-year inflation based on the NCPI peaked at 8.1% in February 2020. However, as food inflation eased, year-on-year headline inflation based on the CCPI and the NCPI decelerated to 5.4% and 7.0% respectively in March 2020, in spite of the disruptions caused by the spread of the COVID-19 pandemic.



Management Discussion & Analysis cont....

Meanwhile, in December 2019, year-on-year core inflation based on the CCPI and the NCPI remained at 4.8% and 5.2%, respectively, compared to 3.1% recorded by both the indices in December 2018. In the first quarter of 2020, core inflation based on the CCPI and the NCPI decelerated, and was recorded at 2.9% and 3.2% respectively in March 2020

### Exchange rate

The Sri Lankan rupee recorded a marginal appreciation of 0.6 % against the US dollar in 2019, compared to the significant depreciation recorded in 2018. This appreciation of the currency mainly reflected the impact of the notable contraction in the trade deficit, in spite of pressure witnessed in the domestic foreign exchange market in the aftermath of the Easter Sunday attacks and amidst outflows of foreign investment from the government securities market during the second half of 2019.

The Central Bank maintained flexibility in the determination of the exchange rate during the year, while intervening only to prevent any excessive volatility of the Sri Lankan rupee and build up reserves. The exchange rate, which remained stable up to the second week of March 2020, witnessed significant pressure with the spread of the COVID-19 pandemic, while speculation by market participants and foreign investors also weighed on the stability of the currency. The government and the Central Bank introduced several measures to curb the excessive pressure on the external sector, while allowing the rupee to depreciate in line with currencies of regional peers.

### Interest rates

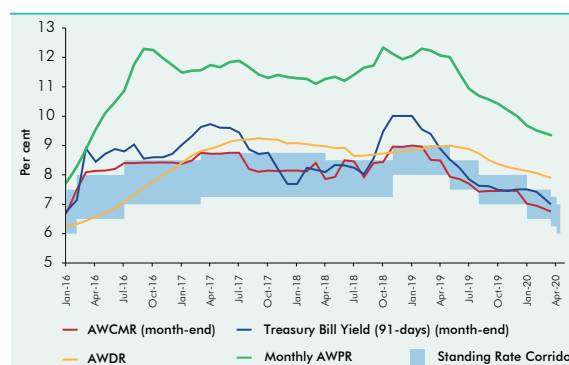
The Central Bank reduced the Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of LCBs by a total of 2.50 percentage points in November 2018 and March 2019, thereby addressing the persistent liquidity deficit in the domestic money market. Consequently, market liquidity turned to surplus levels from mid April 2019. However, in spite of the improvement in market liquidity, market interest rates remained downward rigid. Thus, the Central Bank imposed interest rate ceilings on deposit products of licensed banks and Non- Bank Financial Institutions in April 2019 and reduced policy interest rates by a total of 100

basis points, in May and August 2019, aimed at lowering the market lending rates and boosting credit flows to the private sector.

The Central Bank reduced policy interest rates by a further 50 basis points in January 2020. Moreover, considering the spread of the COVID-19 pandemic in the country, the Central Bank, in an emergency move, reduced policy rates, in March and April 2020, by a total of 50 basis points, and SRR by 1.00 percentage point to 4.00% in March 2020. Accordingly, effective from the close of business on 3 April 2020, the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) remained at 6.00% and 7.00%, respectively.

The weekly Average Weighted Prime Lending Rate (AWPR), which is based on interest rates applicable on short term loans and advances granted by LCBs to their prime customers during a week, declined by 235 basis points to 9.74% during 2019. The Average Weighted Lending Rate (AWLR), which is based on interest rates of all outstanding loans and advances extended by LCBs, declined by 81 basis points to 13.59% during 2019. The yields on primary market Treasury bills decreased by 197-275 basis points across the tenures during 2019.

**Figure 1.9**  
Standing Rate Corridor and Selected Market Interest Rates



Source: Central Bank of Sri Lanka

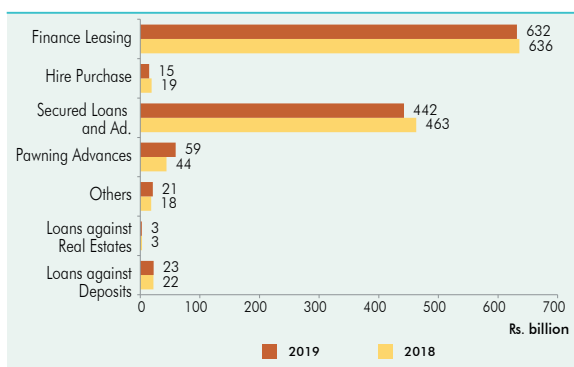
Management Discussion & Analysis cont....

### Non bank financial sector

The total asset base of the 42 LFCs and 4 SLCs stood at Rs. 1,432.7 billion as at end 2019, which expanded marginally by 0.1% (Rs. 1.3 billion) during the year, compared to 5.6% growth reported in 2018. Loans and advances accounted for 77.0% of the total assets. Credit provided by the LFCs and SLCs sector declined by 3.0% (Rs. 34.3 billion) to Rs. 1,102.7 billion, compared to the growth of 7.6% in the corresponding period of 2018.

The loans and advances portfolio of product categories such as finance leases (Rs. 3.9 billion), secured loans and advances (Rs. 20.8 billion) and hire purchases (Rs. 4.3 billion) contracted, while pawning advances increased by Rs. 15.5 billion and loans against deposits increased by Rs. 0.6 billion. The investment portfolio recorded a sharp increase of 20.5% (Rs. 22.5 billion) in 2019, compared to a negative growth of 7.1% in 2018. This is mainly due to increased investment in government securities maturing in less than 12 months (Rs. 9.0 billion), investment in shares, units and debt securities held for trading (Rs. 8.0 billion) and investment properties (Rs. 7.1 billion). Other assets were mainly maintained in the form of cash, balances with banks and financial institutions, trading stocks, and fixed assets, which increased by 7.1% (Rs. 13.2 billion) in 2019, largely due to increased placements in banks and financial institutions.

**Figure 8.9**  
Total Loans and Advances (Gross) by Productwise for LFCs and SLCs Sector



Source: Central Bank of Sri Lanka

### Operational review

#### Company Overview

During the financial year 2019-20, IFL embarked on a new chapter of growth with a historic partnership. Therefore, IFL is now at a new level of financial capability with the option of rapidly expanding its lending business. While, the current financial year did not present conducive market conditions to pursue the Company's expansion strategy, IFL is ready to commence growth plans in the new financial year.

#### Strategic progress

While the country experienced significant turbulence during the year, IFL has maintained strategic focus and successfully concluded its negotiations to form a new partnership with Mahindra & Mahindra Financial Services Limited, which is one of the leading financial services providers in India. With Mahindra & Mahindra investing Rs 1.1 Bn in equity, as the second largest shareholder, IFL's capital base has now grown by 108%, and currently stands at Rs 2.3 Bn. The new partnership enables not only greater financial stability but also new expertise in financial services from a leading conglomerate in India's financial services sector, that will support IFL's future growth plans.

IFL's growth strategy was primarily based on branch expansion. However, given the negative market conditions and regulatory constraints, the branch expansion strategy was put on hold temporarily. Following the injection of new capital, IFL is now positioned to recommence its branch network growth. With IFL's positive brand image among the public, we are confident geographic expansion will support growth by enhancing market visibility and improved customer accessibility, which will promote the growth in both lending and deposit portfolios. The expansion of the branch network will also provide a far more extensive channel for a broader range of services, in particular gold loan products, around the country.

During the year under review, IFL was quick to respond to the market situation and focused on expanding the gold loan segment with great success, which has contributed towards the overall growth of the lending portfolio.

Management Discussion & Analysis cont....

### Performance of the branch network

IFL's branch network is the primary channel of service delivery and customer engagement and is therefore a vital component of the Company's operations. Therefore, improvements to branch administration and management has been an area of focus, to ensure not only the best quality of service for IFL customers but to also safeguard and enhance the overall financial growth and stability of the Company. IFL's current financial year's performance is indicative of the effectiveness of branch efficiency improvement initiatives, as the Company has continued to maintain lending and deposit growth, despite the market downturn.

As IFL did not expand the branch network during the current financial year, the total number of branches stood at nine, with the IFL head Office taking our total network to 10 service outlets. During the current financial year, the best performing branches were the IFL Head Office, the Jaffna branch, Monaragala and Kurunegala branches.

### Lending

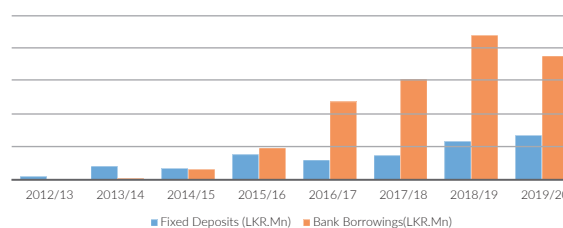
In spite of the sharp decline in consumer demand, we are pleased to have achieved a 5% year-on-year growth in our overall lending portfolio, which expanded from Rs. 3.7 billion one year ago, to Rs. 3.9 billion. Consequently, IFL's total asset base expanded by 25% from Rs. 4.1 billion, to Rs. 5.1 billion. The lending growth was primarily due to the significant 47% growth in gold advances, which increased from Rs. 456.56 million to Rs. 672.71 million. The leasing portfolio also achieved a marginal 1% growth from Rs. 2.2 billion, to Rs. 2.3 billion. However, the loan products category declined by 4% from Rs. 1.0 billion, to Rs. 959.05 million.

### Deposits and bank borrowings

Even with minimum marketing and promotional efforts, we are pleased to have achieved a 15% growth in our deposit base, from Rs 584.80 million one year ago, to Rs 671.91 million. Our bank borrowing also increased by 14% , from Rs

1.7 billion, to Rs 1.9 billion in our quest to ensure adequate affordable funding for our customers.

### Deposits & Bank Borrowings



### The ideal team

As a professional and responsible corporate citizen, IFL has formal policies with regards to almost all areas of human resource administration and workplace health and safety. In addition, the Company has a formal Code of Conduct applicable to the entire team, defining professional conduct towards all stakeholders.

Going above and beyond statutory requirements, IFL continually reviews its human resource management policies and procedures to enhance employee welfare and benefits, with the objective of creating a rewarding and happy work culture for all employees. During the current financial year, employee benefits were more than doubled, to improve employee motivation and satisfaction.

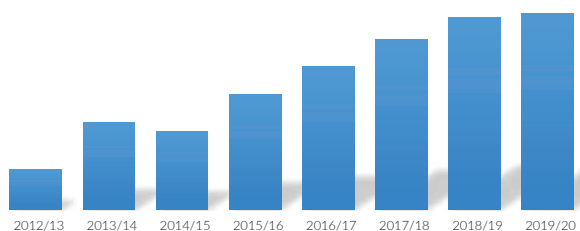
The human resource management policies at IFL include a total reward policy, recruitment policy, time and attendance & leave policy, an equal opportunities policy, medical insurance policy, training and development policy, health & safety policy, grievance handling policy and non-harassment policy. These policies ensure equitable and fair treatment of all employees, together with equal opportunities for growth that prevents discrimination and bias at all levels of the human resource administration system.

Management Discussion & Analysis cont....

**Employee profile**

The total number in the Ideal Team remained at 130 during the year. IFL's workforce has been expanding with its branch and business expansion and the recently opened branches in Matara and Kandy required new staffing for optimum operations. We anticipate further enhancement of our team in the coming years. IFL has a fairly youthful team, with the average age of employees at 30 year, with 20% representing women.

**No. of Employees**



**Training and development**

As we grow our business and recruit new employees, training has become a vital component of ensuring consistent quality of services, and the correct application and delivery of financial products, in conformity with regulatory directives.

During the current financial year, our employees were subjected to various training programs conducted by the Central Bank and the Financial Information Unit of the Central Bank. They were also trained by the Subcommittee for Compliance of the Finance Houses Association, the Chartered Institute of Sri Lanka and the Inland Revenue Department.



Receiving the Certificate of 2019/20 Great Place to work.

**Marketing and branding**

During the current financial year, marketing campaigns were mainly aimed at growing the gold loans portfolio. Due to the prevailing economic situation, there was increased demand for gold loans from customers and IFL immediately responded by meeting this demand. In addition, we also continued promotional events for vehicle leasing and successfully conducted a three wheeler sticker promotion. With the Company now on a strong financial footing with the financial capacity to rapidly grow the lending portfolio, we plan to conduct a comprehensive branding and brand positioning campaign, to enhance the brand image and visibility of IFL in the future.



Marketing Campaign for Vehicle Leases.



## BOARD OF DIRECTORS



### Mr. Nalin J. Welgama

Founder and Chairman of Ideal Group

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

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

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



### Mr. Aravinda De Silva

Deputy Chairman

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

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

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

cont....

## BOARD OF DIRECTORS

cont....

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

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



**Mr. Duminda Weerasekare**

Director/CEO

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

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

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

## BOARD OF DIRECTORS



### Mr. Viraj Malawana

Non-Executive Director

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

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

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

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

## CORPORATE MANAGEMENT

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

### Mr. Duminda Weerasekare

Chief Executive Officer

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

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

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

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

### Mr. Rohitha Bandusena

Chief Operating Officer

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

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

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

### Mr. Gaman Kithsiri

Chief Information Officer

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

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

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

### Mr. Pradeep De Silva

Assistant General Manager (Gold Loan)

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

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



Corporate Management cont....

### Mr. Rohan Thennakoon

Compliance Officer

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

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

He is currently a member of the Sub-committee for Compliance of the Finance Houses of Association of Sri Lanka.

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

### Ms. Madumali Munasingha

Senior Manager Finance – Treasury & Risk

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

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

### Mr. Charitha Vithana

Manager - Finance

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

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

## CORPORATE GOVERNANCE REPORT

### Corporate Governance

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

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

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

### Board of Directors

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

### Composition and Independence

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

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

### Chairman and Chief Executive Officer

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

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

### Tenure, Retirement and Re-election of Directors

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

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

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

### Board Meetings

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

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

The Board meeting for the month of March 2020 has been postponed due to COVID -19 pandemic situation.

Corporate Governance cont....

During the year ended 31st March 2020, eleven (11) meetings of the Board were held. The attendance at the meetings was:

| Name of Director      | Executive/<br>Non- Executive/<br>Independent<br>Non- Executive | Attendance |
|-----------------------|--|------------|
| Mr. N J Welgama       | Non-Executive  | 11/11      |
| Mr. D M Weerasekare   | Executive  | 11/11      |
| Mr. P A De Silva      | Non-Executive  | 10/11      |
| Mr. J V W Malawana    | Non-Executive  | 10/11      |
| Dr. P. L. Suren Peter | Independent<br>Non-Executive                                   | 11/11      |

### Board Sub-Committees

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

### Audit Committee

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

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

### Integrated Risk Management Committee (IRMC)

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

The Committee is chaired by Dr. P.L. Suren Peter, an Independent Non-Executive Director. Mr. P. A. De Silva and Mr. J.V.W. Malawana are members of the IRMC

which also consists of key management personnel supervising broad risk categories.

### Remuneration Committee

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

### Nomination Committee

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

### IT Steering Committee

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

### Compliance Officer

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

### The Management

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

### Financial Disclosures and Transparency

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

Corporate Governance cont....

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

### Ethical Standards

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

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

### Statutory Payments

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

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

### Compliance with Central Bank Regulations

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

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

### Accountability and Disclosure

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

### Outlook

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



**Nalin J Welgama**

Chairman

26<sup>th</sup> June 2020



Corporate Governance cont....

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

The Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) covers the key aspects such as Directors, Directors' remuneration, Relations with Shareholders, Accountability and Audit and Shareholders.

These rules are indispensable in ensuring the creation and maintenance the confidence of the General Public of the country.

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

| Section | Agreed Upon Procedure   | Status   | Result of Procedure  |
|---------|---|----------|--|
| 2(1)    | Procedures to be carried out to ensure the board have strengthened the safety and soundness of the Finance company.   |          |  |
| a)      | Approving and overseeing the Company's objectives and corporate values and ensure that these are communicated throughout the Company.   | Complied | <p>Vision, mission and corporate values of the company are included in the procedure manual which is approved by the board on 26th March 2012.</p> <p>Board approved business plan for the next three years is in place for the period 2020-2023 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 | Complied | <p>The Board has an approved Business Plan for the three years 2020-2023 includes the overall business strategy of the company.</p> <p>Company has a Board approved Risk Manual which includes different types of risks faced by the company, responsible staff, Risk mitigation strategies and Risk Reporting formats to be used by the staff .</p> <p>Board approved Treasury and Liquidity Risk Management Policy is in place, defining identifying, measuring and monitoring the said risks.</p>                 |

Corporate Governance cont....

| Section | Agreed Upon Procedure   | Status   | Result of Procedure   |
|---------|---|----------|---|
|         |   |          | <p>The Integrated Risk Management (IRM) report defines the risk management strategies along with the key risk factors, related risk and risk mitigation action.</p> <p>Company's overall business strategy for the three years commencing from 2020-2023 is included with the measurable goals of the company.</p>  |
| c)      | Identify the risk and ensuring implementation of appropriate system to manage the risk prudently.                                   | Complied | <p>Board has formed an Integrated Risk Management Committee (IRMC) and delegated the function to manage the risks identified to the Committee.</p> <p>Findings of the IRMC are reported to the Board at the subsequent Board meeting.</p>   |
| d)      | Approving a policy of communication with all stake holders, including depositors, creditors, share-holders and borrowers;           | Complied | Company has two board approved communication policies for shareholders and other internal and external stakeholders   |
| e)      | Reviewing the adequacy and the integrity of the finance Company's internal control system and management information system; entail | Complied | <p>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.</p> <p>A Board approved procedure manual is in place defining the decision flow and responsibility of each functional area of the company.</p> <p>Procedures for ICT controls are included in the procedure manual.</p> <p>Company has a Board approved Information Technology Policies and Procedures and an IT Steering Committee established by Board.</p> <p>Company evaluated the adequacy and integrity of the company's Management Information System and has carried out an IS Audit for 2017/18.</p> <p>Company will take necessary actions to strengthen the internal control system.</p> |

Corporate Governance cont....

| Section | Agreed Upon Procedure   | Status   | Result of Procedure  |
|---------|---|----------|--|
| f)      | Identifying the designating key management personnel, who are in a position to (i) significantly influence policy (ii) Direct activities and (iii) exercise control over business activities, operations and risk management; | Complied | Key Management Personnel (KMP) have been defined as "Board of Directors (BOD), Chief Executive Officer (CEO), Chief Operating Officer (COO), AGM-ICT, AGM-Gold Loan, Manager-Finance, Manager-Risk and Treasury, Compliance Officer, Consultant recovery.  |
| g)      | Defining the areas of authority and key responsibilities for the board and the key management personnel;  | Complied | <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 Feasibility Report which is approved by the Board.</p> <p>Company has completed the key responsibilities (job descriptions) of KMPs.</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;  | Complied | Key management personnel were invited to the Board meetings to make presentations on overall performance, collections and progress of the Company.   |
| i)      | Periodically assessing the effectiveness of its governance practice including   | Complied | As per Articles of Association, Board has the power to make decisions on selection, nomination and election of directors.  |
| (i)     | selection, nomination and election of directors and key management personnel;   | Complied | Further Articles of Association addresses the provisions on management of conflicts of interest of directors.  |
| (ii)    | management of conflicts of interests; and   | Complied | A self-evaluation process of the board members is in place to ensure the own performance, better governance and determination of weaknesses.   |
| (iii)   | The determination of weaknesses and implementation of changes where necessary.  | Complied | Self-performance evaluation of the Board of Directors for the year 2019/20 has been done.  |

Corporate Governance cont....

