RICHARD PIERIS FINANCE LIMITED

FINANCIAL STATEMENTS

31 MARCH 2020

Building a better working world

Ernst & Young
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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF RICHARD PIERIS FINANCE LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Richard Pieris Finance Limited, 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 give a true and fair view of the financial position of the Company as at 31 March 2020 and of its financial performance and its 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.

Ernst & Young

14 September 2020
Colombo

INCOME STATEMENT

Year ended 31 March 2020

	Notes	Company 2020 Rs.	Company 2019 Rs.
Interest Income		2,879,497,409	2,780,492,055
Interest Expenses		(2,053,313,727)	(1,660,379,137)
Net Interest Income	6	826,183,682	1,120,112,918
Fee and Commission Income	7	217,082,749	258,118,071
Net Fee and Commission Income		1,043,266,431	1,378,230,990
Other Operating Income	8	3,458,323	(3,343,548)
Total Operating Income		1,046,724,754	1,374,887,442
Impairment charges for loans and receivables and other losses	9	(1,089,206,344)	(216,717,435)
Net Operating Income		(42,481,590)	1,158,170,007
Operating Expenses			
Personnel Expenses	10	(259,413,770)	(235,156,979)
Depreciation and Amortization	11	(77,222,731)	(34,578,799)
Other Operating Expenses	12	(254,631,946)	(270,457,846)
Total Operating Expenses		(591,268,447)	(540,193,623)
Operating Profit / (Loss) before Value Added Tax on Financial Services		(633,750,037)	617,976,382
Tax on Financial Services		(2,952,563)	(136,654,263)
Profit/(Loss) before Taxation from Operations		(636,702,600)	481,322,120
Income Tax Expense	13	(7,304,247)	(152,620,701)
Profit/(Loss) for the Year		(644,006,847)	328,701,419
Basic Earnings Per Share (Rs)	14	(5.48)	2.80

The accounting policies and notes on pages 08 through 51 form an integral part of the Financial Statements.

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Richard Pieris Finance Limited

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2020

	Notes	Company 2020 Rs.	Company 2019 Rs.
Profit/(Loss) for the Year		(644,006,847)	328,701,419
Other Comprehensive Income			
Other Comprehensive income not to be reclassified to Income Statement			
Actuarial gains on defined benefit plans		1,554,231	2,056,662
Gain/(Loss) on re-measuring of Financial investments - at Fair Value through OCI		(362,591)	-
Deferred tax effect on other comprehensive income		(435,185)	-
Recycling to statement of Profit or Loss		-	-
Total Comprehensive Income for the Year, Net of Tax		(643,250,392)	330,758,081
Attributable to :			
Equity Holders of the Parent Company		-	-
Non-controlling interest		-	-
		-	-

The accounting policies and notes on pages 08 through 51 form an integral part of the Financial Statements.

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STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

		Company	
		2020	**2019**
	Notes	**Rs.**	**Rs.**
Assets			
Cash and Bank Balances	15	273,750,436	653,263,097
Investments in Fixed Deposits	16	365,179,078	319,159,474
Loans and Receivables at Amortized Cost	17	6,944,156,025	7,601,201,527
Lease Receivable at Amortized Cost	18	6,534,955,543	7,479,298,537
HP Receivable at Amortized Cost	19	50,960,755	91,177,191
Other Financial Assets	20	346,562,480	464,076,142
Other Non Financial Assets	20.1	39,538,817	56,988,485
Land Stock		1,604,897,094	1,297,030,712
Financial investments - at Fair Value through OCI	21	499,477,199	367,702,987
Financial investments - at Fair Value through Profit or Loss	21.1	8,941,916	12,889,627
Goodwill	22	315,790,723	315,790,723
Property, Plant and Equipment	23	235,788,333	259,239,307
Intangible Assets	23	10,681,470	11,813,375
Right of Use Assets	24	101,489,556	-
Investment Property	25	71,554,580	72,618,800
Income Taxation Receivable	26	37,114,282	-
Deferred Tax Assets	27	-	34,824,212
Total Assets		17,440,838,287	19,037,074,195
Liabilities			
Bank Overdraft		11,481,501	1,237,455,568
Due to Customers	28	8,710,786,500	6,911,973,425
Debt Issued and Other Borrowed Funds	29	5,944,787,533	7,164,275,320
Other Payables	30	781,638,587	1,017,961,907
Income Taxation Payable	26	-	74,226,877
Deferred Tax Liabilities	27	5,926,290	-
Retirement Benefit Obligations	31	14,030,625	15,743,456
Total Liabilities		15,468,651,036	16,421,636,552
Shareholders' Funds			
Stated Capital	32	1,175,830,690	1,175,830,690
Statutory Reserve Fund	33	76,761,350	76,761,350
Fair Value through OCI Reserve		(362,591)	-
Retained Earnings		719,957,802	1,362,845,603
Total Shareholders' Funds		1,972,187,251	2,615,437,642
Total Liabilities and Shareholders' Funds		17,440,838,287	19,037,074,195

Chief Financial Officer

Chief Executive Officer

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

Director

Director

The accounting policies and notes on pages 08 through 51 form an integral part of the Financial Statements.

ERNST & YOUNG Chartered Accountants COLOMBO

14 September 2020
Colombo

STATEMENT OF CASH FLOWS

Year ended 31 March 2020

		Company	
		2020	2019
Cash Flows From / (Used in) Operating Activities	**Notes**	**Rs.**	**Rs.**
Profit/(Loss) before Income Tax Expense		(636,702,600)	481,322,120
Adjustments for			
Depreciation of Property Plant and Equipment	11	77,222,731	34,578,799
Impairment Provision	9	1,089,206,344	216,717,435
Provision/(reversal) for Defined Benefit Plans	10	4,073,147	4,683,038
Dividend Received		(613,639)	(334,662)
Interest On Lease Liability	6.1	16,368,368	-
Gain on disposal of Property Plant and Equipment/ Land stock	8	4,020,133	
Other Non- cash items included in profit before tax		(4,092,555)	-
Operating Profit before Working Capital Changes		549,481,928	736,966,731
(Increase)/Decrease in Lease Receivable at Amortized Cost		594,480,407	(2,042,328,462)
(Increase)/Decrease in HP Receivable at Amortized Cost		36,608,739	57,391,841
(Increase)/Decrease in Loans and Receivables at Amortized Cost		284,725,180	(1,675,345,155)
(Increase)/Decrease in Other Receivables		(672,112,113)	(1,368,163,159)
Increase/(Decrease) in Amounts Due to Customers		1,798,813,075	1,841,616,895
Increase/(Decrease) in Other Payables		(252,691,688)	(45,156,212)
Cash Generated from Operations		2,339,305,528	(2,495,017,522)
Retirement Benefit Liabilities Paid	31	(4,231,746)	(2,299,893)
Taxes Paid	26	(78,330,088)	(196,811,006)
Net Cash (Used in) Operating Activities		2,256,743,694	(2,694,128,422)
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property Plant and Equipment and Intangible Assets	23	(16,101,733)	(81,579,836)
Proceeds from the sale of property Plant and equipment		2,850,000	-
Investments in Fixed Deposits		(46,019,604)	(138,682,434)
Financial investments held at - Fair Value through Profit or Loss		-	7,542,485
Net investment in investment property		-	12,689,549
Sale/(Purchase) of financial investments- at Fair Value through OCI		(132,136,803)	(39,482,909)
Dividend Received		613,639	334,662
Net Cash Flows (Used in) Investing Activities		(190,794,499)	(239,178,483)
Cash Flows from / (Used in) Financing Activities			
Proceeds from borrowings		2,200,000,000	6,068,248,096
Repayment of borrowings		(3,419,487,787)	(2,954,516,947)
Dividends Paid		-	(43,505,736)
Net Cash Flows from Financing Activities		(1,219,487,787)	3,070,225,413
Net Increase in Cash and Cash Equivalents		846,461,407	136,918,509
Cash and Cash Equivalents at the beginning of the year		(584,192,472)	(721,110,981)
Cash and Cash Equivalents at the end of the year		262,268,935	(584,192,472)
Analysis of the cash and cash equivalents at the end of the year			
Cash and Bank Balances		273,750,436	653,263,097
Bank Overdraft		(11,481,501)	(1,237,455,568)
		262,268,935	(584,192,472)
Net cash generated from operating activities include followings			
Interest received		2,708,810,198	2,690,900,273
Interest paid		(1,848,620,626)	(1,535,386,458)
Net interest received / (paid)		860,189,572	1,155,513,816

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The accounting policies and notes on pages 08 through 52 form an integral part of the Financial Statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2020

Company	Stated Capital	Retained Earnings	Statutory Reserve Fund	Fair Value through OCI Reserve	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2018	1,175,830,690	1,248,493,479	60,326,279	-	2,484,650,448
Impact of adoption under SLFRS 9 as at 01 April 2018	-	(156,465,151)	-	-	(156,465,151)
Restated Balance under SLFRS 9 as at 01 April 2018	1,175,830,690	1,092,028,329	60,326,279	-	2,328,185,297
Net profit for the year	-	328,701,419	-	-	328,701,419
Other comprehensive income net of tax	-	2,056,662	-	-	2,056,662
Dividend Paid	-	(43,505,736)	-	-	(43,505,736)
Transfer to Statutory Reserve Fund	-	(16,435,071)	16,435,071	-	-
Balance as at 31 March 2019	1,175,830,690	1,362,845,603	76,761,350	-	2,615,437,642
Net profit for the year	-	(644,006,847)	-	-	(644,006,847)
Dividend Paid	-	-	-	-	-
Other comprehensive income net of tax	-	1,119,046	-	(362,591)	756,455
Transfer to Statutory Reserve Fund	-	-	-	-	-
Balances as at 31 March 2020	1,175,830,690	719,957,802	76,761,350	(362,591)	1,972,187,251

The accounting policies and notes on pages 08 through 51 form an integral part of the Financial Statements.

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1. CORPORATE INFORMATION

1.1 General

Richard Pieris Finance Limited ("The Company"), formerly known as Richard Pieris Arpico Finance Limited was incorporated as a Public Limited Liability Company. The Company is incorporated and domiciled in Sri Lanka and the registered office and the principal place of business of the Company is located at No 69, Hyde Park Corner, Colombo 02.

