

LOLC FINANCE PLC
FINANCIAL STATEMENTS
31 MARCH 2020



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**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF LOLC FINANCE PLC**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of LOLC Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2020, and the statement of Profit or loss and other 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 gives 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditors's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

(Contd...2/)

Key Audit Matter	How our audit addressed the KAM
<p>Allowance for impairment rentals receivables on leased assets, loans and advances, factoring receivable and margin trading receivable.</p> <p>We considered the impairment allowance for rentals receivables on leased assets, loans and advances, factoring receivable and margin trading receivable as a key audit matter.</p> <p>Significant judgments and assumptions were used by the management to determine the impairment allowance and complex calculations were involved in its estimation. Also Probable impacts of COVID -19 outbreak on the economically impacted customers and related government relief measures on the key assumptions, the higher level of estimation uncertainty involved, and materiality of the amounts reported in the Company's financial statements, underpinned our basis for considering it as a Key Audit Matter.</p> <p>As at 31 March 2020, 70% of its total assets of the Company consisted of for rentals receivables on leased assets, loans and advances, factoring receivable and margin trading receivable amounting to LKR. 133,955,849,731 and (Note 6,7 and 7.6), net of impairment allowance of LKR. 1,772,359,246 (Note 25).</p> <p>The Note 2.3.9 of the financial statements describes the basis of impairment allowance and assumptions used by the management in its calculation.</p>	<p>To assess the reasonableness of the allowance for impairment, our audit procedures focused on assessing the reasonability of allowance for impairment, included the following procedures;</p> <ul style="list-style-type: none"> ▸ We evaluated the design effectiveness of key internal controls over estimation of impairment for Lease, Loan and other receivable, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. ▸ We test-checked the underlying calculations and data used in such calculations. ▸ In addition to the above, following focused procedures were performed: <p>For those individually assessed for impairment:</p> <ul style="list-style-type: none"> - We assessed the main criteria used by the management for determining whether an impairment event had occurred; - Where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held; - We compared the actual recoveries against previously estimated amounts of future recoveries; - We also assessed the impact of overarching economic condition in Sri Lanka and government relief package on future cash flows. <p>For those collectively assessed for impairment:</p> <ul style="list-style-type: none"> - We tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT systems; - We also 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 also assessed the management application of temporary practical expedients issued by CA Sri Lanka in relation to ECL computation. - We assessed the adequacy of the related financial statement disclosures as set out in note(s) 6 and 7 of the financial statements.

Key Audit Matter	How our audit addressed the key audit matter
<p data-bbox="266 338 711 369">Valuation of Investment Properties.</p> <p data-bbox="266 405 824 558">The Company applies the fair value model for its investment properties as stated in Note 11 to the financial statements. The Company uses valuations carried out by third party valuers to ascertain fair value of these properties.</p> <p data-bbox="266 594 824 905">The valuation of Investment Property was significant to our audit due to multiple locations in which these properties are held and the use of significant assumptions such as perch price and per square foot price as disclosed in note 11.1 to the financial statements. Any variation in the assumptions used for the valuation of the property could have a material impact on the financial statements.</p>	<p data-bbox="846 338 1498 464">We read the professional valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of each property.</p> <p data-bbox="846 499 1498 684">We also assessed the qualifications and expertise of the valuers and reviewed the terms of their engagement with the Company to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.</p> <p data-bbox="846 720 1498 1062">We involved our internal specialised resources to review the valuation reports for the selected properties and assessed whether the valuation approach and methods used are in accordance with the established standards for valuation of the properties and suitable for use in determining the fair value for the purpose of assessment of fair value gain/loss and disclosure of fair value in the financial statements. Our internal specialised resources also assessed the assumptions used by the third-party valuers in the valuation process.</p> <p data-bbox="846 1098 1498 1247">We also assessed the adequacy of the disclosures included in the financial statements regarding the key assumptions which have the highest effect in the determination of the fair value of properties as disclosed in note 11.1</p>

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="256 1356 802 1751">Management's assessment of possible effects of Covid 19 outbreak on the nature and extent of risks arising from financial instruments and related disclosures. Management has assessed the possible impacts of the evolving COVID-19 outbreak on, nature and extent of risks arising from financial instruments and related financial statements disclosures are made considering the best available information up to the date of assessment, as more fully described in Note 2.22.3.1 of the financial statements.</p> <p data-bbox="256 1787 813 1971">We considered such management's assessment and related disclosures as a key audit matter, considering nature of business and use of significant management judgments and estimates considering future events and circumstances.</p>	<p data-bbox="837 1356 1377 1388">Our audit procedures included the following;</p> <ul data-bbox="886 1423 1498 1944" style="list-style-type: none"> <li data-bbox="886 1423 1498 1583">• We gained an understanding of Management's assessment of the possible impacts of the COVID-19 outbreak on the nature and extent of risks arising from financial instruments and developing related disclosures of the Company. <li data-bbox="886 1583 1498 1751">• We assessed the adequacy of qualitative disclosures made, in note 2.22.3.1 to the financial statements focusing on credit risk and liquidity risk in the light of the objective of SLFRS 7. <li data-bbox="886 1751 1498 1944">• In relation to significant judgments and estimates underpinning such disclosures, we assessed the reasonableness of those key assumptions considering related market information and internal decisions made by the Company.

Other information included in the Company's 2020 Annual Report

Other information consists of the information included in the Company's 2020 Annual Report, other than the financial statements and our auditor's report thereon. The Management is responsible for the other information. The Company's 2020 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 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 when it becomes available 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.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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 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 1884.



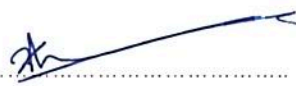
29 June 2020
Colombo

STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	2020 Rs.	2019 Rs.
ASSETS			
Cash and bank balances	3	8,333,560,554	17,535,538,362
Deposits with banks and other financial institutions		17,282,276,685	21,637,175,646
Investment in government securities and others	4	10,790,843,192	18,150,995,929
Derivative financial instruments	5.1	273,195,187	568,529,646
Financial assets at amortised cost			
Rentals receivable on leased assets	6	43,842,380,956	42,941,836,671
Loans and advances	7	87,112,949,131	88,995,841,800
Factoring receivable	7.6	2,998,751,955	4,253,667,902
Margin trading receivable		1,767,689	-
Investment securities	8	2,958,198,760	2,809,229,143
Amount due from related companies	9	63,232,847	5,569,291
Other receivables	10	914,073,106	937,941,234
Inventories		2,023,122	4,811,234
Investment properties	11	15,963,885,792	11,635,211,000
Property plant and equipment	12	1,351,206,563	1,559,024,937
Total assets		191,888,345,539	211,035,372,795
LIABILITIES			
Bank overdraft	3	1,283,200,605	2,242,496,059
Interest bearing borrowings:	13	51,558,593,483	61,086,897,073
Deposits from customers	14	99,261,181,454	115,365,141,189
Trade payables	15	1,048,944,408	1,161,094,413
Accruals and other payables	16	3,331,643,339	3,072,453,537
Derivative financial instruments	5.2	114,349,000	661,931,132
Amount due to related companies	17	854,197,576	817,644,096
Current tax payable	28.1	960,254,586	1,501,292,609
Deferred tax liability	28.2	1,888,186,465	2,272,773,316
Employee benefits	18.2	298,141,984	87,060,988
Total liabilities		160,598,692,900	188,268,784,411
SHAREHOLDERS' FUNDS			
Stated capital	19	12,762,500,000	7,880,000,000
Statutory reserve	20.1	3,378,281,827	3,189,297,618
Revaluation Reserve	20.2	241,527,671	241,527,671
Cash flow hedge reserve	20.3	(77,309,605)	(39,059,403)
Fair value through OCI reserve	20.4	11,956,519	(21,756,425)
Retained earnings	20.5	14,972,696,227	11,516,578,923
Total equity		31,289,652,639	22,766,588,383
Total liabilities and equity		191,888,345,539	211,035,372,794
Commitments and Contingencies	35	31,486,783,304	32,255,970,261
Net asset value per share		5.96	5.42

These financial statements are prepared in compliance with the requirements of the Companies Act No.07 of 2007.


 (Mr.) Buddhika Weeratunga
 Head of Finance

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


 (Mr.) Conrad Dias - Director / CEO


 (Mr.) Ashan Nissanka - Director

The annexed notes to the financial statements on pages 10 through 76 form an integral part of these financial statements.



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2020

	Note	2020 Rs.	2019 Rs.
Interest income	21	38,181,097,854	42,663,317,527
Interest expense	22	<u>(19,271,364,492)</u>	<u>(20,891,754,206)</u>
Net interest income		18,909,733,362	21,771,563,321
Net other operating income	23	4,820,438,829	4,012,257,390
Direct expenses excluding interest cost	24	(1,279,608,370)	(1,522,224,334)
Allowance for impairment & write-offs	25	(7,843,541,357)	(5,700,505,481)
Personnel expenses	26.1	(2,971,773,136)	(3,165,698,139)
Depreciation	12	(201,533,267)	(163,498,091)
General & administration expenses		<u>(6,661,847,141)</u>	<u>(6,734,427,896)</u>
Profit from operations	26	4,771,868,920	8,497,466,770
Value added tax on financial services		<u>(892,209,763)</u>	<u>(1,389,654,429)</u>
Profit before tax		3,879,659,157	7,107,812,341
Income tax (expense) / reversal	28	(99,974,970)	(1,144,944,314)
Profit for the year		<u>3,779,684,187</u>	<u>5,962,868,027</u>
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	18.2.b	(185,272,197)	(4,097,431)
Related tax	28.2	50,689,523	1,147,281
		<u>(134,582,674)</u>	<u>(2,950,150)</u>
Movement in fair value (Equity investments at FVOCI)		12,254,474	22,480,000
Related tax		<u>(1,225,447)</u>	<u>(2,248,000)</u>
		<u>11,029,027</u>	<u>20,232,000</u>
Total of items that will never be reclassified to profit or loss		<u>(123,553,647)</u>	<u>17,281,850</u>
Items that are or may be reclassified to profit or loss			
Movement in fair value through OCI reserve	4.1.3	22,683,918	(34,822,051)
Movement in hedge reserve	20.3	(53,125,280)	(45,453,148)
Related tax	20.3	14,875,078	12,726,882
		<u>(38,250,202)</u>	<u>(32,726,267)</u>
Total of items that are or may be reclassified to profit or loss		<u>(15,566,284)</u>	<u>(67,548,317)</u>
Total other comprehensive income, net of tax		<u>(139,119,931)</u>	<u>(50,266,468)</u>
Total comprehensive income for the year		<u>3,640,564,255</u>	<u>5,912,601,559</u>
Basic earnings per share	29	<u>0.77</u>	<u>1.42</u>

The annexed notes to the financial statements on pages 10 through 76 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2020

	Note	Stated Capital	Statutory Reserve	Revaluation Reserve	Cash flow Hedge Reserve	Fair Value Through OCI Reserve	Retained Earnings	Total Equity
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2018		7,880,000,000	1,996,724,011	241,527,671	(6,333,136)	(7,166,375)	6,749,234,654	16,853,986,825
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	5,962,868,027	5,962,868,027
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	18.2 / 28.2	-	-	-	-	-	(2,950,150)	(2,950,150)
Revaluation gain on fair value through OCI investments		-	-	-	-	20,232,000	-	20,232,000
Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income	4.1.3	-	-	-	-	(34,822,050)	-	(34,822,050)
Net movement of cashflow hedges	20.3 / 28.2	-	-	-	(32,726,267)	-	-	(32,726,267)
Total comprehensive income for the year		-	-	-	(32,726,267)	(14,590,050)	(2,950,150)	(50,266,467)
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	1,192,573,605	-	-	-	(1,192,573,605)	-
Total transactions recorded directly in equity		-	1,192,573,605	-	-	-	(1,192,573,605)	-
Balance as at 31 March 2019		7,880,000,000	3,189,297,617	241,527,671	(39,059,403)	(21,756,425)	11,516,578,923	22,766,588,383
Balance as at 01 April 2019		7,880,000,000	3,189,297,617	241,527,671	(39,059,403)	(21,756,425)	11,516,578,923	22,766,588,383
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	3,779,684,187	3,779,684,187
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	18.2 / 28.2	-	-	-	-	-	(134,582,674)	(134,582,674)
Revaluation gain on fair value through OCI investments		-	-	-	-	11,029,027	-	11,029,027
Net fair value gains/(losses) on remeasuring financial assets measured at fair value through other comprehensive income	4.1.3	-	-	-	-	22,683,918	-	22,683,918
Net movement of cashflow hedges	20.3 / 28.2	-	-	-	(38,250,202)	-	-	(38,250,202)
Total comprehensive income for the year		-	-	-	(38,250,202)	33,712,944	(134,582,674)	(139,119,931)
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	188,984,209	-	-	-	(188,984,209)	-
Shares issued during the year		4,882,500,000	-	-	-	-	-	4,882,500,000
Total transactions recorded directly in equity		4,882,500,000	188,984,209	-	-	-	(188,984,209)	4,882,500,000
Balance as at 31 March 2020		12,762,500,000	3,378,281,827	241,527,671	(77,309,605)	11,956,519	14,972,696,227	31,289,652,639

The annexed notes to the financial statements on pages 10 through 76 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 March 2020

	2020 Rs.	2019 Rs.
	Note	
Cash flows from operating activities		
Profit before income tax expense	3,879,659,157	7,107,812,341
Adjustments for:		
Depreciation	12 201,533,267	163,498,091
(Profit)/ loss on sales of investment property and PPE	23 (12,887,348)	(7,241,139)
Change in fair value of derivatives - forward contracts	23 91,665,503	106,833,729
Provision for fall / (increase) in value of investments	23 (624,295,846)	(106,701,983)
Impairment provision for the period	25 1,772,359,246	1,375,203,724
Provision/(Reversal) for payables to clients	23 -	(37,368,136)
Change in fair value of investment property	23 (2,569,499,327)	(2,094,584,353)
Provision for defined benefit plans	18.2.a 54,111,511	19,303,613
Investment income	(2,160,740,058)	(2,333,529,276)
Finance costs	22 19,271,364,492	20,891,754,206
Operating profit before working capital changes	19,903,270,597	25,084,980,817
Change in other receivables	(87,119,887)	(28,590,046)
Change in inventories	2,788,112	4,266,676
Change in trade and other payables	147,039,798	294,989,124
Change in amounts due to / due from related parties	(21,110,076)	(651,264,303)
Change in factoring receivables	1,551,568,103	5,936,217,894
Change in lease receivables	(1,183,858,320)	107,450,033
Change in loans and advances	(717,173,492)	4,769,816,501
Change in margin trading advances	(1,767,689)	175,570,117
Change in fixed deposits from customers	(14,493,690,931)	5,421,966,720
Change in savings deposits from customers	(1,677,976,277)	132,196,309
Cash (used in) / generated from operations	3,421,969,937	41,247,599,841
Finance cost paid on deposits	(13,225,387,804)	(14,148,202,102)
Gratuity paid	18.2 (28,302,712)	(6,643,354)
Income tax paid	28.1 (961,260,692)	(435,575,329)
Net cash from / (used in) operating activities	(10,792,981,270)	26,657,179,055
Cash flows from investing activities		
Acquisition of property, plant & equipment & investment property	(997,267,336)	(883,129,982)
Net proceeds from investments in term deposits	4,354,898,961	4,709,375,906
Net proceeds from investments in government securities	7,382,918,655	(7,314,049,640)
Net proceeds from investments in Debenture	-	(308,151,484)
Investment in subsidiaries	(364,100,000)	-
Interest received	2,160,740,058	2,333,529,276
Proceeds from sale of investment property / PPE	74,017,500	16,617,500
Net proceeds from investments in Unit trust	581,931,275	(239,913,490)
Net cash flows used in investing activities	13,193,139,113	(1,685,721,915)
Cash flows from financing activities		
Proceeds from interest bearing loans & borrowings	(9,351,869,376)	(11,921,054,502)
Proceeds from issuance of new shares (Right issue)	4,882,500,000	-
Proceeds from issue of debentures	13.3 -	2,500,000,000
Lease rentals paid	13.2 (202,739,674)	(269,944,262)
Finance cost paid on borrowings	(5,970,731,146)	(7,067,612,478)
Net cash flows from / (used in) financing activities	(10,642,840,196)	(16,758,611,242)
Net increase / (decrease) in cash and cash equivalents	(8,242,682,353)	8,212,845,847
Cash and cash equivalents at the beginning of the period	15,293,042,303	7,080,196,456
Cash and cash equivalents at the end of the period (note 3)	7,050,359,949	15,293,042,303

The annexed notes to the financial statements on pages 10 through 76 form an integral part of these financial statements.

