

IDEAL FINANCE LIMITED

FINANCIAL STATEMENTS

31 MARCH 2020

BW/PATR

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of IDEAL Finance Limited ("the Company"), which comprise the statement of financial position as at 31 March 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

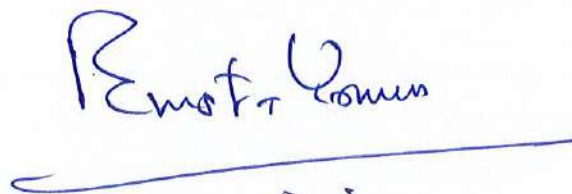
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting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

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

Report on Other Legal and Regulatory Requirements

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

24 June 2020
Colombo



STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2020

	Notes	2020 LKR	2019 LKR
Income	3	927,784,733	777,461,473
Interest Income	4.1	886,069,373	704,307,306
Interest Expenses	4.2	(371,873,790)	(292,974,160)
Net Interest Income		<u>514,195,583</u>	<u>411,333,146</u>
Fees and Commission Income	5	8,940,422	9,298,176
Net Fee and Commission Income		<u>8,940,422</u>	<u>9,298,176</u>
Other Operating Income	6	32,774,938	63,855,991
Total Operating Income		<u>555,910,943</u>	<u>484,487,313</u>
Impairment Charges for Loans and other Losses	7	(32,076,446)	(24,551,990)
Net Operating Income		<u>523,834,497</u>	<u>459,935,323</u>
Operating Expenses			
Personnel Expenses	8	(168,327,971)	(129,979,352)
Depreciation of Property Plant & Equipment	24.2	(45,780,259)	(20,959,443)
Amortization of Intangible Assets	25	(5,358,030)	(5,101,180)
Other Operating Expenses	9	(69,952,048)	(84,512,604)
Operating Profit before Taxes on Financial Services		<u>234,416,189</u>	<u>219,382,744</u>
Value Added Tax, NBT & DRL on Financial Services	10	(70,381,010)	(56,961,345)
Profit before Taxation		<u>164,035,179</u>	<u>162,421,399</u>
Income Tax Expenses	11.1	(58,684,095)	(61,299,253)
Profit/ (Loss) for the period		<u>105,351,084</u>	<u>101,122,146</u>
Profit/ (Loss) for the period		<u>105,351,084</u>	<u>101,122,146</u>
Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods			
Actuarial Gain/ (Loss) on Defined Benefit Obligations	29.3	(1,454,422)	(68,851)
Deferred Tax (Charge)/Reversal on Other Comprehensive Income	30	349,061	19,278
Other Comprehensive Income for the period, Net of Tax		<u>(1,105,361)</u>	<u>(49,573)</u>
Total Comprehensive Income for the period, Net of Tax		<u>104,245,723</u>	<u>101,072,574</u>

The Accounting Policies and Notes on pages 07 through 53 form an integral part of the Financial Statements.



IDEAL Finance Limited

STATEMENT OF FINANCIAL POSITION

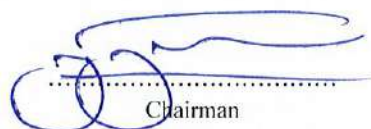
As at 31 March 2020

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

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


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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 53 form an integral part of the Financial Statements.



STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2020

	Stated Capital LKR	Retained Earnings LKR	Statutory Reserve Fund LKR	Total LKR
Restated Balance as at 31 March 2018	808,247,125	195,193,627	12,230,929	1,015,671,681
Total Income / (Loss) for the Period	-	101,122,146	-	101,122,146
Dividend Paid during the Period	-	-	-	-
Other Comprehensive Income (Net of Tax)	-	(49,573)	-	(49,573)
Transfer to Statutory Reserve Fund	-	(5,053,629)	5,053,629	-
Balance As at 31 March 2019	<u>808,247,125</u>	<u>291,212,571</u>	<u>17,284,558</u>	<u>1,116,744,254</u>
Balance As at 1 April 2019	808,247,125	291,212,571	17,284,558	1,116,744,254
Total Income / (Loss) for the Period	-	105,351,084	-	105,351,084
Share Issue	1,100,000,000	-	-	1,100,000,000
Other Comprehensive Income (Net of Tax)	-	(1,105,361)	-	(1,105,361)
Transfer to Statutory Reserve Fund	-	(5,212,286)	5,212,286	-
Balance As at 31 March 2020	<u>1,908,247,125</u>	<u>390,246,008</u>	<u>22,496,844</u>	<u>2,320,989,977</u>

The Accounting Policies and Notes on pages 07 through 53 form an integral part of the Financial Statements.



STATEMENT OF CASH FLOWS

Year ended 31 March 2020

	Note	2020 LKR	2019 LKR
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		164,035,179	162,421,399
Adjustment for Other Non Cash Items Included in Profit Before Tax			
Depreciation of Property, Plant and Equipment & ROU Assets	23.2	45,780,259	20,959,443
Amortization of Intangible Assets	24	5,358,030	5,101,180
Provision for Impairment		32,076,446	24,551,990
Interest expenses on Borrowings		282,777,104	235,399,243
Defined Benefit Obligation	8	4,980,195	3,146,058
Dividend Income		(240,800)	(206,400)
Disposal (Gain)/Loss on Fixed Assets		924,062	-
Operating Profit before Working Capital Changes		535,690,475	451,372,913
(Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire		(51,767,780)	(273,629,911)
(Increase)/Decrease in Loan Stock		36,871,685	(514,500,128)
(Increase)/Decrease in Gold Advance		(216,150,504)	(278,816,546)
(Increase)/Decrease in Other Financial Assets		10,040,678	1,277,441
(Increase)/Decrease in Other Non Financial Assets		2,651,229	(13,009,933)
(Increase)/Decrease in Inventories		69,837,092	79,525,625
Increase/(Decrease) in Amounts Due to Customers		87,132,257	217,674,464
Increase/(Decrease) in Other Financial Liabilities		(10,504,509)	(49,666,633)
Increase/(Decrease) in Other Non Financial Liabilities		(15,350,008)	13,053,768
Cash Generated from Operations		448,450,615	(366,718,941)
Retirement Benefit Liabilities Paid	29.2	-	(200,000)
Income Tax Paid		(58,161,484)	(25,034,395)
Net Cash Flows from/(Used in) Operating Activities		390,289,131	(391,953,335)
Cash Flows from / (Used in) Investing Activities			
Purchase of Property, Plant and Equipment	23.1	(12,405,987)	(38,617,192)
Purchase of Intangible Assets	24	(400,100)	(3,795,588)
Disposal of Property, Plant and Equipment		6,865,780	-
Dividend Received		240,800	206,400
Net Cash Flows from/(Used in) Investment Activities		(5,699,507)	(42,206,380)
Cash Flows from / (Used in) Financing Activities			
Proceeds from Bank Borrowings		1,310,000,000	2,135,000,000
Repayment of Bank Borrowings		(1,777,098,221)	(1,823,749,730)
Rental Paid for Right of Use Assets		(26,159,216)	-
Repayment of Other Borrowed Funds		(3,252,417)	(7,000,605)
Net Proceeds from Share Issue		1,100,000,000	-
Dividend Paid		-	-
Net Cash Flows from/(Used in) Financing Activities		603,490,146	304,249,665
Net Increase/(Decrease) in Cash & Cash Equivalents		988,079,770	(129,910,050)
Cash and Cash Equivalents at the Beginning of the Period		(59,819,843)	70,090,208
Cash and Cash Equivalents at the End of the Year	33	928,259,927	(59,819,843)

The Accounting Policies and Notes on pages 07 through 53 form an integral part of the Financial Statements.