It is a Licensed Finance Company under the Finance Business Act No.42 of 2011. The Company was registered under the Companies Act No.07 of 2007.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company and Subsidiary were acceptance of deposits, granting lease facilities, hire purchase, mortgage loans, Islamic finance facilities and other credit facilities. There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent and ultimate parent company is Richard Pieris & Company PLC.

1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards (SLFRS/ LKAS).

1.5 Date of Authorization for Issue

The Financial Statements of Richard Pieris Finance Limited for the year ended 31 March 2020 was authorized for issue in accordance with a resolution of the Board of Directors on 14 September 2020

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2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company (Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes) as at 31st March 2020 are prepared in accordance with Sri Lanka Accounting Standards comprising of SLFRSs and LKASs (hereafter referred as SLFRSs), as 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.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for the following material items in the Statement of financial position, all of which are measured at fair value.

- Land and buildings are measured at re-valuation
- Investment properties at cost.
- Financial assets and liabilities designated at fair value through profit or loss
- Liabilities for defined benefit obligations are recognised as the present value of the defined benefit obligation

2.3 Changes in Accounting Policies and Disclosures

In these Financial Statements, the Company has applied Sri Lanka Accounting Standard – SLFRS 16 on "Leases" and IFRIC Interpretation 23 – "Uncertainty over Income Tax Treatment" which became effective for the annual reporting periods beginning on or after 1 January 2019, for the first time. The Company has not early adopted any other standard, interpretation or amendment that has been issued but not effective.

SLFRS 16 – "Leases"

The new standard SLFRS 16 – "Leases" became effective for periods beginning on or after 1 January 2019, replacing LKAS 17 – "Leases".

The new standard has removed the distinction between operating leases and finance leases. Most contracts classified as operating leases, which were previously off-balance sheet, are now recognised as right-of-use (ROU) assets and lease liabilities on the Statement of Financial Position. Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17 where by lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Company is the lessor. However, SLFRS 16 has introduced fundamental changes to accounting principles when the Company becomes the lessee of the contract.

Lessee measures right-of-use assets similar to other non-financial assets (such as property, plant and equipment) and lease liabilities similar to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability. The depreciation would usually be on straight-line basis. SLFRS 16 allows a number of choices in selecting the transition method in applying the Standard. The Company has selected Option 2B (Simplified) which requires to calculate the lease liability at transition and then the right-of-use asset equals the liability. This approach does not have an equity adjustment.

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IFRIC 23 – Uncertainty over income tax treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 – "Income Taxes". It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following;

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. It assessed whether the Interpretation had an impact on its Financial Statements. The Company determined, based on its taxation authorities, the Interpretation did not have an impact on the Financial Statements of the Company.

Apart from the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in these Financial Statements.

2.4 Functional and presentation currency

The financial statements are presented in Sri Lanka Rupees, which is also the Company's functional and presentation currency (except otherwise indicated).

2.5 Presentation of financial statements

The Company presents its statement of financial position broadly grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. 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.

2.6 Materiality & Aggregation

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, if they are material.

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 income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

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2.7 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

The Company has not restated the comparative information for contracts within the scope of Sri Lanka Accounting Standard – SLFRS 16 on "Leases" (SLFRS 16). Therefore, the comparative information is reported under Sri Lanka Accounting Standard – LKAS 17 on "Leases" (LKAS 17) and is not comparable with the information presented for 2019. The Company applied modified retrospective approach in accordance with SLFRS 16 when accounting for right-of-use assets and lease liabilities.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the application of certain critical accounting and assumptions relative to the future. Further, it requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based these assumptions and estimates on parameters available at the time financial statements were prepared. Existing circumstances and assumptions about future developments, these may change due to market changes or circumstances arising beyond the control of the Company. Such changes are taken in to consideration in the assumptions when they occur

i. Useful life-time of the Property Plant and equipment

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

ii. Going Concern

The Directors have made an assessment of the company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, 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.

Furthermore, the Management has assessed the existing and anticipated effects of COVID – 19 on the Company, and is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements of the Company continue to be prepared on a going concern basis.

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iii. Defined Benefit Plans

The cost of defined benefit pension plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and their long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Company.

iv. Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent it is probable that future taxable profits will be available against which such tax losses can be set off. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

v. Impairment losses on loans and advances

The Company assessed loans and advances collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to expected loss. The collective assessment takes in to account data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, interest rates, exchange rates).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of the same.

4.2 Property, Plant and equipment

Property, Plant and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on Property, Plant and Equipment. Initially property plant and equipment are measured at cost.

Recognition and measurement

Cost Model

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

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Subsequent Cost

These are costs that are recognized in the carrying amount of an item, if it is probable that the future economic benefits embodied within the part will flow to the group and it can be reliably measured.

Depreciation

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

Category of Asset	Period of Depreciation
Freehold Buildings	40 years
Motor Vehicles	4-5 years
Furniture & Fittings	4-5 years
Office Equipments	4-5 years
Computer Equipment	3-4 years
Machinery	4 years

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriated, at each financial year end.

Property plant and equipment is de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" in the income statement in the year the asset is de-recognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

4.3 Financial Instruments

4.3.1 Financial Instruments – initial recognition and subsequent measurement

(i) Classification of Financial Instruments

The Company classifies its Financial Assets into the following measurement categories:

- Measured at fair value (either through other Comprehensive Income, or through Profit or Loss); and
- Measured at amortised cost.

The classification depends on the Company's business model for managing Financial Assets and the contractual terms of the Financial Assets' cash flows. The Company classifies its Financial Liabilities at amortised cost unless it has designated liabilities at fair value through Profit or Loss or is required to measure liabilities at fair value through Profit or Loss such as Derivative Liabilities.

(ii) Financial Assets measured at amortised cost

Placements, Financing and Receivables to Other Customers and Other Financial Assets are measured at amortised cost where they have:

- Contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and profits on the principal amount outstanding; and
- Are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described below in Note (v) Impairment of Financial Assets.

(iii) Financial assets measured at fair value through other Comprehensive Income

Equity instruments

Investment in equity instruments that are neither Trading Financial Assets recognised through Profit or Loss, nor contingent consideration recognised by the Company in a business combination to which SLFRS 3 'Business Combination' applies, are measured at fair value through other Comprehensive Income, where an irrevocable election has been made by management. For portfolios where management does not consider an irrevocable election of adopting fair value through other Comprehensive Income, by default such investments shall be measured at fair value through Profit and Loss.

Amounts presented in other Comprehensive Income are not subsequently transferred to Profit or Loss. Dividends on such investments are recognised in Profit or Loss.

(iv) Fair Value through Profit or Loss

Fair Value through Profit or Loss comprise:

- Financial Investments - For Trading;
- Instruments with contractual terms that do not represent solely payments of principal and Profit.

Financial Instruments held at fair value through Profit or Loss are initially recognised at fair value, with transaction costs recognised in the Statement of Profit or Loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the Statement of Profit or Loss as they arise.

Where a Financial Asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

(v) Impairment of Financial Assets

The Company applies a three-stage approach to measuring Expected Credit Losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

Debt Instruments

- Instruments measured at amortised cost and fair value through other Comprehensive Income;
- Financing and Receivables commitments; and
- Financial Guarantee Contracts

ECL is not recognised on equity instruments.

Financial Assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Company determines 12 month ECL from customers who are not significantly credit deteriorated (i.e. less than 30 days past due).

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Stage 2: Lifetime ECL – not Credit Impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the Financial Asset) is recognised.

In being consistent with the policies of the Company, significant deterioration is measured through the rebuttable presumption of 90 days past due in line with the requirements of the standard.

Stage 3: Lifetime ECL – Credit Impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and Financing Income is calculated by applying the Effective Rate to the amortised cost (net of provision) rather than the gross carrying amount.

Determining the stage for Impairment

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for impairment loss reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Company's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for impairment loss for these Financial Assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the Statement of Profit or Loss.

The Company assesses whether the credit risk on an exposure has increased significantly on a collective basis. For the purposes of a collective evaluation of impairment, Financial Instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial Assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the Financial Asset discounted by the Effective rate. The cash shortfall is the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

  Financial Assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the Effective rate.

- Undrawn commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive.

- Financial Guarantee Contracts: as the expected payments to reimburse the holder less any amounts that the Company expects to recover.

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For further details on how the Company calculates ECLs including the use of forward looking information, refer to the Credit quality of Financial Assets section in Note 17 to 19. For details on the effect of modifications of Financing and Receivables on the measurement of ECL refer to note on Provision for expected credit loss.

ECLs are recognised using a provision for impairment loss account in Statement of Profit and Loss. The Company recognises the provision charge in Statement of Profit or Loss, with the corresponding amount recognised in other Comprehensive Income, with no reduction in the carrying amount of the asset in the Statement of Financial Position.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

PD : The probability of Default 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 derecognised and is still in the portfolio.

EAD : The Exposure at Default 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 capital and financing income, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued financing income from missed payments.

LGD : The Loss Given Default 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 Company would expect to receive, including the realisation of any collateral.

EFA: Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. These additional macro and portfolio risk factors may include:

- Recent loan portfolio growth and product mix,
- Gross Domestic Production (GDP) growth rate, Unemployment rates, inflation
- Interest rates
- Changes in government laws and regulations

4.3.2 Derecognition of financial assets

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

- The rights to receive cash flows from the asset have expired.
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement and either:
    - o The company has transferred substantially all the risks and rewards of the asset.
      Or
    - o The company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset

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is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

4.3.3 Other Financial Assets

Other Financial Assets includes the Other Receivables and Refundable Deposits. Refundable Deposits are initially record at Fair value and subsequently measured at amortized cost.

Collateral repossessed / Land Stock

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

4.4 Other Non-Financial Assets

4.4.1 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 CGU 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.

4.5 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over 10 year period and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

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The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Amortization is calculated using the straight-line method to write down the cost of Intangible Assets to their residual values over their estimated useful lives.

4.6 Investment Property

Investment properties are measured at cost, including transaction costs. Investment properties are de-recognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the Statement of Profit or Loss in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. Group investment properties mainly comprise of freehold lands.

