



Tel : +94-11-2421878-79-70
+94-11-2387002-03
Fax : +94-11-2336064
E-mail : bdopartners@bdo.lk
Website : www.bdo.lk

Chartered Accountants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Orient Finance PLC ("the company"), which comprise the statement of financial position as at 31st March 2021, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 06 to 63.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31st 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 the most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter 1: Impairment of loans and receivables

The company's gross loans and receivables amount to Rs. 12.49 billion as at 31st March, 2021 (2020: Rs. 14.66 billion) and impairment allowance for the year amounts to Rs. 1,042 million at 31st March, 2021 (2020: Rs. 2,323 million).

The company measures the impairment of loans and receivables using expected credit loss ("ECL") model as per SLFRS 9: Financial Instruments ("SLFRS 9"). The application of this standard requires management to exercise significant judgments in the determination of expected credit losses, including those relating to loans and receivables. Management applies significant judgment in the determination of estimated future cash flows, probabilities of default and forward-looking economic expectations.

Due to the significance of loans and receivables and the significant estimates and judgment involved, the impairment of these loans and receivables was considered to be a key audit matter.

The impairment provision is considered separately on an individual and collective impairment basis.

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Partners : Sujeewa Rajapakse FCA, FCMA, MBA. Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H. Sasanka Rathnaweera FCA, ACMA.
R. Vasanthakumar Bsc (Acc), ACA. F. Sarah Z. Afker ACA, ACMA (UK), CGMA, MCSI (UK). M.N. Mohamed Nabeel ACA. D. Jerad N. Dias ACA.
Madhura V. De Silva FCA, MSc.



In calculating the impairment provision on a collective basis, statistical models are used. The following inputs to these models require significant management judgment:

- the probability of default (PD);
- the exposure at default (EAD);
- the loss given default (LGD); and
- the effective interest rates.

In assessing loans and receivables on an individual basis, significant judgments, estimates and assumptions have been made by management to:

- Determine if the loan or advance is credit impaired;
- Evaluate the adequacy and recoverability of collateral;
- Determine the expected cash flows to be collected; and
- Estimate the timing of the future cash flows.

Key areas of significant judgements, estimates and assumptions used by management related to the impact of COVID-19 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);
- the determination on whether or not customer contracts have been substantially modified due to such COVID-19 related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and advances;
- Forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impact from COVID-19 that may affect future expected credit losses.

The disclosures associated with impairment of loans and receivables are set out in the financial statements in the following notes:

- Note 9 - Impairment charges for loans and receivables to customers
- Note 18 - Loans and receivables to customers

How our audit addressed the key audit matter

Our procedures included the following:

- We obtained an understanding of management's process and tested controls over credit origination, credit monitoring and credit remediation.
- We assessed the appropriateness of the accounting policies and loan impairment methodologies applied, by comparing these to the requirements of SLFRS 9: Financial Instruments, including consideration of COVID-19 impact and related industry responses based on the best available information up to the date of our report.
- We test-checked the underlying calculations and data.



In addition to the above, we performed the following specific procedures:

For loans and receivables collectively assessed for impairment:

- We assessed the completeness of the underlying information in loans and receivables used in the impairment calculations by agreeing details to the company's source documents and information in IT systems.
- We also considered the reasonableness of macro-economic and other factors used by management by comparing them with publicly available data and information sources. This included assessing and challenging the reasonableness of macroeconomic scenarios considered and certain forward-looking economic data developed by the Company, with particular focus on the impact of COVID-19 in light of certain available information and consensus views.

For loans and receivables individually assessed for impairment:

- We assessed the main criteria used by the management for determining whether an impairment event had occurred.
- Where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held.
- 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.

We also assessed the adequacy of the related financial statement disclosures.

Key audit matter 2: Impairment of Goodwill and Brand Value

The company carries out an impairment review of goodwill and brand value at least annually or whenever there is an impairment indicator in accordance with Sri Lanka Accounting Standards.

This was considered a matter of significance to our audit due to the materiality of the carrying value of the goodwill and brand value balances which amount to Rs. 565 million and Rs 236 million respectively as at 31st March 2021 and the extent of judgment involved due to complexity of assessment and the impact of the COVID 19 outbreak.

Goodwill and brand value were recognized in the financial statements, upon the Company (former Bartleet Finance PLC) acquiring and amalgamating former Orient Finance PLC during the financial year ended 31st March 2016.

As per LKAS 36: Impairment of Assets, the company is required to annually test for impairment of goodwill and brand. Impairment is assessed by comparing the carrying value of assets against the recoverable amount. The company determines the recoverable amount of goodwill and brand value based on the value in use method, by using the discounted cash flow model. In carrying out its assessment, for the purposes of cash flow forecasts, the company projects future cash flows based on approved budgets. These cash flows are discounted using applicable discount rates.



Based on the impairment test performed for goodwill and brand value as explained above, the company concluded that both goodwill and brand value have not been impaired as at 31st March 2021.

The disclosure associated with impairment assessment of goodwill and brand value is set out in note 23 to the financial statements.

How our audit addressed the key audit matter

We have tested management's assessment of the impairment of goodwill and brand value as at 31st March 2021.

Our work included the following procedures:

- We evaluated the management competence and level of skills required in developing assumptions, gathering accurate data and performing assessments.
- We assessed the validity of management's use of appropriate methods in assessing the impairment for goodwill and brand value.
- We challenged the key inputs and assumptions the company has used in assessing the impairment, considering the COVID 19 outbreak and its impact on macro-economic factors.
- We carried out calculations on the impairment assessment to determine the degree by which the key assumptions would need to change in order to trigger an impairment.
- We tested the appropriateness of the related disclosures provided in the company's financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 to us 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 whether it appears to be materially misstated.

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

Responsibilities of the 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 judgement and maintain professional skepticism throughout the audit. We also:

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

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



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

From the matters communicated with those charged with governance, we determine those matters that were of the 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 4291.

BDO Partners
CHARTERED ACCOUNTANTS
Colombo
26th July, 2021
JD/dm

For the year ended 31st March

	Note	2021 Rs.	2020 Rs.
Income	4	2,675,721,881	3,285,237,560
Interest income	5	2,441,043,999	3,052,677,796
Interest expenses	6	(1,333,791,609)	(1,799,707,844)
Net interest income		<u>1,107,252,390</u>	<u>1,252,969,952</u>
Fee and commission income	7	122,533,493	162,802,070
Other operating income	8	112,144,389	69,757,694
Total operating income		<u>1,341,930,272</u>	<u>1,485,529,716</u>
Impairment charges for loans and receivables to customers	9	(110,464,561)	(1,014,789,196)
Net operating income		<u>1,231,465,711</u>	<u>470,740,520</u>
Operating expenses			
Personnel expenses	10	(399,738,824)	(427,044,060)
Depreciation and amortization		(69,077,693)	(63,584,937)
Other operating expenses	11	(502,795,174)	(405,800,088)
Operating profit/(loss) before Value Added Tax and NBT		<u>259,854,020</u>	<u>(425,688,565)</u>
Value Added Tax and NBT on financial services		(66,291,132)	(11,658,516)
Profit/(loss) before income tax		<u>193,562,888</u>	<u>(437,347,081)</u>
Income tax expense	12	-	-
Profit/(loss) for the year		<u><u>193,562,888</u></u>	<u><u>(437,347,081)</u></u>
Basic earnings per share (Rs.)	13.1	0.92	(3.06)
Dividend per share (Rs.)	14	-	-

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 63 form an integral part of these financial statements.

Colombo
26th July 2021

For the year ended 31st March

	Note	2021 Rs.	2020 Rs.
Profit/(loss) for the year		193,562,888	(437,347,081)
Other comprehensive income			
Other comprehensive income to be re-classified to profit or loss in subsequent periods			
Change in fair value of financial assets at fair value through other comprehensive income		-	(1,069,031)
Fair value loss on investment in quoted shares	17	(16,556,775)	-
Deferred tax effect on above	22	-	-
		<u>(16,556,775)</u>	<u>(1,069,031)</u>
Other comprehensive income not to be re-classified to profit or loss in subsequent periods			
Actuarial loss on retirement benefit plan	34.1	(230,413)	(719,951)
Deferred tax effect on above	22	(55,299)	(201,586)
		<u>(285,712)</u>	<u>(921,537)</u>
Other comprehensive income for the year net of tax		<u>(16,842,487)</u>	<u>(1,990,568)</u>
Total comprehensive income for the year net of tax		<u>176,720,401</u>	<u>(439,337,649)</u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 63 form an integral part of these financial statements.

