LOLC FINANCE PLC

FINANCIAL STATEMENTS

31 MARCH 2021

Building a better working world

Ernst & Young
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INDEPENDENT AUDITORS' 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 2021, and the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2021, 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 our 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/)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
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Impairment allowance on loans & leases:

As at 31 March 2021, loans & advances and receivables from lease (net of impairment) amounted to LKR 61,550 Million (Note 07) and LKR 43,098 Million (Note 06) respectively net of total allowance for impairment of LKR 13,170 Million (Note 07 and 06). These collectively contributed 61% to the Company's total assets.

As described in Note 7.7.2, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard - SLFRS 9 *Financial Instruments* (SLFRS 9).

This was a key audit matter due to:

- materiality of the reported impairment allowance which involved complex spread sheets calculations; and
- the degree of assumptions, judgements and estimation uncertainty associated with the calculations.

Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following:

- the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the company); and
- forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.

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We assessed the alignment of the company's impairment computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following:

- We evaluated the design, implementation and operating effectiveness of controls where relevant over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management.
- We checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the company.
- We test-checked the underlying calculations.
- In addition to the above, following focused procedures were performed:

For a sample of loans and advances individually assessed for impairment:

- Assessing the appropriateness of the criteria used by the management to determine whether there are any indicators of impairment; and
- Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on elevated risk industries, strategic responsive actions taken, collateral values, and the value and timing of future cashflows.

For loans and advances collectively assessed for impairment:

- Assessing the reasonableness of assumptions and estimates used by management including the reasonableness of forward-looking information and scenarios; and
- As relevant, assessing the basis for and data used by management to determine overlays in consideration of the probable effects of the COVID-19 pandemic.

- We assessed the adequacy of the related financial statement disclosures as set out in Note(s) 7.b and 6.b.

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(Contd...3/)

Key audit matter	How our audit addressed the key audit matter
IT systems and controls relevant to financial reporting The Company uses multiple IT systems in its operations. We selected IT systems and controls relevant to financial reporting as a key audit matter due to: ▸ The Company's financial reporting process being heavily dependent on information derived from its IT systems and ▸ Key financial statement disclosures involving the use of multiple system - generated reports and calculations there on ▸ A changed working environment of increased remote access	Our audit procedures included the following; • Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access • Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and gathering of required information in calculating the significant information for financial statements disclosures • Checking the source data of the reports used to generate significant disclosures for accuracy and completeness • Assessing the reasonability of management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant
Impact of moratoriums and other relief measures on recognition of interest income Moratoriums and other relief measures were granted by the Company to customers affected by the COVID - 19 Pandemic. Impact of moratoriums and other relief measures on the recognition of interest revenue on loans & receivables and lease rentals receivable & stock out on hire was a key audit matter due to: • Significant judgments that were applied in determining whether such moratoriums and other relief measures have resulted in substantial modifications or not, to contracts with customers as set out in Note 21 to the financial statements • Use of spread sheet-based calculations by management to quantify the impacts of such moratoriums and other relief measures on the amount of revenue recognized for the period	Our audit procedures (among others) included the following; • We gained an understanding of the process adopted by the Company to grant, record and account for moratoriums and other relief measures provided to customers • We assessed the reasonableness of judgements applied by management in determining whether moratoriums and other relief measures have resulted in substantial modifications or not, to customer contracts. This included evaluating whether interest income on modified contracts have been recognized in line with its accounting policy for interest revenue recognition • We tested the accuracy of underlying spread sheet-based calculations. Our procedures included testing the completeness and accuracy of the data used in such spread sheet-based calculations, by agreeing to source documents and moratorium customer returns

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Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Properties As at 31 March 2021, land and buildings carried at fair value classified as Investment Property amounts to LKR 21,088 Million and represents 12 % of total assets and fair value gain of LKR 3,291 Million. The fair value of such property was determined by external valuer engaged by the Company. This was a key audit matter due to: - materiality of reported fair value for such property and related fair value gain - degree of assumptions and judgements associated with the valuation, amplified by the impact of COVID - 19 - pandemic. The valuation contained higher estimation uncertainties due to fewer comparable market transactions, which are generally considered a strong source of evidence regarding fair value Key areas of significant judgement and assumptions included estimate of price per perch of land and price per square foot of building as disclosed in note 11.	Our audit procedures included (among others) the following procedures: • We evaluated the competence, capabilities and objectivity of the external valuer engaged by the Company • We read the valuation reports to obtain an understanding of the key estimates made and valuation techniques used by the external valuer in the valuation of land and buildings • We engaged our internal specialized resources to assist us in evaluating the appropriateness of the valuation techniques used by the external valuer and assessing the reasonableness of the significant judgements and assumptions, such as price per perch of land and price per square foot of building. In addition, we evaluated the adequacy of the related financial statement disclosures in note 11.

Other information included in the Company's 2021 Annual Report

Other information consists of the information included in the Company's 2021 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2021 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.

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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.

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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.

28 June 2021
Colombo

STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	Note	Mar 21 Rs.	Mar 20 Rs.
ASSETS			
Cash and bank balances	3	13,422,689,919	8,333,560,554
Deposits with banks and other financial institutions		7,203,305,870	17,282,276,685
Investment in government securities and others	4	15,838,454,720	10,790,843,193
Derivative financial instruments	5.1	325,029,200	273,195,187
Financial assets at amortised cost			
Rentals receivable on leased assets	6	43,098,406,893	43,842,380,956
Loans and advances	7	61,466,956,726	87,112,949,131
Factoring receivable	7.6	-	2,998,751,955
Margin trading receivable		83,553,171	1,767,689
Investment securities	8	5,497,999,899	2,958,198,760
Amount due from related companies	9	33,221,629	60,706,213
Other receivables	10	731,691,550	916,599,740
Inventories		271,727,381	2,023,122
Investment properties	11	21,088,740,181	15,963,885,792
Property plant and equipment	12	1,163,218,438	1,351,206,563
Total assets		**170,224,995,577**	**191,888,345,539**
LIABILITIES			
Bank overdraft	3	1,861,003,040	1,283,200,605
Interest bearing borrowings	13	16,437,442,429	51,558,593,484
Deposits from customers	14	107,791,136,377	99,261,181,454
Trade payables	15	144,788,204	1,048,944,408
Accruals and other payables	16	4,557,546,581	3,331,643,339
Derivative financial instruments	5.2	-	114,349,000
Amount due to related companies	17	620,861,723	854,197,576
Current tax payable	28.1	857,902,877	960,254,586
Deferred tax liability	28.2	1,733,249,164	1,888,186,465
Employee benefits	18.2	332,531,588	298,141,984
Total liabilities		**134,336,461,983**	**160,598,692,900**
SHAREHOLDERS' FUNDS			
Stated capital	19	12,762,500,000	12,762,500,000
Statutory reserve	20.1	3,596,578,755	3,378,281,827
Revaluation Reserve	20.2	328,838,183	241,527,671
Cash flow hedge reserve	20.3	27,607,751	(77,309,605)
Fair value through OCI reserve	20.4	45,445,698	11,956,519
Retained earnings	20.5	19,127,563,207	14,972,696,227
Total equity		**35,888,533,594**	**31,289,652,639**
Total liabilities and equity		**170,224,995,577**	**191,888,345,539**
Commitments and Contingencies	35	**9,332,907,623**	**31,486,783,304**
Net asset value per share		**6.84**	**5.96**

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

(Mrs.) K.U. Amarasinghe - Executive Director

The annexed notes to the financial statements on pages 11 through 79 form an integral part of these financial statements.

23 June 2021
Rajagiriya (Greater Colombo)

ERNST & YOUNG
Chartered Accountants
COLOMBO

LOLC Finance PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2021

	Note	Mar 21 Rs.	Mar 20 Rs.
Interest income	21	33,761,534,127	38,081,709,115
Interest expense	22	(12,446,790,398)	(19,271,364,492)
Net interest income		21,314,743,729	18,810,344,623
Net other operating income	23	10,298,438,290	4,919,827,568
Direct expenses excluding interest cost	24	(950,854,705)	(1,279,608,370)
Allowance for impairment & write-offs	25	(16,341,362,321)	(7,843,541,357)
Personnel expenses	26.1	(3,156,954,655)	(2,971,773,136)
Depreciation	12	(131,853,680)	(201,533,267)
General & administration expenses		(5,979,227,626)	(6,661,847,141)
Profit from operations	26	5,052,929,032	4,771,868,920
Value added tax on financial services		(556,145,927)	(892,209,763)
Profit before tax		4,496,783,105	3,879,659,157
Income tax (expense) / reversal	28	(130,844,548)	(99,974,970)
Profit for the year		4,365,938,557	3,779,684,187
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	18.2.b	19,845,167	(185,272,197)
Related tax	28	(12,619,816)	50,689,523
		7,225,351	(134,582,674)
Revaluation gain on property, plant and equipment	20.2	96,207,856	-
Related tax	20.2	(8,897,344)	-
		87,310,512	-
Movement in fair value (Equity investments at FVOCI)		10,711,224	12,254,474
Related tax		3,473,447	(1,225,447)
		14,184,672	11,029,027
Total of items that will never be reclassified to profit or loss		108,720,535	(123,553,647)
Items that are or may be reclassified to profit or loss			
Movement in fair value through OCI reserve	4.1.3	19,304,507	22,683,918
Movement in hedge reserve	20.3	130,492,506	(53,125,280)
Related tax	20.3	(25,575,150)	14,875,078
		104,917,355	(38,250,201)
Total of items that are or may be reclassified to profit or loss		124,221,863	(15,566,284)
Total other comprehensive income, net of tax		232,942,397	(139,119,931)
Total comprehensive income for the year		4,598,880,954	3,640,564,256
Basic earnings per share	29	0.83	0.77

The annexed notes to the financial statements on pages 11 through 79 form an integral part of these financial statements.

ERNST & YOUNG
Chartered Accountants
COLOMBO

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

	Note	Stated Capital	Statutory Reserve	Revaluation Reserve	Cash flow Hegde Reserve	Fair Value Through OCI Reserve	Retained Earnings	Total Equity
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2019		**7,880,000,000**	**3,189,297,618**	**241,527,671**	**(39,059,404)**	**(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
Movement in fair value through OCI reserve	**4.1.3**	-	-	-	-	22,683,918	-	22,683,918
Net movement of cashflow hedges	**20.3 / 28.2**	-	-	-	(38,250,201)	-	-	(38,250,201)
		-	-	-	(38,250,201)	33,712,944	(134,582,674)	(139,119,931)
Total comprehensive income for the year		**-**	**-**	**-**	**(38,250,201)**	**33,712,944**	**3,645,101,513**	**3,640,564,256**
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**
Balance as at 01 April 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**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	4,365,938,557	4,365,938,557
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss	**18.2 / 28.2**	-	-	-	-	-	7,225,351	7,225,351
Revaluation gain on property, plant and equipment		-	-	87,310,512	-	-	-	87,310,512
Revaluation gain on fair value through OCI investments		-	-	-	-	14,184,672	-	14,184,672
Movement in fair value through OCI reserve	**4.1.3**	-	-	-	-	19,304,507	-	19,304,507
Net movement of cashflow hedges	**20.3 / 28.2**	-	-	-	104,917,355	-	-	104,917,355
		-	-	87,310,512	104,917,355	33,489,179	7,225,351	232,942,397
Total comprehensive income for the year		**-**	**-**	**87,310,512**	**104,917,355**	**33,489,179**	**4,373,163,908**	**4,598,880,954**
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	218,296,928	-	-	-	(218,296,928)	-
Total transactions recorded directly in equity		**-**	**218,296,928**	**-**	**-**	**-**	**(218,296,928)**	**-**
Balance as at 31 March 2021		**12,762,500,000**	**3,596,578,755**	**328,838,183**	**27,607,751**	**45,445,698**	**19,127,563,207**	**35,888,533,594**

The annexed notes to the financial statements on pages 11 through 79 form an integral part of these financial statements.