1. CORPORATE INFORMATION

1.1 General

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

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

1.2 Principal Activities and Nature of Operations

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

1.3 Parent Entity and Ultimate Parent Entity

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

1.4 Date of Authorization for Issue

The financial statements of IDEAL Finance Limited for the period ended 31 March 2020 were authorized for issue in accordance with a resolution of the Board of Directors on 24 June 2020.



2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

2.1.1 Statement of Compliance

The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows, together with Accounting Policies and Notes, ('Financial Statements'), as at 31 March 2020 and for the period then ended, have been prepared in accordance with Sri Lanka Accounting Standards (hereafter referred as "SLFRS"), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and amendments thereto.

2.1.2 Responsibility for Financial Statements

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

2.1.3 Basis of measurement

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

2.1.4 Presentation of Financial Statements

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

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

2.1.5 Functional and presentation currency

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

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.

2.1.8 Events After the Reporting Date

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

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

i. Going Concern

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

COVID-19 Pandemic

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

With the onset of COVID-19 in Sri Lanka and the consequent business and movement restrictions, the operations were adversely affected from the second half of the month of March 2020. During this time company has mainly focused on the recovery of due balances while maintain the liquidity. With the relaxation of curfew from 20th April 2020, other than in the Western Province, Puttalam District and Jaffna District operations commenced in the permitted districts.

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



ii. Defined Benefit Plan

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

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

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

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

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

Collectively assessed allowance for expected credit losses

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.3.1 SLFRS 09 Financial Instrument

SLFRS 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 2019/20.



2.3.1.3 De-recognition of Financial Instruments

2.3.1.3.1 Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is 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.

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

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

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

Land Stock

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

Purchase Cost	-	Land Cost with Legal Charges.
Cost of Conversion	-	Actual Development Costs.

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

2.3.9 Impairment of non-financial assets

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

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

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



2.3.10 Employee Retirement Benefits

Defined Contribution Plan Costs

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

Defined Benefit Plan Costs

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

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

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

2.3.11 Provisions

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

2.3.12 Other Liabilities

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

2.3.13 Foreign currency translation

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

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



2.3.14 Recognition of income and expenses

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

(i) Interest income and interest expense

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

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

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

(ii) Fee and commission income

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

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

Fee income from providing transaction services

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

(iii) Dividend income

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

(iv) Expenditure Recognition

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



2.3.15 Taxes

a. Current Tax

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

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

b. Deferred Tax

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

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

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

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

c. Value Added Tax on Financial Services

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

d. Crop Insurance Levy (CIL)

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

e. Nation Building Tax (NBT) on Financial Services

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

f. Debt Repayment Levy (DRL) on Financial Services

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



2.3.16 Related Party Transactions

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

2.3.17 Segment Reporting

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

- Finance Lease
- Hire Purchase
- Term Loans
- Others

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

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

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



3. INCOME	2020 LKR	2019 LKR
Interest Income (4.1)	886,069,373	704,307,306
Fee and Commission Income (5)	8,940,422	9,298,176
Other Operating Income (6)	32,774,938	63,855,991
Total Income	927,784,733	777,461,473
4. NET INTEREST INCOME	2020 LKR	2019 LKR
4.1 Interest Income		
From Placements with Banks and Other Financial Institutions	2,181,694	3,980,282
From Government Securities	11,787,670	4,416,498
From Lease Rental Receivable & Stock Out on Hire	520,330,613	456,720,362
From Loans and Advances	213,876,437	156,153,788
From Gold Advances	136,946,583	82,361,778
From Refundable Deposits	946,376	674,598
Total Interest Income	886,069,373	704,307,306
4.2 Interest Expense		
Due to Banks	215,756,960	194,885,334
Due to Customers	78,047,770	57,574,917
On Intercompany Borrowings	67,020,144	40,513,909
On Obligation to Make the Lease Payment for Right of Use Assets	11,048,916	-
Total Interest Expenses	371,873,790	292,974,160
Net Interest Income	514,195,583	411,333,146
5. FEE AND COMMISSION INCOME	2020 LKR	2019 LKR
Commission Income	8,940,422	9,298,176
Fee and Commission Income	8,940,422	9,298,176
6. OTHER OPERATING INCOME	2020 LKR	2019 LKR
Dividend Income	240,800	206,400
Net Income from Real Estate Operations	10,439,872	43,148,752
Vehicle Hiring Income	3,254,628	5,376,623
Other Operating Income	18,839,638	15,124,216
Total Other Operating Income	32,774,938	63,855,991

Other Operating Income includes LKR. 9,028,312 from settled facilities and LKR. 9,517,719 from pawning auctions



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

7. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES	2020	2019
	LKR	LKR
Charge/(write-back) to the statement of comprehensive income		
– Impairment on individually significant loans	16,166,556	4,140,776
– Impairment on collective loan portfolio	15,521,124	20,931,986
– write-offs/(recoveries)	-	-
– Impairment on Other Financial Assets	388,766	(520,773)
Total Impairment Charge	32,076,446	24,551,989
	2020	2019
	LKR	LKR
Lease Rentals Receivable and Stock out on Hire (Note 17.2.a)		
Stage 1	2,252,429	3,107,603
Stage 2	3,937,694	1,528,530
Stage 3	18,074,010	18,100,268
	24,264,133	22,736,401
Loans and Advances (Note 18.2.a)		
Stage 1	(62,145)	1,306,820
Stage 2	719,919	(2,214,773)
Stage 3	6,765,773	3,244,315
	7,423,547	2,336,362
Other Financial Assets (Note 19.1.a)		
Stage 1	(36,874)	48,864
Stage 2	(5,069)	634
Stage 3	430,709	(570,271)
	388,766	(520,773)
	2020	2019
	LKR	LKR
8. PERSONNEL EXPENSES		
Salaries	117,261,239	90,137,676
Employers' Contribution to Employee's Provident Fund	13,720,558	10,684,392
Employers' Contribution to Employee's Trust Fund	3,430,140	2,671,098
Gratuity Charge for the year	4,980,195	3,146,058
Other Staff Related Expenses	28,935,839	23,340,128
	168,327,971	129,979,352
	2020	2019
	LKR	LKR
9. OTHER OPERATING EXPENSES		
Directors' Emoluments	4,600,000	4,310,500
Auditors' Remuneration	2,100,263	1,773,374
Professional and Legal Expenses	5,702,528	2,900,286
Office Administration and Establishment Expenses	31,498,695	47,648,259
Advertising and Promotional Expenses	13,378,633	9,545,781
Disallowable Input VAT and VAT on Other Income Sources	1,283,698	3,541,158
License and Renewal Fees	1,677,350	1,744,991
Other Expenses	9,710,881	13,048,255
	69,952,048	84,512,604
	2020	2019
	LKR	LKR
10. VALUE ADDED TAX AND NBT ON FINANCIAL SERVICES		
VAT on Financial Services	47,282,296	39,309,625
NBT on Financial Services	3,886,679	5,241,281
Debt Repayment Levy	19,212,035	12,410,439
	70,381,010	56,961,345



11. INCOME TAX EXPENSES

11.1 The major component of income tax for the period ended 31 March 2020 as follows:

Income Statement	2020 LKR	2019 LKR
Current Income Tax		
Income Tax for the Period	76,555,902	34,933,569
Deferred Tax		
Deferred Tax Charge (Note 30)	(17,871,807)	26,365,684
Income Tax Expenses reported in the Income Statement	<u>58,684,095</u>	<u>61,299,253</u>
Statement of Other Comprehensive Income		
Differed Tax related to items recognized in OCI during the year		
Net Gain/(Loss) on Actuarial Gains/Losses during the year	(349,061)	(19,278)
Income Tax Expenses reported in the Other Comprehensive Income	<u>(349,061)</u>	<u>(19,278)</u>
Total Income Tax Expense for the year	<u>58,335,034</u>	<u>61,279,975</u>

11.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by Income tax rate for the year ended 31 March 2020 as follows.

