BIMPUTH FINANCE PLC

FINANCIAL STATEMENTS TOGETHER
WITH AUDITOR'S REPORT

FOR THE YEAR ENDED
31 MARCH 2020

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BIMPUTH FINANCE PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

In our opinion, the accompanying financial statements 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.8 (a) to the financial statements which indicates that the Company has not complied with the Capital Adequacy requirements (Direction No 03 of 2018) and Minimum Core Capital (Direction No 02 of 2017) as at the reporting date. Further Company has incurred net losses in current and the previous financial years amounting to Rs. 520 Mn and Rs. 268 Mn respectively. These events or conditions indicate that a material uncertainty exist that may cast significant doubts on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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Key audit matter in the audit of the Company	How our audit addressed the key audit matter
Valuation of Investment Properties As at the reporting date, Investment properties amounted to Rs. 1,147 Mn are carried at their fair values. The fair values of such properties were determined by external valuers engaged by the Company. Due to the financial statement impact resulted from the property valuations and the significance of the assumptions used in the valuation techniques, we have considered valuation of investment properties as a key audit matter. Details of the techniques and key assumptions used in the valuation are disclosed in note 23 to the financial statements.	We designed our audit procedures focused on the valuations performed by external valuers engaged by the Company, and included the following; • We assessed the experience, competence and objectivity of the external valuers engaged by the Company. • We read the external valuers' report and understood the techniques and key assumptions used by them in determining the valuation of each property. • We engaged our internal valuation specialist to assess the reasonableness of the valuation techniques and the assumptions used. We assessed the adequacy of the disclosures made in note 23 to the financial statements relating to the valuation techniques and assumptions used by the external valuers.
Impairment allowance for Loans and advances and Lease receivables As at the reporting date, 63% of the total assets of the Company consisted of Loans and advances and Lease receivables which amounted to Rs. 6,190 Mn. Such amount is presented as net of impairment allowance of Rs. 5,049 Mn. Significant judgments and assumptions were used by the management to determine the impairment allowance on such balances and complex calculations were involved in their estimations. Due to the higher level of estimation uncertainty involved and significance of its impact on the amounts presented in the financial statements, we have considered it as a Key Audit Matter. Basis of impairment allowance and assumptions used by the management in its calculation, is disclosed in note 4.2.8	We designed our audit procedures to obtain sufficient and appropriate evidence on the reasonableness of the impairment allowance and included the following. • We obtained an understanding on the management process for the determination of impairment of Loans and advances and Lease receivables and, evaluated the designing and operating effectiveness of the controls used by the management in that process. • We evaluated the model used to calculate impairment allowance to assess its appropriateness. • We assessed the completeness and relevance of the underlying information used in the impairment calculation by agreeing details to source documents and information in IT systems. • We rechecked the underlying calculations in the model. • We considered the reasonableness of macro-economic factors used by comparing them with publicly available data and information sources. Our considerations included assessing the appropriateness of the weightages assigned to possible economic scenarios. We assessed the adequacy of the disclosures made in the notes 20 and 35.1 of the financial statements.

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Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information included in the annual report and we will not, express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 an 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 the 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.

As part of an audit in accordance with SLAuSs, we exercise professional judgement 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 that 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 the 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.

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- 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.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 it far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1828.

SJMS Associates

SJMS ASSOCIATES
Chartered Accountants
Colombo
23 March 2021

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CHARTERED ACCOUNTANTS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2019/2020 Rs.	2018/2019 Rs.
Interest income	6	1,530,737,883	2,203,931,002
Interest expense	7	(1,015,660,817)	(1,194,904,809)
Net interest income		**515,077,066**	**1,009,026,193**
Fee and commission income	8	111,983,946	149,739,318
Other income	9	168,596,028	195,883,540
		795,657,040	**1,354,649,050**
Impairment loss on financial assets	35.1.3	(466,414,934)	(576,546,949)
Net gain/(loss) from financial instruments at fair value through profit or loss	10	1,758,056	(43,181,145)
Personnel costs	11	(233,792,769)	(306,706,654)
Administration expenses		(568,700,352)	(728,986,154)
Loss on derecognition of financial assets		-	(21,138,151)
Finance and other expenses		(26,264,154)	(16,976,010)
Profit/ (loss) from operations		**(497,757,112)**	**(338,886,012)**
Profit/ (loss) before tax on financial services and income tax		**(497,757,112)**	**(338,886,012)**
Tax on financial services - VAT and NBT		-	-
Profit / (loss) before income tax	12	**(497,757,112)**	**(338,886,012)**
Income tax expense	13	(22,370,539)	71,335,379
Profit/ (loss) for the year		**(520,127,651)**	**(267,550,633)**
Other comprehensive income (OCI) , net of income tax			
Other comprehensive income will not be reclassified to profit or loss			
Actuarial gain/ (losses) on defined benefit plans		(3,515,292)	2,530,094
Deferred tax on actuarial gain/ (losses) on retirement benefit		-	(708,426)
Total other comprehensive income for the period		**(3,515,292)**	**1,821,668**
Total comprehensive income/ (loss) for the year net of tax		**(523,642,943)**	**(265,728,965)**
Earnings/ (loss) per share - Basic	14	(4.83)	(2.48)

The accounting policies and notes from 01 to 39 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31ST MARCH

	Note	2020 Rs.	2019 Rs.
Assets			
Cash in hand and at bank	15	173,266,904	564,200,234
Placements with bank and other financial institutions	16	396,342,906	666,171,997
Financial instruments - fair value through profit or loss	17	145,493,181	143,735,125
Debt instruments at amortised cost	18	324,854,971	303,043,764
Equity instruments at fair value through OCI	19	193,900	193,900
Loans and advances	20	4,513,538,400	5,989,358,939
Lease receivables	20.2	535,439,228	380,225,680
Tax receivable	21	132,914,186	120,040,935
Other receivables	22	218,917,669	226,729,174
Investment properties	23	1,146,881,174	539,187,574
Property and equipment	24	294,431,774	326,485,790
Right of use assets	25	109,452,772	-
Intangible assets	26	22,903,857	28,446,707
Deferred tax assets	13.3	-	11,287,921
Total assets		**8,014,630,922**	**9,299,107,737**
Liabilities			
Borrowings	27	5,459,981,983	5,989,294,560
Due to customers	28	1,607,607,079	1,960,810,564
Other payables	29	69,021,015	57,370,012
Lease liability	25.1	103,441,961	-
Retirement benefit obligations	30	31,379,835	24,790,610
Total liabilities		**7,271,431,872**	**8,032,265,745**
Equity			
Stated capital	31	616,100,061	616,100,061
Statutory reserve	32	71,842,325	71,842,325
Revaluation reserve		23,220,000	23,220,000
Retained earnings		32,036,663	555,679,606
		743,199,048	**1,266,841,992**
Total liabilities and equity		**8,014,630,922**	**9,299,107,737**
Net Assets per share		**6.90**	**11.76**

I certify that the financial statements comply with the requirements of the Companies Act No.7 of 2007.

....
Head of Finance
Hussain Nashwaq

The Board of Directors is responsible for these financial statements.

....
Director
C. K. Gamage
23 March 2021

....
Director
P.M.K. Gamage
23 March 2021

The accounting policies and notes from 01 to 39 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST MARCH 2020

	Share capital Rs	Statutory reserve Rs	Revaluation reserve Rs	Retained earnings Rs	Total Rs
Balance as at 1 April 2018	616,100,061	71,842,325	23,220,000	821,408,571	1,532,570,958
Profit for the year	-	-	-	(267,550,633)	(267,550,633)
Other comprehensive income, net of tax	-	-	-	1,821,668	1,821,668
Balance as at 31 March 2019	**616,100,061**	**71,842,325**	**23,220,000**	**555,679,606**	**1,266,841,992**
Profit/ (loss) for the year	-	-	-	(520,127,651)	(520,127,651)
Other comprehensive income, net of tax	-	-	-	(3,515,292)	(3,515,292)
Balance as at 31 March 2020	**616,100,061**	**71,842,325**	**23,220,000**	**32,036,663**	**743,199,049**

The accounting policies and notes from 01 to 39 form an integral part of these financial statements.

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STATEMENT OF CASH FLOW
Year ended 31 March 2020

	Notes	2019/2020 Rs.	2018/2019 Rs.
Cash flows operating activities			
Loss before Tax		(497,757,112)	(338,886,012)
Interest expenses	7 & 25.1	1,030,124,503	1,194,904,809
Depreciation	24.1 & 25	87,099,628	41,437,716
Amortization of intangible assets	26	5,634,850	5,467,989
Impairment loss on financial assets	35.1.3	466,414,934	576,546,949
Provision for Gratuity	30	5,591,943	7,691,860
(Profit)/loss on disposal of Assets		3,106,297	-
		1,597,972,155	1,826,049,322
Operating profit before working capital changes		**1,100,215,042**	**1,487,163,310**
(Increase)/Decrease in placements with bank and other financial institutions		269,829,091	(103,911,831)
(Increase)/Decrease in Fair value through profit or loss		(1,758,055)	42,571,816
(Increase)/Decrease in Debt instruments at amortised cost		(21,811,207)	(27,213,856)
(Increase)/Decrease in Loans and advances and Lease receivables		616,801,498	302,171,371
(Increase)/Decrease in Other receivables and inventory		(6,081,246)	(67,318,644)
Increase/(Decrease) in Due to customers		(343,518,220)	(226,296,342)
Increase/(Decrease) in Other payables		11,651,003	(14,470,035)
		525,112,864	**(94,467,521)**
Cash generated from operating activities		**1,625,327,906**	**1,392,695,789**
Interest expense paid		(1,013,379,008)	(1,171,421,907)
Gratuity paid	30	(5,121,025)	(2,273,123)
Income Tax paid		(23,955,870)	(20,085,732)
Net cash flow from operating activities		**582,872,003**	**198,915,028**
Cash flows from investing activities			
Purchase of property and equipment		(23,269,216)	(69,122,282)
Purchase of intangible assets		(92,000)	(5,752,340)
Proceeds from Disposals of property plant and equipment		571,456	-
Purchase of Investment property		(370,303,042)	(402,574)
Lease Advance paid		(8,697,500)	-
Net cash inflow/(outflow) from investing activities		**(401,790,302)**	**(75,277,196)**
Net cash inflow/(outflow) before financing activities		**181,081,701**	**123,637,832**
Cash flows from financing activities			
Proceeds from Loans	27.2	2,577,467,564	3,838,197,323
Repayments of Loans	27.2	(3,167,780,180)	(3,973,009,567)
Repayment of principal portion of lease liabilities		(18,874,709)	-
Net cash inflow/ (outflow) from financing activities		**(609,187,326)**	**(134,812,244)**
Net increase/ (decrease) in cash & cash equivalent		(428,105,625)	(11,174,413)
Cash and cash equivalent at the beginning of the year		211,644,391	222,818,804
Cash and cash equivalent at the end of the year		**(216,461,234)**	**211,644,391**
Analysis of cash and cash equivalents			
Cash in hand and at bank	15	173,266,904	564,200,234
Bank overdrafts	27	(389,728,137)	(352,555,843)
Cash and cash equivalent at the end of the year		**(216,461,234)**	**211,644,391**