Colombo
26th July 2021

ORIENT FINANCE PLC
STATEMENT OF FINANCIAL POSITION

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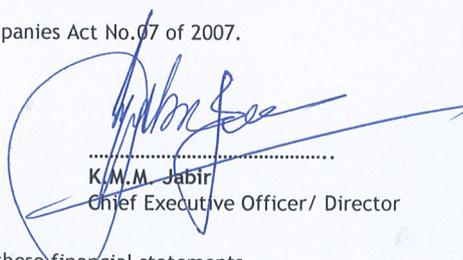
As At 31st March	Note	2021 Rs.	2020 Rs.
ASSETS			
Cash and cash equivalents	16	225,161,509	70,618,412
Financial assets - fair value through other comprehensive income	17	849,632,814	934,478,086
Loans and receivables to customers	18	11,447,030,340	12,339,298,071
Investments with banks and other financial institutions	19	31,684,600	82,492,401
Other assets	20	269,749,720	279,432,153
Real estate stock	21	24,764,518	16,772,709
Deferred tax asset	22	370,832,054	370,887,353
Goodwill	23	564,545,746	564,545,746
Brand value	23	235,880,000	235,880,000
Other intangible assets	24	50,664,120	805,470
Property, plant and equipment	25	61,805,370	75,180,798
Right-of-use of assets	26	129,167,820	128,894,557
Investment properties	27	628,000,002	538,250,002
Total assets		14,888,918,620	15,637,535,758
LIABILITIES			
Due to banks - bank overdrafts	16	79,180,458	265,514,298
Deposits from customers	28	8,692,940,933	9,020,632,231
Interest bearing borrowings	29	2,650,800,328	3,038,038,298
Term debts	30	-	-
Redeemable preference shares	31	-	-
Lease liability - Right-of-use assets	32	104,375,186	117,941,195
Other liabilities	33	434,886,967	442,612,869
Retirement benefit obligations	34	39,804,738	42,587,258
Total liabilities		12,001,988,610	12,927,326,149
EQUITY			
Stated capital	35	2,431,879,039	2,431,879,039
Statutory reserve fund	36	330,437,030	311,080,742
Revaluation reserve	37	141,120,773	141,120,773
Accumulated losses		(16,506,832)	(173,870,945)
Total equity		2,886,930,010	2,710,209,609
Total equity and liabilities		14,888,918,620	15,637,535,758
Net assets per share		13.68	13.00

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 63 form an integral part of these financial statements.

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


.....
Sanjeeva Jayasinghe
Head of Finance


.....
K.M.M. Jabir
Chief Executive Officer/ Director

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board.


.....
Prakash Schaffter
Director


.....
Ramesh Schaffter
Director

ORIENT FINANCE PLC
STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2021

	Stated capital Rs.	Statutory reserve fund Rs.	Revaluation reserve Rs.	Fair value reserve Rs.	Retained earnings/ accumulated losses Rs.	Total Rs.
Balance as at 01st April 2019	1,378,689,779	306,478,542	141,120,773	1,069,031	339,141,684	2,166,499,809
Loss for the year	-	-	-	-	(437,347,081)	(437,347,081)
Other comprehensive income net of taxes	-	-	-	(1,069,031)	(921,537)	(1,990,568)
Transfer to statutory reserve (Note 36)	-	4,602,200	-	-	(4,602,200)	-
Transactions with equityholders						
Conversion of preference share capital to ordinary shares	470,038,111	-	-	-	-	470,038,111
Conversion of accrued preference share interest to ordinary shares	76,508,375	-	-	-	-	76,508,375
Write off of share premium generated through share conversion	-	-	-	-	(70,141,811)	(70,141,811)
Right issue of shares	506,642,774	-	-	-	-	506,642,774
Balance as at 31st March 2020	2,431,879,039	311,080,742	141,120,773	-	(173,870,945)	2,710,209,609
Profit for the year	-	-	-	-	193,562,888	193,562,888
Transfer to statutory reserve (Note 36)	-	19,356,288	-	-	(19,356,288)	-
Other comprehensive income net of taxes	-	-	-	-	(16,842,487)	(16,842,487)
Balance as at 31st March 2021	2,431,879,039	330,437,030	141,120,773	-	(16,506,832)	2,886,930,010

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 63 form an integral part of these financial statements.

For the year ended 31st March

	2021 Rs.	2020 Rs.
Cash flows from operating activities		
Profit/ (loss) before income tax	193,562,888	(437,347,081)
Adjustment for:		
Depreciation and amortization	69,077,693	63,584,937
Profit on disposal of property, plant and equipment	(433,641)	(260,675)
Property, plant and equipment writte off	31,886,945	-
Gold loans written off - Gampaha robbery	58,236,918	-
Impairment charges for loans and receivables to customers	110,464,561	1,014,789,196
Finance expenses	1,333,791,609	1,799,707,844
Investment income	(47,241,809)	(114,577,128)
Provision for gratuity	6,894,587	10,217,158
Operating profit before working capital changes	1,756,239,751	2,336,114,251
Change in loans and receivables to customers	643,179,186	542,022,390
Change in other assets	9,682,433	(27,039,327)
Change in deposits from customers	(300,066,595)	(1,421,815,124)
Change in other liabilities	(7,725,902)	6,281,696
	2,101,308,873	1,435,563,886
Rent Paid	(67,336,244)	(59,165,572)
Interest paid	(979,477,392)	(1,295,885,791)
Gratuity paid	(9,907,520)	(18,655,827)
Net cash from operating activities	1,044,587,717	61,856,696
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(105,274,587)	(30,740,368)
Proceeds from sale of property, plant and equipment	467,452	282,706
Expenses incurred for real estate stock	(7,991,809)	-
Net change in financial assets-FVTOCI	68,288,497	1,392,493
Net change in investments with bank and other financial institutions	47,274,816	203,380,071
Investment income received	41,411,853	114,957,986
Net cash generated from investing activities	44,176,222	289,272,888
Cash flows from financing activities		
Interest bearing borrowings obtained	3,018,000,000	7,283,733,569
Repayment of interest bearing borrowings	(3,417,212,273)	(6,359,055,739)
Interest paid on borrowings	(348,674,729)	(398,979,517)
Interest paid on debentures	-	(90,195,165)
Redemption of preference shares	-	(59,289,140)
Redemption of debentures	-	(1,000,000,000)
Right issue of shares	-	506,642,774
Net cash used in financing activities	(747,887,002)	(117,143,218)
Net change in cash and cash equivalents	340,876,937	233,986,366
Cash and cash equivalents at the beginning of the year	(194,895,886)	(428,882,252)
Cash and cash equivalents at the end of the year (Note A)	145,981,051	(194,895,886)
Analysis of cash and cash equivalents at the end of the year		
Cash in hand	138,317,736	62,617,606
Cash at bank	86,843,773	8,000,806
Bank overdrafts - secured	(79,180,458)	(265,514,298)
	145,981,051	(194,895,886)

The accounting policies and notes on pages 06 to 63 form an integral part of these financial statements.

Figures in brackets indicate deductions.

1. REPORTING ENTITY

1.1 Corporate information

Orient Finance PLC (“the company”) is a Public Limited Company incorporated and domiciled in Sri Lanka under the Companies Act No. 07 of 2007. The company has been approved under Finance Lease Act, No. 56 of 2000 and Finance Business Act No. 42 of 2011 and listed in the Colombo Stock Exchange.

The registered office of the company is located at No. 02, Deal Place, Colombo-03 and the business is carried out at 61, Dharmapala Mawatha, Colombo 07.

1.2 Principal activities and nature of operations

The principal activities of the company comprise finance leasing, hire purchasing, debt factoring, mobilization of deposits and pawning (gold loans) advances.

1.3 Parent entity and ultimate parent entity

In the opinion of the directors, the company’s parent undertaking is Janashakthi Limited.

1.4 Directors' responsibility statement

The board of directors takes the responsibility for the preparation and presentation of the financial statements of the company as per the provisions of the Companies Act No.07 of 2007 and the requirements of the Sri Lanka Accounting Standards comprising LKASs and SLFRSs.

1.5 Date of authorization

The financial statements of the company for the year ended 31st March 2021 were authorized for issue by the board of directors on 26th July, 2021.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The statement of financial position as at 31st March, 2021 income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows, and the summary of significant accounting policies and other explanatory information to the financial statements (“financial statements”) of the company for the year then ended, comply with the Sri Lanka Accounting Standards (SLFRSs/LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka (“CA Sri Lanka”) and the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011 and the amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.2 Basis of measurement

The financial statements have been prepared on a historical cost basis except for the following material items in the statement of financial position:

SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

Item	Basis of measurement
Financial assets measured at fair value through other comprehensive income	Fair value
Retirement benefit obligations	Liability is recognized as the present value of the retirement benefit obligations plus unrecognized actuarial gains less unrecognized past service cost and unrecognized actuarial losses.
Investment property: Land and Buildings	Fair value

2.3 Functional and presentation currency

The financial statements have been presented in Sri Lanka Rupees, which is the company's functional currency. All financial information presented in Sri Lanka Rupees has been rounded to the nearest rupee unless it is stated otherwise.