1. GENERAL

1.1 REPORTING ENTITY

1.1.1 Corporate Information

LOLC Finance PLC (“the Company”) is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The registered office of the Company is at No.100/1, Sri Jayewardenepura Mawatha, Rajagiriya.

The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No. 42 of 2011. The Company has obtained registration from the Securities and Exchange Commission, as a Market Intermediary to perform the functions of a Margin Provider under section 19A of the Securities & Exchange Commission Act No.36 of 1987 as amended by Act Nos. 26 of 1991 & 18 of 2003.

1.1.2 Parent entity and Ultimate Parent Company

The Company’s immediate parent is LOLC Private Ltd and ultimate parent undertaking and controlling entity is LOLC Holding PLC, which is incorporated in Sri Lanka.

1.1.3 Principal Activities and Nature of Operations

The principal activities of the Company comprised of leasing, loans, margin trading, mobilization of public deposits and alternative financing.

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.1.4 Directors' Responsibility Statement

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

1.1.5 Number of Employees

The staff strength of the Company as at 31 March 2020 was 2901 (2019– 2602).

1.2 BASIS OF PREPARATION**1.2.1 Statement of compliance**

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Companies Act, No. 7 of 2007, the Regulation of Finance Business Act No.42 of 2011 and amendments there to.

These Financial Statements include the following components:

- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the year under review;
- a Statement of Financial Position providing the information on the financial position of the Company as at the year-end;
- a Statement of Changes in Equity depicting all changes in shareholders of Changes in Equity and depicting all changes the Company;
- a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilize those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

Details of the company's accounting policies are included in Note 2

1.2.2 Date of authorization of issue

The Financial Statements were authorized for issue by the Board of Directors on 29 June 2020

1.2.3 Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.
Derivative financial instruments	Fair value	5
Non-derivative financial instruments at fair value through profit or loss	Fair value	8.1
Available for sale financial assets / fair value through other comprehensive income	Fair value	4.1.2
Investment property	Fair value	11
Land and buildings	Fair value	12
Net defined benefit assets / (liabilities)	Actuarially valued and recognized at the present value	18.2

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 settled the liability simultaneously.

No adjustments have been made for inflationary factors affecting the Financial Statements.

The Company presents its statement of financial position in order of liquidity.

1.2.4 Materiality and aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.2.5 Going concern basis of accounting

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.6 Comparative information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous period. Comparative information has not been reclassified or restated.

1.3 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates (the functional currency). These financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency.

There was no change in the company's presentation and functional currency during the year under review.

All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

1.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with SLFRSs/ LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the financial statements.

Information about critical judgments, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements is included in the following notes:

Critical Accounting estimate / judgment	Disclosure reference
	Note
Fair value measurement of financial instruments / investment properties / land and buildings	1.4.1 / 11.1 / 12.1
Financial assets and liability classification	1.4.2
Impairment losses on loans and advances	1.4.3
Impairment losses on available for sale investments	1.4.4
Impairment losses on other assets	1.4.5
Defined benefit obligation	1.4.6
Provisions for liabilities and contingencies	1.4.7

1.4.1 Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant judgements used in valuation and issues that arises are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values and the fair value measurement level is included in the following notes:

Note 11 – Investment property;

Note 12 – Property, plant and equipment; and

Note 2.2 & 2.2.4 – Financial instruments;

1.4.2 Financial assets and liability classification into categories

The Company's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets or liabilities into categories, the Company has determined that it meets the description of trading assets and liabilities set out in Note 2.2.1.b. In classifying financial assets as held to maturity, the Company has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 2.2.1.b

1.4.3 Impairment losses on loans and advances

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for in the Statement of Profit or Loss and Other Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows

when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance made.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorizing them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgment on the effect of concentrations of risks and economic data.

The policy on impairment loss on loans and advances is disclosed in more detail in Note 2.2.9.

1.4.4 Impairment losses on available for sale investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances. The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged decline' in fair value below their cost requires judgment. In making this judgment, the Company evaluates, among other factors, historical price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment loss on available for sale investments is disclosed in Note 2.2.9.

1.4.5 Impairment losses on other assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the circumstances that necessitate doing so. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

Specific Accounting Policies on impairment of Non-financial assets are discussed in Note 2.6.

1.4.6 Defined benefit obligation

The cost of the defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer Note 2.7.3 for the accounting policy and assumptions used.

1.4.7 Provisions for liabilities and contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

Index	Accounting policy
2.1	Foreign currency
2.2	Financial assets and financial liabilities
2.3	Leases
2.4	Investment property
2.5	Property plant and equipment
2.6	Impairment - non-financial assets
2.7	Employee benefits
2.8	Provisions
2.9	Equity movements
2.10	Capital commitments and contingencies
2.11	Events occurring after the reporting date
2.12	Interest income and interest expense
2.13	Fees, commission and other income
2.14	Dividends
2.15	Expenditure recognition
2.16	Income tax expense
2.17	Earnings per share
2.18	Cash flow statements
2.19	Related party transactions
2.20	Operating segments
2.21	Fair value measurement

2.1 Foreign currency transactions

Sri Lankan rupee is the functional currency of the Company. Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognized in profit or loss. However, foreign currency differences arising from the retranslation of the available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss) are recognized in other comprehensive income.

SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.2 Financial assets and financial liabilities

2.2.1 Non-derivative financial assets

2.2.1.a Initial recognition of financial assets

Date of recognition

The Company initially recognizes loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets

The classification of financial instruments at initial recognition depends on their cash flow characteristics and business model for managing the instrument. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Financial Reporting Standard – SLFRS 09 on ‘Financial Instruments’.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of profit or loss

‘Day 1’ profit or loss on employee below market loans

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 ‘Interest Income and Personnel Expenses’.

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 profit or loss when the inputs become observable, or when the instrument is derecognised. The ‘Day 1 loss’ arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.2.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories:

- amortised cost;
- fair value through other comprehensive income (FVOCI); and
- fair value through profit or loss (FVTPL).

2.2.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity and how cash flows are realised.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test of its classification process. In assessing whether the contractual cash flows are solely payments of principal and interest on principal amount outstanding, the Company considers the contractual terms of the instrument.

For the purposes of this assessment,

“principal” is defined as the fair value of the financial asset on 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).

“Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

Based on above assessments, subsequent measurement of financial assets are classified as follows.

Amortised cost

Financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition measured at amortized cost using the effective interest method, less any impairment losses.

This includes cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

- *Rentals receivable on leased assets*

When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized. Amounts receivable under finance leases are included under “Rentals receivable on leased assets”. Leasing balances are stated in the statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

- *Loans and advances*

Advances and other loans to customers comprised of revolving loans and loans with fixed installment

Loans to customers are reflected in the Statement of Financial Position at amounts disbursed less repayments and provision for impairment losses.

- *Financial guarantees*

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Company in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

Financial assets at fair value through other comprehensive income (FVOCI)

Instruments are measured at FVOCI, if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the asset's cash flows represent payments that are solely payments of principal and interest on principal outstanding. This comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other investments are measured at fair value after initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

All financial assets other than those classified at amortized cost or FVOCI are classified as measured at 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 are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognized in statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of profit or loss

Financial assets at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as amortized cost.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the AFS reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss

2.2.2 Non-derivative financial liabilities***Classification and subsequent measurement of financial liabilities***

The Company initially recognizes non-derivative financial liabilities on the date that they are originated.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals & other payables and amounts due to related parties:

Bank overdrafts

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Deposits and bank borrowings - classified as other financial liabilities carried at amortized cost

Deposits and bank borrowings are the Company's sources of debt funding.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortized cost using the effective interest method.

2.2.3 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. Derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

The Company designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the cash flows of the respective hedge item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

These hedging relationships are discussed below.

i. Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Company does not have any fair value hedges

ii. Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

iii. Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount

recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

The Company does not have any net investment hedges.

2.2.3.a Other non-trading derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of other income.

2.2.4 Reclassification of financial assets and liabilities

As per SLFRS 9, Financial assets are not reclassified subsequent to their initial recognition, except and only in its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

2.2.5 Derecognition of financial assets and financial liabilities

Financial assets

The Company derecognizes a financial asset when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either.

- (a) The Company has transferred substantially all the risks and rewards of the asset, or
- (b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

- (i) The consideration received (including any new asset obtained less any new liability assumed) and
- (ii) Any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

2.2.6 Offsetting of financial instruments

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the company's trading activity

2.2.7 Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

2.2.8 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models

2.2.9 Impairment

Overview of the expected credit loss (ECL) principles

SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition.

Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

Stage 2: If a significant increase in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.

Stage 3: If a financial asset is credit impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL, with probability of default at 100%. So it is defined as credit impaired and default.

The key judgements and assumption adopted in addressing the requirements of SLFRS 9 are discussed below:

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available. Based on that, management has decided that an exposure to have significantly increased credit risk when contractual payments of a customer are more than 90 days past due and loss to take place after 180 days in accordance with the rebuttable presumption in SLFRS 9.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

While establishing significant credit deterioration, Company will consider the following criteria:

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its obligation
- An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis

As explained above, Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to stage 3. All assets which belong to stage 1 and 2 will be assessed collectively for Impairment.

Company groups smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (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 calculation are outlined below and the key elements are as follows:

- Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.
- Loss Given Default (LGD): LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

When estimating ECL, Company considers 3 scenarios (base case, best case and worst case). Each of these scenarios are associated with different loss rates. For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

Company relies on broad range of qualitative/quantitative forward looking information as economic inputs such as the following in its Eco model.

Quantitative inputs

- GDP growth
- Inflation
- Unemployment
- Interest rates

Qualitative inputs

- Changes in Lending Policies and Procedure
- Changes in Bankruptcy and lending related Legislations
- Credit Growth
- Position of the Portfolio within the Business Cycle

2.3 Leases

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

2.3.1 Finance Leases

Finance leases – Company as a lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance cost in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance leases – Company as a lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in “Rentals receivable on leased assets”. The finance income receivable is recognised in ‘interest income’ over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

2.3.2 Operating Leases

Leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased items to the lessee are operating leases

Operating leases – Company as a lessor

Initial direct costs incurred in negotiating operating leases 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.

2.4 Investment property

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

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

2.5 Property plant and equipment

2.5.1 Recognition and measurement

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

Items of property, plant and equipment are measured at cost/ revaluation less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site at which they are located and capitalized borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognized in other income/other expenses in profit or loss.

Cost model

The Company applies the cost model to all property, plant and equipment except freehold land and buildings; and is recorded at cost of purchase together with any incidental expenses thereon less any accumulated depreciation and accumulated impairment losses.

Revaluation model

The Company revalues its land and buildings which are measured at its fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

On revaluation of lands and buildings, any increase in the revaluation amount is credited to the revaluation reserve in shareholder's equity unless it off sets a previous decrease in value of the same asset that was recognized in the statement of profit or loss. A decrease in value is recognized in the statement of profit or loss where it exceeds the increase previously recognized in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

2.5.2 Subsequent costs

The cost of replacing a component of an item of property, plant or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

2.5.3 Depreciation

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

The estimated useful lives for the current year are as follows:

Motor vehicles	4-8 years
Buildings	40 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.6 Impairment - non-financial assets

The carrying amounts of the company's non-financial assets, other than, deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognized in the statement of profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), if any, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.7 Employee benefits

2.7.1 Short-term employee benefits

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 if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.7.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.7.3 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The Company recognizes all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in other comprehensive income.

The obligation is not externally funded.

2.8 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.9 Equity movements

2.9.1 Ordinary shares

The company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

2.9.2 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's Board of Directors in accordance with the Articles of Association. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

2.9.3 Share issue costs

Share issue related expenses are charged against the retained earnings in the statement of equity.

2.10 Capital commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. 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.

2.11 Events occurring after the reporting date

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.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

2.12 Interest income and interest expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss includes the interest on financial assets and financial liabilities measured at amortized cost, fair value through other comprehensive Income (FVOCI) and fair value through profit or loss (FVTPL) calculated on an effective interest basis.

2.12.1 Income from leases and term loans

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognized as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

2.12.2 Factoring

Revenue is derived from two sources, funding and providing sales ledger related services.

Funding - Discount income relating to factoring transactions is recognized at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the client's current account.

Sales Ledger Related Services - A service charge is levied as stipulated in the factoring agreement.

Income is accounted for on an accrual basis and deemed earned on disbursement of advances for invoices factored.

2.13 Fees, commission and other income

Fees and commission income and expense 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 fees and commission income, including account servicing fees are recognized as the related services are performed.

Collections on contracts written off and interest on overdue rentals are accounted for on cash basis.

2.14 Dividends

Dividend income is recognized when the right to receive income is established.

2.15 Expenditure recognition

Expenses are recognized in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

2.15.1 Value Added Tax (VAT) on financial services

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognized as expense in the period it becomes due.

2.15.2 Nation Building Tax on financial services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

2.15.3 Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2.16 Income tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Note 28 represent the major components of income tax expense to the financial statements.

2.16.1 Current tax expense

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

2.16.2 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The relevant disclosures are given in Note 28.2 to the financial statements.

2.17 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. 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. Specific disclosures are included in Note 29.1. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees. The relevant disclosures are given in 29.2 to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.18 Cash flow statements

The cash flow statement has been prepared using the indirect method and direct method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.19 Related Party Transactions

Transactions with related parties are conducted in the normal course of business. The relevant disclosures are given in Note 32 to the Financial Statements.

2.20 Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Company has three reportable segments, Conventional financial services, Islamic financial services and Factoring, which are the Company's strategic divisions. Those offer different products and services, and are managed separately based on the Company's management and internal reporting structure. For each of the strategic divisions, the Company's Board of Directors reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in Note 34. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

2.21 Fair value measurement

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

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

The principal or the most advantageous market must be accessible to the company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as investment properties.

Fair Value Hierarchy

The company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments

When available, the company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

- (a) quoted market in active markets for similar instruments,
- (b) quoted prices for identical or similar instruments in markets that are considered to be less active, or

- (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgment and estimation while reducing uncertainty associated in determining the fair values.

2.22 Financial risk management

2.22.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

2.22.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. All the Company level risks are escalated to the parent company IRMC and the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committee oversees the reports submitted by the Enterprise Risk Management (ERM) and monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced. The Audit Committee is assisted in its oversight role by ERM. ERM undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2.22.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers.

2.22.3.1 Management of credit risk

1) Facilities granted to customers

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit department. Credit department, reporting to the Credit Committee, is responsible for management of the Company's credit risk, including:

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by the Chief Credit Officer, CEO and the Board of Directors as appropriate.
3. Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
4. Monitoring limiting concentrations of exposure to counterparties, geographies and industries
5. Developing and maintaining a risk grading for significant clients in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the associated risks.
6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types.
7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

2) Allowances for impairment

The Company establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of expected losses in its lease and loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortized cost, a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

3) Write-off policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status. The company generally writes off balances on its past due status reaching 12 months and if no collateral is available.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2020 (2019: no collateral held).

The Impact of COVID 19

The sudden shock arisen from the outbreak of the COVID - 19 globally since January 2020 caused massive economic disruption leading to uncertainty in the whole world. Sri Lanka as a country exposed to this risk little late in March 2020 and as an immediate precautionary measure the Government imposed island wide curfew. Since no access to office was feasible the Company immediately planned to "work from home" and facilitated the key management personnel and the key required personnel to work from home. To ensure the timely payment of Fixed Deposit Interest, the management sought assistance from the Company bankers and provided an uninterrupted service during the curfew period.