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

Corporate Governance cont....

| Section                          | Agreed Upon Procedure   | Status       | Result of Procedure   |
|----------------------------------|---|--------------|---|
| 2(4)                             | Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relatives or a concern, in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.   | Complied     | Articles of the Association give evidences on the procedure for "Restrictions on Voting" by Board of Directors when they have a substantial interest on any matter and not to count for the quorum.<br><br>No such transaction has taken place during the year.   |
| 2(5)                             | The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Company is firmly under its authority.   | Complied     | Company has a Board approved schedule of matters specifically reserved to the board for decision making.  |
| 2(6)                             | The Board shall, if it considers that the finance Company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Non-Bank Supervision of Non-Bank Financial Institution of the situation of the Company prior to taking any decision or action. | Complied     | Such a situation has not been arisen during the year 2019/20.   |
| 2(7)                             | The Board shall publish in the Company's Annual Report, an Annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.  | Complied     | This has been disclosed in the Annual Report on page 24 to 45.  |
| 2(8)                             | The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.   | Complied     | Company has a process of evaluating the self-performance of the Board of Directors.   |
| <b>(3) 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  | Not Complied | Board has met 11 times during the year 2019/20.<br><br>"The Board meeting for the month of March 2020 has been postponed due to COVID -19 pandemic situation."<br><br>There were instances where the Board's consent has been obtained through the circulation of written resolutions/papers during the year 2019/20. |
| 3(2)                             | The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance Company.  | Complied     | Agenda is drafted by the compliance officer 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.                            |



Corporate Governance cont....

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

Corporate Governance cont....

| Section    | Agreed Upon Procedure  | Status       | Result of Procedure  |
|------------|--|--------------|--|
|            | <ul style="list-style-type: none"> <li>a) a summary of data and information used by the Board in its deliberations;</li> <li>b) the matters considered by the Board;</li> <li>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.</li> <li>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;</li> <li>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</li> <li>f) the decisions and Board resolutions.</li> </ul> |              |  |
| <b>(4)</b> | <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 01.01.2009.  | Complied     | Board comprised of 5 members during the current year.  |
| 4(2)       | The total period of service of a Director other than a Director who holds the position of Chief Executive Officer or executive director shall not exceed nine years, and such period in office of a non-executive director shall be inclusive of the total period of service served by such Director up to January 1, 2009.  | Complied     | None of the Directors have exceeded 9 years of service since the company was incorporated in January 2012.     |
| 4(3)       | An employee of a finance Company may be appointed, elected or nominated as a Director of the finance Company (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive of the Company.   | Complied     | There are 5 members in the Board out of which one is an Executive Director thus complies with the requirement. |
| 4(4)       | From 1st January, 2012 , the total number of independent non-executive Directors, of the board shall be at least one fourth of the total number of directors . A Non-Executive Director shall not be considered independent if he/she:   | Not Complied | The Board comprised of 5 members which consists of an Independent Non-Executive Directors.                     |

Corporate Governance cont...

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

Corporate Governance cont....

| Section | Agreed Upon Procedure   | Status   | Result of Procedure   |
|---------|---|----------|---|
| 4(5)    | In the event an alternate Director is appointed to represent an Independent non – executive Director, the person so appointed shall also meet the criteria that apply to the Independent non-executive Director.  | Complied | Such an incident has not taken place during the year 2019/20.   |
| 4(6)    | Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.   | Complied | Articles of Association address the appointment and removal of Directors. Company has drafted a procedure on appointing NEDs.   |
| 4(7)    | A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one-half of the number of Directors present at such meeting are Non-Executive.   | Complied | During the financial year 2019/20 more than 50% of the directors participated for board meetings are non-executive.<br><br>Company shall initiate action to make the quorum to read as more than 50% of the existing members and out of them more than 50% to be Non- Executive Directors.                      |
| 4(8)    | The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Finance Company. The Finance Company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non- Executive Directors in the Annual Corporate Governance Report. | Complied | Company has disclosed the composition of the Board as required in the direction on page 50 of the Annual Report.  |
| 4(9)    | There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.   | Complied | Company's Articles of Association addresses a general procedure for appointment of new directors. Company has drafted a procedure on appointing new members to the Board.<br><br>Company has a policy of appointing a member to the board, where the responsibility has been given to the nomination committee. |
| 4(10)   | All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.   | Complied | No Directors have been appointed during the year 2019/20.   |
| 4(11)   | If a Director resigns or is removed from office , the board shall announce to the Shareholders and notify the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka ,regarding the Director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant Director's disagreement with the Company, if any               | Complied | No Directors have resigned from office during the year.   |

Corporate Governance cont....

| Section  | Agreed Upon Procedure   | Status   | Result of Procedure   |
|--|---|----------|---|
| <b>(5) 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.   | Complied | None of the Directors exceeded 70 years of age.   |
| 5(2)   | A person shall not hold office as a Director or any other equivalent position in more than 20 companies/ societies/ bodies corporate including Subsidiaries or Associate Companies of the Finance Companies Provided that such 20 companies/entities/ institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.     | Complied | No Director holds directorships of more than 20 companies / entities / Institutes inclusive of subsidiaries or associate companies during the year 2019/20.   |
| <b>(6) 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.   | Complied | The Board is empowered by the Articles of Association to delegate its powers to a committee of directors or to a director or employee upon such terms and conditions and with such restrictions as the Board may think fit. |
| 6(2)   | The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.   | Complied | The delegated powers are reviewed by the Board to ensure that they remain relevant to the needs of the company.   |
| <b>(7) 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   | Complied | Roles of Chairman and CEO are separate and held by two individuals appointed by the Board.  |
| 7(2)   | The Chairman shall be a Non-Executive Director and preferably an Independent Director as well. In the case where the Chairman is not an Independent Director, the Board shall designate an Independent Non – Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Finance Company Annual Report. | Complied | Chairman is a non- executive director of the Company.<br><br>Company has designated an Independent Non- Executive Director as the Senior Director of the Company.<br>(This is disclosed in the Annual Report page 18.)      |
| 7(3)   | The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.                       | Complied | Company has a process to identify the relationship between Chairman, CEO and the Board members and the nature of any relationship amongst the members of the Board.   |



Corporate Governance cont...

| Section | Agreed Upon Procedure   | Status   | Result of Procedure   |
|---------|---|----------|---|
|         |   |          | The Board is aware that there are no material relationships whatsoever, including financial, business, family and any other material relationship between the Chairman and the CEO and the other members of the Board as per the annual declarations made by the Directors and disclose in their annual corporate governance report any relationship between the Chairman and the CEO and the board members and the nature of any relationships among members of the board. This is disclosed in the Annual Report page 21. |
| 7(4)    | The Chairman shall: <ul style="list-style-type: none"> <li>(i) provide leadership to the Board;</li> <li>(b) ensure that the Board works effectively and discharges its responsibilities; and</li> <li>(c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.</li> </ul> | Complied | <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>   |
| 7(5)    | The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.    | Complied | Agenda is drafted by the compliance officer & sent to company secretary for clearance & then circulated to the board members under the instructions of the Chairman.  |
| 7(6)    | The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.   | Complied | <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>            |

Corporate Governance cont....

| Section                               | Agreed Upon Procedure  | Status   | Result of Procedure   |
|---------------------------------------|--|----------|---|
| 7(7)                                  | The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Finance Company.   | Complied | The Chairman has ensured the contribution of fullest participation of all members' and their fullest contribution.  |
| 7(8)                                  | The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between executive and Non-Executive Directors.   | Complied | The Chairman facilitates the contribution of all directors including non-executive directors.   |
| 7(9)                                  | Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.   | Complied | Chairman is a non-executive director.<br><br>The Chairman does not directly get involved in the supervision of key management personnel or any other executive duties.  |
| 7(10)                                 | The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.   | Complied | AGM of the company is the main forum where the Board maintains effective communication with shareholders. Further a Board approved Communication Policy for shareholders, is in place.  |
| 7(11)                                 | The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Finance Company's operations and business.  | Complied | As per the functions and responsibilities of the CEO, he is the apex executive-in charge of the day-to-day management of the company's operations and business as mentioned in the Corporate Governance Policy.   |
| <b>(8) 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. | Complied | At present company has established 05 board committees including Audit Committee (AC) and Integrated Risk Management Committee (IRMC) as set out in paragraphs 8(2) and 8(3) of the direction.<br><br>Both committees submit their reports to the main board for their review and approved thereon.<br><br>A report on each committee on its performance, duties and functions has been disclosed in the Annual Report on pages 46 to 48. |
| 8(2)                                  | Audit Committee:   |          |   |
| a)                                    | The Chairman of the Committee shall be an Independent Non-Executive Director who possesses qualifications and experience in accountancy) and/or audit.   | Complied | Chairman of the Audit Committee is a non-executive director and possesses qualifications and related experience.  |

Corporate Governance cont...

| Section | Agreed Upon Procedure   | Status   | Result of Procedure  |
|---------|---|----------|--|
| b)      | Check that all members of the committee are non-executive directors.  | Complied | All other members of the committee are non-executive directors.  |
| c)      | The Committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> <li>i. The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>ii. The implementation of the Central Bank guidelines issued to Auditors from time to time;</li> <li>iii. The application of the relevant accounting standards; and</li> </ul>   | Complied | Committee has discussed the issues in Corporate Governance Factual Finding Report issued by the External Auditors.<br><br>Audit partner completed five years of service for FY 2019/20.  |
| d)      | The service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit Partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.  |          | Board approved the re-appointment of Auditors and the audit fee with regard to the current financial year.   |
| e)      | The committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.   | Complied | External Auditor is independent since they directly report to the Board Audit Committee and their Report on the financial statements of the company for the year 2019/20 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: <ul style="list-style-type: none"> <li>(i) Whether the skills and experience of the audit firm make it a suitable provider of the non-audit services</li> </ul> | Complied | Board approved the policy on engagement of an external auditor to provide non-audit services.  |

Corporate Governance cont....

| Section | Agreed Upon Procedure  | Status   | Result of Procedure   |
|---------|--|----------|---|
|         | (ii) Whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and   |          |   |
|         | (iii) Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor   |          |   |
|         | g) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including:  |          |   |
|         | (i) An assessment of the Finance Company's compliance with the relevant Directions in relation to corporate governance and the management's internal controls over financial reporting;  | Complied | Committee has developed a mechanism to meet the auditors before commencing the audit to inquire about the nature and scope of the audit, with the external auditors in accordance with SLAuS. |
|         | (ii) The preparation of financial statements for external purposes in accordance with relevant accounting principles and reporting obligations; and  | Complied | BAC has discussed the preparation of financial statements in accordance with relevant accounting principles.  |
|         | (iii) The co-ordination between firms where more than one audit firm is involved.  | N/A      |   |
|         | h) The Committee shall review the financial information of the Finance Company, in order to Complied with monitor the integrity of the financial statements of the Finance Company, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments | Complied | Committee has a process to review the financial information of the company.<br><br>Company is in the process of further strengthening the Financial Statements and said areas.                |
|         | (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.  |          |   |

Corporate Governance cont...

| Section | Agreed Upon Procedure  | Status   | Result of Procedure  |
|---------|--|----------|--|
| i)      | The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.   | Complied | Committee has met the external auditors during the year at committee meeting in the absence of the executive management.   |
| j)      | The Committee shall review the External Auditor's management letter and the management's response thereto.   | Complied | Committee has reviewed the external auditor's management letter for the year end 31 March 2020 and the management's response thereto. Management letter for the year ended 31 March 2020 will be reviewed upon receipt of the same.                      |
| k)      | Committee shall take the following steps with regard to the internal audit function of the Finance Company   |          |  |
| (i)     | Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work.  | Complied | Internal audit function of the company has been outsourced to a firm of Chartered Accountants and their scope of the audit has been included in their audit reports. Internal Audit Reports have been submitted to the Audit Committee for their review. |
| (ii)    | Reviewed the resources of the internal audit department, and satisfy itself that the department has the necessary resources to carry out its work;   |          |  |
| (iii)   | Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department.   | Complied | Audit Committee has reviewed the internal audit program and the audit reports were reviewed and discussed thereon.   |
| (iv)    | Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;   | N/A      | Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants.   |
| (v)     | Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function   | N/A      | Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants.   |
| (vi)    | Ensure that the Committee is appraised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; | N/A      | Not relevant as Internal audit function of the company has been outsourced to a firm of Chartered Accountants  |

Corporate Governance cont....

| Section | Agreed Upon Procedure   | Status   | Result of Procedure  |
|---------|---|----------|--|
| (vii)   | Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;   | Complied | Internal audit function is independent since Internal audit function is outsourced and report directly to the Board Audit Committee and also performed with impartiality, proficiency and due professional care. |
| (viii)  | Ensure that a process has been documented which addresses that the audit work has been performed with impartiality, proficiency and due professional care.  | Complied | Documented process in the Internal audit charter approved by the Board.  |
| l)      | The Committee shall consider the major findings of internal investigations and management's responses thereto;  | Complied | No such major findings have been reported to the committee during the year.  |
| m)      | The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board Members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at once in six months, the Committee shall meet with the External Auditors without the Executive Directors being present.                           | Complied | Audit Committee has met the external auditors without the executive directors being present.   |
| n)      | The Committee shall have; <ul style="list-style-type: none"> <li>(i) explicit authority to investigate into any matter within its terms of reference;</li> <li>(ii) the resources which it needs to do so;</li> <li>(iii) full access to information; and</li> <li>(iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</li> </ul>     | Complied | An Audit Committee Charter is in place included with terms of reference of the committee which is approved by the board.   |
| o)      | The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.  | Complied | During the year the committee has met 3 times and has maintained the minutes appropriately.<br>"The Audit Committee meeting for the month of March 2020 has been postponed due to COVID -19 pandemic situation." |
| p)      | The Board shall, in the Annual Report, disclose in an informative way, <ul style="list-style-type: none"> <li>(i) details of the duties and functions of the committee</li> <li>(ii) details of the activities of the audit committee</li> <li>(iii) the number of audit committee meetings held during the year; and</li> <li>(iv) details of attendance of each individual director at such meetings</li> </ul> | Complied | Company has disclosed the required details in the Annual Report on pages 46 to 47.   |



Corporate Governance cont....

| Section     | Agreed Upon Procedure  | Status   | Result of Procedure  |
|-------------|--|----------|--|
| q)          | The Secretary of the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.   | Complied | Company Secretary has been appointed as the secretary to the Audit Committee.  |
| r)          | Company shall have a "whistle blower" policy which covers the process of dealing with;   | Complied | Company has developed a whistle blower policy to deal with matters mentioned.  |
|             | (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  |          |  |
| <b>8(3)</b> | <b>Integrated Risk Management Committee (IRMC):</b>  |          |  |
| a)          | The Committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee. | Complied | Committee consists of the following NEDs.<br>Dr. P. L. Suren Peter (Chairman)<br>Mr. Viraj Malawana (Non-executive director)<br>Mr. Aravinda De Silva (Non-executive director)<br><br>CEO, COO, Compliance Officer and other executive management personnel participate to the committee meetings whenever necessary.  |
| b)          | The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Finance Company on a monthly basis through appropriate risk indicators and management information.<br><br>In the case of Subsidiary Companies and Associate Companies, risk management shall be done, both on the finance Company basis and group basis.   | Complied | IRMC assesses the risks such as credit/default risk, interest rate risk, currency risk, collateral risk, strategic risk, regulatory risk, operational risk and reputational risk on a quarterly basis through risk indicators and management information.<br><br>Company has identified more risk indicators and risk limits and the procedure manual has been updated.<br><br>There are no subsidiaries or associates under this Company. |
| c)          | The Committee shall review the adequacy and effectiveness of all management level Committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.   | Complied | Company has established the Credit Committee and Credit Committee approves the facilities within the given authority limits of the committee.<br><br>The committee has taken steps to review the adequacy & effectiveness of all management level committees.<br><br>It is being reviewed and the procedure manual has been updated.   |

Corporate Governance cont....

| Section | Agreed Upon Procedure  | Status       | Result of Procedure   |
|---------|--|--------------|---|
| d)      | The Committee shall take prompt corrective action to mitigate the effects of risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the Finance Company's policies and regulatory and supervisory requirements.   | Complied     | Committee has reviewed and considered all risk indicators. Company has strengthened risk indicators by introducing more quantitative and qualitative risk limits and the procedure manual has been updated.   |
| e)      | The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.  | Not Complied | IRMC has met 03 times during the financial year.<br><br>"The IRMC meeting for the month of March 2020 has been postponed due to COVID -19 pandemic situation."  |
| f)      | The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.  | Complied     | At the company specific risks and the limits are identified by the Risk Management Committee and decisions are taken collectively. Further Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka has issued any directions to the company in this regard during the current financial year. |
| g)      | The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.  | Complied     | IRMC findings are submitted to the subsequent board meeting for their review, in order to identify the potential Risks of the Company and the impact caused by them.  |
| h)      | The Committee shall establish a compliance function to assess the Finance Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically. | Complied     | A dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.<br><br>The appointment of the Compliance officer has been approved by the Board at the meeting and CBSL approval on this regard has been obtained.   |

#### 9. Related party transactions

- 9(1) The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, **No.1 of 2007** and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, **No.2 of 2007** or such other directions that shall repeal and replace the said directions from time to time.