LOLC Finance PLC

STATEMENT OF CASH FLOWS

For the year ended 31 March 2021

	Note	Mar 21 Rs.	Mar 20 Rs.
Cash flows from operating activities			
Profit before income tax expense		4,496,783,105	3,879,659,157
Adjustments for:			
Depreciation	12	131,853,680	201,533,267
(Profit)/ loss on sales of investment property and PPE	23	(298,765,475)	(12,887,348)
Change in fair value of derivatives - forward contracts	23	195,730,991	91,665,503
Provision for fall / (increase) in value of investments	23	(183,575,967)	(624,295,846)
Impairment provision for the year	25	5,909,098,541	1,772,359,246
Change in fair value of investment property	23	(3,291,066,776)	(2,569,499,327)
Provision for defined benefit plans	18.2.a	57,482,706	54,111,511
Investment income		(1,881,378,487)	(2,160,740,058)
Finance costs	22	12,446,790,398	19,271,364,492
Operating profit before working capital changes		17,582,952,716	19,903,270,597
Change in other receivables		(232,533,460)	(87,119,887)
Change in inventories		(269,704,259)	2,788,112
Change in trade and other payables		212,034,167	147,039,798
Change in amounts due to / due from related parties		(205,851,269)	(21,110,076)
Change in lease receivables		(1,616,750,212)	(1,183,858,320)
Change in loans and advances		20,498,634,595	(717,173,492)
Change in factoring receivables		3,910,200,287	1,551,568,103
Change in margin trading advances		(81,785,482)	(1,767,689)
Change in fixed deposits from customers		2,731,057,344	(14,493,690,931)
Change in savings deposits from customers		6,438,578,206	(1,677,976,277)
Cash (used in) / generated from operations		48,966,832,632	3,421,969,937
Finance cost paid on deposits		(10,070,523,876)	(13,225,387,804)
Gratuity paid	18.2	(23,093,102)	(28,302,712)
Income tax paid	28.1	(424,660,905)	(961,260,692)
Net cash from / (used in) operating activities		38,448,554,749	(10,792,981,270)
Cash flows from investing activities			
Acquisition of property, plant & equipment & investment property		(928,434,263)	(997,267,336)
Proceeds from sale of property, plant & equipment & investment property		641,820,465	74,017,500
Purchase of government securities		(14,846,086,394)	(9,210,656,154)
Proceeds from sale of government securities		9,594,334,231	13,253,136,893
Net proceeds from investments in commercia papers		-	3,340,437,916
Net proceeds from investments in term deposits		10,078,970,814	4,354,898,960
Net proceeds from investments securities		(2,345,513,947)	581,931,275
Investment in subsidiaries		-	(364,100,000)
Interest received		1,881,378,487	2,160,740,058
Net cash flows used in investing activities		4,076,469,393	13,193,139,113
Cash flows from financing activities			
Proceeds from interest bearing loans & borrowings		(34,900,228,157)	(9,351,869,376)
Proceeds from issuance of new shares (Right issue)		-	4,882,500,000
Lease rentals paid	13.2	(97,521,906)	(202,739,674)
Finance cost paid on borrowings		(3,015,947,149)	(5,970,731,146)
Net cash flows from / (used in) financing activities		(38,013,697,212)	(10,642,840,196)
Net increase / (decrease) in cash and cash equivalents		4,511,326,930	(8,242,682,354)
Cash and cash equivalents at the beginning of the year		7,050,359,949	15,293,042,303
Cash and cash equivalents at the end of the year (note 3)		11,561,686,879	7,050,359,949

The annexed notes to the financial statements on pages 11 through 79 form an integral part of these financial statements.

ERNST & YOUNG
Chartered Accountants
COLOMBO

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 period 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 2021 was 3072 (Mar 2020 – 2901).

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 period under review;
- a Statement of Financial Position providing the information on the financial position of the Company as at the period-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 23 June 2021.

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 period 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 unit 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
2.22	New accounting standards issued but not effective as the reporting date.

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 period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the period.

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 Modification of financial assets and financial liabilities

Modification of financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses measured using pre modification interest rate. In other cases, it is presented as interest income.

As per the Circular Nos. 4 and 5 of 2020 issued by CBSL dated May 4, 2020 and June 9, 2020 respectively, the Company granted payment deferrals to eligible customers affected by COVID-19, modifying the original contract. In this regard, NBFIs were allowed to charge upto a maximum of 11.5% per annum on the deferred instalments during the moratorium period of equated monthly instalments (EMI) loans. For other loans various types of interest rate concessions were given to the customers. Further, with the view of meeting the challenges faced by businesses and individuals due to the second wave of COVID-19, CBSL directed banks to extend the debt moratorium to such businesses and individuals for a further period of six months commencing from October 01, 2020. Finance Companies were expected to convert the capital and interest falling due during the moratorium period commencing from October 01, 2020 to March 31, 2021, into a term loan. Repayment period of the new loans shall be minimum of two years, however may vary based on the terms and conditions agreed with the borrower. NBFIs were allowed to recover interest at a rate not exceeding the latest auction rate for 364-days Treasury Bills, available by April 01, 2021, plus 5.5 per cent per annum and shall not exceed 11.5% per annum.

So, the Company has made an assessment in this regard and it shows there is more than 4% PV difference across all the category of the loan due to the first moratorium. Further, in our view such difference would be further increased considerable considering the second moratorium offered by CBSL. Further, the loss of other fees that the Company used to charge its customers at the time of a modification and the penal interest also considerable due to moratorium. In the absence of any prescribed guidelines within SLFRS 9, entities need to develop their own policies and methods while performing the quantitative and qualitative evaluation of such modifications. So, based on the business model and the overall lending strategy, any PV loss beyond 3% will be significant to the Company. Therefore, from the date of moratorium started, the interest accrual will be made based on the revised effective interest rate adjusting applicable costs and fees.

Modification of financial liabilities

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

2.2.7 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

2.2.8 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.

2.2.9 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

2.2.10 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 it's 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	Qualitative inputs
- GDP growth	- Changes in Lending Policies and Procedure
- Inflation	- Changes in Bankruptcy and lending related Legislations
- Unemployment	- Credit Growth
- Interest rates	- Position of the Portfolio within the Business Cycle

In response to COVID-19 and the Company's expectations of economic impacts, key assumptions used in the Company's calculation of ECL have been revised. As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19.

Accordingly, under the collective assessment, customers operating in risk elevated industries including Tourism, Transportation and Construction were assessed for Lifetime ECL. Exposures outstanding from the borrowers operating in these industries have been classified as stage 2 unless such exposures are individually significant and have specifically been identified as stage 1 reflecting forward looking view of the economy in relation to the business.

Further, the Company decided to increase the weightages assigned for worst case scenario while reducing the weightages assigned for base case scenario and best case scenario when assessing the probability weighted forward looking macro-economic indicators along with management overlays to qualitative indicators relating to forward looking macro-economic environment with the objective of capturing the impact of COVID-19 and uncertainties and volatilities in future outlook on the ECL computation as at the reporting date.

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 period 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. Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. 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.

The outbreak of COVID-19 has impacted to business and economic activities, and uncertainty in the global and local economy. Subsequent to the outbreak of COVID-19 in Sri Lanka, the company has strictly adhered to the guidelines and directions issued by both the Government and the Central Bank of Sri Lanka (CBSL) when conducting its business operations. Further, the Company has provided reliefs for the affected businesses and individuals in line with the directions issued by the CBSL in addition to its own relief schemes. These relief measures include deferment of repayment terms of credit facilities and offering concessionary rates of interest to eligible loan products (debt moratorium) and waiving off certain fees and charges.

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 period.

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 period, 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 New accounting standards issued not yet effective as at reporting date

The following new accounting standards/amendments were issued by the Institute of Chartered Accountants in Sri Lanka, which are not yet effective as at 31 March 2021. Accordingly, these accounting standards have not been applied in the preparation of the financial statements for the year ended 31 March 2021.

None of the following new or amended pronouncements are expected to have a material impact on the financial statements of the company in the foreseeable future**.**

SLFRS 17 - Insurance Contracts
SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace IFRS 4 Insurance Contracts (SLFRS 4). SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

SLFRS 17 is effective for annual reporting periods beginning on or after 01 January 2023.

Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 & 2)
The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 01 January 2021.

Amendments to SLFRS 16 - COVID – 19 Related Rent Concessions
The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 Pandemic.

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from Covid-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 01 June 2020.

Amendments to SLFRS 3
The amendments update SLFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to SLFRS 3 a requirement that, for obligations within the scope of LKAS 37, an acquirer applies LKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to LKAS 16
In March 2021, the ICASL adopted amendments to LKAS16 - Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

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

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to LKAS 37
In March 2021, the ICASL adopted amendments to LKAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments

Amendments to LKAS 1: Classification of Liabilities as Current or Non-current

In March 2021, ICASL adopted amendments to paragraphs 69 to 76 of LKAS 1 which specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively.

2.23 Financial risk management

2.23.1 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.

2.23.2 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.

2.23.3 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.

2.23.3.1 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 2021 (March 2020: 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 & October 2020 and as an immediate precautionary measure the Government imposed island wide curfew and travel restrictions. 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 NBFI sectors are the backbone of any economy, any significant economic downturn will directly affect banks and NBFI. 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 NBFI 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 2021.
- 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.