As the banking and NBFIs sectors are the backbone of any economy, any significant economic downturn will directly affect banks and NBFIs. Due to difficult operating conditions, the performance of the banking sector and the NBFIs in particular will be more challenging, affecting the quality of the asset and the recovery of profitability. Relief measures for affected businesses and individuals in line with the directions issued by the CBSL. (The six-month moratorium) are expected to mitigate the impact on individuals and businesses, but will increase non-performing loans by 2020. Further Fitch Ratings, the outlook for the country, banking and NBFIs sector in Sri Lanka is negative for 2020. The liquidity position of the financial sector will be affected by the debt moratorium, although this is counteracted to some extent by the lowering of liquidity requirements for financial institutions. The need to strengthen the capital of NBFIs will be felt even more, as it must have the financial capacity to detect crises like this. Stress testing will also be important because of the uncertainty.

The Company has assessed the probable impact stemming from Covid – 19 outbreak and the key assessments are listed below.

- Based on the available information and management's best judgement, it is determined the appropriateness of the Going concern assumptions in preparing Financial Statements for the year ended 31 March 2020.
- Despite the challenging environment of having difficulties in collecting the company dues and the difficulties in getting funding lines from banks and other financial institutions, the Company was able to maintain a stable liquidity position and safeguard the interest of the stakeholders.
- The unutilized Overdraft facilities, the available excess investment and already negotiated funding lines and were used as a cushion to absorb any sudden liquidity shocks.
- A more prudent cost control mechanism was in place which ensured an effective cost structure in the Company.

There is a considerable degree of judgement involved in making the above assessments. The underline assumptions are also subject to certain level of uncertainty and are mostly out of the control of the Company. Hence the actual economic conditions are likely to be different from the anticipated events. The effect of those differences may have significant impact on accounting judgement and estimates included in these Financial Statements.

The Management evaluated the key assumptions used in the above estimates and judgements under probable stress scenarios such as, retention ratio of Fixed Deposits, Deposit renewal ratio, Ratio of Rental Collection and Re-imposing of CBSL liquid asset requirement.

Credit Risk -Impairment Provision as per ECL for financial assets

The Company considered the Probability of Default (PD), Loss Given Default (LGD) and Economic Factor Adjustment (EFA) computed as at February 29, 2020, in order to estimate the Expected Credit Loss (ECL) as at March 31, 2020, due to uncertainty and lack of sufficient information to make any adjustments to capture the potential impact of COVID 19 based on the “COVID - 19 Pandemic: Guidance Notes on the Implications on Financial Reporting” issued by the institute of chartered accountants of Sri Lanka has provided reporting guidelines

4) Credit quality by class of financial assets at amortized cost

(In Rs'mn)

	Leases		Mortgage Loans		Other Loans and Advances		Margin Trading		Factoring Receivables		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Carrying amount	43,842	42,942	1,768	1,471	85,343	87,646	2	-	2,999	4,254	133,953	136,313
Assets at amortized cost												
Individually impaired - Gross amount	1,003	873	270	90	5,286	2,353	-	-	-	306	6,559	3,622
Less : Allowance for impairment	(541)	(278)	(40)	(42)	(2,215)	(1,000)	-	-	-	(106)	(2,796)	(1,426)
Carrying amount	462	595	230	48	3,071	1,353	-	-	-	200	3,763	2,196
Portfolio subject to collective impairment - Gross amount	44,433	43,380	1,555	1,444	85,164	88,615	2	-	3,909	5,156	135,063	138,595
Less : Allowance for impairment	(1,053)	(1,033)	(17)	(21)	(2,892)	(2,322)	-	-	(911)	(1,102)	(4,873)	(4,478)
Carrying amount	43,380	42,347	1,538	1,423	82,272	86,293	2	-	2,998	4,054	130,190	134,117

An estimate made at the time of borrowing / at the time of impairment evaluation, of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below;

(In Rs'mn)	2020	2019
<i>Against individually impaired customers :</i>		
Property	2,362	891
Vehicles	1,208	1,105

(In Rs'mn)	2020	2019
<i>Against Collectively impaired customers :</i>		
Vehicles	87,406	84,826
Others	93,642	83,214

Details of non-financial assets obtained by the Company by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements during the period and held at the year ended 31 March are shown below;

(In Rs'mn)	2020	2019
Property	-	-
Vehicles	1,208	1,105

Income from individually impaired customers recognized in the statement of profit or loss;

(In Rs'mn)	2020	2019
Leases	6	5
Mortgage Loan	43	2
Other loans & advances	571	172

The Company's policy is to pursue timely realization of the collateral in an orderly manner. Properties acquired by foreclosure has been considered as investment properties of the Company

Age analysis of facilities considered for collective impairment as at 31 March 2020

Rs' Mn

Category	Leases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Not due / current	18,352	313	52,221	2	1,557	72,444
Overdue :						
Less than 30 days	10,104	221	11,156	-	60	21,541
31 - 60 days	7,697	68	6,016	-	25	13,806
61 - 90 days	3,793	61	3,142	-	36	7,032
91 - 120 days	1,607	96	2,918	-	17	4,638
121 - 150 days	713	205	1,823	-	20	2,761
151 - 180 days	609	132	1,543	-	49	2,333
above 180 days	1,558	459	6,345	-	2,146	10,508
Total	44,433	1,555	85,164	2	3,910	135,063

Age analysis of facilities considered for collective impairment as at 31 March 2019

Rs' Mn

Category	Leases	Mortgage Loans	Other Loans and Advances	Factoring Receivables	Total
Not due / current	18,966	286	57,357	2,671	79,280
Overdue :					
Less than 30 days	10,307	408	11,739	875	23,329
31 - 60 days	6,774	214	6,552	151	13,691
61 - 90 days	3,230	78	3,288	40	6,636
91 - 120 days	1,278	49	1,706	43	3,076
121 - 150 days	877	17	2,173	32	3,099
151 - 180 days	439	34	1,251	43	1,767
above 180 days	1,509	358	4,549	1,301	7,717
Total	43,380	1,444	88,615	5,156	138,595

Sensitivity Analysis of Allowance for Impairment Losses as at 31 March 2020 and 31 March 2019.

Sensitivity effect on impairment allowance Increase

Rs' Mn

Changed criteria	Changed factor	2020	2019
Probability of default (PD)	Increase by 1%	16	17
Loss given default (LGD)	Increase by 10%	412	356

Analysis of total impairment for expected credit losses

As at 31st March 2020*Rs' Mn*

	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortized cost				
Rentals receivable on leased assets	377	268	948	1,594
Loans and advances	531	551	4,083	5,164
Factoring receivable	103	59	750	911
Other financial assets	-	-	-	-
Commitments and Contingencies	-	2	-	2
Total impairment for expected credit losses	1,011	880	5,781	7,670

As at 31st March 2019

	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortized cost				
Rentals receivable on leased assets	304	246	760	1,310
Loans and advances	523	430	2,428	3,381
Factoring receivable	270	36	903	1,208
Other financial assets	0	-	-	0
Commitments and Contingencies	-	4	-	4
Total impairment for expected credit losses	1,097	716	4,091	5,903

5) Concentrations of credit risk

The Company monitors concentrations of credit risk by sector to which the lending was made. The analysis is provided in Note 7.7.1 to the financial statements

2.22.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

2.22.4.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements and debt covenants agreed with the fund providers. The treasury manages the liquidity position as per the treasury policies and procedures and regulatory requirements.

The treasury receives information from the business regarding the liquidity profile of the financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at the ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Company relies on deposits from customers and bank borrowings as its primary sources of funding. The deposits from customers and banks largely have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

With the onset of COVID 19 pandemic in late March of this year, the Company introduced more rigour to the processes already in place to manage its liquid assets. While closely monitoring any developments related to the pandemic, it has continued to keep its risk management measures under review to readily respond to changing circumstances. The Company is comfortable with its existing buffer of liquid assets. The actions taken will help to maintain existing liquidity position while mitigating any disruptive effect on liquidity that may arise due to the continuously evolving nature of the pandemic.

The maturity analysis of financial liabilities based on undiscounted gross outflow is reflected below

In Rs'Mn

	Carrying amounts	Gross nominal outflow / (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
<i>As at 31st March 2020</i>							
Bank overdraft	1,283	1,283	1,283	-	-	-	-
Borrowings	51,559	53,973	37,882	10,210	2,449	3,370	62
Deposits from customers	99,261	101,760	32,896	45,862	18,352	4,647	3
Trade payables	1,049	1,049	1,049	-	-	-	-
Accruals and other payables	2,934	2,934	2,934	-	-	-	-
Derivative liabilities	114	6,656	3,127	3,529	-	-	-
Amount due to related companies	854	854	854	-	-	-	-
Total liabilities	157,055	168,510	80,025	59,602	20,800	8017	65
<i>As at 31st March 2019</i>							
Bank overdraft	2,242	2,242	2,242	-	-	-	-
Borrowings	61,087	66,302	44,231	15,599	1,759	4,714	-
Deposits from customers	115,365	121,559	26,759	66,209	20,863	7,728	-
Trade payables	1,161	1,161	1,161	-	-	-	-
Accruals and other payables	3,069	3,069	3,069	-	-	-	-
Derivative liabilities	662	10,093	5,338	4,755	-	-	-
Amount due to related companies	818	818	818	-	-	-	-
Total liabilities	184,404	205,244	83,618	86,563	22,622	12,441	-

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The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) is reflected below

In Rs' mn

	Carrying amount	Gross nominal inflow / (outflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
<i>As at 31st March 2020</i>							
Cash and cash equivalents	8,334	8,334	8,334	-	-	-	-
Deposits with banks and other financial institutions	17,282	17,433	9,649	7,784	-	-	-
Investment in government securities	10,791	11,220	5,226	5,976	2	16	-
Derivative assets	273	12,902	8,978	3,924	-	-	-
Financial assets at amortized cost							
Rentals receivable on leased assets	43,842	64,366	10,479	17,980	29,699	6,185	23
Loans and advances	87,113	105,703	26,996	31,084	39,214	8,102	307
Factoring receivable	2,999	3,910	1,703	2,207	-	-	-
Margin trading receivables	2	2	2	-	-	-	-
Investment securities	2,958	2,958	1,788	-	-	-	1,170
Amount due from related companies	63	63	63	-	-	-	-
Other receivables	415	415	415	-	-	-	-
	174,073	227,306	73,632	68,955	68,915	14,304	1,500
<i>As at 31st March 2019</i>							
Cash and cash equivalents	17,536	17,536	17,536	-	-	-	-
Deposits with banks and other financial institutions	21,637	21,828	9,646	12,182	-	-	-
Investment in government securities	18,151	18,502	15,017	3,466	2	17	-
Derivative assets	569	11,295	8,359	2,937	-	-	-
Financial assets at amortized cost							
Rentals receivable on leased assets	42,942	60,857	9,376	18,127	28,237	5,010	107
Loans and advances	88,992	108,326	19,863	30,184	46,932	10,855	493
Factoring receivable	4,254	4,254	4,254	-	-	-	-
Investment securities	2,810	3,030	2,810	-	-	-	220
Amount due from related companies	6	6	6	-	-	-	-
Other receivables	938	939	939	-	-	-	-
	197,835	246,572	87,806	66,895	75,171	15,882	820

Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31-3-2020 (In Rs'Mn)

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	196					196
Total	196					196
Commitments						
Unutilized loan facilities & letter of credit	11,736					11,736
(-) Allowance for ECL / impairment	(2)					(2)
Total	11,734					11,734

As at 31-3-2019 (In Rs'Mn)

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	270	-	-	-	-	270
Total	270	-	-	-	-	270
Commitments						
Unutilized loan facilities & letter of credit	11,077	-	-	-	-	11,077
(-) Allowance for ECL / impairment	(4)	-	-	-	-	(4)
Total	11,073	-	-	-	-	11,073

2.22.5 Market risk

The Company is exposed to the market risk due to changes in market, such as Foreign exchange rates, Interest rate, and equity prices.

Company is exposed to foreign currency risk mainly due to the foreign currency borrowings. The Company manages its exposure to the foreign exchange rates by entering in to forward rate contracts with the banks and placing deposit / maintaining financial assets in the same currency. In this way the Company eliminates substantial exposure on foreign currency risk.

The Company ensures the mix of variable and fixed rate borrowings to manage any exposure due to interest rate movement in the market. These are monitored by the treasury division.

The economic fallout of the COVID-19 pandemic resulted in sharp losses in equity market indexes and subsequent closure of the exchange for trading. However, equities have retraced slightly and management is monitoring the equity price movements.

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows.

Sensitivity analysis as at 31st March 2020*In Rs'Mn*

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.20
Interest earning assets						
Deposits with banks and other financial institutions	9,567	7,715				17,282
Investment in government securities & others	5,166	5,611		14		10,791
Financial assets at amortized cost						
Rentals receivable on leased assets	6,459	11,163	21,015	5,183	22	43,842
Loans and advances	23,777	24,812	31,832	6,554	138	87,113
Factoring receivable	1,703	1,296				2,999
Margin trading receivables	2					2
Total interest earning assets	46,674	50,596	52,847	11,752	160	162,029
Interest bearing liabilities						
Bank overdraft	1,283					1,283
Interest bearing borrowings	37,687	9,894	1,395	2,525	58	51,559
Deposits from customers	37,673	42,438	15,243	3,905	3	99,261
Total interest bearing liabilities	76,643	52,331	16,638	6,430	61	152,103
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(29,969)	(1,735)	36,208	5,323	99	9,926
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualized effect	(300)	(17)	362	53	1	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualized effect	300	17	(362)	(53)	(1)	

Sensitivity analysis as at 31st March 2019*In Rs'Mn*

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.19
Interest earning assets						
Deposits with banks and other financial institutions	9,588	12,049	-	-	-	21,637
Investment in government securities & others	14,950	3,188	-	13	-	18,151
Financial assets at amortized cost						
Rentals receivable on leased assets	6,472	11,601	20,741	4,236	97	43,147
Loans and advances	15,782	23,642	39,404	9,294	345	88,468
Factoring receivable	6,670	-	-	-	-	6,670
Total interest earning assets	53,462	50,480	60,145	13,543	442	178,073
Interest bearing liabilities						
Bank overdraft	2,242	-	-	-	-	2,242
Interest bearing borrowings	43,610	14,057	780	2,639	-	61,087
Deposits from customers	32,703	59,276	16,911	6,475	-	115,365
Total interest bearing liabilities	78,556	73,333	17,691	9,114	-	178,695
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(25,094)	(22,853)	42,454	4,429	442	(622)
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualized effect	(251)	(229)	425	44	4	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualized effect	251	229	(425)	(44)	(4)	-

2.22.6 Capital Management

The Company's capital management is performed primarily considering regulatory capital. The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No.01 of 2003, Finance Companies (Capital Adequacy Requirements) Direction No.03 of 2018 and Finance Companies (Minimum Core Capital) Direction No.01 of 2011 in respect of regulatory capital.

The Company's regulatory capital consists of tier 1 capital, which includes ordinary share capital, retained earnings and statutory reserves. Other negative reserves are included under prudence basis. Tier II capital includes unsecured subordinated debentures, which is included in the capital base consequent to obtaining the approval of CBSL.

The Company's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Company recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company's regulatory capital under the CBSL guidelines is as follows;

Capital element	<i>In Rs'mn</i>	
	As at 31.03.2020	As at 31.03.2019
Ordinary share capital	12,763	7,880
Statutory Reserve	3,378	3,189
Retained earnings	14,963	11,517
(-) Investment property revaluation	(4,758)	(2,188)
Other negative reserves	(77)	(61)
Tier I capital	26,269	20,640
Subordinated debt	2,787	4,232
Tier II capital	2,787	4,232
Total capital	29,056	24,872

2.23 Financial assets and liabilities**2.23.1 Accounting classifications and fair values**

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities.

