

**MAHINDRA IDEAL FINANCE LIMITED**

**FINANCIAL STATEMENTS**

**31 MARCH 2022**

BW/WDPL/PR/TW

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

**Report on the audit of the financial statements**

***Opinion***

We have audited the financial statements of MAHINDRA IDEAL Finance Limited ("the Company"), which comprise the statement of financial position as at 31 March 2022, 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 2022, 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.

(Contd...2/)



Building a better  
working world

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.

19 April 2022  
Colombo

*Renat + Yonus*

MAHINDRA IDEAL Finance Limited  
**STATEMENT OF COMPREHENSIVE INCOME**  
Year ended 31 March 2022

	Notes	2022 LKR	2021 LKR
<b>Income</b>	3	1,321,536,812	1,015,293,382
Interest Income	4.1	1,242,067,922	973,813,610
Interest Expenses	4.2	(328,347,452)	(256,037,926)
<b>Net Interest Income</b>		<u>913,720,470</u>	<u>717,775,684</u>
Fees and Commission Income	5	12,097,982	10,904,398
<b>Net Fee and Commission Income</b>		<u>12,097,982</u>	<u>10,904,398</u>
Other Operating Income	6	67,370,908	30,575,374
<b>Total Operating Income</b>		<u>993,189,360</u>	<u>759,255,456</u>
Impairment Charges for Loans and other Losses	7	(88,336,470)	(88,586,557)
<b>Net Operating Income</b>		<u>904,852,890</u>	<u>670,668,899</u>
<b>Operating Expenses</b>			
Personnel Expenses	8	(279,077,843)	(194,494,202)
Depreciation of Property Plant & Equipment	23.2	(71,243,356)	(48,991,168)
Amortization of Intangible Assets	24	(6,292,103)	(5,376,310)
Other Operating Expenses	9	(147,445,903)	(61,592,438)
<b>Operating Profit before Taxes on Financial Services</b>		<u>400,793,685</u>	<u>360,214,781</u>
Value Added Tax on Financial Services	10	(90,504,774)	(71,777,093)
<b>Profit before Taxation</b>		<u>310,288,911</u>	<u>288,437,688</u>
Income Tax Expenses	11.1	(71,067,116)	(104,682,413)
<b>Profit/ (Loss) for the period</b>		<u>239,221,795</u>	<u>183,755,275</u>
Basic and Diluted Earning per Share	12.2	1.64	1.26
<b>Profit/ (Loss) for the period</b>		<u>239,221,795</u>	<u>183,755,275</u>
<b>Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods</b>			
Actuarial Gain/ (Loss) on Defined Benefit Obligations	29.3	2,083,840	947,411
Deferred Tax (Charge)/Reversal on Other Comprehensive Income	30	(500,122)	(265,275)
<b>Other Comprehensive Income for the period, Net of Tax</b>		<u>1,583,718</u>	<u>682,136</u>
<b>Total Comprehensive Income for the period, Net of Tax</b>		<u>240,805,513</u>	<u>184,437,411</u>

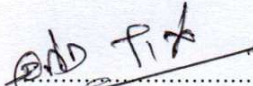
The Accounting Policies and Notes on pages 07 through 57 form an integral part of the Financial Statements.



**MAHINDRA IDEAL Finance Limited**  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 March 2022


	Notes	2022 LKR	2021 LKR
<b>ASSETS</b>			
Cash and Bank Balances	13	135,648,058	71,609,393
Investment in Government Securities at Amortized cost	14	248,709,944	502,394,473
Placements with Banks and Other Financial Institutions	15	287,743,917	211,016,918
Gold Advances	16	2,258,859,086	1,183,764,064
Lease Rentals Receivable and Stock out on Hire	17	3,535,934,193	2,414,429,648
Loans and Advances	18	1,389,311,844	865,820,622
Other Financial Assets	19	61,826,573	41,054,449
Other Non Financial Assets	20	177,169,452	27,054,720
Financial Investments-Measured at Fair Value through OCI	21	457,700	457,700
Inventories	22	328,056	511,273
Property, Plant and Equipment	23	346,499,489	188,756,810
Intangible Assets	24	19,196,706	12,958,541
Deferred Tax Assets		23,683,867	-
<b>TOTAL ASSETS</b>		<b>8,485,368,885</b>	<b>5,519,828,611</b>
<b>LIABILITIES</b>			
Interest Bearing Borrowings	25	2,872,386,024	1,706,358,102
Due to the Customers	26	2,195,018,842	929,639,458
Other Financial Liabilities	27	550,307,273	236,443,617
Other Non Financial Liabilities	28	44,966,937	26,294,479
Retirement Benefit Liability	29	26,338,562	23,049,390
Current Tax Liabilities		50,118,346	87,363,461
Deferred Tax Liabilities	30	-	5,252,716
<b>TOTAL LIABILITIES</b>		<b>5,739,135,984</b>	<b>3,014,401,223</b>
<b>EQUITY</b>			
Stated Capital	31	1,908,247,125	1,908,247,125
Retained Earnings		794,226,785	565,461,548
Reserves	32	43,758,991	31,718,715
<b>TOTAL EQUITY</b>		<b>2,746,232,901</b>	<b>2,505,427,388</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,485,368,885</b>	<b>5,519,828,611</b>

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

  
.....  
Finance Manager

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

  
.....  
Chairman

  
.....  
Chief Executive Officer

The Accounting Policies and Notes on pages 07 through 57 form an integral part of the Financial Statements.



MAHINDRA IDEAL Finance Limited  
**STATEMENT OF CHANGES IN EQUITY**  
 Year ended 31 March 2022

	Stated Capital LKR	Retained Earnings LKR	Statutory Reserve Fund LKR	Total LKR
<b>Balance As at 31 March 2020</b>	1,908,247,125	390,246,008	22,496,844	2,320,989,977
Total Income / (Loss) for the Period	-	183,755,275	-	183,755,275
Other Comprehensive Income (Net of Tax)	-	682,136	-	682,136
Transfer to Statutory Reserve Fund	-	(9,221,871)	9,221,871	-
<b>Balance As at 31 March 2021</b>	<u>1,908,247,125</u>	<u>565,461,548</u>	<u>31,718,715</u>	<u>2,505,427,388</u>
<b>Balance As at 1 April 2021</b>	1,908,247,125	565,461,548	31,718,715	2,505,427,388
Total Income / (Loss) for the Period	-	239,221,795	-	239,221,795
Other Comprehensive Income (Net of Tax)	-	1,583,718	-	1,583,718
Transfer to Statutory Reserve Fund	-	(12,040,276)	12,040,276	-
<b>Balance As at 31 March 2022</b>	<u>1,908,247,125</u>	<u>794,226,785</u>	<u>43,758,991</u>	<u>2,746,232,901</u>

The Accounting Policies and Notes on pages 07 through 57 form an integral part of the Financial Statements.



STATEMENT OF CASH FLOWS

Year ended 31 March 2022

	Note	2022 LKR	2021 LKR
<b>Cash Flows From / (Used in) Operating Activities</b>			
Profit before Income Tax Expense		310,288,911	288,437,688
Adjustment for Other Non Cash Items Included in Profit Before Tax			
Depreciation of Property, Plant and Equipment & ROU Assets	23.2	71,243,356	48,991,168
Amortization of Intangible Assets	24	6,292,103	5,376,310
Provision for Impairment	7	88,336,470	88,586,557
Interest expenses on Borrowings	4.2	183,688,204	166,134,545
Defined Benefit Obligation	8	5,434,262	6,113,667
Dividend Income	6	(240,000)	(320,000)
Disposal (Gain)/Loss on Fixed Assets		(4,366,107)	235,561
Operating Profit before Working Capital Changes		660,677,199	603,555,496
(Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire		(1,175,879,395)	(148,487,441)
(Increase)/Decrease in Loan Stock		(555,430,251)	88,022,024
(Increase)/Decrease in Gold Advance		(1,075,095,022)	(511,048,668)
(Increase)/Decrease in Other Financial Assets		(18,533,533)	(9,443,491)
(Increase)/Decrease in Other Non Financial Assets		(150,114,732)	(4,029,958)
(Increase)/Decrease in Inventories		183,217	406,442
Increase/(Decrease) in Amounts Due to Customers		1,265,379,384	257,722,325
Increase/(Decrease) in Other Financial Liabilities		313,863,656	66,019,178
Increase/(Decrease) in Other Non Financial Liabilities		18,672,458	(7,072,427)
Cash Generated from Operations		(716,277,018)	335,643,480
Retirement Benefit Liabilities Paid	29.2	(61,250)	-
Income Tax Paid		(137,748,935)	(94,550,893)
Net Cash Flows from/(Used in) Operating Activities		(854,087,203)	241,092,587
<b>Cash Flows from / (Used in) Investing Activities</b>			
Purchase of Property, Plant and Equipment	23.1	(75,779,480)	(42,271,115)
Purchase of Right of Use Assets	23.1	(160,707,218)	(29,377,517)
Purchase of Intangible Assets	24	(12,530,268)	(200,000)
Disposal of Property, Plant and Equipment		10,675,000	-
Dividend Received	6	240,000	320,000
Investing in Fixed Deposits	15	(71,441,158)	(210,000,000)
Net Cash Flows from/(Used in) Investment Activities		(309,543,124)	(281,528,632)
<b>Cash Flows from / (Used in) Financing Activities</b>			
Proceeds from Bank Borrowings		2,673,000,000	1,397,000,000
Repayment of Bank Borrowings		(1,866,078,525)	(1,782,714,413)
Rental Paid for Right of Use Assets		(46,849,881)	(28,001,970)
Repayment of Other Borrowed Funds		(1,182,051)	(3,631,013)
Net Cash Flows from/(Used in) Financing Activities		758,889,543	(417,347,396)
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		(404,740,785)	(457,783,441)
<b>Cash and Cash Equivalents at the Beginning of the Period</b>		470,476,486	928,259,927
<b>Cash and Cash Equivalents at the End of the Year</b>	33	65,735,701	470,476,486

The Accounting Policies and Notes on pages 07 through 57 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. On 28<sup>th</sup> January 2022 the company changed its' name to MAHINDRA IDEAL Finance Limited.