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	
	Mar-21	**Mar-20**	**Mar-21**	**Mar-20**	**Mar-21**	**Mar-20**	**Mar-21**	**Mar-20**	**Mar-21**	**Mar-20**	**Mar-21**	**Mar-20**
Carrying amount	**43,098**	**43,842**	**1,784**	**1,768**	**59,683**	**85,346**	**84**	**2**	**-**	**2,999**	**104,649**	**133,956**
Assets at amortized cost												
Individually impaired - Gross amount	1,221	1,003	288	270	3,945	5,289	-	-	-	-	5,454	6,562
Less : Allowance for impairment	(466)	(541)	(175)	(40)	(1,979)	(2,215)	-	-	-	-	(2,620)	(2,796)
Carrying amount	**755**	**462**	**113**	**230**	**1,966**	**3,074**	**-**	**-**	**-**	**-**	**2,834**	**3,766**
Portfolio subject to collective impairment - Gross amount	45,832	44,433	1,671	1,555	64,779	85,164	84	2	-	3,909	112,366	135,063
Less : Allowance for impairment	(3,489)	(1,053)	-	(17)	(7,061)	(2,892)	-	-	-	(911)	(10,550)	(4,873)
Carrying amount	**42,343**	**43,380**	**1,671**	**1,538**	**57,718**	**82,272**	**84**	**2**	**-**	**2,998**	**101,815**	**130,190**

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)	**Mar-21**	**Mar-20**
Against individually impaired customers :		
Property	1,898	2,362
Vehicles	936	1,208

(In Rs'mn)	**Mar-21**	**Mar-20**
Against Collectively impaired customers :		
Vehicles	56,096	87,406
Others	65,029	93,642

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 end of the period are shown below;

(In Rs'mn)	**Mar-21**	**Mar-20**
Property	-	-
Vehicles	936	1,208

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

(In Rs'mn)	**Mar-21**	**Mar-20**
Leases	-	6
Mortgage Loan	38	43
Other loans & advances	415	571

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 2021

Rs' Mn

Category	**Leases**	**Mortgage Loans**	**Other Loans and Advances**	**Margin Trading**	**Total**
Not due / current	11,717	492	24,319	84	36,612
Overdue :					
Less than 30 days	5,323	143	4,841	-	10,307
31 - 60 days	3,509	19	3,776	-	7,304
61 - 90 days	2,411	23	1,331	-	3,765
91 - 120 days	16,264	179	10,821	-	27,264
121 - 150 days	781	11	1,041	-	1,833
151 - 180 days	478	3	771	-	1,252
above 180 days	5,349	801	17,879	-	24,029
Total	**45,832**	**1,671**	**64,779**	**84**	**112,366**

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**

Sensitivity Analysis of Allowance for Impairment Losses as at 31 March 2021 and 31 March 2020.

Sensitivity effect on impairment allowance Increase ***Rs' Mn***

Changed criteria	Changed factor	Mar-21	Mar-20
Probability of default (PD)	Increase by 1%	49	16
Loss given default (LGD)	Increase by 10%	1,094	412

Analysis of total impairment for expected credit losses
As at 31st March 2021

Rs' Mn

	Stage 01	Stage 02	Stage 03	Total
Financial assets at amortized cost				
Rentals receivable on leased assets	324	1,604	2,027	**3,954**
Loans and advances	1,613	2,125	5,478	**9,216**
Factoring receivable	-	-	-	**-**
Other financial assets	223	-	-	**223**
Commitments and Contingencies	-	17	-	**17**
Total impairment for expected credit losses	**2,160**	**3,746**	**7,505**	**13,411**

As at 31st March 2020

	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**

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

2.23.4 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.

2.23.4.1 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 and October 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
As at 31st March 2021							
Bank overdraft	1,861	1,861	1,861	-	-	-	-
Borrowings	16,437	16,480	10,847	1,080	4,540	7	7
Deposits from customers	107,791	104,358	34,003	52,109	16,096	2,150	-
Trade payables	145	145	145	-	-	-	-
Accruals and other payables	4,245	4,245	4,245	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
Amount due to related companies	621	621	621	-	-	-	-
Total liabilities	**131,101**	**127,710**	**51,722**	**53,189**	**20,636**	**2,157**	**7**
As at 31st March 2020							
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**

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
As at 31st March 2021							
Cash and cash equivalents	13,423	13,423	13,423	-	-	-	-
Deposits with banks and other financial institutions	7,203	7,270	4,536	2,734	-	-	-
Investment in government securities	15,838	23,684	971	10,060	7,097	732	4,825
Derivative assets	325	2,844	2,610	233	-	-	-
Financial assets at amortized cost	-	-	-	-	-	-	-
Rentals receivable on leased assets	43,098	64,858	9,891	17,980	31,548	5,431	9
Loans and advances	61,467	79,461	24,542	21,521	24,835	8,054	509
Factoring receivable	-	-	-	-	-	-	-
Margin trading receivables	84	84	84	-	-	-	-
Investment securities	5,498	5,498	4,317	-	-	-	1,181
Amount due from related companies	33	33	33	-	-	-	-
Other receivables	142	142	142	-	-	-	-
	147,112	197,297	60,548	52,528	63,479	14,217	6,524
As at 31st March 2020							
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	61	61	61	-	-	-	-
Other receivables	415	415	415	-	-	-	-
	174,070	**227,304**	**73,631**	**68,955**	**68,915**	**14,303**	**1,500**

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 31st March 2021* (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	403					403
Total	**403**					**403**
Commitments						
Unutilized loan facilities & letter of credit	6,103					6,103
Allowance for ECL / impairment	17					17
Total	**6,120**					**6,120**

***As at 31st March 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	**11,738**					**11,738**

2.23.5 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 2021 ***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 31.12.20
Interest earning assets						
Deposits with banks and other financial institutions	4,518	2,685	-	-	-	7,203
Investment in government securities & others	714	7,469	4,265	-	3,391	15,838
Financial assets at amortized cost	-	-	-	-	-	-
Rentals receivable on leased assets	7,080	10,865	21,019	4,126	9	43,098
Loans and advances	19,646	16,438	18,678	6,378	327	61,467
Factoring receivable	-	-	-	-	-	-
Margin trading receivables	84	-	-	-	-	84
Total interest earning assets	**32,042**	**37,457**	**43,961**	**10,504**	**3,727**	**127,691**
Interest bearing liabilities						
Bank overdraft	1,861	-	-	-	-	1,861
Interest bearing borrowings	10,681	1,807	3,937	7	6	16,437
Deposits from customers	42,009	49,502	14,112	2,168	-	107,791
Total interest bearing liabilities	**54,551**	**51,309**	**18,049**	**2,175**	**6**	**126,090**
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(22,509)	(13,852)	25,912	8,329	3,721	1,601
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualized effect	(225)	(139)	259	83	37	
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualized effect	225	139	(259)	(83)	(37)	

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)	

2.23.6 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;

In Rs'mn

Capital element	**As at 31.03.2021**	**As at 31.03.2020**
Ordinary share capital	12,762	12,762
Statutory Reserve	3,596	3,378
Retained earnings	19,128	14,963
(-) Investment property revaluation	(8,243)	(4,758)
Other negative reserves	-	(77)
Tier I capital	**27,243**	**26,269**
Subordinated debt	1,933	2,787
Revaluation gains	530	-
Provisions allowances	1,730	-
Tier II capital	**4,193**	**2,787**
Total capital	**31,436**	**29,056**

2.24 Financial assets and liabilities

2.24.1 Accounting classifications and fair values

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

As at 31st March 2021	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	-	-	13,423	**13,423**	**13,423**	
Deposits with banks & other financial institutions	-	-	7,203	**7,203**	**7,203**	
Investment in government securities & others						
- Measured at fair value	-	-	15,118	**15,118**	**14,791**	Level 1
- Measured at amortized cost	-	-	720	**720**	**720**	
Derivative assets	325	-	-	**325**	**325**	Level 2
Investment securities	5,298	199	1	**5,498**	**5,498**	Level 1 / 3
Financial assets at amortized cost						
Rentals receivable on leased assets	-	-	43,098	**43,098**	**45,903**	Level 2
Loans and advances	-	-	61,551	**61,551**	**68,907**	Level 2
Amount due from related companies	-	-	33	**33**	**33**	
Other financial assets	-	-	298	**298**	**298**	
Total financial assets	**5,623**	**199**	**141,445**	**147,267**	**157,102**	
Bank overdraft	-	-	1,861	**1,861**	**1,861**	
Interest bearing borrowings	-	-	16,437	**16,437**	**16,884**	Level 2
Deposits from customers	-	-	107,791	**107,791**	**109,751**	Level 2
Trade payables	-	-	145	**145**	**145**	
Accruals and other payables	-	-	4,490	**4,490**	**4,490**	
Derivative liabilities	-	-	-	**-**	**-**	Level 2
Amount due to related companies	-	-	621	**621**	**621**	
Total financial liabilities	**-**	**-**	**131,345**	**131,345**	**133,751**	

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

As at 31st March 2020	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	-	-	61	**61**	**61**	
Other financial assets	-	-	536	**536**	**536**	
Total financial assets	**3,042**	**9,797**	**161,352**	**174,191**	**174,560**	
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.

2.24.2 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.

3. CASH AND CASH EQUIVALENTS

		Mar 21 Rs.	Mar 20 Rs.
3.1	**Favourable cash & cash equivalents balance**		
	Cash in hand and at bank	13,422,689,919	8,333,560,554
3.2	**Unfavourable cash & cash equivalent balances**		
	Bank overdraft	(1,861,003,040)	(1,283,200,605)
	Total cash and cash equivalents for the purpose of cash flow statement	**11,561,686,879**	**7,050,359,949**

4. INVESTMENT IN GOVERNMENT SECURITIES AND OTHERS

	Mar 21 Rs.	Mar 20 Rs.
Investment In Government Securities		
Financial instruments - at amortized cost (note 4.1.1)	720,085,055	1,182,244,779
Financial instruments - measured at fair value through OCI (note 4.1.2)	15,118,369,665	9,608,598,414
	15,838,454,720	10,790,843,193

4.1 Investment in government securities

		Mar 21		Mar 20	
		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	720,085,055	720,085,055	1,182,244,779	1,182,244,779
4.1.2	**Financial instruments - measured at fair value through OCI**				
	Investment in Treasury Bills	-	-	9,594,334,231	9,594,186,414
	Investment in Treasury Bonds	15,341,814,808	14,294,855,235	14,264,183	14,412,000
	Allowance for impairment (ECL)	(223,445,144)	(223,445,144)	-	-
		15,118,369,665	14,071,410,092	9,608,598,414	9,608,598,414

4.1.3 Fair value adjustments recognized in other comprehensive income - current year (net of transfers to P&L)

	Mar 21 Rs.	Mar 20 Rs.
Investment in Treasury Bills	19,452,325	21,896,550
Investment in Treasury Bonds	(147,818)	787,368
Net Change in Fair Value	19,304,507	22,683,918

4.1.4 Fair value adjustments recognized in other comprehensive income - cumulative

	Mar 21	Mar 20
Investment in Treasury Bills	(0)	(19,452,325)
Investment in Treasury Bonds	-	147,818
	(0)	(19,304,507)

5. DERIVATIVE FINANCIAL INSTRUMENTS

	Mar 21 Rs.	Mar 20 Rs.
Net derivative assets / (liabilities)		
Derivative assets (note 5.1)	325,029,200	273,195,187
Derivative liabilities (note 5.2)	-	114,349,000
Net derivative assets / (liabilities)	325,029,200	158,846,187

5.1 Derivative assets

Forward exchange contracts	325,029,200	273,195,187

5.2 Derivative liabilities

Forward exchange contracts	-	114,349,000

5.3 Change in fair value during the year - gain / (loss)

Recognized in profit or loss	195,730,991	91,665,503
Recognized in OCI	29,547,979	(160,582,171)
	225,278,970	(68,916,669)