Non-cash transactions

During the current year, the Company entered into the following non-cash operating, investing and financing activities which are not reflected in the statement of cash flows

- The initial application of SLFRS 16 resulted in non cash addition to right of use assets and lease liabilities of Rs. 103 Mn and 89 Mn respectively. Further during the year company entered into new lease agreements which also resulted in non cash addition of right of use assets and lease liabilities of Rs. 33 Mn

- Company acquired investment properties with an aggregate value of Rs. 237 Mn as a settlement of loan from customers

The accounting policies and notes from 01 to 39 form an integral part of these financial statements.

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1. Corporate information

1.1 General

Bimputh Finance PLC (the Company) is a public limited liability company, incorporated and domiciled in Sri Lanka. The Company was incorporated in Sri Lanka on 27 July 2007 under the companies Act No. 07 of 2007. The registered office and the principal place of business of the Company are located at No. 362, Colombo Road, Pepiliyana, Boralesgamuwa.

Parent Entity & Ultimate Parent Entity

The Company does not have an identifiable parent on its own.

Number of employees

The staff strength of the company as at 31 March 2020 was 494 (677 as at March 31 2019).

1.2 Principal activities and nature of operations

The Company engaged in the business of micro finance. It provides micro finance for persons engaged in the cultivation of cash crops and other crops, micro enterprises, self-employed persons and other individuals and groups including those with minimal or no access to security and working capital. Further the company provides term loans, finance leases, hire-purchase assets financing other than the micro financing activities.

1.3 Date of authorization for issue

The Financial Statements of the Company for the year ended 31 March 2020 were authorized for issue in accordance with a resolution of the Board of Directors on 23 March 2021.

2. Basis of preparation

2.1 Statement of compliance

The financial statements of the Company (statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows together with accounting policies and notes) are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No.07 of 2007 and provide appropriate information as required by the Finance Business Act. No. 42 of 2011, and the Listing Rules of the Colombo Stock Exchange.

2.2 Responsibility for financial statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements of the Company as per the provision of the Companies Act No. 07 of 2007 and SLFRSs and LKAS.

The Board of Directors acknowledges their responsibility as set out in the "Annual Report of the Board of Directors on the Affairs of the Company", "Directors' Responsibility for Financial Reporting" and in the certification on the Statement of Financial Position.

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2.3 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.

- Financial assets fair value through profit and loss measured at fair value

- Investment properties and freehold land are measured at cost at the time of acquisition and subsequently at revalued amounts, which are the fair values at reporting date

- Liability of defined benefit obligation is recognized as the present value of the defined benefit obligation

2.4 Functional and presentation currency

The financial statements are presented in Sri Lankan Rupees, which is the Company's functional currency and presentational currency. There was no change in the Company's presentation and functional currency during the year under review.

2.5 Comparative information

The accounting policies have been consistently applied by the Company with those of the previous financial year in accordance with LKAS 01 - presentation of financial statements. Further, comparative information is reclassified wherever necessary to comply with the current presentation.

However, the Company has not restated comparative information for 2019 due to adoption of SLFRS 16.

2.6 Presentation of financial statements

The items in statement of financial position of the Company are grouped by the nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on 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 the Note 36

2.7 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.

2.8 **Use of significant accounting judgments, estimates and assumptions**

The preparation of financial statements requires the application of certain critical accounting assumptions relating to the future. Further, it requires the management of the Company to make judgments, estimates and assumptions that affect the reported amounts of income, 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 in future periods. Hence, actual experience and results may differ from these judgments and estimates.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the financial statements:

a. **Going concern**

As of the reporting date, the company had a total capital adequacy ratio of 7.5% against the required minimum total capital adequacy ratio of 10.5% under direction No.03 of 2018 issued by Central Bank of Sri Lanka (CBSL).

In addition to that, even though the finance companies are required to maintain a minimum core capital of Rs. 2,000 Mn as of 01 January 2020, as per the direction No 02 of 2017 issued CBSL, the Company was able to achieve only a core capital of Rs. 743 Mn as at the reporting date. Considering these facts CBSL has imposed a deposit cap of Rs. 2,000 Mn during the financial year and it prevailed as at the financial reporting date. This cap was reduced further to Rs. 1,500 Mn at the date of authorizing the financial statements. Further, the Company has made losses in the current and previous financial years amounting to Rs. 520 Mn and Rs. 267 Mn respectively.

The above events and conditions indicate material uncertainty and the Company's ability to continue as a going concern. However, despite these events and conditions, the Company has prepared its financial statements on a going concern basis as the management of the Company is confident that those events and conditions can be overcome with the following plans and strategies initiated by them.

•Daya Group (Pvt) Ltd, being the ultimate holding company, currently is in the process of issuing debentures worth of around Rs. 2,000 Mn. The holding company has given its consent to make an equity investment of Rs. 1,500 Mn in the Company, from the funds collected through such debenture issue.

•Company has also initiated discussions with a potential investor on a further capital infusion, and the investor has expressed its willingness to make an equity investment around Rs. 500 Mn - Rs. 1,000 Mn in the Company.

•Based on the discussions held with several financial institutions, the management of the Company is confident on the willingness of the financial institutions to provide further financial assistance, once the above infusions take place. The management has also noted that the Company possess around Rs. 1,300 Mn worth of un-pledged financial and non-financial assets which could be provided as collaterals in obtaining any further financial assistance from the institutions. The Company also met the covenants applicable to its financial liabilities outstanding as of the reporting date.

•With the objective of improving the financial performance, the Company has introduced various measures to reduce overhead costs.

•Once the above-mentioned capital infusions take place the Company expects to re-evaluate its position to merge with another Licensed Finance Company as requested by CBSL under its consolidation plan.

b. Taxation

The Company is subject to income taxes and other taxes including VAT and NBT on financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes.

The Company recognized assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred tax amounts in the period in which the determination is made.

c. Impairment losses on financial assets

The company measures loss allowances using both lifetime ECL and 12-month ECL. When estimating ECL the company determines whether the credit risk of a financial asset has increased significantly since initial recognition. In regard to this, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessments

The assumptions and judgments on ECL are discussed in detail under Note 4.2.8

d. Deferred taxation

Deferred taxes are recognized for all deductible temporary differences, unused tax losses and tax credits to the extent it is probable that taxable profits will be available against which these losses/credits can be utilized. Significant management judgments are required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies.

e. Defined benefit plans

The cost of the defined benefit plans determined using an actuarial valuation. This valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate and future salary 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. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Company.

f. Fair value of Investment Properties

The company carries its Investment Properties at fair value, with changes in fair values being recognized in the Statement of Profit or Loss. The company engages an independent valuation specialist to determine the fair value investment properties in terms of SLFRS 13, (Fair value measurement). Details of investment properties including methods of valuations are given in Note 23 to the financial statement.

2.9 Events after the reporting period

Events after the Reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the financial statements are authorised for issue.

In this regard, all material and important events that occurred after the Reporting period have been considered and appropriate disclosures are made in Note 38 where necessary.

3. Changes in accounting policies

3.1 New accounting standards/interpretations effective during the year

The Company has adopted SLFRS16 - Leases, effective for annual periods beginning on or after 01 April 2019, for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

3.1.1 SLFRS 16 - Leases

SLFRS 16 supersedes LKAS 17 Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. 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.

The Company adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, Right-of-use assets were recognised based on the amount equal to the lease liabilities adjusted for any related prepaid and accrued lease payments at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 April 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4 at the date of initial application.

The Company has lease contracts for various branches. Before the adoption of SLFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 4.3.2 for the accounting policy prior to 1 April 2019. Upon adoption of SLFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 4.3.1 for the accounting policy after 1 April 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously classified as finance leases

For leases that were classified as finance leases applying LKAS 17, the carrying amount of the right of use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying LKAS 17. For those leases, the Company accounted for the right of use asset and the lease liability applying this Standard from the date of initial application.

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Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 April 2019:

- Right-of-use assets of Rs.103.27 million were recognised and presented in the Statement of Financial Position within "Right-of-use assets".
- Additional lease liabilities of Rs.89.37 million (included in "Lease liability") were recognised.
- The adoption of SLFRS 16 had no impact on the Company's retained earnings and no material impact on its Capital Adequacy ratio.