MAHINDRA 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**

Mahindra and Mahindra Financial Services Limited, India is the parent of MAHINDRA 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 MAHINDRA IDEAL Finance Limited for the period ended 31 March 2022 were authorized for issue in accordance with a resolution of the Board of Directors on 19 April 2022.





**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 2022 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



**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 2021.

**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.

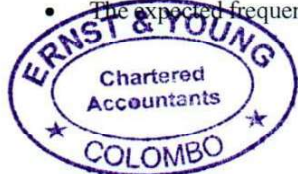
**The details of conditions of business model assessment and the SPPI test are outlined below.**

#### (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 2021/22.

**2.3.1.2.3 Modification of Financial Assets and Liabilities**

**Modification of Financial Assets**

When the contractual cash flows of a financial asset are renegotiated or otherwise modified as a result of commercial restructuring activity rather than due to credit risk and impairment considerations, the company performs an assessment to determine whether the modifications result in the derecognition of that financial asset. If the modification does not result in cash flows that are substantially different, as set out below, then it does not result in derecognition.

**Modification of Financial Liabilities**

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortised cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the financial liability’s original EIR. Any resulting difference is recognised immediately in profit or loss.

**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 2021/22.

	2021/22	2020/21
Base case	30%	20%
Best case	10%	15%
Worst case	60%	65%

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 Write Offs

Financial assets are written off either partially or in their entirety only when the company has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated impairment provision, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the impairment charges of the relevant financial year.

#### 2.3.1.6 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.12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued services. The liability is not externally funded.

### 2.3.11 Provisions

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

### 2.3.12 Other Liabilities

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

### 2.3.13 Foreign currency translation

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

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

### 2.3.14 Recognition of income and expenses

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



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

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

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

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

**(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.

**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 the 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 2022**

The following Sri Lanka Accounting Standards/ Amendments and interpretations have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 March 2022. The Company intends to adopt these new and amended standards, if applicable, when they become effective.

**1. SLFRS 17 Insurance Contracts**

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





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

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

## **2. Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Costs of Fulfilling a Contract**

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets (LKAS 37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

## **3. Amendments to LKAS 16 Property, Plant & Equipment: Proceeds before Intended Use**

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued LKAS 16 Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

## **4. Amendments to SLFRS 3 Business Combinations: Updating a reference to conceptual framework**

In 23 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 3 Business Combinations - Updating a Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

An exception was also added to the recognition principle of SLFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, it was decided to clarify existing guidance in SLFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.



**5. SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards – Subsidiary as a first-time adopter**

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 1 First-time Adoption of International Financial Reporting Standards (SLFRS 1). The amendment permits a subsidiary that elects to apply paragraph D16(a) of SLFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to SLFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of SLFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

**6. SLFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities**

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 9 Financial Instruments (SLFRS 9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

**7. LKAS 41 Agriculture – Taxation in fair value measurements**

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to LKAS 41 Agriculture (LKAS 41). The amendment removes the requirement in paragraph 22 of LKAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of LKAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

**8. Amendments to SLFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021**

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

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, in 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.



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

**IBOR reform Phase 1**

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

- Highly Probable Requirement: when determining whether a forecast transaction is highly probable to be designated as a hedged item, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
- Prospective assessments: when performing prospective assessments to evaluate whether a hedging relationship qualifies for hedge accounting, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.
- LKAS 39 retrospective assesment: an entity is not required to undertake the 'LKAS 39 retrospective assesment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.
- Separately identifiable risk components: For hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement of risk component (or a portion) to be seperately identifiable to be eligible for hedge accounting, only at the inception of such hedging relationships.

**IBOR reform Phase 2**

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

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



MAHINDRA IDEAL Finance Limited  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2022

3. INCOME	2022 LKR	2021 LKR
Interest Income (4.1)	1,242,067,922	973,813,610
Fee and Commission Income (5)	12,097,982	10,904,398
Other Operating Income (6)	67,370,908	30,575,374
<b>Total Income</b>	<u>1,321,536,812</u>	<u>1,015,293,382</u>
4. NET INTEREST INCOME	2022 LKR	2021 LKR
<b>4.1 Interest Income</b>		
From Placements with Banks and Other Financial Institutions	11,404,986	1,129,155
From Government Securities	20,171,944	39,567,391
From Lease Rental Receivable & Stock Out on Hire	644,897,703	529,397,365
From Loans and Advances	220,135,915	214,963,320
From Gold Advances	344,470,014	187,899,111
From Refundable Deposits	987,360	857,268
<b>Total Interest Income</b>	<u>1,242,067,922</u>	<u>973,813,610</u>
<b>4.2 Interest Expense</b>		
Due to Banks	183,688,204	147,091,025
Due to Customers	126,140,678	78,550,860
On Intercompany Borrowings	-	19,043,520
On Obligation to Make the Lease Payment for Right of Use Assets	18,518,570	11,352,521
<b>Total Interest Expenses</b>	<u>328,347,452</u>	<u>256,037,926</u>
<b>Net Interest Income</b>	<u>913,720,470</u>	<u>717,775,684</u>
5. FEE AND COMMISSION INCOME	2022 LKR	2021 LKR
Commission Income	12,097,982	10,904,398
<b>Fee and Commission Income</b>	<u>12,097,982</u>	<u>10,904,398</u>
6. OTHER OPERATING INCOME	2022 LKR	2021 LKR
Dividend Income	240,000	320,000
Net Income from Real Estate Operations	6,491,505	9,303,534
Service Charges Gold Loan	42,484,947	-
Vehicle Hiring Income	-	1,815,807
Other Operating Income	18,154,456	19,136,033
<b>Total Other Operating Income</b>	<u>67,370,908</u>	<u>30,575,374</u>



MAHINDRA IDEAL Finance Limited  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 March 2022

7. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES	2022 LKR	2021 LKR
Charge/(write-back) to the statement of comprehensive income		
– Impairment on individually significant loans	(18,305,295)	10,499,229
– Impairment on collective loan portfolio	106,857,765	39,062,330
– write-offs/(recoveries)	(216,000)	39,024,998
– Impairment on Other Financial Assets	-	-
<b>Total Impairment Charge</b>	<u>88,336,470</u>	<u>88,586,557</u>
	<b>2022 LKR</b>	<b>2021 LKR</b>
Lease Rentals Receivable and Stock out on Hire (Note 17.2.a)		
Stage 1	24,236,878	14,694,031
Stage 2	17,631,143	7,205,209
Stage 3	12,506,829	22,052,015
	<u>54,374,850</u>	<u>43,951,255</u>
Loans and Advances (Note 18.2.a)		
Stage 1	16,691,200	3,738,733
Stage 2	5,147,957	(993,262)
Stage 3	10,099,872	2,469,531
	<u>31,939,029</u>	<u>5,215,002</u>
Other Financial Assets (Note 19.1.a)		
Stage 1	183,425	200,355
Stage 2	61,672	38,762
Stage 3	1,993,494	156,183
	<u>2,238,591</u>	<u>395,300</u>
	<b>2022 LKR</b>	<b>2021 LKR</b>
8. PERSONNEL EXPENSES		
Salaries	179,467,956	133,094,858
Employers' Contribution to Employee's Provident Fund	19,998,779	15,299,974
Employers' Contribution to Employee's Trust Fund	4,999,695	3,824,993
Gratuity Charge for the year	5,434,262	6,113,667
Other Staff Related Expenses	69,177,151	36,160,710
	<u>279,077,843</u>	<u>194,494,202</u>
	<b>2022 LKR</b>	<b>2021 LKR</b>
9. OTHER OPERATING EXPENSES		
Directors' Emoluments	6,100,000	5,000,000
Auditors' Remuneration	1,593,648	1,759,537
Professional and Legal Expenses	8,337,708	3,171,753
Office Administration and Establishment Expenses	46,657,725	29,791,038
Advertising and Promotional Expenses	66,287,857	10,937,397
License and Renewal Fees	2,364,774	1,714,960
Other Expenses	16,104,191	9,217,753
	<u>147,445,903</u>	<u>61,592,438</u>
	<b>2022 LKR</b>	<b>2021 LKR</b>
10. VALUE ADDED TAX AND NBT ON FINANCIAL SERVICES		
	90,504,774	71,777,093
	<u>90,504,774</u>	<u>71,777,093</u>



11. INCOME TAX EXPENSES

11.1 The major component of income tax for the period ended 31 March 2022 as follows;

Income Statement	2022 LKR	2021 LKR
<b>Current Income Tax</b>		
Income Tax for the Period	121,130,279	144,385,206
Due to rate reduction	(20,626,459)	-
<b>Deferred Tax</b>		
Deferred Tax Charge (Note 30)	(30,187,092)	(39,702,793)
Due to rate reduction	750,388	-
<b>Income Tax Expenses reported in the Income Statement</b>	<u>71,067,116</u>	<u>104,682,413</u>
<b>Statement of Other Comprehensive Income</b>		
Differed Tax related to items recognized in OCI during the year		
Net Gain/(Loss) on Actuarial Gains/Losses during the year	500,122	265,275
<b>Income Tax Expenses reported in the Other Comprehensive Income</b>	<u>500,122</u>	<u>265,275</u>
<b>Total Income Tax Expense for the year</b>	<u>71,567,237</u>	<u>104,947,688</u>
Income Tax Rate Applicable	24%	28%

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 2022 as follows.