6. RENTALS RECEIVABLE ON LEASED ASSETS

	Mar 21 Rs.	Mar 20 Rs.
Rentals receivable	69,495,392,564	70,338,132,076
Unearned income	(17,423,862,969)	(18,622,613,639)
Net rentals receivable (note 6.1)	52,071,529,595	51,715,518,437
Deposits received from lessees	(5,018,670,599)	(6,279,409,653)
Allowance for ECL / impairment (note 6.2)	(3,954,452,103)	(1,593,727,828)
	43,098,406,893	43,842,380,956

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 2021				
Rentals receivable on leased assets	22,959,371,851	17,523,176,187	6,570,310,958	47,052,858,996
Impairment for expected credit losses (note 6.b)	(323,812,191)	(1,604,127,397)	(2,026,512,515)	(3,954,452,103)
Net rentals receivable on leased assets	22,635,559,660	15,919,048,789	4,543,798,443	43,098,406,893
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	39,393,377,653	2,972,937,317	1,476,065,986	43,842,380,956

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 2020	377,284,929	268,109,638	948,333,260	1,593,727,828
Net charge to profit or loss	(53,472,738)	1,336,017,759	1,078,179,255	2,360,724,276
Balance as at 31 March 2021	323,812,191	1,604,127,397	2,026,512,515	3,954,452,103
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	377,284,929	268,109,638	948,333,260	1,593,727,828

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

6.1 Net Rentals Receivable

	Mar 21 Rs.	Mar 20 Rs.
Receivable -more than one year		
Rentals receivable	41,419,405,943	41,975,019,095
Unearned income	(8,346,517,400)	(9,155,281,430)
	33,072,888,543	32,819,737,665
Receivable within one year		
Rentals receivable	25,089,976,182	24,710,639,863
Unearned income	(9,077,345,569)	(9,467,332,209)
	16,012,630,613	15,243,307,654
Overdue		
Rentals receivable	2,986,010,439	3,652,473,118
	52,071,529,595	51,715,518,437

6.2 Allowance for ECL / impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	1,593,727,828	1,310,413,793
Provision / (reversal) for the year	2,360,724,276	283,314,035
Balance at the end of the year	3,954,452,103	1,593,727,828

6.2.1 Individually significant clients - impairment

Balance at the beginning of the year	540,756,922	277,988,899
Provision for the year	(75,206,555)	262,768,023
Balance at the end of the year	465,550,368	540,756,922

6.2.2 Individually non-significant clients - impairment

Balance at the beginning of the year	1,052,970,905	1,032,424,894
Provision for the year	2,435,930,830	20,546,012
Balance at the end of the year	3,488,901,735	1,052,970,905

7. LOANS AND ADVANCES

	Mar 21 Rs.	Mar 20 Rs.
Mortgage Loans (note 7.1)	1,785,291,302	1,731,058,389
Sundry Loans (note 7.2)	48,814,742,050	78,225,283,512
Gold Loan (note 7.3)	9,490,382,659	6,107,254,277
Credit Cards (note 7.4)	1,376,540,715	1,049,352,953
	61,466,956,726	87,112,949,131

7. LOANS AND ADVANCES (Contd...)

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

	Stage 01	**Stage 02**	**Stage 03**	**Total**
Balance as at 31 March 2021	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Loans and advances :				
Mortgage Loans	677,509,401	193,308,656	1,089,461,677	1,960,279,733
Speed Draft	4,981,838,892	2,130,741,394	2,081,493,675	9,194,073,961
Group Loans	7,476,890,460	2,236,400,314	2,193,720,356	11,907,011,130
Sundry Loans	20,441,516,499	8,103,161,541	7,946,057,624	36,490,735,664
Gold Loan	9,452,595,740	-	74,441,741	9,527,037,481
Credit Cards	1,360,544,757	162,105,378	80,803,363	1,603,453,499
Gross loans and advances	44,390,895,749	12,825,717,283	13,465,978,435	70,682,591,468
Impairment for expected credit losses (note 7.b)	(1,612,677,843)	(2,124,934,155)	(5,478,022,744)	(9,215,634,742)
Net loans and advances	42,778,217,907	10,700,783,128	7,987,955,692	61,466,956,726
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

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

	Stage 01	**Stage 02**	**Stage 03**	**Total**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Balance as at 01 April 2020	530,520,480	551,143,320	4,082,679,170	5,164,342,970
Net charge to profit or loss	1,082,157,363	1,573,790,835	1,395,343,573	4,051,291,771
Balance as at 31 March 2021	1,612,677,843	2,124,934,155	5,478,022,744	9,215,634,742
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

7.1 Mortgage Loans

	Mar 21	**Mar 20**
	Rs.	**Rs.**
Rentals receivable	2,661,454,238	2,343,150,354
Unearned income	(701,174,505)	(554,808,556)
Net rentals receivable (note 7.1.1)	1,960,279,733	1,788,341,798
Allowance for ECL / impairment (note 7.1.2)	(174,988,431)	(57,283,409)
	1,785,291,302	1,731,058,389

7.1.1 Net rentals receivable - Mortgage Loans

Receivable -more than one year		
Installments receivable	1,658,413,051	1,273,284,049
Unearned income	(456,643,992)	(306,453,734)
	1,201,769,059	966,830,315
Receivable within one year		
Installments receivable	605,313,436	700,607,376
Unearned income	(244,530,514)	(248,354,822)
	360,782,922	452,252,554
Overdue		
Installments receivable	397,727,751	369,258,929
	1,960,279,733	1,788,341,798

7. LOANS AND ADVANCES (Contd...)

7.1.2 Allowance for ECL / impairment - Mortgage Loans

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	57,283,409	63,038,370
Provision / (reversal) for the year	117,705,022	(5,754,961)
Balance at the end of the year	174,988,431	57,283,409

7.1.2.a Individually significant clients - impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	39,952,497	41,905,876
Provision / (reversal) for the year	135,035,934	(1,953,380)
Balance at the end of the year	174,988,431	39,952,497

7.1.2.b Individually non-significant clients - impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	17,330,912	21,132,494
Provision / (reversal) for the year	(17,330,912)	(3,801,581)
Balance at the end of the year	-	17,330,912

7.2 Sundry Loans

	Mar 21 Rs.	Mar 20 Rs.
Total receivable	67,901,863,005	96,983,290,997
Unearned income	(10,310,042,250)	(13,828,725,930)
Net receivable (note 7.2.1)	57,591,820,755	83,154,565,067
Allowance for ECL / impairment (note 7.2.2)	(8,777,078,705)	(4,929,281,555)
	48,814,742,050	78,225,283,512

7.2.1 Net receivable - Sundry Loans

	Mar 21 Rs.	Mar 20 Rs.
Receivable -more than one year		
Installments receivable	32,297,921,100	48,908,984,050
Unearned income	(5,247,659,068)	(6,038,694,293)
	27,050,262,032	42,870,289,757
Receivable within one year		
Installments receivable	30,435,873,388	40,092,324,111
Unearned income	(5,062,383,182)	(7,790,031,637)
	25,373,490,207	32,302,292,474
Overdue		
Installments receivable	5,168,068,517	7,981,982,836
	57,591,820,755	83,154,565,067

7.2.2 Allowance for ECL / impairment - Sundry Loans

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	4,929,281,555	3,260,039,001
Provision / (reversal) for the year	3,847,797,150	1,669,242,555
Balance at the end of the year	8,777,078,705	4,929,281,555

7. LOANS AND ADVANCES (Contd...)

7.2.2.a Individually significant clients - impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	2,209,519,108	994,797,394
Provision / (reversal) for the year	(230,057,288)	1,214,721,714
Balance at the end of the year	1,979,461,820	2,209,519,108

7.2.2.b Individually non-significant clients - impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	2,719,762,447	2,265,241,606
Provision for the year	4,077,854,437	454,520,841
Balance at the end of the year	6,797,616,885	2,719,762,447

7.3 Gold loans

	Mar 21 Rs.	Mar 20 Rs.
Gross amount outstanding at year end	9,527,037,481	6,217,404,613
Allowance for ECL / impairment (note 7.3.1)	(36,654,822)	(110,150,336)
Balance at the end of the year	9,490,382,659	6,107,254,277

7.3.1 Allowance for ECL / impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	110,150,336	48,130,651
Provision / (reversal) for the year	(73,495,514)	62,019,685
Balance at the end of the year	36,654,822	110,150,336

7.3.1.a Individually significant clients - impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	5,284,102	5,284,102
Provision / (reversal) for the year	(5,284,102)	-
Balance at the end of the year	-	5,284,102

7.3.1.b Individually non-significant clients - impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	104,866,234	42,846,549
Provision for the year	(68,211,412)	62,019,685
Balance at the end of the year	36,654,822	104,866,234

7. LOANS AND ADVANCES (Contd...)

7.4 Credit Card

	Mar 21 Rs.	Mar 20 Rs.
Gross amount outstanding at year end	1,603,453,499	1,116,980,623
Allowance for ECL / impairment (note 7.4.1)	(226,912,784)	(67,627,670)
Balance at the end of the year	1,376,540,715	1,049,352,953

7.4.1 Allowance for ECL / impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	67,627,670	9,821,962
Provision / (reversal) for the year	159,285,114	57,805,708
Balance at the end of the year	226,912,784	67,627,670
Individually non-significant clients - impairment		
Balance at the beginning of the year	67,627,670	9,821,962
Provision for the year	159,285,114	57,805,708
Balance at the end of the year	226,912,784	67,627,670

7.5 Margin Trading Receivables

	Mar 21 Rs.	Mar 20 Rs.
Gross amount outstanding at year end	83,553,171	1,767,689
Allowance for ECL / impairment	-	-
Net balance on margin trading	83,553,171	1,767,689

7.6 Factoring Receivables

Gross receivable	-	3,910,200,287
Allowance for ECL / impairment (note 6.5.1)	-	(911,448,332)
	-	2,998,751,955

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 2021				
Factoring receivable	-	-	-	-
Impairment for expected credit losses (note 7.6.b)	-	-	-	-
Net factoring receivable	-	-	-	-
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)	(102,904,248)	(58,646,296)	(749,897,789)	(911,448,332)
Net factoring receivable	1,576,702,861	26,228,053	1,395,821,041	2,998,751,955

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 2020	102,904,248	58,646,296	749,897,789	911,448,332
Net charge to profit or loss	(102,904,248)	(58,646,296)	(749,897,789)	(911,448,332)
Balance as at 31 March 2021	-	-	-	-
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	(166,884,824)	22,842,590	(152,609,922)	(296,652,155)
Balance as at 31 March 2020	102,904,248	58,646,296	749,897,789	911,448,332

7. LOANS AND ADVANCES (Contd...)

7.6.1 Allowance for ECL / impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	911,448,332	1,208,100,488
Provision / (reversal) for the year	(911,448,332)	(296,652,155)
Balance at the end of the year	-	911,448,332

7.6.1.a Individually significant clients - impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	-	105,659,657
Provision / (reversal) for the year	-	(105,659,657)
Balance at the end of the year	-	-

7.6.1.b Individually non-significant clients - impairment

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	911,448,332	1,102,440,831
Provision for the year	(911,448,332)	(190,992,499)
Balance at the end of the year	-	911,448,332