<i>As at 31st March 2020</i>	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	8,334	8,334	8,334	
Deposits with banks & other financial institutions	-	-	17,282	17,282	17,282	
Investment in government securities & others						
- Measured at fair value	-	9,609	-	9,609	9,609	Level 1
- Measured at amortized cost	-	-	1,182	1,182	1,182	
Derivative assets	273	-	-	273	273	Level 2
Investment securities	2,769	188	1	2,958	2,958	Level 1 / 3
Financial assets at amortized cost						
Rentals receivable on leased assets	-	-	43,842	43,842	45,450	Level 2
Loans and advances	-	-	87,113	87,113	85,874	Level 2
Factoring receivable	-	-	2,999	2,999	2,999	
Margin trading	-	-	2	2	2	
Amount due from related companies	-	-	63	63	63	
Other financial assets	-	-	536	536	536	
Total financial assets	3,042	9,797	161,354	174,193	174,562	
Bank overdraft	-	-	1,283	1,283	1,283	
Interest bearing borrowings	-	-	51,559	51,559	52,512	Level 2
Deposits from customers	-	-	99,261	99,261	99,377	Level 2
Trade payables	-	-	1,049	1,049	1,049	
Accruals and other payables	-	-	3,256	3,256	3,256	
Derivative liabilities	114	-	-	114	114	Level 2
Amount due to related companies	-	-	854	854	854	
Total financial liabilities	114	-	157,262	157,377	158,446	

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

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	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
<i>As at 31st March 2019</i>						
Cash and cash equivalents	-	-	17,536	17,536	17,536	
Deposits with banks & other financial institutions	-	-	21,637	21,637	21,637	
Investment in government securities & others						
- Measured at fair value	-	6,577	-	6,577	6,577	Level 1
- Measured at amortized cost	-	-	12,574	12,574	12,574	
Derivative assets	569	-	-	569	569	Level 2
Investment securities	2,324	176	309	2,809	2,809	Level 1 / 3
Financial assets at amortized cost						
Rentals receivable on leased assets	-	-	42,942	42,942	44,556	Level 2
Loans and advances	-	-	88,996	88,996	90,663	Level 2
Factoring receivable	-	-	4,254	4,254	4,254	
Amount due from related companies	-	-	6	6	6	
Other financial assets	-	-	418	418	418	
Total financial assets	2,893	6,753	188,672	198,318	201,599	
Bank overdraft	-	-	2,242	2,242	2,242	
Interest bearing borrowings	-	-	61,087	61,087	61,250	Level 2
Deposits from customers	-	-	115,365	115,365	115,964	Level 2
Trade payables	-	-	1,161	1,161	1,161	
Accruals and other payables	-	-	2,958	2,958	2,958	
Derivative liabilities	662	-	-	662	662	Level 2
Amount due to related companies	-	-	818	818	818	
Total financial liabilities	662	-	183,631	184,293	185,055	

Note – For carrying amounts which fair value measurement level is not mentioned are approximate to the fair value.

2.23.2 Valuation technique

Level 2 fair value – market comparison technique

- Derivative assets and liabilities / Forward exchange contracts – fair value is based on broker quotes of similar contracts and the quotes reflect the actual transaction in similar instrument

Level 2 fair value – discounted cash flows

Financial instruments not measured at fair value

For the purpose of disclosing fair value of the financial instruments not measured at fair value (carried at amortized cost) discounted cash flows have been used to derive the fair value.

NOTES TO THE FINANCIAL STATEMENTS

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3. CASH AND CASH EQUIVALENTS	2020 Rs.	2019 Rs.		
3.1 Favourable cash & cash equivalents balance				
Cash in hand and at bank	8,333,560,554	17,535,538,362		
3.2 Unfavourable cash & cash equivalent balances				
Bank overdraft	(1,283,200,605)	(2,242,496,059)		
Total cash and cash equivalents for the purpose of cash flow statement	7,050,359,949	15,293,042,303		
4. INVESTMENT IN GOVERNMENT SECURITIES AND OTHERS	2020 Rs.	2019 Rs.		
Investment In Government Securities				
Financial instruments - at amortized cost (note 4.1.1)	1,182,244,779	8,233,594,359		
Financial instruments - measured at fair value through OCI (note 4.1.2)	9,608,598,413	6,576,963,654		
	10,790,843,192	14,810,558,013		
Other Investments				
Investments in commercial papers - at amortized cost (note 4.2)	-	3,340,437,916		
	10,790,843,192	18,150,995,929		
4.1 Investment in government securities	2020		2019	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
4.1.1 Financial instruments - measured at amortized cost				
Investment in Government Standing Deposit Facilities	1,182,244,779	1,182,244,779	8,233,594,359	8,233,594,359
4.1.2 Financial instruments - measured at fair value through OCI				
Investment in Treasury Bills	9,191,351,647	9,191,351,647	6,347,898,131	6,347,898,131
Investment in Treasury Bonds	417,246,767	417,246,767	229,065,523	229,065,523
	9,608,598,413	9,608,598,413	6,576,963,654	6,576,963,654
4.1.3 Fair value adjustments recognized in other comprehensive income - current period (net of transfers to P&L)				
			2020 Rs.	2019 Rs.
Investment in Treasury Bills			21,896,550	(19,247,666)
Investment in Treasury Bonds			787,368	(15,574,385)
Net Change in Fair Value			22,683,918	(34,822,051)
Total recognized in OCI			22,683,918	(34,822,051)
4.1.4 Fair value adjustments recognized in other comprehensive income - cumulative				
Investment in Treasury Bills			(19,452,325)	(41,348,875)
Investment in Treasury Bonds			147,818	(639,550)
			(19,304,507)	(41,988,425)
4.2 Investments classified as loans and receivables - carried at amortized cost	2020		2019	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Investment in commercial papers	-	-	3,340,437,916	3,340,437,916

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Year ended 31 March 2020

5. DERIVATIVE FINANCIAL INSTRUMENTS	2020 Rs.	2019 Rs.		
Net derivative assets / (liabilities)				
Derivative assets (note 5.1)	273,195,187	568,529,646		
Derivative liabilities (note 5.2)	114,349,000	661,931,132		
Net derivative assets / (liabilities)	<u>158,846,187</u>	<u>(93,401,486)</u>		
5.1 Derivative assets				
Forward exchange contracts	<u>273,195,187</u>	<u>568,529,646</u>		
5.2 Derivative liabilities				
Forward exchange contracts	<u>114,349,000</u>	<u>661,931,132</u>		
5.3 Change in fair value during the period - gain/ (loss)				
Recognized in profit or loss	91,665,503	106,833,729		
Recognized in OCI	(160,582,171)	(362,355,644)		
	<u>(68,916,669)</u>	<u>(255,521,915)</u>		
6. RENTALS RECEIVABLE ON LEASED ASSETS	2020 Rs.	2019 Rs.		
Rentals receivable	70,338,132,076	67,776,807,308		
Unearned income	(18,622,613,639)	(16,607,445,447)		
Net rentals receivable (note 6.1)	51,715,518,437	51,169,361,861		
Deposits received from lessees	(6,279,409,653)	(6,917,111,397)		
Allowance for ECL / impairment (note 6.2)	(1,593,727,828)	(1,310,413,793)		
	<u>43,842,380,956</u>	<u>42,941,836,671</u>		
6.a Analysis of rentals receivable on leased assets on Exposure to Credit Risk				
	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
As at 31 March 2020				
Rentals receivable on leased assets	39,770,662,583	3,241,046,955	2,424,399,246	45,436,108,784
Impairment for expected credit losses (note 6.b)	(377,284,929)	(268,109,638)	(948,333,260)	(1,593,727,828)
Net rentals receivable on leased assets	<u>39,393,377,653</u>	<u>2,972,937,317</u>	<u>1,476,065,986</u>	<u>43,842,380,956</u>
As at 31 March 2019				
Rentals receivable on leased assets	39,365,912,055	2,755,393,886	2,130,944,524	44,252,250,464
Impairment for expected credit losses (note 6.b)	(304,027,878)	(246,151,732)	(760,234,183)	(1,310,413,793)
Net rentals receivable on leased assets	<u>39,061,884,177</u>	<u>2,509,242,154</u>	<u>1,370,710,341</u>	<u>42,941,836,671</u>
6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk				
	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2019	304,027,878	246,151,732	760,234,183	1,310,413,793
Net charge to profit or loss	73,257,051	21,957,907	188,099,077	283,314,035
Balance as at 31 March 2020	<u>377,284,929</u>	<u>268,109,638</u>	<u>948,333,260</u>	<u>1,593,727,828</u>
Balance as at 01 April 2018	406,051,576	243,564,855	566,464,148	1,216,080,580
Net charge to profit or loss	(102,023,698)	2,586,877	193,770,035	94,333,213
Balance as at 31 March 2019	<u>304,027,878</u>	<u>246,151,732</u>	<u>760,234,183</u>	<u>1,310,413,793</u>

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6. RENTALS RECEIVABLE ON LEASED ASSETS (Contd...)

6.1 Net Rentals Receivable	2020	2019
	Rs.	Rs.
Receivable -more than one year		
Rentals receivable	41,975,019,095	40,274,071,606
Unearned income	(9,155,281,430)	(7,484,539,400)
	<u>32,819,737,665</u>	<u>32,789,532,206</u>
Receivable within one year		
Rentals receivable	24,710,639,863	24,974,692,645
Unearned income	(9,467,332,209)	(9,122,906,047)
	<u>15,243,307,654</u>	<u>15,851,786,598</u>
Overdue		
Rentals receivable	3,652,473,118	2,528,043,057
	<u>51,715,518,437</u>	<u>51,169,361,861</u>
6.2 Allowance for ECL / impairment	2020	2019
	Rs.	Rs.
Balance as at 1st of April	1,310,413,793	754,576,684
Impact of adopting SLFRS 9	-	461,503,900
Balance as at 1st of April - Adjusted	<u>1,310,413,793</u>	<u>1,216,080,585</u>
Provision / (reversal) for the year	283,314,035	94,333,208
Balance as at 31st March	<u>1,593,727,828</u>	<u>1,310,413,793</u>
6.2.1 Individually significant clients - impairment		
Balance as at 1st of April	277,988,899	580,821,511
Impact of adopting SLFRS 9	-	(246,035,989)
Balance as at 1st of April - Adjusted	<u>277,988,899</u>	<u>334,785,522</u>
Provision for the year	262,768,023	(56,796,623)
Balance as at 31st March	<u>540,756,922</u>	<u>277,988,899</u>
6.2.2 Individually non-significant clients - impairment		
Balance as at 1st of April	1,032,424,894	173,755,173
Impact of adopting SLFRS 9	-	707,539,889
Balance as at 1st of April - Adjusted	<u>1,032,424,894</u>	<u>881,295,063</u>
Provision for the year	20,546,012	151,129,831
Balance as at 31st March	<u>1,052,970,905</u>	<u>1,032,424,894</u>
7. LOANS AND ADVANCES	2020	2019
	Rs.	Rs.
Mortgage Loans (note 7.1)	1,731,058,389	1,469,225,854
Sundry Loans (note 7.2)	78,225,283,512	84,062,288,877
Gold Loan (note 7.3)	6,107,254,277	3,095,548,677
Credit Cards (note 7.4)	1,049,352,953	368,778,391
	<u>87,112,949,131</u>	<u>88,995,841,800</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

7. LOANS AND ADVANCES (Contd...)

7.a Analysis of loans and receivables on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2020				
Loans and advances :				
Mortgage Loans	627,623,366	448,082,302	712,636,130	1,788,341,798
Speed Draft	17,161,227,987	1,268,364,608	2,733,574,053	21,163,166,649
Group Loans	3,786,947,403	1,596,475,821	1,050,166,784	6,433,590,008
Sundry Loans	45,086,566,597	3,691,759,257	6,779,482,557	55,557,808,411
Gold Loan	5,879,360,605	167,147,190	170,896,818	6,217,404,613
Credit Cards	1,036,536,406	63,583,818	16,860,399	1,116,980,623
Gross loans and advances	73,578,262,364	7,235,412,997	11,463,616,740	92,277,292,101
Impairment for expected credit losses (note 7.b)	(530,520,480)	(551,143,320)	(4,082,679,170)	(5,164,342,970)
Net loans and advances	73,047,741,884	6,684,269,677	7,380,937,570	87,112,949,131
Balance as at 31 March 2019				
Loans and advances :				
Mortgage Loans	985,064,716	99,877,509	447,321,998	1,532,264,224
Speed Draft	24,410,883,705	1,448,779,099	1,112,041,114	26,971,703,918
Group Loans	14,098,647,662	1,358,448,195	876,153,748	16,333,249,604
Sundry Loans	37,613,831,631	2,704,135,394	3,699,407,331	44,017,374,356
Gold Loan	2,979,517,918	94,342,538	69,818,872	3,143,679,328
Credit Cards	377,132,780	1,378,359	89,214	378,600,353
Gross loans and advances	80,465,078,412	5,706,961,094	6,204,832,276	92,376,871,783
Impairment for expected credit losses (note 7.b)	(522,958,836)	(430,085,508)	(2,427,985,638)	(3,381,029,983)
Net loans and advances	79,942,119,576	5,276,875,586	3,776,846,638	88,995,841,800

7.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2019	522,958,836	430,085,508	2,427,985,638	3,381,029,983
Net charge to profit or loss	7,561,643	121,057,812	1,654,693,532	1,783,312,987
Balance as at 31 March 2020	530,520,480	551,143,320	4,082,679,170	5,164,342,970
Balance as at 01 April 2018	499,679,783	195,299,091	1,856,004,720	2,550,983,594
Net charge to profit or loss	23,279,054	234,786,417	571,980,918	830,046,389
Balance as at 31 March 2019	522,958,836	430,085,508	2,427,985,638	3,381,029,983

7.1 Mortgage Loans

	2020 Rs.	2019 Rs.
Rentals receivable	2,343,150,354	2,072,075,294
Unearned income	(554,808,556)	(539,811,070)
Net rentals receivable (note 7.1.1)	1,788,341,798	1,532,264,224
Allowance for ECL / impairment (note 7.1.2)	(57,283,409)	(63,038,370)
	1,731,058,389	1,469,225,854

7.1.1 Net rentals receivable - Mortgage Loans
Receivable -more than one year

Installments receivable	1,273,284,049	1,247,147,632
Unearned income	(306,453,734)	(304,552,902)
	966,830,315	942,594,730
Receivable within one year		
Installments receivable	700,607,376	590,363,058
Unearned income	(248,354,822)	(235,258,168)
	452,252,554	355,104,890
Overdue		
Installments receivable	369,258,929	234,564,603
	1,788,341,798	1,532,264,224

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

7.	LOANS AND ADVANCES (Contd...)	2020	2019
		Rs.	Rs.
7.1.2	Allowance for ECL / impairment - Mortgage Loans		
	Balance as at 1st of April	63,038,370	23,403,131
	Impact of adopting SLFRS 9	-	49,338,632
	Balance as at 1st of April - Adjusted	<u>63,038,370</u>	<u>72,741,763</u>
	Provision / (reversal) for the year	(5,754,961)	(9,703,393)
	Balance as at 31st March	<u><u>57,283,409</u></u>	<u><u>63,038,370</u></u>
7.1.2.a	Individually significant clients - impairment		
	Balance as at 1st of April	41,905,876	-
	Provision / (reversal) for the year	(1,953,380)	41,905,876
	Balance as at 31st March	<u><u>39,952,497</u></u>	<u><u>41,905,876</u></u>
7.1.2.b	Individually non-significant clients - impairment		
	Balance as at 1st of April	21,132,494	23,403,131
	Impact of adopting SLFRS 9	-	49,338,632
	Balance as at 1st of April - Adjusted	<u>21,132,494</u>	<u>72,741,763</u>
	Provision / (reversal) for the year	(3,801,581)	(51,609,270)
	Balance as at 31st March	<u><u>17,330,912</u></u>	<u><u>21,132,494</u></u>
7.2	Sundry Loans	2020	2019
		Rs.	Rs.
	Total receivable	96,983,290,997	102,613,321,375
	Unearned income	(13,828,725,930)	(15,290,993,497)
	Net receivable (note 7.2.1)	<u>83,154,565,067</u>	<u>87,322,327,878</u>
	Allowance for ECL / impairment (note 7.2.2)	(4,929,281,555)	(3,260,039,001)
		<u><u>78,225,283,512</u></u>	<u><u>84,062,288,877</u></u>
7.2.1	Net receivable - Sundry Loans		
	Receivable -more than one year		
	Installments receivable	48,908,984,050	56,913,990,368
	Unearned income	(6,038,694,293)	(6,784,460,179)
		<u>42,870,289,757</u>	<u>50,129,530,189</u>
	Receivable within one year		
	Installments receivable	40,092,324,111	40,473,600,692
	Unearned income	(7,790,031,637)	(8,506,533,318)
		<u>32,302,292,474</u>	<u>31,967,067,374</u>
	Overdue		
	Installments receivable	7,981,982,836	5,225,730,315
		<u>83,154,565,067</u>	<u>87,322,327,878</u>
7.2.2	Allowance for ECL / impairment - Sundry Loans	2020	2019
		Rs.	Rs.
	Balance as at 1st of April	3,260,039,001	2,753,757,417
	Impact of adopting SLFRS 9	-	(295,773,568)
	Balance as at 1st of April - Adjusted	<u>3,260,039,001</u>	<u>2,457,983,849</u>
	Provision / (reversal) for the year	1,669,242,555	802,055,151
	Balance as at 31st March	<u><u>4,929,281,555</u></u>	<u><u>3,260,039,001</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