Accounting Profit / (Loss) Before Income Taxation	310,288,911	288,437,688
Aggregate allowable expenditure	(174,768,110)	(337,641,799)
Tax loss utilised	-	-
Aggregate disallowable expenditure	369,188,695	564,865,559
	<u>504,709,497</u>	<u>515,661,448</u>
Tax at statutory rates	121,130,279	144,385,206
Less : Due to rate reduction	(20,626,459)	-
	<u>100,503,820</u>	<u>144,385,206</u>
Deferred taxation charged/(Reversal)	(30,187,092)	(39,702,793)
Add : Due to rate reduction	750,388	-
	<u>71,067,116</u>	<u>104,682,413</u>
Effective Tax Rate	22.90%	36.29%

**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. However, the said amendment was subsequently enacted on 13th May 2021 with retrospective effect from the Year of Assessment 2020/21.

The impact on the income tax expense for the year ended 31 March 2021 and on the deferred tax liabilities/ assets as at 31 March 2021 have been considered in the tax expense for the year ended 31 March 2022.

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;

	2022 LKR	2021 LKR
<b>Amount Used as Numerators</b>		
Profit attributable to Ordinary Share Holders	239,221,795	183,755,275
<b>Number of Ordinary shares used as Denominator</b>		
Weighted Average Number of Ordinary Shares	145,639,098	145,639,098
<b>Basic and Diluted Earning Per Ordinary Shares</b>	1.64	1.26



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

13. CASH AND BANK BALANCES	2022 LKR	2021 LKR	
Cash in Hand	43,786,257	22,483,451	
Bank Balances	91,861,801	49,125,942	
	<u>135,648,058</u>	<u>71,609,393</u>	
14. INVESTMENT IN GOVERNMENT SECURITIES	2022 LKR	2021 LKR	
REPO Investment - at Amortized Cost	248,709,944	502,394,473	
	<u>248,709,944</u>	<u>502,394,473</u>	
15. PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS	2022 LKR	2021 LKR	
Placement With Banks (Fixed Deposit)	287,743,917	211,016,918	
	<u>287,743,917</u>	<u>211,016,918</u>	
16. GOLD ADVANCES	2022 LKR	2021 LKR	
Gold Advances	2,258,859,086	1,183,764,064	
	<u>2,258,859,086</u>	<u>1,183,764,064</u>	
17. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE	2022 LKR	2021 LKR	
Rental Receivable on Lease	4,984,921,203	3,402,853,160	
<b>Gross Rentals Receivables</b>	<u>4,984,921,203</u>	<u>3,402,853,160</u>	
Less: Unearned Income	(1,243,256,425)	(844,689,833)	
	<u>3,741,664,778</u>	<u>2,558,163,327</u>	
Less : Rentals Received in Advance	(34,747,857)	(27,125,801)	
<b>Net Rentals Receivables before charging Allowance for Impairment Losses</b>	<u>3,706,916,921</u>	<u>2,531,037,526</u>	
Less : Allowance for Impairment Losses (Note 17.2)	(170,982,728)	(116,607,878)	
<b>Total Net Rentals Receivable</b>	<u>3,535,934,193</u>	<u>2,414,429,648</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	2,350,418,718	49,912,519	2,300,506,199
Stage - 2	838,982,698	37,349,194	801,633,504
Stage - 3	517,515,505	83,721,015	433,794,490
	<u>3,706,916,921</u>	<u>170,982,728</u>	<u>3,535,934,193</u>



MAHINDRA IDEAL Finance Limited  
**NOTES TO THE FINANCIAL STATEMENTS**  
 Year ended 31 March 2022

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 2021	25,675,641	19,718,051	43,191,752	28,022,433	116,607,878
Charges/(Reversals) for the year	24,236,878	17,631,143	30,004,089	(17,497,260)	54,374,850
Amount written off	-	-	-	-	-
Balance as at 31 March 2022	<u>49,912,519</u>	<u>37,349,194</u>	<u>73,195,841</u>	<u>10,525,173</u>	<u>170,982,728</u>

(b) Movement in allowance for impairment

	2022 LKR	2021 LKR
As at 01 April	116,607,878	72,656,622
Charges/(reversals) for the year	54,374,850	72,254,889
Amounts written off	-	(28,303,634)
As at 31 March	<u>170,982,728</u>	<u>116,607,878</u>
Individual impairment	10,525,173	28,022,433
Collective impairment	160,457,555	88,585,445
<b>Total</b>	<u>170,982,728</u>	<u>116,607,878</u>

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

	2022 LKR	2021 LKR
<b>Individual Impairment</b>		
As at 1 April	28,022,433	17,974,778
Charges/(reversals) for the year	(17,497,260)	14,378,801
Amounts written off	-	(4,331,146)
As at 31 March	<u>10,525,173</u>	<u>28,022,433</u>
<b>Collective Impairment</b>		
As at 1 April	88,585,445	54,681,844
Charges/(reversals) for the year	71,872,110	57,876,088
Amounts written off	-	(23,972,487)
As at 31 March	<u>160,457,555</u>	<u>88,585,445</u>
<b>Total</b>	<u>170,982,728</u>	<u>116,607,878</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	2022 Sensitivity effect on Impairment Allowance	2021 Sensitivity effect on Impairment Allowance Increase
Loss Given Defaults (LGD)	Increase by 1%	9,390,486	5,273,674
Probability of Default (PD)	Increase by 1%	6,304,964	3,805,608
Economic Factor Adjustment (EFA)	Increase by 5%	3,077,001	1,668,815





NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

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	1,734,181,331	3,242,599,110	8,140,762	4,984,921,203
Less: Unearned Income	(541,842,898)	(700,949,969)	(463,558)	(1,243,256,425)
	1,192,338,433	2,541,649,141	7,677,204	3,741,664,778
Less : Rentals Received in Advance				(34,747,857)
<b>Net Rentals Receivable before charging Allowance for Impairment Losses</b>				<b>3,706,916,921</b>

18. LOANS AND ADVANCES

	2022 LKR	2021 LKR
Loan Receivable	1,760,389,068	1,120,740,415
Less : Unearned Interest Income	(279,892,183)	(212,396,098)
<b>Net Receivable</b>	<b>1,480,496,885</b>	<b>908,344,317</b>
Less : Loan Received In Advance	(25,926,181)	(9,203,864)
<b>Net Loan Receivables before charging Allowance for Impairment Losses</b>	<b>1,454,570,704</b>	<b>899,140,453</b>
Less : Allowance for Impairment Losses (Note 18.2)	(65,258,860)	(33,319,831)
<b>Total Net Loan Receivable</b>	<b>1,389,311,844</b>	<b>865,820,622</b>

18.1 Net Receivable on Loans

	Net Loan Receivables LKR	Allowance for Impairment Losses LKR	Total Net Loan Receivable LKR
Stage - 1	1,051,064,474	26,075,948	1,024,988,526
Stage - 2	209,632,395	7,993,319	201,639,076
Stage - 3	193,873,835	31,189,593	162,684,242
	<b>1,454,570,704</b>	<b>65,258,860</b>	<b>1,389,311,844</b>

18.2 Allowance for Impairment Losses 'LKR

(a) Allowance for Impairment with stage wise

	Stage -1 LKR	Collective Stage -2 LKR	Stage -3 LKR	Individual Stage -3 LKR	Total LKR
Balance as at 01 April 2021	9,384,747	2,845,362	18,305,594	2,784,127	33,319,831
Charges/(Reversals) for the year	16,691,200	5,147,957	10,907,906	(808,034)	31,939,029
Amount written off	-	-	-	-	-
Balance as at 31 March 2022	<b>26,075,948</b>	<b>7,993,319</b>	<b>29,213,500</b>	<b>1,976,093</b>	<b>65,258,860</b>



MAHINDRA IDEAL Finance Limited  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 2022

18. LOANS AND ADVANCES (Contd...)

18.2 Allowance for Impairment Losses (Contd...)

	2022 LKR	2021 LKR
<b>(b) Movement in allowance for impairment</b>		
As at 01 April	33,319,831	28,104,828
Charges/(reversals) for the year	31,939,029	15,936,367
Amounts written off	-	(10,721,364)
As at 31 March	65,258,860	33,319,831
Individual impairment	1,976,093	2,784,127
Collective impairment	63,282,767	30,535,704
<b>Total</b>	<b>65,258,860</b>	<b>33,319,831</b>