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

12. BASIC AND DILUTED EARNING PER ORDINARY SHARES

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

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

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

Company's ordinary shares were increased on 28 February 2020 with the issue of 36,842,105 shares at LKR. 19.00 each and 18,796,993 shares at LKR. 1.28 each. As a result the number of shares increased to 145,639,098.



13. CASH AND BANK BALANCES	2020 LKR	2019 LKR	
Cash in Hand	12,823,559	15,694,773	
Bank Balances	31,373,023	27,127,457	
	<u>44,196,582</u>	<u>42,822,230</u>	
14. INVESTMENT IN GOVERNMENT SECURITIES	2020 LKR	2019 LKR	
Treasury Bills - at Amortized cost	67,765,783	51,670,419	
REPO Investment - at Amortized Cost	848,780,575	-	
	<u>916,546,358</u>	<u>51,670,419</u>	
15. PLACEMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS	2020 LKR	2019 LKR	
Placement With Banks (Fixed Deposit)	22,876,022	15,362,258	
	<u>22,876,022</u>	<u>15,362,258</u>	
16. GOLD ADVANCES	2020 LKR	2019 LKR	
Gold Advances	672,715,396	456,564,892	
	<u>672,715,396</u>	<u>456,564,892</u>	
17. LEASE RENTALS RECEIVABLE AND STOCK OUT ON HIRE	2020 LKR	2019 LKR	
Rental Receivable on Lease	3,150,108,160	3,143,826,598	
Rental Receivable on Hire Purchase	1,238,382	2,597,730	
Gross Rentals Receivables	<u>3,151,346,542</u>	<u>3,146,424,328</u>	
Less: Unearned Income	(753,131,978)	(795,245,502)	
	<u>2,398,214,564</u>	<u>2,351,178,826</u>	
Less : Rentals Received in Advance	(15,664,479)	(20,396,521)	
Net Rentals Receivables before charging Allowance for Impairment Losses	<u>2,382,550,085</u>	<u>2,330,782,305</u>	
Less : Allowance for Impairment Losses (Note 17.2)	(72,656,622)	(48,392,489)	
Total Net Rentals Receivable	<u>2,309,893,463</u>	<u>2,282,389,816</u>	
17.1 Net Rentals Receivable on Lease and Stock Out on Hire 'LKR	Net Rentals Receivables	Allowance for Impairment Losses	Total Net Rentals Receivable
Stage - 1	1,461,001,600	10,981,610	1,450,019,990
Stage - 2	579,145,885	12,512,842	566,633,043
Stage - 3	342,402,600	49,162,170	293,240,430
	<u>2,382,550,085</u>	<u>72,656,622</u>	<u>2,309,893,463</u>



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 2019	8,729,181	8,575,148	28,722,664	2,365,496	48,392,489
Charges/(Reversals) for the year	2,252,429	3,937,694	2,464,728	15,609,282	24,264,133
Amount written off	-	-	-	-	-
Balance as at 31 March 2020	<u>10,981,610</u>	<u>12,512,842</u>	<u>31,187,392</u>	<u>17,974,778</u>	<u>72,656,622</u>

(b) Movement in allowance for impairment

	2020 LKR	2019 LKR
As at 01 April	48,392,489	23,783,915
Transition impact on adoption of SLFRS 9	-	1,872,173
Charges/(reversals) for the year	24,264,133	22,736,401
Amounts written off	-	-
As at 31 March	<u>72,656,622</u>	<u>48,392,489</u>
Individual impairment	17,974,778	2,365,496
Collective impairment	54,681,844	46,026,993
Total	<u>72,656,622</u>	<u>48,392,489</u>

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

	2020 LKR	2019 LKR
Individual Impairment		
As at 1 April	2,365,496	-
Charges/(reversals) for the year	15,609,282	2,365,496
Amounts written off	-	-
As at 31 March	<u>17,974,778</u>	<u>2,365,496</u>
Collective Impairment		
As at 1 April	46,026,993	23,783,915
Transition impact on adoption of SLFRS 9	-	1,872,173
Charges/(reversals) for the year	8,654,851	20,370,905
Amounts written off	-	-
As at 31 March	<u>54,681,844</u>	<u>46,026,993</u>
Total	<u>72,656,622</u>	<u>48,392,489</u>

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

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



17. 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	1,272,042,660	1,876,961,662	1,103,838	3,150,108,160
Less: Unearned Income	(353,905,559)	(399,183,017)	(43,402)	(753,131,978)
	918,137,101	1,477,778,645	1,060,436	2,396,976,182
Less : Rentals Received in Advance				(15,664,479)
Net Rentals Receivable before charging Allowance for Impairment Losses				2,381,311,703

17.5 Rental Receivable on Hire Purchase

	Within One Year LKR	1 to 5 Years LKR	Over 5 Years LKR	Total LKR
Gross Rentals Receivables	1,238,382	-	-	1,238,382
Less: Unearned Income	-	-	-	-
	1,238,382	-	-	1,238,382
Less : Rentals Received in Advance				-
Net Rentals Receivable before charging Allowance for Impairment Losses				1,238,382

Total Net Rentals Receivables before charging Allowance for Impairment Losses

2,382,550,085

18. LOANS AND ADVANCES

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

18.1 Net Rentals Receivable on Loans

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

18.2 Allowance for Impairment Losses 'LKR.

(a) Allowance for Impairment with stage wise

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



18. LOANS AND ADVANCES (Contd...)

18.2 Allowance for Impairment Losses (Contd...)

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

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

	2020 LKR	2019 LKR
Individual Impairment		
As at 1 April	1,775,280	-
Charges/(reversals) for the year	557,274	1,775,280
Amounts written off	-	-
As at 31 March	<u>2,332,554</u>	<u>1,775,280</u>
Collective Impairment		
As at 1 April	18,906,001	12,003,239
Transition impact on adoption of SLFRS 9	-	6,341,681
Charges/(reversals) for the year	6,866,273	561,081
Amounts written off	-	-
As at 31 March	<u>25,772,274</u>	<u>18,906,001</u>
Total	<u>28,104,828</u>	<u>20,681,281</u>

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

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

18.4 Rental Receivable on Loan Stock

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



IDEAL Finance Limited
 NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 March 2020