7.7 Portfolio Analysis

7.7.1 Sectorwise exposure of the lending portfolio - before impairment provision

	Mar 21 Rs.	Mar 20 Rs.
Agriculture	22,900,607,286	23,354,692,993
Manufacturing	9,754,777,265	9,261,980,046
Economics and Social	4,609,662,386	3,034,874,339
Trade	18,625,189,899	25,727,219,110
Factoring	-	5,731,320,258
Margin Trading	83,553,171	1,767,689
Tourism	1,892,189,151	1,755,897,473
Services	18,196,522,192	22,143,805,684
Transportation	19,017,350,889	14,823,649,267
Construction	8,919,295,289	8,349,764,508
Mining and Quarrying	791,226,923	541,892,699
Others	13,028,629,185	26,898,504,796
	117,819,003,635	141,625,368,861

7.7.2 Product wise analysis of portfolio

	Mar 21 Rs.	Mar 20 Rs.
Lease receivables	44,107,687,952	42,425,588,352
Loans & Advances	63,056,052,081	83,283,212,142
Factoring receivables	-	3,910,200,287
Margin trading receivables	83,553,171	1,767,689
Alternative finance portfolio - Ijarah receivables	2,945,171,044	3,010,520,432
Alternative finance portfolio - Other receivables (Murabaha, Musharakah etc.)	7,626,539,388	8,994,079,959
Gross portfolio	117,819,003,635	141,625,368,861
Less : Allowance for ECL / impairment	(13,170,086,845)	(7,669,519,130)
Net portfolio	104,648,916,790	133,955,849,731

7. LOANS AND ADVANCES (Contd...)

7.7.3 Net portfolio

	Mar 21 Rs.	Mar 20 Rs.
Rentals receivable on leased assets (note 6)	43,098,406,893	43,842,380,956
Loans and advances (note 7)	61,466,956,726	87,112,949,131
Factoring receivable (note 7.6)	-	2,998,751,955
Margin trading receivable	83,553,171	1,767,689
	104,648,916,790	133,955,849,731

8. INVESTMENT SECURITIES

	Mar 21 Rs.	Mar 20 Rs.
Investment securities measured at amortised cost (note 8.2)	537,175	537,175
Investment securities measured at FVTPL – debt / equity investments (note 8.1 / 8.2.2)	5,298,367,026	2,769,277,111
Investment securities measured at FVOCI – equity investments (note 8.2.3)	199,095,698	188,384,474
	5,497,999,899	2,958,198,760

8.1 Investment securities measured at FVTPL – debt / equity investments

	Mar 21 Rs.	Mar 20 Rs.
Expo Lanka Holdings PLC		
Original cost	1,653,174	18,000,000
Carrying amount at the beginning of the year	2,000,000	4,000,000
Adjustment for change in fair value - recognized in profits	47,967,311	(2,000,000)
Disposal during the year	(45,862,928)	-
Carrying amount at the end of the year	4,104,383	2,000,000
Investment in Unit Trusts		
Original cost	4,100,000,000	1,450,000,000
Carrying amount at the beginning of the year	1,736,603,949	2,090,573,484
Investments during the year	4,100,000,000	-
Adjustment for change in fair value - recognized in profits	76,740,190	227,961,740
Disposal during the year	(1,793,112,687)	(581,931,275)
Carrying amount at the end of the year	4,120,231,452	1,736,603,949
Trading Gold Stock		
Original cost	123,186,237	38,696,675
Carrying amount at the beginning of the year	49,650,736	-
Investments during the year	84,489,562	38,696,674
Adjustment for change in fair value - recognized in profits	58,475,013	10,954,062
Carrying amount at the end of the year	192,615,311	49,650,736
Total investments held for trading	**4,316,951,146**	**1,788,254,685**

8. INVESTMENT SECURITIES (Contd…)

8.2.1 Investment securities measured at amortised cost

	Mar 21 Rs.	Mar 20 Rs.
Credit Information Bureau Ltd	537,175	537,175

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

Balance as at 31 March 2021	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
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	537,175	-	-	537,175
Balance as at 31 March 2020	Rs.	Rs.	Rs.	Rs.
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	537,175	-	-	537,175

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 2020	-	-	-	-
Net charge to profit or loss	-	-	-	-
Balance as at 31 March 2021	-	-	-	-
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	-	-	-	-

8.2.2 Investment securities measured at FVTPL – equity investments

	Mar 21 Rs.	Mar 20 Rs.
LOLC Myanmar Micro Finance Company Ltd		
Carrying amount at the beginning of the year	981,022,426	229,542,382
Cost of new investments	-	364,100,000
Adjustment for change in fair value - recognized in profit or loss	393,454	387,380,044
Carrying amount at the end of the year	981,415,880	981,022,426

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
Residual Income Approach	As at 31st March 2021, value per share was derived based on cost of equity (20.02%), terminal growth (2%), exchange rate (MMK/LKR 0.1424) and forecasted cash flows. As at 31st March 2020, value per share was derived based on cost of equity (17.91%), terminal growth	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

	Mar 21 Rs.	Mar 20 Rs.
LOLC Asia (Pvt) Ltd		
Carrying amount at the beginning of the year	188,384,474	176,130,000
Adjustment for change in fair value - recognized in OCI	10,711,224	12,254,474
Carrying amount at the end of the year	199,095,698	188,384,474
Total	1,181,048,753	1,169,944,075

9. AMOUNTS DUE FROM RELATED COMPANIES	Relationship	Mar 21 Rs.	Mar 20 Rs.
Creations Constructions Engineering Pvt Ltd	Fellow subsidiary	1,452,902	1,452,902
Leapstitch Technologies Pvt Ltd	Fellow subsidiary	741,400	-
LOLC GEO Tec Pvt Ltd	Fellow subsidiary	9,600	-
LOLC Asset Holding Co/ LOLC Life Assurance Co.	Fellow subsidiary	10,000	10,000
LOLC Insurance - General Ltd	Fellow subsidiary	19,127,538	51,142,544
LOLC Securities Ltd	Fellow subsidiary	1,375,214	-
Browns Investments	Fellow subsidiary	500,000	-
Eden Hotel Lanka PLC	Fellow subsidiary	6,227	12,023
I Pay (Pvt) Ltd	Fellow subsidiary	-	642,693
Commercial Leasing and Finance PLC	Fellow subsidiary	2,293,346	2,120,595
Green Paradise	Fellow subsidiary	1,236	5,783
Sun & Fun Resorts Ltd.	Fellow subsidiary	2,777	3,205
LOLC Development Finance PLC	Fellow subsidiary	-	5,918
Excel Restaurants (Pvt) Ltd	Fellow subsidiary	278,415	278,415
LOLC Insurance - Life Ltd	Fellow subsidiary	7,402,974	4,850,440
BI Commodities & logistics Pvt Ltd	Fellow subsidiary	-	181,695
LOLC Advance Technologies (Pvt) Ltd	Fellow subsidiary	20,000	-
		33,221,629	60,706,213

10. OTHER RECEIVABLES	Mar 21 Rs.	Mar 20 Rs.
Financial Assets		
Staff loans	67,165,559	159,094,294
Other receivables	355,445,239	256,342,458
Provision on other receivable	(280,551,998)	(252,727,888)
	142,058,799	162,708,865
Non Financial Assets		
VAT receivable	253,412,014	254,081,057
Prepaid staff cost	28,338,439	120,422,446
Miscellaneous receivables	307,882,298	379,387,373
	589,632,751	753,890,876
Total Other receivables	731,691,550	916,599,740

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, Rs.16,971,551.65 received on 25th September 2019, Rs.16,971,551.65 received on 25th August 2020, Rs.16,971,551.65 received on 23rd October 2020 and Rs.16,971,551.65 received on 31s March 2021. Balance part is included in "Other receivables".

11. INVESTMENT PROPERTIES	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	15,963,885,792	11,635,211,000
Additions to Investment Properties from foreclosure of contracts	1,096,066,038	816,753,174
Additions and improvements		
Improvements	27,135,432	83,017,204
Additions	710,586,143	859,405,087
Change in fair value	3,291,066,776	2,569,499,327
Balance at the end of the year	21,088,740,181	15,963,885,792

- 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.

- The company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs.96,760,140 during the current year (2019/20 - Rs.91,725,786) from these properties.

- During the year company has incurred expenses amounting to Rs.17,787,749 for maintenance of the investment property. (2019/20 - Rs.15,320,373)

- 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 December 2020. The fair value has been determine based on valuation perform 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 as of December 2020 ranges from Rs.47,390 to Rs.34,814,815 in the Colombo area and Rs.11,507 to Rs.7,043,950 outside the Colombo area. As of March 2020, property values were ranges from Rs.104,000 to Rs.30,000,000 in the Colombo area and	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 year 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
Cost/Valuation	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Balance as at 01 April 2020	141,719,000	117,874,547	670,050,000	1,050,694,286	65,844,416	2,046,182,249
Additions	-	-	-	-	19,195,193	19,195,193
Disposals	-	-	-	(293,696,994)	-	(293,696,994)
Revaluation	38,781,000	48,129,502	-	-	-	86,910,502
Transfers	-	-	(396,135,000)	396,135,000	-	-
Adjustment	-	-	-	5,650,000	(5,670,000)	(20,000)
Balance as at 31 March 2021	180,500,000	166,004,048	273,915,000	1,158,782,292	79,369,609	1,858,570,950
Accumulated Depreciation						
Balance as at 01 April 2020	-	7,598,696	131,404,103	527,717,804	28,255,083	694,975,686
Charge for the year	-	3,323,469	26,671,472	74,042,879	27,815,858	131,853,679
Depreciation on disposals	-	-	-	(122,179,499)	-	(122,179,499)
Revaluation	-	(9,297,354)	-	-	-	(9,297,354)
Transfers	-	-	(38,547,596)	38,547,596	-	(0)
Balance as at 31 March 2021	-	1,624,811	119,527,979	518,128,780	56,070,941	695,352,512
Carrying Amount						
As at 31 March 2021	**180,500,000**	**164,379,237**	**154,387,021**	**640,653,512**	**23,298,668**	**1,163,218,438**

Company	Land	Building	Leasehold Motor Vehicles	Freehold Motor Vehicles	Other equipment and software	Total
Cost/Valuation	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
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**

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

Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amount to Rs.154,387,021 as at 31 March 2021 (31 March 2020 - Rs.538,645,897) 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.

	Mar 21 Rs.	Mar 20 Rs.
Receivable within one year	84,642,860	209,724,950
Receivable within 1-5 years	9,552,385	92,677,400
Total	94,195,245	302,402,350

Temporarily idle property, plant and equipment
There were no property, plant and equipment idle as at 31 March 2021 and 31 March 2020.

Fully depreciated property, plant and equipment
There were motor vehicles amount to Rs.1,508,000 and office equipment amount to Rs.47,504,368 in property, plant and equipment fully depreciated as at 31 March 2021 and no any property, plant and equipment fully depreciated as at 31 March 2020.