The lease liabilities as at 1 April 2019 can be reconciled to the operating lease commitments as of 31 March 2019, as follows:

	Rs.
Operating lease commitment as at 31 March 2019 as per LKAS 17	128,908,389
Adjustment to update for SLFRS 16	-
Impact of discounting using incremental borrowing rate as at 01 April 2019	(35,602,103)
Recognition exemption for leases with less than 12 months of lease term at transition	(3,933,500)
Lease liabilities recognised at 1 April 2019	**89,372,787**

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted average rate applied is 15.70%

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

4. General accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements except for the changes mentioned in Note 3 to the Financial Statements.

4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with banks. For the purpose of the statement of cash flow, cash and cash equivalents consist of cash, short-term deposits and Bank overdrafts.

4.2 Financial instruments - Initial recognition, classification and subsequent measurement

4.2.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date. i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trade means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

4.2.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL),transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for "Day 1 profit or loss", as described below

4.2.3 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Income Statement over the tenor of the financial instrument using effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Income Statement when the inputs become observable, or when the instrument is derecognised.

4.2.4 Measurement categories of financial assets and financial liabilities

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

- Amortised cost,
- Fair value through other comprehensive income (FVOCI) or
- Fair value through profit or loss.(FVPL)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments are measured at FVTPL

4.2.4 (a) (i) Financial assets at amortised cost :

The Company only measures loans and other financial investments, at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost consist of cash and bank balances, placement with bank and financial institutions, Debt instruments and loans and advances.

The details of the above conditions are outlined below.

Business model assessment

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

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

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

The SPPI test

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

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

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

In contrast, contractual terms of that introduce a more than de minimise exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

4.2.4 (a) (ii) Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Currently, the Company has recorded its non- quoted equity investments FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 19 to the Financial Statements.

4.2.4 (a) (iii) Fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss.

Financial assets measured at FVTPL are measured initially at fair value and transaction costs that are directly attributable to its acquisition or issue is charged to profit or loss. Financial assets measured at FVPTL are subsequently recorded in the statement of financial position at fair value. Changes in fair value, gains / (losses) from trading and dividend income are recognised in the income statement under other income. Company has considered the fair value of quoted shares as of 31 December 2019 based on the Guidance Notes on Accounting Considerations for the COVID 19 Outbreak issued by CA Sri Lanka.

FVTPL assets comprise of Investments in quoted shares.

4.2.4 (a) (iv) Financial Liabilities - Borrowings and customer deposits

After initial measurement, financial liabilities are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. The company does not have compound financial instruments which contains both a liability and an equity component and require separation as at the date of the issue.

Currently, the Company has recorded borrowings and customer deposits as Financial Liabilities at Amortised Cost.

4.2.5 Classification and subsequent measurement of financial liabilities

Financial liabilities, other than loan commitments and financial guarantees, are classified as,

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
  a) Financial liabilities held for trading
  b) Financial liabilities designated at fair value through profit or loss
(ii) Financial liabilities at amortised cost

The subsequent measurement of financial liabilities depends on their classification.

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i. Financial liabilities at Fair Value Through Profit or Loss (FVTPL)

Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognized in Income Statement.

ii. Financial liabilities at amortised cost

Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortised cost under 'bank overdraft', 'due to customers', and ' borrowings' as appropriate, 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 assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognized in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

4.2.6 Reclassifications of Financial assets and Financial Liabilities

From 1 April 2019, the Company does not reclassify its financial assets subsequent to their initial recognition. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2019/20.

4.2.7 Derecognition of financial assets and financial liabilities

(a) Derecognition of Financial Assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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4.2.8 Impairment of financial assets

a. Overview of the expected credit loss (ECL) principles

The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 35.1

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

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

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

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

Stage 3: Loans considered credit-impaired .The Company records an allowance for the LTECLs.

b. The calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR.A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

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 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 principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest 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 lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method are summarised below.

Stage 1: The 12m ECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from default events on a financial instrument that are possible with in the 12 months after the reporting date. The Company calculates the 12m ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

c. Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rate
- Central Bank base rates
- Inflation

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

4.2.9 Collateral valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as gold, vehicles, machinery's, real estate etc. The fair value of collateral affects the calculation of ECLs.

The company uses active market data, to the extent possible to value financial assets and gold held as collateral. Non-financial collateral, such as vehicles and real estate, are valued based on data provided by third parties such as independent valuation specialists to the extent it is practically possible.

4.2.10 Write-off of financial assets at amortised cost

Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount.

Any subsequent recoveries are credited to the Income Statement. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

4.2.11 Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

4.2.12 Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

4.3 Leases

4.3.1 Policy applicable after 1 April 2019

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

a. The Company as lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

b. The Company as lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented in Note 25 and are subject to impairment in line with the Company's policy as described in Note 4.4.4 Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

4.3.2 Policy applicable before 1 April 2019

The Company as lessee - Operating leases

Operating leases are accounted for on a straight-line basis over the periods of the leases and are included in Administration expenses.

4.4 Non–financial assets

4.4.1 Property & Equipment and right -of- use assets

(i) Recognition and measurement

Property & Equipment are recognised 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 & Equipment. Initially property and equipment are measured at cost. Right- of -use assets are presented separately in the Statement of Financial Position.

(ii) Cost model

The Company applies the cost model to property & equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

(iii) Subsequent cost

Subsequent expenditure incurred for the purpose of acquiring, extending, or improving assets of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business is treated as capital expenditure and such expenses are recognised in the carrying amount of an asset. The costs associated with day-to-day servicing of property and equipment are recognised in the income statement as incurred.

(iv) Revaluation Model

The Company applies the revaluation model to the class of freehold land and building . Such properties are carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses and accumulated depreciation. Freehold land of the Company are revalued every three years or more frequently if the fair values are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

4.4.1 **Property & Equipment and right -of- use assets** ***(contd)***

(v) Depreciation

Depreciation is recognized in income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant &equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The rates of depreciations are given below;

Asset Category	Depreciation rate (per annum)	
	2019/20	2018/19
Buildings	5%	5%
Furniture and fittings	12.5% - 20%	12.5% - 20%
Motor vehicles	8.5% - 20%	8.5% - 20%
Office equipment	12.5% - 20%	12.5% - 20%
Computers and accessories	12.5% - 20%	12.5% - 20%

(vi) De-recognition

Property 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.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

4.4.2 **Investment properties**

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

(i) Basis of recognition

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Company and cost of the investment property can be reliably measured.

(ii) Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The Company applies the fair value model for investment properties in accordance with Sri Lanka Accounting Standard 40 (LKAS 40) "Investment Property". Accordingly, land and Buildings classified as investment properties are stated at fair value.

(iii) De-recognition

Investment properties are derecognised when disposed of, or permanently withdrawn from use because no future economic benefits are expected. Transfers are made to and from investment properties only when there is a change in use.

4.4.3 Intangible assets

The intangible assets include the value of computer software cost of purchased licenses. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

(i) Amortisation

Amortisation is calculated using the straight–line method to write-down the cost of intangible assets to their residual values over their estimated useful lives as follows;

Asset Category	Amortisation rate (per annum)	
	2019/20	2018/19
Computer Software	12.5% - 20%	12.5% - 20%

The residual value of the intangible asset is zero.

4.4.4 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 fair value less costs to sell and its value in use. Where the carrying amount of an asset 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.

4.5 Retirement benefit obligations

4.5.1 Defined benefit plan

The defined benefit obligation measured using the projected credit unit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on Sri Lanka government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximately to the terms of the related obligation.

Actuarial gains and losses are changed or credited to other comprehensive income in the period in which they arise.

4.5.2 Defined contribution plans

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

(i) Employees' provident fund

The company and employees contribute to the Provident Fund at 12% and 8% respectively.

(ii) Employees' trust fund

The company contributes to the employees' Trust Fund at 3%.

4.6 Provisions

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

4.7 Taxation

Income Tax expense comprises of current and deferred tax. Income tax expense is recognised in the statement of comprehensive Income.

4.7.1 Current tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

The company is liable for Income tax based on the provision of the Inland Revenue Act No 24 of 2017 and the amendments thereto.

4.7.2 Deferred tax

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

Deferred tax assets are recognised for all deductible temporary differences and deferred tax liabilities are recognized for all taxable temporary differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

4.7.3 VAT on financial services

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

The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation, computed on prescribed rates and emoluments of employees based on "Value addition attributable method".

4.7.4 Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services. This tax was abolished by the government with effect from 1st December 2019.

4.7.5 Debt Repayment Levy

According to the Finance Act No.35 of 2018,every financial institution shall pay 7% on the value addition attributable to the supply of financial services by such institution as DRLwith effect from 01 October 2018.DRL is calculated based on the value addition used for the purpose of VAT on financial services. This tax was abolished by the government with effect from 1st January 2020.

4.7.6 Withholding Tax (WHT) on Dividends

Withholding tax on dividends distributed by the Company that arise from the distribution of dividends of the company is recognised at the time of liability to pay the related dividend is recognized. At present, the rate of 14 % (Up to 31 March 2018-10%) is deducted at source.

4.7.7 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.5% on liable gross turnover of the Company and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years. This tax was abolished by the government with effect from 1st January 2020.

4.7.8 Crop Insurance Levy (CIL)

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No.30 of 1988, Finance Business Act No.42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 01 April 2013.

4.8 Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. The contingencies and capital commitments for which the Company liable severally or otherwise is also included with appropriate disclosures.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

4.09 Recognition of income and expenses

4.09.1 Interest income and interest expense

Interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

4.09.1 Interest income and interest expense *(contd)*

The EIR (and therefore, the amortised cost of the asset/liability) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income/expense using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset/liability are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income/interest expense. The adjustment is subsequently amortised through Interest income/Interest expense in the income statement.

4.09.2 Interest income on overdue rentals

Interest from overdue rentals has been accounted for on cash received basis.

