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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 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2021, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

15 April 2021
Colombo

R. Ernst & Young

IDEAL Finance Limited

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2021

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

The Accounting Policies and Notes on pages 07 through 54 form an integral part of the Financial Statements.



IDEAL Finance Limited

STATEMENT OF FINANCIAL POSITION

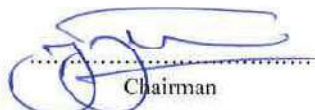
As at 31 March 2021


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

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


Finance Manager

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


Chairman


Chief Executive Officer

The Accounting Policies and Notes on pages 07 through 54 form an integral part of the Financial Statements.



IDEAL Finance Limited
STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2021

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

The Accounting Policies and Notes on pages 07 through 54 form an integral part of the Financial Statements.



IDEAL Finance Limited
STATEMENT OF CASH FLOWS
Year ended 31 March 2021

	Note	2021 LKR	2020 LKR
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		288,437,688	164,035,179
Adjustment for Other Non Cash Items Included in Profit Before Tax			
Depreciation of Property, Plant and Equipment & ROU Assets	23.2	48,991,168	45,780,259
Amortization of Intangible Assets	24	5,376,310	5,358,030
Provision for Impairment	7	88,586,557	32,076,446
Interest expenses on Borrowings	4.2	166,134,545	282,777,104
Defined Benefit Obligation	8	6,113,667	4,980,195
Dividend Income	6	(320,000)	(240,800)
Disposal (Gain)/Loss on Fixed Assets		235,561	924,062
Operating Profit before Working Capital Changes		<u>603,555,496</u>	<u>535,690,475</u>
(Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire		(148,487,441)	(51,767,780)
(Increase)/Decrease in Loan Stock		88,022,024	36,871,685
(Increase)/Decrease in Gold Advance		(511,048,668)	(216,150,504)
(Increase)/Decrease in Other Financial Assets		(9,443,491)	10,040,678
(Increase)/Decrease in Other Non Financial Assets		(4,029,958)	2,651,229
(Increase)/Decrease in Inventories		406,442	69,837,092
Increase/(Decrease) in Amounts Due to Customers		257,722,325	87,132,257
Increase/(Decrease) in Other Financial Liabilities		66,019,179	(10,504,509)
Increase/(Decrease) in Other Non Financial Liabilities		(7,072,427)	(15,350,008)
Cash Generated from Operations		<u>335,643,481</u>	<u>448,450,615</u>
Retirement Benefit Liabilities Paid	29.2	-	-
Income Tax Paid		(94,550,893)	(58,161,484)
Net Cash Flows from/(Used in) Operating Activities		<u>241,092,588</u>	<u>390,289,131</u>
Cash Flows from / (Used in) Investing Activities			
Purchase of Property, Plant and Equipment	23.1	(42,271,115)	(12,405,987)
	23.1	(29,377,517)	
Purchase of Intangible Assets	24	(200,000)	(400,100)
Disposal of Property, Plant and Equipment		-	6,865,780
Dividend Received	6	320,000	240,800
Investing in Fixed Deposits	15	(210,000,000)	-
Net Cash Flows from/(Used in) Investment Activities		<u>(281,528,632)</u>	<u>(5,699,507)</u>
Cash Flows from / (Used in) Financing Activities			
Proceeds from Bank Borrowings		1,397,000,000	1,310,000,000
Repayment of Bank Borrowings		(1,782,714,413)	(1,777,098,221)
Rental Paid for Right of Use Assets		(28,001,970)	(26,159,216)
Repayment of Other Borrowed Funds		(3,631,013)	(3,252,417)
Net Proceeds from Share Issue		-	1,100,000,000
Dividend Paid		-	-
Net Cash Flows from/(Used in) Financing Activities		<u>(417,347,396)</u>	<u>603,490,146</u>
Net Increase/(Decrease) in Cash & Cash Equivalents		<u>(457,783,441)</u>	<u>988,079,770</u>
Cash and Cash Equivalents at the Beginning of the Period		<u>928,259,927</u>	<u>(59,819,843)</u>
Cash and Cash Equivalents at the End of the Year	33	<u>470,476,486</u>	<u>928,259,927</u>

The Accounting Policies and Notes on pages 07 through 54 form an integral part of the Financial Statements.



1. CORPORATE INFORMATION

1.1 General

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

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

1.2 Principal Activities and Nature of Operations

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

1.3 Parent Entity and Ultimate Parent Entity

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

1.4 Date of Authorization for Issue

The financial statements of IDEAL Finance Limited for the period ended 31 March 2021 were authorized for issue in accordance with a resolution of the Board of Directors on 15 April 2021.



2. ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with Accounting Policies and Notes, ('Financial Statements'), as at 31 March 2021 and for the period then ended, have been prepared in accordance with Sri Lanka Accounting Standards (hereafter referred as "SLFRS"), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and amendments thereto.

2.1.2 Responsibility for Financial Statements

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

2.1.3 Basis of measurement

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

2.1.4 Presentation of Financial Statements

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

The company presents its Statements of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 36.

2.1.5 Functional and presentation currency

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

2.1.6 Materiality, Aggregation Offsetting and Rounding Off

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

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

The amounts in the financial statements have been rounded off to the nearest Sri Lankan Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard (LKAS 1) – 'Presentation of Financial Statements'.



2.1.7 Comparative Information

The accounting policies have been consistently applied by the Company and, are consistent with those used in the previous financial year. Further comparative information is reclassified whenever necessary to comply with the current presentation in the Financial Statements. However, the Company has not restated comparative information for 2020.