4.7 Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as Borrowings and Trade and Other Payables. The company determines the classification of its financial liabilities at initial recognition.

The Company classifies financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

The Company recognizes financial liabilities in the Statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

Derecognisition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

4.8 Borrowings

Borrowings obtained by the Company that are not designated at fair value through profit or loss, are classified as liabilities under 'Borrowings', where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

4.9 Other Financial Liabilities

Other Financial Liabilities includes the Trade and Other Payables and Sundry Creditors. Other Financial Liabilities are recorded at cost.

4.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where 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. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

4.11 Retirement Benefit Obligations

a. Defined Benefit Plan – Gratuity

All the employees of the company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

The Company measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit Method (PUC) as required by LKAS No 19, Employee Benefits

The item is stated under Defined Benefit Liability in the Statement of financial position.

Recognition of Actuarial Gains and Losses

Actuarial gains and losses are recognized as income or expenses in the year in which it arose itself.

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4.12 Taxation

4.12.1 Current Taxes

Current income tax assets and liabilities for the current and prior periods 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.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

The Company has adopted the requirements of the New Inland Revenue Act 24 of 2017 which was effective from 1 April 2018.

4.12.2 Deferred Taxation

Deferred income tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets 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 assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

The carrying amount of deferred income 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 income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in the equity and not in the income statement.

4.12.3 VAT on Financial Services

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto.

4.13 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.

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4.13.1 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 EIR. EIR 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 EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the bank 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 EIR 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.

4.13.2 Fee and Commission Income

Fee and commission income that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period. A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Company first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

4.14 Cash Flow Statement

The cash flow statement has been prepared by using 'Indirect Method', of preparing cash flows in accordance with the LKAS 7 – "Statement of Cash Flow". Cash and cash equivalents comprise short term, highly liquid investments, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

4.15 Standards Issued but Not Yet Effective

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 March 2020.

Amendments to SLFRS 3: Definition of a Business

In November 2018, the CA Sri Lanka issued amendments to the definition of a business in SLFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. These amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. The Company shall apply these amendments to business combinations prospectively for annual financial periods beginning on or after 1 January 2020, if the asset acquisitions occurs on or after the beginning of that period.

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6. INTEREST INCOME

	Company 2020 Rs.	Company 2019 Rs.
Leasing Interest Income	1,290,324,762	1,198,982,195
HP Interest Income	14,164,713	19,339,289
Loans and Receivables Interest Income	1,499,191,862	1,505,499,965
Interest income - Fixed Deposits	33,498,925	23,123,613
Interest Income - Government Securities	42,271,841	33,075,749
Interest Income on Saving Accounts	45,307	471,245
Total Interest Income	2,879,497,409	2,780,492,055

6.1 Interest Expenses

	Company 2020 Rs.	Company 2019 Rs.
Interest on Public deposits	980,329,529	744,056,263
Overdrafts	110,331,359	121,002,247
Borrowings	946,284,470	795,320,627
Interest- Right of use assets	16,368,368	-
Total Interest Expenses	2,053,313,727	1,660,379,137
Net Interest Income	826,183,682	1,120,112,918

7. FEE AND COMMISSION INCOME

	Company 2020 Rs.	Company 2019 Rs.
Documentation Charges	38,478,369	73,235,594
Insurance Commission	19,789,170	24,365,308
Other fees recovered	131,693,408	134,615,280
Service Charges	7,908,344	13,852,373
Sundry Income	19,213,458	12,049,517
Total Fee and Commission Income	217,082,749	258,118,071

8. OTHER OPERATING INCOME

	Company 2020 Rs.	Company 2019 Rs.
Gain on disposal of Property Plant and Equipment	2,850,000	-
Gain on disposal of Land Stock	1,170,133	-
Gain/(Loss) on investment held for Trade	(3,947,710)	(7,043,027)
Other sundry income	3,385,900	3,699,479
Total Other Operating Income	3,458,323	(3,343,548)

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Amendments to LKAS 1 and LKAS 8: Definition of Material

In November 2018, the CA Sri Lanka issued amendments to LKAS 1 and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of "material" across the standards and to clarify certain aspects of the term "definition". The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity." The Company shall apply those amendments prospectively for annual financial periods beginning on or after 1 January 2020.

Amendments to the conceptual framework for financial reporting

CA Sri Lanka has issued a revised Conceptual Framework which will be used in standard setting decisions with immediate effect. Key changes include:

- Increasing the prominence of stewardship in the objective of financial reporting
- Defining a reporting entity, which may be a legal entity, or a portion of an entity
- Reinstating prudence as a component of neutrality
- Revising the definitions of an asset and a liability
- Removing the probability threshold for recognition and adding guidance on derecognition
- Adding guidance on different measurement basis, and
- Stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the Financial Statements.

No changes will be made to any of the current Accounting Standards. However, if the Company rely on the framework in determining certain accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from 1 January 2020. The Company will need to consider whether those accounting policies are still appropriate under the revised Framework.

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9. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS AND OTHER LOSSES

9.1 The table below shows the expected credit loss (ECL) charges for financial instruments for the year 2020 recorded in the income statement.

	Rs. Stage 1	Rs. Stage 2	Rs. Stage 3	Total
Finance Leases	(10,709,445)	77,222,555	283,349,477	349,862,587
Hire Purchase	(174,574)	(627,877)	4,410,148	3,607,697
Other Loans	(13,289,899)	19,771,194	365,839,027	372,320,322
Repossessed stock	-	-	368,915,738	368,915,738
Investments in fixed deposits		-	-	-
	(24,173,918)	96,365,873	1,022,514,389	1,094,706,344
Written -off during the year	-	-	-	-
Written -off Recoveries during the year			(5,500,000)	(5,500,000)
	(24,173,918)	96,365,873	1,017,014,389	1,089,206,344

9.2 The table below shows the expected credit loss (ECL) charges for financial instruments for the year 2019 recorded in the income statement.

	Rs. Stage 1	Rs. Stage 2	Rs. Stage 3	Total
Finance Leases	(8,073,877)	11,540,955	(13,086,665)	(9,619,587)
Hire Purchase	(643,072)	382,543	(8,274,502)	(8,535,031)
Other Loans	(12,898,802)	6,910,309	135,592,160	129,603,667
Repossessed stock	-		104,958,253	104,958,253
Investments in fixed deposits	310,133			310,133
	(21,305,618)	18,833,807	219,189,246	216,717,435

10. PERSONNEL EXPENSES

	Company 2020 Rs.	Company 2019 Rs.
Remuneration	233,504,913	213,805,102
Contribution to Defined Contribution Plan	21,835,710	16,668,839
Gratuity Charge for the Year	4,073,147	4,683,038
	259,413,770	235,156,979

11. DEPRECIATION AND AMORTIZATION

	Company 2020 Rs.	Company 2019 Rs.
Depreciation of Property Plant & Equipment	38,799,307	32,687,091
Amortization of intangible assets	1,885,305	1,891,708
Depreciation of Leased Assets	35,473,899	-
Depreciation of Investment In Property	1,064,220	-
	77,222,731	34,578,799

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12. OTHER OPERATING EXPENSES

	Company 2020 Rs.	Company 2019 Rs.
Directors' Emoluments	1,599,996	2,943,000
Auditors Remuneration	4,800,000	3,827,892
Legal fees	6,378,290	1,432,153
Professional fees	6,577,150	4,189,198
Office Administration & Establishment Expenses	103,749,047	149,840,956
Advertising & Business Promotional Expenses	77,113,270	55,700,374
Other Expenses	54,414,194	52,524,271
	254,631,946	270,457,846

13. TAXATION

13.1 The major components of income tax expense for the years ended 31st March are as follows.

Income Statement	Company 2020 Rs.	Company 2019 Rs.
Current Income Tax		
Income Tax for the year	-	171,870,807
Under/ (Over) Provision of Current Taxes in respect of Previous Years	(33,011,071)	(10,422,403)
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Note 27)	40,315,318	(8,827,703)
	7,304,247	152,620,701

13.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the years ended 31 March are as follows.

	Company 2020 Rs.	Company 2019 Rs.
Accounting Profit Before Income Taxation	(636,702,600)	617,976,382
Income Tax Expense at the statutory income tax rate of 28%	-	173,033,387
Tax effect of Non deductible Expenses	-	467,557,020
Tax effect of Other allowable Credits	-	(468,719,600)
Tax Effect of Exempt Income	-	-
	-	171,870,807

The Company's income is taxed at the rate of 28% during the year of 2019/2020.

14. BASIC/DILUTED EARNINGS PER ORDINARY SHARE

14.1 Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

14.2 The following reflect the income & shares details used in the Basic/Diluted Earning per Share computation.

	Company 2020 Rs.	Company 2019 Rs.
Profit attributable to Ordinary shareholders	(644,006,847)	328,701,419
Weighted Average Number of Ordinary Shares during the year	117,583,069	117,583,069
Basic/Diluted Earnings per ordinary share (Rs.)	(5.48)	2.80

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15. CASH AND BANK BALANCES

	Company 2020 Rs.	Company 2019 Rs.
Cash at Bank	245,845,509	620,827,176
Cash in Hand	27,904,927	32,435,920
	273,750,436	653,263,097

16. INVESTMENTS IN FIXED DEPOSITS

	Company 2020 Rs.	Company 2019 Rs.
Fixed Deposits	365,610,773	319,591,169
Less: Allowance for expected credit losses	(431,695)	(431,695)
	365,179,078	319,159,474

16.1 The movement in provision for credit losses are as follows.

	2020 Rs.	2019 Rs.
Balance as at 01st April	431,695	121,562
Charge /(Reversal) for the year	-	310,133
Balance as at 31 st March	431,695	431,695

17. LOAN RECEIVABLES AT AMORTIZED COST

	2020 Rs.	2019 Rs.
Total loan rentals receivable	10,013,676,581	10,736,730,595
Less: Unearned loan interest income	(2,397,242,463)	(2,835,571,298)
Gross loan receivables	7,616,434,117	7,901,159,296
Less : Allowance for expected credit losses/ collective impairment (Note 17.1)	(672,278,092)	(299,957,769)
	6,944,156,025	7,601,201,527

17.1 Analysis of loan receivables on maximum exposure to credit risk
As at 31 March 2020

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Individually impaired loan receivables	-	-	-	-
loan receivables subject to collective impairment	2,416,432,217	1,808,402,942	3,391,598,958	7,616,434,117
Allowance for expected credit losses(ECL)	(15,243,227)	(143,778,446)	(513,256,419)	(672,278,092)
	2,401,188,989	1,664,624,496	2,878,342,539	6,944,156,025

17.2 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2020 Rs.	2019 Rs.
Balance as at 01st April	299,957,769	296,151,945
Impact of adoption of SLFRS 09 as at 01st April 2018	-	35,049,744
	299,957,769	331,201,689
Charge/ (Reversal) to income statement	372,320,322	129,603,668
Written -off during the year	-	(160,847,587)
Balance as at 31st March	672,278,092	299,957,769

17.3 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2019	28,533,126	124,007,252	147,417,392	299,957,770
Charge/ (Reversal) to income statement (Note 9.1)	(13,289,899)	19,771,194	365,839,027	372,320,322
Written -off during the year	-	-		-
Balance as at 31st March 2020	15,243,227	143,778,446	513,256,419	672,278,092

Loan receivables include receivables amounting to 2,349,258,153 at 31 March 2020.(2019-Rs 2,062,310,365) that have been assigned under securitization & term loan funding arrangement.