4.09.3 Fee and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other Fee and commission income are recognised as the related services are performed.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

4.09.4 Other operating income

4.09.4 (a) Dividend income

Dividend income is recognised in the Statement of Income on an accrual basis when the Company's right to receive the dividend is established.

4.09.4 (b) Recovery of bad debts written off

Recovery of amounts written off as bad and doubtful debts is recognised when received.

4.09.4 (c) Other income

Other income is recognised on an accrual basis.

4.10 Personnel expenses

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay all employee benefits relating to employee services in the current and prior periods and the obligation can be estimated reliably.

4.11 Earnings Per Share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period.

The Company's diluted earnings per ordinary share is equal to the basic earnings per ordinary share since the Company does not have any convertible securities as at the reporting date.

4.12 Cash flow statement

During the year company has changed their presentation of statement of cash flow from Direct method to Indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), and comparative information also adjusted to conform to the current year's presentation.

Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise of cash in hand, cash at bank and bank overdrafts.

4.13 Segment reporting

The Company does not have any operating segments to disclose separately and its operating results are regularly reviewed by the entity's management as a single entity. Therefore no segment reporting information was provided in these financial statements.

5.0 Sri Lanka Accounting Standards Not Yet Effective as at 31 March 2020

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

- SLFRS 17 Insurance Contracts
- Amendments to LKAS 1 and LKAS 8: Definition of Material
- Amendments to SLFRS 3: Definition of a Business
- Amendments to references to the conceptual framework in SLFRS standards

None of the above standard and interpretations are not expected to have a significant impact on the Company's Financial Statements.

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		2019/2020 Rs.	2018/2019 Rs.
6.	**Interest income**		
	Loans and advances given to customers	1,430,075,177	2,094,793,519
	Government securities and deposits	100,662,706	109,137,483
		1,530,737,883	**2,203,931,002**
7.	**Interest expense**		
	Customer deposits	192,549,328	253,299,551
	Banks and other short term borrowings	823,111,489	941,605,258
		1,015,660,817	**1,194,904,809**
8.	**Fee and commission income**		
	Documentation fees and other charges on loans	111,983,946	149,739,318
		111,983,946	**149,739,318**
9.	**Other income**		
	Dividends	1,104,564	935,909
	Default interest income	54,768,046	63,110,084
	Income on other services	13,903,383	2,609,092
	Exchange gain	9,921,105	-
	Interest income from Government debt relief	24,391,144	7,756,819
	Bad debt recoveries	64,232,902	121,471,636
	Asset disposal income	274,884	-
		168,596,028	**195,883,540**
10.	**Net loss from financial assets at fair value through profit or loss**		
	Fair value loss/(Gain) on quoted shares	(1,758,056)	42,521,145
	Derivative - foreign currency forward	-	660,000
		(1,758,056)	**43,181,145**
11.	**Personnel cost**		
	Directors' emoluments	13,760,000	14,100,000
	Salaries	181,189,413	219,322,164
	Employee Provident Fund	22,369,130	26,757,860
	Employee Trust Fund	5,592,283	6,689,467
	Bonus	5,290,000	34,335,500
	Employee retirement benefit expenses	5,591,943	5,501,663
		233,792,769	**306,706,654**

	2019/2020 Rs.	2018/2019 Rs.

12. Profit before income tax

Profit before income tax is stated after charging all expenses including the following:

	2019/2020 Rs.	2018/2019 Rs.
Directors' emoluments	13,760,000	14,100,000
Legal expenses	8,182,475	6,976,685
Depreciation	51,645,480	41,437,716
Amortization of intangible assets	5,634,850	5,467,989
Depreciation of Right of use assets	35,454,148	-
Auditor's remuneration - audit	1,397,250	1,085,906
- non audit	182,250	197,438
Salaries	181,189,413	219,322,164
Employees' provident fund contributions	22,369,130	26,757,860
Employees' trust fund contributions	5,592,283	6,689,467
Interest cost on retirement benefit obligation	2,603,014	2,190,197

13. Taxation

13.1 Income tax expense

	2019/2020 Rs.	2018/2019 Rs.
Current taxes on income for the reporting period *(Note 13.2)*	11,082,618	-
Deferred tax *(Note 13.3)*	11,287,921	(71,335,379)
	22,370,539	(71,335,379)

13.2 Reconciliation of the total tax charge

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

	2019/2020 Rs.	2018/2019 Rs.
Accounting profit/(Loss) as per income tax computation	(497,757,112)	(338,886,012)
Tax at the applicable tax rate of 28%	-	-
Tax effect on allowable credits	-	-
Tax effect on non- deductible expenses	-	-
Tax effect of loss claimed	-	-
Under/(Over) provisions of current taxes in respect of previous years	11,082,618	-
Income tax expense recognized in profit or loss	11,082,618	-
Effective tax rate	0%	0%

	2019/2020 Rs.	2018/2019 Rs.
13.3 Deferred tax liability /(assets)		
Balance at the beginning of the year	(11,287,921)	59,339,032
Originated during the year - income statement	11,287,921	(71,335,379)
Originated during the year - other comprehensive income	-	708,426
Balance at the end of the year	-	(11,287,921)
Deferred tax arising from		
Accelerated depreciation for tax purpose	607,739	31,789,875
Retirement benefit obligations	(1,844,983)	(6,941,371)
Revaluation of land and investment property	16,217,320	10,724,280
Tax losses	(3,983,680)	(52,592,291)
Others	(10,996,396)	5,731,586
Recognized deferred tax liability	-	(11,287,921)
Tax rate used	28%	28%

Deferred tax asset of Rs. 113,064,894 has not been recognised on the unused tax losses as at 31 March 2020 considering the future profitability.

14. Earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.

	2019/2020 Rs.	2018/2019 Rs.
Profit attributable to equity holders	(520,127,651)	(267,550,633)
Weighted average number of shares used as denominator	107,733,344	107,733,344
Basic earnings/ (loss) per share (Rs.)	(4.83)	(2.48)

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		31.03.2020 Rs.	31.03.2019 Rs.
15.	**Cash in hand & at bank**		
	Commercial Bank	8,259,552	14,072,188
	Sampath Bank	17,047,205	18,916,044
	Seylan Bank	6,839,241	24,931,262
	People's Bank	784,609	8,087,114
	Bank of Ceylon	2,478,463	42,285,771
	National Development Bank	132,678	8,967,835
	Indian Bank	6,035,174	42,674,837
	Union Bank	83,488	83,488
	Cargills Bank	16,495,607	6,392,663
	DFCC Bank	314,131	3,299,604
	Indian Overseas Bank	2,065,494	114,125
	Pan Asia Bank	102,471	2,144,685
	HNB - Trust	1,368,829	276,386,892
	Cash in hand	111,259,963	115,843,725
		173,266,904	**564,200,234**
16.	**Placements with banks and other financial institutions**		
	Placement with finance companies	-	522,959,442
	Placement with banks	396,342,906	143,212,554
		396,342,906	**666,171,997**
17.	**Financial instruments - fair value through profit or loss**		
	Investments in quoted shares *(Note 17.1)*	145,493,181	143,735,125
		145,493,181	**143,735,125**

		31.03.2020		31.03.2019	
		No of shares	Market value* Rs.	No of shares	Market value Rs.
17.1	**Investment in quoted shares**				
	ADAM Capital PLC	3,997,740	1,199,322	3,997,740	1,199,322
	Blue Diamonds Jewellery	3,454,566	2,418,196	3,454,566	1,366,350
	Browns Beach Hotels PLC	43,351	563,563	43,351	502,872
	Bogala Graphite Lanka PLC	79,092	1,265,472	79,092	964,922
	Ceylon Hotels Corporation PLC	98,251	1,159,362	98,251	903,909
	CM Holdings PLC	77,000	6,083,000	77,000	2,779,700
	Commercial Bank Of Ceylon	82,981	7,883,195	81,665	8,060,336
	CIC Holdings PLC	65,455	3,927,300	65,455	2,520,018
	John Keells PLC	1,455	71,295	1,455	69,840
	Lanka Ceramic PLC	28,838	3,996,947	28,838	4,034,436
	Orient Garments PLC	12,888	-	12,888	90,216
	Sinhaputhra Finance PLC	12,546,190	114,170,329	12,546,190	119,029,205
	The Kandy Hotels Company PLC	492,000	2,755,200	492,000	2,214,000
			145,493,181		**143,735,125**

		31.03.2020 Rs	31.03.2019 Rs
18	**Financial instruments at Amortized Cost**		
	Government debt securities - treasury bills & bonds	324,854,971	303,043,764
		324,854,971	303,043,764

19. **Financial Instruments -Fair Value Through Other Comprehensive Income**

	31.03.2020	31.03.2019
Unquoted shares - Credit Information Bureau of Sri Lanka		
No of shares	100	100
Cost of investment	193,900	193,900

Note: These unquoted equity investments are recorded at cost, since the fair value of the investments cannot be reliably estimated. There is no market for these investments and company intends to hold these in the long term.