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

19.1 Other Receivable

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

Impairment Allowance for Other Receivables

(a) Allowance for Impairment with stage wise

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

(b) Movement in allowance for impairment

	2020 LKR	2019 LKR
As at 01 April	5,977,199	3,095,835
Transition impact on adoption of SLFRS 9	-	3,402,137
Charges/(reversals) for the year	388,766	(520,773)
Amounts written off	(4,687,539)	-
As at 31 March	<u>1,678,426</u>	<u>5,977,199</u>
Individual impairment	-	-
Collective impairment	1,678,426	5,977,199
Total	<u>1,678,426</u>	<u>5,977,199</u>

Collective Impairment

	2020 LKR	2019 LKR
As at 1 April	5,977,199	3,095,835
Transition impact on adoption of SLERS 9	-	3,402,137
Charges/(reversals) for the year	388,765	(520,773)
Amounts written off	(4,687,539)	-
As at 31 March	<u>1,678,426</u>	<u>5,977,199</u>
Total Allowance for Impairment	<u>1,678,426</u>	<u>5,977,199</u>



19. OTHER FINANCIAL ASSETS (Contd...)

19.2 Sensitivity Analysis of Accumulated Impairment for Other Receivable as at 31.03.2020

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

20. OTHER NON FINANCIAL ASSETS

	2020 LKR	2019 LKR
With Holding Tax	514,443	773,095
Advances and Prepayment	22,510,319	28,901,896
	<u>23,024,762</u>	<u>29,674,991</u>

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

	2020 LKR	No. of Shares	2019 LKR	No. of Shares
Equities-Unquoted				
Credit Information Bureau of Sri Lanka	457,700	100	457,700	100
	<u>457,700</u>	<u>100</u>	<u>457,700</u>	<u>100</u>

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

22. INVENTORIES

	2020 LKR	2019 LKR
Stationeries	917,715	788,780
Land stock	-	69,966,027
	<u>917,715</u>	<u>70,754,807</u>



23. PROPERTY, PLANT & EQUIPMENT

23.1	Gross Carrying Amounts	Balance As at 31.03.2019 LKR	Additions/ Transfers LKR	Disposals/ Transfers LKR	Balance As at 31.03.2020 LKR
	At Cost				
	Freehold Assets				
	Furniture & Fittings	69,759,149	8,722,701	-	78,481,850
	Office Equipment	37,280,635	3,175,636	-	40,456,271
	Computer Equipment	29,350,035	507,650	-	29,857,685
	Motor Vehicles	10,944,190	24,420,330	(9,367,520)	25,997,000
		<u>147,334,009</u>	<u>36,826,317</u>	<u>(9,367,520)</u>	<u>174,792,806</u>
	Assets on Leases				
	Motor Vehicles	46,220,330	-	(24,420,330)	21,800,000
	Right of Use Assets	-	95,140,654	-	95,140,654
	Total Value of Depreciable Assets	<u>193,554,339</u>	<u>131,966,971</u>	<u>(33,787,850)</u>	<u>291,733,460</u>
	23.2 Depreciation	Balance As at 31.03.2019 LKR	Charge for the year/ Transfers LKR	Disposals/ Transfers LKR	Balance As at 31.03.2020 LKR
	At Cost				
	Freehold Assets				
	Furniture & Fittings	31,633,920	11,575,583	-	43,209,503
	Office Equipment	17,152,729	5,886,730	-	23,039,459
	Computer Equipment	21,577,912	2,294,885	-	23,872,797
	Motor Vehicles	1,832,867	8,018,474	(1,577,678)	8,273,664
		<u>72,197,428</u>	<u>27,775,673</u>	<u>(1,577,678)</u>	<u>98,395,423</u>
	Assets On Leases				
	Motor Vehicles	8,998,543	1,282,720	(5,579,446)	4,701,817
	Right of Use Assets	-	22,301,312	-	22,301,312
	Total Depreciation	<u>81,195,971</u>	<u>51,359,705</u>	<u>(7,157,124)</u>	<u>125,398,552</u>
	23.3 Net Book Values			2020 LKR	2019 LKR
	At Cost				
	Furniture & Fittings			35,272,347	38,125,229
	Office Equipment			17,416,812	20,127,906
	Computer Equipment			5,984,888	7,772,123
	Motor Vehicles			17,723,336	9,111,323
				<u>76,397,383</u>	<u>75,136,581</u>
	Assets on Leases				
	Motor Vehicles			17,098,183	37,221,787
	Right of Use Assets			72,839,342	-
	Total Carrying Amount of Property, Plant & Equipment			<u>166,334,908</u>	<u>112,358,368</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

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

23.4 Fully Depreciated Property, Plant and Equipment

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

	2020 LKR	2019 LKR
Furniture & Fittings	17,268,844	16,483,083
Office Equipment	9,518,869	9,002,804
Computer Equipment	18,541,782	18,055,112
Motor Vehicles	262,000	424,540
	<u>45,591,495</u>	<u>43,965,539</u>
24. INTANGIBLE ASSETS	2020	2019
	LKR	LKR
Computer System Software		
Cost:		
Opening Balance	53,359,668	49,564,080
Addition	400,100	3,795,588
Disposal	-	-
Closing Balance	<u>53,759,768</u>	<u>53,359,668</u>
Less: Amortization		
Opening Balance	30,266,887	25,165,707
Amortization Charge for the Period	5,358,030	5,101,180
Closing Balance	<u>35,624,917</u>	<u>30,266,887</u>
Net Book Value as at 31 March	<u>18,134,851</u>	<u>23,092,781</u>

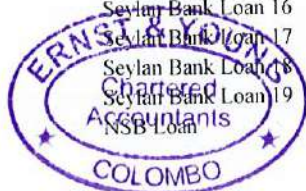


25. INTEREST BEARING BORROWINGS	2020	2019
	LKR	LKR
Leases	4,813,064	8,065,481
Bank Over Draft	55,359,035	169,674,750
Bank Borrowings	1,377,425,197	1,477,967,557
Intercompany Borrowings	440,172,329	535,000,000
	<u>1,877,769,625</u>	<u>2,190,707,788</u>
25.1 Lease Liability		
Gross liability	5,206,388	9,194,135
Less: Finance Charge Allocated to Future Period	(393,324)	(1,128,654)
Net Liability	<u>4,813,064</u>	<u>8,065,481</u>
Repayable Within one year		
Gross Liability	3,988,358	3,987,785
Less: Finance Charge Allocated to Future Period	(357,334)	(735,346)
Net Liability	<u>3,631,024</u>	<u>3,252,439</u>
Repayable After one year (1-5 Year)		
Gross Liability	1,218,030	5,206,350
Less: Finance Charge Allocated to Future Period	(35,990)	(393,308)
Net Liability	<u>1,182,040</u>	<u>4,813,042</u>
Total Net Liability	<u>4,813,064</u>	<u>8,065,481</u>
25.2 Bank Borrowings		
Gross liability	1,530,349,543	1,735,794,391
Less: Finance Charge Allocated to Future Period	(152,924,346)	(257,826,834)
Net Liability	<u>1,377,425,197</u>	<u>1,477,967,557</u>
Repayable Within one year		
Gross Liability	965,746,487	877,355,147
Less: Finance Charge Allocated to Future Period	(109,170,640)	(157,268,124)
Net Liability	<u>856,575,847</u>	<u>720,087,023</u>
Repayable After one year (1 to 5 Year)		
Gross Liability	564,603,056	858,439,244
Less: Finance Charge Allocated to Future Period	(43,753,706)	(100,558,710)
Net Liability	<u>520,849,350</u>	<u>757,880,534</u>
Total Net Liability	<u>1,377,425,197</u>	<u>1,477,967,557</u>