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

	2022 LKR	2021 LKR
<b>Individual Impairment</b>		
As at 1 April	2,784,127	2,332,554
Charges/(reversals) for the year	(808,034)	451,573
Amounts written off	-	-
As at 31 March	1,976,093	2,784,127

	2022 LKR	2021 LKR
<b>Collective Impairment</b>		
As at 1 April	30,535,703	25,772,274
Charges/(reversals) for the year	32,747,064	15,484,794
Amounts written off	-	(10,721,364)
As at 31 March	63,282,767	30,535,703
Total	65,258,860	33,319,831

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

Changed Criteria	Changed Factor	2022	2021
		Sensitivity effect on Impairment Allowance Increase	Sensitivity effect on Impairment Allowance Increase
Loss Given Default (LGD)	Increase by 1%	3,444,912	1,716,371
Probability of Default (PD)	Increase by 1%	2,333,930	1,253,202
Economic Factor Adjustment (EFA)	Increase by 5%	1,116,653	448,319

18.4 Receivable on Loan Stock

	Within One Year LKR	1 to 5 Years LKR	Over 5 Years LKR	Total LKR
Gross Receivables	1,073,640,967	676,356,455	10,391,646	1,760,389,068
Less: Unearned Income	(178,188,461)	(100,644,641)	(1,059,081)	(279,892,183)
	895,452,506	575,711,814	9,332,565	1,480,496,885
Less: Rentals Received in Advance				(25,926,181)
<b>Net Receivable before charging Allowance for Impairment Losses</b>				<b>1,454,570,704</b>



MAHINDRA IDEAL Finance Limited  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 2022

19. OTHER FINANCIAL ASSETS	2022 LKR	2021 LKR
Refundable Deposit	12,782,277	9,001,709
Sundry Debtors	2,126,837	1,543,016
Other Receivable	46,917,459	30,509,724
	<u>61,826,573</u>	<u>41,054,449</u>

19.1 Other Receivable

Other Charges Recoverable	17,361,172	2,463,497
Insurance Recoverable	27,226,459	23,545,255
Other Receivable	6,642,145	6,574,698
Less : Allowance for Impairment Losses	(4,312,317)	(2,073,726)
	<u>46,917,459</u>	<u>30,509,724</u>

Impairment Allowance for Other Receivables

(a) Allowance for Impairment with stage wise

	Stage -1 LKR	Collective Stage -2 LKR	Stage -3 LKR	Individual Stage -3 LKR	Total LKR
Balance as at 01 April 2021	242,423	72,065	1,759,238	-	2,073,726
Charges/(Reversals) for the year	183,425	61,672	1,993,494	-	2,238,591
Amount written off	-	-	-	-	-
Balance as at 31 March 2022	<u>425,848</u>	<u>133,737</u>	<u>3,752,732</u>	<u>-</u>	<u>4,312,317</u>

(b) Movement in allowance for impairment

	2022 LKR	2021 LKR
As at 01 April	2,073,726	1,678,426
Charges/(reversals) for the year	2,238,591	395,300
Amounts written off	-	-
As at 31 March	<u>4,312,317</u>	<u>2,073,726</u>
Collective impairment	<u>4,312,317</u>	<u>2,073,726</u>
<b>Total</b>	<u>4,312,317</u>	<u>2,073,726</u>

Collective Impairment

	2022 LKR	2021 LKR
As at 1 April	2,073,726	1,678,426
Charges/(reversals) for the year	2,238,591	395,300
Amounts written off	-	-
As at 31 March	<u>4,312,317</u>	<u>2,073,726</u>
<b>Total Allowance for Impairment</b>	<u>4,312,317</u>	<u>2,073,726</u>



MAHINDRA IDEAL Finance Limited  
**NOTES TO THE FINANCIAL STATEMENTS**  
 Year ended 31 March 2022

19. OTHER FINANCIAL ASSETS (Contd...)

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

Changed Criteria	Changed Factor	2022 Sensitivity effect on Impairment Allowance Increase LKR	2021 Sensitivity effect on Impairment Allowance Increase LKR
Loss Given Default (LGD)	Increase by 1%	243,265	123,566
Probability of Default (PD)	Increase by 1%	43,850	32,271
Economic Factor Adjustment (EFA)	Increase by 5%	19,194	11,548

20. OTHER NON FINANCIAL ASSETS

	2022 LKR	2021 LKR
Advances and Prepayment	177,169,452	27,054,720
	<u>177,169,452</u>	<u>27,054,720</u>

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

	2022 LKR	No. of Shares	2021 LKR	No. of Shares
<b>Equities-Unquoted</b>				
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

	2022 LKR	2021 LKR
Stationeries	328,056	511,273
	<u>328,056</u>	<u>511,273</u>



MAHINDRA IDEAL Finance Limited  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 2022

23. PROPERTY, PLANT & EQUIPMENT

23.1 Gross Carrying Amounts	Balance As at 31.03.2021 LKR	Additions/ Transfers LKR	Disposals/ Transfers LKR	Balance As at 31.03.2022 LKR
<b>At Cost</b>				
<b>Freehold Assets</b>				
Furniture & Fittings	84,375,406	44,283,380	-	128,658,786
Office Equipment	50,054,105	22,684,708	-	72,738,813
Computer Equipment	21,897,384	8,811,392	-	30,708,776
Motor Vehicles	53,547,000	-	(10,390,000)	43,157,000
	<u>209,873,895</u>	<u>75,779,480</u>	<u>(10,390,000)</u>	<u>275,263,375</u>
<b>Assets on Leases</b>				
Right of Use Assets	124,518,171	160,707,218	(2,314,178)	282,911,211
<b>Total Value of Depreciable Assets</b>	<u>334,392,066</u>	<u>236,486,698</u>	<u>(12,704,178)</u>	<u>558,174,586</u>

23.2 Depreciation	Balance As at 31.03.2021 LKR	Charge for the year/ Transfers LKR	Disposals/ Transfers LKR	Balance As at 31.03.2022 LKR
<b>At Cost</b>				
<b>Freehold Assets</b>				
Furniture & Fittings	43,990,174	17,111,246	-	61,101,420
Office Equipment	24,948,441	10,187,734	-	35,136,175
Computer Equipment	14,893,160	3,264,761	-	18,157,921
Motor Vehicles	16,818,820	3,292,974	(3,895,500)	16,216,294
	<u>100,650,595</u>	<u>33,856,715</u>	<u>(3,895,500)</u>	<u>130,611,810</u>
<b>Assets On Leases</b>				
Motor Vehicles	-	-	-	-
Right of Use Assets	44,984,661	37,386,641	(1,308,014)	81,063,287
<b>Total Depreciation</b>	<u>145,635,256</u>	<u>71,243,356</u>	<u>(5,203,514)</u>	<u>211,675,097</u>

23.3 Net Book Values	2022 LKR	2021 LKR
<b>At Cost</b>		
Furniture & Fittings	67,557,366	40,385,232
Office Equipment	37,602,638	25,105,664
Computer Equipment	12,550,855	7,004,224
Motor Vehicles	26,940,706	20,912,718
	<u>144,651,565</u>	<u>93,407,838</u>
<b>Assets on Leases</b>		
Motor Vehicles	-	15,815,462
Right of Use Assets	201,847,924	79,533,510
<b>Total Carrying Amount of Property, Plant &amp; Equipment</b>	<u>346,499,489</u>	<u>188,756,810</u>



MAHINDRA IDEAL Finance Limited  
**NOTES TO THE FINANCIAL STATEMENTS**  
 Year ended 31 March 2022

**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 2022, which are still in use as at the reporting date is as follows;

	<b>2022</b>	<b>2021</b>
	<b>LKR</b>	<b>LKR</b>
Furniture & Fittings	10,864,526	9,512,357
Office Equipment	10,203,353	8,322,700
Computer Equipment	9,782,645	8,527,645
Motor Vehicles	3,257,000	3,257,000
	<u>34,107,524</u>	<u>29,619,703</u>

**24. INTANGIBLE ASSETS**

	<b>2022</b>	<b>2021</b>
	<b>LKR</b>	<b>LKR</b>
<b>Computer System Software</b>		
<b>Cost:</b>		
Opening Balance	53,959,768	53,759,768
Addition	12,530,268	200,000
Disposal	-	-
Closing Balance	<u>66,490,036</u>	<u>53,959,768</u>
<b>Less: Amortization</b>		
Opening Balance	41,001,227	35,624,917
Amortization Charge for the Period	6,292,103	5,376,310
Closing Balance	<u>47,293,330</u>	<u>41,001,227</u>
<b>Net Book Value as at 31 March</b>	<u>19,196,706</u>	<u>12,958,541</u>

**25. INTEREST BEARING BORROWINGS**

	<b>2022</b>	<b>2021</b>
	<b>LKR</b>	<b>LKR</b>
Leases	-	1,182,051
Bank Over Draft	318,622,301	103,527,380
Bank Borrowings	1,639,108,936	1,283,279,661
Securitization Borrowings	914,654,787	318,369,010
	<u>2,872,386,024</u>	<u>1,706,358,102</u>