7. LOANS AND ADVANCES (Contd...)		2020	2019
		Rs.	Rs.
7.2.2.a	Individually significant clients - impairment		
	Balance as at 1st of April	994,797,394	1,465,346,615
	Impact of adopting SLFRS 9	-	(496,232,992)
	Balance as at 1st of April - Adjusted	994,797,394	969,113,623
	Provision / (reversal) for the year	1,214,721,714	25,683,771
	Balance as at 31st March	<u>2,209,519,108</u>	<u>994,797,394</u>
7.2.2.b	Individually non-significant clients - impairment		
	Balance as at 1st of April	2,265,241,606	1,288,410,802
	Impact of adopting SLFRS 9	-	200,459,424
	Balance as at 1st of April - Adjusted	2,265,241,606	1,488,870,226
	Provision for the year	454,520,841	776,371,380
	Balance as at 31st March	<u>2,719,762,447</u>	<u>2,265,241,606</u>
7.3	Gold loans	2020	2019
		Rs.	Rs.
	Gross amount outstanding at year end	6,217,404,613	3,143,679,328
	Allowance for ECL / impairment (note 7.3.1)	(110,150,336)	(48,130,651)
	Balance as at 31st March	<u>6,107,254,277</u>	<u>3,095,548,677</u>
7.3.1	Allowance for ECL / impairment	2020	2019
		Rs.	Rs.
	Balance as at 1st of April	48,130,651	22,658,465
	Impact of adopting SLFRS 9	-	(2,400,485)
	Balance as at 1st of April - Adjusted	48,130,651	20,257,980
	Provision / (reversal) for the year	62,019,685	27,872,671
	Balance as at 31st March	<u>110,150,336</u>	<u>48,130,651</u>
7.3.1.a	Individually significant clients - impairment	2020	2019
		Rs.	Rs.
	Balance as at 1st of April	5,284,102	5,284,102
	Provision / (reversal) for the year	-	-
	Balance as at 31st March	<u>5,284,102</u>	<u>5,284,102</u>
7.3.1.b	Individually non-significant clients - impairment		
	Balance as at 1st of April	42,846,549	17,374,363
	Impact of adopting SLFRS 9	-	(2,400,485)
	Balance as at 1st of April - Adjusted	42,846,549	14,973,877
	Provision for the year	62,019,685	27,872,671
	Balance as at 31st March	<u>104,866,234</u>	<u>42,846,549</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

7. LOANS AND ADVANCES (Contd...)	2020 Rs.	2019 Rs.		
7.4 Credit Card				
Gross amount outstanding at year end	1,116,980,623	378,600,353		
Allowance for ECL / impairment (note 7.4.1)	<u>(67,627,670)</u>	<u>(9,821,962)</u>		
Balance as at 31st March	<u>1,049,352,953</u>	<u>368,778,391</u>		
7.4.1 Allowance for ECL / impairment	2020 Rs.	2019 Rs.		
Balance as at 1st of April	9,821,962	-		
Provision / (reversal) for the year	<u>57,805,708</u>	<u>9,821,962</u>		
Balance as at 31st March	<u>67,627,670</u>	<u>9,821,962</u>		
Individually non-significant clients - impairment				
Balance as at 1st of April	9,821,962	-		
Provision for the year	<u>57,805,708</u>	<u>9,821,962</u>		
Balance as at 31st March	<u>67,627,670</u>	<u>9,821,962</u>		
7.5 Margin Trading Receivables	2020 Rs.	2019 Rs.		
Gross amount outstanding at year end	1,767,689	-		
Allowance for ECL / impairment	<u>-</u>	<u>-</u>		
Net balance on margin trading	<u>1,767,689</u>	<u>-</u>		
7.6 Factoring Receivables				
Gross receivable	3,910,200,287	5,461,768,390		
Allowance for ECL / impairment (note 6.5.1)	<u>(911,448,332)</u>	<u>(1,208,100,488)</u>		
	<u>2,998,751,955</u>	<u>4,253,667,902</u>		
7.6.a Analysis of factoring receivable on Exposure to Credit Risk				
	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2020				
Factoring receivable	1,679,607,109	84,874,349	2,145,718,829	3,910,200,287
Impairment for expected credit losses (note 7.6.b)	<u>(102,904,248)</u>	<u>(58,646,296)</u>	<u>(749,897,789)</u>	<u>(911,448,332)</u>
Net factoring receivable	<u>1,576,702,861</u>	<u>26,228,053</u>	<u>1,395,821,041</u>	<u>2,998,751,955</u>
Balance as at 31 March 2019				
Factoring receivable	3,736,224,832	118,476,630	1,607,066,928	5,461,768,390
Impairment for expected credit losses (note 7.6.b)	<u>(269,789,072)</u>	<u>(35,803,705)</u>	<u>(902,507,710)</u>	<u>(1,208,100,488)</u>
Net factoring receivable	<u>3,466,435,760</u>	<u>82,672,925</u>	<u>704,559,218</u>	<u>4,253,667,902</u>
7.6.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk				
	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2019	269,789,072	35,803,705	902,507,710	1,208,100,488
Net charge to profit or loss	<u>(166,884,824)</u>	<u>22,842,590</u>	<u>(152,609,922)</u>	<u>(296,652,155)</u>
Balance as at 31 March 2020	<u>102,904,248</u>	<u>58,646,296</u>	<u>749,897,789</u>	<u>911,448,332</u>
Balance as at 01 April 2018	159,929,899	280,404,932	402,671,582	843,006,413
Net charge to profit or loss	<u>109,859,173</u>	<u>(244,601,227)</u>	<u>499,836,128</u>	<u>365,094,075</u>
Balance as at 31 March 2019	<u>269,789,072</u>	<u>35,803,705</u>	<u>902,507,710</u>	<u>1,208,100,488</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

7. LOANS AND ADVANCES (Contd...)

	2020	2019
	Rs.	Rs.
7.6.1 Allowance for ECL / impairment		
Balance as at 1st of April	1,208,100,488	759,231,341
Impact of adopting SLFRS 9	-	83,775,072
Balance as at 1st of April - Adjusted	<u>1,208,100,488</u>	<u>843,006,413</u>
Provision / (reversal) for the year	<u>(296,652,155)</u>	<u>365,094,075</u>
Balance as at 31st March	<u><u>911,448,332</u></u>	<u><u>1,208,100,488</u></u>
7.6.1.a Individually significant clients - impairment		
Balance as at 1st of April	105,659,657	306,067,774
Provision / (reversal) for the year	<u>(105,659,657)</u>	<u>(200,408,117)</u>
Balance as at 31st March	<u><u>-</u></u>	<u><u>105,659,657</u></u>
7.6.1.b Individually non-significant clients - impairment		
Balance as at 1st of April	1,102,440,831	453,163,567
Impact of adopting SLFRS 9	-	83,775,072
Balance as at 1st of April - Adjusted	<u>1,102,440,831</u>	<u>536,938,639</u>
Provision for the year	<u>(190,992,499)</u>	<u>565,502,192</u>
Balance as at 31st March	<u><u>911,448,332</u></u>	<u><u>1,102,440,831</u></u>
7.7 Portfolio Analysis		
7.7.1 Sectorwise exposure of the lending portfolio - before impairment provision		
	2020	2019
	Rs.	Rs.
Agriculture	23,354,692,993	21,672,402,941
Manufacturing	9,261,980,046	7,987,920,749
Economics and Social	3,034,874,339	1,517,021,621
Trade	25,727,219,110	24,267,917,881
Factoring	5,731,320,258	5,461,768,390
Margin Trading	1,767,689	-
Tourism	1,755,897,473	1,622,932,704
Services	22,143,805,684	24,556,930,853
Transportation	14,823,649,267	11,232,919,160
Construction	8,349,764,508	7,350,894,574
Mining and Quarrying	541,892,699	472,782,577
Others	26,898,504,796	35,947,399,186
	<u><u>141,625,368,861</u></u>	<u><u>142,090,890,637</u></u>
7.7.2 Product wise analysis of portfolio		
Lease receivables	42,425,588,352	40,770,406,810
Loans & Advances	83,283,212,142	86,093,407,586
Factoring receivables	3,910,200,287	5,461,768,390
Margin trading receivables	1,767,689	-
Alternative finance portfolio - Ijarah receivables	3,010,520,432	3,481,843,654
Alternative finance portfolio - Other receivables (Murabaha, Musharakah etc.)	<u>8,994,079,959</u>	<u>6,283,464,197</u>
Gross portfolio	<u><u>141,625,368,861</u></u>	<u><u>142,090,890,637</u></u>
Less : Allowance for ECL / impairment	<u>(7,669,519,130)</u>	<u>(5,899,544,264)</u>
Net portfolio	<u><u>133,955,849,731</u></u>	<u><u>136,191,346,373</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

7. LOANS AND ADVANCES (Contd...)	2020 Rs.	2019 Rs.
7.7.3 Net portfolio		
Rentals receivable on leased assets (note 6)	43,842,380,956	42,941,836,671
Loans and advances (note 7)	87,112,949,131	88,995,841,800
Factoring receivable (note 7.6)	2,998,751,955	4,253,667,902
Margin trading receivable	1,767,689	-
	<u>133,955,849,731</u>	<u>136,191,346,373</u>
8. INVESTMENT SECURITIES	2020 Rs.	2019 Rs.
Investment securities measured at amortised cost (note 8.2)	537,175	308,983,277
Investment securities measured at FVTPL – debt / equity investments (note 8.1 / 8.2.2)	2,769,277,111	2,324,115,866
Investment securities measured at FVOCI – equity investments (note 8.2.3)	188,384,474	176,130,000
	<u>2,958,198,760</u>	<u>2,809,229,143</u>
8.1 Investment securities measured at FVTPL – debt / equity investments	2020 Rs.	2019 Rs.
Expo Lanka Holdings PLC		
Original cost	<u>18,000,000</u>	<u>18,000,000</u>
Carrying amount as at 1st April	4,000,000	4,900,000
Adjustment for change in fair value - recognized in profits	(2,000,000)	(900,000)
Carrying amount as at 31st March	<u>2,000,000</u>	<u>4,000,000</u>
Investment in Unit Trusts		
Original cost	<u>1,450,000,000</u>	<u>1,980,000,000</u>
Carrying amount as at 1st April	2,090,573,484	1,740,086,516
Investments during the year	-	1,980,000,000
Disposal during the year	(581,931,275)	(1,763,135,980)
Adjustment for change in fair value - recognized in profits	227,961,740	133,622,948
Carrying amount as at 31st March	<u>1,736,603,949</u>	<u>2,090,573,484</u>
Trading Gold Stock		
Original cost	<u>38,696,675</u>	-
Carrying amount as at 1st April	-	-
Investments during the year	38,696,674	-
Adjustment for change in fair value - recognized in profits	10,954,062	-
Carrying amount as at 31st March	<u>49,650,736</u>	-
Total investments held for trading	<u>1,788,254,685</u>	<u>2,094,573,484</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

8. INVESTMENT SECURITIES (Contd...)

8.2.1 Investment securities measured at amortised cost	2020 Rs.	2019 Rs.
Credit Information Bureau Ltd	537,175	537,175
Investment in Debentures	-	308,767,718
Impairment for expected credit losses (Note 8.2.1.a)	-	(321,616)
	<u>537,175</u>	<u>308,983,277</u>

8.2.1.a Analysis of investment securities measured at amortised cost on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 31 March 2020				
Investment securities measured at amortised cost	537,175	-	-	537,175
Impairment for expected credit losses (note 8.2.1.b)	-	-	-	-
Net Investment securities measured at amortised cost	<u>537,175</u>	<u>-</u>	<u>-</u>	<u>537,175</u>
Balance as at 31 March 2019	Rs.	Rs.	Rs.	Rs.
Investment securities measured at amortised cost	309,304,893	-	-	309,304,893
Impairment for expected credit losses (note 8.2.1.b)	(321,616)	-	-	(321,616)
Net Investment securities measured at amortised cost	<u>308,983,277</u>	<u>-</u>	<u>-</u>	<u>308,983,277</u>

8.2.1.b Movement in impairment for Expected Credit Losses (ECL) based on Exposure to Credit Risk

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2019	321,616	-	-	321,616
Net charge to profit or loss	(321,616)	-	-	(321,616)
Balance as at 31 March 2020	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 01 April 2018	-	-	-	-
Net charge to profit or loss	321,616	-	-	321,616
Balance as at 31 March 2019	<u>321,616</u>	<u>-</u>	<u>-</u>	<u>321,616</u>

8.2.2 Investment securities measured at FVTPL – equity investments

	2020 Rs.	2019 Rs.
LOLC Myanmar Micro Finance Company Ltd		
Carrying amount as at 1st April	229,542,382	66,125,000
Impact of adopting SLFRS 9	-	167,005,111
Carrying amount as at 1st April - Adjusted	229,542,382	233,130,111
Cost of new investments	364,100,000	-
Adjustment for change in fair value - recognized in profit or loss	387,380,044	(3,587,729)
Carrying amount as at 31st March	<u>981,022,426</u>	<u>229,542,382</u>

Valuation technique

The fair value measurement for above equity investment has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair
Residual Income Approach	Value per share was derived based on Cost of equity (17.91%), terminal growth (3%), exchange rate (MMK/LKR 0.1355) and forecasted cash flows.	The estimated fair value would increase (decrease) if: - Cost of equity was lesser / (higher) - Terminal growth was higher / (lesser) - Exchange rate was higher / (lesser) - Forecasted cashflows were higher / (lesser)

8.2.3 Investment securities measured at FVOCI – equity investments

LOLC Asia (Pvt) Ltd		
Carrying amount as at 1st April	176,130,000	153,650,000
Adjustment for change in fair value - recognized in OCI	12,254,474	22,480,000
Carrying amount as at 31st March	<u>188,384,474</u>	<u>176,130,000</u>
Total	<u>1,169,944,075</u>	<u>406,209,557</u>

9. AMOUNTS DUE FROM RELATED COMPANIES	Relationship	2020 Rs.	2019 Rs.
Creations Constructions Engineering Pvt Ltd	Fellow subsidiary	1,452,902	-
LOLC Asset Holding Co/ LOLC Life Assurance Co.	Fellow subsidiary	10,000	-
LOLC Insurance - General Ltd	Fellow subsidiary	51,142,544	-
LOLC Securities Ltd	Fellow subsidiary	-	6,707
Eden Hotel Lanka PLC	Fellow subsidiary	12,023	158,431
I Pay (Pvt) Ltd	Fellow subsidiary	642,693	350,168
Commercial Leasing and Finance PLC	Fellow subsidiary	2,120,595	2,369,595
Sports Club AC	Fellow subsidiary	2,526,634	-
LOLC Micro Investment Ltd	Fellow subsidiary	-	271,680
Green Paradise	Fellow subsidiary	5,783	23,249
Sun & Fun Resorts Ltd.	Fellow subsidiary	3,205	94,811
LOLC Development Finance PLC	Fellow subsidiary	5,918	197,140
Millenium Development (pvt) Ltd	Fellow subsidiary	-	744,476
Excel Restaurants (Pvt) Ltd	Fellow subsidiary	278,415	1,353,034
LOLC Insurance - Life Ltd	Fellow subsidiary	4,850,440	-
BI Commodities & logistics Pvt Ltd	Fellow subsidiary	181,695	-
		<u>63,232,847</u>	<u>5,569,291</u>

10. OTHER RECEIVABLES	2020 Rs.	2019 Rs.
Financial Assets		
Staff loans	159,094,294	299,161,642
Other receivables	256,342,458	584,096,086
Provision on other receivable	(252,727,888)	(508,589,694)
	<u>162,708,865</u>	<u>374,668,034</u>
Non Financial Assets		
VAT receivable	254,081,057	193,579,655
WHT recoverable	-	78,480,935
Prepaid staff cost	120,422,446	247,256,636
Miscellaneous receivables	376,860,739	43,955,973
	<u>751,364,242</u>	<u>563,273,200</u>
Total Other receivables	<u>914,073,106</u>	<u>937,941,234</u>

As per the memorandum of understanding agreement entered for Government Debt Relief Scheme on 8th January 2019, Rs.101,829,309.88 had to be received from Ministry of Finance and out of that Rs.16,971,551.65 received on 18th March 2019 and Rs.16,971,551.65 received on 25th September 2019. Balance part is included in "Other receivables".