2.1.8 Statement of Cash Flow

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

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

2.1.9 Events After the Reporting Date

Events after the Reporting Date are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in note 38 to the Financial Statements.

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

COVID-19 impact on the use of estimates and assumptions

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

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

Given the increased economic uncertainties from COVID-19, the Company has enhanced its financial reporting procedures and governance practices surrounding the preparation of the financial statements. In addition to standard financial year end reporting practices, the Company has:

- Developed a detailed program of work to understand and analyse how COVID-19 may impact key disclosures in the financial statements;



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

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows:

i. Going Concern

The board has made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the board is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the company. Further, the Directors have considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the Company, in making this assessment. Therefore, the financial statements continue to be prepared on the going concern basis.

ii. Impairment losses on loans and receivables

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- Number of days past due and the Guidelines issued by the Central Bank of Sri Lanka
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

In response to COVID-19 and the Company's expectations of economic impacts, key assumptions used in the calculation of ECL have been revised. The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are outlined in Note 2.3.1.4.2, while the impact on changing the weightages of different macroeconomic scenarios during the year are given in Note 41.5.3. As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19. Although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the COVID-19 pandemic, the fundamental credit model mechanics and methodology underpinning the calculation of ECL have remained consistent with prior periods.



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

iii. Fair Value of Financial Instruments

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

iv. Financial Assets and Financial Liabilities Classification

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

v. Defined Benefit Plan

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Assumptions used are disclosed in Note 29.

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

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

vii. Fair value of Property, Plant & Equipment

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



2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.3.1 SLFRS 09 Financial Instrument

SLFRS 9 –Financial Instruments replaces LKAS 39 for annual periods on or after 1 January 2018. The company has adopted SLFRS-09 Financial Instruments with an initial application date of 1 April 2018.

2.3.1.1 Classification & Measurement of Financial Assets and Liabilities

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

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

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

2.3.1.2 Financial Assets and liabilities

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

The company only measures Lease, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The classification of financial liabilities under SLFRS 9 does not follow the approach for the classification on financial assets. Financial liabilities are measured at amortised cost or fair value through profit or loss.

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

(a) Business Model Assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

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

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



(b) The SPPI Test

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

An entity has a business model to hold the financial asset to collect the contractual cash flows. The characteristics of the contractual cash flows are that of solely payments of the principal amount and interest (referred to as “SPPI”).

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

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

2.3.1.2.2 Reclassification of Financial Assets and Liabilities

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

2.3.1.3 De-recognition of Financial Instruments

2.3.1.3.1 Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired.

2.3.1.3.2 Financial Liabilities

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

2.3.1.4 Impairment of Financial Assets

Overview of the Expected Credit Loss (ECL) Principles

The Company’s loan loss impairment method by using forward-looking Expected Credit Loss (ECL) approach. From 1 April 2018, the Company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, in this section all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset. The 12 months ECL is the portion of Life time ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both Life time ECLs and 12 months ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.



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

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

Stage 1

When loans are first recognised, the Company recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2

When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the Life time ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3

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

2.3.1.4.1 The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs under three staging approaches to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an 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	

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.

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

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



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

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

2.3.1.5 Determination of Fair Value

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

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

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

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

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

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

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

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

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

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

2.3.2 Lease

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



2.3.2.1 Finance Lease

Company as a lessor

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

2.3.2.2 SLFRS 16 – Leases

Company as a lessee

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

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

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

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

2.3.3 Cash and cash equivalents

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

2.3.4 Property, Plant and Equipment

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

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

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



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

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

2.3.5 Right-Of-Use Assets

2.3.5.1 Basis of recognition

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

Basis of measurement

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

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

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

2.3.6 Intangible assets

The company's other intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the company. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial 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 these are valued at the lower of cost and net realizable value.

2.3.9 Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company estimates the asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

2.3.10 Employee Retirement Benefits

Defined Contribution Plan Costs

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

Defined Benefit Plan Costs

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognized in the Statement of Financial Position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting 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.12of 1983, the liability for payment to an employee arises only after the completion of 5 years continued services. The liability is not externally funded.

2.3.11 Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

2.3.12 Other Liabilities

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

2.3.13 Foreign currency translation

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

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

2.3.14 Recognition of income and expenses

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

(i) Interest income and interest expense

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

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



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

(ii) Fee and commission income

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

- Fee income earned from services that are provided over a certain period of time.
- Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and service charges.

Fee income from providing transaction services

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

(iii) Dividend income

Dividend income is recognised when the company's right to receive the payment is established.

(iv) Expenditure Recognition

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

2.3.15 Taxes

a. Current Tax

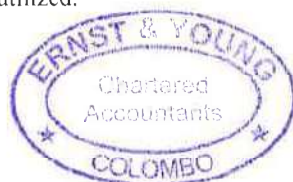
The provision for the income tax is based on the elements of the income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of Inland Revenue Act, No. 24 of 2017.

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

b. Deferred Tax

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

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



The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted at the reporting date.