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 December 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 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 as of December 2020 ranges from Rs.47,390 to Rs.34,814,815 in the Colombo area and Rs.11,507 to Rs.7,043,950 outside the Colombo area. As of March 2020, property values were 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 year 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;

	Mar 21 Rs.	Mar 20 Rs.
Cost	259,593,547	259,593,547
Accumulated depreciation and impairment	(10,922,165)	(7,598,696)
Carrying value	248,671,381	251,994,850

13. INTEREST BEARING BORROWINGS

	Mar 21 Rs.	Mar 20 Rs.
Short-term loans	1,060,000,000	20,963,369,863
Long-term borrowings (note 13.1)	12,109,298,395	27,198,582,182
Finance leases (note 13.2)	23,023,094	111,902,195
Debentures (note 13.3)	2,500,000,000	2,500,000,000
Total borrowings	15,692,321,489	50,773,854,240
Interest payable	745,120,940	784,739,243
Liability recognized in statement of financial position	16,437,442,429	51,558,593,484

13.1 Long-term borrowings

Balance at the beginning of the year	27,198,582,182	35,056,235,627
Loans obtained during the year	1,853,000,000	2,010,948,000
Repaid during the year	(16,942,283,787)	(9,868,601,445)
Balance at the end of the year	12,109,298,395	27,198,582,182
Long-term borrowings - current	10,940,948,395	25,187,634,182
Long-term borrowings - non-current (note 13.1.a)	1,168,350,000	2,010,948,000
	12,109,298,395	27,198,582,182

13.1.a Analysis of non-current portion of long-term borrowings

Repayable within 1-3 years	1,168,350,000	2,010,948,000
Repayable after 3 years	-	-
	1,168,350,000	2,010,948,000

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.6,120,195,250 has been classified as current even though the contractual maturity is long term. Of this amount Rs.3,104,101,500 has a contractual maturity within 1-3 years and Rs.3,016,093,750 has a maturity after 3 years.

13.2 Finance leases

	Mar 21 Rs.	Mar 20 Rs.
Gross lease rentals payable at the beginning of the year	121,818,537	324,558,211
Lease obtained during the year	-	-
Lease rentals paid during the year	(97,521,906)	(202,739,674)
Gross lease rentals payable at the end of the year	24,296,631	121,818,537
Less: Interest in suspense	(1,273,537)	(9,916,342)
Balance at the end of the year / present value of minimum lease payments	23,023,094	111,902,195

13.2.1 Analysis of finance leases

Repayable within one year (note 13.2.1.a)	23,023,094	88,442,886
Repayable within 1-5 years (note 13.2.1.b)	-	23,459,309
	23,023,094	111,902,195

13.2.1.a Repayable within one year

Gross lease rentals payable	24,296,631	97,078,133
Less: interest in suspense	(1,273,537)	(8,635,247)
	23,023,094	88,442,886

13.2.1.b Repayable within 1-5 years

Gross lease rentals payable	-	24,740,405
Less: interest in suspense	-	(1,281,096)
	-	23,459,309

13.3 Debentures

Balance at the beginning of the year	2,500,000,000	4,950,000,000
Debenture issued during the year (net of transaction cost)	-	2,500,000,000
Debenture redeemed during the year	-	(4,950,000,000)
Balance at the end of the year	2,500,000,000	2,500,000,000

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.

14. DEPOSITS FROM CUSTOMERS

	Mar 21 Rs.	Mar 20 Rs.
Customer deposits	105,108,361,141	95,938,725,591
Interest / profit payable		
Interest payable on deposits	2,471,949,127	3,151,746,541
Profits payable to alternative finance deposit holders	210,826,109	170,709,322
	2,682,775,236	3,322,455,863
Deposit liability recognized in statement of financial position	107,791,136,377	99,261,181,454

14.1 Analysis of customer deposits based on nature

	Mar 21 Rs.	Mar 20 Rs.
Fixed deposits - conventional	80,225,049,271	78,437,724,440
Fixed deposits - alternative finance - Mudharabah	3,241,560,004	2,863,945,728
Fixed deposits - alternative finance - Wakala	7,576,034,386	7,386,706,909
Fixed deposits - foreign currency	1,796,317,339	1,417,999,579
Fixed deposit bonds	4,322,336	5,849,336
Savings deposits - conventional	2,938,364,396	2,459,154,298
Savings deposits - alternative finance	789,855,390	765,275,872
Savings deposits - foreign currency	8,536,858,019	2,602,069,429
Total deposits	105,108,361,141	95,938,725,591

14.2 Deposits based on maturity

	Mar 21 Rs.	Mar 20 Rs.
Deposits maturing within one year	88,827,775,215	77,349,595,370
Deposits maturing after one year	16,280,585,926	18,589,130,221
	105,108,361,141	95,938,725,591

15. TRADE PAYABLES

	Mar 21 Rs.	Mar 20 Rs.
Creditors for lease equipment and approved facilities to be disbursed	144,788,204	1,048,944,408

16. ACCRUALS AND OTHER PAYABLES

	Mar 21 Rs.	Mar 20 Rs.
Excess payments received from clients	234,761,384	200,418,781
Insurance payable	101,764,731	73,022,970
VAT / other tax payable	61,676,928	22,557,988
Other miscellaneous creditors	3,689,082,259	2,509,663,318
Payable on matured deposits	441,562,699	507,494,934
Stamp duty payable	11,282,360	16,278,165
Allowance for impairment (ECL) - Undrawn credit facilities	17,416,220	2,207,183
	4,557,546,581	3,331,643,339

17. AMOUNTS DUE TO RELATED COMPANIES

	Relationship	Mar 21 Rs.	Mar 20 Rs.
LOLC Holding PLC	Parent	495,464,521	655,110,440
LOLC Factors Ltd	Fellow subsidiary	51,133,300	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	43,861,815	17,349,436
Brown & Co. Ltd	Fellow subsidiary	4,000,000	4,000,000
LOLC Motors Ltd	Fellow subsidiary	12,248,814	4,549,456
LOLC Development Finance PLC	Fellow subsidiary	177,689	-
LOLC Corporate services Ltd	Fellow subsidiary	605,657	595,000
LOLC Property 1-4	Fellow subsidiary	13,369,927	32,087,824
		620,861,723	854,197,576

18. EMPLOYEE BENEFITS

18.1 Defined contribution plans

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

	Mar 21 Rs.	Mar 20 Rs.
Employees' Provident Fund		
Employers' contribution	152,704,329	140,302,826
Employees' contribution	101,802,886	93,535,217
Employees' Trust Fund	38,164,717	35,075,699

18.2 Defined benefit plan

Movement in the present value of the defined benefit obligation

	Mar 21 Rs.	Mar 20 Rs.
Defined benefit obligation at the beginning of the year	298,141,984	87,060,988
Adjustments to defined benefit obligation	-	120,857,045
Defined benefit obligation at the beginning of the year - Adjusted	298,141,984	207,918,033
Expense included in Personnel Expenses	77,327,873	54,111,511
Remeasurement Component	(19,845,167)	64,415,152
	57,482,706	118,526,663
Benefits paid	(23,093,102)	(28,302,712)
Defined benefit obligation at end of the year	**332,531,588**	**298,141,984**

18.2.a Expense included in Personnel Expenses

	Mar 21 Rs.	Mar 20 Rs.
Current Service Cost	44,532,255	31,240,528
Interest Cost	32,795,618	22,870,983
	77,327,873	**54,111,511**

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

	Mar 21 Rs.	Mar 20 Rs.
Cumulative loss at the beginning of the year	196,424,397	11,152,200
(Gain) / loss recognised during the year	(19,845,167)	185,272,197
Cumulative loss at end of the year	**176,579,230**	**196,424,397**

Acturial valuation for defined benefit obligation was carried out as at 31 December 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 Actuarial Cost 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:

	Mar 21	**Mar 20**
Discount Rate	8.00%	10.50%
Salary Increment Rate	6.50%	8.50%
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 under the Payment of Gratuity Act No. 12 of 1983. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service. The obligation is not externally

Current weighted average duration of the defined benefit obligation is 7 years.
Assumptions regarding future mortality are based on published statistics and mortality tables.

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.

	Mar 21 **Rs.**	**Mar 20** **Rs.**
The defined benefit obligation under current assumptions	332,531,588	298,141,984
The defined benefit obligation if the discount rate increased by 100 basis points	307,531,582	278,054,266
The defined benefit obligation if the discount rate reduced by 100 basis points	361,065,787	320,979,567
The defined benefit obligation if the salary increment rate increased by 1%	362,210,258	320,690,226
The defined benefit obligation if the salary increment rate reduced by 1%	306,175,782	277,944,693
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(25,000,006)	(20,087,718)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	28,534,199	22,837,583
The change in the defined benefit obligation if the salary increment rate increased by 1%	29,678,670	22,548,242
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(26,355,806)	(20,197,291)

18.2.e Maturity analysis of the payments

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

	Mar 21	**Mar 20**
Within the next 12 months	35,164,212	31,575,365
Between 1 and 2 years	35,248,634	35,574,825
Between 2 and 5 years	143,891,468	122,793,660
Between 5 and 10 years	330,038,215	364,506,991
Total expected payments	**544,342,529**	**554,450,841**

19. STATED CAPITAL

	Mar 21		Mar 20	
	Number of	Rs.	Number of shares	Rs.
Balance at the beginning of the year	5,250,000,000	12,762,500,000	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	5,250,000,000	12,762,500,000	5,250,000,000	12,762,500,000

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

	Mar 21 Rs.	Mar 20 Rs.
Statutory reserve (note 20.1)	3,596,578,755	3,378,281,827
Revaluation reserve (note 20.2)	328,838,183	241,527,671
Cash flow hedge reserve (note 20.3)	27,607,751	(77,309,605)
Fair value reserve (note 20.4)	45,445,698	11,956,519
Retained earnings (note 20.5)	19,127,563,207	14,972,696,227
	23,126,033,594	18,527,152,639

20.1 Statutory reserve

Balance at the beginning of the year	3,378,281,827	3,189,297,618
Transferred during the year	218,296,928	188,984,209
Balance at the end of the year	3,596,578,755	3,378,281,827

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% (2019/20 - 5%) of its annual net profit after tax to this reserve in compliance with this direction.

20.2 Revaluation Reserve

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	241,527,671	241,527,671
Transferred during the year	96,207,856	-
Related tax	(8,897,344)	-
Balance at the end of the year	328,838,183	241,527,671

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

20.3 Cash flow hedge reserve

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	(77,309,605)	(39,059,403)
Gain / (loss) arising from cash flow hedge recognized in OCI	130,492,506	(53,125,280)
Related tax - current tax - expense / (reversal) - note 28	(7,091,515)	44,963,008
Related tax - deferred tax - expense / (reversal) - note 28	(18,483,635)	(30,087,930)
Balance at the end of the year	27,607,751	(77,309,605)

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 31 March 2021, there were assets with fair value of Rs.325,029,200 and liabilities with fair value of Rs..

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.

20. RESERVES (Contd...)

20.4 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.