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18. LEASE RECEIVABLES AT AMORTIZED COST

At Amortized cost	2020 Rs.	2019 Rs.
Total lease rentals receivable	9,426,055,517	10,609,170,257
Less: Unearned lease interest income	(2,341,507,884)	(2,930,142,218)
Gross lease receivable	7,084,547,633	7,679,028,039
Less: Allowance for expected credit losses/ collective impairment (Note 18.1)	(549,592,090)	(199,729,502)
	6,534,955,543	7,479,298,537

Lease receivables include receivables amounting to Rs.4,475,771,893/- (2019- Rs.4,438,112,745/-) that have been assigned under securitization & term loan funding arrangement.

18.1 Analysis of lease receivables on maximum exposure to credit risk
As at 31 March 2020

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Gross lease receivables- subject to collective impairment	3,937,624,642	2,137,698,471	1,009,224,520	7,084,547,633
Allowance for Expected Credit Losses (ECL)	(18,627,133)	(158,821,996)	(372,142,961)	(549,592,090)
	3,918,997,509	1,978,876,474	637,081,559	6,534,955,543

18.2 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2020 Rs.	2019 Rs.
Balance as at 01st April	199,729,502	135,121,796
Impact of adoption of SLFRS 09 as at 01st April 2018	-	127,608,569
	199,729,502	262,730,365
Charge/ (Reversal) to income statement	349,862,587	(9,619,587)
Written -off during the year	-	(53,381,275)
Balance as at 31st March	549,592,090	199,729,502

18.3 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2019	29,336,577	81,599,441	88,793,484	199,729,502
Charge/ (Reversal) to income statement (Note 9.1)	(10,709,445)	77,222,555	283,349,477	349,862,587
Written -off during the year	-	-	-	-
Balance as at 31st March 2020	18,627,132	158,821,996	372,142,961	549,592,090

19. HIRE PURCHASE RECEIVABLES AT AMORTIZED COST

	2020 Rs.	2019 Rs.
Total hire purchase rentals receivable	77,069,508	131,371,276
Less: Unearned hire purchase interest income	(18,136,104)	(35,829,134)
Gross hire purchase receivable	58,933,404	95,542,142
Less: Allowance for expected credit losses/ collective impairment(Note 19.1)	(7,972,649)	(4,364,951)
	50,960,755	91,177,191

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19. HIRE PURCHASE RECEIVABLES AT AMORTIZED COST (Contd...)

19.1 Analysis of hire purchase receivables on maximum exposure to credit risk
As at 31 March 2020

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Gross hire purchase receivables- subject to collective impairment	28,217,805	7,473,343	23,242,256	58,933,404
Allowance for expected credit losses (ECL)	(116,785)	(244,799)	(7,611,065)	(7,972,649)
	28,101,019	7,228,544	15,631,191	50,960,755

19.2 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2020 Rs.	2019 Rs.
Balance as at 01st April	4,364,951	25,949,266
Impact of adoption of SLFRS 09 as at 01st April 2018	-	(6,314,724)
	4,364,951	19,634,542
Charge/ (Reversal) to income statement	3,607,697	(8,535,031)
Written -off during the year	-	(6,734,560)
Balance as at 31st March	7,972,649	4,364,951

19.3 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2019	291,358	872,676	3,200,917	4,364,951
Charge/ (Reversal) to income statement (Note 9.1)	(174,574)	(627,877)	4,410,148	3,607,697
Written -off during the year	-	-	-	-
Balance as at 31st March 2020	116,785	244,799	7,611,065	7,972,649

20. FINANCIAL ASSETS

	Company	
	2020 Rs.	2019 Rs.
Repossessed Stock	835,801,268	435,511,755
Less: Provision for repossessed stock (Note 20.2)	(661,409,072)	(292,493,333)
Repossessed Stock (net)	174,392,196	143,018,422
Insurance Commission receivable	55,773,847	35,401,037
Other financial assets	116,396,437	285,656,683
	346,562,480	464,076,142

20.1 NON FINANCIAL ASSETS

Pre paid expenses	8,497,893	17,141,784
Advance payments	26,083,805	23,368,230
Refundable deposit	3,820,000	16,122,753
Other non financial assets	1,137,120	355,717
	39,538,817	56,988,485
	386,101,297	521,064,627

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20. OTHER FINANCIAL ASSETS

20.2 Movement in provision for repossessed stock

As at 31 March 2020

	Lease Rs.	Hire purchase Rs.	Loan Rs.	Total Rs.
Balance as at 01 April 2019	223,739,698	4,133,552	64,620,084	292,493,333
Charge/(Reversal) during the Year	223,758,112	32,309,661	112,847,965	368,915,738
Other movements	-	-	-	-
Balance as at 31 March 2020	447,497,810	36,443,212	177,468,049	661,409,072

Repossessed stock of the company and the corresponding ECL allowances are grouped under Stage 3.

As at 31 March 2019	Lease Rs.	Hire purchase Rs.	Loan Rs.	Total Rs.
Balance as at 01 April 2018	133,742,527	2,966,694	50,826,270	187,535,492
Charge/(Reversal) during the Year	89,997,171	1,166,858	13,793,814	104,957,842
Other movements	-	-	-	-
Balance as at 31 March 2019	223,739,698	4,133,552	64,620,084	292,493,333

21. FINANCIAL INVESTMENTS - FAIR VALUE THROUGH OCI

	2020 Rs.	2019 Rs.
Investment in Credit Information Bureau Ordinary Shares	593,100	593,100
Investment in FHC Shares	200,000	200,000
Treasury Bills	495,938,425	363,900,083
Treasury Bonds	2,745,674	3,009,804
	499,477,199	367,702,987

The above Ordinary share investment has been made primarily for the regulatory purpose. Such investment are recorded at cost due to unavailability of information to value the fair value of such investment.

21.1 FINANCIAL INVESTMENTS - FAIR VALUE THROUGH PROFIT OR LOSS

	Company 2020 Rs.	Company 2019 Rs.
Investment in quoted shares		
Pirmal Glass Ceylon PLC	1,398,302	1,483,048
Sampath Bank PLC	7,328,972	11,091,999
Hatton National Bank PLC	214,642	314,580
	8,941,916	12,889,627

The above share investment are recorded at Fair Value, which was determined base on market price as of 20th March 2020.

22. GOODWILL

	2020 Rs.	2019 Rs.
At the beginning of the year	315,790,723	315,790,723
Impairment	-	-
Closing Balance	**315,790,723**	**315,790,723**

Management is of the view that there is no impairment on Goodwill which has arisen from the acquisition of Chilaw Finance PLC as at March 31, 2020, based on the annual assessment of the impairment.

23. PROPERTY, PLANT AND EQUIPMENT

23.1 Gross Carrying Amounts

	Balance As at 31.03.2019 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.03.2020 Rs.
Land	130,687,500	-	-	-	130,687,500
Building	19,631,555	-	-	-	19,631,555
Motor Vehicles	69,138,383	6,595,000	-	-	75,733,383
Furniture & Fittings	78,977,938	4,110,332	-	-	83,088,270
Machinery	1,197,479	-	-	-	1,197,479
Office Equipments	43,570,044	2,089,481	-	-	45,659,525
Computer Equipment	38,761,204	2,553,520	-	-	41,314,724
Total Value of Depreciable Assets	381,964,103	15,348,333	-	-	397,312,436

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

23.2 Depreciation

	Balance As at 31.03.2019 Rs.	Charge for the year Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.03.2020 Rs.
Land	-		-	-	-
Building	2,522,743	490,789	-	-	3,013,532
Motor Vehicles	17,988,786	12,303,697	-	-	30,292,484
Furniture & Fittings	44,051,451	15,629,488	-	-	59,680,939
Machinery	1,197,479		-	-	1,197,479
Office Equipments	24,692,242	6,598,235	-	-	31,290,476
Computer Equipment	32,272,095	3,777,098	-	-	36,049,193
	122,724,796	38,799,307	-	-	161,524,103

23.3 Net book Values

	Balance As at 31.03.2019 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.03.2020 Rs.
Land	130,687,500	-	-	-	130,687,500
Building	17,108,812	(490,789)	-	-	16,618,023
Motor Vehicles	51,149,596	(5,708,697)	-	-	45,440,899
Furniture & Fittings	34,926,487	(11,519,156)	-	-	23,407,331
Machinery	-	-	-	-	-
Office Equipments	18,877,803	(4,508,754)	-	-	14,369,049
Computer Equipment	6,489,108	(1,223,578)	-	-	5,265,530
Total Carrying Amount of Property, Plant and Equipment	259,239,307	(23,450,974)	-	-	235,788,333

23.4 The useful life of the assets is estimated as follows.

Building	40 years
Motor Vehicles	4-5 years
Furniture & Fittings	4-5 years
Machinery	4 years
Office Equipments	4-5 years
Computer Equipment	3-4 years