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

c. Value Added Tax on Financial Services

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

d. Nation Building Tax (NBT) and Debt Repayment Levy (DRL) on Financial Services

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

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

e. Debt Repayment Levy (DRL) on Financial Services

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

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

2.3.16 Regulatory provisions

a) Deposit Insurance and Liquidity Support Scheme

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

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

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



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

b) Crop Insurance Levy (CIL)

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

2.3.17 Related Party Transactions

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

2.3.18 Segment Reporting

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

- Finance Lease and Stock Out on Hire
- Term Loans
- Gold Loans
- Others

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

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

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

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

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

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

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

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

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



2. SLFRS 17 Insurance Contracts

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

Other Amendments to LKAS 37, LKAS 1, LKAS 16, SLFRS 4 do not have a material impact on the company's financial statements.



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

3. INCOME	2021 LKR	2020 LKR
Interest Income (4.1)	973,813,610	886,069,373
Fee and Commission Income (5)	10,904,398	8,940,422
Other Operating Income (6)	30,575,374	32,774,938
Total Income	1,015,293,382	927,784,733
4. NET INTEREST INCOME	2021 LKR	2020 LKR
4.1 Interest Income		
From Placements with Banks and Other Financial Institutions	1,129,155	2,181,694
From Government Securities	39,567,391	11,787,670
From Lease Rental Receivable & Stock Out on Hire	529,397,365	520,330,613
From Loans and Advances	214,963,320	213,876,437
From Gold Advances	187,899,111	136,946,583
From Refundable Deposits	857,268	946,376
Total Interest Income	973,813,610	886,069,373
4.2 Interest Expense		
Due to Banks	147,091,025	215,756,960
Due to Customers	78,550,860	78,047,770
On Intercompany Borrowings	19,043,520	67,020,144
On Obligation to Make the Lease Payment for Right of Use Assets	11,352,521	11,048,916
Total Interest Expenses	256,037,926	371,873,790
Net Interest Income	717,775,684	514,195,583
5. FEE AND COMMISSION INCOME	2021 LKR	2020 LKR
Commission Income	10,904,398	8,940,422
Fee and Commission Income	10,904,398	8,940,422
6. OTHER OPERATING INCOME	2021 LKR	2020 LKR
Dividend Income	320,000	240,800
Net Income from Real Estate Operations	9,303,534	10,439,872
Vehicle Hiring Income	1,815,807	3,254,628
Other Operating Income	19,136,033	18,839,638
Total Other Operating Income	30,575,374	32,774,938



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

7. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES	2021 LKR	2020 LKR
Charge/(write-back) to the statement of comprehensive income		
– Impairment on individually significant loans	10,499,229	16,166,556
– Impairment on collective loan portfolio	39,062,330	15,521,124
– write-offs/(recoveries)	39,024,998	-
– Impairment on Other Financial Assets	-	388,766
Total Impairment Charge	88,586,557	32,076,446
	2021 LKR	2020 LKR
Lease Rentals Receivable and Stock out on Hire (Note 17.2.a)		
Stage 1	14,694,031	2,252,429
Stage 2	7,205,209	3,937,694
Stage 3	22,052,015	18,074,010
	43,951,256	24,264,133
Loans and Advances (Note 18.2.a)		
Stage 1	3,738,733	(62,145)
Stage 2	(993,262)	719,919
Stage 3	2,469,531	6,765,773
	5,215,003	7,423,547
Other Financial Assets (Note 19.1.a)		
Stage 1	200,355	(36,874)
Stage 2	38,762	(5,069)
Stage 3	156,183	430,709
	395,300	388,766
	2021 LKR	2020 LKR
8. PERSONNEL EXPENSES		
Salaries	133,094,858	117,261,239
Employers' Contribution to Employee's Provident Fund	15,299,974	13,720,558
Employers' Contribution to Employee's Trust Fund	3,824,993	3,430,140
Gratuity Charge for the year	6,113,667	4,980,195
Other Staff Related Expenses	36,160,710	28,935,839
	194,494,202	168,327,971
	2021 LKR	2020 LKR
9. OTHER OPERATING EXPENSES		
Directors' Emoluments	5,000,000	4,600,000
Auditors' Remuneration	1,759,537	2,100,263
Professional and Legal Expenses	3,171,753	5,702,528
Office Administration and Establishment Expenses	29,791,038	31,498,695
Advertising and Promotional Expenses	10,937,397	13,378,633
Disallowable Input VAT and VAT on Other Income Sources	-	1,283,698
License and Renewal Fees	1,714,960	1,677,350
Other Expenses	9,217,753	9,710,881
	61,592,438	69,952,048
	2021 LKR	2020 LKR
10. VALUE ADDED TAX AND NBT ON FINANCIAL SERVICES		
VAT on Financial Services	71,777,093	47,282,296
NBT on Financial Services	-	3,886,679
Debt Repayment Levy	-	19,212,035
	71,777,093	70,381,010



11. INCOME TAX EXPENSES

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

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

11.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Income tax rate for the year ended 31 March 2021 as follows.

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

Amendments to the Income Tax Law announced by the Government

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

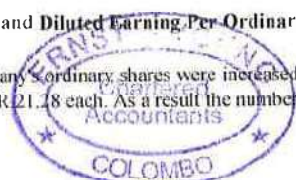
12. BASIC AND DILUTED EARNING PER ORDINARY SHARES

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

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

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

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 21.78 each. As a result the number of shares increased to 145,639,098.