		31.03.2020 Rs	31.03.2019 Rs
20.	**Loans and advances**		
	Gross loans and receivables *(Note 20.1)*	5,477,767,691	6,583,841,482
	Allowance for impairment losses *(Note 20.3)*	(964,229,291)	(594,482,543)
	Net loans and receivables	4,513,538,400	5,989,358,939
20.1	**Product wise loans and receivable**		
	Loans	4,344,571,209	5,901,137,544
	Hire purchase	-	406,948
	Gold loans	1,133,196,482	682,296,990
		5,477,767,691	6,583,841,482

		31.03.2020 Rs.	31.03.2019 Rs.
20.2	**Lease receivables**		
	Gross Lease receivables	712,643,486	460,761,752
	Allowance for impairment losses *(Note 20.3)*	(177,204,258)	(80,536,072)
	Net Lease receivables	535,439,228	380,225,680

Maturity analysis of lease receivables are presented in Note 36

20.3	**Allowance for impairment losses**		
	Movement in impairment allowance for loans and advances		
	Balance as at the beginning of the period	675,018,615	203,542,122
	Impact of adopting SLFRS 09	-	271,873,538
	Net impairment charge for the current period	466,414,934	576,546,949
	Written off during the period	-	(376,943,994)
	Balance as at the end of the period	1,141,433,549	675,018,615

20.4 **Analysis of Loans and advances and Lease receivables on maximum exposure to credit risk as at 31 March 2020**

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Loans and advances	2,317,022,307	642,826,557	2,517,918,828	5,477,767,692
Lease receivables	203,928,157	134,421,779	374,293,550	712,643,486
Total of Loans and advances and Lease receivables	2,520,950,463	777,248,336	2,892,212,378	6,190,411,177
Less: Allowance for expected credit losses	(179,473,010)	(125,339,765)	(836,620,773)	(1,141,433,549)
	2,341,477,453	651,908,571	2,055,591,604	5,048,977,628

		31.03.2020 Rs	31.03.2019 Rs
21.	**Current tax liability/ (receivable)**		
	Balance at the beginning of the year	(120,040,935)	(99,955,203)
	Provision made during the year	-	-
	Tax paid during the year	-	-
	Economic Service Charge	(9,969,593)	(12,452,311)
	Withholding taxes	(2,903,659)	(7,633,421)
	Notional tax	-	-
		(132,914,186)	(120,040,935)
22.	**Other receivable**		
	Deposits and prepayments	52,740,496	88,453,426
	VAT receivable	5,329,200	5,329,200
	Sundry debtors	280,458	655,302
	Other receivable	58,309,666	24,273,874
	Government debt relief receivable	102,257,850	108,017,371
		218,917,669	226,729,174
23.	**Investment properties**		
	Balance at the beginning of the year	539,187,574	538,785,000
	Additions	607,693,600	402,574
	Balance at the end of the year	1,146,881,174	539,187,574

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23.1 Fair value of investment properties

Location		
Ullai Kadu-60th Mile Post, Kiravalkuli Urani in Panama Pathu Total Extent 09A-00R-00P (3.6420 Hectares) Lot No. 01	27,000,000	27,000,000
Kayankerny Village in Irral Odai Total Extent 04A-00R-26P (1.6845 Hectares) Lot No. 01 & 02	31,635,000	31,635,000
Panama Pathu in Urani (60th Mile Post) Total Extent 04A-03R-32P (2.004 Hectares) Lot No. 01, 02 & 03	14,850,000	14,850,000
No 39/8, Edirisinghe Road, Palenwatta. Total Extent 01A-00R-00P	218,000,000	218,000,000
No.584, Hospital Road, Jaffna - Land and Building Total extent 00A-1R-24.11P (0.3228 Hectares) Lot No. 01	247,702,574	247,702,574
No.200, Averiwatta Rd, Wattala - Hedawakagahawatta Alias Paranahena Total extent 0A-1R-10.55P (Lot A1)	67,599,000	-
Island in the Negombo Lagoon - Lot A	540,094,600	-
	1,146,881,174	539,187,574

23.2 Mr. K. J. D. Tissara, (Chartered Valuation Surveyor) and S. Jeganathan (Incorporated valuer) valued these properties. The valuers are independent government registered valuers, not related to the company. They have appropriate qualifications and recent experience in the valuation of properties.

23.3 Description of valuation techniques used and key inputs to valuation on investment properties

Property	Method of valuation	Significant unobservable input	Range
Ullai Kadu-60th Mile Post, Kiravalkuli Urani in Panama Pathu	Market based method	Price per Acre	Rs.3,000,000
Kayankerny Village in Irral Odai	Market based method	Price per Acre	Rs.7,600,000
Panama Pathu in Urani (60th Mile Post)	Market based method	Price per Acre	Rs.3,000,000
No 39/8, Edirisinghe Road, Palenwatta.	Market based method/Cost based method	Store/Work Shop - Price per square feet Land - Price per Perch	Land-Rs.1,050,000 per perch Store-Rs,2,000 per Sq. Ft Workshop and Stores -Rs.2,500 per Sq. Ft Workshop - Rs.3,500 per Sq. Ft

Property	Method of valuation	Significant unobservable input	Range
No.584, Hospital Road, Jaffna - Land and Building	Market based method	Land - Price per Lms Boundry Wall and Gates-Price per Lms Building Ground/Upper Floor - Price per square feet	Land - Rs.37,500,000 per Lms Boundry Wall and Gates- Rs.2,000 per Left Floor -Rs.750 per Left
No.200, Averiwatta Rd, Wattala - Hedawakagahawatta Alias Paranahena	Market based method	Buildable Land - Price per perch Strip of land - Price per perch	Buildable Land- Rs.1,750,000 per perch Strip of land - Rs.875,000 per perch
Island in the Negombo Lagoon - Lot A	Income based valuation	Discount rate Cost of finance Percentage of professional fee Percentage of development profit	Discount rate - 6% per annum Cost of finance - 13.41% per annum Percentage of professional fee- 9% GDV Percentage of development profit - 35% GDV

23.4 Sensitivity information of Significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the company's investment properties are:

Price per Acre/perch
Price per square feet
Discount rate
Cost of finance
Percentage of professional fee
Percentage of development profit

Significant increases (decreases) in estimated price per Acre/perch and price per square feet would result in higher (lower) fair value measurement. Significant increases (decreases) in Discount rate, cost of finance, Percentage of Professional fees and Percentage of Development profit would result in a lower (higher) fair value measurement.

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		31.03.2020 Rs.	31.03.2019 Rs.
24.	**Property and equipment**		
	Freehold *(Note 24.1)*		
	Land	63,612,000	63,612,000
	Building	5,749,200	6,068,600
	Furniture and fittings	37,467,379	41,804,979
	Motor vehicles	81,594,029	49,821,988
	Office equipment	70,875,235	60,465,966
	Computer and accessories	35,133,931	41,101,543
		294,431,774	262,875,075
	Leasehold *(Note 24.2)*		
	Office equipment's	-	13,281,255
	Motor vehicle	-	50,329,458
		-	63,610,714
	Total	294,431,774	326,485,790

24.1 Freehold assets

	Land Rs.	Building Rs.	Furniture and fittings Rs.	Motor vehicle Rs.	Office equipment Rs.	Computers and accessories Rs.	Total Rs.
Cost							
Balance as at 01 April 2018	63,612,000	6,388,000	64,121,865	36,050,560	67,724,879	72,699,481	310,596,785
Additions	-	-	7,850,543	35,000,000	21,091,439	3,980,300	67,922,282
Disposal	-	-	-	-	-	-	-
Balance as at 31 March 2019	63,612,000	6,388,000	71,972,408	71,050,560	88,816,318	76,679,781	378,519,067
Additions	-	-	5,668,297	1,005,500	13,955,664	2,639,800	23,269,261
Disposal	-	-	(185,311)	(6,611,611)	(58,131)	-	(6,855,053)
Transfers from leasehold	-	-	-	72,255,000	23,340,254	-	95,595,254
Balance as at 31 March 2020	63,612,000	6,388,000	77,455,394	137,699,449	126,054,105	79,319,581	490,528,529
Accumulated depreciation							
Balance as at 01 April 2018	-	-	21,137,226	17,007,121	18,038,743	26,878,392	83,061,482
Charge for the year	-	319,400	9,030,203	4,221,451	10,311,608	8,699,847	32,582,509
Balance as at 31 March 2019	-	319,400	30,167,430	21,228,572	28,350,351	35,578,238	115,643,992
Charge for the year	-	319,400	9,968,647	15,946,522	16,803,499	8,607,412	51,645,480
Disposal	-	-	(148,062)	(2,995,216)	(33,979)	-	(3,177,257)
Transfers from leasehold	-	-	-	21,925,542	10,058,999	-	31,984,541
Balance as at 31 March 2020	-	638,800	39,988,015	56,105,420	55,178,870	44,185,650	196,096,756
Net book value							
as at 31 March 2019	63,612,000	6,068,600	41,804,979	49,821,988	60,465,966	41,101,543	262,875,075
as at 31 March 2020	63,612,000	5,749,200	37,467,379	81,594,029	70,875,235	35,133,931	294,431,774

Cost of fully depreciated assets of the Company which are still in use as at 31 March 2020 is Rs. 41.06 Mn (2018/19 -Rs. 14.52 Mn)

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24.2 Leasehold assets	Office equipment's Rs.	Motor vehicle Rs.	Total Rs.
Cost			
Balance as at 01 April 2019	23,340,254	72,255,000	95,595,254
Additions			-
Transferd to freehold assets	(23,340,254)	(72,255,000)	(95,595,254)
Balance as at 31 March 2020	-	-	-
Accumulated depreciation			
Balance as at 01 April 2019	10,058,999	21,925,542	31,984,540
Charge for the year	-	-	-
Transferd to freehold assets	(10,058,999)	(21,925,542)	(31,984,541)
Balance as at 31 March 2020	-	-	-
Net book value			
as at 31 March 2019	13,281,255	50,329,458	63,610,714
as at 31 March 2020	-	-	-

24.3 Title restriction on property and equipment

There were no restriction on the title of property and equipment as at 31 March 2020 (2019 : Nil)

24.4 Property and equipment pledged as security for liabilities

Land and building included in property and equipment amounting to Rs 70 Mn and land included in investment properties amounting to 466 Mn (Note 23.1) has been pledged as a security to the Indian Bank and Hatton National Bank for the term loan facilities.

24.5 Mr. K. J. D. Tissara, (Chartered Valuation Surveyor) valued the freehold land and buildings in March 2018. The valuer is an independent government registered valuers, not related to the company. The valuer has appropriate qualifications and recent experience in the valuation of properties. The revalued land and buildings is located at No. 15, Nugegoda Road, Pepiliyana with the total extent of 15.92 Perches.