**25.1 Lease Liability**

	<b>2022</b>	<b>2021</b>
	<b>LKR</b>	<b>LKR</b>
Gross liability	-	1,218,044
Less: Finance Charge Allocated to Future Period	-	(35,993)
<b>Net Liability</b>	<u>-</u>	<u>1,182,051</u>

**Repayable Within one year**

<b>Gross Liability</b>	-	1,218,044
Less: Finance Charge Allocated to Future Period	-	(35,993)
<b>Net Liability</b>	<u>-</u>	<u>1,182,051</u>
<b>Total Net Liability</b>	<u>-</u>	<u>1,182,051</u>



MAHINDRA IDEAL Finance Limited  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 2022

25. INTEREST BEARING BORROWINGS (Contd...)

	2022	2021
	LKR	LKR
<b>25.2 Bank Borrowings</b>		
Gross liability	1,759,134,644	1,396,835,211
Less: Finance Charge Allocated to Future Period	(120,025,708)	(113,555,550)
<b>Net Liability</b>	<u>1,639,108,936</u>	<u>1,283,279,661</u>
<b>Repayable Within one year</b>		
Gross Liability	1,322,408,092	873,808,750
Less: Finance Charge Allocated to Future Period	(76,259,161)	(75,635,276)
<b>Net Liability</b>	<u>1,246,148,931</u>	<u>798,173,474</u>
<b>Repayable After one year (1 to 5 Year)</b>		
Gross Liability	436,726,552	523,026,461
Less: Finance Charge Allocated to Future Period	(43,766,547)	(37,920,274)
<b>Net Liability</b>	<u>392,960,005</u>	<u>485,106,187</u>
<b>Total Net Liability</b>	<u>1,639,108,936</u>	<u>1,283,279,661</u>
<b>25.2 Securitization Borrowings</b>	<b>2022</b>	<b>2021</b>
	<b>LKR</b>	<b>LKR</b>
Gross liability	1,048,984,158	340,464,393
Less: Finance Charge Allocated to Future Period	(134,329,371)	(22,095,382)
<b>Net Liability</b>	<u>914,654,787</u>	<u>318,369,010</u>
<b>Repayable Within one year</b>		
Gross Liability	560,764,932	233,506,372
Less: Finance Charge Allocated to Future Period	(60,061,697)	(7,137,362)
<b>Net Liability</b>	<u>500,703,235</u>	<u>226,369,010</u>
<b>Repayable After one year (1 to 5 Year)</b>		
Gross Liability	488,219,225	106,958,021
Less: Finance Charge Allocated to Future Period	(74,267,673)	(14,958,021)
<b>Net Liability</b>	<u>413,951,552</u>	<u>92,000,000</u>
<b>Total Net Liability</b>	<u>914,654,787</u>	<u>318,369,010</u>

25.2.1 Institution Wise Loan Facilities

	As at 31.03.2022	As at 01.04.2021	Security
	LKR	LKR	
<b>Short Term</b>			
Seylan Bank PLC	200,405,479	-	Mortgage over Lease Receivables
Hatton National Bank PLC	454,478,596	75,096,233	Mortgage over Gold Loan Receivables
Commercial Bank of Ceylon PLC	200,356,164	140,030,137	Lien over Corporate Fixed Deposits
	<u>855,240,239</u>	<u>215,126,370</u>	
<b>Long Term</b>			
Bank of Ceylon	538,725,463	743,801,635	Mortgage over Lease Receivables
Seylan Bank PLC	1,033,162	60,558,251	Mortgage over Lease Receivables
Hatton National Bank PLC	244,110,073	66,026,255	Mortgage over Loan Receivables
M Power Capital Limited	238,381,587	315,987,557	Mortgage over Gold Loan receivables
National Development Bank PLC	163,408,323	200,148,603	Mortgage over Lease Receivables
Equity Securities Private Limited	512,864,876	-	Mortgage over Lease Receivables
	<u>1,698,523,484</u>	<u>1,386,522,301</u>	
	<u>2,553,763,723</u>	<u>1,601,648,671</u>	



MAHINDRA IDEAL Finance Limited  
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

26. DUE TO CUSTOMERS	2022 LKR	2021 LKR
Fixed Deposit	2,195,018,842	929,639,458
	<u>2,195,018,842</u>	<u>929,639,458</u>
27. OTHER FINANCIAL LIABILITIES	2022 LKR	2021 LKR
Trade Payable	189,659,666	73,917,533
Accrued Expense	54,488,607	43,381,234
Obligation to Make the Lease Payment (Note 27.1)	205,263,559	84,559,422
Sundry Creditors	100,895,441	34,585,428
	<u>550,307,273</u>	<u>236,443,617</u>
27.1 Obligation to Make the Lease Payment	2022 LKR	2021 LKR
As at 1 April	84,559,422	76,031,354
Effects of SLFRS 16 adoption as at 1 April 2019	-	-
Additions and improvements during the year	150,227,218	25,177,517
Disposals during the year	(1,191,771)	
Accretion of interest during the year	18,518,570	11,352,521
Payments to lease creditors	(46,849,881)	(28,001,970)
As at 31 March	<u>205,263,558</u>	<u>84,559,422</u>
28. OTHER NON FINANCIAL LIABILITIES	2022 LKR	2021 LKR
Stamp Duty Payable	9,559,575	3,531,243
Dividend Payable	961,829	961,829
Other Liabilities	34,445,533	21,801,407
	<u>44,966,937</u>	<u>26,294,479</u>
29. RETIREMENT BENEFIT LIABILITY	2022 LKR	2021 LKR
29.1 Defined Benefit Liability		
Defined Benefit Liability	<u>26,338,562</u>	<u>23,049,390</u>
	<u>26,338,562</u>	<u>23,049,390</u>
29.2 Changes in the Defined benefit obligation are as follows		
Opening Liability	23,049,390	17,883,134
Net Benefit expense	3,350,422	5,166,256
Benefit paid	-	-
Closing Liability	<u>26,399,812</u>	<u>23,049,390</u>
29.3 Net Benefit expense		
Interest Cost	1,659,556	1,738,240
Current Service Cost	5,191,889	4,375,427
Gain on Plan Amendment	(1,417,183)	-
Actuarial Gain on Obligations	(2,083,840)	(947,411)
	<u>3,350,422</u>	<u>5,166,256</u>





MAHINDRA IDEAL Finance Limited  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 2022

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 2022. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2022	2021
Discount Rate	15.11%	7.20%
Future Salary Increment Rate	12.00%	6.00%
Retirement age	60 Years	55 Years
The weighted average duration of the defined benefit obligation	7 Years	5.5 Years
Mortality - GA 1983 Mortality Table issued by the Institute of Actuaries London		

The Retirement Age was amended from 55 Years to 60 Years due to the increase in retirement age enacted by the Minimum Retirement Age of Workers Act No. 28 of 2021.

29.5 Sensitivity Analysis

+/- 1% change on Discount Rate and Salary Increase- present value of defined benefit obligation as at 31 March 2022.

	Present Value of Defined Benefit Obligation (PVDBO)		
	31-Mar-22	31-Mar-22	31-Mar-22
Discount Rate	14.11%	15.11%	16.11%
Basic Salary Scale	12.0%	12.0%	12.0%
Census at	31-Mar-22	31-Mar-22	31-Mar-22
Total PVDBO	27,897,819	26,338,562	24,991,754

	Present Value of Defined Benefit Obligation (PVDBO)		
	31-Mar-22	31-Mar-22	31-Mar-22
Discount Rate	15.11%	15.11%	15.11%
Basic Salary Scale	11.0%	12.0%	13.0%
Census at	31-Mar-22	31-Mar-22	31-Mar-22
Total PVDBO	24,966,371	26,338,562	27,904,205

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



MAHINDRA IDEAL Finance Limited  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 2022

30. DEFERRED TAX LIABILITY

	Statement of Financial Position		Statement of Comprehensive Income		Statement of Other Comprehensive Income	
	2022 LKR	2021 LKR	2022 LKR	2021 LKR	2022 LKR	2021 LKR
<b>Deferred Tax Liability</b>						
Property Plant & Equipment	11,183,186	10,380,765	802,421	1,293,998	-	-
Intangible Assets	1,791,923	3,374,646	(1,582,722)	(1,063,312)	-	-
Lease Rental	5,015,292	17,597,132	(12,581,841)	(27,816,214)	-	-
Lease Creditor	-	4,087,294	(4,087,294)	788,371	-	-
	<u>17,990,401</u>	<u>35,439,837</u>	<u>(17,449,437)</u>	<u>(26,797,157)</u>	-	-
<b>Deferred Tax Assets</b>						
Defined Benefit Plan Obligation	6,321,255	6,453,829	(367,547)	(1,711,827)	500,122	265,275
Impairment of Loans and Receivables	23,885,966	19,946,810	(3,939,157)	(11,059,701)	-	-
Tax Paid in advance for Real Estate Income	-	842,168	842,168	1,110,603	-	-
Brought Forward Tax Loss	-	-	-	-	-	-
Right of Use Assets	12,217,434	2,944,315	(9,273,119)	(1,244,712)	-	-
	<u>42,424,655</u>	<u>30,187,122</u>	<u>(12,737,655)</u>	<u>(12,905,636)</u>	<u>500,122</u>	<u>265,275</u>
	(24,434,255)	5,252,716				
<b>Deferred Income Tax Income/(Expense)</b>			<u>(30,187,092)</u>	<u>(39,702,793)</u>	<u>500,122</u>	<u>265,275</u>
<b>Deferred Tax (Asset)/Liabilities</b>	(24,434,255)	5,252,716				
<b>Due to rate reduction</b>	750,388					
<b>Net Deferred Tax (Asset)/Liabilities</b>	<u>(23,683,867)</u>					

31. STATED CAPITAL

Issued and Fully Paid-Ordinary Shares	No. of Shares	Rs.
<b>Balance as of 1 April 2020</b>	145,639,098	1,908,247,125
Issued during the Period	-	-
<b>Balance as of 31 March 2021</b>	<u>145,639,098</u>	<u>1,908,247,125</u>
<b>Balance as of 1 April 2021</b>	145,639,098	1,908,247,125
Issued during the Period	-	-
<b>Balance as of 31 March 2022</b>	<u>145,639,098</u>	<u>1,908,247,125</u>

32. RESERVES

	2022 LKR	2021 LKR
Statutory Reserve Fund	43,758,991	38,968,709
Closing Balance	<u>43,758,991</u>	<u>38,968,709</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.