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

13. CASH AND BANK BALANCES	2021 LKR	2020 LKR	
Cash in Hand	22,483,451	12,823,559	
Bank Balances	49,125,942	31,373,023	
	<u>71,609,393</u>	<u>44,196,582</u>	
14. INVESTMENT IN GOVERNMENT SECURITIES	2021 LKR	2020 LKR	
Treasury Bills - at Amortized cost	-	67,765,783	
REPO Investment - at Amortized Cost	502,394,473	848,780,575	
	<u>502,394,473</u>	<u>916,546,358</u>	
15. PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS	2021 LKR	2020 LKR	
Placement With Banks (Fixed Deposit)	211,016,918	22,876,022	
	<u>211,016,918</u>	<u>22,876,022</u>	
16. GOLD ADVANCES	2021 LKR	2020 LKR	
Gold Advances	1,183,764,064	672,715,396	
	<u>1,183,764,064</u>	<u>672,715,396</u>	
17. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE	2021 LKR	2020 LKR	
Rental Receivable on Lease	3,402,853,160	3,150,108,160	
Rental Receivable on Hire Purchase	-	1,238,382	
Gross Rentals Receivables	<u>3,402,853,160</u>	<u>3,151,346,542</u>	
Less: Unearned Income	(844,689,833)	(753,131,978)	
	<u>2,558,163,327</u>	<u>2,398,214,564</u>	
Less : Rentals Received in Advance	(27,125,801)	(15,664,479)	
Net Rentals Receivables before charging Allowance for Impairment Losses	<u>2,531,037,526</u>	<u>2,382,550,085</u>	
Less : Allowance for Impairment Losses (Note 17.2)	(116,607,878)	(72,656,622)	
Total Net Rentals Receivable	<u>2,414,429,648</u>	<u>2,309,893,463</u>	
17.1 Net Rentals Receivable on Lease and Stock Out on Hire 'LKR			
	Net Rentals Receivables	Allowance for Impairment Losses	Total Net Rentals Receivable
Stage - 1	1,580,761,114	25,675,641	1,555,085,471
Stage - 2	541,148,014	19,718,051	521,429,963
Stage - 3	409,128,399	71,214,185	337,914,214
	<u>2,531,037,527</u>	<u>116,607,878</u>	<u>2,414,429,649</u>



IDEAL Finance Limited
 NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 March 2021

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

17.2 Allowance for Impairment Losses 'LKR.

(a) Allowance for Impairment with stage wise

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

(b) Movement in allowance for impairment

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

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

	2021 LKR	2020 LKR
Individual Impairment		
As at 1 April	17,974,778	2,365,496
Charges/(reversals) for the year	14,378,801	15,609,282
Amounts written off	(4,331,146)	-
As at 31 March	<u>28,022,433</u>	<u>17,974,778</u>
Collective Impairment		
As at 1 April	54,681,844	46,026,993
Charges/(reversals) for the year	57,876,088	8,654,851
Amounts written off	(23,972,487)	-
As at 31 March	<u>88,585,444</u>	<u>54,681,844</u>
Total	<u>116,607,877</u>	<u>72,656,622</u>

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

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



IDEAL Finance Limited
 NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 March 2021

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

17.4 Rental Receivable on Lease

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

18. LOANS AND ADVANCES

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

18.1 Net Receivable on Loans

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

18.2 Allowance for Impairment Losses 'LKR.

(a) Allowance for Impairment with stage wise

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



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

18. LOANS AND ADVANCES (Contd...)

18.2 Allowance for Impairment Losses (Contd...)

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

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

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

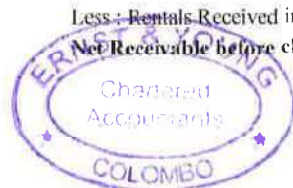
Collective Impairment	2021 LKR	2019 LKR
As at 1 April	25,772,274	18,906,001
Charges/(reversals) for the year	15,484,794	6,866,273
Amounts written off	(10,721,364)	-
As at 31 March	30,535,703	25,772,274
Total	33,319,831	28,104,828

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

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

18.4 Receivable on Loan Stock

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



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

19.1 Other Receivable

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

Impairment Allowance for Other Receivables

(a) Allowance for Impairment with stage wise

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

(b) Movement in allowance for impairment

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

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



19. OTHER FINANCIAL ASSETS (Contd...)

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

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

20. OTHER NON FINANCIAL ASSETS

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

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

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

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

22. INVENTORIES

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

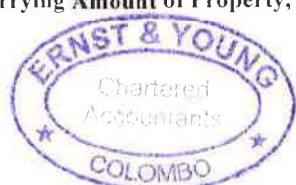


23. PROPERTY, PLANT & EQUIPMENT

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

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

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



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 2021, which are still in use as at the reporting date is as follows:

	2021 LKR	2020 LKR
Furniture & Fittings	9,512,357	17,268,844
Office Equipment	8,322,700	9,518,869
Computer Equipment	8,527,645	18,541,782
Motor Vehicles	3,257,000	262,000
	<u>29,619,703</u>	<u>45,591,495</u>
24. INTANGIBLE ASSETS	2021 LKR	2020 LKR
Computer System Software		
Cost:		
Opening Balance	53,759,768	53,359,668
Addition	200,000	400,100
Disposal	-	-
Closing Balance	<u>53,959,768</u>	<u>53,759,768</u>
Less: Amortization		
Opening Balance	35,624,917	30,266,887
Amortization Charge for the Period	5,376,310	5,358,030
Closing Balance	<u>41,001,227</u>	<u>35,624,917</u>
Net Book Value as at 31 March	<u>12,958,541</u>	<u>18,134,851</u>
25. INTEREST BEARING BORROWINGS	2021 LKR	2020 LKR
Leases	1,182,051	4,813,064
Bank Over Draft	103,527,380	55,359,035
Bank Borrowings	1,283,279,661	1,377,425,197
Intercompany Borrowings	-	440,172,329
Securitization Borrowings	318,369,010	-
	<u>1,706,358,102</u>	<u>1,877,769,625</u>
25.1 Lease Liability	2021 LKR	2020 LKR
Gross liability	1,218,044	5,206,388
Less: Finance Charge Allocated to Future Period	(35,993)	(393,324)
Net Liability	<u>1,182,051</u>	<u>4,813,064</u>
Repayable Within one year		
Gross Liability	1,218,044	3,988,358
Less: Finance Charge Allocated to Future Period	(35,993)	(357,334)
Net Liability	<u>1,182,051</u>	<u>3,631,024</u>
Repayable After one year (1-5 Year)		
Gross Liability	-	1,218,030
Less: Finance Charge Allocated to Future Period	-	(35,990)
Net Liability	<u>-</u>	<u>1,182,040</u>
Total Net Liability	<u>1,182,051</u>	<u>4,813,064</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