2.4 Presentation of financial statements

The assets and liabilities of the company presented in its statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the financial statements. Maturity analysis is presented in Note 40 to the financial statements.

2.5 Materiality and aggregation

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

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the notes to the financial statements.

2.6 Comparative information

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

2.7 Going concern

The directors have made an assessment of the company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for a foreseeable future. The assessment took into consideration the existing and potential implications COVID-19 pandemic on the business operations and performance of the company and the measures adopted by the government to mitigate the pandemic's spread and support recovery of the economy. The Board is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.8 Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards (LKAS and SLFRS) 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 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 most significant areas of estimation, uncertainty and critical judgments in applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements of the company are as follows:

2.8.1 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from the observable market data where possible, but if this is not available, judgment is required to establish fair values.

2.8.2 Classification of financial assets and liabilities

As per SLFRS 9, the significant accounting policies of the company provide scope for financial assets to be classified and subsequently measured into different categories, namely, at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL) based on the following criteria:

- The entity's business model for managing the financial assets as set out in Note 3.1.3.1.
- The contractual cash flow characteristics of the financial assets as set out in Note 3.1.3.2.

2.8.3 Impairment losses on financial assets

The measurement of impairment losses under SLFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are based on the assumptions about a number of factors and the actual results may differ, resulting in future changes to the allowance.

Refer Notes 9 and 18 for more details relating to impairment loss assessment on financial assets.

2.8.4 Impairment of goodwill and brand

Impairment exists when the carrying value of goodwill and brand exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The company has adopted value in use (VIU) method for impairment assessment and VIU calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the performance of the company. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount of goodwill and brand are disclosed and further explained in Note 23 to the financial statements.

2.8.5 Defined benefit obligations

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making various assumptions determining the discount rates, future salary increases, mortality rates etc. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the company.

2.8.6 Useful economic lives of property, plant and equipment

Useful economic lives of property, plant and equipment are estimated as disclosed in the Note 3.4.4 to the financial statements.

2.8.7 SLFRS 16 - Leases

2.8.7.1 Determination of the lease term for lease contracts with renewal and termination options (company as a lessee)

The company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The company has several lease contracts that include extension and termination options. The company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination option. After the commencement date, the company re-assesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

2.8.7.2 Estimating the incremental borrowing rate

As the company cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate ("IBR") to measure the lease liabilities. The IBR is the rate of interest that the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR, therefore, reflects what the company "would have to pay", which requires estimation when no observable rates are available (or when they need to be adjusted to reflect the terms and conditions of the lease). The company estimates the IBR using observable input when available and is required to make certain entity-specific adjustments.

2.9 Changes in Accounting Policies

The company has consistently applied the accounting policies to all periods presented in these financial statements, except for the changes arising out of the amendments to the Accounting Standards as set out below:

2.10 New Accounting Standards issued during the year/changes to already existing Accounting Standards

The company applied for the first time the following amendments to Accounting Standards, which are effective for annual period beginning on or after January 01, 2020. The company has not early adopted any other accounting standards, interpretation or amendments that have been issued but not effective.

2.10.1 Amendments to LKAS 1 and LKAS 8: Definition of Material

In November 2018, the CA Sri Lanka issued amendments to Sri Lanka Accounting Standard - LKAS 1 on "Presentation of Financial Statements" and Sri Lanka Accounting Standard - LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' These amendments had no impact on the financial statements of, nor is there expected to be any future impact on the financial statements of the company.

2.10.2 Amendments to the conceptual framework for financial reporting

CA Sri Lanka issued a revised Conceptual Framework which included some new concepts, updated definitions and recognition criteria for assets and liabilities and clarified some important concepts. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on de-recognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

These amendments had no impact on the financial statements of the company.

2.10.3 Practical expedient: SLFRS 16 - COVID-19 Related Rent Concessions

This practical expedient provides 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 SLFRS16, if the change were not a lease modification. This practical expedient applies to rent concessions for which any reduction in lease payments affects only the payments originally due on or before 30th June 2022.

This amendment is not expected to have a material impact on the financial statements of the company in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements of the company unless otherwise it is indicated.

3.1 Financial instruments - Initial recognition, classification and subsequent measurement

3.1.1 Date of recognition

The company initially recognises loans and advances, deposits and subordinated liabilities, etc., on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the company becomes a party to the contractual provisions of the instrument.

3.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their cash flow characteristics and the business model for managing the instruments. Refer Note 3.1.3 and 3.1.4 for further details on classification of financial instruments.

A financial asset or financial liability is measured initially at fair value plus or minus transaction costs that are directly attributable to its acquisition or issue, except in the case of financial assets and financial liabilities at fair value through profit or loss as per SLFRS 9 and trade receivables that do not have a significant financing component as defined by SLFRS 15.

Transaction costs in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the income statement.

Trade receivables that do not have a significant financing component are measured at their transaction price at initial recognition as defined in SLFRS 15.

When the fair value of financial instruments (except trade receivables that do not have a significant financing component) at initial recognition differs from the transaction price, the company accounts for the Day 1 profit or loss, as described below:

3.1.2.1 “Day 1” profit or loss

When the transaction price of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only the inputs observable in market transactions, the company recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is de-recognised.

3.1.3 Classification and subsequent measurement of financial assets

As per SLFRS 9, the company classifies all of its financial assets based on the business model for managing the assets and the assets’ contractual terms measured at one of the following:

- Amortised cost
- Fair value through other comprehensive income (FVTOCI)
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

3.1.3.1 Business model assessment

The company makes an assessment of the objective of a business model in which an asset is held at a portfolio level and not assessed on instrument -by- instrument basis because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, 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 company’s management;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods and the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the company’s stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking ‘worst case’ or ‘stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the company’s original expectations, the company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing the newly originated or newly purchased financial assets going forward.

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

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

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.

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

In assessing whether the contractual cash flows are solely the payments of principal and interest on principal amount outstanding, the company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains such a contractual term that could change the timing or amount of contractual cash flows that it would not meet this condition. In making the assessment, the company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the company’s claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Refer Notes 3.1.3.3 and 3.1.3.4 below for details on different types of financial assets recognised in the Statement of Financial Position (SOFI).

3.1.3.3 Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

Financial assets measured at amortised cost are given in Notes 3.1.3.3.1 to 3.1.3.3.4 below.

3.1.3.3.1 Loans and advances to customers

Loans and advances to customers include loans and advances, and lease and hire purchase receivables of the company.

Details of “Loans and advances to customers” are given in Notes 18.

3.1.3.3.2 Investment in reverse repurchase agreement against the treasury bills and bonds

When the company purchases a financial asset and simultaneously enters into an agreement to resale the asset (or a similar asset) at a fixed price on a future date (reverse repo), the agreement is accounted for as a financial asset in the SOFP reflecting the transaction’s economic substance as a loan granted by the company. Subsequent to initial recognition, these securities issued are measured at amortised cost using the EIR with the corresponding interest income/receivable being recognized as interest income in profit or loss.

Details of “Investment in reverse repurchase agreement against the treasury bills and bond” are given in Note 17.

3.1.3.3.3 Cash and cash equivalents

Cash and cash equivalents include cash in hand, placements with banks and loans at call and at short notice 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. They are brought to the financial statements at their face values or the gross values, where appropriate. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Details of “Cash and cash equivalents” are given in Note 16.

3.1.3.3.4 Investments with banks and other financial institutions

Details of “Investments with banks and other financial institutions” are given in Note 19.

3.1.3.4 Financial assets measured at FVTOCI

Financial assets at FVOCI include debt and equity instruments measured at fair value through other comprehensive income.

3.1.3.4.1 Debt instruments measured at FVTOCI

Debt instruments are measured at FVTOCI 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 the payments of principal and interest on principal outstanding.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses and ECL and reversals are recognised in profit or loss. On de-recognition, cumulative gains or losses previously recognised in OCI are re-classified from OCI to profit or loss.

These instruments comprise Government Securities that had previously been classified as available for sale.

Details of “Debt instruments at FVTOCI” are given in Note 17.

3.1.3.4.2 Equity instruments designated at FVTOCI

Upon initial recognition, the company elects to classify irrevocably some of its equity investments held for strategic and statutory purposes as equity instruments at FVTOCI.