25. INTEREST BEARING BORROWINGS (Contd...)

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



26. DUE TO CUSTOMERS	2020 LKR	2019 LKR
Fixed Deposit	671,917,133	584,784,876
	<u>671,917,133</u>	<u>584,784,876</u>
27. OTHER FINANCIAL LIABILITIES	2020 LKR	2019 LKR
Trade Payable	39,663,271	47,311,307
Accrued Expense	23,881,998	24,889,173
Obligation to Make the Lease Payment (Note 27.1)	76,031,354	-
Sundry Creditors	22,170,057	24,019,355
	<u>161,746,680</u>	<u>96,219,835</u>
27.1 Obligation to Make the Lease Payment		2020 LKR
As at 1 April		-
Impact from initial application of SLFRS 16		58,653,788
Additions during the year		32,487,866
Accretion of interest		11,048,916
Payments to lease creditors		(26,159,216)
As at 31 March		<u>76,031,354</u>
28. OTHER NON FINANCIAL LIABILITIES	2020 LKR	2019 LKR
WHT Payable	-	1,278,265
Stamp Duty Payable	1,659,960	4,711,949
VAT Payable	-	1,283,145
ESC Payable	-	2,128,265
Dividend Payable	961,829	961,829
Other Liabilities	30,745,116	38,353,460
	<u>33,366,905</u>	<u>48,716,913</u>
29. RETIREMENT BENEFIT LIABILITY	2020 LKR	2019 LKR
29.1 Defined Benefit Liability		
Defined Benefit Liability	17,883,134	11,448,517
	<u>17,883,134</u>	<u>11,448,517</u>
29.2 Changes in the Defined benefit obligation are as follows		
Opening Liability	11,448,517	8,433,608
Net Benefit expense	6,434,617	3,214,909
Benefit paid	-	(200,000)
Closing Liability	<u>17,883,134</u>	<u>11,448,517</u>
29.3 Net Benefit expense		
Interest Cost	1,291,392	871,191
Current Service Cost	3,688,803	2,274,867
Actuarial Loss on Obligations	1,454,422	68,851
	<u>6,434,617</u>	<u>3,214,909</u>



29. RETIREMENT BENEFIT LIABILITY (Contd...)

29.4 The principal financial assumptions used are as follows

Messrs. Piyal S Goonetilleke Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity on 31 March 2020. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	2020	2019
Discount Rate	9.72%	11.28%
Future Salary Increment Rate	9.00%	9.00%
Retirement age	55 Years	55 Years
Expected Average Future Working Life	10.3 Years	10.3 Years
Mortality - GA 1983 Mortality Table issued by the Institute of Actuaries London		

29.5 Sensitivity Analysis

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

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

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

Sensitivity Analysis

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

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

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



30. DEFERRED TAX LIABILITY

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

31. STATED CAPITAL

Issued and Fully Paid-Ordinary Shares	No. of Shares	Rs.
Balance as of 1 April 2018	90,000,000	808,247,125
Issued during the Period		
Share Issue	-	-
Balance as of 31 March 2019	<u>90,000,000</u>	<u>808,247,125</u>
Balance as of 1 April 2019	90,000,000	808,247,125
Issued during the Period	55,639,098	1,100,000,000
Balance as of 31 March 2020	<u>145,639,098</u>	<u>1,908,247,125</u>

Transaction cost on share issued is deducted from the equity.

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

32. RESERVES

	2020	2019
	LKR	LKR
Statutory Reserve Fund	22,496,844	17,284,558
Closing Balance	<u>22,496,844</u>	<u>17,284,558</u>

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



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

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

34. ANALYSIS OF FINANCIAL ASSETS & LIABILITIES BY MEASUREMENT BASIS

As at 31 March 2020

	Financial Assets at Fair Value Income Statement LKR	Financial Assets at Fair Value Other Comprehensive Income LKR	Financial Assets and Liabilities at Amortized Cost LKR	Total LKR
Financial Assets				
Cash & Bank Balances	-	-	44,196,582	44,196,582
Investment in government Securities	-	-	916,546,358	916,546,358
Placements with Other Banks & Financial Institutions	-	-	22,876,022	22,876,022
Lease Rentals Receivable and Stock out on Hire	-	-	2,309,893,463	2,309,893,463
Loans and Advances	-	-	959,057,649	959,057,649
Gold Advances	-	-	672,715,396	672,715,396
Financial Investments-measured at Fair Value through OCI	-	457,700	-	457,700
Other Financial Assets	-	-	32,232,575	32,232,575
Total Financial Assets	<u>-</u>	<u>457,700</u>	<u>4,957,518,045</u>	<u>4,957,975,745</u>
Financial Liabilities				
Interest Bearing Borrowings	-	-	1,877,769,625	1,877,769,625
Due to the Customers	-	-	671,917,133	671,917,133
Other Financial Liabilities	-	-	161,746,680	161,746,680
Total Financial Liabilities	<u>-</u>	<u>-</u>	<u>2,711,433,438</u>	<u>2,711,433,438</u>

As at 31 March 2019

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



35. FAIR VALUE OF FINANCIAL INSTRUMENTS

35.1 Determination of Fair Value and Fair Value Hierarchy

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

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

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

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

As at 31 March 2020

Financial Investments - Measured at Fair Value through other comprehensive income

	Level 1	Level 2	Level 3	Total
Unquoted Equity	-	-	457,700	457,700
	-	-	457,700	457,700

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

As at 31 March 2019

Financial Investments - Available for Sale

	Level 1	Level 2	Level 3	Total
Unquoted Equity	-	-	457,700	457,700
	-	-	457,700	457,700

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



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

35.2 Fair Value of the Financial Instrument Carried at Amortized Cost

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

As at 31 March 2020	Level	Carrying Amount LKR	Fair Value LKR
Financial Assets			
Lease Rentals Receivable and Stock out on Hire	Level 02	2,309,893,463	2,388,020,674
Loans and Advances	Level 02	959,057,649	1,001,492,409
Financial Liabilities			
Interest Bearing Borrowings	Level 02	1,817,597,526	1,667,739,779
Finance Lease	Level 02	4,813,064	4,799,083
As at 31 March 2019			
	Level	Carrying Amount LKR	Fair Value LKR
Financial Assets			
Lease Rentals Receivable and Stock out on Hire	Level 02	2,281,999,574	2,305,967,281
Loans and Advances	Level 02	1,002,628,977	1,080,841,985
Financial Liabilities			
Interest Bearing Borrowings	Level 02	1,477,967,557	1,245,482,536
Finance Lease	Level 02	8,065,481	8,026,899

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

Assets

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

Financial Liabilities

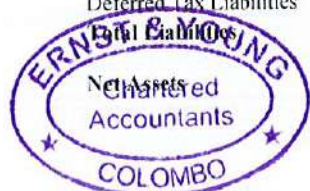
Bank Overdraft
Due to the Customers
Other Financial Liabilities