25. INTEREST BEARING BORROWINGS (Contd...)

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

25.2 Securitization Borrowings

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

25.2.1 Bank Loan Facilities

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



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

26. DUE TO CUSTOMERS	2021 LKR	2020 LKR
Fixed Deposit	929,639,458	671,917,133
	<u>929,639,458</u>	<u>671,917,133</u>
27. OTHER FINANCIAL LIABILITIES	2021 LKR	2020 LKR
Trade Payable	73,917,533	39,663,271
Accrued Expense	43,381,234	23,881,998
Obligation to Make the Lease Payment (Note 27.1)	84,559,422	76,031,354
Sundry Creditors	34,585,428	22,170,057
	<u>236,443,617</u>	<u>161,746,680</u>
27.1 Obligation to Make the Lease Payment	2021 LKR	2020 LKR
As at 1 April	76,031,354	-
Impact from initial application of SLFRS 16	-	58,653,788
Additions during the year	25,177,517	32,487,866
Accretion of interest	11,352,521	11,048,916
Payments to lease creditors	(28,001,970)	(26,159,216)
As at 31 March	<u>84,559,422</u>	<u>76,031,354</u>
28. OTHER NON FINANCIAL LIABILITIES	2021 LKR	2020 LKR
Stamp Duty Payable	3,531,243	1,659,960
Dividend Payable	961,829	961,829
Other Liabilities	21,801,407	30,745,116
	<u>26,294,479</u>	<u>33,366,905</u>
29. RETIREMENT BENEFIT LIABILITY	2021 LKR	2020 LKR
29.1 Defined Benefit Liability		
Defined Benefit Liability	23,049,390	17,883,134
	<u>23,049,390</u>	<u>17,883,134</u>
29.2 Changes in the Defined benefit obligation are as follows		
Opening Liability	17,883,134	11,448,517
Net Benefit expense	5,166,256	6,434,617
Benefit paid	-	-
Closing Liability	<u>23,049,390</u>	<u>17,883,134</u>
29.3 Net Benefit expense		
Interest Cost	1,738,240	1,291,392
Current Service Cost	4,375,427	3,688,803
Actuarial Loss on obligations	(947,411)	1,454,422
	<u>5,166,256</u>	<u>6,434,617</u>



29. RETIREMENT BENEFIT LIABILITY (Contd...)

29.4 The principal financial assumptions used are as follows

Messrs. Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 March 2021. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

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

29.5 Sensitivity Analysis

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

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

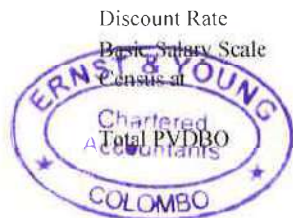
	Present Value of Defined Benefit Obligation (PVDBO)		
	31-Mar-21	31-Mar-21	31-Mar-21
Discount Rate	7.20%	7.20%	7.20%
Basic Salary Scale	5.0%	6.0%	7.0%
Census at	31-Mar-21	31-Mar-21	31-Mar-21
Total PVDBO	22,006,321	23,049,390	24,251,222

Sensitivity Analysis

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

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

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



IDEAL Finance Limited
 NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 March 2021

30. DEFERRED TAX LIABILITY

	Statement of Financial Position		Statement of Comprehensive Income		Statement of Other Comprehensive Income	
	2021 LKR	2020 LKR	2021 LKR	2020 LKR	2021 LKR	2020 LKR
Deferred Tax Liability						
Property Plant & Equipment	10,380,765	9,086,767	1,293,998	3,295,689	-	-
Intangible Assets	3,374,646	4,437,958	(1,063,312)	(942,806)	-	-
Lease Rental	17,597,132	45,413,346	(27,816,214)	(19,629,207)	-	-
Lease Creditor	4,087,294	3,298,924	788,371	(4,333,061)	-	-
	<u>35,439,837</u>	<u>62,236,995</u>	<u>(26,797,157)</u>	<u>(21,609,385)</u>	-	-
Deferred Tax Assets						
Defined Benefit Plan Obligation	6,453,829	5,007,278	(1,711,827)	(1,452,631)	265,275	(349,061)
Impairment of Loans and Receivables	19,946,810	8,887,109	(11,059,701)	6,097,969	-	-
Tax Paid in advance for Real Estate Income	842,168	1,952,771	1,110,603	791,843	-	-
Brought Forward Tax Loss	-	-	-	-	-	-
Right of Use Assets	2,944,315	1,699,603	(1,244,712)	(1,699,603)	-	-
	<u>30,187,122</u>	<u>17,546,761</u>	<u>(12,905,636)</u>	<u>3,737,578</u>	<u>265,275</u>	<u>(349,061)</u>
Deferred Income Tax Income/(Expense)			<u>(39,702,793)</u>	<u>(17,871,807)</u>	<u>265,275</u>	<u>(349,061)</u>
Net Deferred Tax (Asset)/Liabilities	<u>5,252,715</u>	<u>44,690,234</u>				

31. STATED CAPITAL

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

Transaction cost on share issued is deducted from the equity.