11. INVESTMENT PROPERTIES	2020 Rs.	2019 Rs.
Balance as at 1st April	11,635,211,000	6,278,187,226
Additions to Investment Properties from foreclosure of contracts	816,753,174	2,425,017,357
Additions and improvements		
Improvements	83,017,204	50,000,796
Additions	859,405,087	803,255,268
Disposals	-	(15,834,000)
Change in fair value	2,569,499,327	2,094,584,353
Balance as at 31st March	<u>15,963,885,792</u>	<u>11,635,211,000</u>

- Investment Properties includes bare lands and land and buildings acquired by the company from clients who defaulted on accommodations granted and purchased properties. These properties are held by the Company for capital appreciation and rental purposes.

- The company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs.91,725,786 during the current financial year (2018/19 - Rs.92,490,264) from these properties.

- During the financial year company has incurred expenses amounting to Rs.15,320,373 for maintenance of the investment property. (2018/19 - Rs.2,792,055)

- Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'.

11. INVESTMENT PROPERTIES (Contd...)**11.1 Measurement of fair values****1.) Fair value hierarchy**

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 March 2020. The fair value has been determined based on valuation performed by Mr. W M Chandrasena, FIV (SL) Marics (UK) Chartered Valuation Surveyor

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio ranges from Rs.104,000 to Rs.30,000,000 in the Colombo area and Rs.18,000 to Rs.4,026,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: - Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for period used.	The estimated fair value would increase (decrease) if: - Depreciation rate was lesser / (higher) - Square feet value was higher / (lesser)

12. PROPERTY, PLANT AND EQUIPMENT

Company	Land	Building	Leasehold Motor Vehicles	Freehold Motor Vehicles	Other equipment and software	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost/Valuation						
Balance as at 01 April 2019	141,719,000	115,918,640	1,814,240,536	-	12,955,278	2,084,833,454
Additions	-	1,955,906	-	-	52,889,139	54,845,045
Disposals	-	-	-	(93,496,250)	-	(93,496,250)
Adjustment	-	-	(1,144,190,536)	1,144,190,536	-	-
Balance as at 31 March 2020	141,719,000	117,874,547	670,050,000	1,050,694,286	65,844,416	2,046,182,249
Accumulated Depreciation						
Balance as at 01 April 2019	-	3,743,850	522,064,667	-	-	525,808,517
Charge for the year	-	3,854,847	65,702,051	103,721,286	28,255,083	201,533,267
Depreciation on disposals	-	-	-	(32,366,098)	-	(32,366,098)
Adjustment	-	-	(456,362,616)	456,362,616	-	-
Balance as at 31 March 2020	-	7,598,696	131,404,103	527,717,804	28,255,083	694,975,686
Carrying Amount						
As at 31 March 2020	141,719,000	110,275,850	538,645,897	522,976,482	37,589,333	1,351,206,563
Company						
		Land	Building	Leasehold Motor Vehicles	Other equipment	Total
		Rs.	Rs.	Rs.	Rs.	Rs.
Cost/Valuation						
Balance as at 01 April 2018		141,719,000	99,000,000	1,843,736,965	-	2,084,455,965
Additions		-	16,918,640	-	12,955,278	29,873,918
Disposals		-	-	(29,496,429)	-	(29,496,429)
Balance as at 31 March 2019		141,719,000	115,918,640	1,814,240,536	12,955,278	2,084,833,454
Accumulated Depreciation						
Balance as at 01 April 2018		-	1,258,569	368,705,925	-	369,964,494
Charge for the year		-	2,485,281	161,012,810	-	163,498,091
Depreciation on disposals		-	-	(7,654,068)	-	(7,654,068)
Balance as at 31 March 2019		-	3,743,850	522,064,667	-	525,808,517
Carrying Amount						
As at 31 March 2019		141,719,000	112,174,791	1,292,175,869	12,955,278	1,559,024,937

12. PROPERTY, PLANT AND EQUIPMENT (Contd...)**Property, plant and equipment pledged as security for liabilities**

The carrying value of motor vehicles amounting to Rs.538,645,897 as at 31 March 2020 (2019 - Rs.1,292,175,869) are purchased under finance leases and have been pledged as security for the related finance lease liabilities.

Assets given under operating leases

The motor vehicles of the company represents assets given under operating leases under short term and long term basis.

An analysis of the rentals to be received on such operating leases are as follows.

	2020	2019
	Rs.	Rs.
Receivable within one year	209,724,950	291,922,375
Receivable within 1-5 years	92,677,400	339,829,100
Receivable after 5 years	-	-
Total	<u>302,402,350</u>	<u>631,751,475</u>

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31 March 2020 and 31 March 2019.

Fully depreciated property, plant and equipment

There were motor vehicles amount to Rs.1,935,940 in property, plant and equipment fully depreciated as at 31 March 2020 and no any property, plant and equipment fully depreciated as at 31 March 2019.

12.1 Measurement of fair values**1.) Fair value hierarchy**

The fair value of property, plant and equipment was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 March 2020.

The fair value measurement for all of the land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

The following table shows the valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio ranges from Rs.104,000 to Rs.30,000,000 in the Colombo area and Rs.18,000 to Rs.4,026,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: - Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for period used.	The estimated fair value would increase (decrease) if: - Depreciation rate was lesser / (higher) - Square feet value was higher / (lesser)

12.2 The carrying amount of revalued land and buildings if they were carried at cost less depreciation and impairment, would be as follows;

As at 31 March	2020	2019
	Rs.	Rs.
Cost	259,593,547	257,637,640
Accumulated depreciation and impairment	(7,598,696)	(3,743,850)
Carrying value	<u>251,994,850</u>	<u>253,893,791</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

14. DEPOSITS FROM CUSTOMERS	2020 Rs.	2019 Rs.
Customer deposits	95,938,725,591	112,110,392,799
Interest / profit payable		
Interest payable on deposits	3,151,746,541	3,077,343,549
Profits payable to alternative finance deposit holders	170,709,322	177,404,841
	<u>3,322,455,863</u>	<u>3,254,748,390</u>
Deposit liability recognized in statement of financial position	<u>99,261,181,454</u>	<u>115,365,141,189</u>
14.1 Analysis of customer deposits based on nature		
Fixed deposits - conventional	78,437,724,440	96,101,566,232
Fixed deposits - alternative finance - Mudharabah	2,863,945,728	2,964,713,514
Fixed deposits - alternative finance - Wakala	7,386,706,909	4,013,487,873
Fixed deposits - foreign currency	1,417,999,579	1,400,653,404
Fixed deposit bonds	5,849,336	125,495,900
Savings deposits - conventional	2,459,154,298	1,748,212,890
Savings deposits - alternative finance	765,275,872	705,719,249
Savings deposits - foreign currency	2,602,069,429	5,050,543,737
Total deposits	<u>95,938,725,591</u>	<u>112,110,392,799</u>
14.2 Deposits based on maturity		
Deposits maturing within one year	77,349,595,370	89,270,928,959
Deposits maturing after one year	18,589,130,221	22,839,463,840
	<u>95,938,725,591</u>	<u>112,110,392,799</u>
15. TRADE PAYABLES		
Creditors for lease equipment and approved facilities to be disbursed	<u>1,048,944,408</u>	<u>1,161,094,413</u>
16. ACCRUALS AND OTHER PAYABLES	2020 Rs.	2019 Rs.
Excess payments received from clients	200,418,781	239,775,732
Insurance payable	73,022,970	51,725,604
VAT / other tax payable	22,557,988	5,638,110
Other miscellaneous creditors	2,509,663,318	2,497,673,937
Payable on matured deposits	507,494,934	259,423,451
Stamp duty payable	16,278,165	14,612,260
Allowance for impairment (ECL) - Undrawn credit facilities	2,207,183	3,604,443
	<u>3,331,643,339</u>	<u>3,072,453,537</u>
17. AMOUNTS DUE TO RELATED COMPANIES	2020 Rs.	2019 Rs.
	Relationship	
LOLC Holding PLC	Parent	655,110,440
LOLC Factors Ltd	Fellow subsidiary	138,363,674
LOLC Securities Ltd	Fellow subsidiary	23,293
Dickwella Resorts (pvt) Ltd	Fellow subsidiary	2,118,453
LOLC Information Technology Services Limited	Fellow subsidiary	17,349,436
Brown & Co. Ltd	Fellow subsidiary	4,000,000
LOLC Motors Ltd	Fellow subsidiary	4,549,456
LOLC Corporate services Ltd	Fellow subsidiary	595,000
LOLC Insurance - General Ltd	Fellow subsidiary	-
LOLC Insurance - Life Ltd	Fellow subsidiary	5,099,463
LOLC Property 1-4	Fellow subsidiary	2,789,146
		32,087,824
		<u>854,197,576</u>
		<u>817,644,096</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

13. INTEREST BEARING BORROWINGS	2020 Rs.	2019 Rs.
Short-term loans	20,963,369,863	17,488,818,258
Long-term borrowings (note 13.1)	27,198,582,182	35,056,235,627
Finance leases (note 13.2)	111,902,195	291,251,902
Debentures (note 13.3)	2,500,000,000	7,450,000,000
Total borrowings	50,773,854,240	60,286,305,787
Interest payable	784,739,243	800,591,285
Liability recognized in statement of financial position	51,558,593,483	61,086,897,073
13.1 Long-term borrowings		
Balance at the beginning of the year	35,056,235,627	44,804,489,476
Loans obtained during the year	2,010,948,000	-
Repaid during the year	(9,868,601,445)	(9,748,253,849)
Balance at the end of the year	27,198,582,182	35,056,235,627
Long-term borrowings - current	25,187,634,182	34,889,835,627
Long-term borrowings - non-current (note 13.1.a)	2,010,948,000	166,400,000
	27,198,582,182	35,056,235,627
13.1.a Analysis of non-current portion of long-term borrowings		
Repayable within 1-3 years	2,010,948,000	166,400,000
Repayable after 3 years	-	-
	2,010,948,000	166,400,000
<p>The borrowings includes long term and short term loans which carry interest rates which are variable and are reset on a monthly / quarterly / semi-annually / annual basis. Consequent to the merger with the LOLC Micro Credit Ltd on 29th March 2018 certain micro business related debt covenants were not met in the merged entity (LOLC Finance PLC). As a result loans amounting to Rs.7,808,368,519 has been classified as current even though the contractual maturity is long term. Of this amount Rs.6,300,282,581 has a contractual maturity within 1-3 years and Rs.1,508,085,938 has a maturity after 3 years.</p>		
13.2 Finance leases		
Gross lease rentals payable as at 1 April	324,558,211	643,167,083
Lease obtained during the year	-	-
Lease rentals paid during the year	(202,739,674)	(318,608,872)
Gross lease rentals payable as at 31 March	121,818,537	324,558,211
Less: Interest in suspense	(9,916,342)	(33,306,309)
Balance at the end of the year / present value of minimum lease payments	111,902,195	291,251,902
13.2.1 Analysis of finance leases		
Repayable within one year (note 13.2.1.a)	88,442,886	179,826,441
Repayable within 1-5 years (note 13.2.1.b)	23,459,309	111,425,461
	111,902,195	291,251,902
13.2.1.a Repayable within one year		
Gross lease rentals payable	97,078,133	203,216,407
Less: interest in suspense	(8,635,247)	(23,389,967)
	88,442,886	179,826,441
13.2.1.b Repayable within 1-5 years		
Gross lease rentals payable	24,740,405	121,341,803
Less: interest in suspense	(1,281,096)	(9,916,342)
	23,459,309	111,425,461
13.3 Debentures		
Balance at the beginning of the year	4,950,000,000	4,950,000,000
Debenture issued during the year (net of transaction cost)	2,500,000,000	2,500,000,000
Debenture redeemed during the year	(4,950,000,000)	-
Balance at the end of the year	2,500,000,000	7,450,000,000

The company issued rated unsecured subordinated redeemable debentures, fifty million (50,000,000) totaling to Rs. 5Bn in 2014-15 and thirty four million (34,110,193) totaling to Rs. 2.5Bn in 2018-19 with a five year maturity duration, incurring transaction costs. These debentures are listed in the Colombo Stock Exchange. The amortization of the transaction cost is included in the interest payable amount.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

18. EMPLOYEE BENEFITS**18.1 Defined contribution plans**

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

	2020	2019
	Rs.	Rs.
Employees' Provident Fund		
Employers' contribution	140,302,826	125,756,190
Employees' contribution	93,535,217	83,837,460
Employees' Trust Fund	35,075,699	31,440,648

18.2 Defined benefit plan**Movement in the present value of the defined benefit obligation**

	2020	2019
	Rs.	Rs.
Defined benefit obligation as of 01 April	87,060,988	70,303,298
Adjustments to defined benefit obligation	120,857,045	-
Defined benefit obligation as of 01 April - Adjusted	207,918,033	70,303,298
Expense included in Personnel Expenses	54,111,511	19,303,613
Remeasurement Component	64,415,152	4,097,431
	<u>118,526,663</u>	<u>23,401,044</u>
Benefits paid	(28,302,712)	(6,643,354)
Defined benefit obligation as at 31st March	<u>298,141,984</u>	<u>87,060,988</u>

18.2.a Expense included in Personnel Expenses

Current Service Cost	31,240,528	11,570,251
Interest Cost	22,870,983	7,733,362
	<u>54,111,511</u>	<u>19,303,613</u>

18.2.b Actuarial gains and losses recognised in other comprehensive income

Cumulative loss as at 1st April	11,152,200	7,054,769
(Gain) / loss recognised during the period	185,272,197	4,097,431
Cumulative loss as at 31st March	<u>196,424,397</u>	<u>11,152,200</u>

Actuarial valuation for defined benefit obligation was carried out as at 31 March 2020 by Mr. P.S. Goonatilleke, a Fellow of the Society of Actuaries (USA). The valuation method used by the actuaries to value the obligation is the "Projected Unit Credit Method", a method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

18. EMPLOYEE BENEFITS (Contd...)**18.2 Defined benefit plan (Contd...)****18.2.c Key assumptions used in the above valuation are as follows:**

	2020	2019
Discount Rate	10.50%	11.00%
Salary Increment Rate	8.50%	9.00%
Retirement Age	55	55
Staff Turnover	2.5% - 15.0%	2.5% - 15.0%

The Defined Benefit Plan entitles a retired employee to receive a payment equal to half of the last drawn monthly salary multiplied by the number of completed years of service. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service.

Assumptions regarding future mortality are based on published statistics and mortality tables.
The plan is not externally funded.

18.2.d Sensitivity analysis of the defined benefit obligation

The effect on the defined benefit obligation at the year end, as a result of changes in the actuarial assumptions used, is shown below.