36. CURRENT AND NON CURRENT ANALYSIS OF ASSETS & LIABILITIES

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

As at 31 March 2020	Within 12-Months LKR	After 12-Months LKR	Total LKR
ASSETS			
Cash and Bank Balances	44,196,582	-	44,196,582
Investment in Government Securities	916,546,358	-	916,546,358
Placements with Banks and Other Financial Institutions	22,876,022	-	22,876,022
Gold Advances	672,715,396	-	672,715,396
Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances	1,327,445,112	1,941,506,000	3,268,951,112
Other Financial Assets	24,875,030	7,357,545	32,232,575
Other Non Financial Assets	20,045,184	2,979,578	23,024,762
Financial Investments-Measured at Fair Value through OCI	-	457,700	457,700
Inventories	917,715	-	917,715
Property, Plant and Equipment	-	166,334,908	166,334,908
Intangible Assets	-	18,134,851	18,134,851
Total Assets	3,029,617,399	2,136,770,582	5,166,387,981
LIABILITIES			
Interest Bearing Borrowings	1,355,738,235	522,031,390	1,877,769,625
Due to the Customers	417,937,133	253,980,000	671,917,133
Other Financial Liabilities	101,907,628	59,839,052	161,746,680
Other Non Financial Liabilities	33,366,905	-	33,366,905
Current Tax Liabilities	38,024,293	-	38,024,293
Retirement Benefit Liability	-	17,883,134	17,883,134
Deferred Tax Liabilities	-	44,690,234	44,690,234
Total Liabilities	1,946,974,194	898,423,810	2,845,398,004
Net Assets	1,082,643,205	1,238,346,772	2,320,989,977
As at 31 March 2019			
	Within 12-Months LKR	After 12-Months LKR	Total LKR
ASSETS			
Cash and Bank Balances	42,822,230	-	42,822,230
Investment in Government Securities	51,670,419	-	51,670,419
Placements with Banks and Other Financial Institutions	15,362,258	-	15,362,258
Gold Advances	456,564,892	-	456,564,892
Lease Rentals Receivable and Stock out on Hire Purchase and Loans and Advances	1,182,670,499	2,103,072,198	3,285,742,697
Other Financial Assets	34,004,549	8,657,469	42,662,018
Other Non Financial Assets	24,318,273	5,356,718	29,674,991
Financial Investments-Measured at Fair Value through OCI	-	457,700	457,700
Inventories	70,754,807	-	70,754,807
Property, Plant and Equipment	-	112,358,368	112,358,368
Intangible Assets	-	23,092,781	23,092,781
Total Assets	1,878,167,927	2,252,995,235	4,131,163,161
LIABILITIES			
Interest Bearing Borrowings	1,428,014,212	762,693,576	2,190,707,788
Due to the Customers	212,230,989	372,553,887	584,784,876
Other Financial Liabilities	96,219,835	-	96,219,835
Other Non Financial Liabilities	48,716,913	-	48,716,913
Current Tax Liabilities	19,629,876	-	19,629,876
Retirement Benefit Liability	-	11,448,517	11,448,517
Deferred Tax Liabilities	-	62,911,102	62,911,102
Total Liabilities	1,804,811,825	1,209,607,083	3,014,418,908
Net Assets	73,356,101	1,043,388,152	1,116,744,253



37. COMMITMENT AND CONTINGENCIES

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

37.1 Litigation Against Company

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

37.2 Assets Pledged

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2020 LKR.	2019 LKR.	
Lease Rentals Receivable and Stock out on Hire *	Bank Loans and Overdrafts	2,329,815,679	3,146,424,328	Lease Rentals Receivable and Stock out on Hire
		<u>2,329,815,679</u>	<u>3,146,424,328</u>	

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

38. EVENT OCCURRING AFTER THE REPORTING DATE

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

39. RELATED PARTY TRANSACTIONS

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

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

39.1 Transactions with Key Managerial Personnel (KMPs)

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

	2020 LKR	2019 LKR
Short Term Employment Benefits	32,118,750	26,318,750

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



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 3/31/2020	Outstanding Receivable/ (Payable) Balance as at 3/31/2019
		LKR	LKR	LKR
Ideal Motors (Pvt) Ltd.	Parent Company			
Finance Lease Equipment Purchase		226,357,290	(2,430,000)	(25,510,300)
Intercompany Borrowing		100,000,000	(435,000,000)	(535,000,000)
Interest Expense - Intercompany Borrowing		67,020,144	(5,172,329)	-
Vehicle Repair Services		788,354	-	-
Ideal Automobile (Pvt) Ltd	Affiliate Company			
Gross Advances		(5,402,020)	57,344,108	62,746,128
Finance Lease Equipment Purchase		5,400,000	-	-
Fixed Deposits		-	(115,000,000)	(115,000,000)
Interest Expenses - Fixed Deposits		14,345,761	(614,596)	(613,014)
Promotion Expenses		83,610	-	-
Ideal Wheels & Tyres (Pvt) Ltd	Affiliate Company			
Vehicle Repair Services		96,600	-	-
Ideal Investment Lanka (Pvt) Ltd	Affiliate Company			
Rent Expenses		10,428,989	(764,520)	(897,141)
Rent Deposit		(450,000)	-	450,000
Electricity Expenses		515,142	-	-
Ideal Choice (Pvt) Ltd	Affiliate Company			
Vehicle Hire Income		1,402,500	95,000	341,800
Vehicle Repair Services		492,738	-	-
Ideal First Choice (Pvt) Ltd	Affiliate Company			
Fixed Deposits		9,089	(89,089)	(80,000)
Interest Expense - Fixed Deposits		9,225	(576)	(710)
Vehicle Repair Services		128,089	-	-
Digital Tech Creations (Pvt) Limited	Affiliate Company			
Call Centre charges		2,633,414	(198,172)	-
Arcasia Private Limited				
Transfer Real Estate Business		109,663,679	-	-
Fixed Deposits		35,779,939	(35,779,939)	-
Interest Expense - Fixed Deposits		797,721	(17,331)	-
Prompt Express Private Limited				
Gross Advances		6,378,600	8,417,493	2,038,893
Courier Service Charges		989,258	(304,068)	(97,673)
Ideal Drive Private Limited	Affiliate Company			
Vehicle Hire Expense		5,124,967	(427,081)	-
Vehicle Repair Services		925,118	-	-
Mahindra & Mahindra Financial Services Limited				
Share Issue		1,100,000,000	1,100,000,000	-

40. CAPITAL

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

40.1 Capital Management

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



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

41. RISK MANAGEMENT

41.1 Introduction

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

RISK MANAGEMENT FRAMEWORK

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

RISK MANAGEMENT AND REPORTING

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

41.2 Credit Risk

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

41.2.1 Credit quality by class of financial assets

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

As at 31st March 2020

ASSETS	Note	Neither Past Due Not Impaired	Past Due But Not Impaired	Individually Impaired	Total
		LKR	LKR	LKR	LKR
Cash and Bank Balances	14	44,196,582	-	-	44,196,582
Investment in Government Securities and Placements with Banks and Other Financial Institutions	15,16	939,422,380	-	-	939,422,380
Gold Advances	17	672,715,396	-	-	672,715,396
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	18,19	3,369,712,562	264,555,863	20,307,335	3,654,575,760
Other Financial Assets	21	23,024,762	-	-	23,024,762
Financial Investments- Fair Value through Other Comprehensive income	22	457,700	-	-	457,700
		5,049,529,382	264,555,863	20,307,335	5,334,392,580