MAHINDRA IDEAL Finance Limited  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 2022

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

Components of cash and cash Equivalents	2022 LKR	2021 LKR
<b>Favorable Cash &amp; Cash Equivalents Balance</b>		
Cash and Bank Balance (Note 13)	135,648,058	71,609,393
Investment in government securities (Note 14)	248,709,944	502,394,473
	<u>384,358,002</u>	<u>574,003,866</u>
<b>Un-Favorable Cash &amp; Cash Equivalents Balance</b>		
Bank Over Draft (Note 25)	318,622,301	103,527,380
	<u>318,622,301</u>	<u>103,527,380</u>
Total Cash and Cash Equivalents for the Purpose of Cash Flow Statement	<u>65,735,701</u>	<u>470,476,486</u>

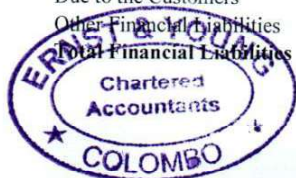
34. ANALYSIS OF FINANCIAL ASSETS & LIABILITIES BY MEASUREMENT BASIS

As at 31 March 2022

	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
<b>Financial Assets</b>				
Cash & Bank Balances	-	-	135,648,058	135,648,058
Investment in government Securities	-	-	248,709,944	248,709,944
Placements with Other Banks & Financial Institutions	-	-	287,743,917	287,743,917
Lease Rentals Receivable and Stock out on Hire	-	-	3,535,934,193	3,535,934,193
Loans and Advances	-	-	1,389,311,844	1,389,311,844
Gold Advances	-	-	2,258,859,086	2,258,859,086
Financial Investments-measured at Fair Value through OCI	-	457,700	-	457,700
Other Financial Assets	-	-	61,826,573	61,826,573
<b>Total Financial Assets</b>	<u>-</u>	<u>457,700</u>	<u>7,918,033,615</u>	<u>7,918,491,315</u>
<b>Financial Liabilities</b>				
Interest Bearing Borrowings	-	-	2,872,386,024	2,872,386,024
Due to the Customers	-	-	2,195,018,842	2,195,018,842
Other Financial Liabilities	-	-	550,307,273	550,307,273
<b>Total Financial Liabilities</b>	<u>-</u>	<u>-</u>	<u>5,617,712,139</u>	<u>5,617,712,139</u>

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
<b>Financial Assets</b>				
Cash & Bank Balances	-	-	71,609,393	71,609,393
Investment in government Securities	-	-	502,394,473	502,394,473
Placements with Other Banks & Financial Institutions	-	-	211,016,918	211,016,918
Lease Rentals Receivable and Stock out on Hire	-	-	2,414,429,648	2,414,429,648
Loans and Advances	-	-	865,820,622	865,820,622
Gold Advances	-	-	1,183,764,064	1,183,764,064
Financial Investments-measured at Fair Value through OCI	-	457,700	-	457,700
Other Financial Assets	-	-	41,054,449	41,054,449
<b>Total Financial Assets</b>	<u>-</u>	<u>457,700</u>	<u>5,290,089,567</u>	<u>5,290,547,267</u>
<b>Financial Liabilities</b>				
Interest Bearing Borrowings	-	-	1,706,358,102	1,877,769,625
Due to the Customers	-	-	929,639,458	671,917,133
Other Financial Liabilities	-	-	236,443,617	161,746,680
<b>Total Financial Liabilities</b>	<u>-</u>	<u>-</u>	<u>2,872,441,177</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.

**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 2022	Level	Carrying Amount LKR	Fair Value LKR
<b>Financial Assets</b>			
Lease Rentals Receivable and Stock out on Hire	Level 02	3,535,934,193	3,701,940,710
Loans and Advances	Level 02	1,389,311,844	1,475,555,073
<b>Financial Liabilities</b>			
Interest Bearing Borrowings	Level 02	2,553,763,722	2,364,364,916



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

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

35.2 Fair Value of the Financial Instrument Carried at Amortized Cost

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

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



MAHINDRA IDEAL Finance Limited  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 2022

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 2022	Within 12-Months LKR	After 12-Months LKR	Total LKR
<b>ASSETS</b>			
Cash and Bank Balances	135,648,058	-	135,648,058
Investment in Government Securities	248,709,944	-	248,709,944
Placements with Banks and Other Financial Institutions	287,743,917	-	287,743,917
Gold Advances	2,258,859,086	-	2,258,859,086
Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances	1,790,446,222	3,134,799,815	4,925,246,037
Other Financial Assets	53,053,655	8,772,918	61,826,573
Other Non Financial Assets	100,797,616	76,371,835	177,169,451
Financial Investments-Measured at Fair Value through OCI	-	457,700	457,700
Inventories	328,056	-	328,056
Property, Plant and Equipment	-	346,499,489	346,499,489
Intangible Assets	-	19,196,706	19,196,706
Deferred Tax Assets	-	23,683,867	23,683,867
<b>Total Assets</b>	<b>4,875,586,554</b>	<b>3,609,782,330</b>	<b>8,485,368,884</b>



MAHINDRA IDEAL Finance Limited  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2022

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

	Within 12-Months LKR	After 12-Months LKR	Total LKR
<b>LIABILITIES</b>			
Interest Bearing Borrowings	2,065,474,467	806,911,557	2,872,386,024
Due to the Customers	2,006,588,696	188,430,146	2,195,018,842
Other Financial Liabilities	370,782,225	179,525,048	550,307,273
Other Non Financial Liabilities	44,966,937	-	44,966,937
Current Tax Liabilities	50,118,346	-	50,118,346
Retirement Benefit Liability	-	26,338,562	26,338,562
<b>Total Liabilities</b>	<u>4,537,930,671</u>	<u>1,201,205,313</u>	<u>5,739,135,984</u>
<b>Net Assets</b>	<u>337,655,883</u>	<u>2,408,577,017</u>	<u>2,746,232,900</u>

**As at 31 March 2021**

	Within 12-Months LKR	After 12-Months LKR	Total LKR
<b>ASSETS</b>			
Cash and Bank Balances	71,609,393	-	71,609,393
Investment in Government Securities	502,394,473	-	502,394,473
Placements with Banks and Other Financial Institutions	211,016,918	-	211,016,918
Gold Advances	1,183,764,064	-	1,183,764,064
Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances	1,221,582,422	2,058,667,850	3,280,250,271
Other Financial Assets	35,457,503	5,596,946	41,054,448
Other Non Financial Assets	25,424,773	1,629,947	27,054,720
Financial Investments-Measured at Fair Value through OCI	-	457,700	457,700
Inventories	511,273	-	511,273
Property, Plant and Equipment	-	188,756,810	188,756,810
Intangible Assets	-	12,958,541	12,958,541
<b>Total Assets</b>	<u>3,251,760,819</u>	<u>2,268,067,793</u>	<u>5,519,828,612</u>
<b>LIABILITIES</b>			
Interest Bearing Borrowings	1,129,251,916	577,106,187	1,706,358,103
Due to the Customers	463,800,283	465,839,175	929,639,458
Other Financial Liabilities	172,982,759	63,460,859	236,443,618
Other Non Financial Liabilities	26,294,479	-	26,294,479
Current Tax Liabilities	87,363,461	-	87,363,461
Retirement Benefit Liability	-	23,049,390	23,049,390
Deferred Tax Liabilities	-	5,252,716	5,252,716
<b>Total Liabilities</b>	<u>1,879,692,898</u>	<u>1,134,708,327</u>	<u>3,014,401,224</u>
<b>Net Assets</b>	<u>1,372,067,921</u>	<u>1,133,359,466</u>	<u>2,505,427,387</u>



**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
		2022 LKR.	2021 LKR.	
Lease Rentals Receivable and Stock out on Hire *	Bank Loans and Overdrafts	2,344,953,053	1,587,623,358	Lease Rentals Receivable
Loan Receivable*		413,898,346	665,760,262	Loan Receivable
		<u>2,758,851,399</u>	<u>2,253,383,620</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.