23.5 Intangible Assets

	Company 2020 Rs.	Company 2019 Rs.
Computer Software		
Cost		
At the beginning of the year	21,007,008	20,554,008
Additions	753,400	453,000
Transfers	-	-
Transfer From Chilaw Finance	-	-
At the end of the year	21,760,408	21,007,008
Amortization		
At the beginning of the year	9,193,633	7,301,925
Additions	1,885,305	1,891,708
Transfer From Chilaw Finance	-	-
At the end of the year	11,078,938	9,193,633
Carrying Value		
At the beginning of the year	11,813,375	13,252,083
At the end of the year	10,681,470	11,813,375

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		2020
		Rs.
24.	**RIGHT-OF-USE ASSETS**	

24.1 Set out below are the carrying amounts of right-of-use assets recognised and movements during the year.

	2020 Rs.
Cost	
Balance as at 01st April 2019	-
Effect of Adoption SLFRS 16 as at 01 April 2019	136,963,455
Restated Balance as at 01 April 2019	136,963,455
Additions & Improvements	-
Balance at 31st March 2020	136,963,455
Accumulated Amortisation	
Balance as at 01st April 2019	-
Charge for the year	35,473,899
Disposals during the Year	-
Accumulated Amortisation as at 31 March 2020	35,473,899
Net Book Value as at 31 March 2020	101,489,556

24.2 Lease liability against right of use asset

Set out below are the carrying amounts of lease liabilities during the period in accordance with SLFRS 16

Balance as at 01st April 2019	-
Effect of Adoption SLFRS 16 as at 01 April 2019	128,093,367
Restated Balance as at 01 April 2019	128,093,367
Finance cost on lease liability of right to use assets	16,368,368
Payments during the year	(39,473,650)
Lease liabilities as at 31 March 2020	104,988,085

24.3 Maturity analysis of Lease Liability

	2020 Rs.
Less than one year	29,994,490
Between one and five years	74,993,595
More than five years	-
	104,988,085

24.4 Reconciliation of Lease Liabilities as at 01 April 2019 to the Operating lease Commitments as at 31 March 2019

Operating lease commitments as at 31 March 2019	170,141,683
Weighted average incremental borrowing rate as at 01 April 2019	14.3%
Discounted operating lease commitments as at 1 April 2019	128,093,367

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25. INVESTMENT PROPERTY

	2020 Rs.	2019 Rs.
At the beginning of the year	72,618,800	72,618,800
Acquisition from Subsidiary	-	-
Net Additions/(Disposals)	-	-
Transfers	-	-
Depreciation of Investment In Property	(1,064,220)	-
At the end of the year	71,554,580	72,618,800

Information of investment properties

Location	Range of estimates for unobservable input Price per perch for land	Extent Perches	Fair value (Level 3) 2020 Rs.
Puliyankara Village Chilaw	15,800	164.50	2,600,000
Bazzar Street Chilaw	3,129,350	7.19	22,500,000
Pahala Kotramulla Village	20,000	160.00	3,200,000
Kurunegala Rd, Chilaw	550,000	30.00	16,500,000
Bazzar Street Chilaw	4,100,000	10.25	42,000,000
Èlpitiya	87,500	40.00	3,500,000
			90,300,000

The company received rent income amounting to Rs.2,772,261/- during the current financial year (2018/19 - Rs.3,364,817.48) from these properties.

26. INCOME TAX PAYABLES/(RECEIVABLES)

	2020 Rs.	2019 Rs.
Opening balance	74,226,877	109,589,479
Tax Paid - Current year	(28,642,226)	(181,073,938)
Tax Paid - Last year	(48,548,291)	-
Adjustment (WHT etc.)	(1,139,571)	(15,737,069)
Provision for the year	(33,011,071)	161,448,404
Closing balance	(37,114,282)	74,226,877

26.1 INCOME TAX RECEIVABLES

	2020 Rs.
Economic Service Charge	11,914,313
Withholding Tax	969,321
Income Tax paid	16,727,913
Income Tax (Overpayment) Last Year	7,502,735
	37,114,282

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27. DEFERRED TAXATION

Deferred Tax Assets, Liabilities and Income Tax relates to the following

	2020 Rs.	2019 Rs.
Deferred Tax Liability		
Capital Allowances for tax purposes	93,438,071	180,046,515
Impairment provision	34,360,189	
	127,798,260	180,046,515
Deferred Tax Assets		
Defined Benefit Plans	3,928,575	4,408,168
Tax Losses*	116,963,807	-
ROU Asset	979,588	
Impairment provision	-	210,462,560
	121,871,970	214,870,728
Net Deferred Tax Liability/ (Asset)	5,926,290	(34,824,212)
Deferred Income Tax Charge/(Reversal)	40,750,502	(8,827,703)
Deferred Tax Charge/(Reversal) Recognized in Income Statement	40,315,318	(8,827,703)
Deferred Tax Charge /(Reversal) Recognized in Other comprehensive Income	435,185	-
	40,750,502	(8,827,703)

*Total brought forward Tax Loss Rs. 471,727,881

28. DUE TO CUSTOMERS

	2020 Rs.	2019 Rs.
Fixed Deposit	8,634,382,785	6,847,200,963
Savings	76,403,715	64,772,462
	8,710,786,500	6,911,973,425

29. DEBT ISSUED AND OTHER BORROWED FUNDS

	2020 Rs.	2019 Rs.
Bank of Ceylon	292,339,567	459,915,799
Hatton National Bank	1,845,525,740	2,206,183,632
Cargills Bank	185,074,128	-
HDFC Bank	200,919,884	323,438,986
Indian bank	67,480,279	200,337,592
Muslim Commercial Bank	45,497,125	64,980,430
Nation Trust Bank	698,975,142	470,991,517
National Development Bank	593,750,000	968,750,000
People's Bank	150,028,969	398,269,151
Sampath Bank	816,396,714	1,161,923,585
Seylan Bank	548,799,987	909,484,629
Commercial Bank	500,000,000	-
	5,944,787,533	7,164,275,320
Payable within one year	2,732,605,751	1,366,710,021
Payable after one year	3,212,181,782	5,797,565,299
	5,944,787,533	7,164,275,320

30. OTHER PAYABLES

	2020 Rs.	2019 Rs.
Payable to Parent & Related Companies	182,111,092	170,768,475
Payable to Suppliers	140,197,784	555,918,091
Other Payables	351,829,303	288,258,868
Lease liability	104,988,085	-
VAT Payables	2,512,323	3,016,473
	781,638,587	1,017,961,907

31. RETIREMENT BENEFIT OBLIGATIONS

	Company 2020 Rs.	Company 2019 Rs.
Benefit Expenses for the Year	2,518,916	2,626,377
Balance at the beginning of the year	15,743,456	15,416,972
Gratuity Paid during the Period	(4,231,746)	(2,299,893)
Balance at the end of the year	14,030,625	15,743,456

31.1 Expenses on Defined Benefit Plan

	Company 2020 Rs.	Company 2019 Rs.
Current Service Cost for the year	2,342,820	2,987,171
Interest cost for the year	1,730,327	1,695,867
(Gain)/Loss arising from changes in the assumptions of the previous year	(1,554,231)	(2,056,662)
	2,518,916	2,626,377

31.2 Assumptions

	Company 2020	Company 2019
Discount Rate	10.00%	11.00%
Salary Increment	4% to 8%	8%
Retirement Age	55 Years	55 Years

32. STATED CAPITAL

32.1 Issued and Fully Paid-Ordinary shares

	2020 No of Shares	2020 Rs.	2019 No of Shares	2019 Rs.
At the beginning of the year	117,583,069	1,175,830,690	117,583,069	1,175,830,690
Issued during the year	-	-	-	-
At the end of the year	117,583,069	1,175,830,690	117,583,069	1,175,830,690

33. STATUTORY RESERVE FUND

	2020 Rs.	2019 Rs.
Opening balance	76,761,350	60,326,279
Transfer during the year	-	16,435,071
Closing balance at 31st March	76,761,350	76,761,350

The statutory reserve fund is maintained by Finance Companies (Capital Funds) Direction No. 1 of 2003 as per Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly, 5% of the net profit for the year transferred to reserve fund as long as the capital funds are not less than 25% of total deposit liabilities.

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34. FAIR VALUE

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the financial instruments.

Financial Investments - Held for Trading

Financial investments measured at fair value are quoted equities. For quoted equities Company uses quoted market price in active markets as at the reporting date.

Financial Investments - Fair Value through Other Comprehensive Income

Financial Investments - Fair Value through Other Comprehensive Income, primarily consist of equity securities and Government debt securities are valued using valuation techniques or pricing models. These assets are valued using models that use observable data. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka and quoted equities are valued using quoted market prices in the active markets as at the reporting date.

34.1 Determination of Fair Value and Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by Valuation techniques.

Level 1 : quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

Company

As at 31 March 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Financial Assets				
Financial investments - at Fair Value through OCI				
Government Securities	498,684,099	-	-	498,684,099
Unquoted equities	-	-	793,100	793,100
Total Financial Assets	498,684,099	-	793,100	499,477,199

As at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Financial Assets				
Financial investments - at Fair Value through OCI				
Government Securities	366,909,887	-	-	366,909,887
Unquoted equities	-	-	793,100	793,100
Total Financial Assets	366,909,887	-	793,100	367,702,987

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35. FAIR VALUE OF FINANCIAL INSTRUMENTS

35.1 Determination of Fair Value and Fair Value Hierarchy

Set out below is the comparison, by class, of the carrying amounts of 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 non- financial liabilities.

Company		2020		2019	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		Rs.	Rs.	Rs.	Rs.
Financial Assets					
Lease Receivable at Amortized Cost	Level 2	6,534,955,543	6,326,577,137	7,479,298,537	7,126,318,584
HP Receivable at Amortized Cost	Level 2	50,960,755	48,403,824	91,177,191	86,713,530
Loans and Receivables at Amortized Cost	Level 2	6,944,156,025	5,450,775,537	7,601,201,527	6,944,564,971
		13,530,072,323	11,825,756,498	15,171,677,255	14,157,597,084
Financial Liabilities					
Debt Issued and Other Borrowed Funds	Level 2	5,944,787,533	6,025,334,709	7,164,275,320	6,873,660,119
Due to Customers	Level 2	8,710,786,500	8,824,287,564	6,911,973,425	6,880,756,127
		14,655,574,033	14,849,622,273	14,076,248,745	13,754,416,246

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets & Liabilities for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values.(Cash and Bank Balance,Invesment in Fixed Deposits and Other Payables)

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. All credit facilities with fixed interest rates were fair valued using market rates at which fresh credit facilities were granted during the last month of the reporting year. Conversely, fixed deposits with remaining tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the last month of the reporting year.