Details of “Equity instruments at FVTOCI” are given in Note 17.

3.1.4 Classification and subsequent measurement of financial liabilities

As per SLFRS 9, the company classifies financial liabilities other than financial guarantees and loan commitments into one of the following categories:

- Financial liabilities at fair value through profit or loss, and within this category as -
 - Held-for-trading; or
 - Designated at fair value through profit or loss;
- Financial liabilities measured at amortised cost.

The subsequent measurement of financial liabilities depends on their classification.

3.1.4.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. The company does not have any financial liabilities at fair value through profit or loss.

3.1.4.2 Financial liabilities at amortised cost

Financial liabilities issued by the company that are not designated at FVTPL are classified as financial liabilities at amortised cost under “Deposits from customers”, “Due to banks” or “Other borrowings” as appropriate, where the substance of the contractual arrangement results in the company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The EIR amortisation is included in “Interest expense” in the income statement. Gains and losses are also recognised in the income statement when the liabilities are de-recognised as well as through the EIR amortisation process.

3.1.5 Re-classification of financial assets and liabilities

As per SLFRS 9, financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the company changes 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 re-classified and as such reclassifications are not permitted by SLFRS 9.

3.1.5.1 Measurement of re-classification of financial assets

3.1.5.1.1 Re-classification of Financial Instruments at 'Fair value through profit or loss'

- To Fair value through other comprehensive income
The fair value on re-classification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value are recognized in OCI.
- To Amortised Cost
The fair value on re-classification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

3.1.5.1.2 Re-classification of Financial Instruments at 'Fair value through other comprehensive income'

- To Fair value through profit or loss
The accumulated balance in OCI is re-classified to profit and loss on the re-classification date.
- To Amortised Cost
The financial asset is re-classified at fair value. The cumulative balance in OCI is removed and is used to adjust fair value on the re-classification date. The adjusted amount becomes the amortised cost.

EIR determined at initial recognition and gross carrying amount are not adjusted as a result of re-classification.

3.1.5.1.3 Re-classification of Financial Instruments at "Amortised Cost"

- To Fair value through other comprehensive income
The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of re-classification.
- To Fair value through profit or loss
The fair value on the re-classification date becomes the new carrying amount. The difference between the amortised cost and fair value is recognised in profit or loss.

3.1.6 De-recognition of financial assets and financial liabilities

3.1.6.1 Financial assets

The company de-recognises a financial asset (or where applicable a part thereof) when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred or in which the company neither transfers nor retains substantially all risks and rewards of ownership nor retains control of the financial asset.

3.1.6.2 Financial liabilities

The company de-recognises a financial liability when its contractual obligations are discharged, cancelled or expire.

3.1.7 Modification of financial assets and financial liabilities

3.1.7.1 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 de-recognised and a new financial asset is recognised at fair value.

As per SLFRS 9, if the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the company re-calculates 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. In other cases, it is presented as interest income.

3.1.7.2 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 de-recognition 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.

3.1.8 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the SOFP if, and only if, there is a currently enforceable legal right to offset the recognised 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.

3.1.9 Amortised cost and gross carrying amount

The “amortised cost” of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any ECL allowance.

The “gross carrying amount of a financial asset’ is the amortised cost of a financial asset before adjusting for any ECL allowance.

3.1.10 Fair value of financial instruments

Fair value measurement of financial instruments including the fair value hierarchy is explained in Note 49.

3.1.11 Identification and measurement of impairment of financial assets

3.1.11.1 Overview of the ECL principles

As per SLFRS 9, the company records an allowance for expected credit losses for loans and advances to customers, debt and other financial instruments measured at amortised cost, debt instruments measured at fair value through other comprehensive income and loan commitments.

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. Refer Note 3.1.11.2 for a description on how the company determines when a significant increase in credit risk has occurred.
- 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%. Refer Note 3.1.11.3 for a description on how the company defines credit impaired and default.
- Purchased or originated credit impaired (POCI) financial assets: Financial assets which are credit impaired on initial recognition are categorised within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. The company does not have POCI loans as at the reporting date.

In response to COVID-19, the company undertook a review of its loan portfolios and the related ECL. The review considered the macroeconomic outlook, client and customer credit quality, the type of collateral held, exposure at default and the effect of payment deferral options as at the reporting date. While certain model inputs including forward-looking information were revised, the ECL models, SICR thresholds and definitions of default remain consistent with prior periods.

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

3.1.11.2 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 without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the company's historical experience and expert credit assessment including the forward looking information.

The company considers an exposure to have significantly increased credit risk when contractual payments of a customer are more than 60 days past due in accordance with the rebuttable presumption in SLFRS 9.

The company individually reviews at each reporting date, loans and advances above a predefined threshold to identify whether the credit risk has increased significantly since origination, before an exposure is in default. Such indicators include, inter alia:

- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments
- When there is a significant change in the geographical locations or natural catastrophes that directly impact the performance of a customer/group of customers or instruments
- When the value of collateral is significantly reduced and/or realizability of collateral is doubtful
- When a customer is subject to litigation that significantly affects the performance of the credit facility
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants
- When the customer is deceased/insolvent
- When the company is unable to contact or find the customer

Credit facilities/exposures which have one or more of the above indicators are treated as facilities with significant increase in credit risk and assessed accordingly in ECL computations. The company regularly monitors the effectiveness of the criteria used to identify significant increase in credit risk to confirm that the criteria is capable of identifying significant increase in credit risk before an exposure is in default.

For debt instruments having an external credit rating, which are measured at amortised cost or at FVOCI, the company determines significant increase in credit risk based on the generally accepted investment/non-investment grade definitions published by international rating agencies. Debt instruments are moved to stage 2 if their credit risk increases to the extent that they are no longer considered investment grade.

3.1.11.3 Definition of default and credit impaired assets

The company considers loans and advances to customers as defaulted when:

- The borrower is unlikely to pay its obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or
- The borrower becomes 180 days past due on its contractual payments.

In addition, the company classifies the financial investments under Stage 3 when the external credit rating assigned to the particular investment is in “default”.

In assessing whether a borrower is in default, the company reviews its individually significant loans and advances above a predefined threshold at each reporting date. The company considers non performing credit facilities/customers with one or more of indicators set out in Note 3.1.11.2 above as credit impaired.

3.1.11.4 Movement between the stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described in Note 3.1.11.2. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above.

3.1.11.5 Grouping financial assets measured on collective basis

The company calculates ECLs either on a collective or an individual basis. Asset classes where the company calculates ECL on individual basis include credit impaired facilities of individually significant customers.

Those financial assets for which, the company determines that no provision is required under individual impairment are then collectively assessed for ECL. For the purpose of ECL calculation on a collective basis, financial assets are grouped on the basis of similar risk characteristics. Loans and advances to customers are grouped into homogeneous portfolios, based on a combination of product and customer characteristics.

3.1.11.6 The calculation of Expected Credit Loss Principle (ECL)

The company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR.

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculation are outlined below and the key elements are as follows:

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de-recognized and is still in the portfolio.
- EAD: Exposure At Default is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw down on committed facilities and accrued financing income from missed payments.
- LGD: Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realization of any collateral.

Forward-looking information

The company incorporates forward-looking information into both its assessments to ascertain as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The company has identified key drivers of credit risk both quantitatively and qualitatively for various portfolio segments. Quantitative economic factors are based on economic data and forecasts published by CBSL and supranational organisations such as IMF.

Quantitative drivers of credit risk

GDP growth
Unemployment rate
Interest rate (AWPLR)
Rate of inflation
Exchange rate

Qualitative drivers of credit risk

Status of industry business
Regulatory impact
Government policies

At the reporting date, the company adopted an approach recognizing that the COVID-19 is the key driver of the macroeconomic outlook at the reporting date.

COVID - 19 impact on loans and advances

The company has provided reliefs such as deferment of repayment terms of credit facilities, for the affected businesses and individuals due to COVID-19 in line with the directions issued by the CBSL. Utilization of a payment deferral program does not, all else being equal, automatically trigger a SICR. As such, key issue will be to distinguish between cases where the payment holidays provide relief from short-term liquidity constraints impacting the borrower that do not amount to a SICR. Given the high degree of uncertainty and unprecedented circumstances in the short-term economic outlook, the Management exercised judgments in the assessment of the impact of the COVID-19 outbreak on the loans and advances portfolio, relying more on the long-term outlook as evidenced by past experience and taking into consideration various relief measures including the concessionary financing and payment moratorium.