Corporate Governance cont....

| Section | Agreed Upon Procedure   | Status   | Result of Procedure   |
|---------|---|----------|---|
| 9(2)    | <p>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:</p> <p>a) A subsidiary of the finance company;</p> <p>b) Any associate company of the finance company;</p> <p>c) A director of the finance company;</p> <p>d) A key management personnel of the finance company;</p> <p>e) A relative of a director or a key management personnel of the finance company;</p> <p>f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company;</p> <p>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.</p> | Complied | <p>Corporate Governance Policy of the company includes a section regarding the related parties.</p> <p>Company is in the process of strengthening the RPT Policy.</p>   |
| 9(3)    | <p>The transactions with a related party that are covered in this Direction shall be the following:<br/>Type of transactions are as follows:</p> <p>a) The grant of any type of accommodation</p> <p>b) The creation of any liabilities of the finance company in the form of deposits, borrowings and investments.</p> <p>c) The providing financial or non-financial services to the finance company or received the same from the finance company</p> <p>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.</p>   | Complied | <p>In the Corporate Governance Policy, the company has identified the types of related party transactions as mentioned in the direction. Through the procedure manual the responsibility on identification of related party transactions has been delegated to the Accountant/ COO.</p>   |
| 9(4)    | <p>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:</p>  | Complied | <p>Company has defined the related party transactions and more favourable treatment in its' Corporate Governance 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</p> |

Corporate Governance cont....

| Section   | Agreed Upon Procedure  | Status   | Result of Procedure  |
|-----------|--|----------|--|
|           |  |          | 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.   |
| 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:<br><br>The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Finance Company's share capital and debt instruments with a maturity of 5 years or more. | N/A      | Such a situation has not arisen.   |
| b)        | Charging of a lower rate of interest than the Finance Company's best lending rate or paying more than the Finance Company's deposit rate for a comparable transaction with an unrelated comparable counter party.  |          |  |
| c)        | Providing of preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;  |          |  |
| d)        | Providing services to or receiving services from a related-party without a proper evaluation procedure;  |          |  |
| e)        | Maintaining reporting lines and information flows between the finance company and any related party that may lead to sharing potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.   |          |  |
| <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)   | Complied | Annual and periodic Financial statements are prepared and published in accordance with the defined standards.<br><br>Company has published its' Interim financial statements in the Newspapers in all three languages. |

Corporate Governance cont....

| Section | Agreed Upon Procedure  | Status   | Result of Procedure  |
|---------|--|----------|--|
| 10(2)   | The Board shall ensure that at least the following disclosures are made in the Annual Report :   |          |  |
| a)      | The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.   | Complied | Company has disclosed the relevant statement in the Annual Report on page 56, Statement of Directors' Responsibilities for Financial Reporting.  |
| b)      | The report by the board on the Finance Company's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements | Complied | A report by the board on the company's internal control mechanism is disclosed in the Annual Report on page 59, Directors' Statement on Internal Control over Financial Reporting.   |
| c)      | Details of directors, including names, transactions with the finance company.  | Complied | Details of directors disclosed on page 16 to 18 and the transactions with the Company disclosed on page 100 under notes (Note 39) to the Financial Statements.<br><br>Other than Directors emoluments no other transactions recorded.  |
| d)      | Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.  | Complied | The required information has been disclosed in the Annual Report on page 79.   |
| e)      | Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Finance Company's capital funds.   | Complied | During the Financial Year there were no accommodation granted to the related parties except for the Related Party Transaction  |
| f)      | The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.                              | Complied | The aggregate amount of remuneration paid to the Key Management Personnel of the company and the aggregate value of transactions done with KPMs have been disclosed in the annual reports on page 100, under note 39, transactions with Key Management Personnel.<br><br>There are no accommodations granted to the KMPs.<br><br>Total deposits made by KMPs during the year 2019/20 was Rs.1,650,000.00 |

Corporate Governance cont...

| Section   | Agreed Upon Procedure   | Status   | Result of Procedure  |
|-----------|---|----------|--|
|           | g) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance  | Complied | The required information regarding the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance has been disclosed in the Annual Report on page 25.                             |
|           | h) A statement of the regulatory and supervisory concerns on lapses in the Finance Company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the finance company to address such concerns. | Complied | Such a situation has not arisen.   |
|           | i) Check that the board has obtained the external auditor's certification of the compliance with the Corporate Governance directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011  | Complied | External auditors have issued the Corporate Governance Factual Finding report in this regard.  |
| <b>11</b> | <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 page 57 of the Annual Report. |



## REPORT OF THE AUDIT COMMITTEE

### Composition

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

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

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

### Meetings

The Committee met six times during the year under review.

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

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

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

| Name                  | Description                   | Attendance |
|-----------------------|-------------------------------|------------|
| Mr. N. J. Welgama     | Chairman –<br>Audit Committee | 3/3        |
| Dr. P. L. Suren Peter | Member                        | 3/3        |
| Mr. J.V.W. Malawana   | Member                        | 3/3        |

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

### Role of the Committee

The main objective of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities in the financial reporting process, the

system of internal controls and risk management, the independence and audit process of the external auditors, and the process for monitoring compliance with laws and regulations.

### Summary of activities

The Committee carried out the following activities during the year.

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

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

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

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

### Internal Audit

The Internal Audit function is outsourced to 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 the internal controls and the actions taken to mitigate operational and business risks. In addition they monitor and report on compliance with statutory requirements and the Company's accounting and operational policies. Internal audit representatives are present at all Audit Committee meetings during discussion of the respective internal audit reports.

Report of the Audit Committee Cont...

### External Audit

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

The Audit Committee has recommended to the Board of Directors that MessrsErnst & Young be reappointed as Auditors for the financial year ending 31st March 2020 subject to the approval of the shareholders at the Annual General Meeting. The Committee has also made its recommendations in regard to the remuneration of the Auditors.

### Risk Management

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

### Conclusion

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



**Nalin J. Welgama**

Chairman

**Audit Committee**

26<sup>th</sup> June, 2020

# REPORT OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

## Composition

The Integrated Risk Management Committee for the financial year ended 31st March 2020 comprised the following members.

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

The following members participated at the Integrated Risk Management Committee.

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

## Meetings

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

| Name                  | Description                     | Attendance |
|-----------------------|---------------------------------|------------|
| Dr. P. L. Suren Peter | Director/<br>Chairman –<br>IRMC | 3/3        |
| Mr. J. V. W. Malawana | Director                        | 3/3        |
| Mr. P. A. De Silva    | Director                        | 3/3        |

## Role of the Committee

Assessing all risks, i.e., credit, market, liquidity, operational, interest rate, foreign currency, strategic and reputational risks to the finance company on a quarterly basis through appropriate risk indicators and management information.

Reviewing the adequacy and effectiveness of all management level committees such as credit committee and the asset-liability committee decisions to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.


Taking prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.

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

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

## Conclusion

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



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

26<sup>th</sup> June, 2020

## REPORT OF THE REMUNERATION COMMITTEE

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

### Composition

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

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

### Meetings

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

### Functions

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

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

### Directors' remuneration

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



**N. J. Welgama**

Chairman

**Remuneration Committee**

26<sup>th</sup> June, 2020

# REPORT OF THE DIRECTORS ON THE STATE OF AFFAIRS OF THE COMPANY

The Board of Directors is pleased to present their Report and the Audited Financial Statements of the Company for the year ended 31st March 2020. 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 60 to 112.

## 3. Auditor's Report

The Auditor's report on the financial statements is given on page 58-59.

## 4. Accounting Policies

The accounting policies adopted in preparation of Financial Statements and the other explanatory notes are given on pages 64 to 112. 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 31st March 2020 is given in Note 9 to the financial statements.

## 8. Corporate Donations

Company has donated Rs.188,744 for the year ended 31st March 2020.

## 9. Directors

The Directors of the Company as at 31st March 2020.

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

In terms of Article 24(6) of the Articles of Association of the Company Messrs. J.V.W. Malawana and D.M. Weerasekare 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

### • Integrated Risk Management Committee

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

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

- **Remuneration Committee**

Mr. N.J. Welgama

- Chairman/Non Executive Director

Mr. P.A. De Silva

- Member/Non Executive Director

- **Nomination Committee**

Dr. P.L. Suren Peter

- Member/Non Executive Independent Director

Mr. P.A. De Silva

- Member/Non Executive Director

- **IT Steering Committee**

Dr. P.L. Suren Peter

- Chairman/Non Executive Independent Director

Mr. J.V.W. Malawana

- Member/Non Executive Director

Mr. P.A. De Silva

- Member/Non Executive Director

## 11. Directors Shareholdings

The shareholding of the Directors of the Company as at 31st March 2020.

|                      |   |            |
|----------------------|---|------------|
| 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 2020 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 31st March 2020

## 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 Rs. 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.

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

## 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 outstandings as at 31st March 2020.

## 23. Post Balance Sheet Events

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

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



Director



Director

S S P CORPORATE  
SERVICES (PRIVATE) LIMITED



Secretaries

S S P Corporate Services (Private )Limited,  
Secretaries

24<sup>th</sup> June 2020



## RISK MANAGEMENT REPORT

### Introduction

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

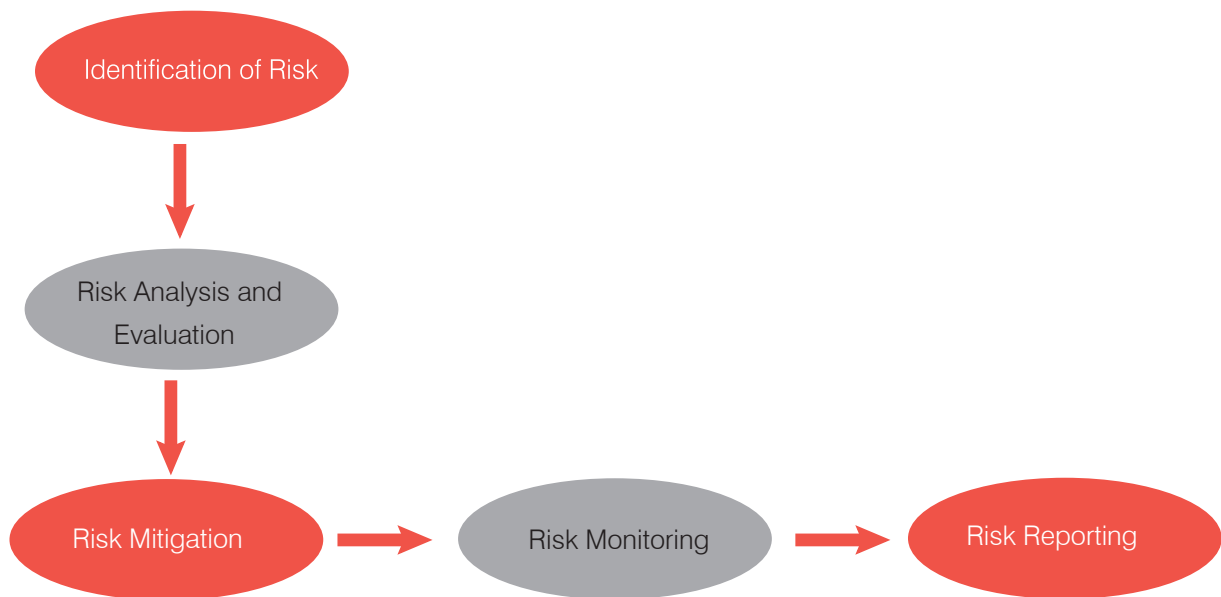
The Board of directors of the company is very keen on active risk management practices. Therefore all possible risk mitigation strategies are introduced and implemented in order to make sure that company operates at its best while minimising it's financial and business risks.

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

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

### Risk Management Process

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



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

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

Risk Management Report cont....

### Key Risks Faced by the Company

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

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

### Credit Risk

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

### Default risk

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

The Company had a NPL ratio of 5.24% where average industry NPL ratio is approximately 11.56%.

### Concentration Risk

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

### Liquidity Risk

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

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

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

### Interest Rate Risk

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

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

Company perform periodic reviews of the interest rates by

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

Risk Management Report cont....

### Currency risk

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

### Collateral risk

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

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

### Strategic risk

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

### Operational risk

Operational risk is the risk of financial losses due to the failure or inadequacy of internal processes or systems, human error or external events. The sources of Operational Risk includes People, Internal Processes, Systems and External events. Operational risk can be

mainly analysed under fraud risk and technological risk. IFL manages operational risks by maintaining a comprehensive system of internal controls and using technology to automate processes and reduce manual errors. The company has in place a process of continuous internal audit utilizing the services of 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 the laws and regulations applicable. As the financial industry is highly regulated and is continuously monitored for compliance by the regulatory bodies. Company has set internal deadlines and monitor whether CBSL reports are submitted on time. Also company makes sure all statutory payments are paid before the due date.

### Reputational risk

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

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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

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

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

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

The Directors continue to adopt the going concern basis in preparing the financial statements. The Directors, after making inquiries and review of the Company's Business Plan for the financial year 2019/20, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation. By Order of the Board

### IDEAL FINANCE LIMITED



**D. M. Weerasekare**  
Chief Executive Officer

26<sup>th</sup> June, 2020



**REGISTERED OFFICE**  
299, Dr. Colvin R De Silva Mawatha (Union Place),  
Colombo 02, Sri Lanka.  
T] +94112 396 060 F] +94112 396 757  
E] info@idealfinance.lk W] www.idealfinance.lk

## 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 Audit Department 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.

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

**Nalin Welgama**

Chairman

24<sup>th</sup> June 2020



**D.M. Weerasekare**

Chief Executive Officer

**IDEAL Finance Ltd.**

PB 4963

#### BOARD OF DIRECTORS

**NALIN WELGAMA (CHAIRMAN) | ARAVINDA DE SILVA (DEPUTY CHAIRMAN)**  
**VIRAJ MALAWANA | SUREN PETER (INDEPENDENT NON-EXECUTIVE)**  
**DUMINDA WEERASEKARE (CEO)**

Licensed under Finance Business Act No. 42 of 2011 - Reg No (042)





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Chartered Accountants  
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eysl@lk.ey.com  
ey.com

BW/PATR

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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of IDEAL Finance Limited ("the Company"), which comprise the statement of financial position as at 31 March 2020, 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 2020, 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.

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA 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 Ms. P V K N Sajewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

## Independent Auditor's Report Contd....

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

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

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

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

#### Report on Other Legal and Regulatory Requirements

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



24<sup>th</sup> June 2020

Colombo



## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2020

|  | Notes | 2020<br>LKR   | 2019<br>LKR   |
|--|-------|---------------|---------------|
| <b>Income</b>  | 3     | 927,784,733   | 777,461,473   |
| Interest Income  | 4.1   | 886,069,373   | 704,307,306   |
| Interest Expenses  | 4.2   | (371,873,790) | (292,974,160) |
| <b>Net Interest Income</b>   |       | 514,195,583   | 411,333,146   |
| Fees and Commission Income   | 5     | 8,940,422     | 9,298,176     |
| <b>Net Fee and Commission Income</b>   |       | 8,940,422     | 9,298,176     |
| Other Operating Income   | 6     | 32,774,938    | 63,855,991    |
| <b>Total Operating Income</b>  |       | 555,910,943   | 484,487,313   |
| Impairment Charges for Loans and other Losses  | 7     | (32,076,446)  | (24,551,990)  |
| <b>Net Operating Income</b>  |       | 523,834,497   | 459,935,323   |
| <b>Operating Expenses</b>  |       |               |               |
| Personnel Expenses   | 8     | (168,327,971) | (129,979,352) |
| Depreciation of Property Plant & Equipment   | 24.2  | (45,780,259)  | (20,959,443)  |
| Amortization of Intangible Assets  | 25    | (5,358,030)   | (5,101,180)   |
| Other Operating Expenses   | 9     | (69,952,048)  | (84,512,604)  |
| <b>Operating Profit before Taxes on Financial Services</b>                                       |       | 234,416,189   | 219,382,744   |
| Value Added Tax, NBT & DRL on Financial Services   | 10    | (70,381,010)  | (56,961,345)  |
| <b>Profit before Taxation</b>  |       | 164,035,179   | 162,421,399   |
| Income Tax Expenses  | 11.1  | (58,684,095)  | (61,299,253)  |
| <b>Profit/ (Loss) for the period</b>   |       | 105,351,084   | 101,122,146   |
| Basic and Diluted Earning Per Share (LKR)  | 12    | 1.11          | 1.12          |
| <b>Profit/ (Loss) for the period</b>   |       | 105,351,084   | 101,122,146   |
| <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  | (1,454,422)   | (68,851)      |
| Deferred Tax (Charge)/ Reversal on Other Comprehensive Income                                    | 30    | 349,061       | 19,278        |
| <b>Other Comprehensive Income for the period, Net of Tax</b>                                     |       | (1,105,361)   | (49,573)      |
| <b>Total Comprehensive Income for the period, Net of Tax</b>                                     |       | 104,245,723   | 101,072,574   |

The Accounting Policies and Notes on pages 64 through 112 form an integral part of the Financial Statements.

## STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

|  | Notes | 2020<br>LKR          | 2019<br>LKR          |
|--|-------|----------------------|----------------------|
| <b>ASSETS</b>  |       |                      |                      |
| Cash and Bank Balances                                     | 13    | 44,196,582           | 42,822,230           |
| Investment in Government Securities at Amortized cost      | 14    | 916,546,358          | 51,670,419           |
| Placements with Banks and Other Financial Institutions     | 15    | 22,876,022           | 15,362,258           |
| Gold Advances  | 16    | 672,715,396          | 456,564,892          |
| Lease Rentals Receivable and Stock out on Hire             | 17    | 2,309,893,463        | 2,282,389,816        |
| Loans and Advances   | 18    | 959,057,649          | 1,003,352,881        |
| Other Financial Assets                                     | 19    | 32,232,575           | 42,662,018           |
| Other Non Financial Assets                                 | 20    | 23,024,762           | 29,674,991           |
| Financial Investments - Measured at Fair Value through OCI | 21    | 457,700              | 457,700              |
| Inventories  | 22    | 917,715              | 70,754,807           |
| Property, Plant and Equipment                              | 23    | 166,334,908          | 112,358,368          |
| Intangible Assets  | 24    | 18,134,851           | 23,092,781           |
| <b>TOTAL ASSETS</b>  |       | <b>5,166,387,981</b> | <b>4,131,163,161</b> |
| <b>LIABILITIES</b>   |       |                      |                      |
| Interest Bearing Borrowings                                | 25    | 1,877,769,625        | 2,190,707,788        |
| Due to the Customers                                       | 26    | 671,917,133          | 584,784,876          |
| Other Financial Liabilities                                | 27    | 161,746,680          | 96,219,835           |
| Other Non Financial Liabilities                            | 28    | 33,366,905           | 48,716,913           |
| Retirement Benefit Liability                               | 29    | 17,883,134           | 11,448,517           |
| Current Tax Liabilities                                    |       | 38,024,293           | 19,629,876           |
| Deferred Tax Liabilities                                   | 30    | 44,690,234           | 62,911,102           |
| <b>TOTAL LIABILITIES</b>                                   |       | <b>2,845,398,004</b> | <b>3,014,418,907</b> |
| <b>EQUITY</b>  |       |                      |                      |
| Stated Capital   | 31    | 1,908,247,125        | 808,247,125          |
| Retained Earnings  |       | 390,246,008          | 291,212,571          |
| Reserves   | 32    | 22,496,844           | 17,284,558           |
| <b>TOTAL EQUITY</b>  |       | <b>2,320,989,977</b> | <b>1,116,744,254</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>                        |       | <b>5,166,387,981</b> | <b>4,131,163,161</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

The Accounting Policies and Notes on pages 64 through 112 form an integral part of the Financial Statements.

24<sup>th</sup> June 2020  
Colombo

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2020

|   | Stated<br>Capital<br><br>LKR | Retained<br>Earnings<br><br>LKR | Statutory<br>Reserve<br>Fund<br>LKR | Total<br><br>LKR |
|---|------------------------------|---------------------------------|-------------------------------------|------------------|
| <b>Restated Balance as at 31 March 2018</b> | 808,247,125                  | 195,193,627                     | 12,230,929                          | 1,015,671,681    |
| Total Income / (Loss) for the Period        | -                            | 101,122,146                     | -                                   | 101,122,146      |
| Dividend Paid during the Period             | -                            | -                               | -                                   | -                |
| Other Comprehensive Income (Net of Tax)     | -                            | (49,573)                        | -                                   | (49,573)         |
| Transfer to Statutory Reserve Fund          | -                            | (5,053,629)                     | 5,053,629                           | -                |
| <b>Balance As at 31 March 2019</b>          | 808,247,125                  | 291,212,571                     | 17,284,558                          | 1,116,744,254    |
| <b>Balance As at 1 April 2019</b>           | 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    |
| 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>          | 1,908,247,125                | 390,246,008                     | 22,496,844                          | 2,320,989,977    |

The Accounting Policies and Notes on pages 64 through 112 form an integral part of the Financial Statements.