24.6 The carrying value of Company's revalued freehold land, if it was carried at cost would be as follows

	2019/20 Rs	2018/19 Rs
Freehold Land (Cost and Carrying Value)	37,750,000	37,750,000

25 **Right of use assets**

Set out below are the carrying amount of Right of use assets recognised and the movements during the year.

Cost

	Rs.
Recognition of right-of-use assets on initial application of SLFRS 16	103,265,537
Restated balance as at 01st April 2019	103,265,537
Additions	41,641,383
Cost as at 31st March 2020	144,906,920
Accumulated depreciation	
Charge for the year	(35,454,148)
Net book value as at 31st March 2020	109,452,772

25.1 **Lease liability**

Recognition of lease liability on 01 April 2019*	89,372,787
Additions	32,943,883
Accretion of interest	14,463,686
Payments	(33,338,396)
Balance as at 31st March 2020	103,441,961

25.1.1 **Maturity Analysis of Lease Liability (Undiscounted)**

	2020
Less than 01 year	42,366,173
1 to 5 years	87,094,420
More than 5 years	5,456,400
Total Lease liabilites as at 31st March 2020	134,916,993

25.1.2 During the year company has used incremental borrowing rates between 12.74% - 15.70% when measuring the lease liabilities.

25.1.3 **Sensitivity of Right of Use assets/Lease liability to key assumptions**

Sensitivity to discount rates

1% (decreased)/increased in discount rate as at 31-03-2020 would have (decreased)/increased the Lease liability by approximately Rs. 5,109,528 and right of use asset (decreased)/increased by Rs. 3,712,362 respectively. Had the company (decreased)/increased the discount rate by 1%, the company's profit before tax for the year would have (decreased)/increased by Rs. 1,404,374.

25.1.4 Short term lease exemptions 6,457,471

26. **Intangible assets**

	Computer software
Cost	
Balance as at 1 April 2018	42,426,651
Addition	5,752,340
Balance as at 01 April 2019	48,178,991
Addition	92,000
Balance as at 31 March 2020	48,270,991
Accumulated amortization	
Balance as at 1 April 2018	14,264,295
Charge for the year	5,467,989
Balance as at 01 April 2019	19,732,284
Charge for the year	5,634,850
Balance as at 31 March 2020	25,367,134
Carrying value at the beginning of the year	28,446,707
Carrying value at the end of the year	22,903,857

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs 92,000 (2018/19 - Rs.5.7 million).Cost of fully amortised intangible assets of the Company as at 31 March 2020 is Rs. 8.5 Million (2018/19 - Rs. 6.84 Mn). Average remaining useful life of the Intangible asset is estimated as 4 years.

27. **Borrowings**

	31.03.2020 Rs	31.03.2019 Rs
Overdraft	389,728,137	352,555,843
Loans	5,048,039,078	5,630,068,981
Lease creditor	-	6,669,736
Commercial paper	22,214,768	-
	5,459,981,983	**5,989,294,560**

27.1 Loans

Indian Bank	236,298,060	292,805,671
Bank of Ceylon	356,666,608	503,333,282
Sampath Bank	761,444,445	934,411,410
People's Bank	483,500,000	372,150,000
Securitization	1,263,931,784	922,615,036
HDFC Bank	290,306,634	342,090,360
National Development Bank	500,000,000	500,000,000
National Savings Bank	146,666,667	105,555,556
Blue Orchard (USD)	-	198,146,250
Central Finance	37,146,816	81,855,314
Cargills Bank	139,078,120	275,848,780
Pan Asia Bank	110,000,000	125,000,000
DFCC	49,999,990	69,999,994
First Capital	36,383,674	31,578,614
Seylan Bank	174,650,000	266,500,000
Indian Overseas Bank	166,666,667	250,000,000
Orient Finance	-	28,644,997
Hatton National Bank	153,603,100	211,664,950
Interest payable	141,696,513	117,868,767
	5,048,039,078	**5,630,068,981**

27.2 Movement of borrowings

	31.03.2019	Granting/Accruals*	Repayments	31.03.2020
Long term borrowings	5,630,068,981	2,579,080,541	(3,161,110,444)	5,048,039,078
Short term borrowings	6,669,736	22,214,768	(6,669,736)	22,214,768
	5,636,738,717	2,601,295,309	(3,167,780,180)	5,070,253,846

* Includes accruals adjustment of Rs. 23,827,745

27.3 Securities pledged

Lender	Facility amount Rs.	Outstanding capital balance as at 31.03.2020 Rs.	Security details
Indian Bank	400,000,000	236,298,060	Primary Mortgage Bond No.963 for LKR 250 mn dated 06.10.2015 over property situated at No.30,Indigahadeniya,Pelenwatte/Corporate Guarantee of Daya Group (Pvt) Ltd/ Micro Finance Loan Receivables/Term Loan agreement/Board Resolution by the company/Board Resolution of Daya Group (Pvt) Limited
People's Bank	900,000,000	483,500,000	Loan Receivables/Corporate Guarantee of Daya Group (Pvt) Ltd/Mortgage over loan receivables with 130% cover
Indian Overseas Bank	250,000,000	166,666,667	Prime Security -Receivables Rs.379.59 million/ Mortgage of land No.77/5,Halmulla Road,Kotuvilla
Bank of Ceylon	750,000,000	356,666,608	Corporate guarantee from Daya Group (Pvt) Limited and gurantee from company director.
Sampath Bank	1,383,600,000	761,444,445	Corporate guarantee from Daya Group (Pvt) Limited and Mortgage loan receivables on loan outstanding
HDFC Bank	350,000,000	290,306,634	Loan Agreement/Assignment of performing loan portfolio of performing micro finance portfolio/Mortgage Bond over active loan portfolio of Rs.525Mn/Corporate Guarantee of Daya Group (Pvt) Ltd
Central Finance PLC	100,000,000	37,146,816	Micro Loan Receivable / Promissory Note/Personal Guaratee and Indemnity of company director.
NDB Bank	500,000,000	500,000,000	Primary Mortgage Bond over book debts of the company for SL Rs.500,000,000/- / Corporate Guarantee from Daya Group(Private) Limited
National Savings Bank	300,000,000	146,666,667	Corporate guarantee from Daya Group (Pvt) Limited
Seylan Bank	300,000,000	174,650,000	Loan receivables Portfolio and Personal Guarantee of the Director

27.3 Securities pledged *(Contd)*

Lender	Facility amount Rs.	Outstanding capital balance as at 31.03.2020 Rs.	Security details
Cargills Bank	300,000,000	139,078,120	Existing primary mortgage for Rs.100 Million over loan receivables/Primary mortgage for Rs.200 Million over loan receivables to be executed (1.5* allocation on capital)
Pan Asia Bank	110,000,000	110,000,000	Mortgage Over receivables to the value of 110% of the facility
DFCC	100,000,000	49,999,990	Corporate guarantee from Daya Group (Pvt) Limited
HNB	250,000,000	153,603,100	Land situated at N0-584,Hospital Road, Jaffna Town and Personal Gurantee of Directors
Next Ventures (Pvt) Ltd	41,000,000	36,383,674	No security provided
Securitization loans	1,263,931,784	1,263,931,784	Mortgage micro loan and gold loan portfolio on loan outstanding
		4,906,342,565	

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		31.03.2020 Rs.	31.03.2019 Rs.
28.	**Due to customers**		
	Customers deposits	1,607,607,079	1,960,810,564
28.1	**Product wise analysis of due to other customers**		
	Savings	683,805,799	662,330,233
	Time deposits	923,801,280	1,298,480,331
		1,607,607,079	1,960,810,564
29.	**Other payables**		
	Employees' Provident Fund	2,652,801	3,557,389
	Employees' Trust Fund	397,847	533,535
	Statutory audit fees	1,397,250	1,286,634
	Standing orders to other banks	478,284	428,906
	Member protection	18,672,484	3,454,822
	Derivative - Currency forward	-	660,000
	VAT on financial services	-	(25,709)
	Withholding taxes	291,791	1,192,567
	PAYE tax payable	5,048	42,336
	Nations building tax payable	-	(3,362)
	Stamp duty payables	79,963	58,806
	Sundry creditors	12,956,627	22,648,508
	Excess collection	258,630	1,581,539
	Building rent payable	452,888	932,506
	Other payable	31,377,402	21,021,535
		69,021,015	57,370,012
30.	**Retirement benefit obligation**		
	Balance at the beginning of the year	24,790,610	21,901,968
	Charge for the year	5,591,943	5,501,663
	Interest expense for the year	2,603,014	2,190,197
	Payment made during the year	(5,121,025)	(2,273,123)
	Actuarial (gain)/ loss arising from changes in the assumptions	3,515,292	(2,530,094)
	Balance at the end of the year	31,379,835	24,790,610

Principal assumptions made in ascertaining the retirement benefit obligations as at the reporting date are as follows:

	2019/2020	2019/2018
Discount rate	11.00%	10.50%
Future salary increase	0.00%	10.00%
Staff turnover rate	34%	22%
Retirement age	55 Years	55 Years

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measures.

Factor	% of change	Present value of defined benefit obligations Rs.
Discount rate	+1%	30,738,038
	-1%	32,054,080
Salary increment rate	+1%	31,566,559
	-1%	31,199,524

		31.03.2020 Rs	31.03.2019 Rs
31.	**Stated capital**		
	Voting ordinary shares		
	As at the beginning of the year	616,100,061	616,100,061
	As at the end of the year	616,100,061	616,100,061
	Number of shares		
	Voting ordinary shares	107,733,344	107,733,344
32.	**Statutory reserve**		
	As at the beginning of the year	71,842,325	71,842,325
	Transferred during the year	-	-
	As at the end of the year	71,842,325	71,842,325

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 as 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. Since the company is facing losses no amounts were transferred to this reserve in current and previous years.