As at 31st March 2019

ASSETS	Note	Neither Past Due Not Impaired	Past Due But Not Impaired	Individually Impaired	Total
		LKR	LKR	LKR	LKR
Cash and Bank Balances	14	42,822,230	-	-	42,822,230
Investment in Government Securities and Placements with Banks and Other Financial Institutions	15,16	67,032,677	-	-	67,032,677
Gold Advances	17	456,564,892	-	-	456,564,892
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	18,19	3,196,816,450	153,705,779	4,294,239	3,354,816,468
Other Financial Assets	21	42,662,018	-	-	42,662,018
Financial Investments- Fair Value through Other Comprehensive income	22	457,700	-	-	457,700
		3,806,355,967	153,705,779	4,294,239	3,964,355,985



IDEAL Finance Limited
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

41. RISK MANAGEMENT (Contd...)

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

Past Due But Not Impaired

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

Individually Impaired

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

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

As at 31st March 2020

Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances

	Less than 31 days		Past Due Not Impaired		Total
	LKR	LKR	31 to 60 days	61 to 90 days	
	46,676,809	41,416,565	41,416,565	36,364,925	140,097,564
	46,676,809	41,416,565	41,416,565	36,364,925	264,555,863

As at 31st March 2019

Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances

	Less than 31 days		Past Due Not Impaired		Total
	LKR	LKR	31 to 60 days	61 to 90 days	
	19,219,670	19,219,670	36,086,925	16,715,219	153,705,770
	19,219,670	19,219,670	36,086,925	16,715,219	153,705,770

41.2.2 Analysis of Risk Concentration

41.2.2.1 Industry Analysis

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

Sector wise Break Down as at 31st March 2020

	Cash & Bank Balances	Investment in Government Securities at Amortized cost	Placement with Bank & Other Financial Institutions	Receivable, Stock out on Hire purchase and Loans and Advances	Financial Assets Available for Sale		Gold Advances		Other Financial Assets		Total Financial Assets	
					LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR
Agriculture	-	-	-	910,555,059	-	-	-	-	-	-	910,555,059	-
Manufacturing	-	-	-	47,856,808	-	-	-	-	-	-	47,856,808	-
Construction	-	-	-	55,655,877	-	-	-	-	-	-	55,655,877	-
Financial Services	44,196,582	916,546,358	22,876,022	33,586,925	-	-	-	-	-	-	1,017,205,887	-
Transport and Services	-	-	-	252,721,069	-	-	-	-	-	-	252,721,069	-
Trade	-	-	-	18,012,608	-	-	-	-	-	-	18,012,608	-
Telecommunications	-	-	-	105,385,145	-	457,700	-	-	-	-	105,842,845	-
Others	-	-	-	1,660,204,653	-	-	-	-	-	-	1,660,204,653	-
Total	44,196,582	916,546,358	22,876,022	285,734,418	-	457,700	-	672,715,396	-	-	990,683,230	-
	44,196,582	916,546,358	22,876,022	3,369,712,562	457,700	672,715,396	32,232,575	32,232,575	32,232,575	5,058,737,195		



IDEAL Finance Limited
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Year ended 31 March 2020

41. RISK MANAGEMENT (Contd...)

41.2.2 Analysis of Risk Concentration (Contd...)

41.2.2.1 Industry Analysis (Contd...)

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

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

Sector wise Break Down as at 31st March 2019

	Cash & Bank Balances LKR	Placement with Bank & Other Financial Institutions LKR	Lease Rental Receivable, Stock out on Hire purchase and Loans and Advances LKR	Financial Assets- Available for Sale LKR	Gold Advances LKR	Other Financial Assets LKR	Total Financial Assets LKR
Agriculture	-	-	964,621,799	-	-	-	964,621,799
Manufacturing	-	-	62,202,644	-	-	-	62,202,644
Construction	-	-	71,062,456	-	-	-	71,062,456
Financial Services	42,822,230	15,362,258	66,012,590	-	-	-	124,197,078
Trading	-	-	245,706,609	-	-	-	245,706,609
Hotels	-	-	27,184,757	-	-	-	27,184,757
Services	-	-	71,849,561	457,700	-	-	72,307,661
Transport	-	-	1,443,517,440	-	-	-	1,443,517,440
Consumer	-	-	402,658,712	-	-	-	402,658,712
Total	42,822,230	15,362,258	3,354,816,467	457,700	456,564,892	42,662,018	3,912,685,565



IDEAL Finance Limited
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Year ended 31 March 2020

41. RISK MANAGEMENT (Contd...)

41.2.2 Analysis of Risk Concentration (Contd...)

41.2.2.1 Industry Analysis (Contd...)

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

Province	Lease Rental Receivable & Stock Out On Hire	Loan Stock	Gold Advances
Central	71,214,710	25,532,405	7,852,684
North Central	462,867,306	92,634,009	19,884,191
North Western	644,565,089	226,393,392	1,021,928
Northern	201,581,253	33,262,921	230,636,480
Sabaragamuwa	136,480,940	66,163,231	15,792,182
Southern	220,202,627	195,080,342	18,556,517
Uva	346,096,497	81,398,133	162,819,910
Western	247,773,883	303,569,731	-
Total	2,330,782,304	1,024,034,163	456,564,892

41.2.2.2 Analysis of Maximum Exposure to Credit Risk

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

Maximum Exposure to Credit

	2020		2019	
	Gross Exposure LKR	Net Exposure LKR	Gross Exposure LKR	Net Exposure LKR
Cash and Bank Balances	44,196,582	-	42,822,230	-
Investment in Government Securities and Placements with Banks and Other Financial Institutions	939,422,380	939,422,380	67,032,677	67,032,677
Lease Rentals Receivable, Stock out on Hire Purchase and Loans and Advances	3,369,712,562	661,681,446	3,354,816,467	607,066,341
Gold Advances	672,715,396	-	456,564,892	-
Other Financial Assets	32,232,575	32,232,575	42,662,018	42,662,018
Financial Investments-Measured at Fair Value through OCI	457,700	457,700	457,700	457,700
Total Financial Assets	5,058,737,195	1,633,794,101	3,904,355,984	717,218,736



IDEAL Finance Limited

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Year ended 31 March 2020

41. RISK MANAGEMENT (Contd...)

41.3 Liquidity Risk & Funding Management

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

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

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

41.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

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

As at 31st March 2020

Financial Assets

	On Demand LKR	Less Than 3 Months		3 to 12 Months		1 to 5 years		Over 5 Years		Total LKR
		LKR	LKR	LKR	LKR	LKR	LKR	LKR	LKR	
Cash and Bank Balances	44,196,582	-	-	-	-	-	-	-	-	44,196,582
Investment in Government Securities and Placements with Banks and Other Financial Institutions	-	872,681,964	70,301,780	-	-	-	-	-	-	942,983,744
Gold Advances	-	669,918,900	3,639,390	-	-	-	-	-	-	673,558,490
Lease Rentals Receivable and Stock out on Hire purchase	203,848,540	294,314,652	793,611,571	1,876,961,662	1,103,839	3,169,840,264	1,279,544,380	457,700	-	10,279,544,380
Loans and Advances	79,633,920	211,753,140	403,927,618	581,881,854	2,347,848	1,279,544,380	457,700	-	-	457,700
Financial Investments-Measured at Fair Value through OCI	-	22,940,791	3,617,198	9,020,000	1,500,000	37,077,989	-	-	-	37,077,989
Other Financial Assets	327,679,042	2,071,609,447	1,275,097,757	2,467,863,516	5,409,387	6,147,659,149	-	-	-	6,147,659,149
Total Financial Assets										