Reclassification of Financial Assets

There were no reclassifications during 2019 & 2020.

36. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

Company

As at 31 March 2020

	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total as at 31/03/2020
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and Bank Balances	273,750,436	-	-	-	-	273,750,436
Investments in Fixed Deposits	200,601,901	165,008,872		-	-	365,610,773
Lease Receivable at Amortized Cost	1,431,280,876	1,417,002,420	3,184,363,159	1,020,317,205	31,583,973	7,084,547,633
HP Receivable at Amortized Cost	17,805,158	7,927,545	24,579,711	8,620,990	-	58,933,404
Loans and Receivables at Amortized Cost	2,330,673,834	1,422,480,638	2,587,716,278	1,165,945,757	109,617,611	7,616,434,117
Other Financial Assets	1,007,971,551	-	-	-	-	1,007,971,551
Other Non Financial Assets	39,538,817	-	-	-	-	39,538,817
Land Stock			1,604,897,094			1,604,897,094
Financial investments - at Fair Value through Profit or Loss	8,941,916	-	-	-	-	8,941,916
Financial investments - at Fair Value through OCI	133,853,085	206,944,332	158,679,782	-	-	499,477,199
Goodwill	-	-	-	-	315,790,723	315,790,723
Deferred Tax Assets	-	-	-	-	-	-
Intangible Assets	-	-	-		10,681,470	10,681,470
Investment Property	-	-	-	-	71,554,580	71,554,580
Income Taxation Receivables	-	-	37,114,282	-	-	37,114,282
Right of use Assets	-	-	101,489,556	-	-	101,489,556
Property, Plant and Equipment	-	-	-	-	235,788,333	235,788,333
Total Assets	5,444,417,576	3,219,363,806	7,698,839,862	2,194,883,951	775,016,689	19,332,521,884
Liabilities						
Bank Overdraft	11,481,501	-	-	-	-	11,481,501
Due to Customers	3,396,981,581	3,786,486,762	1,149,576,393	377,741,765	-	8,710,786,500
Debt Issued and Other Borrowed Funds	1,080,409,641	1,970,086,577	2,635,959,781	258,331,533	-	5,944,787,533
Other Payables	676,650,502	29,994,490	59,030,342	15,963,253	-	781,638,587
Deferred Taxation Liabilities	-	5,926,290	-	-	-	5,926,290
Income Taxation Payable	-	-	-	-	-	-
Retirement Benefit Obligations	-	-	14,030,625	-	-	14,030,625
Total Liabilities	5,165,523,225	5,792,494,119	3,858,597,141	652,036,551	-	15,468,651,036
Net Assets/(Liability)	278,894,351	(2,573,130,313)	3,840,242,721	1,542,847,400	775,016,689	3,863,870,848

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

Company
As at 31 March 2019

	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total as at 31/03/2019
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and Bank Balances	653,263,097	-	-	-	-	653,263,097
Investments in Fixed Deposits	183,643,893	135,947,277	-	-	-	319,591,169
Lease Receivable at Amortized Cost	789,940,198	1,533,154,041	3,523,868,984	1,587,186,199	45,149,114	7,479,298,537
HP Receivable at Amortized Cost	28,411,567	20,895,739	17,877,340	23,607,176	385,369	91,177,191
Loans and Receivables at Amortized Cost	1,173,342,182	1,900,536,680	2,994,789,038	1,408,752,544	123,781,083	7,601,201,526
Other Financial Assets	464,076,142	-	-	-	-	464,076,142
Other Non Financial Assets	56,988,485					56,988,485
Land Stock			1,297,030,712			1,297,030,712
Financial investments - at Fair Value through Profit or Loss	12,889,627	-	-	-	-	12,889,627
Financial investments - at Fair Value through OCI	59,958,595	303,941,488			3,802,904	367,702,987
Goodwill	-	-	-	-	315,790,723	315,790,723
Deferred Tax Assets	-	34,824,212	-	-	-	34,824,212
Intangible Assets	457,453	1,372,358	3,659,622	2,887,152	3,436,790	11,813,375
Investment Property	-	-	72,618,800	-	-	72,618,800
Investments in subsidiaries						-
Income Taxation Receivables						-
Property, Plant and Equipment	9,555,771	28,935,805	51,617,159	23,788,205	145,342,367	259,239,307
Total Assets	3,432,527,010	3,959,607,601	7,961,461,654	3,046,221,276	637,688,349	19,037,505,890
Liabilities						
Bank Overdraft	1,237,455,568	-	-	-	-	1,237,455,568
Due to Customers	1,773,961,011	3,030,938,715	1,091,779,748	783,707,153	-	6,680,386,627
Debt Issued and Other Borrowed Funds	825,865,793	2,118,136,833	3,580,951,259	639,321,435	-	7,164,275,320
Other Payables	1,017,961,907	-	-	-	-	1,017,961,907
Deferred Taxation Liabilities	-	-	-	-	-	-
Income Taxation Payable	-	74,226,877	-	-	-	74,226,877
Retirement Benefit Obligations	-	-	15,743,456	-	-	15,743,456
Total Liabilities	4,855,244,279	5,223,302,424	4,688,474,462	1,423,028,588	-	16,190,049,754
Net Assets/(Liability)	(1,422,717,269)	(1,263,694,824)	3,272,987,192	1,623,192,688	637,688,349	2,847,456,136

37. RISK MANAGEMENT

37.1 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 managing the risk exposures relating to his / her functional areas.

The Company identifies the following key financial risks in its business operations.

- Credit Risk
- Liquidity Risk
- Market Risk

RISK MANAGEMENT STRUCTURE

The board is primarily responsible for risk management initiatives. Integrated Risk Management committee, which is a sub-committee of the board has been established and delegated risk management responsibilities. This committee plays a vital role in establishing best practices in relation to risk policies and practices in relation to risk policies and practices within the company. The quantum and level of risks that the company is willing to accept is decided at the Board Risk Committee level, and the decisions made by this committee is communicated to the Board of Directors. The Board ratifies the risk policies and risk tolerance levels agreed at the integrated Risk Management Committee meetings. The committee fulfils the requirement set out in the Finance Leasing Direction No.4 of 2009 on Corporate Governance for Finance Leasing Establishments issued by Central Bank of Sri Lanka (CBSL) under Finance Leasing Act, No.56 of 2000.The Committee consists of such number of members, as the board may determine from time to time. The committee currently consists of membership of 2 Directors. Chief Executive Officer and Key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

37.2 Credit Risk

Credit risk is the risk of financial loss to the Company if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers/other Companies and investments in debt securities. Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorized into three types; default, concentration and settlement risk.

<u>Default risk</u> as the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the company's loans and advances to customers.

<u>Concentration risk</u> is the credit exposure being concentrated as a result of excessive buildup of exposure to a single counterparty, industry, product, geographical location or insufficient diversification.

<u>Settlement risk</u> is the risk of loss arising from trading/investment activities when there is a mutual undertaking to deliver on a progressive basis,

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

37. RISK MANAGEMENT (Contd...)

37.2 Credit Risk

37.2.1 Net Exposure to credit Risk

Company

As at 31 March 2020	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Cash and Bank Balances	273,750,436	273,750,436
Investments in Fixed Deposits	365,179,078	365,179,078
Lease Receivable at Amortized Cost	6,534,955,543	-
HP Receivable at Amortized Cost	50,960,755	-
Loans and Receivables at Amortized Cost	6,944,156,025	1,112,976,837
Financial investments - at Fair Value through OCI	499,477,199	499,477,199
Total Financial Assets	14,668,479,036	2,251,383,550

As at 31 March 2019	Maximum Exposure to Credit Risk Rs.	Net Exposure Rs.
Cash and Bank Balances	653,263,097	620,827,176
Investments in Fixed Deposits	319,159,474	319,159,474
Lease Receivable at Amortized Cost	7,479,298,537	-
HP Receivable at Amortized Cost	91,177,191	-
Loans and Receivables at Amortized Cost	7,601,201,527	1,577,726,752
Financial Investments - Fair Value through OCI	367,702,987	367,702,988
Total Financial Assets	16,511,802,813	2,885,416,391

37.2.2 Credit Quality by Class of Financial Assets

Company

As at 31 March 2020	Neither Past Due Nor Impaired* Rs.	Past Due But Not Impaired* Rs.	Individually Impaired Rs.	Total Rs.
Assets				
Cash and Bank Balances	273,750,436	-	-	273,750,436
Investments in Fixed Deposits	365,179,078	-	-	365,179,078
Lease Receivable at Amortized Cost	2,926,022,631	4,158,525,002	-	7,084,547,633
HP Receivable at Amortized Cost	25,321,337	33,612,067	-	58,933,404
Loans and Receivables at Amortized Cost	2,616,289,773	5,000,144,345	-	7,616,434,117
Financial investments - at Fair Value through OCI	499,477,199	-	-	499,477,199
Collective impairment Provision	-	-	-	(1,229,842,831)
Total Financial Assets	6,706,040,453	9,192,281,413	-	14,668,479,036

*Collectively assessed for impairment

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37. RISK MANAGEMENT (Contd...)