## STATEMENT OF CASH FLOWS

Year ended 31 March 2020

| Cash Flows From/(Used in) Operating Activities                      | Notes | 2020<br>LKR         | 2019<br>LKR          |
|---|-------|---------------------|----------------------|
| Profit before Income Tax Expense                                    |       | 164,035,179         | 162,421,399          |
| Adjustment for Other Non Cash Items Included in Profit Before Tax   |       |                     |                      |
| Depreciation of Property, Plant and Equipment & ROU Assets          | 23.2  | 45,780,259          | 20,959,443           |
| Amortization of Intangible Assets                                   | 24    | 5,358,030           | 5,101,180            |
| Provision for Impairment  |       | 32,076,446          | 24,551,990           |
| Interest expenses on Borrowings                                     |       | 282,777,104         | 235,399,243          |
| Defined Benefit Obligation  | 8     | 44,980,195          | 3,146,058            |
| Dividend Income   |       | (240,800)           | (206,400)            |
| Disposal (Gain)/Loss on Fixed Assets                                |       | 924,062             | -                    |
| <b>Operating Profit before Working Capital Changes</b>              |       | <b>535,690,475</b>  | <b>451,372,913</b>   |
| (Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire |       | (51,767,780)        | (273,629,911)        |
| (Increase)/Decrease in Loan Stock                                   |       | 36,871,685          | (514,500,128)        |
| (Increase)/Decrease in Gold Advance                                 |       | (216,150,504)       | (278,816,546)        |
| (Increase)/Decrease in Other Financial Assets                       |       | 10,040,678          | 1,277,441            |
| (Increase)/Decrease in Other Non Financial Assets                   |       | 2,651,229           | (13,009,933)         |
| (Increase)/Decrease in Inventories                                  |       | 69,837,092          | 79,525,625           |
| Increase/(Decrease) in Amounts Due to Customers                     |       | 87,132,257          | 217,674,464          |
| Increase/(Decrease) in Other Financial Liabilities                  |       | (10,504,509)        | (49,666,633)         |
| Increase/(Decrease) in Other Non Financial Liabilities              |       | (15,350,008)        | 13,053,768           |
| <b>Cash Generated from Operations</b>                               |       | <b>448,450,615</b>  | <b>(366,718,941)</b> |
| Retirement Benefit Liabilities Paid                                 | 29.2  | -                   | (200,000)            |
| Income Tax Paid   |       | (58,161,484)        | (25,034,395)         |
| <b>Net Cash Flows from/(Used in) Operating Activities</b>           |       | <b>390,289,131</b>  | <b>(391,953,335)</b> |
| <b>Cash Flows from / (Used in) Investing Activities</b>             |       |                     |                      |
| Purchase of Property, Plant and Equipment                           | 23.1  | (12,405,987)        | (38,617,192)         |
| Purchase of Intangible Assets                                       | 24    | (400,100)           | (3,795,588)          |
| Disposal of Property, Plant and Equipment                           |       | 6,865,780           | -                    |
| Dividend Received   |       | 240,800             | 206,400              |
| <b>Net Cash Flows from/(Used in) Investment Activities</b>          |       | <b>(5,699,507)</b>  | <b>(42,206,380)</b>  |
| <b>Cash Flows from / (Used in) Financing Activities</b>             |       |                     |                      |
| Proceeds from Bank Borrowings                                       |       | 1,310,000,000       | 2,135,000,000        |
| Repayment of Bank Borrowings  |       | (1,777,098,221)     | (1,823,749,730)      |
| Rental Paid for Right of Use Assets                                 |       | (26,159,216)        | -                    |
| Repayment of Other Borrowed Funds                                   |       | (3,252,417)         | (7,000,605)          |
| Net Proceeds from Share Issue                                       |       | 1,100,000,000       | -                    |
| Dividend Paid   |       | -                   | -                    |
| <b>Net Cash Flows from/(Used in) Financing Activities</b>           |       | <b>603,490,146</b>  | <b>304,249,665</b>   |
| <b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>       |       | <b>988,079,770</b>  | <b>(129,910,050)</b> |
| <b>Cash and Cash Equivalents at the Beginning of the Period</b>     |       | <b>(59,819,843)</b> | <b>70,090,208</b>    |
| <b>Cash and Cash Equivalents at the End of the Year</b>             | 33    | <b>928,259,927</b>  | <b>(59,819,843)</b>  |

The Accounting Policies and Notes on pages 64 through 112 form an integral part of the Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

## 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 2020 were authorized for issue in accordance with a resolution of the Board of Directors on 24 June 2020.

## 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 2020 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.

Notes to the Financial Statements cont....

### 2.1.6 Materiality, Aggregation, Offsetting and Rounding Off

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

Financial Assets and Financial Liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Statement of Profit or Loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

The amounts in the financial statements have been rounded off to the nearest 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.

### 2.1.8 Events After the Reporting Date

Events after the Reporting Date are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in note 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.

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. Therefore, the financial statements continue to be prepared on the going concern basis.

### COVID-19 Pandemic

In light of ongoing COVID-19 pandemic situation, the Company has assessed its going concern and a detailed disclosure of its assessment are provided below.

With the onset of COVID-19 in Sri Lanka and the consequent business and movement restrictions, the operations were adversely affected from the second half of the month of March 2020.

Notes to the Financial Statements cont....

During this time company has mainly focused on the recovery of due balances while maintain the liquidity. With the relaxation of curfew from 20th April 2020, other than in the Western Province, Puttalam District and Jaffna District operations commenced in the permitted districts.

In determining the basis of preparing the financial statements for the year ended 31 March 2020, based on available information, the management has assessed the existing and anticipated post lockdown economic implications on the company and the appropriateness of the use of the going concern basis. The management performed multiple stress tested scenarios considering cost management practices, cash reserves, ability to secure additional funding to finance the adverse effect to the cash flow, expected revenue streams, credit and collection management practices and ability to defer non-essential capital expenditure. Therefore, despite the effect of COVID 19 pandemic, the management believes there is no permanent threat posed to it's going concern status.

**ii. 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.

**ii. Estimation uncertainty in preparation of financial statements due to the post-lockdown economic implications of COVID-19 pandemic**

The post-lockdown implications have increased the uncertainty of estimates made in preparation of the Financial Statements. The estimation uncertainty is associated with:

- the extent and duration of the disruption to businesses arising from the actions of stakeholders such as government, businesses and customers.
- the extent and duration of the expected economic downturn due to impact on GDP, capital markets, credit risk of our customers, impact of unemployment and possible decline in consumer discretionary spending.
- the effectiveness of government and central bank measures that have and will be put in place to support businesses through this disruption and economic downturn.

The significant accounting estimates impacted by these forecasts and associated uncertainties are related to expected credit losses.

**Collectively assessed allowance for expected credit losses**

The post-lockdown economic implications on the country's economy and how businesses and consumers respond to same are uncertain. There could be a possible increase in credit risk due to the loss of income by some of the businesses and the individuals who are our customers, which would be delay the settlements of customer dues by CBSL debt moratorium whilst the possibility of default also exists.

**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-09-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.



Notes to the Financial Statements cont....

**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-09 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").

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).

Notes to the Financial Statements cont....

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 2019/20.

#### **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 de-recognized when the rights to receive cash flows from the financial asset have expired.

##### **2.3.1.3.2 Financial Liabilities**

A financial liability is de-recognized 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 -09.

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.

Notes to the Financial Statements cont....

**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 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 |                                 |

Notes to the Financial Statements cont....

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

#### **2.3.1.5 Significant Accounting Judgements, Estimates and Assumptions on Impairment losses on financial assets**

The measurement of impairment losses under SLFRS-09 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

#### **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.

Notes to the Financial Statements cont....

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.

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 derecognized.

**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.

Notes to the Financial Statements cont....

### **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 yearend.

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 Land stock and these are valued at the lower of cost and net realizable value.

#### **Land Stock**

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

#### **Purchase Cost**

- Land Cost with Legal Charges.

#### **Cost of Conversion**

- Actual Development Costs.

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

Notes to the Financial Statements cont....

### 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 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



Notes to the Financial Statements cont....

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 fair value through OCI 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.

##### (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.

Notes to the Financial Statements cont....

- 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.

Notes to the Financial Statements cont....

**d. Crop Insurance Levy (CIL)**

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

**e. Nation Building Tax ( NBT) on Financial Services**

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

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

Debt Repayment Levy has been imposed by the Finance Act, No. 35 of 2018 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%.

**2.3.17 Segment Reporting**

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

- Finance Lease
- Hire Purchase
- Term Loans
- Others

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

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

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

**2.3.16 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 2020

| 3. INCOME   | Note | 2020<br>LKR        | 2019<br>LKR        |
|---|------|--------------------|--------------------|
| Interest Income   | 4.1  | 886,069,373        | 704,307,306        |
| Fee and Commission Income                                       | 05   | 8,940,422          | 9,298,176          |
| Other Operating Income  | 06   | 32,774,938         | 63,855,991         |
| <b>Total Income</b>   |      | <b>927,784,733</b> | <b>777,461,473</b> |
| <b>4. NET INTEREST INCOME</b>                                   |      |                    |                    |
| <b>4.1 Interest Income</b>                                      |      |                    |                    |
| From Placements with Banks and Other Financial Institutions     |      | 2,181,694          | 3,980,282          |
| From Government Securities                                      |      | 11,787,670         | 4,416,498          |
| From Lease Rental Receivable & Stock Out on Hire                |      | 520,330,613        | 456,720,362        |
| From Loans and Advances   |      | 213,876,437        | 156,153,788        |
| From Gold Advances  |      | 136,946,583        | 82,361,778         |
| From Refundable Deposits  |      | 946,376            | 674,598            |
| <b>Total Interest Income</b>                                    |      | <b>886,069,373</b> | <b>704,307,306</b> |
| <b>4.2 Interest Expense</b>                                     |      |                    |                    |
| Due to Banks  |      | 215,756,960        | 194,885,334        |
| Due to Customers  |      | 78,047,770         | 57,574,917         |
| On Intercompany Borrowings                                      |      | 67,020,144         | 40,513,909         |
| On Obligation to Make the Lease Payment for Right of Use Assets |      | 11,048,916         | -                  |
| <b>Total Interest Expenses</b>                                  |      | <b>371,873,790</b> | <b>292,974,160</b> |
| <b>Net Interest Income</b>                                      |      | <b>514,195,583</b> | <b>411,333,146</b> |
| <b>5. FEE AND COMMISSION INCOME</b>                             |      |                    |                    |
| Commission Income   |      | 8,940,422          | 9,298,176          |
| <b>Fee and Commission Income</b>                                |      | <b>8,940,422</b>   | <b>9,298,176</b>   |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

| 6. OTHER OPERATING INCOME  | 2020<br>LKR       | 2019<br>LKR       |
|--|-------------------|-------------------|
| Dividend Income  | 240,800           | 206,400           |
| Net Income from Real Estate Operations   | 10,439,872        | 43,148,752        |
| Vehicle Hiring Income  | 3,254,628         | 5,376,623         |
| Other Operating Income   | 18,839,638        | 15,124,216        |
| <b>Total Other Operating Income</b>  | <b>32,774,938</b> | <b>63,855,991</b> |
| * Other Operating Income includes LKR. 9,028,312 from settled facilities and LKR. 9,517,719 from pawning auctions. |                   |                   |

| 7. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES             | 2020<br>LKR       | 2019<br>LKR       |
|--|-------------------|-------------------|
| Charge/(write-back) to the statement of comprehensive income |                   |                   |
| Impairment on individually significant loans                 | 16,166,556        | 4,140,776         |
| Impairment on collective loan portfolio                      | 15,521,124        | 20,931,986        |
| write-offs/(recoveries)                                      | -                 | -                 |
| Impairment on Other Financial Assets                         | 388,766           | (520,773)         |
| <b>Total Impairment Charge</b>                               | <b>32,076,446</b> | <b>24,551,989</b> |

|  | Note   | 2020<br>LKR       | 2019<br>LKR       |
|--|--------|-------------------|-------------------|
| Lease Rentals Receivable and Stock out on Hire | 17.2a  |                   |                   |
| Stage 1  |        | 2,252,429         | 3,107,603         |
| Stage 2  |        | 3,937,694         | 1,528,530         |
| Stage 3  |        | 18,074,010        | 18,100,268        |
|  |        | <b>24,264,133</b> | <b>22,736,401</b> |
| Loans and Advances                             | 18.2.a |                   |                   |
| Stage 1  |        | (62,145)          | 1,306,820         |
| Stage 2  |        | 719,919           | (2,214,773)       |
| Stage 3  |        | 6,765,773         | 3,244,315         |
|  |        | <b>7,423,547</b>  | <b>2,336,362</b>  |
| Other Financial Assets                         | 19.1.a |                   |                   |
| Stage 1  |        | (36,874)          | 48,864            |
| Stage 2  |        | (5,069)           | 634               |
| Stage 3  |        | 430,709           | (570,271)         |
|  |        | <b>388,766</b>    | <b>(520,773)</b>  |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

| 8. PERSONNEL EXPENSES  | 2020<br>LKR        | 2019<br>LKR        |
|--|--------------------|--------------------|
| Salaries   | 117,261,239        | 90,137,676         |
| Employers' Contribution to Employee's Provident Fund                                       | 13,720,558         | 10,684,392         |
| Employers' Contribution to Employee's Trust Fund   | 3,430,140          | 2,671,098          |
| Gratuity Charge for the year   | 4,980,195          | 3,146,058          |
| Other Staff Related Expenses   | 28,935,839         | 23,340,128         |
|  | <b>168,327,971</b> | <b>129,979,352</b> |
| 9. OTHER OPERATING EXPENSES  | 2020<br>LKR        | 2019<br>LKR        |
| Directors' Emoluments  | 4,600,000          | 4,310,500          |
| Auditors' Remuneration   | 2,100,263          | 1,773,374          |
| Professional and Legal Expenses  | 5,702,528          | 2,900,286          |
| Office Administration and Establishment Expenses   | 31,498,695         | 47,648,259         |
| Advertising and Promotional Expenses   | 13,378,633         | 9,545,781          |
| Disallowable Input VAT and VAT on Other Income Sources                                     | 1,283,698          | 3,541,158          |
| License and Renewal Fees   | 1,677,350          | 1,744,991          |
| Other Expenses   | 9,710,881          | 13,048,255         |
|  | <b>69,952,048</b>  | <b>84,512,604</b>  |
| 10. VALUE ADDED TAX, NBT AND DRL ON FINANCIAL SERVICES                                     | 2020<br>LKR        | 2019<br>LKR        |
| VAT on Financial Services  | 47,282,296         | 39,309,625         |
| NBT on Financial Services  | 3,886,679          | 5,241,281          |
| Debt Repayment Levy  | 19,212,035         | 12,410,439         |
|  | <b>70,381,010</b>  | <b>56,961,345</b>  |
| 11. INCOME TAX EXPENSES  | 2020<br>LKR        | 2019<br>LKR        |
| <b>11.1 The major component of income tax for the year ended 31 March 2020 as follows;</b> |                    |                    |
| <b>Income Statement</b>  |                    |                    |
| <b>Current Income Tax</b>  |                    |                    |
| Income Tax for the Period  | 76,555,902         | 34,933,569         |
| <b>Deferred Tax</b>  |                    |                    |
| Deferred Tax Charge (Note 30)  | (17,871,807)       | 26,365,684         |
| <b>Income Tax Expenses reported in the Income Statement</b>                                | <b>58,684,095</b>  | <b>61,299,253</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                                  | (349,061)          | (19,278)           |
| <b>Income Tax Expenses reported in the Other Comprehensive Income</b>                      | <b>(349,061)</b>   | <b>(19,278)</b>    |
| <b>Total Income Tax Expense for the year</b>   | <b>58,335,034</b>  | <b>61,279,975</b>  |

Notes to the Financial Statements cont....

**Year ended 31 March 2020****11. INCOME TAX EXPENSES (Contd...)****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 2020 as follows.

|   | 2020<br>LKR         | 2019<br>LKR       |
|---|---------------------|-------------------|
| Accounting Profit / (Loss) Before Income Taxation | 164,035,179         | 162,421,399       |
| Aggregate allowable expenditure                   | (639,894,973)       | (898,201,569)     |
| Tax loss utilised                                 | -                   | (152,318,595)     |
| Aggregate disallowable expenditure                | 757,697,761         | 1,012,861,510     |
|   | 281,837,967         | 124,762,745       |
| Tax at applicable rate of 28%                     | 59,185,973          | 34,933,569        |
| Tax at applicable rate of 24%                     | 16,910,278          | -                 |
| Add : Under provision adjustments for Y/A 2018/19 | 459,651             | -                 |
|   | <b>76,555,902</b>   | <b>34,933,569</b> |
| Deferred taxation charged/(Reversal)              | (17,871,807)        | 26,365,684        |
|   | <b>(17,871,807)</b> | <b>26,365,684</b> |

**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;

|  | 2020        | 2019        |
|--|-------------|-------------|
| <b>Amount Used as Numerators</b>                     |             |             |
| Profit attributable to Ordinary Share Holders        | 105,351,084 | 101,122,146 |
| <b>Number of Ordinary shares used as Denominator</b> |             |             |
| Weighted Average Number of Ordinary Shares           | 94,636,592  | 90,000,000  |
| <b>Basic and Diluted Earning Per Ordinary Shares</b> | 1.11        | 1.12        |

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.

Notes to the Financial Statements cont...

## Year ended 31 March 2020

| 13. CASH AND BANK BALANCES   | 2020<br>LKR          | 2019<br>LKR          |
|--|----------------------|----------------------|
| Cash in Hand   | 12,823,559           | 15,694,773           |
| Bank Balances  | 31,373,023           | 27,127,457           |
|  | <b>44,196,582</b>    | <b>42,822,230</b>    |
| 14. INVESTMENT IN GOVERNMENT SECURITIES  | 2020<br>LKR          | 2019<br>LKR          |
| Treasury Bills - at Amortized cost   | 67,765,783           | 51,670,419           |
| REPO Investment - at Amortized Cost  | 848,780,575          | -                    |
|  | <b>916,546,358</b>   | <b>51,670,419</b>    |
| 15. PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS                      | 2020<br>LKR          | 2019<br>LKR          |
| Placement With Banks (Fixed Deposits)  | 22,876,022           | 15,362,258           |
|  | <b>22,876,022</b>    | <b>15,362,258</b>    |
| 16. GOLD ADVANCES  | 2020<br>LKR          | 2019<br>LKR          |
| Gold Advances  | 672,715,396          | 456,564,892          |
|  | <b>672,715,396</b>   | <b>456,564,892</b>   |
| 17. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE                             | 2020<br>LKR          | 2019<br>LKR          |
| Rental Receivable on Lease   | 3,150,108,160        | 3,143,826,598        |
| Rental Receivable on Hire Purchase   | 1,238,382            | 2,597,730            |
| <b>Gross Rentals Receivables</b>   | <b>3,151,346,542</b> | <b>3,146,424,328</b> |
| Less: Unearned Income  | (753,131,978)        | (795,245,502)        |
|  | 2,398,214,564        | 2,351,178,826        |
| Less : Rentals Received in Advance   | (15,664,479)         | (20,396,521)         |
| <b>Net Rentals Receivables before charging Allowance for Impairment Losses</b> | <b>2,382,550,085</b> | <b>2,330,782,305</b> |
| Less : Allowance for Impairment Losses (Note 17.2)                             | (72,656,622)         | (48,392,489)         |
| <b>Total Net Rentals Receivable</b>  | <b>2,309,893,463</b> | <b>2,282,389,816</b> |



Notes to the Financial Statements cont....