The impact of the outbreak has been assessed and adjusted in these financial statements based on the available information and assumptions made as at reporting date in line with the guidelines issued by the CBSL and the CA Sri Lanka. In response to COVID-19 and expectations of economic impacts, key assumptions used in the 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, the company took steps to identify the customers showing distress signs in identifying SICR under the individual impairment assessment. Under the individual assessment, customers operating in risk elevated industries including Tourism, supplying hardware items, printing and publishing, tobacco related business, passenger transport and electronic items were assessed individually in ECL model. In addition, as expert credit judgment, the stressed ECL parameters such as PDs and LGDs to reflect the real economic scenario that is not reflected due to the deferrals and concessions granted due to COVID-19. Early observations of payment behavior of expiries for this year were considered in the assessment of the changes in the risk of default occurring over the expected life of a financial instrument when determining staging and is a key input in determining migration.

3.1.12 Write-off of loans and advances

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

3.2 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 among the 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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Level 1

When available, the company measures 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 asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

If a market for a financial instrument is not active, then the company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses, credit models, option pricing models and other relevant valuation models.

The chosen valuation technique makes the maximum use of market inputs, relies as little as possible on estimates specific to the company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Level 3

Certain financial instruments are recorded at fair value using the valuation techniques in which the current market transactions or observable market data are not available. Their fair value is determined by using valuation models that have been tested against prices or inputs to actual market transactions and also using the best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on de-recognition of the instrument.

3.3 Inventories

Inventories consist of stationery purchased for the office use. Inventories are measured at lower of cost or net realizable value.

Cost of inventories is based on the first in first out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

3.4 Property, plant and equipment

Property, plant and equipment are tangible items that are held for use in the supply of services, or for administrative purposes and are expected to be used for more than a one year period.

3.4.1 Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the company and the cost of the asset can be reliably measured.

3.4.2 Measurement

Land and Buildings are stated at revalued amounts, net of accumulated depreciation.

Other property, plant and equipment are stated at cost or valuation 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 labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment has different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit and loss.

Purchased software that is integrated to the functionality of the related equipment is capitalized as intangible assets.

The company applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the company are revalued by independent professional valuers more frequently if the fair values are substantially different from carrying amounts, to ensure that the carrying amounts do not differ from the fair values as at the reporting date.

3.4.3 Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. The cost of replacing part of an item of property, plant and 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 de-recognized. The cost of the day-to-day servicing of property, plant and equipment is recognized in profit or loss as incurred. When the replaced costs are recognized in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de-recognized.

3.4.4 Depreciation

Depreciation is recognized in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease terms and other useful lives unless it is reasonably certain that the company will obtain ownership by the end of the lease period.

The estimated useful lives are as follows:

Furniture and fittings	4 years
Office equipment	4 years
Computer equipment	4 years
Motor vehicles	4 years

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is de-recognized.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3.5 Investment properties

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

3.5.1 Basis of recognition

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

3.5.2 Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The carrying amount includes the cost of replacing part of an existing Investment Property at the time that the cost is incurred if the recognition criteria are met, and excludes the cost of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. The company revalues investment property at least once in three years.

3.5.3 De-recognition

Investment Properties are de-recognised when either they have been disposed of or when the Investment Property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses arising on the retirement or disposal of an Investment Property are recognised in the income statement in the year of retirement or disposal.

3.6 Leases

3.6.1 Right-Of-Use Assets - Company as a lessee

a) Basis of recognition

The company applies Sri Lanka Accounting Standard SLFRS 16 “Leases” (SLFRS 16) in accounting for all leasehold rights except for short-term leases, which are held for use in the provision for services.

b) Basis of measurement

The company recognises right-of-use assets at the date of commencement of the lease, which is the present value of lease payments to be made over the lease term. Right-of-use assets are measured at cost less any accumulated amortization and impairment losses and adjusted for any re-measurement of lease liabilities. The cost of the right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payments made at or before the commencement date less any lease incentives received.

c) Depreciation

Right-of-use assets are depreciated over the lease term of the assets as there is no reasonable certainty that the company will obtain the ownership of such assets by the end of the lease term.

3.6.2 Lease liability

At the commencement date of the lease, the company recognises lease liabilities, measured at present value of lease payments to be made over the lease term. The present value of lease commitments has been calculated using the weighted average incremental borrowing rate.

Details of “Right-of-use asset” and “Lease liability” are given in Notes 26 and 32 respectively.

3.6.3 Operating leases - Company as a lessor

As per SLFRS 16, a lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. The company recognises lease payments from operating leases as income on a straight-line basis. 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.

3.7 Intangible assets

Intangible assets acquired separately are measured initially at cost. Following the initial recognition of the intangible assets, the cost model is applied requiring the assets to be carried at cost less any accumulated amortization and accumulated impairment losses.

3.7.1 Intangible assets with finite lives and amortization

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function/nature of the intangible asset. Amortization is commenced when the assets are available for use.

3.7.1.1 Computer software

Computer software is amortized over four years from the date of acquisition.

3.7.2 Intangible assets with indefinite lives and amortization

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the CGU level as appropriate, when circumstances indicate that the carrying value is impaired. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

3.7.2.1 Brand value

Brand value is not amortized and is tested for impairment annually.

3.7.3 De-recognition of intangible assets

Intangible assets are de-recognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net proceeds and the carrying amount of the asset and are recognized in the income statement.

3.8 Impairment of non-financial assets

3.8.1 Recognition

The carrying values of the company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated (see below). An impairment loss is recognized whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

For the assets that have indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

3.8.2 Calculation of recoverable amount

The recoverable amount is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the current market assessment of their time value of money and the risk specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3.8.3 Reversal of impairment

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount.

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.

3.9 Deposits due to customers

These include term deposits and certificates of deposits. Subsequent to initial recognition, deposits are measured at their amortised cost using the effective interest method, except where the company designates liabilities at fair value through profit or loss. They are stated in the statement of financial position at the amount payable. Interest paid / payable on these deposits based on the effective interest rate is charged to the income statement.

3.10 Other liabilities

Other liabilities are recorded at amounts expected to be payable at the reporting date.

3.11 Employee benefits

3.11.1 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 the employees.

3.11.1.1 Employees' Provident Fund (EPF)

The company and employees contribute 12% and 8% respectively on the salary of each employee to the approved Provident Fund.

3.11.1.2 Employees' Trust Fund (ETF)

The company contributes 3% of the salary of each employee to the Employees' Trust Fund.

3.11.2 Defined benefit plans

3.11.2.1 Retirement benefit obligations

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 pension plans is calculated by estimating the amount of future benefit that the employees have earned in return for their service in the current and prior periods and that benefit is discounted to determine its present value. Any unrecognized past service costs are deducted.

The calculation is performed by a qualified actuary using a “Projected Unit Credit” method. For the purpose of determining the charge for any period before the next regular actuarial valuation falls due, an approximate estimate provided by the qualified actuary is used. The assumptions based on which the results of actuarial valuation were determined are included in the Note 34 to the financial statements.

The company recognizes all actuarial gains and losses arising from the defined benefit plan and all expenses related to defined benefit plans in the income statement and actuarial gains and losses in the other comprehensive income.

This retirement benefit obligation is not externally funded.

However, according to the payment of Gratuity Act No. 12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continuous service with the company.

3.11.3 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3.12 Provisions

A provision is recognised in the statement of financial position when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 37 on ‘Provisions, Contingent Liabilities and Contingent Assets’.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

3.13 Capital commitments and contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured.

Capital commitment and contingent liabilities of the company are disclosed in the respective notes to the financial statements.

3.14 Events occurring after the reporting date

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue.

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

3.15 Income statement

3.15.1 Revenue recognition

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

3.15.1.1 Interest income and interest expense

Interest income and expense are recognised in the Income Statement using the effective interest rate (EIR) method.

As per SLFRS 9, the interest income and expense presented in the Income Statement include:

- Interest on financial assets measured at amortised cost calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

As per LKAS 39, the interest income and expense recognised in the Income Statement included:

- Interest on loans and receivables calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

Effective Interest Rate (EIR)

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the EIR for financial instruments other than credit-impaired assets, the company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs). For credit-impaired financial assets which are classified under Stage 3, a credit-adjusted EIR is calculated using estimated future cash flows including ECLs. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost.

The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted EIR to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

3.15.1.2 Dividend income

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

3.15.1.3 Fees and commission income and expense

Fees and commission income and expense that are integral to the EIR on a financial asset or liability are included in the measurement of the EIR. Other fees and commission income are recognised as the related services are performed.

3.15.1.4 Interest on overdue rentals

Overdue interest is charged on loans and advances which are not paid on the due date and accounted for on the cash basis.

3.15.1.5 Profit or loss on disposal of property, plant and equipment

Profits or losses resulting from disposal of property, plant and equipment have been accounted for in the income statement.