**Terms and Conditions**

All such transactions entered into with the related parties are on an arms' length basis and are comparable with what is applied to the transactions with unrelated customers with similar credit standing.

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**

	2022 LKR	2021 LKR
Short Term Employment Benefits	31,325,000	28,958,000
Post Employment Benefits	-	-
	<u>31,325,000</u>	<u>28,958,000</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.

	2022 LKR	2021 LKR
Fixed Deposits accepted during the year	-	-
Fixed Deposits held at the end of the year	-	-
Interest paid during the year	-	-





NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

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 3/31/2022	Outstanding Receivable/ (Payable) Balance as at 3/31/2021
		LKR	LKR	LKR
<b>Ideal Motors (Pvt) Ltd.</b>	Parent Company			
Finance Lease Equipment Purchase		57,273,600	(14,766,500)	-
Other Purchases & Services		22,718,390	-	(1,257,093)
Vehicle Repair Services		146,941	-	(825,682)
<b>Ideal Automobile (Pvt) Ltd</b>	Affiliate Company			
Finance Lease Equipment Purchase		19,595,000	-	-
Fixed Deposits		(40,285,000)	(111,225,000)	(151,510,000)
Interest Expenses - Fixed Deposits		10,041,963	(337,736)	(513,417)
<b>Ideal First Choice (Pvt) Ltd</b>	Affiliate Company			
Fixed Deposits		(21,437)	(51,131)	(72,568)
Interest Expense - Fixed Deposits		-	(289)	(263)
Vehicle Repair Services		377,078	-	-
<b>Prompt Express Private Limited</b>	Affiliate Company			
Gross Advances		14,350,000	20,687,955	6,994,743
Courier Service Charges		1,332,459	-	(157,308)
<b>Ideal Drive Private Limited</b>	Affiliate Company			
Vehicle Hire Expense		4,697,887	(427,081)	(427,081)
<b>Ideal Greentech (Pvt) Ltd</b>	Affiliate Company			
Advances		42,947	-	42,947
<b>Mahindra &amp; Mahindra Financial Services Limited</b>	Parent Company			
Share Issue		-	-	1,100,000,000
<b>Ideal Premier (Pvt) Ltd</b>	Affiliate Company			
Finance Lease Equipment Purchase		2,840,000	-	-
Vehicle Repair Services		2,421,061	-	-

40. CAPITAL

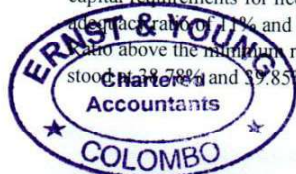
The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

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 10% and a minimum core capital adequacy ratio (Tier I) of 7%. The Company has always maintained the Capital Adequacy ratio above the minimum regulatory requirements. The company's Tier I and Tier II capital adequacy ratios as at the end of the financial year stood at 38.78% and 39.85% respectively.



MAHINDRA IDEAL Finance Limited  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 March 2022

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

**41.2.1 Analysis of Risk Concentration**

**41.2.1.1 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 2022**

	Cash & Bank Balances		Investment in Government Securities at Amortized cost		Placement with Bank & Other Financial Institutions		Lease Rental Receivable, Stock out on Hire purchase and Loans and Advances		Financial Investments- Invested at Fair Value through OCI		Gold Advances		Other Financial Assets		Total Financial Assets	
	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Agriculture	-	-	-	-	-	-	372,988,097	-	-	-	-	-	-	-	-	372,988,097
Manufacturing	-	-	-	-	-	-	83,167,828	-	-	-	-	-	-	-	-	83,167,828
Construction	-	-	-	-	-	-	239,423,489	-	-	-	-	-	-	-	-	239,423,489
Financial Services	135,648,058	248,709,944	248,709,944	287,743,917	-	-	13,503,982	-	-	-	-	-	-	-	-	685,605,901
Trading	-	-	-	-	-	-	277,788,460	-	-	-	-	-	-	-	-	277,788,460
Hotels	-	-	-	-	-	-	20,079,086	-	-	-	-	-	-	-	-	20,079,086
Services	-	-	-	-	-	-	-	457,700	-	-	-	-	-	-	-	457,700
Transport	-	-	-	-	-	-	3,794,353,149	-	-	-	-	-	-	-	-	3,794,353,149
Consumer	-	-	-	-	-	-	360,183,534	-	-	-	-	-	-	-	-	360,183,534
<b>Total</b>	<b>135,648,058</b>	<b>248,709,944</b>	<b>248,709,944</b>	<b>287,743,917</b>	<b>5,161,487,625</b>	<b>457,700</b>	<b>2,267,524,563</b>	<b>2,267,524,563</b>	<b>61,826,573</b>	<b>61,826,573</b>	<b>61,826,573</b>	<b>61,826,573</b>	<b>61,826,573</b>	<b>61,826,573</b>	<b>61,826,573</b>	<b>8,163,398,380</b>

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

Province	Lease Rental Receivable & Stock Out		Gold Advances	
	On Hire	purchase	Loan Stock	Gold Advances
	LKR	LKR	LKR	LKR
Central	141,144,463	66,594,829	88,215,503	88,215,503
North Central	259,014,639	244,371,433	124,727,871	124,727,871
North Western	653,434,505	164,259,421	113,549,533	113,549,533
North Eastern	310,148,843	62,702,238	694,922,920	694,922,920
Southern	410,494,758	27,558,017	109,100,507	109,100,507
Chartered	422,162,540	177,495,438	208,994,501	208,994,501
Accordants	728,681,507	45,209,217	592,641,790	592,641,790
Western	781,835,666	666,380,111	335,371,938	335,371,938
<b>Total</b>	<b>3,706,916,921</b>	<b>1,454,570,704</b>	<b>2,267,524,563</b>	<b>2,267,524,563</b>



MAHINDRA IDEAL Finance Limited  
 NOTES TO THE FINANCIAL STATEMENTS  
 Year ended 31 March 2022

41. RISK MANAGEMENT (Contd...)  
 41.2.1 Analysis of Risk Concentration (Contd...)  
 41.2.1.1 Industry Analysis (Contd...)

Sector wise Break Down as at 31 March 2021

	Cash & Bank Balances LKR	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 Investments- Measured at Fair Value through OCI LKR	Gold Advances		Other Financial Assets		Total Financial Assets	
						LKR	LKR	LKR	LKR	LKR	LKR
Agriculture	-	-	-	568,322,939	-	-	-	-	-	-	568,322,939
Manufacturing	-	-	-	51,293,836	-	-	-	-	-	-	51,293,836
Construction	-	-	-	87,367,918	-	-	-	-	-	-	87,367,918
Financial Services	71,609,393	502,394,473	211,016,918	20,952,943	-	-	-	-	-	-	805,973,727
Trading	-	-	-	226,558,611	-	-	-	-	-	-	226,558,611
Hotels	-	-	-	21,606,448	-	-	-	-	-	-	21,606,448
Services	-	-	-	154,687,078	457,700	-	-	-	-	-	155,144,778
Transport	-	-	-	1,927,423,143	-	-	-	-	-	-	1,927,423,143
Consumer	-	-	-	371,965,063	-	-	-	-	-	-	371,965,063
<b>Total</b>	<b>71,609,393</b>	<b>502,394,473</b>	<b>211,016,918</b>	<b>3,430,177,979</b>	<b>457,700</b>	<b>1,183,764,064</b>	<b>1,183,764,064</b>	<b>41,054,449</b>	<b>41,054,449</b>	<b>1,596,783,575</b>	<b>5,440,474,975</b>

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



**MAHINDRA IDEAL Finance Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**

Year ended 31 March 2022

**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 2022

	On Demand		Less Than 3 Months		3 to 12 Months		1 to 5 years		Over 5 Years		Total	
	LKR		LKR		LKR		LKR		LKR		LKR	
<b>Financial Assets</b>												
Cash and Bank Balances	135,648,058		-		-		-		-		-	135,648,058
Placements with Banks and Other Financial Institutions	-		115,985,212		174,849,288		-		-		-	290,834,500
Investment in Government Securities and Placements with Banks and Other Financial Institutions	-		248,995,612		-		-		-		-	248,995,612
Gold Advances	-		2,249,478,291		18,046,272		-		-		-	2,267,524,563
Lease Rentals Receivable and Stock out on Hire purchase	173,481,593		407,898,999		1,166,500,915		3,242,599,110		8,140,762			4,998,621,379
Loans and Advances	96,797,447		197,843,806		775,440,861		676,356,455		10,391,646			1,756,830,215
Financial Investments-Measured at Fair Value through OCI	-		-		-		-		457,700			457,700
Other Financial Assets	-		52,604,296		449,360		5,516,684		3,256,233			61,826,573
<b>Total Financial Assets</b>	<b>405,927,098</b>		<b>3,272,806,216</b>		<b>2,135,286,696</b>		<b>3,924,472,249</b>		<b>22,246,341</b>			<b>9,760,738,600</b>

**Financial Liabilities**

Interest Bearing Borrowings	-		1,073,047,987		813,873,863		921,196,951		-			2,808,118,801
Due to the Customers	-		213,303,147		1,851,556,469		202,432,209		-			2,267,291,825
Other Financial Liabilities	-		348,455,540		-		-		-			348,455,540
Obligation to Make the Lease Payment	-		10,902,107		35,473,098		134,613,359		126,684,092			307,672,656
<b>Total Financial Liabilities</b>	<b>-</b>		<b>1,645,708,781</b>		<b>2,700,903,430</b>		<b>1,258,242,519</b>		<b>126,684,092</b>			<b>5,731,538,822</b>