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	11,956,519	(21,756,425)
Investment in government securities measured at FVOCI	19,304,507	22,683,918
Investment securities measured at FVOCI – equity investments	14,184,672	11,029,027
Balance at the end of the year	45,445,698	11,956,519

20.5 Retained Earnings

Balance at the beginning of the year	14,972,696,227	11,516,578,923
Profit for the year	4,365,938,557	3,779,684,187
Premeasurements of defined benefit liability - gain / (loss)	7,225,351	(134,582,674)
Transfer to statutory reserve fund	(218,296,928)	(188,984,209)
Balance at the end of the year	19,127,563,207	14,972,696,227

21. INTEREST INCOME

	Mar 21 Rs.	Mar 20 Rs.
Interest on leases	11,501,641,597	11,214,521,730
Interest on loans	14,532,083,166	19,511,067,479
Income from factoring portfolio	585,437,376	1,205,421,617
Interest from credit cards	234,662,234	158,753,668
Interest on margin trading	1,193,616	437,865
Income from operating lease and hire	265,091,620	316,297,007
Interest on overdue rentals and others	4,760,046,031	3,514,551,691
Interest income on government securities	1,503,773,383	1,237,378,237
Interest income on term deposits	377,605,104	923,279,821
	33,761,534,127	38,081,709,115

22. INTEREST EXPENSE

	Mar 21 Rs.	Mar 20 Rs.
Interest on fixed deposits	8,216,179,370	12,168,809,615
Interest on savings deposits	190,911,890	174,729,942
Profit distributed to alternative finance deposit holders	948,525,678	875,735,205
Interest on foreign currency deposits	75,226,311	73,820,515
Finance lease interest	8,494,307	23,390,111
Interest on loans & bank overdraft	3,007,452,842	5,954,879,104
	12,446,790,398	19,271,364,492

23. NET OTHER OPERATING INCOME

	Mar 21 Rs.	Mar 20 Rs.
Sundry income	718,876,804	587,004,355
Service charges	3,058,654	17,515,499
Arrangement and documentation fees	270,713,966	394,699,556
Collections from contracts written off	5,035,954,870	844,834,460
Fair value change in investment properties (Note 11)	3,291,066,776	2,569,499,327
Change in fair value of derivatives - forward contracts (note 5.3)	195,730,991	91,665,503
Net exchange loss	251,780,762	(290,674,636)
Adjustment for increase / (decrease) in value of investments (note 8.1 / 8.2.2)	183,575,967	624,295,846
Debenture Interest	-	13,316,702
Interest income from staff loan	36,204,079	54,701,608
Disposal gain / (loss) on shares	12,709,946	-
Disposal gain / (loss) on government securities	229,232,991	82,000
Disposal gain / (loss) on PPE	69,532,484	12,887,348
	10,298,438,290	4,919,827,568

24. DIRECT EXPENSES EXCLUDING INTEREST COST

	Mar 21 Rs.	Mar 20 Rs.
Insurance expenses factored to accommodations	943,170,683	1,202,844,358
VAT on general expenses	7,684,022	76,764,012
	950,854,705	1,279,608,370

25. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS

	Mar 21 Rs.	Mar 20 Rs.
Impairment provision / (reversal) for lease rentals receivable (Note 6.2)	2,360,724,276	283,314,035
Impairment provision / (reversal) for mortgage loan (Note 7.2.2)	117,705,022	(5,754,961)
Impairment provision / (reversal) for receivables from sundry loans (Note 7.3.2)	3,847,797,150	1,669,242,555
Impairment provision / (reversal) for credit card receivables (Note 7.4)	159,285,114	57,805,708
Impairment provision / (reversal) for receivables from Gold loans (Note 7.4.1)	(73,495,514)	62,019,685
Impairment provision / (reversal) for factoring receivables (Note 7.6.1)	(911,448,332)	(296,652,155)
Impairment provision / (reversal) for other financial assets	238,654,181	2,384,380
Impairment provision / (reversal) for insurance receivable	169,876,646	-
Written-off during the year	10,432,263,780	6,071,182,111
	16,341,362,321	7,843,541,357

Comparison between provision for impairment as per SLFRS 09 and Central Bank (CBSL) requirement

	Impairment charge to profit or loss Rs.	Written-off during the year Rs.	Charge to profit or loss net of write-offs Rs.	Provision impact as per CBSL Rs.
Rentals receivable on leased assets	4,831,140,254	2,470,415,979	2,360,724,276	3,900,157,134
Loans and advances	12,013,139,573	7,961,847,801	4,051,291,771	2,835,937,948
Factoring receivable	(911,448,332)	-	(911,448,332)	(996,873,187)
Other financial assets	238,654,181	-	238,654,181	-
Insurance receivable	169,876,646	-	169,876,646	169,876,646
	16,341,362,321	10,432,263,780	5,909,098,541	5,909,098,541

26. PROFIT FROM OPERATIONS

	Mar 21 Rs.	Mar 20 Rs.
Profit from operations is stated after charging all expenses including the following,		
Directors' emoluments	36,150,500	44,071,000
Audit fees and expense - Audit Services	3,518,000	2,925,000
- Audit Related Services	1,187,000	1,120,000
Depreciation on property, plant and equipment	131,853,680	201,533,267

26.1 Personnel expenses

	Mar 21 Rs.	Mar 20 Rs.
- Salaries, wages & other related cost	2,888,757,737	2,742,283,100
- Defined contribution plans - EPF & ETF	190,869,046	175,378,525
- Defined benefit plan cost	77,327,873	54,111,511
	3,156,954,655	2,971,773,136

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 year 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 31.03.2021 Rs.	Total as at 31.03.2020 Rs.
Cash and cash equivalents	13,422,689,919	-	-	-	-	13,422,689,919	8,333,560,554
Deposits with banks and other financial institutions	4,518,305,745	2,685,000,125	-	-	-	7,203,305,870	17,282,276,685
Investment in government securities	713,732,260	7,468,579,695	4,264,881,360	-	3,391,261,405	15,838,454,720	10,790,843,193
Derivative assets	309,289,200	15,740,000	-	-	-	325,029,200	273,195,187
Financial assets at amortized cost							
Rentals receivable on leased assets	6,511,695,835	11,557,655,590	24,108,981,280	4,865,760,999	8,765,291	47,052,858,996	45,436,108,784
(-) Allowance for ECL / impairment	-	-	-	-	-	(3,954,452,103)	(1,593,727,828)
Loans and advances	23,984,146,822	17,904,361,029	20,912,263,792	7,452,322,461	429,497,364	70,682,591,468	92,277,292,101
(-) Allowance for ECL / impairment	-	-	-	-		(9,215,634,742)	(5,164,342,970)
Factoring receivable	-	-	-	-	-	-	3,910,200,287
(-) Allowance for ECL / impairment	-	-	-	-	-	-	(911,448,332)
Margin trading receivable	83,553,171	-	-	-	-	83,553,171	1,767,689
Investments securities	4,316,951,145	-	-	-	1,181,048,753	5,497,999,899	2,958,198,760
Amount due from related companies	33,221,629	-	-	-	-	33,221,629	60,706,213
Other receivables	398,750,899	270,278,608	43,937,571	18,251,107	473,364	731,691,550	916,599,740
Inventories	-	271,727,381	-	-	-	271,727,381	2,023,122
Investment properties	-	-	21,088,740,181	-	-	21,088,740,181	15,963,885,792
Property plant and equipment	-	-	-	-	1,163,218,438	1,163,218,438	1,351,206,563
Total Assets as at 31 March 2021	**54,292,336,626**	**40,173,342,428**	**70,418,804,184**	**12,336,334,568**	**6,174,264,615**	**170,224,995,577**	**191,888,345,539**
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**	**191,888,345,539**

27.2 An analysis of the total liabilities of the Company as at the year end based on the remaining year 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 31.03.2021 Rs.	Total as at 31.03.2020 Rs.
Bank overdraft	1,861,003,040	-	-	-	-	1,861,003,040	1,283,200,605
Interest bearing borrowings	10,680,750,798	1,806,978,361	3,936,571,598	6,787,166	6,354,506	16,437,442,429	51,558,593,484
Deposits from customers	42,008,899,878	49,501,650,573	14,112,387,824	2,168,198,102	-	107,791,136,377	99,261,181,454
Trade payables	144,788,204	-	-	-	-	144,788,204	1,048,944,408
Accruals and other payables	2,505,315,494	725,178,436	-	236,864,976	1,090,187,674	4,557,546,581	3,331,643,339
Derivative liabilities	-	-	-	-	-	-	114,349,000
Amount due to related companies	620,861,723	-	-	-	-	620,861,723	854,197,576
Current tax payable	-	857,902,877	-	-	-	857,902,877	960,254,586
Deferred tax liability	-	-	1,733,249,164	-	-	1,733,249,164	1,888,186,465
Employee benefits	-	-	-	332,531,588	-	332,531,588	298,141,984
Stated capital	-	-	-	-	12,762,500,000	12,762,500,000	12,762,500,000
Statutory reserve	-	-	-	-	3,596,578,755	3,596,578,755	3,378,281,827
Revaluation Reserve	-	-	-	-	328,838,183	328,838,183	241,527,671
Cash flow hedge reserve	-	-	-	-	27,607,751	27,607,751	(77,309,605)
Fair value reserve	-	-	-	-	45,445,698	45,445,698	11,956,519
Retained earnings	-	-	-	-	19,127,563,207	19,127,563,207	14,972,696,227
Total Liabilities & Equity as at 31 March 2021	**57,821,619,137**	**52,891,710,247**	**19,782,208,586**	**2,744,381,832**	**36,985,075,774**	**170,224,995,577**	**191,888,345,539**
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**	**191,888,345,539**

28. INCOME TAX EXPENSE

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

	Mar 21 Rs.	Mar 20 Rs.
Current tax - recognized in P&L		
Current tax charge	322,309,197	465,185,675
Deferred Tax		
Deferred tax expense / (reversal) (28.2)	(191,464,649)	(365,210,705)
Income tax expense reported in statement of profit or loss	**130,844,548**	**99,974,970**
Current tax - expense / (reversal) - recognized in OCI		
Relating to exchange gain recognized in OCI (in hedge reserve)	7,091,515	(44,963,008)
Deferred tax charge / (reversal) recognized in OCI		
Property, plant and equipment	8,897,344	-
Defined benefit plans	12,619,816	(50,689,523)
Fair value change in derivatives recognized in hedge reserve	18,483,635	30,087,930
Investment in LOLC Asia Pvt Ltd	(3,473,447)	1,225,447
	36,527,348	(19,376,146)
Total income tax expense / (reversal) recognized in OCI	**43,618,863**	**(64,339,154)**

28.1 Current tax payable

	Mar 21 Rs.	Mar 20 Rs.
Tax payable at the beginning of the year	960,254,585	1,501,292,609
Current tax expense for the year - recognized in P&L	315,217,682	465,185,675
Current tax expense for the year - recognized in OCI	7,091,515	(44,963,008)
Tax paid during the year	(424,660,905)	(961,260,692)
Tax payable	**857,902,877**	**960,254,585**

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

	Mar 21		Mar 20	
	%	Rs.	%	Rs.
Accounting profit before income tax		4,496,783,105		3,879,659,157
Tax effect at the statutory income tax rate of 24%	24%	1,079,227,945	28%	1,047,507,972
Tax effect of other allowable credits	-70%	(3,131,859,423)	-96%	(3,708,663,071)
Tax effect of non deductible expenses	53%	2,374,940,675	85%	3,291,489,100
Deferred tax adjustment	-4%	(191,464,649)	-14%	(530,359,031)
Income tax expense	**3%**	**130,844,548**	3%	**99,974,970**

28.2 Deferred Taxation

	Mar 21 Rs.	Mar 20 Rs.
Balance at the beginning of the year	1,888,186,465	2,272,773,316
Deferred tax expense / (reversal) - recognized in P&L	(191,464,649)	(365,210,705)
Deferred tax expense / (reversal) - recognized in OCI	36,527,348	(19,376,146)
Balance at the end of the year	**1,733,249,164**	**1,888,186,465**

Due to the change in tax rate, deferred tax expense recognized in P&L and OCI decreased by Rs.150,474,942 and Rs.732,039 respectively.