37.2.2 Credit Quality by Class of Financial Assets (Contd...)

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

	Past Due But Not Impaired				
	Less than 31 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Lease Receivable at Amortized Cost	4,119,547,151	23,921,075	13,359,749	1,697,026	4,158,525,002
HP Receivable at Amortized Cost	30,869,321	235,105	544,348	1,963,293	33,612,067
Loans and Receivables at Amortized Cost	4,859,741,818	125,213,651	1,944,168	13,244,708	5,000,144,345
	9,010,158,290	149,369,831	15,848,265	16,905,027	9,192,281,413

Company
As at 31 March 2019

	Neither Past Due Nor Impaired*	Past Due But Not Impaired*	Individually Impaired	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and Bank Balances	653,263,097	-	-	653,263,097
Investments in Fixed Deposits	319,159,474	-	-	319,159,474
Lease Receivable at Amortized Cost	7,300,068,261	378,959,778	-	7,679,028,039
HP Receivable at Amortized Cost	89,733,878	5,808,264	-	95,542,142
Loans and Receivables at Amortized Cost	7,309,522,993	591,636,304	-	7,901,159,296
Financial Investments - Available for Sale	367,702,987	-	-	367,702,987
Collective impairment Provision	-	-	-	(504,052,224)
Total Financial Assets	16,039,450,690	976,404,346	-	16,511,802,812

*Collectively assessed for impairment

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

	Past Due But Not Impaired				
	Less than 31 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Lease Receivable at Amortized Cost	28,240,680	66,802,768	90,360,864	193,555,466	378,959,778
HP Receivable at Amortized Cost	267,403	516,479	1,775,371	3,249,011	5,808,264
Loans and Receivables at Amortized Cost	21,063,833	41,778,710	51,926,864	476,866,897	591,636,304
	49,571,916	109,097,957	144,063,099	673,671,374	976,404,346

37. RISK MANAGEMENT (Contd...)

37.2.3 Analysis of Risk Concentration

INDUSTRY ANALYSIS

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

Company
As at 31 March 2020

Sector wise Breakdown	Leases	Hire Purchase	Loans and Advances	Total
	Rs.	Rs.	Rs.	Rs.
Agriculture	746,952,534	1,963,293	707,534,392	1,456,450,220
Manufacturing	853,242,488	20,647,589	1,328,700,652	2,202,590,729
Construction	565,206,528		953,828,633	1,519,035,161
Financial Services	556,084,778	7,743,471	505,790,512	1,069,618,761
Trading	1,230,675,597	26,085,715	2,189,612,803	3,446,374,115
Telecommunication				-
Transportation	1,423,457,170	779,453	673,507,929	2,097,744,552
Services	1,324,714,940	412,115	911,666,441	2,236,793,496
Other	384,213,597	1,301,767	345,792,755	731,308,119
Total	7,084,547,633	58,933,404	7,616,434,117	14,759,915,154

Company
As at 31 March 2019

Sector wise Breakdown	Leases	Hire Purchase	Loans and Advances	Total
	Rs.	Rs.	Rs.	Rs.
Agriculture	932,550,219	2,344,930	974,929,395	1,909,824,543
Manufacturing	711,598,713	1,216,932	1,106,617,022	1,819,432,667
Construction	807,551,938	-	868,650,421	1,676,202,359
Financial Services	991,746,461	-	836,477,577	1,828,224,038
Trading	1,116,665,180	12,575,398	1,327,360,483	2,456,601,060
Telecommunication	146,691,997	510,085	161,344,840	308,546,922
Transportation	913,264,776	3,944,017	392,249,702	1,309,458,495
Services	1,119,869,260	42,945,157	1,288,447,789	2,451,262,206
Other	847,132,317	30,956,383	775,026,718	1,653,115,418
Total	7,587,070,861	94,492,903	7,731,103,947	15,412,667,710

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37. RISK MANAGEMENT (Contd...)

37.3 Liquidity Risk & Funding Management

In the context of a financial institution liquidity risk arises primarily due to mismatches in the maturity profile of assets and liabilities. Liquidity risk for or a financial institution can take two forms; transactions liquidity, a property of assets or markets, and funding liquidity, which is more closely related to creditworthiness.

Transaction liquidity risk is the risk of moving the price of an asset adversely in the act of buying or selling it. Company's transaction liquidity risk is low if assets can be liquidated without moving the price too much.

Funding liquidity risk means the Company's inability to finance assets continuously at an acceptable borrowing rate. Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which it is granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Company's credit quality is, or at least perceived to be, deteriorating, but also because financial conditions as a whole are deteriorating.

The company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the company regularly analyses and monitors liquidity positions and, maintain an adequate margin of safety in liquid assets.

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2020. The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2020. The table does not reflect the expected cash flows indicated by its deposit retention history and loan recovery patterns. The estimated maturity profiles of undiscounted cash flows may also differ, due to rollover of loans and advances and Covid-19 related events.

37.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Company

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2020

As at 31 March 2020	On Demand Rs.	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31/03/2020 Rs.
Financial Assets							
Cash and Bank Balances	273,750,436	-	-	-	-	-	273,750,436
Investments in Fixed Deposits		10,763,947	369,499,393	-	-	-	380,263,340
Lease Receivable at Amortized Cost	76,636,367	50,102,595	339,243,964	6,600,862,402	2,242,747,824	56,014,966	9,365,608,117
HP Receivable at Amortized Cost	2,742,746	3,900,513	-	57,851,254	11,944,971		76,439,485
Loans and Receivables at Amortized Cost	518,535,128	329,307,710	781,545,179	5,383,653,211	2,813,421,980	23,458,976	9,849,922,185
Financial investments - at Fair Value through OCI	-	133,853,085	206,944,332	158,679,782	-	-	499,477,199
Total Financial Assets	871,664,677	527,927,850	1,697,232,868	12,201,046,649	5,068,114,775	79,473,942	20,445,460,761
Financial Liabilities							
Bank Overdraft	11,481,501	-	-	-	-	-	11,481,501
Due to Customers	76,403,715	1,967,697,762	4,724,755,953	2,210,379,484	312,185,526	-	9,291,422,440
Debt Issued and Other Borrowed Funds	-	990,823,272	2,377,920,869	3,651,880,559	-	-	7,020,624,700
Other Payables	-	676,650,502	29,994,490	59,030,342	15,963,253		781,638,587
Total Financial Liabilities	87,885,216	3,635,171,537	7,132,671,312	5,921,290,385	328,148,779	-	17,105,167,228
Total Net Financial Assets/(Liabilities)	783,779,461	(3,107,243,687)	(5,435,438,444)	6,279,756,264	4,739,965,996	79,473,942	3,340,293,533

37. RISK MANAGEMENT (Contd...)

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

Company

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2019.

As at 31 March 2019	On Demand	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total as at 31/03/2019
Financial Assets	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Bank Balances	653,263,097	-	-	-	-	-	653,263,097
Investments in Fixed Deposits	-	183,643,893	135,947,277	-	-	-	319,591,169
Lease Receivable at Amortized Cost		789,940,198	1,533,154,041	3,523,868,984	1,587,186,199	45,149,114	7,479,298,537
HP Receivable at Amortized Cost	-	28,411,567	20,895,739	17,877,340	23,607,176	385,369	91,177,191
Loans and Receivables at Amortized Cost		1,173,342,182	1,900,536,680	2,994,789,038	1,408,752,544	123,781,083	7,601,201,525
Financial investments - at Fair Value through OCI	-	59,958,595	303,941,488	-	-	3,802,904	367,702,987
Total Financial Assets	653,263,097	2,235,296,436	3,894,475,225	6,536,535,362	3,019,545,919	173,118,469	16,512,234,507
Financial Liabilities							
Bank Overdraft	1,237,455,568	-	-	-	-	-	1,237,455,568
Due to Customers	64,772,462	1,709,188,550	3,030,938,715	1,091,779,748	783,707,153	-	6,680,386,627
Debt Issued and Other Borrowed Funds		825,865,793	2,118,136,833	3,580,951,259	639,321,435	-	7,164,275,320
Other Payables	-	1,017,961,907	-	-	-	-	1,017,961,907
Total Financial Liabilities	1,302,228,030	3,553,016,250	5,149,075,548	4,672,731,007	1,423,028,588	-	16,100,079,422
Total Net Financial Assets/(Liabilities)	(648,964,933)	(1,317,719,814)	(1,254,600,323)	1,863,804,355	1,596,517,330	173,118,469	412,155,086

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37. RISK MANAGEMENT (Contd...)

37.4 Market Risk

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, and equity prices. Among them, interest rate risk has been identified as the most critical risk given Company's business profile.

37.4.1 Interest Rate Risk

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

Due to the nature of operations of the company, the impact of interest rate risk is mainly on the earnings of the company rather than the market value of portfolios. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;

- Reprising risk arising from a fixed rate borrowing portfolio where reprising frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve

Interest rate risk is managed principally through minimizing interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly.

The Management of the Company is closely scrutinizing the impact on NII/NIMs resulting from interest rate related relief measures announced by CBSL to the Covid-19 affected groups.

INTEREST RATE SENSITIVITY

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the company's Net Interest Income.

Net Interest Income (NII) Sensitivity by Interest Rate Change

Company

		2020		2019	
Parallel Increase / Decrease of Basis Points (bps)*		**+/ - 100 bps**	**+/ - 200 bps**	**+/ - 100 bps**	**+/ - 200 bps**
Impact on NII (Rs)	Increase	13,448,420	26,896,840	7,768,538	15,537,077
	Decrease	(13,448,420)	(26,896,840)	(7,768,538)	(15,537,077)

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37. RISK MANAGEMENT (Contd...)

37.4 Market Risk (Contd...)

37.4.2 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 reprising or maturity dates.

Company

As at 31st March 2020	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31/03/2020 Rs.
Assets							
Cash and Bank Balances	-	-	-	-	-	273,750,436	273,750,436
Investments in Fixed Deposits	200,601,901	165,008,872	-	-	-	-	365,610,773
Lease Receivable at Amortized Cost	1,431,280,876	1,417,002,420	3,184,363,159	1,020,317,205	31,583,973	-	7,084,547,633
HP Receivable at Amortized Cost	17,805,158	7,927,545	24,579,711	8,620,990	-	-	58,933,404
Loans and Receivables at Amortized Cost	2,330,673,834	1,422,480,638	2,587,716,278	1,165,945,757	109,617,611	-	7,616,434,117
Financial investments - at Fair Value through OCI	133,853,085	206,944,332	158,679,782	-	-	-	499,477,199
Other Financial Assets	-	-	-	-	-	1,007,971,551	1,007,971,551
Total Financial Assets	4,114,214,855	3,219,363,806	5,955,338,930	2,194,883,951	141,201,584	1,281,721,987	16,906,725,113
Financial Liabilities							
Bank Overdraft	11,481,501	-	-	-	-	-	11,481,501
Due to Customers	3,396,981,581	3,786,486,762	1,149,576,393	377,741,765	-	-	8,710,786,500
Debt Issued and Other Borrowed Funds	1,080,409,641	1,970,086,577	2,635,959,781	258,331,533	-	-	5,944,787,533
Other Payables	-	-	-	-	-	781,638,587	781,638,587
Total Financial Liabilities	4,488,872,722	5,756,573,339	3,785,536,174	636,073,298	-	781,638,587	15,448,694,121
INTEREST SENSITIVITY GAP	(374,657,868)	(2,537,209,533)	2,169,802,756	1,558,810,653	141,201,584	500,083,400	1,458,030,993

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37. RISK MANAGEMENT (Contd...)