33. **Capital commitments and contingent liabilities**

Capital commitments

There were no material capital commitments as at the date of Statement of Financial Position.

Contingent liabilities

There is no any contingent liabilities as of the year end other than below mentioned pending tax assessments issued by Inland Revenue Department against the company.

Pending tax assessements against the company as of 31st March 2020 is Rs.302,893,290

34. **Related party disclosures**

The Company carries out transactions in the ordinary course of its business at under agreed commercial terms with parties who are defined as related parties in the Sri Lanka Accounting Standard LKAS 24: "Related Party Disclosures".

34.1 **Transactions with Key Management Personnel (KMP) and close family members of KMP**

Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. The Company considered the members of its board and corporate management as KMP since they have the authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Directors of the Company (including executive and non-executive Directors), have been classified as KMP of the Company as at 31 March 2020.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealing with the company and include:

(a) person's children and spouse or domestic partner
(b) children's of that person's spouse or domestic partner; and
(c) dependants of that person or that person's spouse or domestic partner

The compensation payments made to KMP's are given below:

	2019/2020 Rs.	2018/2019 Rs.
Short term employee benefits	13,760,000	14,100,000
	13,760,000	14,100,000
Deposits held by KMP with the company		
Fixed deposits	1,125,940	45,293,744
Savings deposits	1,041,834	3,017,970
	2,167,774	48,311,714

Close family members of KMP held fixed deposits with the company as at year end amounting to Rs. 1,237,580/- (2018/19 - Rs. 12,795,439)

34.2 **Transactions with Shareholders/Directors of Affiliated entities**

As at 31st March 2020 shareholders/Directors of Affiliated companies held Fixed deposits and savings amounting to Rs.1,484,347/-. (2018/19 - Rs. 12,955,478)

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34.3 Transactions with related entities

The name of the Related Party	The relationship between the Entity and the Related Party	Value of the Related Party Transactions entered into during the financial year	Aggregate value of RelatedParty transactions entered during the year	Aggregate value of Related Party transactions as a % of net revenue	Outstanding receivable balance as at 31 March 2020	Terms and conditions of the Related Party transactions	Nature of the Related Party transactions
		Rs.	Rs.		Rs.		
Building Solutions (pvt) Ltd	Affiliated Company	-	-	0.98%	15,000,000	16.5%, Revolving facility	Business Transaction
Olympus Construction (Pvt) Ltd	Affiliated Company	-	-	9.60%	146,882,585	16.5%, Revolving facility	Business Transaction

Note- The above facilitates are secured by corporate guarantees of Daya Group (Pvt) Ltd

34.4 The Company has entered into above transactions at interest rates comparable to the average commercial rate of interest. The loan receivable balance from above related parties included under Note 20 in these financial statements. Further salaries of all staff members of affiliated companies are paid through the savings accounts they maintained with the Company.

34.5 As at 31st March 2020 related entities held Fixed deposits and saving accounts with the Company amounting to Rs. 3,180,426. (31st March 2019 Rs. 10,565,608)

34.6 As at 31st March 2020 Company received corporate guarantees from the related entities for the loans obtained by the Company from banks and financial institutions and details of such guarantees are presented in Note 27.3

34.7 During the year, the Company has acquired investment property amounting to Rs. 540 Mn (Including transaction cost of Rs. 21 Mn) from Daya Group (pvt) Ltd to recover the outstanding loan receivables amounting to Rs.129.27 Mn, Rs.32.89 Mn and Rs. 10.21 Mn from Daya Group (Pvt) Ltd, Daya Apparel Export (Pvt) Ltd and Daya trading Co. (Pvt) Ltd. The remaining balance of by Rs346.61 Mn was paid to Daya Group (Pvt) Ltd by cash through the savings account.

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35. Risk management

Introduction

Risk is inherent in the Company's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is primarily exposed to credit risk, liquidity risk and market risk. It is also subject to various operating risks.

Risk management structure

The Board of Directors is responsible for the overall Risk management approach and for approving the risk management

The Board has appointed a subcommittee, Integrated Risk Management (IRM) Committee, which has the responsibility to monitor the overall risk process within the Company.

The IRM Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The IRM Committee is responsible for managing risk decisions and monitoring risk levels

35.1 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, Lease receivables and investments in debt securities. Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorised into three types; default, concentration and settlement risk.

Default risk 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.

Concentration risk is the credit exposure being concentrated as a result of excessive build-up of exposure to a single counterparty, industry, product, geographical location or insufficient diversification.

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

35.1.1 Analysis of credit risk exposure

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, real estate and other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

35.1.2 Credit quality by class of financial assets

The tables below show the credit quality by the class of asset for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

As at 31.03.2020

	Neither past due nor impaired Rs.	Past due and impaired Rs.	Total Rs.
Assets			
Cash in hand and at bank	173,266,904	-	173,266,904
Placements with bank and other financial institutions	396,342,906	-	396,342,906
Financial investments - fair value through profit or loss	145,493,181	-	145,493,181
Debt instruments at amortised cost	324,854,971	-	324,854,971
Equity instruments at fair value through other comprehensive income	193,900	-	193,900
Loans and advances	1,185,090,045	4,292,677,646	5,477,767,691
Lease receivables	75,147,323	637,496,163	712,643,486
	2,300,389,229	4,930,173,809	7,230,563,038

Definition of past due and impaired

The Company considers that any amounts uncollected one day or more beyond their contractual due date as 'past due'. Loand and advance and lease receivables if they past due for more than 90 days are considered as impaired.

35.1.3 Impairment Assessment

The methodology of the impairment assessment has been explained in Note 4.2.8 under Accounting policies. The references below should be read in conjunction with those Accounting policies.

35.1.3(a) Definition of default

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Company
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection

35.1.3 (b) Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the customer due for more than 30 days.

35.1.3 (c) Analysis of the total allowance for expected credit losses is as follows.

	Stage 01	Stage 02	Stage 03	Total
Balance as at 01st April 2019	166,881,586	84,355,126	423,781,903	675,018,615
Movement in ECL	12,591,425	40,984,639	412,838,871	466,414,934
Balance as at 31st March 2020	179,473,010	125,339,765	836,620,773	1,141,433,549

35.1.3 (d) Movement of the total allowance for expected credit losses during the period

	2019/2020	2018/2019
	Rs.	Rs.
Balance as at 01st April	675,018,615	475,415,660
Net charge to profit or loss	466,414,934	576,546,949
Total charge	1,141,433,548	1,051,962,609
Write-off during the year	-	(376,943,994)
Balance as at 31st March	1,141,433,548	675,018,615

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35.1.3 (e) Overview of rescheduled loans and advances and lease receivables

As at 31 March 2020	Gross Carrying Value	Allowance for ECL	Net Carrying Value
	Stage 03	Stage 03	
	Rs.	Rs.	Rs.
Loans and advances	454,475,819	(146,411,975)	308,063,844
Lease receivables	292,735,687	(87,112,677)	205,623,009
	747,211,506	(233,524,652)	513,686,853

35.1.4 Maximum Exposure to Credit Risk

	2019/20	
	Maximum Exposure to Credit Risk	Net Exposure
	Rs.	Rs.
Financial Assets		
Cash in hand and at bank	173,266,904	173,266,904
Placements with bank and other financial institutions	396,342,906	396,342,906
Financial instruments - fair value through profit or loss	145,493,181	145,493,181
Debt instruments at amortised cost	324,854,971	-
Equity instruments at fair value through OCI	193,900	193,900
Loans and advances*	4,513,538,400	3,111,393,346
Other receivables	218,917,669	116,659,820
Total Financial Assets	5,772,607,931	3,943,350,056

* Approximately 31% of Loans and advances are secured against the gold (25%), deposits held within the company (4%) and immovable properties (2%).

35.1.5 Analysis of Risk Concentration

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

Rs ' 000

As at 31 March 2020	Agriculture	Construction	Manufacturing	Trade	Service	Tourism	Micro enterprises	Government	Gold loans	Financial institutions	Others	Total
Cash in hand and at bank	-	-	-	-	-	-	-	-	-	173,267	-	173,267
Placements with bank and other financial institutions	-	-	-	-	-	-	-	-	-	396,343	-	396,343
Financial instruments - fair value through profit or loss	-	-	-	-	-	4,478	-	-	-	122,054	18,962	145,493
Debt instruments at amortised cost	-	-	-	-	-	-	-	324,855	-	-	-	324,855
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	-	-	194	194
Loans and advances and Lease receivables	983,042	216,386	378,164	580,211	801,579	66,104	1,778,739	-	1,133,196	-	252,990	6,190,411
Other receivables	-	-	-	-	-	-	-	102,258	-	-	116,660	218,918
	983,042	216,386	378,164	580,211	801,579	70,582	1,778,739	427,113	1,133,196	691,663	388,806	7,449,481

35.2 Liquidity Risk and Funding Management

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis.

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.

Further the Company is maintaining assets in the form of Sri Lankan government treasury bills and government securities equivalent to 7.5% of the average of its month end total deposit liabilities and unsecured borrowings of the 12 months preceding financial year.

Analysis of Financial Assets And Liabilities By Remaining Contractual Maturities

The table below summarises the maturity profile of the financial liabilities as at 31 March 2020:

	On demand	Less than 03 months	03 - 12 months	01 - 05 years	Over 05 years	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial liabilities						
Due to customers	762,118	89,648	246,038	509,803	-	1,607,607
Borrowings	531,425	984,465	2,536,041	2,172,062	-	6,223,992
Other financial liabilities	-	24,687	44,334	-	-	69,021
Total financial liabilities	1,293,543	1,098,800	2,826,413	2,681,865	-	7,900,621

35.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Company classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

35.3.1 **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. The Company policy is to continuously monitor interest rates on regular basis. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate financial assets and financial liabilities.