<i>As at 31 March,</i>	2020	2019
	Rs.	Rs.
The defined benefit obligation under current assumptions	298,141,984	87,060,988
The defined benefit obligation if the discount rate increased by 100 basis points	278,054,266	76,202,623
The defined benefit obligation if the discount rate reduced by 100 basis points	320,979,567	94,156,926
The defined benefit obligation if the salary increment rate increased by 1%	320,690,226	95,144,966
The defined benefit obligation if the salary increment rate reduced by 1%	277,944,693	75,297,073
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(20,087,718)	(10,858,365)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	22,837,583	7,095,938
The change in the defined benefit obligation if the salary increment rate increased by 1%	22,548,242	8,083,978
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(20,197,291)	(11,763,915)

18.2.e Maturity analysis of the payments

The following payments are expected on employee benefit liabilities in future years

	2020	2019
Within the next 12 months	31,575,365	10,793,304
Between 1 and 2 years	35,574,825	14,402,320
Between 2 and 5 years	122,793,660	59,523,588
Between 5 and 10 years	364,506,991	161,730,019
Total expected payments	554,450,841	246,449,231

19. STATED CAPITAL	2020		2019	
	Number of	Rs.	Number of shares	Rs.
Balance at the beginning of the year	4,200,000,000	7,880,000,000	4,200,000,000	7,880,000,000
Issue of shares for cash	1,050,000,000	4,882,500,000	-	-
Balance at the end of the year	<u>5,250,000,000</u>	<u>12,762,500,000</u>	<u>4,200,000,000</u>	<u>7,880,000,000</u>

Rights, preference and restrictions of classes of capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to have one vote per individual present at meetings of the shareholders or one vote per share in case of a poll. They are entitled to participate in any surplus assets of the Company in winding up. There are no preferences or restrictions on Ordinary Shares.

20. RESERVES	2020 Rs.	2019 Rs.
Statutory reserve (note 20.1)	3,378,281,827	3,189,297,618
Revaluation reserve (note 20.2)	241,527,671	241,527,671
Cash flow hedge reserve (note 20.3)	(77,309,605)	(39,059,403)
Fair value reserve (note 20.4)	11,956,519	(21,756,425)
Retained earnings (note 20.5)	14,972,696,227	11,516,578,924
	<u>18,527,152,639</u>	<u>14,886,588,384</u>

20.1 Statutory reserve

Balance at the beginning of the year	3,189,297,618	1,996,724,011
Transferred during the year	188,984,209	1,192,573,607
Balance at the end of the year	<u>3,378,281,827</u>	<u>3,189,297,618</u>

The reserve is created according to Direction No.1 of 2003 issued under the Finance Business Act No.42 of 2011. The Company transferred 5% (2018/19 - 20%) of its annual net profit after tax to this reserve in compliance with this direction.

20.2 Revaluation Reserve	2020 Rs.	2019 Rs.
Balance at the beginning of the year	241,527,671	241,527,671
Transferred during the year	-	-
Related tax	-	-
Balance at the end of the year	<u>241,527,671</u>	<u>241,527,671</u>

This reserve is created from the excess arising from the revaluation of land and buildings of the company.

20.3 Cash flow hedge reserve	2020 Rs.	2019 Rs.
Balance at the beginning of the year	(39,059,403)	(6,333,137)
Gain / (loss) arising from cash flow hedge recognized in OCI	(53,125,280)	(45,453,148)
Related tax - current tax - expense / (reversal) - note 28	44,963,008	101,459,580
Related tax - deferred tax - expense / (reversal) - note 28	(30,087,930)	(88,732,699)
Balance at the end of the year	<u>(77,309,605)</u>	<u>(39,059,403)</u>

The cash flow hedge reserve is maintained to recognise the change in the fair value of, the derivative (forward exchange contract) designated under the hedge relationship and the hedge item (portion of a foreign currency borrowing). The objective of the hedge is to mitigate the risk arising on the movement in foreign exchange rates and the resulting cash flows.

The hedging instrument are forward exchange contracts and as at 31st March 2020, there were assets with fair value of Rs.273,195,187 and liabilities with fair value of Rs.114,349,000.

The portion of the foreign currency loan that is subject to hedge accounting is to be settled during the financial years 2020/21 - 2021/22 and the derivative will be rolled over until that date.

The hedge is considered to be effective and is in effect at the reporting date and therefore no reclassification to profit or loss was made.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

20. RESERVES (Contd...)

	2020	2019
	Rs.	Rs.
20.4 Available for Sale Investment Reserve		
Balance at the beginning of the year	-	(7,166,375)
Transfer to fair value reserve	-	7,166,375
Balance at the end of the year	<u>-</u>	<u>-</u>

As per the requirement of SLFRS 9, previous available-for-sale financial assets are reclassified under fair value through other comprehensive income (FVOCI) and the subsequent fair value changes are recognized under fair value reserve.

20.4.1 Fair Value Reserve

The fair value reserve comprises the cumulative net change in fair value of financial assets measured at fair value through other comprehensive income until such investments are derecognised or impaired.

Balance at the beginning of the year	(21,756,425)	-
Transfer from available for sale investment reserve	-	(7,166,375)
Investment in government securities measured at FVOCI	22,683,918	(34,822,051)
Investment securities measured at FVOCI – equity investments	11,029,027	20,232,000
Balance at the end of the year	<u>11,956,519</u>	<u>(21,756,425)</u>

20.5 Retained Earnings

Balance at the beginning of the year	11,516,578,923	7,000,881,585
Impact of adopting SLFRS 9	-	(251,646,932)
Balance at the beginning of the year - Adjusted	11,516,578,923	6,749,234,653
Profit for the year	3,779,684,187	5,962,868,027
Remeasurements of defined benefit liability - gain / (loss)	(134,582,674)	(2,950,150)
Transfer to statutory reserve fund	(188,984,209)	(1,192,573,607)
Balance at the end of the year	<u>14,972,696,227</u>	<u>11,516,578,923</u>

21. INTEREST INCOME

	2020	2019
	Rs.	Rs.
Interest on leases	11,214,521,730	11,833,210,544
Interest on loans	19,511,067,479	22,207,594,243
Income from factoring portfolio	1,205,421,617	1,987,154,976
Interest from credit cards	258,060,407	35,371,063
Interest on margin trading	437,865	43,014,961
Income from operating lease and hire	316,297,007	377,553,766
Interest on overdue rentals and others	3,514,551,691	3,845,888,698
Interest income and capital gain on government securities	1,237,460,237	1,168,220,109
Interest income on term deposits	923,279,821	1,165,309,167
	<u>38,181,097,854</u>	<u>42,663,317,527</u>

22. INTEREST EXPENSE

	2020	2019
	Rs.	Rs.
Interest on fixed deposits	12,168,809,615	12,589,774,985
Interest on savings deposits	174,729,942	146,319,000
Profit distributed to alternative finance deposit holders	875,735,205	1,040,064,747
Interest on foreign currency deposits	73,820,515	155,601,431
Finance lease interest	23,390,111	48,664,611
Interest on loans & bank overdraft	5,954,879,104	6,911,329,432
	<u>19,271,364,492</u>	<u>20,891,754,206</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

23. NET OTHER OPERATING INCOME	2020 Rs.	2019 Rs.		
Sundry income	487,085,963	460,194,746		
Service charges	17,515,499	6,366,999		
Arrangement and documentation fees	394,699,556	334,888,827		
Collections from contracts written off	844,834,460	806,877,283		
Fair value change in investment properties (Note 11)	2,569,499,327	2,094,584,353		
Change in fair value of derivatives - forward contracts (note 5.3)	91,665,503	106,833,729		
Net exchange loss	(290,674,636)	(68,352,960)		
Provision/(Reversal) for payables to clients	-	37,368,136		
Adjustment for increase / (decrease) in value of investments (note 8.1 / 8.2.2)	624,295,846	129,135,220		
Dividend income	611,653	480,000		
Debenture Interest	13,316,702	616,234		
Interest income from staff loan	54,701,608	96,023,684		
Disposal gain / (loss) on investment property	-	2,166,000		
Disposal gain / (loss) on PPE	12,887,348	5,075,139		
	<u>4,820,438,829</u>	<u>4,012,257,390</u>		
24. DIRECT EXPENSES EXCLUDING INTEREST COST	2020 Rs.	2019 Rs.		
Insurance expenses factored to accommodations	1,202,844,358	1,116,788,501		
VAT on general expenses	76,764,012	405,435,833		
	<u>1,279,608,370</u>	<u>1,522,224,334</u>		
25. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS	2020 Rs.	2019 Rs.		
Impairment provision / (reversal) for lease rentals receivable (Note 6.2)	283,314,035	94,333,208		
Impairment provision / (reversal) for mortgage loan (Note 7.2.2)	(5,754,961)	(9,703,393)		
Impairment provision / (reversal) for receivables from sundry loans (Note 7.3.2)	1,669,242,555	802,055,151		
Impairment provision / (reversal) for credit card receivables (Note 7.4)	57,805,708	9,821,962		
Impairment provision / (reversal) for receivables from Gold loans (Note 7.4.1)	62,019,685	27,872,671		
Impairment provision / (reversal) for factoring receivables (Note 7.6.1)	(296,652,155)	365,094,075		
Impairment provision / (reversal) for other financial assets	2,384,380	2,068,223		
Impairment provision / (reversal) for insurance receivable	-	83,661,826		
Written-off during the year	6,071,182,111	4,325,301,757		
	<u>7,843,541,357</u>	<u>5,700,505,481</u>		
Comparison between provision for impairment as per SLFRS 09 and Central Bank (CBSL) requirement				
	Impairment charge to profit or loss	Written-off during the year	Charge to profit or loss net of write-offs	Provision impact as per CBSL
Rentals receivable on leased assets	2,801,652,682	2,518,338,647	283,314,035	112,804,168
Loans and advances	5,336,156,451	3,552,843,464	1,783,312,987	1,547,739,485
Factoring receivable	(296,652,155)	-	(296,652,155)	107,712,337
Other financial assets	2,384,380	-	2,384,380	-
	<u>7,843,541,357</u>	<u>6,071,182,111</u>	<u>1,772,359,246</u>	<u>1,768,255,990</u>
26. PROFIT FROM OPERATIONS	2020 Rs.	2019 Rs.		
Profit from operations is stated after charging all expenses including the following,				
Directors' emoluments	44,071,000	51,277,290		
Audit fees and expense - Audit Services	2,925,000	2,800,000		
- Audit Related Services	1,120,000	1,075,000		
- Non Audit Services	Nil	Nil		
Depreciation on property, plant and equipment	201,533,267	163,498,091		
26.1 Personnel expenses				
- Salaries, wages & other related cost	2,742,283,100	2,989,197,688		
- Defined contribution plans - EPF & ETF	175,378,525	157,196,838		
- Defined benefit plan cost	54,111,511	19,303,613		
	<u>2,971,773,136</u>	<u>3,165,698,139</u>		

27. MATURITY OF ASSETS AND LIABILITIES

27.1 An analysis of the total assets of the Company as at the year end based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.20 Rs.	Total as at 31.03.19 Rs.
Cash and cash equivalents	8,333,560,554	-	-	-	-	8,333,560,554	17,535,538,362
Deposits with banks and other financial institutions	9,567,312,809	7,714,963,876	-	-	-	17,282,276,685	21,637,175,646
Investment in government securities	5,165,685,402	5,610,745,790	-	14,412,000	-	10,790,843,192	18,150,995,929
Derivative assets	166,551,187	106,644,000	-	-	-	273,195,187	568,529,646
Financial assets at amortized cost							
Rentals receivable on leased assets	6,912,108,155	11,292,203,078	21,816,209,648	5,393,913,980	21,673,922	45,436,108,784	44,252,250,464
(-) Allowance for ECL / impairment	-	-	-	-	-	(1,593,727,828)	(1,310,413,793)
Loans and advances	25,414,085,632	25,633,928,907	33,647,945,799	7,335,799,150	245,532,613	92,277,292,101	92,376,871,783
(-) Allowance for ECL / impairment	-	-	-	-	-	(5,164,342,970)	(3,381,029,983)
Factoring receivable	3,910,200,287	-	-	-	-	3,910,200,287	5,461,768,390
(-) Allowance for ECL / impairment	-	-	-	-	-	(911,448,332)	(1,208,100,488)
Margin trading receivable	1,767,689	-	-	-	-	1,767,689	-
Investments securities	1,788,254,685	-	-	-	1,169,944,075	2,958,198,760	2,809,229,143
Amount due from related companies	63,232,847	-	-	-	-	63,232,847	5,569,291
Other receivables	321,199,369	377,210,102	99,005,503	95,836,814	20,821,318	914,073,106	937,941,239
Inventories	-	2,023,122	-	-	-	2,023,122	4,811,234
Investment properties	-	-	15,963,885,792	-	-	15,963,885,792	11,635,210,995
Property plant and equipment	-	-	-	-	1,351,206,563	1,351,206,563	1,559,024,937
Total Assets as at 31 March 2020	61,643,958,617	50,737,718,876	71,527,046,742	12,839,961,943	2,809,178,492	191,888,345,539	
Total Assets as at 31 March 2019	74,109,680,176	51,851,615,919	73,783,555,154	14,460,785,550	2,729,280,259	211,035,372,795	211,035,372,795

27.2 An analysis of the total liabilities of the Company as at the year end based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.20 Rs.	Total as at 31.03.19 Rs.
Bank overdraft	1,283,200,605	-	-	-	-	1,283,200,605	2,242,496,059
Interest bearing borrowings	37,686,848,751	9,893,791,499	1,394,788,387	2,524,933,232	58,231,614	51,558,593,483	61,086,897,072
Deposits from customers	37,672,805,337	42,437,508,731	15,243,438,276	3,904,579,110	2,850,000	99,261,181,454	115,365,141,189
Trade payables	1,048,944,408	-	-	-	-	1,048,944,408	1,161,094,413
Accruals and other payables	1,951,264,362	139,827,459	-	232,785,613	1,007,765,904	3,331,643,339	3,072,453,537
Derivative liabilities	63,479,500	50,869,500	-	-	-	114,349,000	661,931,132
Amount due to related companies	854,197,576	-	-	-	-	854,197,576	817,644,096
Current tax payable	-	960,254,586	-	-	-	960,254,586	1,501,292,610
Deferred tax liability	-	-	1,888,186,465	-	-	1,888,186,465	2,272,773,316
Employee benefits	-	-	-	298,141,984	-	298,141,984	87,060,988
Stated capital	-	-	-	-	12,762,500,000	12,762,500,000	7,880,000,000
Statutory reserve	-	-	-	-	3,378,281,827	3,378,281,827	3,189,297,618
Revaluation Reserve	-	-	-	-	241,527,671	241,527,671	241,527,671
Cash flow hedge reserve	-	-	-	-	(77,309,605)	(77,309,605)	(39,059,404)
Fair value reserve	-	-	-	-	11,956,519	11,956,519	(21,756,426)
Retained earnings	-	-	-	-	14,972,696,227	14,972,696,227	11,516,578,924
Total Liabilities & Equity as at 31 March 2020	80,560,740,539	53,482,251,775	18,526,413,128	6,960,439,938	32,358,500,157	191,888,345,539	
Total Liabilities & Equity as at 31 March 2019	83,019,736,574	75,929,845,572	20,054,981,305	9,264,220,962	22,766,588,383	211,035,372,795	211,035,372,795

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

28. INCOME TAX EXPENSE

The major components of income tax expense for the year ended 31 March are as follows:

	2020	2019
	Rs.	Rs.
Current tax - recognized in P&L		
Current tax charge	465,185,675	1,224,609,252
Under / (over) provision of current taxes in respect of prior years	-	-
	<u>465,185,675</u>	<u>1,224,609,252</u>
Deferred Tax		
Deferred tax expense / (reversal) (28.2)	(365,210,705)	(79,664,939)
Income tax expense reported in statement of profit or loss	<u>99,974,970</u>	<u>1,144,944,314</u>
Current tax - expense / (reversal) - recognized in OCI		
Relating to exchange gain recognized in OCI (in hedge reserve)	(44,963,008)	(101,459,580)
Deferred tax charge / (reversal) recognized in OCI		
Defined benefit plans	(50,689,523)	(1,147,281)
Fair value change in derivatives recognized in hedge reserve	30,087,930	88,732,699
Investment in LOLC Asia Pvt Ltd	1,225,447	2,248,000
	<u>(19,376,146)</u>	<u>89,833,418</u>
Total income tax expense / (reversal) recognized in OCI	<u>(64,339,154)</u>	<u>(11,626,162)</u>

28.1 Current tax payable

Tax payable as at 1st April	1,501,292,609	813,718,266
Current tax expense for the year - recognized in P&L	465,185,675	1,224,609,252
Current tax expense for the year - recognized in OCI	(44,963,008)	(101,459,580)
Tax paid during the year	(961,260,692)	(435,575,329)
Tax payable as at 31st March	<u>960,254,586</u>	<u>1,501,292,609</u>

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

	2020		2019	
	%	Rs.	%	Rs.
Accounting profit before income tax		<u>3,879,659,157</u>		<u>7,107,812,341</u>
Tax effect at the statutory income tax rate of 28%	28%	1,047,507,972	28%	1,990,187,455
Tax effect of other allowable credits	-96%	(3,708,663,071)	-105%	(7,486,185,586)
Tax effect of non deductible expenses	85%	3,291,489,100	93%	6,619,147,802
Deferred tax adjustment	-14%	(530,359,031)	0%	21,794,642
Tax benefit on acquisition of subsidiary	0%	-	0%	-
Under / (over) provision in the previous years	0%	-	0%	-
Income tax expense	3%	<u>99,974,970</u>	16%	<u>1,144,944,313</u>

28.2 Deferred Taxation

	2020	2019
	Rs.	Rs.
Balance as at 1st April	2,272,773,316	2,402,219,247
Impact on adoption of SLFRS 9	-	(139,614,410)
Deferred tax expense / (reversal) - recognized in P&L	(365,210,705)	(79,664,939)
Deferred tax expense / (reversal) - recognized in OCI	(19,376,146)	89,833,418
Balance as at 31st March	<u>1,888,186,465</u>	<u>2,272,773,316</u>

28. INCOME TAX EXPENSE (Contd...)

Recognized deferred tax assets and liabilities are attributable to the following.