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 24% (2019/20 -28%) on temporary differences.

Deferred tax expense / (reversal)

Deferred tax liability / (asset)	Balance as at 01 April 2020	Recognized in P&L - expense / (reversal)	Recognized in OCI - expense / (reversal)	Balance as at 31 March 2021
	Rs.	Rs.	Rs.	Rs.
Recognized in P&L / Equity (retained earnings)				
Lease receivables	2,245,845,340	(655,568,978)	-	1,590,276,362
Finance lease liability	107,587,413	(76,367,602)	-	31,219,811
Property plant and equipment	126,628,832	19,984,774	-	146,613,606
Investment in unit trust - unrealized	52,334,885	(52,334,885)	-	-
Cost of acquisition of subsidiary (note 28.2.b)	(1,096,683,888)	237,616,566	-	(859,067,322)
Defined benefit plans	(28,480,924)	(8,947,642)	-	(37,428,566)
Forward exchange contracts (net)	16,189,320	15,046,440	-	31,235,760
Investment property	466,408,368	329,106,677	-	795,515,045
Investment in LOLC Mynmar	-	-	-	-
Recognized in OCI				
Available for sale financial assets	3,018,739	-	-	3,018,739
Property plant and equipment	18,576,152	-	8,897,344	27,473,496
Defined benefit plans	(54,998,831)	-	12,619,816	(42,379,015)
Forward exchange contracts (net)	28,287,613	-	18,483,635	46,771,248
Investment in LOLC Asia Pvt Ltd	3,473,447	-	(3,473,447)	-
Net deferred tax liability / (asset)	**1,888,186,465**	**(191,464,649)**	**36,527,348**	**1,733,249,164**

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
Recognized in P&L	Rs.	Rs.	Rs.	Rs.
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 Mynmar	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**

28. INCOME TAX EXPENSE (Contd…)

28.2.a Temporary differences

Temporary differences - taxable / (deductible)	**Mar 21 Rs.**	**Mar 20 Rs.**
Recognized in P&L / Equity (retained earnings)		
Lease receivables	6,626,151,509	8,020,876,215
Finance lease liability	130,082,545	384,240,761
Property plant and equipment	610,890,024	452,245,828
Investment in unit trust - unrealized	-	186,910,302
Cost of acquisition of subsidiary	(3,579,447,176)	(3,916,728,172)
Defined benefit plans	(155,952,358)	(101,717,587)
Forward exchange contracts (net)	130,149,000	57,819,000
Investment property	7,955,150,453	4,664,083,680
Recognized in OCI		
Available for sale financial assets	12,578,079	10,781,210
Property plant and equipment	114,472,902	66,343,400
Defined benefit plans	(176,579,230)	(196,424,397)
Forward exchange contracts (net)	194,880,200	101,027,188
Investment in LOLC Asia Pvt Ltd	-	34,734,474
Net taxable / (deductible) temporary difference	**11,862,375,948**	**9,764,191,902**

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

During the year 207/18, 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.671,477,494 was claimed keeping inline with the requirements of the Inland Revenue Act. The Company expects to claim the remaining amount over the future year 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.3,579,447,176 over such year and a deferred tax asset of Rs.859,067,322 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	**Mar 21 Rs.**	**Mar 20 Rs.**
Remaining amount to be claimed at the beginning of the year	8,567,361,793	9,371,201,715
Previous year adjustment	3,018,795	(25,649,798)
Amount claimed during the year	(671,477,494)	(778,190,125)
Remaining amount to be claimed in future years	7,898,903,094	8,567,361,793
Tax rate	24%	28%
Deferred tax asset on remaining amount	1,895,736,742	2,398,861,302
Recognized deferred tax asset	(859,067,322)	(1,096,683,888)
Unrecognized deferred tax asset	**1,036,669,420**	**1,302,177,414**

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.

	Mar 21 Rs.	Mar 20 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	4,365,938,557	3,779,684,187

	Mar 21 No.	Mar 20 No.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	5,250,000,000	4,200,000,000
Effects of new shares issued during the year	-	679,918,033
Weighted average number of ordinary shares in issue applicable to basic	5,250,000,000	4,879,918,033
Basic earnings per share (Rs.)	**0.83**	**0.77**

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 year 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 Amount Pledged Rs.	Carrying Amount Pledged Rs.
Lease portfolio	Short term borrowing	12,878,371,845	16,728,047,005

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 parent is LOLC Private Ltd and ultimate parent undertaking and controlling entity 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

	Mar 21 Rs.	Mar 20 Rs.
Short term employment benefits	80,403,266	81,015,355
Total	80,403,266	81,015,355

The short term employment benefits include only the directors fees and emoluments paid to Directors & KMPs.
This is also included under Note 26.1

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 :

	Mar 21 Rs.	Mar 20 Rs.
Deposits held with the Company	400,153,442	673,349,785
Interest paid / charged	43,258,097	55,091,045
Interest payable	14,585,989	356,532
Loans granted (excluding Directors)	15,614,635	48,928,815
Capital outstanding on facilities granted to KMPs (excluding Directors)	22,390,080	34,274,663
Accommodation outstanding as a percentage of the Company's Capital Funds	0.07%	0.12%

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 2021 and 31 March 2020, refer notes no.10 and 17 accordingly).

32. RELATED PARTY DISCLOSURES (Contd...)

Relationship	Nature of Transactions	Transaction Mar 21 Rs.	Transaction Mar 20 Rs.
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	(159,645,919)	43,639,296
	Reimbursement of expenses	1,075,971,892	2,164,658,024
	Asset hire charges	229,924,735	205,734,877
	Royalty	562,570,272	638,312,958
	Fund transfer interest	172,735,406	55,862,325
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	73,127,592	51,313,028
	Interest paid/charge	1,446,233	1,498,762
	Interest payable	618,778	783,534
	Investments held by the company	-	1,006,091,357
	Interest income from investment	21,505,272	116,213,033
	IT service fee	403,743,888	275,095,390
	Factoring related transactions	6,996,796,638	436,636,401
	Yard fee	15,000,000	19,200,000
	Services / Maintenance fee	87,814,302	114,775,149
	Loan / lease granted	1,639,064,914	1,705,693,182
	Rental collections	1,232,711,415	600,892,665
	Interest income	419,097,015	621,589,749
	Capital outstanding on facilities granted	1,334,413,520	3,043,429,002
	Rent Income	36,000,000	57,924,000
	Franchise fee income	256,097,307	277,260,586
	Guarantees given / received	-	200,000,000
Other Related Parties	Services / Maintenance fee	784,443,309	162,730,421
	Deposits held with the company	145,335,153	132,115,055
	Interest paid / charge	11,496,185	11,425,951
	Interest payable	2,059,138	92,055
	Rental collections	164,750,296	240,015,025
	Interest income	153,035,378	270,000,000
	Capital outstanding on facilities granted	454,500,000	1,530,000,000
Accommodation outstanding as a percentage of the Company's Capital Funds		5.91%	15.73%

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.

34. OPERATING SEGMENTS

	SME Finance Rs.	Operating Segment Development Finance Rs.	Alternative Financial Services Rs.	Total Rs.
For the year ended 31 March 2021				
Total revenue - Interest income & other income	22,812,651,913	18,672,232,927	2,575,087,577	44,059,972,417
Inter segmental revenue	-	-	-	-
External revenue	22,812,651,913	18,672,232,927	2,575,087,577	44,059,972,417
Net interest cost	(6,597,915,256)	(4,882,347,613)	(966,527,529)	(12,446,790,398)
Profit before operating expenses	**16,214,736,657**	**13,789,885,314**	**1,608,560,048**	**31,613,182,019**
Operating expenses	(5,358,239,674)	(3,987,215,280)	(873,435,713)	(10,218,890,666)
Allowance for impairment & write-offs	(6,418,198,424)	(9,698,721,884)	(224,442,013)	(16,341,362,321)
Value added tax on financial services	(443,795,924)	(15,592,223)	(96,757,780)	(556,145,927)
Results from operating activities	**3,994,502,634**	**88,355,928**	**413,924,542**	**4,496,783,105**
For the year ended 31 March 2020				
Total revenue - Interest income & other income	22,578,956,995	17,718,182,924	2,704,396,764	43,001,536,683
Inter segmental revenue	-	-	-	-
External revenue	22,578,956,995	17,718,182,924	2,704,396,764	43,001,536,683
Net interest cost	(11,475,784,255)	(6,677,302,869)	(1,118,277,368)	(19,271,364,492)
Profit before operating expenses	**11,103,172,740**	**11,040,880,055**	**1,586,119,396**	**23,730,172,191**
Operating expenses	(6,520,982,260)	(3,794,300,467)	(799,479,187)	(11,114,761,914)
Allowance for impairment & write-offs	(4,944,469,073)	(2,551,191,936)	(347,880,348)	(7,843,541,357)
Value added tax on financial services	(67,593,431)	(704,308,148)	(120,308,184)	(892,209,763)
Results from operating activities	**(429,872,024)**	**3,991,079,504**	**318,451,677**	**3,879,659,157**
Depreciation				
For the year ended 31 March 2021	85,398,745	46,454,935	-	131,853,680
For the year ended 31 March 2020	142,789,062	58,744,205	-	201,533,267
Capital expenditure - Property Plant and equipment				
For the year ended 31 March 2021	12,432,307	6,762,886	-	19,195,193
For the year ended 31 March 2020	38,858,461	15,986,584	-	54,845,045
As at 31-03-2021				
Total assets	100,156,344,269	54,333,822,097	16,008,560,682	170,224,995,577
Total liabilities	67,150,435,975	54,333,822,097	13,125,935,383	134,336,461,983
As at 31-03-2020				
Total assets	125,111,761,414	51,287,023,196	15,938,371,445	191,888,345,539
Total liabilities	96,426,417,534	51,287,023,196	13,334,062,685	160,598,692,900

35. COMMITMENTS AND CONTINGENCIES

		Mar 21 Rs.	Mar 20 Rs.
35.1	**Contingent liabilities**		
	Guarantees issued to banks and other institutions - backed by deposits	403,443,000	195,702,140
35.2	**Commitments**		
	Forward exchange contracts - (commitment to purchase)	2,843,557,800	19,557,686,750
	Unutilised loan facilities	6,103,323,043	11,735,601,597
	Allowance for ECL / impairment	(17,416,220)	(2,207,183)
		9,332,907,623	31,486,783,304

On the commitment to purchase the foreign currencies the company will receive USD 2,700,000, EUR 8,840,000, GBP 2,700,000.