Year ended 31 March 2020

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

| 17.1 Net Rentals Receivable on Lease and Stock Out on Hire | Net Rentals<br>Receivables | Allowance<br>for<br>Impairment<br>Losses | Total Net<br>Rentals<br>Receivable |
|--|----------------------------|--|------------------------------------|
|  | LKR                        | LKR                                      | LKR                                |
| Stage - 1  | 1,461,001,600              | 10,981,610                               | 1,450,019,990                      |
| Stage - 2  | 579,145,885                | 12,512,842                               | 566,633,043                        |
| Stage - 3  | 342,402,600                | 49,162,170                               | 293,240,430                        |
|  | <b>2,382,550,085</b>       | <b>72,656,622</b>                        | <b>2,309,893,463</b>               |

| 17.2 Allowance for Impairment Losses         |                   |                   |                   |                   | 2020<br>LKR       |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| (a) Allowance for impairment with stage wise | Collective        |                   |                   | Individual        | Total             |
|  | Stage -1          | Stage -2          | Stage -3          | Stage -3          |                   |
| Balance as at 01 April 2019                  | 8,729,181         | 8,575,148         | 28,722,664        | 2,365,496         | 48,392,489        |
| Charges/(Reversals) for the year             | 2,252,429         | 3,937,694         | 2,464,728         | 15,609,282        | 24,264,133        |
| Amount written off                           | -                 | -                 | -                 | -                 | -                 |
| Balance as at 31 March 2020                  | <b>10,981,610</b> | <b>12,512,842</b> | <b>31,187,392</b> | <b>17,974,778</b> | <b>72,656,622</b> |

| (b) Movement in impairment allowance      | 2020<br>LKR       | 2019<br>LKR       |
|---|-------------------|-------------------|
| As at 01 April                            | 48,392,489        | 23,783,915        |
| Transition impact on adoption of SLFRS-09 | -                 | 1,872,173         |
| Charges/(reversals) for the year          | 24,264,133        | 22,736,401        |
| Amounts written off                       | -                 | -                 |
| As at 31 March                            | <b>72,656,622</b> | <b>48,392,489</b> |
| Individual impairment                     | 17,974,778        | 2,365,496         |
| Collective impairment                     | 54,681,844        | 46,026,993        |
| <b>Total</b>                              | <b>72,656,622</b> | <b>48,392,489</b> |

Notes to the Financial Statements cont....

Year ended 31 March 2020

| 17. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE (Contd..)  |                   |                   |
|---|-------------------|-------------------|
| (c) Movements in Individual and Collective impairment allowance for Leasing & Hire Purchase Rentals Receivables during the year | 2020<br>LKR       | 2019<br>LKR       |
| <b>Individual Impairment</b>  |                   |                   |
| As at 1 April   | 2,365,496         | -                 |
| Charges/(reversals) for the year  | 15,609,282        | 2,365,496         |
| Amounts written off   | -                 | -                 |
| As at 31 March  | <b>17,974,778</b> | <b>2,365,496</b>  |
| <b>Collective Impairment</b>  |                   |                   |
| As at 1 April   | 46,026,993        | 23,783,915        |
| Transition impact on adoption of SLERS 9  | -                 | 1,872,173         |
| Charges/(reversals) for the year  | 8,654,851         | 20,370,905        |
| Amounts written off   | -                 | -                 |
| As at 31 March  | <b>54,681,844</b> | <b>46,026,993</b> |
| <b>Total</b>  | <b>72,656,622</b> | <b>48,392,489</b> |

17.3 Sensitivity Analysis of Accumulated Impairment for Lease Rentals Receivable and Stock Out on Hire as at 31.03.2020

| Changed Criteria                 | Changed Factor | Sensitivity effect on Impairment Allowance Increase |
|----------------------------------|----------------|---|
| Loss Given Default (LGD)         | Increase by 1% | 4,080,965   |
| Probability of Default (PD)      | Increase by 1% | 2,911,393   |
| Economic Factor Adjustment (EFA) | Increase by 5% | 873,803   |

| 17.4 Rental Receivable on Lease   | Within One Year<br>LKR | 1 to 5 Years<br>LKR | Over 5 Years<br>LKR | Total<br>LKR         |
|---|------------------------|---------------------|---------------------|----------------------|
| Gross Rentals Receivables   | 1,272,042,660          | 1,876,961,662       | 1,103,838           | 3,150,108,160        |
| Less: Unearned Income   | (353,905,559)          | (399,183,017)       | (43,402)            | (753,131,978)        |
|   | 918,137,101            | 1,477,778,645       | 1,060,436           | 2,396,976,182        |
| Less : Rentals Received in Advance  |                        |                     |                     | (15,664,479)         |
| <b>Net Rentals Receivable before charging Allowance for Impairment Losses</b> |                        |                     |                     | <b>2,381,311,703</b> |

| 17.5 Rental Receivable on Hire Purchase                                       | Within One Year<br>LKR | 1 to 5 Years<br>LKR | Over 5 Years<br>LKR | Total<br>LKR     |
|---|------------------------|---------------------|---------------------|------------------|
| Gross Rentals Receivables   | 1,238,382              | -                   | -                   | 1,238,382        |
| Less: Unearned Income   | -                      | -                   | -                   | -                |
|   | 1,238,382              | -                   | -                   | 1,238,382        |
| Less : Rentals Received in Advance  |                        |                     |                     | -                |
| <b>Net Rentals Receivable before charging Allowance for Impairment Losses</b> |                        |                     |                     | <b>1,238,382</b> |

|  |  |  |  |                      |
|--|--|--|--|----------------------|
| <b>Total Net Rentals Receivables before charging Allowance for Impairment Losses</b> |  |  |  | <b>2,382,550,085</b> |
|--|--|--|--|----------------------|

Notes to the Financial Statements cont....

## Year ended 31 March 2020

| 18. LOANS AND ADVANCES   | 2020<br>LKR          | 2019<br>LKR          |
|--|----------------------|----------------------|
| Loan Rental Receivable   | 1,269,399,742        | 1,385,232,905        |
| Less : Unearned Interest Income  | (266,256,300)        | (353,262,961)        |
| <b>Net Receivable</b>  | <b>1,003,143,442</b> | <b>1,031,969,944</b> |
| Less : Rental Received In Advance  | (15,980,965)         | (7,935,782)          |
| <b>Net Rentals Receivables before charging Allowance for Impairment Losses</b> | <b>987,162,477</b>   | <b>1,024,034,162</b> |
| Less : Allowance for Impairment Losses (Note 18.2)                             | (28,104,828)         | (20,681,281)         |
| <b>Total Net Rentals Receivable</b>  | <b>959,057,649</b>   | <b>1,003,352,881</b> |

| 18.1 Net Rentals Receivable on Loans | Net Rentals<br>Receivables<br>LKR | Allowance for<br>Impairment<br>Losses<br>LKR | Total Net<br>Rentals<br>Receivable<br>LKR |
|--------------------------------------|-----------------------------------|--|---|
| Stage - 1                            | 695,854,390                       | 5,646,014                                    | 690,208,376                               |
| Stage - 2                            | 177,874,231                       | 3,838,624                                    | 174,035,607                               |
| Stage - 3                            | 113,433,856                       | 18,620,190                                   | 94,813,666                                |
|                                      | <b>987,162,477</b>                | <b>28,104,828</b>                            | <b>959,057,649</b>                        |

| 18.2 Allowance for Impairment Losses            | 2020<br>LKR      |                        |                   |                        |                   |
|---|------------------|------------------------|-------------------|------------------------|-------------------|
| (a) Allowance for Impairment with<br>stage wise | Stage -1         | Collective<br>Stage -2 | Stage -3          | Individual<br>Stage -3 | Total             |
| Balance as at 01 April 2019                     | 5,708,159        | 3,118,705              | 10,079,137        | 1,775,280              | 20,681,281        |
| Charges/(Reversals) for the year                | (62,145)         | 719,919                | 6,208,499         | 557,274                | 7,423,547         |
| Amount written off                              | -                | -                      | -                 | -                      | -                 |
| Balance as at 31 March 2020                     | <b>5,646,014</b> | <b>3,838,624</b>       | <b>16,287,636</b> | <b>2,332,554</b>       | <b>28,104,828</b> |

| (b) Movement in allowance for impairment | 2020<br>LKR       | 2019<br>LKR       |
|--|-------------------|-------------------|
| As at 01 April                           | 20,681,281        | 12,003,239        |
| Transition impact on adoption of SLFRS 9 | -                 | 6,341,681         |
| Charges/(reversals) for the year         | 7,423,547         | 2,336,361         |
| Amounts written off                      | -                 | -                 |
| As at 31 March                           | <b>28,104,828</b> | <b>20,681,281</b> |
| Individual impairment                    | 2,332,554         | 1,775,280         |
| Collective impairment                    | 25,772,273        | 18,906,001        |
| <b>Total</b>                             | <b>28,104,828</b> | <b>20,681,281</b> |

Notes to the Financial Statements cont..

## Year ended 31 March 2020

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

## 18.2 Allowance for Impairment Losses (Contd...)

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

|   | 2020<br>LKR       | 2019<br>LKR       |
|---|-------------------|-------------------|
| <b>Individual Impairment</b>              |                   |                   |
| As at 1 April                             | 1,775,280         | -                 |
| Charges/(reversals) for the year          | 557,274           | 1,775,280         |
| Amounts written off                       | -                 | -                 |
| As at 31 March                            | <b>2,332,554</b>  | <b>1,775,280</b>  |
| <b>Collective Impairment</b>              |                   |                   |
| As at 1 April                             | 18,906,001        | 12,003,239        |
| Transition impact on adoption of SLERS-09 | -                 | 6,341,681         |
| Charges/(reversals) for the year          | 6,866,273         | 561,081           |
| Amounts written off                       | -                 | -                 |
| As at 31 March                            | <b>25,772,274</b> | <b>18,906,001</b> |
| <b>Total</b>                              | <b>28,104,828</b> | <b>20,681,281</b> |

## 18.3 Sensitivity Analysis of Accumulated Impairment for Loan Rentals Receivable as at 31.03.2020

| Changed Criteria                 | Changed Factor | Sensitivity effect on Impairment Allowance Increase |
|----------------------------------|----------------|---|
| Loss Given Default (LGD)         | Increase by 1% | 1,349,229   |
| Probability of Default (PD)      | Increase by 1% | 1,380,219   |
| Economic Factor Adjustment (EFA) | Increase by 5% | 375,580   |

| 18.4 Rental Receivable on Loan Stock  | Within One Year | 1 to 5 Years  | Over 5 Years | Total              |
|---|-----------------|---------------|--------------|--------------------|
|   | LKR             | LKR           | LKR          | LKR                |
| Gross Rentals Receivables   | 685,170,040     | 581,881,854   | 2,347,848    | 1,269,399,742      |
| Less: Unearned Income   | (144,693,516)   | (121,276,802) | (285,982)    | (266,256,300)      |
|   | 540,476,524     | 460,605,052   | 2,061,866    | 1,003,143,442      |
| Less : Rentals Received in Advance  |                 |               |              | (15,980,965)       |
| <b>Net Rentals Receivable before charging Allowance for Impairment Losses</b> |                 |               |              | <b>987,162,477</b> |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

| 19. OTHER FINANCIAL ASSETS | 2020<br>LKR       | 2019<br>LKR       |
|----------------------------|-------------------|-------------------|
| Refundable Deposit         | 8,223,011         | 9,112,468         |
| Sundry Debtors             | 4,540,721         | 8,140,219         |
| Other Receivable           | 19,468,843        | 25,409,331        |
|                            | <b>32,232,575</b> | <b>42,662,018</b> |

| 19.1 Other Receivable                  | 2020<br>LKR       | 2019<br>LKR       |
|--|-------------------|-------------------|
| Other Charges Recoverable              | 1,869,042         | 2,750,940         |
| Insurance Recoverable                  | 12,914,429        | 24,857,615        |
| Other Receivable                       | 6,363,798         | 3,777,975         |
| Less : Allowance for Impairment Losses | (1,678,426)       | (5,977,199)       |
|  | <b>19,468,843</b> | <b>25,409,330</b> |

| Impairment Allowance for Other Receivables   |               |               |                  |            | 2020<br>LKR      |
|--|---------------|---------------|------------------|------------|------------------|
| (a) Allowance for Impairment with stage wise | Collective    |               |                  | Individual | Total            |
|  | Stage -1      | Stage -2      | Stage -3         | Stage -3   |                  |
| Balance as at 01 April 2019                  | 78,942        | 38,372        | 5,859,885        | -          | 5,977,199        |
| Charges/(Reversals) for the year             | (36,874)      | (5,069)       | 430,709          | -          | 388,766          |
| Amount written off                           | -             | -             | (4,687,539)      | -          | (4,687,539)      |
| Balance as at 31 March 2020                  | <b>42,068</b> | <b>33,303</b> | <b>1,603,055</b> | -          | <b>1,678,426</b> |

| (b) Movement in impairment allowance      | 2020<br>LKR      | 2019<br>LKR      |
|---|------------------|------------------|
| As at 01 April                            | 5,977,199        | 3,095,835        |
| Transition impact on adoption of SLFRS-09 | -                | 3,402,137        |
| Charges/(reversals) for the year          | 388,766          | (520,773)        |
| Amounts written off                       | (4,687,539)      | -                |
| As at 31 March                            | <b>1,678,426</b> | <b>5,977,199</b> |
| Individual impairment                     | -                | -                |
| Collective impairment                     | 1,678,426        | 5,977,199        |
| <b>Total</b>                              | <b>1,678,426</b> | <b>5,977,199</b> |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

| <b>19. OTHER FINANCIAL ASSETS (Contd...)</b>  |                       |  |                   |               |
|---|-----------------------|--|-------------------|---------------|
| <b>19.1 Other Receivable (Contd...)</b>   |                       |  |                   |               |
| <b>Impairment Allowance for Other Receivables. (Contd...)</b>   | <b>2020</b>           |  | <b>2019</b>       |               |
|   | <b>LKR</b>            |  | <b>LKR</b>        |               |
| <b>Movement in Collective Impairment Allowance for Other Receivables.</b>   |                       |  |                   |               |
| <b>Collective Impairment</b>  |                       |  |                   |               |
| As at 1 April   | 5,977,199             |  | 3,095,835         |               |
| Transition impact on adoption of SLERS-09   | -                     |  | 3,402,137         |               |
| Charges/(reversals) for the year  | 388,765               |  | (520,773)         |               |
| Amounts written off   | (4,687,539)           |  | -                 |               |
| As at 31 March  | <b>1,678,426</b>      |  | <b>5,977,199</b>  |               |
| <b>Total Allowance for Impairment</b>   | <b>1,678,426</b>      |  | <b>5,977,199</b>  |               |
| <b>19.2 Sensitivity Analysis of Accumulated Impairment for Other Receivable as at 31.03.2020</b>  |                       |  |                   |               |
| <b>Changed Criteria</b>   | <b>Changed Factor</b> | <b>Sensitivity effect on Impairment Allowance Increase</b> |                   |               |
| Loss Given Default (LGD)  | Increase by 1%        |  |                   | 118,104       |
| Probability of Default (PD)   | Increase by 1%        |  |                   | 10,638        |
| Economic Factor Adjustment (EFA)  | Increase by 5%        |  |                   | 2,818         |
| <b>20. OTHER NON FINANCIAL ASSETS</b>   |                       |  |                   |               |
|   | <b>2020</b>           |  | <b>2019</b>       |               |
|   | <b>LKR</b>            |  | <b>LKR</b>        |               |
| With Holding Tax  | 514,443               |  | 773,095           |               |
| Advances and Prepayments  | 22,510,319            |  | 28,901,896        |               |
|   | <b>23,024,762</b>     |  | <b>29,674,991</b> |               |
| <b>21. FINANCIAL INVESTMENT - MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b>   |                       |  |                   |               |
|   | <b>2020</b>           | <b>No. of</b>  | <b>2019</b>       | <b>No. of</b> |
|   | <b>LKR</b>            | <b>Shares</b>  | <b>LKR</b>        | <b>Shares</b> |
| <b>Equities-Unquoted</b>  |                       |  |                   |               |
| Credit Information Bureau of Sri Lanka  | 457,700               | 100  | 457,700           | 100           |
|   | 457,700               | 100  | 457,700           | 100           |
| All unquoted equity shares are recorded at cost since its fair value cannot be reliably estimated. There is no market for these investments and company intend to hold these for long term. |                       |  |                   |               |
| <b>22. INVENTORIES</b>  |                       |  |                   |               |
|   | <b>2020</b>           |  | <b>2019</b>       |               |
|   | <b>LKR</b>            |  | <b>LKR</b>        |               |
| Stationeries  | 917,715               |  | 788,780           |               |
| Land stock  | -                     |  | 69,966,027        |               |
|   | <b>917,715</b>        |  | <b>70,754,807</b> |               |

Notes to the Financial Statements cont....