Financial Liabilities

Interest Bearing Borrowings	55,359,035	427,043,623	980,461,601	565,377,690	-	2,028,241,949	-	-	-	2,028,241,949
Due to the Customers	-	195,867,633	189,368,333	288,831,698	-	674,067,664	-	-	-	674,067,664
Other Financial Liabilities	-	80,140,064	31,414,019	65,504,117	14,640,395	191,698,595	-	-	-	191,698,595
Total Financial Liabilities	55,359,035	703,051,321	1,201,243,953	919,713,504	14,640,395	2,894,008,208	-	-	-	2,894,008,208

Total Net Financial Assets/ (Liabilities)

	272,320,007	1,368,558,126	73,853,804	1,548,150,012	(9,231,008)	3,253,650,941	-	-	-	3,253,650,941
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IDEAL Finance Limited
NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 March 2020

41. RISK MANAGEMENT (Contd...)

41.3 Liquidity Risk & Funding Management (Contd...)

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

As at 31st March 2019

Financial Assets

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



41. RISK MANAGEMENT (Contd...)

41.4 Interest Rate Risk

Interest rate risk is a key constituent 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 2020	Total As at 31-03-2020 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	
Financial Assets						
Cash and Bank Balances	44,196,582	-	-	-	-	44,196,582
Investment in Government Securities and Placements with Banks and Other Financial Institutions						
Gold Advances	939,422,380	871,656,597	67,765,783	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	672,715,396	669,531,948	3,183,448	-	-	-
Loans and Advances	2,382,550,085	371,812,286	531,898,717	1,477,778,645	1,060,437	-
Financial Investments-Measured at Fair Value through OCI	987,162,476	224,462,306	300,033,253	460,605,052	2,061,865	-
Other Financial Assets	457,700	-	-	-	-	457,700
Total Financial Assets	32,232,575	-	-	-	-	32,232,575
	5,058,737,194	2,137,463,137	902,881,201	1,938,383,697	3,122,302	76,886,857
Financial Liabilities						
Interest Bearing Borrowings	1,863,561,230	431,220,442	910,746,986	521,593,802	-	-
Due to the Customers	663,934,800	193,568,498	183,288,927	287,077,375	-	-
Other Financial Liabilities	161,746,680	3,756,647	12,435,655	48,529,696	11,309,356	85,715,326
Total Financial Liabilities	2,689,242,710	628,545,587	1,106,471,568	857,200,873	11,309,356	85,715,326
	2,369,494,484	1,508,917,550	(203,590,367)	1,081,182,824	(8,187,054)	(8,828,169)



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Year ended 31 March 2020

41. RISK MANAGEMENT (Contd...)

41.4 Interest Rate Risk (Contd...)

As at 31st March 2019

Financial Assets

	Total As at 31-03-2018 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	42,822,230	-	-	-	-	51,593,413
Investment in Government Securities and Placements with Banks and Other Financial Institutions						
Gold Advances	67,032,677	25,270,367	41,762,310	-	-	-
Lease Rentals Receivable and Stock out on Hire purchase	456,564,892	454,098,237	2,466,656	-	-	-
Loans and Advances	2,330,782,305	284,946,113	551,974,345	1,489,808,329	4,053,517	-
Financial Investments-Measured at Fair Value through OCI	1,024,034,162	154,024,000	260,799,810	600,524,667	8,685,685	-
Other Financial Assets	457,700	-	-	-	-	457,700
Total Financial Assets	42,662,018	-	-	-	-	46,820,823
	3,964,355,984	918,338,716	857,003,121	2,090,332,996	12,739,202	98,871,936

Financial Liabilities

Interest Bearing Borrowings Due to the Customers	2,190,707,788	387,600,448	1,040,413,751	762,693,589	-	-
Other Financial Liabilities	584,784,876	135,166,347	77,064,642	372,553,887	-	-
Total Financial Liabilities	96,219,835	-	-	-	-	145,886,468
	2,871,712,500	522,766,795	1,117,478,393	1,135,247,476	-	145,886,468

Interest Sensitivity Gap

	1,092,643,484	395,571,921	(260,475,272)	955,085,520	12,739,202	(47,014,532)
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41.5 The Impact of Covid - 19 on the Risk Management

The unexpected interruptions to business from mid-March 2020 with the island-wide curfew imposed by the government due to the COVID-19 pandemic resulted slowdown in business transactions of the company. With the developments in certain work measures such as "Work from Home" and re-commencing business operations in the curfew and non-curfew areas, company ensured uninterrupted service to our customers.

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



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Year ended 31 March 2020

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 collect from new share issue, which was taken place in the month of February 2020. In addition, the company took necessary actions to ensure continuation of credit lines with banking institutions and benefited with the debt moratorium offered by banking institutions.

41.5.2 Impact on Credit Risk

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

41.5.3 Impact of assessment of ECL

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

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

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

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

41.5.4 Impact on Interest Rate Risk

Due to the impact of Covid 19 pandemic, Central Bank of Sri Lanka reduced policy rates and implemented monetary easing policies to enhance the liquidity of the market to stimulate the economic activities of the country. Company evaluated the impact of the interest rate revisions with the long-term debt obligations obtained with floating rates from banking institutions. However, there was no significant impact from interest rate volatility for the financial year ended 31 March 2020.



42. OPERATING SEGMENTS

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

As at 31st March 2020	Finance Lease	Hire Purchase	Loans and Advances	Other	Total
	LKR	LKR	LKR	LKR	LKR
Interest Income	520,261,631	68,982	213,876,437	151,862,323	886,069,373
Commission Income	-	-	-	8,940,422	8,940,422
Other Income	-	-	-	32,774,938	32,774,938
	<u>520,261,631</u>	<u>68,982</u>	<u>213,876,437</u>	<u>193,577,683</u>	<u>927,784,733</u>

As at 31st March 2019	Finance Lease	Hire Purchase	Loans and Advances	Other	Total
	LKR	LKR	LKR	LKR	LKR
Interest Income	455,748,600	971,762	156,153,788	91,433,156	704,307,306
Commission Income	-	-	-	9,298,176	9,298,176
Other Income	-	-	-	63,855,991	63,855,991
	<u>455,748,600</u>	<u>971,762</u>	<u>156,153,788</u>	<u>164,587,323</u>	<u>777,461,473</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 2020 are disclosed below.

	Bank Borrowing	Finance Lease Liabilities	Intercompany Borrowing
	LKR	LKR	LKR
Balance as at 01 April 2019	1,477,967,557	8,065,481	535,000,000
Net cash flows from financing activities	(107,108,564)	(3,252,417)	(100,000,000)
Non cash changes			
Foreign exchange movements	-	-	-
Accrual for interest expense	6,566,204	-	5,172,329
Balance as at 31 March 2020	<u>1,377,425,197</u>	<u>4,813,064</u>	<u>440,172,329</u>