The following table demonstrates the sensitivity of the Company's Statement of comprehensive income for the year ended 31st March 2020 to a reasonable possible change in interest rates, with all other variable constant.

Impact on statement of profit or loss due to interest rate variations	31.03.2020	31.03.2019
+0.5%	(14,893,065)	(5,971,345)
-0.5%	14,893,065	5,971,345

35.3.2 **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.
Company does not have any major foreign currency borrowings or investments which will impact adversely.

35.3.3 **Equity price risk**

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Assets and Liability committee reviews and approves all equity investment decisions.

The following table demonstrates the sensitivity of the Company's Statement of comprehensive income for the year ended 31st March 2020 to a reasonable possible change in equity prices, with all other variable constant.

Impact on statement of profit or loss due to equity price changes in the market	31.03.2020	31.03.2019
Increase in equity price by 10%	14,549,318	14,373,513
Decrease in equity price by 10%	(14,549,318)	(14,373,513)

35.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

Operational risk of the Company are managed through a Board approved operational risk management policy control framework which consists of monitoring and responding to potential risks.

35.5 Capital adequacy risk

For a financial institution, capital is a buffer against insolvency. It is available to absorb unforeseen losses so the Company can remain in business. The more capital the Company has relative to the risks it takes, the more confidence the stakeholders are that it will meet its obligations to them. Capital adequacy risk arises from Company's inability to maintain the required amount of capital which is perceived to be adequate to absorb the risk.

The Company manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed finance companies in Sri Lanka. Thus the Company's operations are directly supervised by the CBSL and the Company is required to comply Directions on Risk Weighted Capital Adequacy Ratio issued by CBSL. Licensed Finance Companies in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 10.5 percent and a Core Capital Ratio (Tier 1) of at least 6.5 percent.

As of 31 March 2020, the Company has maintained the Core Capital Ratio (Tier 1) above the CBSL's capital requirements, However the minimum Capital adequacy (CAR) ratio is not maintained by the company as per CBSL's capital requirement.

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36. **Maturity analysis**

	Less than 01 year	More than 01 year	Impairment of financial assets	Total 31.03.2020
Assets				
Cash in hand and at bank	173,266,904	-	-	173,266,904
Placements with bank and other financial institutions	396,342,906	-	-	396,342,906
Financial instruments - fair value through profit or loss	145,493,181	-	-	145,493,181
Debt instruments at amortised cost	324,854,971	-	-	324,854,971
Equity instruments at fair value through OCI	-	193,900	-	193,900
Loans and advances	3,519,536,126	1,958,231,565	(964,229,291)	4,513,538,400
Lease receivables*	69,848,210	642,795,276	(177,204,258)	535,439,228
Tax receivable	-	132,914,186	-	132,914,186
Other receivables	177,022,521	41,895,148	-	218,917,669
Investment properties	-	1,146,881,174	-	1,146,881,174
Property and equipment	-	294,431,774	-	294,431,774
Right of use assets	-	109,452,772	-	109,452,772
Intangible assets	-	22,903,857	-	22,903,857
Deferred tax assets	-	-	-	-
Total assets	**4,806,364,818**	**4,349,699,653**	**(1,141,433,549)**	**8,014,630,922**

Liabilities				
Borrowings	3,541,923,790	1,918,058,194	-	5,459,981,983
Due to customers	1,097,803,996	509,803,083	-	1,607,607,079
Other payables	69,021,015	-	-	69,021,015
Lease liability	42,366,173	61,075,788	-	103,441,961
Retirement benefit obligations	-	31,379,835	-	31,379,835
Total liabilities	**4,751,114,973**	**2,520,316,900**	-	**7,271,431,872**

* Lease receivables consist of Rs.158 Mn which will mature after period of 5 years.

Analysis of financial instruments by measurement basis

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

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11, Castle Lane,
Colombo - 04.
Tel:0110 444 400
CHARTERED ACCOUNTANTS

36.1 Analysis of financial instruments by measurement basis - as at 31.03.2020

	FVTPL	Amortized Cost	Fair Value Through OCI	Total
Financial assets				
Cash in hand and at bank	-	173,266,904	-	173,266,904
Placements with bank and other financial institutions	-	396,342,906	-	396,342,906
Financial investments - fair value through profit or loss	145,493,181	-	-	145,493,181
Debt instruments at amortised cost	-	324,854,971	-	324,854,971
Equity instruments at fair value through other comprehensive income	-	-	193,900	193,900
Loans and advances	-	4,513,538,400	-	4,513,538,400
Lease receivables	-	535,439,228	-	535,439,228
Other receivables	-	218,917,669	-	218,917,669
Total financial assets	145,493,181	6,162,360,078	193,900	6,308,047,159

	FL at FVTPL	Amortized cost	Total
Financial liabilities			
Borrowings	-	5,459,981,983	5,459,981,983
Due to customers	-	1,607,607,079	1,607,607,079
Other financial liabilities	-	-	-
Total financial liabilities	-	7,067,589,062	7,067,589,062

36.2 Analysis of financial instruments by measurement basis - as at 31.03.2019

	FVTPL	Amortized Cost	Fair Value Through OCI	Total
Financial assets				
Cash in hand and at bank	-	564,200,234	-	564,200,234
Placements with bank and other financial	-	666,171,997	-	666,171,997
Financial investments - fair value through profit or	143,735,125	-	-	143,735,125
Debt instruments at amortised cost	-	303,043,764	-	303,043,764
Equity instruments at fair value through other comprehensive income	-	-	193,900	193,900
Loans and advances	-	5,989,358,939	-	5,989,358,939
Lease receivables	-	380,225,680	-	380,225,680
Other receivables	-	226,729,174	-	226,729,174
Total financial assets	143,735,125	8,129,729,787	193,900	8,273,658,812

	FL at FVTPL	Amortized cost	Total
Financial liabilities			
Borrowings	-	5,989,294,560	5,989,294,560
Due to customers	-	1,960,810,564	1,960,810,564
Other financial liabilities	660,000	9,261,286	9,921,286
Total financial liabilities	660,000	7,959,366,409	7,960,026,409

37. Fair value of financial instruments

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses various valuation methodologies that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in our fair value hierarchy assessment.

37.1 Determination of fair value and fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial and non-financial assets by valuation techniques.

Level 1 : category of financial assets that are measured in whole or in part by reference to published quotes in an active market.

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

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

The following table shows an analysis of financial and non- financial assets recorded at fair value by level of the fair value hierarchy.

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
As at 31 March 2020				
Financial assets				
Financial investments - fair value through profit or loss	145,493,181	-	-	145,493,181
Financial investments - Fair value through OCI	-	-	193,900	193,900
Non financial assets				
Freehold Land	-	-	63,612,000	63,612,000
Investment property	-	-	1,146,881,174	1,146,881,174
	145,493,181	-	1,210,687,074	1,356,180,255
As at 31 March 2019				
Financial assets				
Financial investments - fair value through profit or loss	143,735,125	-	-	143,735,125
Financial investments - Fair value through OCI	-	-	193,900	193,900
Non financial assets				
Freehold Land	-	-	63,612,000	63,612,000
Investment property	-	-	539,187,574	539,187,574
	143,735,125	-	602,799,574	746,728,599

There were no transfers between levels of fair value hierachy during 2019/20 and 2018/19

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair value.

Assets
Cash in hand and at bank
Placements with bank and other financial institutions
Debt instruments at amortised cost
Loans and advances
Lease receivables
Other receivables

Liabilities
Borrowings
Due to customers
Other payables

38. Events after the reporting period

No circumstances have arisen since the reporting period which would require adjustments to, or disclosure in the Financial Statements.

39. Impact Arising From COVID-19 Pandemic

The outbreak of COVID - 19 which spread globally since January 2020 caused massive negative impact on economies leading to uncertainty in the entire world. However, Sri Lanka as a country was exposed to this risk in late March 2020 and as an immediate precautionary measure the Government imposed island wide curfew with a Lock-down strategy depending on risk.As a result company was compelled to limit the operations and "work from home" while frequent zoom meetings were arranged among the Senior Managers/Head-Office operational staff involved in the branch operations along with Branch Manager/Accounts Executive in order to facilitate continuation of smooth operations at Branches. Government reopened the country fully in mid May with no COVID 19 positive cases in the society. However country faced the second wave of COVID 19 in mid of October which resulted in lock down of certain parts of the country depending on the risk.

Liquidity was a major concern and cash flow monitoring was commenced immediately where Management Meetings were held using online facilities.All possible cost reduction measures were initiated to secure available liquid assets.Company requested the branch building owners to defer rentals by 3-6 months by paying only 50% of the applicable rental. An income adjustment scheme was implemented by higher manngement where the staff to be paid at least the basic salary and portion of the reimbursement allowances, although Employers' Federation permited to pay only the basic salary.Further company requested for moratorium from bankers although the finance sector was not included in the CBSL circular to seek moratorium on loan repayments and requested trust arrangers for postponement of trust payments at least by 4 – 6 months in order to reduce the impact of the drop in cash-flow Company kept its REPOs amounting to Rs. 257 Mn placed as contingent funds If at any given time the liquidity tightening arises

The circular No.04 and 05 of 2020 on debt moratorium issued by the Central Bank of Sri Lanka, caused a direct impact to rental collection of the company. The company established procedures to ensure all moratorium requests are properly collected and attended individually to ensure the Covid – 19 impacted customers are given the required relief.

However, the CBSL Covid -19 moratorium and the Government restrictions likely to have negative consequences on the company's performance and the liquidity position. As a counter strategy, the company has re-engineered the entire recovery process while taking measures to reduce the operation cost of Head-Office and Branches.