Year ended 31 March 2020

**23. PROPERTY, PLANT & EQUIPMENT**

| 23.1 Gross Carrying Amounts              | Balance<br>As at<br>31.03.2019 | Additions/<br>Transfers | Disposals/<br>Transfers | Balance<br>As at<br>31.03.2020 |
|--|--------------------------------|-------------------------|-------------------------|--------------------------------|
| At Cost                                  | LKR                            | LKR                     | LKR                     | LKR                            |
| <b>Freehold Assets</b>                   |                                |                         |                         |                                |
| Furniture & Fittings                     | 69,759,149                     | 8,722,701               | -                       | 78,481,850                     |
| Office Equipment                         | 37,280,635                     | 3,175,636               | -                       | 40,456,271                     |
| Computer Equipment                       | 29,350,035                     | 507,650                 | -                       | 29,857,685                     |
| Motor Vehicles                           | 10,944,190                     | 24,420,330              | (9,367,520)             | 25,997,000                     |
|  | 147,334,009                    | 36,826,317              | (9,367,520)             | 174,792,806                    |
| <b>Assets on Leases</b>                  |                                |                         |                         |                                |
| Motor Vehicles                           | 46,220,330                     | -                       | (24,420,330)            | 21,800,000                     |
| Right of Use Assets                      | -                              | 95,140,654              | -                       | 95,140,654                     |
| <b>Total Value of Depreciable Assets</b> | <b>193,554,339</b>             | <b>131,966,971</b>      | <b>(33,787,850)</b>     | <b>291,733,460</b>             |

| 23.2 Depreciation         | Balance<br>As at<br>31.03.2019 | Charge for<br>the year/<br>Transfers | Disposals/<br>Transfers | Balance<br>As at<br>31.03.2020 |
|---------------------------|--------------------------------|--------------------------------------|-------------------------|--------------------------------|
|                           | LKR                            | LKR                                  | LKR                     | LKR                            |
| <b>Freehold Assets</b>    |                                |                                      |                         |                                |
| Furniture & Fittings      | 31,633,920                     | 11,575,583                           | -                       | 43,209,503                     |
| Office Equipment          | 17,152,729                     | 5,886,730                            | -                       | 23,039,459                     |
| Computer Equipment        | 21,577,912                     | 2,294,885                            | -                       | 23,872,797                     |
| Motor Vehicles            | 1,832,867                      | 8,018,474                            | (1,577,678)             | 8,273,664                      |
|                           | 72,197,428                     | 27,775,673                           | (1,577,678)             | 98,395,423                     |
| <b>Assets On Leases</b>   |                                |                                      |                         |                                |
| Motor Vehicles            | 8,998,543                      | 1,282,720                            | (5,579,446)             | 4,701,817                      |
| Right of Use Assets       | -                              | 22,301,312                           | -                       | 22,301,312                     |
| <b>Total Depreciation</b> | <b>81,195,971</b>              | <b>51,359,705</b>                    | <b>(7,157,124)</b>      | <b>125,398,552</b>             |

**23.3 Net Book Values**

|   | 2020<br>LKR        | 2019<br>LKR        |
|---|--------------------|--------------------|
| Furniture & Fittings  | 35,272,347         | 38,125,229         |
| Office Equipment  | 17,416,812         | 20,127,906         |
| Computer Equipment  | 5,984,888          | 7,772,123          |
| Motor Vehicles  | 17,723,336         | 9,111,323          |
|   | <b>76,397,383</b>  | <b>75,136,581</b>  |
| <b>Assets on Leases</b>   |                    |                    |
| Motor Vehicles  | 17,098,183         | 37,221,787         |
| Right of Use Assets   | 72,839,342         | -                  |
| <b>Total Carrying Amount of Property, Plant &amp; Equipment</b> | <b>166,334,908</b> | <b>112,358,368</b> |



Notes to the Financial Statements cont..

## Year ended 31 March 2020

**23. PROPERTY, PLANT & EQUIPMENT (Contd...)****23.4 Fully Depreciated Property, Plant and Equipment**

The initial cost of fully-depreciated property, plant and equipment as at 31 March 2020, which are still in use as at the reporting date is as follows:

|  | 2020<br>LKR          | 2019<br>LKR          |
|--|----------------------|----------------------|
| Furniture & Fittings                   | 17,268,844           | 16,483,083           |
| Office Equipment                       | 9,518,869            | 9,002,804            |
| Computer Equipment                     | 18,541,782           | 18,055,112           |
| Motor Vehicles                         | 262,000              | 424,540              |
|  | <b>45,591,495</b>    | <b>43,965,539</b>    |
| <b>24. INTANGIBLE ASSETS</b>           | <b>2020<br/>LKR</b>  | <b>2019<br/>LKR</b>  |
| <b>Computer System Software</b>        |                      |                      |
| <b>At cost:</b>                        |                      |                      |
| Opening Balance                        | 53,359,668           | 49,564,080           |
| Addition                               | 400,100              | 3,795,588            |
| Disposal                               | -                    | -                    |
| Closing Balance                        | <b>53,759,768</b>    | <b>53,359,668</b>    |
| <b>Less: Amortization</b>              |                      |                      |
| Opening Balance                        | 30,266,887           | 25,165,707           |
| Amortization Charge for the Period     | 5,358,030            | 5,101,180            |
| Closing Balance                        | <b>35,624,917</b>    | <b>30,266,887</b>    |
| <b>Net Book Value as at 31 March</b>   | <b>18,134,851</b>    | <b>23,092,781</b>    |
| <b>25. INTEREST BEARING BORROWINGS</b> | <b>2020<br/>LKR</b>  | <b>2019<br/>LKR</b>  |
| Leases                                 | 4,813,064            | 8,065,481            |
| Bank Over Draft                        | 55,359,035           | 169,674,750          |
| Bank Borrowings                        | 1,377,425,197        | 1,477,967,557        |
| Intercompany Borrowings                | 440,172,329          | 535,000,000          |
|  | <b>1,877,769,625</b> | <b>2,190,707,788</b> |

Notes to the Financial Statements cont..

## Year ended 31 March 2020

**25. INTEREST BEARING BORROWINGS (Contd...)**

|   | <b>2020</b>          | <b>2019</b>          |
|---|----------------------|----------------------|
|   | <b>LKR</b>           | <b>LKR</b>           |
| <b>25.1 Lease Liability</b>                     |                      |                      |
| Gross liability                                 | 5,206,388            | 9,194,135            |
| Less: Finance Charge Allocated to Future Period | (393,324)            | (1,128,654)          |
| <b>Net Liability</b>                            | <b>4,813,064</b>     | <b>8,065,481</b>     |
| <b>Repayable Within one year</b>                |                      |                      |
| Gross Liability                                 | 3,988,358            | 3,987,785            |
| Less: Finance Charge Allocated to Future Period | (357,334)            | (735,346)            |
| <b>Net Liability</b>                            | <b>3,631,024</b>     | <b>3,252,439</b>     |
| <b>Repayable After one year (1-5 Years)</b>     |                      |                      |
| Gross Liability                                 | 1,218,030            | 5,206,350            |
| Less: Finance Charge Allocated to Future Period | (35,990)             | (393,308)            |
| <b>Net Liability</b>                            | <b>1,182,040</b>     | <b>4,813,042</b>     |
| <b>Total Net Liability</b>                      | <b>4,813,064</b>     | <b>8,065,481</b>     |
| <b>25.2 Bank Borrowings</b>                     |                      |                      |
| Gross liability                                 | 1,530,349,543        | 1,735,794,391        |
| Less: Finance Charge Allocated to Future Period | (152,924,346)        | (257,826,834)        |
| <b>Net Liability</b>                            | <b>1,377,425,197</b> | <b>1,477,967,557</b> |
| <b>Repayable Within one year</b>                |                      |                      |
| Gross Liability                                 | 965,746,487          | 877,355,147          |
| Less: Finance Charge Allocated to Future Period | (109,170,640)        | (157,268,124)        |
| <b>Net Liability</b>                            | <b>856,575,847</b>   | <b>720,087,023</b>   |
| <b>Repayable After one year (1 to 5 Years)</b>  |                      |                      |
| Gross Liability                                 | 564,603,056          | 858,439,244          |
| Less: Finance Charge Allocated to Future Period | (43,753,706)         | (100,558,710)        |
| <b>Net Liability</b>                            | <b>520,849,350</b>   | <b>757,880,534</b>   |
| <b>Total Net Liability</b>                      | <b>1,377,425,197</b> | <b>1,477,967,557</b> |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

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

| 25.2.1 | Bank Loan Facilities | As at 31.03.2020<br>LKR | As at 01.04.2019<br>LKR | Interest Rate | Period (Months) | Security                                 |
|--------|----------------------|-------------------------|-------------------------|---------------|-----------------|--|
|        | BOC Loan 7           | -                       | 1,119,156               | -             | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 12          | -                       | 544,991                 | -             | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 13          | 3,042,528               | 21,324,132              | 11.73%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 16          | -                       | 2,680,943               | -             | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 17          | 8,423,850               | 42,193,631              | 12.08%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 18          | 20,297,768              | 55,179,004              | 12.05%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 19          | -                       | 6,442,612               | -             | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 22          | 19,676,949              | 39,411,905              | 14.29%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 23          | -                       | 5,352,205               | -             | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 26          | -                       | 951,523                 | -             | 24              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 27          | 311,510                 | 2,181,209               | 12.14%        | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 28          | 21,086,079              | 39,170,030              | 12.03%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 29          | 26,282,630              | 44,893,499              | 12.02%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 30          | 2,279,602               | 7,760,693               | 12.07%        | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 31          | -                       | 1,260,430               | -             | 24              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 33          | 53,719,666              | 85,162,861              | 12.10%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 34          | 6,508,199               | 15,190,547              | 11.54%        | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 35          | 31,301,438              | 46,341,031              | 12.02%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 36          | 28,328,919              | 40,975,173              | 12.03%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 37          | 25,213,924              | 35,354,912              | 12.01%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 38          | 50,165,109              | 70,275,146              | 12.05%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 39          | 53,039,438              | 86,619,273              | 12.06%        | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 40          | 26,807,516              | 36,896,442              | 12.05%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 41          | 31,279,556              | 46,304,681              | 11.51%        | 40              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 42          | 61,293,014              | 94,779,545              | 12.07%        | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 43          | 63,973,027              | 97,370,051              | 12.02%        | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 44          | 37,609,277              | 50,171,055              | 11.82%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 45          | 55,884,750              | -                       | 12.02%        | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 46          | 28,768,942              | -                       | 12.02%        | 35              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 47          | 23,302,834              | -                       | 12.01%        | 35              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 48          | 56,648,727              | -                       | 12.01%        | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 49          | 44,109,875              | -                       | 12.01%        | 48              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 50          | 30,427,475              | -                       | 12.05%        | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 51          | 23,812,730              | -                       | 12.05%        | 24              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 52          | 53,423,451              | -                       | 12.05%        | 35              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 53          | 27,608,605              | -                       | 12.01%        | 36              | Mortgage over Lease and Loan receivables |
|        | BOC Loan 54          | 34,064,833              | -                       | 11.60%        | 35              | Mortgage over Lease and Loan receivables |
|        | PABC Loan            | -                       | 14,817,555              | -             | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 1   | -                       | 8,333,978               | -             | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 2   | -                       | 9,379,344               | -             | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 3   | -                       | 10,424,010              | -             | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 4   | 7,291,796               | 19,828,269              | 11.53%        | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 5   | 16,782,073              | 42,025,127              | 11.49%        | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 6   | 9,388,437               | 21,943,237              | 11.45%        | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 7   | 10,473,549              | 23,094,430              | 11.62%        | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 8   | 11,573,332              | 24,219,284              | 14.00%        | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 9   | 11,489,907              | 24,042,125              | 14.00%        | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 10  | 68,958,879              | 106,573,699             | 13.86%        | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 11  | 24,032,804              | 36,580,381              | 14.02%        | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 12  | 25,241,619              | 37,871,535              | 14.02%        | 48              | Mortgage over Lease and Loan receivables |
|        | Seylan Bank Loan 13  | 100,184,932             | 100,534,247             | 13.50%        | 3               | Unsecured                                |
|        | Seylan Bank Loan 14  | 25,143,718              | -                       | 12.15%        | 12              | Unsecured                                |
|        | Seylan Bank Loan 15  | 25,143,718              | -                       | 12.15%        | 12              | Unsecured                                |
|        | Seylan Bank Loan 16  | 16,728,601              | -                       | 12.15%        | 12              | Unsecured                                |
|        | Seylan Bank Loan 17  | 20,886,316              | -                       | 12.17%        | 12              | Unsecured                                |
|        | Seylan Bank Loan 18  | 24,923,797              | -                       | 12.15%        | 12              | Unsecured                                |
|        | Seylan Bank Loan 19  | 24,899,037              | -                       | 12.15%        | 12              | Unsecured                                |
|        | NSB Loan             | 5,590,461               | 22,393,656              | 12.07%        | 36              | Mortgage over Lease and Loan receivables |
|        |                      | <b>1,377,425,197</b>    | <b>1,477,967,557</b>    |               |                 |  |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

| 26. DUE TO CUSTOMERS | 2020<br>LKR        | 2019<br>LKR        |
|----------------------|--------------------|--------------------|
| Fixed Deposit        | 671,917,133        | 584,784,876        |
|                      | <b>671,917,133</b> | <b>584,784,876</b> |

| 27. OTHER FINANCIAL LIABILITIES                  | 2020<br>LKR        | 2019<br>LKR       |
|--|--------------------|-------------------|
| Trade Payable                                    | 39,663,271         | 47,311,307        |
| Accrued Expense                                  | 23,881,998         | 24,889,173        |
| Obligation to Make the Lease Payment (Note 27.1) | 76,031,354         | -                 |
| Sundry Creditors                                 | 22,170,057         | 24,019,355        |
|  | <b>161,746,680</b> | <b>96,219,835</b> |

| 27.1 Obligation to Make the Lease Payment   | 2020<br>LKR       |
|---|-------------------|
| As at 1 April                               |                   |
| Impact from initial application of SLFRS 16 | 58,653,788        |
| Additions during the year                   | 32,487,866        |
| Accretion of interest                       | 11,048,916        |
| Payments to lease creditors                 | (26,159,216)      |
| As at 31 March                              | <b>76,031,354</b> |

| 28. OTHER NON FINANCIAL LIABILITIES | 2020<br>LKR       | 2019<br>LKR       |
|-------------------------------------|-------------------|-------------------|
| WHT Payable                         | -                 | 1,278,265         |
| Stamp Duty Payable                  | 1,659,960         | 4,711,949         |
| VAT Payable                         | -                 | 1,283,145         |
| ESC Payable                         | -                 | 2,128,265         |
| Dividend Payable                    | 961,829           | 961,829           |
| Other Liabilities                   | 30,745,116        | 38,353,460        |
|                                     | <b>33,366,905</b> | <b>48,716,913</b> |

| 29. RETIREMENT BENEFIT LIABILITY | 2020<br>LKR | 2019<br>LKR |
|----------------------------------|-------------|-------------|
|----------------------------------|-------------|-------------|

| 29.1 Defined Benefit Liability |                   |                   |
|--------------------------------|-------------------|-------------------|
| Defined Benefit Liability      | 17,883,134        | 11,448,517        |
|                                | <b>17,883,134</b> | <b>11,448,517</b> |

| 29.2 Changes in the Defined benefit obligation are as follows | 2020<br>LKR       | 2019<br>LKR       |
|---|-------------------|-------------------|
| Opening Liability   | 11,448,517        | 8,433,608         |
| Net Benefit expense   | 6,434,617         | 3,214,909         |
| Benefit paid  | -                 | (200,000)         |
| Closing Liability   | <b>17,883,134</b> | <b>11,448,517</b> |

Notes to the Financial Statements cont....

Year ended 31 March 2020

**29. RETIREMENT BENEFIT LIABILITY (Contd...)**

| <b>29.3 Net Benefit expense</b> | <b>2020<br/>LKR</b> | <b>2019<br/>LKR</b> |
|---------------------------------|---------------------|---------------------|
| Interest Cost                   | 1,291,392           | 871,191             |
| Current Service Cost            | 3,688,803           | 2,274,867           |
| Actuarial Loss on obligations   | 1,454,422           | 68,851              |
|                                 | <b>6,434,617</b>    | <b>3,214,909</b>    |

**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 2020. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

|   | <b>2020<br/>LKR</b> | <b>2019<br/>LKR</b> |
|---|---------------------|---------------------|
| Discount Rate   | 9.72%               | 11.28%              |
| Future Salary Increment Rate  | 9.00%               | 9.00%               |
| Retirement age  | 55 Years            | 55 Years            |
| Expected Average Future Working Life  | 10.3 Years          | 10.3 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 2020.

|                    | <b>Present Value of Defined Benefit Obligation</b> |            |            |
|--------------------|--|------------|------------|
|                    | 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  |
| Total PVDBO        | 18,834,238   | 17,883,134 | 17,069,273 |

|                    | <b>Present Value of Defined Benefit Obligation</b> |            |            |
|--------------------|--|------------|------------|
|                    | 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  |
| Total PVDBO        | 17,072,337   | 17,883,134 | 18,813,480 |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

## 29. RETIREMENT BENEFIT LIABILITY (Contd...)

## 29.5 Sensitivity Analysis (Contd...)

## Sensitivity Analysis

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

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

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

| 30. DEFERRED TAX LIABILITY                  | Statement of Financial Position |            | Statement of Comprehensive Income |              | Statement of Other Comprehensive Income |          |
|---|---------------------------------|------------|-----------------------------------|--------------|---|----------|
|   | 2020 LKR                        | 2019 LKR   | 2020 LKR                          | 2019 LKR     | 2020 LKR                                | 2019 LKR |
| <b>Deferred Tax Liability</b>               |                                 |            |                                   |              |   |          |
| Property Plant & Equipment                  | 9,086,767                       | 5,791,079  | 3,295,689                         | 2,053,577    | -                                       | -        |
| Intangible Assets                           | 4,437,958                       | 5,380,764  | (942,806)                         | (459,823)    | -                                       | -        |
| Lease Rental                                | 45,413,346                      | 65,042,553 | (19,629,207)                      | (20,689,358) | -                                       | -        |
| Lease Creditor                              | 3,298,924                       | 7,631,984  | (4,333,061)                       | 1,715,134    | -                                       | -        |
|   | 62,236,995                      | 83,846,380 | (21,609,385)                      | (17,380,470) | -                                       | -        |
| <b>Deferred Tax Assets</b>                  |                                 |            |                                   |              |   |          |
| Defined Benefit Plan Obligation             | 5,007,278                       | 3,205,585  | (1,452,631)                       | (824,896)    | (349,061)                               | (19,278) |
| Impairment of Loans and Receivables         | 8,887,109                       | 14,985,078 | 6,097,969                         | (845,364)    | -                                       | -        |
| Tax Paid in advance for Real Estate Income  | 1,952,771                       | 2,744,614  | 791,843                           | 2,767,207    | -                                       | -        |
| Brought Forward Tax Loss                    | -                               | -          | -                                 | 42,649,207   | -                                       | -        |
| Right of Use Assets                         | 1,699,603                       | -          | (1,699,603)                       | -            | -                                       | -        |
|   | 17,546,761                      | 20,935,278 | 3,737,578                         | 43,746,154   | (349,061)                               | (19,278) |
| <b>Deferred Income Tax Income/(Expense)</b> |                                 |            | (17,871,807)                      | 26,365,684   | (349,061)                               | (19,278) |
| <b>Net Deferred Tax (Asset)/Liabilities</b> | 44,690,234                      | 62,911,102 |                                   |              |   |          |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

**31. STATED CAPITAL**

| Issued and Fully Paid-Ordinary Shares | No of Shares | LKR           |
|---------------------------------------|--------------|---------------|
| <b>Balance as of 1 April 2018</b>     | 90,000,000   | 808,247,125   |
| Issued during the Period              |              |               |
| Share Issue                           | -            | -             |
| <b>Balance as of 31 March 2019</b>    | 90,000,000   | 808,247,125   |
| <b>Balance as of 1 April 2019</b>     | 90,000,000   | 808,247,125   |
| Issued during the Period              | 55,639,098   | 1,100,000,000 |
| <b>Balance as of 31 March 2020</b>    | 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.

| <b>32. RESERVES</b>    | <b>2020<br/>LKR</b> | <b>2019<br/>LKR</b> |
|------------------------|---------------------|---------------------|
| Statutory Reserve Fund | 22,496,844          | 17,284,558          |
| <b>Closing Balance</b> | <b>22,496,844</b>   | <b>17,284,558</b>   |

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.

| <b>33. CASH AND CASH EQUIVALENTS FOR THE PURPOSE OF CASH FLOW STATEMENT</b> | <b>2020<br/>LKR</b> | <b>2019<br/>LKR</b> |
|---|---------------------|---------------------|
| Components of Cash and Cash Equivalents                                     |                     |                     |
| <b>Favorable Cash &amp; Cash Equivalents Balance</b>                        |                     |                     |
| Cash and Bank Balance (Note 13)   | 44,196,582          | 42,822,230          |
| Investment in government securities (Note 14)                               | 916,546,358         | 51,670,419          |
| Investment in FD with short Term Maturities (Note 15)                       | 22,876,022          | 15,362,258          |
|   | <b>983,618,962</b>  | <b>109,854,907</b>  |
| <b>Un-Favorable Cash &amp; Cash Equivalents Balance</b>                     |                     |                     |
| Bank Over Draft (Note 25)   | 55,359,035          | 169,674,750         |
|   | 55,359,035          | 169,674,750         |
| Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement      | <b>928,259,927</b>  | <b>(59,819,843)</b> |



Notes to the Financial Statements cont....