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

32. RESERVES

	2021 LKR	2020 LKR
Statutory Reserve Fund	31,718,715	22,496,844
Closing Balance	<u>31,718,715</u>	<u>22,496,844</u>

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



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

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

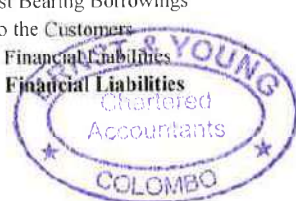
34. ANALYSIS OF FINANCIAL ASSETS & LIABILITIES BY MEASUREMENT BASIS

As at 31 March 2021

	Financial Assets at Fair Value Income Statement LKR	Financial Assets at Fair Value Other Comprehensive Income LKR	Financial Assets and Liabilities at Amortized Cost LKR	Total LKR
Financial Assets				
Cash & Bank Balances	-	-	71,609,393	71,609,393
Investment in government Securities	-	-	502,394,473	502,394,473
Placements with Other Banks & Financial Institutions	-	-	211,016,918	211,016,918
Lease Rentals Receivable and Stock out on Hire	-	-	2,414,429,648	2,414,429,648
Loans and Advances	-	-	865,820,622	865,820,622
Gold Advances	-	-	1,183,764,064	1,183,764,064
Financial Investments-measured at Fair Value through OCI	-	457,700	-	457,700
Other Financial Assets	-	-	41,054,449	41,054,449
Total Financial Assets	<u>-</u>	<u>457,700</u>	<u>5,290,089,567</u>	<u>5,290,547,267</u>
Financial Liabilities				
Interest Bearing Borrowings	-	-	1,706,358,102	1,706,358,102
Due to the Customers	-	-	929,639,458	929,639,458
Other Financial Liabilities	-	-	236,443,617	236,443,617
Total Financial Liabilities	<u>-</u>	<u>-</u>	<u>2,872,441,177</u>	<u>2,872,441,177</u>

As at 31 March 2020

	Financial Assets at Fair Value Income Statement LKR	Financial Assets at Fair Value Other Comprehensive Income LKR	Financial Assets and Liabilities at Amortized Cost LKR	Total LKR
Financial Assets				
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
Total Financial Assets	<u>-</u>	<u>457,700</u>	<u>4,957,518,045</u>	<u>4,957,975,745</u>
Financial Liabilities				
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
Total Financial Liabilities	<u>-</u>	<u>-</u>	<u>2,711,433,438</u>	<u>2,711,433,438</u>



35. FAIR VALUE OF FINANCIAL INSTRUMENTS

35.1 Determination of Fair Value and Fair Value Hierarchy

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

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

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

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

As at 31 March 2021

Financial Investments - Measured at Fair Value through other comprehensive income

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

35.2 Fair Value of the Financial Instrument Carried at Amortized Cost

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the financial Statements. This table does not include the fair values of non financial assets and liabilities.

As at 31 March 2021	Level	Carrying Amount LKR	Fair Value LKR
Financial Assets			
Lease Rentals Receivable and Stock out on Hire	Level 02	2,414,429,648	2,533,566,709
Loans and Advances	Level 02	865,820,622	901,171,057
Financial Liabilities			
Interest Bearing Borrowings	Level 02	1,601,648,671	1,435,344,492
Finance Lease	Level 02	1,182,051	1,180,714



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

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

35.2 Fair Value of the Financial Instrument Carried at Amortized Cost

As at 31 March 2020	Level	Carrying Amount LKR	Fair Value LKR
Financial Assets			
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
Financial Liabilities			
Interest Bearing Borrowings	Level 02	1,817,597,526	1,667,739,779
Finance Lease	Level 02	4,813,064	4,799,083

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

Assets

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

Financial Liabilities

Bank Overdraft
 Due to the Customers
 Other Financial Liabilities

36. CURRENT AND NON CURRENT ANALYSIS OF ASSETS & LIABILITIES

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

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



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

	Within 12-Months LKR	After 12-Months LKR	Total LKR
LIABILITIES			
Interest Bearing Borrowings	1,129,251,916	577,106,187	1,706,358,103
Due to the Customers	463,800,283	465,839,175	929,639,458
Other Financial Liabilities	172,982,759	63,460,859	236,443,618
Other Non Financial Liabilities	26,294,479	-	26,294,479
Current Tax Liabilities	87,363,461	-	87,363,461
Retirement Benefit Liability	-	23,049,390	23,049,390
Deferred Tax Liabilities	-	5,252,716	5,252,716
Total Liabilities	1,879,692,898	1,134,708,327	3,014,401,224
Net Assets	1,372,067,921	1,133,359,466	2,505,427,387
As at 31 March 2020			
	Within 12-Months LKR	After 12-Months LKR	Total LKR
ASSETS			
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
Total Assets	3,029,617,399	2,136,770,582	5,166,387,981
LIABILITIES			
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
Total Liabilities	1,946,974,194	898,423,809	2,845,398,004
Net Assets	1,082,643,205	1,238,346,773	2,320,989,977



37. COMMITMENT AND CONTINGENCIES

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

37.1 Litigation Against Company

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

37.2 Assets Pledged

The following assets have been pledged as security for liabilities.