Deferred tax is measured using a tax rate of 28% (2017/18 -28%) on temporary differences

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	Balance as at 01 April 2019	Recognized in P&L - expense / (reversal)	Recognized in OCI - expense / (reversal)	Balance as at 31 March 2020
	Rs.	Rs.	Rs.	Rs.
Recognized in P&L / Equity (retained earnings)				
Lease receivables	2,501,449,289	(255,603,949)	-	2,245,845,340
Finance lease liability	215,223,460	(107,636,047)	-	107,587,413
Property plant and equipment	3,945,338	122,683,494	-	126,628,832
Investment in Unit trust - unrealized	-	52,334,885	-	52,334,885
Cost of acquisition of subsidiary (note 28.2.b)	(645,811,061)	(450,872,827)	-	(1,096,683,888)
Defined benefit plans	(21,215,049)	(7,265,875)	-	(28,480,924)
Forward exchange contracts (net)	(24,352,099)	40,541,419	-	16,189,320
Investment property	209,458,435	256,949,933	-	466,408,368
Investment in LOLC Myanmar	16,341,738	(16,341,738)	-	-
Recognized in OCI				
Available for sale financial assets	3,018,739	-	-	3,018,739
Property plant and equipment	18,576,152	-	-	18,576,152
Defined benefit plans	(4,309,308)	-	(50,689,523)	(54,998,831)
Forward exchange contracts (net)	(1,800,317)	-	30,087,930	28,287,613
Investment in LOLC Asia Pvt Ltd	2,248,000	-	1,225,447	3,473,447
Net deferred tax liability / (asset)	2,272,773,316	(365,210,705)	(19,376,146)	1,888,186,465

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	Balance as at 01 April 2018	Impact on adoption of SLFRS 9	Recognized in P&L - expense / (reversal)	Recognized in OCI - expense / (reversal)	Balance as at 31 March 2019
Recognized in P&L	Rs.	Rs.	Rs.	Rs.	Rs.
Lease receivables	3,183,173,949	(156,314,921)	(525,409,739)	-	2,501,449,289
Finance lease liability	160,396,942	-	54,826,517	-	215,223,460
Property plant and equipment	7,338,748	-	(3,393,410)	-	3,945,338
Tax losses	(201,511,124)	-	201,511,124	-	-
Cost of acquisition of subsidiary (note 28.2.1)	(651,390,739)	-	5,579,677	-	(645,811,061)
Defined benefit plans	(16,522,896)	-	(4,692,153)	-	(21,215,049)
Forward exchange contracts (net)	(7,165,481)	-	(17,186,618)	-	(24,352,099)
Investment property	-	-	209,458,435	-	209,458,435
Investment in LOLC Myanmar	-	16,700,511	(358,773)	-	16,341,738
Recognized in OCI					
Available for sale financial assets	3,018,739	-	-	-	3,018,739
Property plant and equipment	18,576,152	-	-	-	18,576,152
Defined benefit plans	(3,162,027)	-	-	(1,147,281)	(4,309,308)
Forward exchange contracts (net)	(90,533,016)	-	-	88,732,699	(1,800,317)
Investment in LOLC Asia Pvt Ltd	-	-	-	2,248,000	2,248,000
Net deferred tax liability / (asset)	2,402,219,247	(139,614,410)	(79,664,939)	89,833,418	2,272,773,316

28. INCOME TAX EXPENSE (Contd...)**28.2.a Temporary differences****Temporary differences - taxable / (deductible)**

	2020	2019
	Rs.	Rs.
Recognized in P&L / Equity (retained earnings)		
Lease receivables	8,020,876,215	8,933,747,461
Finance lease liability	384,240,761	768,655,213
Property plant and equipment	452,245,828	14,090,491
Tax losses	186,910,302	-
Cost of acquisition of subsidiary	(3,916,728,172)	(2,306,468,076)
Defined benefit plans	(101,717,587)	(75,768,034)
Forward exchange contracts (net)	57,819,000	(86,971,782)
Investment property	4,664,083,680	2,094,584,353
Investment in LOLC Mynmar	-	163,417,381
Recognized in OCI		
Available for sale financial assets	10,781,210	10,781,210
Property plant and equipment	66,343,400	66,343,400
Defined benefit plans	(196,424,397)	(15,390,385)
Forward exchange contracts (net)	101,027,188	(6,429,704)
Investment in LOLC Asia Pvt Ltd	34,734,474	22,480,000
Net taxable / (deductible) temporary difference	9,764,191,902	9,583,071,529

28.2.b Cost of acquisition of subsidiary and unrecognized deferred tax assets

During the year 2017/18, the company paid Rs.12,291,200,000 to acquire 100% of LOLC Micro Credit Limited.

Since this was inline with the Central Bank of Sri Lanka's consolidation program, the Company is able to claim the purchase consideration as a qualifying payment in calculating the income tax liability.

During the year Rs.778,190,125 was claimed keeping inline with the requirements of the Inland Revenue Act. The Company expects to claim the remaining amount over the future period based on the profitability of the Company.

On a prudent basis the management has decided to evaluate the recoverability of this claim based on the projected taxable profits for the next 3 years and expects to recover Rs.3,916,728,172 over such period and a deferred tax asset of Rs.1,096,683,888 was recognized during the year.

The management will annually re-evaluate the recoverability of this claim and adjust the deferred tax asset accordingly.

Unrecognized deferred tax asset

	2020	2019
	Rs.	Rs.
Remaining amount to be claimed as at 1st of April	9,371,201,715	11,991,200,000
Previous year adjustment	(25,649,798)	(614,373,871)
Amount claimed during the year	(778,190,125)	(2,005,624,414)
Remaining amount to be claimed in future years	8,567,361,793	9,371,201,715
Tax rate	28%	28%
Deferred tax asset on remaining amount	2,398,861,302	2,623,936,480
Recognized deferred tax asset	(1,096,683,888)	(645,811,061)
Unrecognized deferred tax asset	1,302,177,414	1,978,125,419

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Year ended 31 March 2020

29. EARNINGS PER SHARE**29.1 Basic earnings per share**

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the Basic Earnings Per Share computation.

	2020	2019
	Rs.	Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	3,779,684,187	5,962,868,027
	2020	2019
	No.	No.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	4,200,000,000	4,200,000,000
Effects of new shares issued during the period	679,918,033	-
Weighted average number of ordinary shares in issue applicable to basic earnings	4,879,918,033	4,200,000,000
Basic earnings per share (Rs.)	0.77	1.42

29.2 Diluted earnings per share

There were no potential dilution at the year end. Therefore, diluted earnings/ (loss) per share is the same as basic earnings/ (loss) per share shown above.

30. COMPARATIVE FIGURES

Comparative information has been reclassified to conform to the current period's presentation, where necessary. No information has been restated.

31. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying	Carrying
		Amount Pledged	Amount Pledged
		Rs.	Rs.
Lease portfolio	Short term borrowing	16,728,047,005	25,015,466,845

These financial assets are pledged against the borrowings made. The lender has the right over the lease receivables in the event of non payment.

32. RELATED PARTY DISCLOSURES**32.1 Parent and Ultimate Controlling Party**

The Company's immediate and ultimate controlling party is LOLC Holding PLC.

32.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly the KMP include members of the Board of Directors and identified senior management personnel of the Company and its ultimate Parent Company LOLC Holding PLC. Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Company.

32.2.1 Compensation of KMPs

	2020	2019
	Rs.	Rs.
Short term employment benefits	81,015,355	97,497,301
Total	<u>81,015,355</u>	<u>97,497,301</u>

The short term employment benefits include only the directors fees and emoluments paid to Directors & KMPs.

32.2.2 Transactions, arrangements and agreements involving KMPs, and their close family members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner. The transactions are carried out on an arms length basis. The details of the transactions are as follows :

	2020	2019
	Rs.	Rs.
Deposits held with the Company	673,349,785	831,639,658
Interest paid / charged	55,091,045	92,492,763
Interest payable	356,532	43,589,874
Loans granted (excluding Directors)	48,928,815	42,349,079
Capital outstanding on facilities granted to KMPs (excluding	34,274,663	58,033,025
Accommodation outstanding as a percentage of the Company's Capital Funds	0.12%	0.23%

No impairment losses have been recorded against balances outstanding with KMP and CFM.

32.3 Transactions with related parties

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures, on an arms length basis. Details of related party transactions are reported below. (For information regarding outstanding balances (receivables / payables) at 31 March 2020 and 2019, refer notes no.10 and 17 accordingly).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2020

32. RELATED PARTY DISCLOSURES (Contd...)

Relationship	Nature of Transactions	Transaction value 2020 Rs.	Transaction value 2019 Rs.
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	43,639,296	380,502,399
	Reimbursement of expenses	2,164,658,024	2,232,590,298
	Asset hire charges	205,734,877	201,216,322
	Treasury management fee	-	546,517,294
	Royalty	638,312,958	644,617,458
	Fund transfer interest	55,862,325	40,356,041
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	51,313,028	149,723,735
	Interest paid/charge	1,498,762	28,645,652
	Interest payable	783,534	5,912,087
	Investments held by the company	1,006,091,357	984,612,151
	Interest income from investment	116,213,033	164,669,680
	IT service fee	275,095,390	183,717,087
	Yard fee	19,200,000	22,200,000
	Supply of leased vehicles	114,775,149	1,624,913,418
	Loan / lease granted	1,705,693,182	974,681,193
	Rental collections	600,892,665	387,457,540
	Interest income	621,589,749	329,594,777
	Capital outstanding on facilities granted	3,043,429,002	2,278,590,180
	Rent Income	57,924,000	71,688,693
Franchise fee income	277,260,586	288,349,644	
Other Related Companies/Affiliates	Supply of leased vehicles	162,730,421	134,121,450
	Deposits held with the company	132,115,055	253,902,325
	Rental collections	240,015,025	10,227,832
	Interest income	270,000,000	10,198,946
	Capital outstanding on facilities granted	1,530,000,000	46,344,129
Other Related Organizations	Deposits held with the company	132,115,055	294,892,074
	Interest paid/charge	11,425,951	37,897,296
	Interest payable	92,055	26,679,464
Accommodation outstanding as a percentage of the Company's Capital Funds		15.73%	9.35%

All of the above transactions (including borrowing / lending / investing transactions) with related parties are on arm's length basis and are on terms that are generic to non-related parties.

33. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustment to or disclosure in these Financial Statements.

SEGMENTAL INFORMATION

Year ended 31 March 2020

34. OPERATING SEGMENTS

	Operating Segment				Total Rs.
	Conventional Financial Services Rs.	Alternative Financial Services Rs.	Factoring Business Rs.	Others/ Adjustments Rs.	
For the year ended 31 March 2020					
Total revenue - Interest income & other income	39,076,309,919	2,704,396,764	1,220,830,000	-	43,001,536,683
Inter segmental revenue	-	-	-	-	-
External revenue	39,076,309,919	2,704,396,764	1,220,830,000	-	43,001,536,683
Net interest cost	(17,426,488,281)	(1,118,277,368)	(726,598,843)	-	(19,271,364,492)
Profit before operating expenses	21,649,821,638	1,586,119,396	494,231,157	-	23,730,172,191
Operating expenses	(10,315,282,727)	(799,479,187)	-	-	(11,114,761,914)
Allowance for impairment & write-offs	(6,292,313,165)	(347,880,348)	(1,203,347,844)	-	(7,843,541,357)
Value added tax on financial services	(784,972,973)	(107,236,790)	-	-	(892,209,763)
Results from operating activities	4,257,252,773	331,523,071	(709,116,687)	-	3,879,659,157
For the year ended 31 March 2019					
Total revenue - Interest income & other income	22,039,998,968	2,792,224,416	1,989,126,046	-	46,675,574,917
Inter segmental revenue	-	-	-	-	-
External revenue	22,039,998,968	2,792,224,416	1,989,126,046	-	46,675,574,917
Net interest cost	(11,561,536,426)	(1,276,993,394)	(719,185,120)	-	(20,891,754,206)
Profit before operating expenses	10,478,462,542	1,515,231,022	1,269,940,926	-	25,783,820,711
Operating expenses	(6,110,658,594)	(587,955,454)	-	-	(11,585,848,460)
Allowance for impairment & write-offs	(2,043,553,514)	(342,838,258)	(1,095,468,945)	-	(5,700,505,481)
Value added tax on financial services	(400,763,834)	(132,005,514)	(29,660,237)	-	(1,389,654,429)
Results from operating activities	1,923,486,601	452,431,796	144,811,744	-	7,107,812,341
Depreciation					
For the year ended 31 March 2020	201,533,267	-	-	-	201,533,267
For the year ended 31 March 2019	(163,498,091)	-	-	-	(163,498,091)
Capital expenditure - Property Plant and equipment					
For the year ended 31 March 2020	54,845,045	-	-	-	54,845,045
For the year ended 31 March 2019	29,873,918	-	-	-	29,873,918
As at 31-03-2020					
Total assets	173,165,371,385	15,997,953,670	2,998,751,955	(273,731,471)	191,888,345,539
Total liabilities	144,540,032,288	13,333,640,128	2,998,751,955	(273,731,471)	160,598,692,900
As at 31-03-2019					
Total assets	194,405,851,473	12,824,663,935	4,253,667,902	(448,810,515)	211,035,372,795
Total liabilities	174,058,188,998	10,405,738,026	4,253,667,902	(448,810,515)	188,268,784,411

35. COMMITMENTS AND CONTINGENCIES

	2020 Rs.	2019 Rs.
35.1 Contingent liabilities		
Guarantees issued to banks and other institutions - backed by deposits	195,702,140	269,837,501
35.2 Commitments		
Forward exchange contracts - (commitment to purchase)	19,557,686,750	20,912,968,668
Unutilised loan facilities	11,735,601,597	11,076,768,535
Allowance for ECL / impairment	(2,207,183)	(3,604,443)
	31,486,783,304	32,255,970,261

On the commitment to purchase the foreign currencies the company will receive USD 67,518,750, EUR 27,100,000, GBP 2,700,000, AUD 4,500,000.