Year ended 31 March 2020

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

| As at 31 March 2020                                      | Financial Assets at Fair Value Through Income Statement<br>LKR | Financial Assets at Fair Value Through Other Comprehensive Income<br>LKR | Financial Assets and Liabilities at Amortized Cost<br>LKR | Total<br>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> |

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

Notes to the Financial Statements cont....

**Year ended 31 March 2020****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 2020  | Level 1 | Level 2 | Level 3 | Total   |
|--|---------|---------|---------|---------|
| <b>Financial Investments - Measured at Fair Value through other comprehensive income</b> |         |         |         |         |
| Unquoted Equity  | -       | -       | 457,700 | 457,700 |
|  | -       | -       | 457,700 | 457,700 |

There were no financial liabilities recorded at the fair value as at 31 March 2020.

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

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

**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 2020                            | Level    | Carrying Amount<br>LKR | Fair Value<br>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         |

Notes to the Financial Statements cont....

**Year ended 31 March 2020****35. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd...)****35.2 Fair Value of the Financial Instrument Carried at Amortized Cost**

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

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.

|  |  |  |  |
|--|--|--|--|
| <b>Assets</b>  |  |  |  |
| Cash and Bank Balances                                 |  |  |  |
| Investment in government Securities                    |  |  |  |
| Placements with Banks and Other Financial Institutions |  |  |  |
| Gold Advances  |  |  |  |
| Other Financial Assets                                 |  |  |  |
| <b>Financial Liabilities</b>                           |  |  |  |
| 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 2020  | Within<br>12 Months<br>LKR | After<br>12 Months<br>LKR | Total<br>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> |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

| <b>36. CURRENT AND NON CURRENT ANALYSIS OF ASSETS &amp; LIABILITIES (Contd...)</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>898,423,810</b>                 | <b>2,845,398,004</b> |
| <b>Net Assets</b>  | <b>1,082,643,205</b>                | <b>1,238,346,772</b>               | <b>2,320,989,977</b> |
| <b>As at 31 March 2019</b>   | <b>Within<br/>12 Months<br/>LKR</b> | <b>After<br/>12 Months<br/>LKR</b> | <b>Total<br/>LKR</b> |
| <b>ASSETS</b>  |                                     |                                    |                      |
| Cash and Bank Balances   | 42,822,230                          | -                                  | 42,822,230           |
| Investment in Government Securities  | 51,670,419                          | -                                  | 51,670,419           |
| Placements with Banks and Other Financial Institutions                             | 15,362,258                          | -                                  | 15,362,258           |
| Gold Advances  | 456,564,892                         | -                                  | 456,564,892          |
| Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances     | 1,182,670,499                       | 2,103,072,198                      | 3,285,742,697        |
| Other Financial Assets   | 34,004,549                          | 8,657,469                          | 42,662,018           |
| Other Non Financial Assets   | 24,318,273                          | 5,356,718                          | 29,674,991           |
| Financial Investments-Measured at Fair Value through OCI                           | -                                   | 457,700                            | 457,700              |
| Inventories  | 70,754,807                          | -                                  | 70,754,807           |
| Property, Plant and Equipment  | -                                   | 112,358,368                        | 112,358,368          |
| Intangible Assets  | -                                   | 23,092,781                         | 23,092,781           |
| <b>Total Assets</b>  | <b>1,878,167,927</b>                | <b>2,252,995,235</b>               | <b>4,131,163,161</b> |
| <b>LIABILITIES</b>   |                                     |                                    |                      |
| Interest Bearing Borrowings  | 1,428,014,212                       | 762,693,576                        | 2,190,707,788        |
| Due to the Customers   | 212,230,989                         | 372,553,887                        | 584,784,876          |
| Other Financial Liabilities  | 96,219,835                          | -                                  | 96,219,835           |
| Other Non Financial Liabilities  | 48,716,913                          | -                                  | 48,716,913           |
| Current Tax Liabilities  | 19,629,876                          | -                                  | 19,629,876           |
| Retirement Benefit Liability   | -                                   | 11,448,517                         | 11,448,517           |
| Deferred Tax Liabilities   | -                                   | 62,911,102                         | 62,911,102           |
| <b>Total Liabilities</b>   | <b>1,804,811,825</b>                | <b>1,209,607,083</b>               | <b>3,014,418,908</b> |
| <b>Net Assets</b>  | <b>73,356,101</b>                   | <b>1,043,388,152</b>               | <b>1,116,744,253</b> |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

### 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                                 |
|--|---------------------------|-------------------------|---------------|--|
|  |                           | 2020<br>LKR             | 2019<br>LKR   |  |
| Lease Rentals Receivable and Stock out on Hire * | Bank Loans and Overdrafts | 2,329,815,679           | 3,146,424,328 | Lease Rentals Receivable and Stock out on Hire |
|  |                           | 2,329,815,679           | 3,146,424,328 |  |

\* 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:

#### 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 and Members of Corporate Management team have been identified as "Key Management Personnel".

|                                | 2020<br>LKR | 2019<br>LKR |
|--------------------------------|-------------|-------------|
| Short Term Employment Benefits | 32,118,750  | 26,318,750  |

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.

Notes to the Financial Statements cont....

Year ended 31 March 2020

**39. RELATED PARTY TRANSACTIONS (Contd...)**

**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<br>LKR | Outstanding Receivable/ (Payable) Balance as at 31-3-2020<br>LKR | Outstanding Receivable/ (Payable) Balance as at 31-3-2019<br>LKR |
|---|------------------------|---|--|--|
| <b>Ideal Motors (Pvt) Ltd.</b>                            | Parent Company         |   |  |  |
| Finance Lease Equipment Purchase                          |                        | 226,357,290   | (2,430,000)  | (25,510,300)   |
| Intercompany Borrowing                                    |                        | 100,000,000   | (435,000,000)  | (535,000,000)  |
| Interest Expense - Intercompany Borrowing                 |                        | 67,020,144  | (5,172,329)  | -  |
| Vehicle Repair Services                                   |                        | 788,354   | -  | -  |
| <b>Ideal Automobile (Pvt) Ltd</b>                         | Affiliate Company      |   |  |  |
| Gross Advances  |                        | (5,402,020)   | 57,344,108   | 62,746,128   |
| Finance Lease Equipment Purchase                          |                        | 5,400,000   | -  | -  |
| Fixed Deposits  |                        | -   | (115,000,000)  | (115,000,000)  |
| Interest Expenses - Fixed Deposits                        |                        | 14,345,761  | (614,596)  | (613,014)  |
| Promotion Expenses  |                        | 83,610  | -  | -  |
| <b>Ideal Wheels &amp; Tyres (Pvt) Ltd</b>                 | Affiliate Company      |   |  |  |
| Vehicle Repair Services                                   |                        | 96,600  | -  | -  |
| <b>Ideal Investment Lanka (Pvt) Ltd</b>                   | Affiliate Company      |   |  |  |
| Rent Expenses   |                        | 10,428,989  | (764,520)  | (897,141)  |
| Rent Deposit  |                        | (450,000)   | -  | 450,000  |
| Electricity Expenses                                      |                        | 515,142   | -  | -  |
| <b>Ideal Choice (Pvt) Ltd</b>                             | Affiliate Company      |   |  |  |
| Vehicle Hire Income                                       |                        | 1,402,500   | 95,000   | 341,800  |
| Vehicle Repair Services                                   |                        | 492,738   | -  | -  |
| <b>Ideal First Choice (Pvt) Ltd</b>                       | Affiliate Company      |   |  |  |
| Fixed Deposits  |                        | 9,089   | (89,089)   | (80,000)   |
| Interest Expense - Fixed Deposits                         |                        | 9,225   | (576)  | (710)  |
| Vehicle Repair Services                                   |                        | 128,089   | -  | -  |
| <b>Digital Tech Creations (Pvt) Limited</b>               | Affiliate Company      |   |  |  |
| Call Centre charges                                       |                        | 2,633,414   | (198,172)  | -  |
| <b>Arcasia Private Limited</b>                            | Affiliate Company      |   |  |  |
| Transfer Real Estate Business                             |                        |   |  |  |
| Fixed Deposits  |                        | 35,779,939  | (35,779,939)   | -  |
| Interest Expense - Fixed Deposits                         |                        | 797,721   | (17,331)   | -  |
| <b>Prompt Express Private Limited</b>                     | Affiliate Company      |   |  |  |
| Gross Advances  |                        | 6,378,600   | 8,417,493  | 2,038,893  |
| Courier Service Charges                                   |                        | 989,258   | (304,068)  | (97,673)   |
| <b>Ideal Drive Private Limited</b>                        | Affiliate Company      |   |  |  |
| Vehicle Hire Expense                                      |                        | 5,124,967   | (427,081)  | -  |
| Vehicle Repair Services                                   |                        | 925,118   | -  | -  |
| <b>Mahindra &amp; Mahindra Financial Services Limited</b> | Affiliate Company      |   |  |  |
| Share Issue   |                        | 1,100,000,000   | 1,100,000,000  | -  |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

### 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.

### 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.

#### 41.2 Credit Risk

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



Notes to the Financial Statements cont....

**Year ended 31 March 2020****41. RISK MANAGEMENT (Contd...)****41.2 Credit Risk (Contd...)****41.2.1 Credit quality by class of financial assets**

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

| <b>As at 31 March 2020</b>   | <b>Note</b> | <b>Neither Past Due Not Impaired<br/>LKR</b> | <b>Past Due But Not Impaired<br/>LKR</b> | <b>Individually Impaired<br/>LKR</b> | <b>Total<br/>LKR</b> |
|--|-------------|--|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |             |  |  |                                      |                      |
| Cash and Bank Balances   | 14          | 44,196,582                                   | -  | -                                    | 44,196,582           |
| Investment in Government Securities and Placements with Banks and Other Financial Institutions | 15,16       | 939,422,380                                  | -  | -                                    | 939,422,380          |
| Gold Advances  | 17          | 672,715,396                                  | -  | -                                    | 672,715,396          |
| Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances                    | 18,19       | 3,369,712,562                                | 264,555,863                              | 20,307,335                           | 3,654,575,760        |
| Other Financial Assets   | 21          | 23,024,762                                   | -  | -                                    | 23,024,762           |
| Financial Investments- Fair Value through Other Comprehensive income                           | 22          | 457,700                                      | -  | -                                    | 457,700              |
|  |             | <b>5,049,529,382</b>                         | <b>264,555,863</b>                       | <b>20,307,335</b>                    | <b>5,334,392,580</b> |
| <b>As at 31 March 2019</b>   |             |  |  |                                      |                      |
|  | <b>Note</b> | <b>Neither Past Due Not Impaired<br/>LKR</b> | <b>Past Due But Not Impaired<br/>LKR</b> | <b>Individually Impaired<br/>LKR</b> | <b>Total<br/>LKR</b> |
| <b>ASSETS</b>  |             |  |  |                                      |                      |
| Cash and Bank Balances   | 14          | 42,822,230                                   | -  | -                                    | 42,822,230           |
| Investment in Government Securities and Placements with Banks and Other Financial Institutions | 15,16       | 67,032,677                                   | -  | -                                    | 67,032,677           |
| Gold Advances  | 17          | 456,564,892                                  | -  | -                                    | 456,564,892          |
| Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances                    | 18,19       | 3,196,816,450                                | 153,705,779                              | 4,294,239                            | 3,354,816,468        |
| Other Financial Assets   | 21          | 42,662,018                                   | -  | -                                    | 42,662,018           |
| Financial Investments- Fair Value through Other Comprehensive income                           | 22          | 457,700                                      | -  | -                                    | 457,700              |
|  |             | <b>3,806,355,967</b>                         | <b>153,705,779</b>                       | <b>4,294,239</b>                     | <b>3,964,355,985</b> |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

## 41. RISK MANAGEMENT (Contd...)

## 41.2.1 Credit quality by class of financial assets (Contd...)

**Past Due But Not Impaired**

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

**Individually Impaired**

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

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

**Past Due Not Impaired**

| As at 31 March 2020   | Less than 31 days<br>LKR | 31 to 60 days<br>LKR | 61 to 90 days<br>LKR | More than 90 days<br>LKR | Total<br>LKR       |
|---|--------------------------|----------------------|----------------------|--------------------------|--------------------|
| Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances | 46,676,809               | 41,416,565           | 36,364,925           | 140,097,564              | 264,555,863        |
|   | <b>46,676,809</b>        | <b>41,416,565</b>    | <b>36,364,925</b>    | <b>140,097,564</b>       | <b>264,555,863</b> |

**Past Due Not Impaired**

| As at 31 March 2019   | Less than 31 days<br>LKR | 31 to 60 days<br>LKR | 61 to 90 days<br>LKR | More than 90 days<br>LKR | Total<br>LKR       |
|---|--------------------------|----------------------|----------------------|--------------------------|--------------------|
| Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances | 19,219,670               | 36,086,925           | 16,715,219           | 81,683,964               | 153,705,779        |
|   | <b>19,219,670</b>        | <b>36,086,925</b>    | <b>16,715,219</b>    | <b>81,683,964</b>        | <b>153,705,779</b> |

Notes to the Financial Statements cont....

Year ended 31 March 2020

**41. RISK MANAGEMENT (Contd...)**

**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 Break Down as at 31st 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 Measured at OCI | Gold Advances      | Other Financial Assets | Total Financial Assets |
|--|----------------------|---|--|--|----------------------------------|--------------------|------------------------|------------------------|
|  | 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   | -                                | -                  | -                      | 1,017,205,887          |
| 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>5,058,737,195</b>   |

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

| Province      | Lease Rental Receivable & Stock Out on Hire Purchase | Loan Stock         | Gold Advances      |
|---------------|--|--------------------|--------------------|
| 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> |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

**41. RISK MANAGEMENT (Contd...)****41.2.2 Analysis of Risk Concentration (Contd...)****41.2.2.1 Industry Analysis (Contd...)**

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

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

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

**41.2.2.2 Analysis of Maximum Exposure to Credit Risk**

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

| Maximum Exposure to Credit   | 2020                 |                      | 2019                 |                    |
|--|----------------------|----------------------|----------------------|--------------------|
|  | Gross Exposure       | Net Exposure         | Gross Exposure       | Net Exposure       |
| Cash and Bank Balances   | 44,196,582           | -                    | 42,822,230           | -                  |
| Investment in Government Securities and Placements with Banks and Other Financial Institutions | 939,422,380          | 939,422,380          | 67,032,677           | 67,032,677         |
| Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances                    | 3,369,712,562        | 661,681,446          | 3,354,816,467        | 607,066,341        |
| Gold Advances  | 672,715,396          | -                    | 456,564,892          | -                  |
| Other Financial Assets   | 32,232,575           | 32,232,575           | 42,662,018           | 42,662,018         |
| Financial Investments-Measured at Fair Value through OCI                                       | 457,700              | 457,700              | 457,700              | 457,700            |
| <b>Total Financial Assets</b>  | <b>5,058,737,195</b> | <b>1,633,794,101</b> | <b>3,964,355,984</b> | <b>717,218,736</b> |

Notes to the Financial Statements cont....

**Year ended 31 March 2020****41. RISK MANAGEMENT (Contd...)****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.

**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 31 March 2020  | On Demand LKR      | Less Than 3 Months LKR | 3 to 12 Months LKR   | 1 to 5 years LKR     | Over 5 Years LKR   | Total LKR            |
|--|--------------------|------------------------|----------------------|----------------------|--------------------|----------------------|
| <b>Financial Assets</b>  |                    |                        |                      |                      |                    |                      |
| Cash and Bank Balances   | 44,196,582         | -                      | -                    | -                    | -                  | 44,196,582           |
| 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            | -                    | -                  | 673,558,490          |
| 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          | 1,279,544,380        |
| Financial Investments-Measured at Fair Value through OCI                                       | -                  | -                      | -                    | -                    | 457,700            | 457,700              |
| Other Financial Assets   | -                  | 22,940,791             | 3,617,198            | 9,020,000            | 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  | -                  | 80,140,064             | 31,414,019           | 65,504,117           | 14,640,395         | 191,698,595          |
| <b>Total Financial Liabilities</b>   | <b>55,359,035</b>  | <b>703,051,321</b>     | <b>1,201,243,953</b> | <b>919,713,504</b>   | <b>14,640,395</b>  | <b>2,894,008,208</b> |
| <b>Total Net Financial Assets/(Liabilities)</b>  | <b>272,320,007</b> | <b>1,368,558,126</b>   | <b>73,853,804</b>    | <b>1,548,150,012</b> | <b>(9,231,008)</b> | <b>3,253,650,941</b> |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

**41. RISK MANAGEMENT (Contd...)****41.3 Liquidity Risk & Funding Management (Contd...)****41.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities (Contd...)**

| As at 31 March 2019  | On Demand<br>LKR   | Less Than<br>3 Months<br>LKR | 3 to 12<br>Months<br>LKR | 1 to 5<br>years<br>LKR | Over<br>5 Years<br>LKR | Total<br>LKR         |
|--|--------------------|------------------------------|--------------------------|------------------------|------------------------|----------------------|
| <b>Financial Assets</b>  |                    |                              |                          |                        |                        |                      |
| Cash and Bank Balances   | 42,822,230         | -                            | -                        | -                      | -                      | 42,822,230           |
| Investment in Government Securities and Placements with Banks and Other Financial Institutions | -                  | 25,608,902                   | 42,764,100               | -                      | -                      | 68,373,002           |
| Gold Advances  | -                  | 454,626,900                  | 2,839,325                | -                      | -                      | 457,466,225          |
| Lease Rentals Receivable and Stock out on Hire   | 117,100,983        | 296,541,446                  | 817,523,155              | 1,923,871,947          | 4,358,528              | 3,159,396,059        |
| Loans and Advances   | 40,899,034         | 168,157,002                  | 385,839,625              | 783,315,822            | 10,032,329             | 1,388,243,812        |
| Financial Investments-Measured at Fair Value through OCI                                       | -                  | -                            | -                        | -                      | 457,700                | 457,700              |
| Other Financial Assets   | 455,000            | 35,015,815                   | 3,222,656                | 12,990,000             | -                      | 51,683,471           |
| <b>Total Financial Assets</b>  | <b>201,277,247</b> | <b>979,950,065</b>           | <b>1,252,188,861</b>     | <b>2,720,177,769</b>   | <b>14,848,557</b>      | <b>5,168,442,500</b> |
| <b>Financial Liabilities</b>   |                    |                              |                          |                        |                        |                      |
| Interest Bearing Borrowings  | 169,674,750        | 245,031,560                  | 1,162,872,157            | 863,645,594            | -                      | 2,441,224,061        |
| Due to the Customers   | -                  | 132,457,216                  | 80,385,953               | 373,301,887            | -                      | 586,145,056          |
| Other Financial Liabilities  | -                  | 96,985,929                   | 1,419,330                | -                      | -                      | 98,405,259           |
| <b>Total Financial Liabilities</b>   | <b>169,674,750</b> | <b>474,474,705</b>           | <b>1,244,677,440</b>     | <b>1,236,947,481</b>   | <b>-</b>               | <b>3,125,774,376</b> |
| <b>Total Net Financial Assets/(Liabilities)</b>  | <b>31,602,497</b>  | <b>505,475,360</b>           | <b>7,511,421</b>         | <b>1,483,230,288</b>   | <b>14,848,557</b>      | <b>2,042,668,123</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;

**Interest Rate Risk Exposure on Financial Assets & Liabilities**

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

Notes to the Financial Statements cont....