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

* 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, Members of Corporate Management team have been identified as "Key Management Personnel".

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

39.1.1 Compensation to KMP

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

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

39.1.2 Transaction with KMP and their Close Family Members

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

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



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

40. CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

40.1 Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed finance companies. Accordingly, finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 11% and a minimum core capital adequacy ratio (Tier 1) of 7%. The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.



IDEAL Finance Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2021

41. RISK MANAGEMENT

41.1 Introduction

Risk is inherent in the company's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the company's continuing profitability and each individual within the company is accountable for the risk exposures relating to his or her responsibilities.

RISK MANAGEMENT FRAMEWORK

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

RISK MANAGEMENT AND REPORTING

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

RESPONDING TO COVID - 19 PANDEMIC RISKS

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

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

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

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

41.2 Credit Risk

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



IDEAL Finance Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2021

4I. RISK MANAGEMENT (Contd...)

41.2.2 Analysis of Risk Concentration

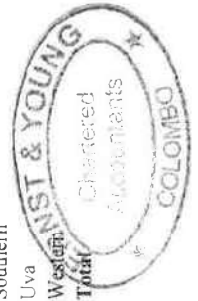
41.2.2.1 Industry Analysis

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

Sector wise Break Down as at 31 March 2020	Cash & Bank	Investment in	Placement with	Receivable, Stock	Financial	Gold Advances	Other Financial	Total Financial
	Balances LKR	Government Securities at Amortized cost LKR	Bank & Other Financial Institutions LKR	out on Hire purchase and Loans and Advances LKR	Assets- Available for Sale LKR	LKR	Assets LKR	Assets LKR
Agriculture	-	-	-	568,322,939	-	-	-	568,322,939
Manufacturing	-	-	-	51,293,836	-	-	-	51,293,836
Construction	-	-	-	87,367,918	-	-	-	87,367,918
Financial Services	71,609,393	502,394,473	211,016,918	20,952,943	-	-	-	805,973,727
Trading	-	-	-	226,558,611	-	-	-	226,558,611
Hotels	-	-	-	21,606,448	-	-	-	21,606,448
Services	-	-	-	154,687,078	457,700	-	-	155,144,778
Transport	-	-	-	1,927,423,143	-	-	-	1,927,423,143
Consumer	-	-	-	371,965,063	-	-	-	371,965,063
Total	71,609,393	502,394,473	211,016,918	3,430,177,979	457,700	1,183,764,064	41,054,449	5,440,474,975

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

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



IDEAL Finance Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2021

41. RISK MANAGEMENT (Contd...)	41.2.2 Analysis of Risk Concentration (Contd...)	41.2.2.1 Industry Analysis (Contd...)	Cash & Bank Balances	Investment in Government Securities at Amortized cost LKR	Placement with Bank & Other Financial Institutions LKR	Lease Rental Receivable, Stock out on Hire purchase and Loans and Advances LKR	Financial Assets- Available for Sale LKR	Gold Advances LKR	Other Financial Assets LKR	Total Financial Assets LKR
Manufacturing	-	-	47,856,808	-	-	-	-	-	47,856,808	
Construction	-	-	55,655,877	-	-	-	-	-	55,655,877	
Financial Services	44,196,582	22,876,022	33,586,925	916,546,358	-	-	-	-	973,009,305	
Trading	-	-	252,721,069	-	-	-	-	-	252,721,069	
Hotels	-	-	18,012,608	-	-	-	-	-	18,012,608	
Services	-	-	105,385,145	-	-	-	457,700	-	105,842,845	
Transport	-	-	1,660,204,653	-	-	-	-	-	1,660,204,653	
Consumer	-	-	285,734,418	-	-	-	-	672,715,396	990,682,389	
Total	44,196,582	22,876,022	3,369,712,562	916,546,358	22,876,022	457,700	457,700	672,715,396	32,232,575	5,014,540,613

41. RISK MANAGEMENT (Contd...)	41.2.2 Analysis of Risk Concentration (Contd...)	41.2.2.1 Industry Analysis (Contd...)
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Provincial break down for lease rental receivables and stock out on hire within Sri Lanka as follows.

Province	Lease Rental Receivable & Stock Out On Hire	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	-
Total	2,382,550,085	987,162,477	672,715,396