37.4 Market Risk (Contd...)

37.4.2 Interest Rate Risk Exposure on Financial Assets & Liabilities (Contd...)

Company

As at 31st March 2019	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31/03/2019 Rs.
Assets							
Cash and Bank Balances	-	-	-	-	-	653,263,097	653,263,097
Investments in Fixed Deposits	183,643,893	135,947,277	-	-	-	-	319,591,169
Lease Receivable at Amortized Cost	789,940,198	1,533,154,041	3,523,868,984	1,587,186,199	45,149,114	-	7,479,298,537
HP Receivable at Amortized Cost	28,411,567	20,895,739	17,877,340	23,607,176	385,369	-	91,177,191
Loans and Receivables at Amortized Cost	1,173,342,182	1,900,536,680	2,994,789,038	1,408,752,544	123,781,083	-	7,601,201,526
Financial investments - at Fair Value through OCI	59,958,595	303,941,488	-	-	3,802,904	-	367,702,987
Other Financial Assets	-	-	-	-	-	464,076,142	464,076,142
Total Financial Assets	2,235,296,436	3,894,475,225	6,536,535,362	3,019,545,919	173,118,469	1,117,339,239	16,976,310,650
Financial Liabilities							
Bank Overdraft	1,237,455,568	-	-	-	-	-	1,237,455,568
Due to Customers	1,773,961,011	3,030,938,715	1,091,779,748	783,707,153	-	-	6,680,386,627
Debt Issued and Other Borrowed Funds	825,865,793	2,118,136,833	3,580,951,259	639,321,435	-	-	7,164,275,320
Other Payables	-	-	-	-	-	1,017,961,907	1,017,961,907
Total Financial Liabilities	3,837,282,372	5,149,075,548	4,672,731,007	1,423,028,588	-	1,017,961,907	16,100,079,422
INTEREST SENSITIVITY GAP	(1,601,985,936)	(1,254,600,323)	1,863,804,355	1,596,517,331	173,118,469	99,377,332	876,231,228

38. THE IMPACT OF COVID-19 PANDEMIC ON BUSINESS

With emergence of the COVID19 crisis from March 2020 and the island-wide curfew being imposed by the Government on 20th March 2020, the Company took immediate measures to manage the business impacts including day to day operations. Steps were taken to facilitate work from home measures for all employees ensuring their safety and well-being in the period of uncertainty. Soon after curfew was lifted on 11th May 2020, the Company gradually started normal business operations but strictly adhered to social distancing guidance and established other precautionary measures to safeguard workplace health and safety. The Central Bank of Sri Lanka (CBSL) issued directions and guidance for financial institutions to offer concessions on financial obligations to individual customers and private business operations as a result of the adverse short-term impact on their sources of income. Accordingly, the company is in the process of evaluating and finalizing moratorium relief submissions made by borrowers.

The Company maintained a sufficient liquid position to meet any urgent needs of customers throughout the year which enabled the Company to meet liabilities falling due during the COVID period. Necessary measures were taken by treasury division to maintain a strong liquidity position going forward, to meet any further future needs, capitalizing on banking partnerships and strategic funding to further bolster the already solid liquidity foundation sustained over the years. The Board took measures to control costs, to focus over the essentials during the COVID peak period.

The Board is confident of the Company's resilience, having possessed a skilled work force and resources to withstand the impacts arising from this crisis as currently foreseen. However, the exact impact on the business in the foreseeable future is still to be realized given the volatility and unexpected developments caused by COVID-19 pandemic globally. Through effective risk management practices, the Company will continue to monitor the impact to business operations and stakeholders. Proactive measures will be adopted as appropriate in times of volatility to ensure business continuity and keep losses minimal. Following notes explain the impact of COVID 19 on the key financial statement captions of the Company Impairment provision is assessed as per SLFRS 9, ECL measurement needs to incorporate forward looking reasonable and supportive information available without undue cost or effort at the reporting date. SLFRS 9 requires the application of judgement and both require and allows entities to adjust their approach to determine ECL in different circumstances. In assessing the forecast condition consideration needs to be given both to effect of COVID 19 and significant government support being undertaken. Due to insufficient relevant information and accurate information, uncertainty relating to customers payment ability, resource constraint and various government relief measures as a result of outbreak, the company decided to apply certain temporary practical expedients issued by CA Sri Lanka.

The company does not foresee any indication of impairment of Property, Plant & Equipment as at reporting date due to COVID 19 pandemic. The company has continued to value FVTOCI securities based on the same valuation techniques used in prior financial year

39. RELATED PARTY TRANSACTIONS

The Company carried out transactions with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures'.

Details of related party transactions during the year are as follows,

39.1 Transactions with Key Managerial Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company. Such KMPs include the Board of Directors of the Company and Parent Company and Chief Executive Officer of the Company.

39. RELATED PARTY TRANSACTIONS (Contd...)

39.1.1 Key Management Personnel Compensation

	2020 Rs.	2019 Rs.
Short Term Employment Benefits	43,120,891	15,360,000
Directors Emoluments	1,599,996	2,943,000
	44,720,887	18,303,000

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

39.1.2 Transactions, Arrangements and Agreements involving KMPs, and their Close Members of the Family (CFMs)

CFMs of a KMPs are those family members who may be expected to influence, or be influenced by, that KMP in their dealing with the entity.

Statement of Financial Position	Reported Under	2020 Rs.	2019 Rs.
Liabilities			
Fixed Deposits	Due to Customers	19,456,144	12,200,000
Assets			
Loans	Loans and Receivables	-	-
Income Statement			
Interest Expense on Fixed Deposits	Interest Expenses	1,659,839	1,068,033
Other Transactions			
Deposits Accepted During the Year		13,780,265	12,200,000
Loans Granted During the Year		-	-
		13,780,265	12,200,000

39.1.3 Transactions with Group Entities

The Group entities include the Parent , Fellow Subsidiaries and Associate companies of the parent.

Transactions with Parent Company

Statement of Financial Position		2020 Rs.	2019 Rs.
Liabilities			
Head Office Current Accounts		175,218,736	150,008,430
Income Statement			
Interest Expense on current account	Interest Expenses	22,422,040	191,769,439
Expenses for Head Office Services	Other Operating Expenses	4,099,032	
		26,521,073	191,769,439

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39. RELATED PARTY TRANSACTIONS (Contd...)

39.1.3 Transactions with the parent and related entities

As at 31 March 2020

Name of the Company	Relationship	Nature of Transaction	Statement of Financial Position					Income Statement	
			(Receivables) /Payables	Loans, Advances & Investments	Borrowings / Deposits	Plant & Equip. Purchased /(sold)	Right of use Assets/ (Liability)	Income Earned	Cost Incurred
Richard Pieris and Company PLC	Parent Company	Payables	175,218,736	-	-	-	-	-	22,422,040
		Expenses for shared Services	-	-	-	-	-	-	4,099,032
Richard Pieris Distributors Ltd - Retailing	Fellow Subsidiary	Leases	-	4,663,321	-	-		734,516	-
		Right of use Assets	-	-	-	-	33,281,962	-	12,956,034
		Building rent	(17,576,445)	-	-	-	-	2,772,261	-
		Building rent & electricity	20,642,204	-	-	-	-	-	7,402,304
		Creditor payable	11,295,687	-	-	-	-	-	-
		Lease liability	-	-	-	-	(34,013,364)	-	5,166,258
Arpico Insurance PLC	Fellow Subsidiary	Fixed Deposits	-	-	106,155,265	-	-	-	3,909,940
Arpico Interior (Pvt) Ltd	Fellow Subsidiary	Fixed Asset Purchase	3,826,597	-	-	-	-	-	-

As at 31 March 2019

Name of the Company	Relationship	Nature of Transaction	Statement of Financial Position					Income Statement	
			(Receivables) /Payables	Loans, Advances & Investments	Borrowings / Deposits	Plant & Equip. Purchased /(sold)	Right of use Assets/ (Liability)	Income Earned	Cost Incurred
Richard Pieris and Company PLC	Parent Company	Payables	150,008,430	-	-	-	-	-	191,769,439
Richard Pieris Distributors Ltd - Retailing	Fellow Subsidiary	Leases	-	6,878,997	-	-	-	1,286,294	-
		Building rent & electricity	5,754,924	-	-	-	-		23,340,894
Arpico Interior (Pvt) Ltd	Fellow Subsidiary	Fixed Asset Purchase Payable	4,282,379	-	-	-	-	-	-
Arpico Insurance PLC	Fellow Subsidiary	Fixed Deposits	-	-	175,000,000	-	-	-	12,905,651

39.1.4 Terms and Conditions

Outstanding balances with related parties are unsecured other than where there are leasing and similar arrangements and bear interest as applicable to relevant products.

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 maintain healthy capital ratios in order to support its business and to maximize shareholders' value.

To comply with Finance Business Act No 3 of 2018 (Capital Adequacy requirement) issued by Central Bank of Sri Lanka, Company has issued Rs. 85,000,000/- ordinary shares to the parent company and borrowed Rs. 580,000,000/- debt capital from the parent and the other related companies subsequent to the reporting period.

41. EVENTS OCCURING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustments or disclosures in the Financial Statements up to the reporting date other than those disclosed in note 40.

ERNST & YOUNG
Chartered Accountants
COLOMBO