## Year ended 31 March 2020

## 41. RISK MANAGEMENT (Contd...)

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

| As at 31 March 2020  | Total<br>LKR         | Interest Bearing          |                      |                      |                     | Non Interest Bearing<br>LKR |
|--|----------------------|---------------------------|----------------------|----------------------|---------------------|-----------------------------|
|  |                      | Less Than 3 Months<br>LKR | 3 to 12 Month<br>LKR | 1 to 5 Years<br>LKR  | Over 5 Years<br>LKR |                             |
| <b>Financial Assets</b>  |                      |                           |                      |                      |                     |                             |
| Cash and Bank Balances   | 44,196,582           | -                         | -                    | -                    | -                   | 44,196,582                  |
| 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           | -                         | -                    | -                    | -                   | 32,232,575                  |
| <b>Total Financial Assets</b>  | <b>5,058,737,194</b> | <b>2,137,463,137</b>      | <b>902,881,201</b>   | <b>1,938,383,697</b> | <b>3,122,302</b>    | <b>76,886,857</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          | 85,715,326                  |
| <b>Total Financial Liabilities</b>   | <b>2,689,242,710</b> | <b>628,545,587</b>        | <b>1,106,471,568</b> | <b>857,200,873</b>   | <b>11,309,356</b>   | <b>85,715,326</b>           |
| <b>Interest Sensitivity Gap</b>  | <b>2,369,494,484</b> | <b>1,508,917,550</b>      | <b>(203,590,367)</b> | <b>1,081,182,824</b> | <b>(8,187,054)</b>  | <b>(8,828,469)</b>          |

| As at 31 March 2019  | Total<br>LKR         | Interest Bearing          |                      |                      |                     | Non Interest Bearing<br>LKR |
|--|----------------------|---------------------------|----------------------|----------------------|---------------------|-----------------------------|
|  |                      | Less Than 3 Months<br>LKR | 3 to 12 Month<br>LKR | 1 to 5 Years<br>LKR  | Over 5 Years<br>LKR |                             |
| <b>Financial Assets</b>  |                      |                           |                      |                      |                     |                             |
| Cash and Bank Balances   | 42,822,230           | -                         | -                    | -                    | -                   | 42,822,230                  |
| Investment in Government Securities and Placements with Banks and Other Financial Institutions | 67,032,677           | 25,270,367                | 41,762,310           | -                    | -                   | -                           |
| Gold Advances  | 456,564,892          | 454,098,237               | 2,466,656            | -                    | -                   | -                           |
| Lease Rentals Receivable and Stock out on Hire purchase  | 2,330,782,305        | 284,946,113               | 551,974,345          | 1,489,808,329        | 4,053,517           | -                           |
| Loans and Advances   | 1,024,034,162        | 154,024,000               | 260,799,810          | 600,524,667          | 8,685,685           | -                           |
| Financial Investments- Measured at Fair Value through OCI                                      | 457,700              | -                         | -                    | -                    | -                   | 457,700                     |
| Other Financial Assets   | 42,662,018           | -                         | -                    | -                    | -                   | 42,662,018                  |
| <b>Total Financial Assets</b>  | <b>3,964,355,984</b> | <b>918,338,716</b>        | <b>857,003,121</b>   | <b>2,090,332,996</b> | <b>12,739,202</b>   | <b>85,941,948</b>           |

Notes to the Financial Statements cont....

## Year ended 31 March 2020

**41. RISK MANAGEMENT (Contd...)****41.4 Interest Rate Risk (Contd...)**

| As at 31st March 2019              | Total<br>LKR         | Interest Bearing             |                         |                        |                        | Non Interest<br>Bearing<br>LKR |
|------------------------------------|----------------------|------------------------------|-------------------------|------------------------|------------------------|--------------------------------|
|                                    |                      | Less Than 3<br>Months<br>LKR | 3 to 12<br>Month<br>LKR | 1 to 5<br>Years<br>LKR | Over 5<br>Years<br>LKR |                                |
| <b>Financial Liabilities</b>       |                      |                              |                         |                        |                        |                                |
| Interest Bearing Borrowings        | 2,190,707,788        | 387,600,448                  | 1,040,413,751           | 762,693,589            | -                      | -                              |
| Due to the Customers               | 584,784,876          | 135,166,347                  | 77,064,642              | 372,553,887            | -                      | -                              |
| Other Financial Liabilities        | 96,219,835           | -                            | -                       | -                      | -                      | 96,219,835                     |
| <b>Total Financial Liabilities</b> | <b>2,871,712,500</b> | <b>522,766,795</b>           | <b>1,117,478,393</b>    | <b>1,135,247,476</b>   | <b>-</b>               | <b>96,219,835</b>              |
| <b>Interest Sensitivity Gap</b>    | <b>1,092,643,484</b> | <b>395,571,921</b>           | <b>(260,475,272)</b>    | <b>955,085,520</b>     | <b>12,739,202</b>      | <b>(10,277,887)</b>            |

**41.5. The Impact of COVID - 19 on the Risk Management**

The unexpected interruptions to business from mid-March 2020 with the island-wide curfew imposed by the government 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 strengthened 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 on past events, current conditions and forecasts of economic conditions by being alert with Covid -19 pandemic.



Notes to the Financial Statements cont....

**Year ended 31 March 2020****41. RISK MANAGEMENT (Contd...)****41.5.3 Impact of assessment of ECL (Contd...)**

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.

Due to the insufficiency of relevant and accurate information, uncertainty relating to customer repayment ability, income sources and various government relief measures due to Covid-19 outbreak, the company decided to apply certain temporary practical expedients issued by CA Sri Lanka.

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. However, there was no significant impact from interest rate volatility for the financial year ended 31 March 2020.

**42. OPERATING SEGMENTS****42.1 Entity-Wide Disclosures: Analysis of Gross Income on Product Basis**

| As at 31 March 2020 | Finance Lease<br>LKR | Hire<br>Purchase<br>LKR | Loans and<br>Advances<br>LKR | Other<br>LKR       | Total<br>LKR       |
|---------------------|----------------------|-------------------------|------------------------------|--------------------|--------------------|
| Interest Income     | 520,261,631          | 68,982                  | 213,876,437                  | 151,862,323        | 886,069,373        |
| Commission Income   | -                    | -                       | -                            | 8,940,422          | 8,940,422          |
| Other Income        | -                    | -                       | -                            | 32,774,938         | 32,774,938         |
|                     | <b>520,261,631</b>   | <b>68,982</b>           | <b>213,876,437</b>           | <b>193,577,683</b> | <b>927,784,733</b> |
| As at 31 March 2019 | Finance Lease<br>LKR | Hire<br>Purchase<br>LKR | Loans and<br>Advances<br>LKR | Other<br>LKR       | Total<br>LKR       |
| Interest Income     | 455,748,600          | 971,762                 | 156,153,788                  | 91,433,156         | 704,307,306        |
| Commission Income   | -                    | -                       | -                            | 9,298,176          | 9,298,176          |
| Other Income        | -                    | -                       | -                            | 63,855,991         | 63,855,991         |
|                     | <b>455,748,600</b>   | <b>971,762</b>          | <b>156,153,788</b>           | <b>164,587,323</b> | <b>777,461,473</b> |

Year ended 31 March 2020

**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 2020 are disclosed below.

|  | <b>Bank<br/>Borrowing<br/>LKR</b> | <b>Finance Lease<br/>Liabilities<br/>LKR</b> | <b>Intercompany<br/>Borrowing<br/>LKR</b> |
|--|-----------------------------------|--|---|
| Balance as at 1 April 2020               | 1,477,967,557                     | 8,065,481                                    | 535,000,000                               |
| Net cash flows from financing activities | (107,108,564)                     | (3,252,417)                                  | (100,000,000)                             |
| <b>Non cash changes</b>                  |                                   |  |   |
| Foreign exchange movements               | -                                 | -  | -   |
| Accrual for interest expense             | 6,566,204                         | -  | 5,172,329                                 |
| <b>Balance as at 31 March 2020</b>       | <b>1,377,425,197</b>              | <b>4,813,064</b>                             | <b>440,172,329</b>                        |

## VALUE ADDED STATEMENT

| Value Added                             | 2020<br>LKR        | 2019<br>LKR        |
|---|--------------------|--------------------|
| Income from Interest Related Activities | 886,069,373        | 704,307,306        |
| Income from Other Activities            | 41,715,360         | 73,154,167         |
|   | <b>927,784,733</b> | <b>777,461,473</b> |
| Depositors & Lenders                    | 371,873,790        | 292,974,160        |
| Cost of Sales & Services                | 69,952,048         | 84,512,604         |
| Provision for Bad & Doubtful Debts      | 32,076,446         | 24,551,990         |
|   | <b>473,902,284</b> | <b>402,038,754</b> |
| <b>Total Value Added</b>                | <b>453,882,449</b> | <b>375,422,719</b> |
| <b>Distribution of Value Added</b>      |                    |                    |
| To Employees as Remuneration            | 168,327,971        | 129,979,352        |
| To Government as Taxation               | 129,065,105        | 118,260,598        |
| Depreciation & Amortisation             | 51,138,289         | 26,060,623         |
| Retained Profits                        | 105,351,084        | 101,122,146        |
|   | <b>453,882,449</b> | <b>375,422,719</b> |

## INFORMATION OF ORDINARY SHARES

### DISTRIBUTION OF SHAREHOLDING AS AT 31ST MARCH 2020

| Shares                 | 31 March 2020      |                |              |                |
|------------------------|--------------------|----------------|--------------|----------------|
|                        | 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%         |
|                        | 7                  | 100.00%        | 145,639,098  | 100.00%        |

### CATEGORIES OF SHAREHOLDERS

| Type of Investor     | 31 March 2020      |                |              |                |
|----------------------|--------------------|----------------|--------------|----------------|
|                      | 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%         |
|                      | 7                  | 100.00%        | 145,639,098  | 100.00%        |

## GLOSSARY OF FINANCIAL STATEMENTS

### Earning Assets

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

### Interest Bearing Liabilities

Liabilities on which the Company is paying interest.

### Investment Securities

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

### Net Interest Margin

Ratio of net interest income to earning assets.

### Interest Spread

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

### Non-Performing loan (NPL) Ratio

The net Non-Performing Loans as a percentage of the total loan portfolio.

### Liquid Assets

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

### Provision for Bad Debts

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

### Materiality

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

### Net Assets Value per Ordinary Share

Shareholders' funds excluding Preference Shares divided by the number of ordinary shares in issue.

### Risk Weighted Assets

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

### Segmental Analysis

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

### Repurchase Agreement

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

### Return on Average Equity (ROE)

Net income, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

### Revenue Reserve

Reserves set aside for future distribution and investment.

### Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

### Net Interest Income

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

### Non-Performing Loans

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

**Prudence**

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

**Return on Average Assets (RoA)**

Profit After Tax divided by the average assets.

**Substance over Form**

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

**Tier I Capital**

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

**Tier II Capital**

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

**Value Added**

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

**Debt to Equity Ratio**

Long term Borrowings of the Company including Debentures divided by shareholders funds.

**Interest Cover**

Earnings before interest and taxes divided by interest cost.

**Liquid Assets Ratio**

Liquid Assets divided by public Deposits.

**Capital Adequacy Ratios**

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

**Interest in suspense**

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

**Earnings per Share**

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

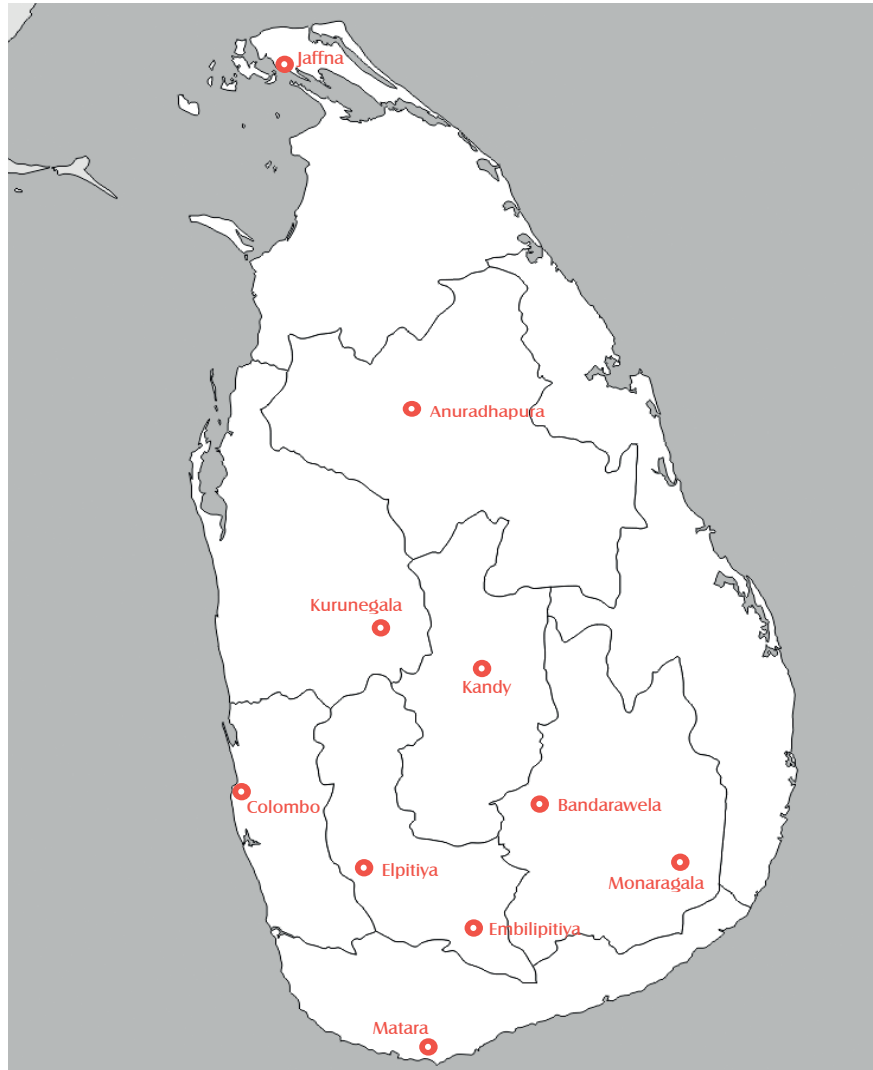
**Deferred Tax**

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

**Related Parties**

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

## DISTRIBUTION CHANNELS



| S/N | Branch Name  | Address                             | Telephone Number           | Fax Number |
|-----|--------------|-------------------------------------|----------------------------|------------|
| 01  | Head Office  | 299, Union Place, Colombo 02        | 0112396060                 | 0112396757 |
| 02  | Bandarawela  | 339, Main Street, Bandarawela       | 0572230022 /<br>0572221025 | 0572230030 |
| 03  | Jaffna       | 408, Hospital Rd, Jaffna            | 0212219990                 | 0212219991 |
| 04  | Kurunegala   | 34, Suratissa Mawatha, Kurunegala   | 0372232110                 | 0372232010 |
| 05  | Elpitiya     | 10/B, Pituwala Rd, Elpitiya         | 0912291427                 | 0912291428 |
| 06  | Anuradhapura | 9C, Main Street, Anuradhapura       | 0252237925                 | 0252237905 |
| 07  | Embilipitiya | 28, Pallegama, Embilipitiya.        | 0472261467/ 0473620040     | 0472261468 |
| 08  | Monaragala   | 100, New Bus Stand, Monaragala      | 0552055858                 | 0552055588 |
| 09  | Matara       | 91, Anagarika Dharmapala Rd, Matara | 0412226916                 | 0412226912 |
| 10  | Kandy        | 119 A, Kotugodella Weediya, Kandy   | 0812208708                 | 0812208709 |

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# NOTICE OF ANNUAL GENERAL MEETING

## IDEAL FINANCE LIMITED

Notice is hereby given that the Eighth 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, 25th September 2020 at 4.00 p. m. and the business to be brought before the meeting will be:

### AGENDA

1. To receive and consider the Annual Report of the Board of Directors on the State of Affairs of the Company and the Audited Financial Statements for the year ended 31st March 2020 with the Report of the Auditors thereon.
2. To re-elect as a Director Mr. J. V. W. Malawana who retires by rotation in terms of Article No.24(6) of the Articles of Association of the Company.
3. To re-elect as a Director Mr. D. M. Weerasekare who retires by rotation in terms of Article 24(6) of the Articles of Association of the Company.
4. To authorize Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed to have been re-appointed as Auditors in terms of Section 158 of the Companies Act No.07 of 2007.

By Order of the Board of Directors of Ideal Finance Limited

S S P CORPORATE SERVICES (PRIVATE) LIMITED  
SECRETARIES

Colombo  
4th August 2020

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.





## IDEAL FINANCE LIMITED

### FORM OF PROXY

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

|                                   |                           |
|-----------------------------------|---------------------------|
| Mr. Nalin Jayaraj Welgama         | of Colombo or failing him |
| Mr. 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 |

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 28th August 2020 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 2020 with the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To re-elect as a Director Mr. J. V. W. Malawana who retires by rotation in terms of Article No.24(6) of the Articles of Association of the Company.  | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To re-elect as a Director Mr. D. M. Weerasekare who retires by rotation in terms Article No.24(6) of the Articles of Association of the Company.   | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To authorise Directors to determine the remuneration of the Auditors, Messrs Ernst & Young, Chartered Accountants who are deemed have been re-appointed as Auditors.   | <input type="checkbox"/> | <input type="checkbox"/> |

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

.....  
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.