IDEAL Finance Limited

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2021

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



IDEAL Finance Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2021

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 31st March 2020	On Demand		Less Than 3 Months		3 to 12 Months		1 to 5 years		Over 5 Years		Total	
				LKR		LKR		LKR		LKR		LKR		LKR	
Financial Assets															
			Cash and Bank Balances	44,196,582	-	-	-	-	-	-	-	-	-	-	44,196,582
			Placements with Banks and Other Financial Institutions	-	-	-	-	-	-	-	-	-	-	-	
			Investment in Government Securities and Placements with Banks and Other Financial Institutions	-	-	-	-	-	-	-	-	-	-	-	
			Gold Advances	-	872,681,964	-	70,301,780	-	-	-	-	-	-	-	942,983,744
			Lease Rentals Receivable and Stock out on Hire purchase	-	669,918,900	-	3,639,590	-	-	-	-	-	-	-	673,558,491
			Loans and Advances	203,848,540	294,314,652	793,611,571	1,876,961,662	1,103,839	1,103,839	1,103,839	1,103,839	1,103,839	1,103,839	3,169,840,264	
			Financial Investments-Measured at Fair Value through OCI	79,633,920	211,753,140	403,927,618	581,881,854	2,347,848	2,347,848	2,347,848	2,347,848	2,347,848	2,347,848	1,279,544,379	
			Other Financial Assets	-	-	-	-	-	-	-	-	-	-	-	457,700
			Total Financial Assets	327,679,042	2,071,609,447	1,275,097,757	9,020,000,000	2,467,863,516	1,500,000	5,409,387	37,077,989	6,147,659,149	37,077,989	6,147,659,149	
Financial Liabilities															
			Interest Bearing Borrowings	55,359,035	427,043,623	980,461,601	565,377,690	-	-	-	-	-	-	-	2,028,241,949
			Due to the Customers	-	195,867,633	189,368,333	288,831,698	-	-	-	-	-	-	-	674,067,664
			Other Financial Liabilities	-	73,767,176	11,948,147	-	-	-	-	-	-	-	-	85,715,323
			Obligation to Make the Lease Payment	-	6,312,048	21,628,372	83,103,116	39,395,295	150,438,831	150,438,831	150,438,831	150,438,831	150,438,831	150,438,831	
			Total Financial Liabilities	55,359,035	702,990,480	1,203,406,453	937,312,504	39,395,295	2,938,465,768	39,395,295	2,938,465,768	2,938,465,768	2,938,465,768	2,938,465,768	
			Total Net Financial Assets/ (Liabilities)	272,320,007	1,368,618,966	71,691,304	1,530,551,011	(33,985,908)	3,209,195,381	(33,985,908)	3,209,195,381	3,209,195,381	3,209,195,381	3,209,195,381	



IDEAL Finance Limited
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 Year ended 31 March 2021

41. RISK MANAGEMENT (Contd....)

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.

As at 31st March 2021	Total As at 31-03-2021 LKR	Interest Bearing				Non Interest Bearing LKR
		Less Than 3 Months LKR	3 to 12 Month LKR	1 to 5 Years LKR	Over 5 Years LKR	
Financial Assets						
Cash and Bank Balances	71,609,393	-	-	-	-	71,609,393
Investment in Government Securities and Placements with Banks and Other Financial Institutions	713,411,390	502,394,473	211,016,918	-	-	-
Gold Advances	1,183,764,064	1,169,103,439	14,660,625	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	2,330,610,528	291,402,817	562,152,099	1,674,569,064	2,486,547	-
Loans and Advances	899,567,452	164,885,646	353,069,568	375,724,768	5,887,470	-
Financial Investments-Measured at Fair Value through OCI	457,700	-	-	-	-	457,700
Other Financial Assets	41,367,103	-	-	-	-	41,367,103
Total Financial Assets	5,440,787,629	2,127,786,375	1,140,899,209	2,050,293,832	8,374,017	113,434,196
Financial Liabilities						
Interest Bearing Borrowings	1,752,092,266	370,738,454	751,369,330	629,984,482	-	-
Due to the Customers	929,639,458	150,845,312	312,954,971	465,839,175	-	-
Other Financial Liabilities	236,443,618	5,061,423	16,037,141	40,421,425	23,039,434	151,884,196
Total Financial Liabilities	2,918,175,343	526,645,189	1,080,361,442	1,136,245,082	23,039,434	151,884,196
Interest Sensitivity Gap	2,522,612,286	1,601,141,186	60,537,767	914,048,750	(14,665,416)	(38,450,000)



IDEAL Finance Limited
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41. RISK MANAGEMENT (Contd...)

41.4 Interest Rate Risk (Contd...)

As at 31st March 2020

Financial Assets

	Total As at 31-03-2020 LKR	Interest Bearing			Over 5 Years LKR	Non Interest Bearing LKR
		Less Than 3 Months LKR	3 to 12 Month LKR	1 to 5 Years LKR		
Cash and Bank Balances	44,196,582	-	-	-	-	51,595,413
Investment in Government Securities and Placements with Banks and Other Financial Institutions	939,422,380	871,656,597	67,765,783	-	-	-
Gold Advances	672,715,396	669,531,948	3,183,448	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	2,382,550,085	371,812,286	531,898,717	1,477,778,645	1,060,437	-
Loans and Advances	987,162,476	224,462,306	300,033,253	460,605,052	2,061,865	-
Financial Investments-Measured at Fair Value through OCI	457,700	-	-	-	-	457,700
Other Financial Assets	32,232,575	-	-	-	-	46,820,823
Total Financial Assets	5,058,737,194	2,137,463,138	902,881,201	1,938,383,697	3,122,302	98,871,936

Financial Liabilities

Interest Bearing Borrowings	1,863,561,230	431,220,442	910,746,986	521,593,802	-	-
Due to the Customers	663,934,800	193,568,498	183,288,927	287,077,375	-	-
Other Financial Liabilities	161,746,680	3,756,647	12,435,655	48,529,696	11,309,356	145,886,468
Total Financial Liabilities	2,689,242,709	628,545,587	1,106,471,567	857,200,873	11,309,356	145,886,468
Interest Sensitivity Gap	2,369,494,486	1,508,917,551	(203,590,366)	1,081,182,824	(8,187,055)	(47,014,532)

41.5 The Impact of Covid – 19 on the Risk Management

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

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