3.15.1.6 Recovery of bad and doubtful debts written off

Recovery of amounts written off as bad and doubtful debts is recognized on a cash basis.

3.15.2 Expenditure

All expenditure incurred in running the business and in maintaining the property, plant and equipment in a state of efficiency have been charged to revenue in arriving at the profit/(loss) for the year.

Expenditure incurred for the purpose of acquiring, expanding or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business has been treated as capital expenditure.

Repairs and renewals are charged to revenue in the year in which the expenditure is incurred.

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. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

The profit earned by the company before taxation as shown in the Income Statement is after making provision for all known liabilities and for the depreciation of property, plant and equipment.

3.15.2.1 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that take a substantial period of time to get ready for the intended use or sale, are capitalized as part of the asset.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

3.16 Taxes

3.16.1 Income tax expense

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized directly in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current taxes

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto, at the rates specified in the Note 12 to the financial statements. This note also includes the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense as required by the Sri Lanka Accounting Standard - LKAS 12 on 'Income Taxes'.

Deferred tax

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted by the reporting date.

Deferred tax assets including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognized only to the extent that it is probable that future taxable profits will be available against which the asset 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.

3.16.2 Value Added Tax on financial services

VAT on financial services is calculated in accordance with the amended VAT Act No.07 of 2003. The Base for the computation of VAT on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

3.16.3 Crop Insurance Levy (CIL)

As per the provisions of Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.17 Earnings per share

The financial statements present basic earnings per share (EPS) for its ordinary shareholders. The 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. 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.

3.18 Cash flow statement

The cash flow statement has been prepared using the “indirect method”. Interest paid is classified as operating cash flows, interest and dividend received are classified as investing cash flows while dividends paid are classified as financing cash flows for the purpose of presenting the cash flow statement.

3.19 Regulatory provisions

3.19.1 Deposit insurance scheme

In terms of the Finance Companies Direction No 2 of 2010 “Insurance of Deposit Liabilities” issued on 27th September 2010, all registered finance companies are required to insure their deposit liabilities in the deposit insurance scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 01st October, 2010. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following:

- Deposit liabilities to member institutions.
- Deposit liabilities to Government of Sri Lanka.
- Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Finance Companies Act Direction No 03 of 2008 on Corporate Governance of registered finance companies.
- Deposit liabilities held as collateral against any accommodation granted.
- Deposit liabilities falling within the meaning of dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to Central Bank of Sri Lanka.

Registered finance companies are required to pay a premium of 0.15% on eligible deposit liabilities as at the end of the month to be payable within a period of 15 days from the end of the respective month.

3.20 Reserves

3.20.1 Statutory reserve fund

The statutory reserve fund is maintained in terms of a licensed finance company (Capital Funds) direction No.01 of 2003. Accordingly, the company should transfer funds out of net profits of each year in the following manner, after due provision has been made for taxation and bad and doubtful debts.

- If capital funds are not less than twenty five percent of total deposit liabilities a sum equal to not less than five percent of the net profits;
- If capital funds are less than twenty five percent of total deposit liabilities but not less than ten percent thereof, a sum equal to not less than twenty percent of the net profits;
- If capital funds are less than ten percent of total deposit liabilities a sum equal to not less than fifty percent of the net profits.

3.20.2 Fair value / Available for sale reserve

This has been created in order to account the fair value changes of Financial assets at Fair Value Through Other Comprehensive Income / Available for sale financial assets.

3.21 Segment reporting

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 company's management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For each of the strategic divisions, the company's management monitors the operating results separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the financial statements. Income taxes are managed on a company basis and are not allocated to operating segments.

For the year ended 31st March

	2021 Rs.	2020 Rs.
4. INCOME		
Interest income (Note 5)	2,441,043,999	3,052,677,796
Fee and commission income (Note 7)	122,533,493	162,802,070
Other operating income (Note 8)	112,144,389	69,757,694
	<u>2,675,721,881</u>	<u>3,285,237,560</u>
5. INTEREST INCOME		
Finance lease	1,791,158,103	2,252,834,035
Hire purchase	941,314	2,280,721
Factoring	18,280,832	51,007,077
Loans	153,740,816	297,775,883
Gold loans	429,681,125	334,202,952
Interest income on investments	47,241,809	114,577,128
	<u>2,441,043,999</u>	<u>3,052,677,796</u>
6. INTEREST EXPENSES		
Interest expense on Borrowings	339,014,254	355,005,867
Customer deposits	951,852,689	1,258,801,863
Debentures	-	77,929,180
Preference shares	-	23,476,889
Negotiable instruments	4,868,672	14,769,603
Overdraft interest	16,766,106	50,695,905
Interest expense on lease liabilities - Right-of-use asset	21,289,888	19,028,537
	<u>1,333,791,609</u>	<u>1,799,707,844</u>
7. FEE AND COMMISSION INCOME		
Documentation income -Lease and hire purchases	77,371,335	93,352,818
Administration charges -Factoring	1,921,243	5,335,697
Service charges - Loans	3,109,202	-
Insurance commission	40,131,713	64,113,555
	<u>122,533,493</u>	<u>162,802,070</u>
8. OTHER OPERATING INCOME		
Collections from written off contracts	54,497,653	24,232,575
Profit on disposal of property, plant and equipment	433,641	260,675
Rent income	11,740,282	11,768,093
Fair value gain on investment properties	39,525,849	5,400,000
Dividend income	768,000	577,920
Sundry income	5,178,964	27,518,431
	<u>112,144,389</u>	<u>69,757,694</u>

For the year ended 31st March

	2021 Rs.	2020 Rs.
12. INCOME TAX EXPENSE		
Current tax		
On current year profits (Note 12.1)	-	-
Deferred tax		
Deferred tax charged to the income statement (Note 22)	-	-
Income tax expense for the year	<u>-</u>	<u>-</u>
12.1 Reconciliation between accounting profit/(loss) and taxable income		
Profit/(loss) before income tax expense	193,562,888	(437,347,081)
Adjustments on disallowable expenses	3,908,089,350	3,481,353,191
Adjustments on allowable expenses	<u>(3,838,333,288)</u>	<u>(3,032,238,017)</u>
Statutory income	263,318,950	11,768,093
Less: Tax loss claimed on leasing business (Note 12.2)	(221,037,119)	(11,768,093)
Tax loss claimed on non-leasing business (Note 12.3)	<u>(42,281,831)</u>	<u>-</u>
Assessable income	-	-
Less: Utilization of qualifying payments (Note 12.3)	-	-
Taxable profit for the year	<u>-</u>	<u>-</u>
Effective tax rate	<u>-</u>	<u>-</u>
12.2 Tax losses		
Tax losses brought forward	1,554,219,693	1,514,517,180
Tax losses on leasing business during the year	-	51,470,606
Tax losses claimed during the year	<u>(221,037,119)</u>	<u>(11,768,093)</u>
Tax losses carried forward	<u>1,333,182,574</u>	<u>1,554,219,693</u>
12.3 Qualifying payment on investment		
Consideration paid to acquire former Orient Finance PLC	1,730,906,250	1,730,906,250
Less : Utilised in prior years	(301,623,378)	(301,623,378)
Less : Utilised during the year	<u>(42,281,831)</u>	<u>-</u>
Balance qualifying payment carried forward	<u>1,387,001,041</u>	<u>1,429,282,872</u>
12.4 Current tax		
The company is liable for tax at the rate of 24% (2020 - 28%) on its taxable income in accordance with the Inland Revenue Act No. 24 of 2017 and subsequent amendments made thereto.		
13 EARNINGS PER SHARE		
13.1 Basic earnings per share		
The calculation of earnings per share is based on the profit/(loss) attributable to the ordinary shareholders for the year divided by the weighted average number of ordinary shares outstanding during the year.		

For the year ended 31st March

	2021 Rs.	2020 Rs.
Profit / (loss) attributable to ordinary shareholders (Rs.)	193,562,888	(437,347,081)
Weighted average number of ordinary shares	<u>211,101,155</u>	<u>142,774,184</u>
Earnings per share (Rs.)	<u>0.92</u>	<u>(3.06)</u>
Weighted average number of ordinary shares	<u>211,101,155</u>	<u>142,774,184</u>

14. DIVIDEND PER SHARE

The dividend per share is based on the dividend paid during the year and the number of ordinary shares outstanding as at that date.