Net Financial Assets/ (Liabilities)

	405,927,098		1,627,097,435		(565,616,734)		2,666,229,730		(104,437,751)			4,029,199,778
--	-------------	--	---------------	--	---------------	--	---------------	--	---------------	--	--	---------------



MAHINDRA IDEAL Finance Limited  
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

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 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	
<b>Financial Assets</b>										
Cash and Bank Balances	71,609,393	-	-	-	-	-	-	-	-	71,609,393
Placements with Banks and Other Financial Institutions	-	-	211,016,918	-	-	-	-	-	-	211,016,918
Investment in Government Securities and Placements with Banks and Other Financial Institutions	-	502,394,473	-	-	-	-	-	-	-	502,394,473
Gold Advances	-	1,171,625,032	14,695,445	-	-	-	-	-	-	1,186,320,477
Lease Rentals Receivable and Stock out on Hire purchase	135,897,406	298,034,352	849,731,622	2,131,050,541	2,627,883	3,417,341,804	1,118,179,217	457,700	457,700	1,186,320,477
Loans and Advances	59,166,659	150,640,138	445,819,383	455,856,459	6,696,578	1,118,179,217	457,700	452,736	457,700	3,417,341,804
Financial Investments-Measured at Fair Value through OCI	-	-	-	-	-	-	-	-	-	1,118,179,217
Other Financial Assets	-	34,586,549	2,944,680	5,144,209,41	452,736	43,128,175	457,700	452,736	457,700	457,700
<b>Total Financial Assets</b>	<b>266,673,458</b>	<b>2,157,280,544</b>	<b>1,524,208,048</b>	<b>2,592,051,210</b>	<b>10,234,897</b>	<b>6,550,448,157</b>	<b>10,234,897</b>	<b>10,234,897</b>	<b>10,234,897</b>	<b>6,550,448,157</b>
<b>Financial Liabilities</b>										
Interest Bearing Borrowings	103,527,380	370,738,454	751,369,330	629,984,482	-	1,855,619,646	-	-	-	1,855,619,646
Due to the Customers	-	139,496,864	322,164,313	473,975,315	-	935,636,491	-	-	-	935,636,491
Other Financial Liabilities	-	125,192,916	26,691,280	-	-	151,884,196	-	-	-	151,884,196
Obligation to Make the Lease Payment	-	7,870,067	23,372,677	61,742,143	29,513,525	122,498,411	29,513,525	29,513,525	29,513,525	122,498,411
<b>Total Financial Liabilities</b>	<b>103,527,380</b>	<b>643,298,301</b>	<b>1,123,597,599</b>	<b>1,165,701,940</b>	<b>29,513,525</b>	<b>3,065,638,745</b>	<b>29,513,525</b>	<b>29,513,525</b>	<b>29,513,525</b>	<b>3,065,638,745</b>
<b>Total Net Financial Assets/ (Liabilities)</b>	<b>163,146,078</b>	<b>1,513,982,243</b>	<b>400,610,449</b>	<b>1,426,349,270</b>	<b>(19,278,628)</b>	<b>3,484,809,412</b>	<b>(19,278,628)</b>	<b>(19,278,628)</b>	<b>(19,278,628)</b>	<b>3,484,809,412</b>



MAHINDRA IDEAL Finance Limited  
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

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 2022

Financial Assets	Total As at 31-03-2022 LKR	Less Than 3 Months LKR	Interest Bearing			Non Interest Bearing LKR
			3 to 12 Month LKR	1 to 5 Years LKR	Over 5 Years LKR	
Cash and Bank Balances	135,648,058	-	-	-	-	135,648,058
Investment in Government Securities and Placements with Banks and Other Financial Institutions	536,453,861	364,205,567	172,248,294	-	-	-
Gold Advances	2,267,524,563	2,249,478,291	18,046,272	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	3,706,916,921	394,929,688	762,660,888	2,541,649,141	7,677,204	-
Loans and Advances	1,454,570,704	212,694,587	656,402,647	576,140,905	9,332,565	-
Financial Investments-Measured at Fair Value through OCI	457,700	-	-	-	-	457,700
Other Financial Assets	61,826,573	122,316	-	-	-	61,704,257
<b>Total Financial Assets</b>	<b>8,163,398,380</b>	<b>3,221,430,449</b>	<b>1,609,358,101</b>	<b>3,117,790,046</b>	<b>17,009,769</b>	<b>197,810,015</b>
<b>Financial Liabilities</b>						
Interest Bearing	2,872,386,024	1,341,585,356	727,637,936	803,162,732	-	-
Other Financial Liabilities	2,195,018,842	212,376,276	1,794,212,420	188,430,146	-	-
<b>Total Financial Liabilities</b>	<b>5,067,404,866</b>	<b>1,553,961,632</b>	<b>1,921,850,356</b>	<b>991,592,878</b>	<b>103,110,723</b>	<b>345,043,714</b>
<b>Total Financial Gap</b>	<b>3,095,993,514</b>	<b>1,667,468,817</b>	<b>(312,492,255)</b>	<b>2,049,782,843</b>	<b>(86,100,954)</b>	<b>(147,233,699)</b>



MAHINDRA IDEAL Finance Limited  
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

41. RISK MANAGEMENT (Contd...)

41.4 Interest Rate Risk (Contd...)

As at 31st March 2021

Financial Assets	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	
Cash and Bank Balances	71,609,393	-	-	-	-	71,609,393
Investment in Government Securities and Placements with Banks and Other Financial Institutions	713,411,390	502,394,473	211,016,918	-	-	-
Gold Advances	1,183,764,064	1,169,103,439	14,660,625	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	2,530,610,528	291,402,817	562,152,099	1,674,569,064	2,486,547	-
Loans and Advances	899,567,452	164,885,646	353,069,568	375,724,768	5,887,470	-
Financial Investments-Measured at Fair Value through OCI	457,700	-	-	-	-	457,700
Other Financial Assets	41,367,103	-	-	-	-	41,367,103
<b>Total Financial Assets</b>	<b>5,440,787,629</b>	<b>2,127,786,375</b>	<b>1,140,899,209</b>	<b>2,050,293,832</b>	<b>8,374,017</b>	<b>113,434,196</b>
<b>Financial Liabilities</b>						
Interest Bearing Borrowings	1,752,092,266	370,738,454	751,369,330	629,984,482	-	-
Due to the Customers	929,639,458	150,845,312	312,954,971	465,839,175	-	-
Other Financial Liabilities	236,443,618	5,061,423	16,037,141	40,421,425	23,039,434	151,884,196
<b>Total Financial Liabilities</b>	<b>2,918,175,343</b>	<b>526,645,189</b>	<b>1,080,361,442</b>	<b>1,136,245,082</b>	<b>23,039,434</b>	<b>151,884,196</b>
<b>Interest Sensitivity Gap</b>	<b>2,522,612,286</b>	<b>1,601,141,186</b>	<b>60,537,767</b>	<b>914,048,750</b>	<b>(14,665,417)</b>	<b>(38,450,000)</b>

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 to individuals and private companies who has adverse short-term impact on their sources of income. Being inline with these directions & guidelines, the company initiated appropriate measures for offering relief to affected customers.



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

**41.5.1 Impact on Liquidity Risk**

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

**41.5.2 Impact on Credit Risk**

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

**41.5.3 Impact of assessment of ECL**

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

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

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

**41.5.4 Impact on Interest Rate Risk**

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





## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2022

## 42. OPERATING SEGMENTS

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

As at 31st March 2022	Finance Lease LKR	Gold Loan LKR	Loans and Advances LKR	Other LKR	Total LKR
Interest Income	644,897,703	344,470,014	220,135,915	32,564,290	1,242,067,922
Commission Income	-	-	-	12,097,982	12,097,982
Other Income	-	-	-	67,370,908	67,370,908
	<u>644,897,703</u>	<u>344,470,014</u>	<u>220,135,915</u>	<u>112,033,180</u>	<u>1,321,536,812</u>
As at 31st March 2021	Finance Lease LKR	Hire Purchase LKR	Loans and Advances LKR	Other LKR	Total LKR
Interest Income	529,397,365	187,899,111	214,963,320	41,553,814	973,813,610
Commission Income	-	-	-	10,904,398	10,904,398
Other Income	-	-	-	30,575,374	30,575,374
	<u>529,397,365</u>	<u>187,899,111</u>	<u>214,963,320</u>	<u>83,033,586</u>	<u>1,015,293,382</u>



43. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Sri Lanka Accounting Standards LKAS 7 (Statement of Cash Flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31 March 2022 are disclosed below.

	Securitization Borrowing LKR	Bank Borrowing LKR	Finance Lease Liabilities LKR
Balance as at 01 April 2021	318,369,010	1,283,279,661	1,182,051
Net cash flows from financing activities	565,206,852	348,811,429	(1,182,051)
<b>Non cash changes</b>			
Foreign exchange movements	-	-	-
Accrual for interest expense	31,078,925	7,017,846	-
Balance as at 31 March 2022	914,654,787	1,639,108,936	-