For the year ended 31st March	2021 Rs.	2020 Rs.
Dividend paid (Rs)	-	-
Dividend per share (Rs.)	-	-

15. FINANCIAL ASSETS AND LIABILITIES

15.1 Classification as at 31 March 2021

	Financial assets at fair value through other comprehensive income (FVTOCI) Rs.	Financial assets at amortised cost Rs.	Total carrying amount Rs.
Financial assets			
Cash and cash equivalents	-	225,161,509	225,161,509
Investment in government securities, quoted and unquoted shares	849,632,814	-	849,632,814
Loans and receivables to customers	-	11,447,030,340	11,447,030,340
Investments with banks and other financial institutions	-	31,684,600	31,684,600
Total financial assets	849,632,814	11,703,876,449	12,553,509,263
		Financial liabilities at amortized Cost Rs.	Total carrying amount Rs.
Financial liabilities			
Bank overdrafts		79,180,458	79,180,458
Deposits from customers		8,692,940,933	8,692,940,933
Interest bearing borrowings		2,650,800,328	2,650,800,328
Total financial liabilities		11,422,921,719	11,422,921,719

15. FINANCIAL ASSETS AND LIABILITIES (CONTD....)

15.2 Classification as at 31 March 2020

	Financial assets at fair value through other comprehensive income (FVTOCI) Rs.	Financial assets at amortised cost Rs.	Total carrying amount Rs.
Financial assets			
Cash and cash equivalents	-	70,618,412	70,618,412
Investment in government securities and unquoted shares	934,478,086	-	934,478,086
Loans and receivables to customers	-	12,339,298,071	12,339,298,071
Investments with banks and other financial institutions	-	82,492,401	82,492,401
Total financial assets	<u>934,478,086</u>	<u>12,492,408,884</u>	<u>13,426,886,970</u>
		Financial liabilities at amortized cost	Total carrying amount Rs.
Financial liabilities			
Bank overdrafts		265,514,298	265,514,298
Deposits from customers		9,020,632,231	9,020,632,231
Interest bearing borrowings		3,038,038,298	3,038,038,298
Total financial liabilities		<u>12,324,184,827</u>	<u>12,324,184,827</u>

As at 31st March

	2021 Rs.	2020 Rs.
16. CASH AND CASH EQUIVALENTS		
Cash in hand	138,317,736	62,617,606
Cash at bank	86,843,773	8,000,806
	<u>225,161,509</u>	<u>70,618,412</u>
Bank overdrafts	(79,180,458)	(265,514,298)
Cash and cash equivalents for the purpose of cash flow statement	<u>145,981,051</u>	<u>(194,895,886)</u>

17. FINANCIAL ASSETS - FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in government securities (Note 17.1)	782,877,214	934,247,486
Investments in unquoted shares (Note 17.2)	230,600	230,600
Investments in quoted shares (Note 17.3)	66,525,000	-
	<u>849,632,814</u>	<u>934,478,086</u>

17.1 Investments in government securities

Treasury bills	782,877,214	934,247,486
	<u>782,877,214</u>	<u>934,247,486</u>

17.2 Investments in unquoted shares

	Directors' Valuation Rs.	Directors' Valuation Rs.
Finance House Consortium (Private) Limited	200,000	200,000
Credit Information Bureau of Sri Lanka	30,600	30,600
	<u>230,600</u>	<u>230,600</u>

The Directors' valuation of non-quoted securities based on cost of investment less impairment amounts to Rs. 230,600/- (2020 - Rs. 230,600/-).

17.3 Investment in quoted shares	No of shares	Cost Rs.	Fair value Rs.
Access Engineering PLC	3,000,000	9,160,000	6,630,000
Dipped Product PLC	175,000	10,312,500	8,120,000
Hemas Holdings PLC	100,000	9,719,275	8,340,000
Tokyo Cement Company (Lanka) PLC	100,000	8,735,000	6,670,000
Commercial Bank of Ceylon PLC	100,000	10,000,000	8,550,000
Hayleys PLC	125,000	9,835,000	7,600,000
Hatton National Bank PLC	75,000	9,320,000	7,290,000
John Keells Holdings PLC	50,000	8,750,000	7,425,000
People's Leasing and Finance PLC	500,000	7,250,000	5,900,000
		<u>83,081,775</u>	<u>66,525,000</u>
Fair value loss on investment in quoted shares			<u>16,556,775</u>

	2021 Rs.	2020 Rs.
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18. LOANS AND RECEIVABLES TO CUSTOMERS

Loans and receivables	15,445,854,933	18,046,003,601
Less: Unearned income	(2,956,661,694)	(3,383,288,574)
Net loans and receivables	12,489,193,239	14,662,715,027
Less: Impairment for expected credit losses (Note 18.1.9)	(1,042,162,899)	(2,323,416,956)
Net loans and receivables	<u>11,447,030,340</u>	<u>12,339,298,071</u>

As at 31st March

	2021 Rs.	2020 Rs.
18. LOANS AND RECEIVABLES TO CUSTOMERS (CONTD....)		
18.1 Product wise analysis of net loans and receivables (Contd....)		
18.1.1 Finance lease receivables		
Gross lease rentals receivable	11,813,282,439	13,627,166,190
Less: Unearned income	(2,848,253,157)	(3,221,382,673)
Net lease rentals receivable	8,965,029,282	10,405,783,517
Less: Impairment for expected credit losses (Note 18.1.9)	(745,726,332)	(1,452,845,296)
Net finance lease receivable	8,219,302,950	8,952,938,221
Lease rentals receivables within one year		
Gross lease rentals receivable within one year	5,202,757,231	5,078,724,915
Less: Unearned income	(1,811,202,255)	(1,590,269,853)
Net lease rentals receivable within one year	3,391,554,976	3,488,455,062
Less: Impairment for expected credit losses	(236,228,694)	(566,389,483)
Net finance lease receivable within one year	3,155,326,282	2,922,065,579
Lease rentals receivables within one to five years		
Gross lease rentals receivable within one to five years	6,604,308,256	8,521,686,084
Less: Unearned income	(1,036,675,614)	(1,629,203,439)
Net lease rentals receivable within one to five years	5,567,632,642	6,892,482,645
Less: Impairment for expected credit losses	(509,497,638)	(886,455,813)
Net finance lease receivable within one to five years	5,058,135,004	6,006,026,832
Lease rentals receivables later than five years		
Gross lease rentals receivable later than five years	6,216,952	26,755,191
Less: Unearned income	(375,288)	(1,909,381)
Net lease rentals receivable later than five years	5,841,664	24,845,810
Less: Impairment for expected credit losses	-	-
Net finance lease receivable later than five years	5,841,664	24,845,810
Total	8,219,302,950	8,952,938,221
18.1.2 Hire purchase receivable		
Gross hire purchase rentals receivable	31,140,300	44,582,204
Less: Unearned income	-	(88,854)
Net hire purchase rentals receivable	31,140,300	44,493,350
Less: Impairment for expected credit losses (Note 18.1.9)	(11,764,064)	(27,658,882)
Net hire purchase receivable	19,376,236	16,834,468
Hire purchase rentals receivables within one year		
Gross hire purchase rentals receivable within one year	31,140,300	44,582,204
Less: Unearned income	-	(88,854)
Net hire purchase rentals receivable within one year	31,140,300	44,493,350
Less: Impairment for expected credit losses	(11,764,064)	(27,658,882)
Hire purchase rentals receivable within one year	19,376,236	16,834,468

As at 31st March

	2021 Rs.	2020 Rs.
18. LOANS AND RECEIVABLES TO CUSTOMERS (CONTD....)		
18.1 Product wise analysis of net loans and receivables (Contd....)		
18.1.3 Other loans receivables		
Gross other loans rentals receivables	1,241,149,993	2,059,495,557
Less: Unearned income	(108,408,537)	(161,817,047)
Net other loans rentals receivables	1,132,741,456	1,897,678,510
Less: Impairment for expected credit losses (Note 18.1.9)	(201,009,639)	(486,182,421)
Net other loans receivables	<u>931,731,817</u>	<u>1,411,496,089</u>
Other loans receivables within one year		
Gross other loans rentals receivable within one year	796,527,445	965,869,373
Less: Unearned income	(68,936,944)	(84,643,160)
Net other loans rentals receivable within one year	727,590,501	881,226,213
Less: Impairment for expected credit losses	(9,233,755)	(68,403,447)
Net other loans receivables within one year	<u>718,356,746</u>	<u>812,822,766</u>
Other loans receivables within one to five years		
Gross other loans rentals receivable within one to five years	444,622,548	1,093,626,183
Less: Unearned income	(39,471,593)	(77,173,887)
Net other loans rentals receivable within one to five years	405,150,955	1,016,452,296
Less: Impairment for expected credit losses	(191,775,884)	(417,778,973)
Net other loans receivables within one to five years	<u>213,375,071</u>	<u>598,673,323</u>
Total	<u>931,731,817</u>	<u>1,411,496,089</u>
18.1.4 Factoring receivable		
Factoring receivable	135,549,719	634,124,307
Less: Impairment for expected credit losses (Note 18.1.9)	(66,648,310)	(351,407,756)
Net factoring receivable	<u>68,901,409</u>	<u>282,716,551</u>
18.1.5 Pawning receivables		
Pawning receivable	2,224,732,482	1,680,635,343
Less: Impairment for expected credit losses (Note 18.1.9)	(17,014,555)	(5,322,600)
Net pawning receivable	<u>2,207,717,927</u>	<u>1,675,312,743</u>

18 LOANS AND RECEIVABLES TO CUSTOMERS (CONTD....)

18.1.6 Product wise analysis of net loans and receivables

	As at 31 March 2021			As at 31 March 2020		
	Gross Receivable	ECL Allowance	Net Receivable	Gross Receivable	ECL Allowance	Net Receivable
Finance lease receivable (Note 18.1.1)						
Stage 01	5,286,684,715	(69,076,544)	5,217,608,171	5,073,548,244	(99,885,266)	4,973,662,978
Stage 02	1,949,012,087	(167,152,151)	1,781,859,936	3,505,042,570	(347,072,669)	3,157,969,901
Stage 03	1,729,332,480	(509,497,637)	1,219,834,843	1,827,192,701	(1,005,887,361)	821,305,340
	<u>8,965,029,282</u>	<u>(745,726,332)</u>	<u>8,219,302,950</u>	<u>10,405,783,515</u>	<u>(1,452,845,296)</u>	<u>8,952,938,219</u>
Hire purchase receivable (Note 18.1.2)						
Stage 01	29,285	(401)	28,884	404,660	(5,074)	399,586
Stage 02	-	-	-	948,536	(47,955)	900,581
Stage 03	31,111,015	(11,763,663)	19,347,352	43,140,155	(27,605,852)	15,534,303
	<u>31,140,300</u>	<u>(11,764,064)</u>	<u>19,376,236</u>	<u>44,493,351</u>	<u>(27,658,881)</u>	<u>16,834,470</u>
Other loans receivable (Note 18.1.3)						
Stage 01	502,208,455	(3,403,242)	498,805,213	989,007,647	(23,710,532)	965,297,115
Stage 02	36,114,321	(5,830,513)	30,283,808	167,816,951	(28,372,743)	139,444,208
Stage 03	594,418,680	(191,775,884)	402,642,796	740,853,913	(434,099,145)	306,754,765
	<u>1,132,741,456</u>	<u>(201,009,639)</u>	<u>931,731,817</u>	<u>1,897,678,511</u>	<u>(486,182,420)</u>	<u>1,411,496,088</u>
Factoring receivable (Note 18.1.4)						
Stage 01	15,686,689	(4,416,620)	11,270,069	147,999,108	(4,222,492)	143,776,616
Stage 02	-	-	-	-	-	-
Stage 03	119,863,030	(62,231,690)	57,631,340	486,125,199	(347,185,264)	138,939,935
	<u>135,549,719</u>	<u>(66,648,310)</u>	<u>68,901,409</u>	<u>634,124,307</u>	<u>(351,407,756)</u>	<u>282,716,551</u>
Pawning receivable (Note 18.1.5)						
Stage 01	-	-	-	-	-	-
Stage 02	-	-	-	-	-	-
Stage 03	2,224,732,482	(17,014,555)	2,207,717,927	1,680,635,343	(5,322,600)	1,675,312,743
	<u>2,224,732,482</u>	<u>(17,014,555)</u>	<u>2,207,717,927</u>	<u>1,680,635,343</u>	<u>(5,322,600)</u>	<u>1,675,312,743</u>
Total	<u>12,489,193,239</u>	<u>(1,042,162,900)</u>	<u>11,447,030,339</u>	<u>14,662,715,027</u>	<u>(2,323,416,953)</u>	<u>12,339,298,071</u>

18 LOANS AND RECEIVABLES TO CUSTOMERS (CONTD...)

18.1.7 Movement in impairment charges during the year

	Finance lease Rs.	Hire purchase Rs.	Loans and others Rs.	Factoring Rs.	Pawning Rs.	Total Rs.
Balance as at 01st April 2020	1,452,845,296	27,658,881	486,182,420	351,407,759	5,322,600	2,323,416,956
Charges for the year	12,715,894	(3,693,608)	45,150,930	44,599,390	11,691,955	110,464,561
Written off during the year	(719,834,858)	(12,201,209)	(330,323,711)	(325,680,663)	-	(1,388,040,441)
Classification to investment property	-	-	-	(3,678,176)	-	(3,678,176)
Balance as at 31st March 2021	<u>745,726,332</u>	<u>11,764,064</u>	<u>201,009,639</u>	<u>66,648,310</u>	<u>17,014,555</u>	<u>1,042,162,900</u>

18.1.8 Movement in specific and collective impairment charges for the year ended 31st March 2020

	Finance lease Rs.	Hire purchase Rs.	Loans and others Rs.	Factoring Rs.	Pawning Rs.	Total Rs.
Balance as at 01st April 2019	683,568,519	14,562,664	335,322,505	280,121,605	488,689	1,314,063,982
Charge for the year	769,784,290	14,730,547	154,154,297	71,286,151	4,833,911	1,014,789,197
Written off during the year	(507,511)	(1,634,330)	(3,294,382)	-	-	(5,436,223)
Balance as at 31st March 2020	<u>1,452,845,296</u>	<u>27,658,881</u>	<u>486,182,420</u>	<u>351,407,759</u>	<u>5,322,600</u>	<u>2,323,416,956</u>

18.1.9 Impairment for Expected Credit Losses (Stage Composition) as at 31 March 2021

	Finance lease Rs.	Hire purchase Rs.	Loans and others Rs.	Factoring Rs.	Pawning Rs.	Total Rs.
Stage 01 ECL	69,076,544	401	3,403,242	4,416,620	11,500,000	88,396,807
Stage 02 ECL	167,152,151	-	5,830,513	-	-	172,982,664
Stage 03 ECL	509,497,637	11,763,663	191,775,884	62,231,690	5,514,555	780,783,429
	<u>745,726,332</u>	<u>11,764,064</u>	<u>201,009,639</u>	<u>66,648,310</u>	<u>17,014,555</u>	<u>1,042,162,900</u>
As at 31st March					<u>2021</u> Rs.	<u>2020</u> Rs.

19. INVESTMENT WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Investments in fixed deposits		31,718,600	82,526,401
Less: Expected credit loss on investment in fixed deposits		(34,000)	(34,000)
		<u>31,684,600</u>	<u>82,492,401</u>

20. OTHER ASSETS

Advances paid	10,859,271	42,500,605
Insurance commissions receivable	5,526,833	12,169,559
VAT receivable	2,311,807	15,117,403
ESC and WHT recoverable	99,448,422	99,448,422
Deposits and prepayments	151,603,387	110,196,164
	<u>269,749,720</u>	<u>279,432,153</u>

As at 31st March

	2021 Rs.	2020 Rs.
21. REAL ESTATE STOCK		
Naranwala project	1,767,497	1,772,497
Kiriberiya project	2,887,113	2,887,113
Matale project	17,957,518	9,960,709
Maddawaththa project	865,459	865,459
Chillaw project	1,793,927	1,793,927
Fall in fair value of real estate stock	(506,996)	(506,996)
	<u>24,764,518</u>	<u>16,772,709</u>
22. DEFERRED TAX ASSET		
Balance at the beginning of the year	370,887,353	371,088,939
Deferred tax effect on actuarial gain/(loss) on retirement benefit obligations	(55,299)	(201,586)
Balance at the end of the year	<u>370,832,054</u>	<u>370,887,353</u>
22.1 Deferred tax assets		
The amount recognized as deferred tax asset is as follows:		
Property, plant and equipment and intangible assets	(56,234,630)	(51,347,932)
Right-of-use assets	(5,950,232)	(3,066,940)
Retirement benefit obligations	9,553,137	11,924,432
Tax losses carried forward	163,974,158	118,477,423
Qualifying payment on purchase consideration of amalgamation	181,121,965	211,308,959
Unclaimed impairment provision	78,367,656	83,591,410
	<u>370,832,054</u>	<u>370,887,352</u>

Deferred tax has been determined based on the effective tax rate of 24% (2020 - 28%)

As of 31st March, 2021, the company has carried forward tax loss amounting to Rs. 1,333,182,574/- (2020 - Rs. 1,554,219,693/-) which is available for another 5 years for offsetting against future taxable income of the company in each year of assessment. However, the company has recognized deferred tax asset on unused tax losses only up to the deferred tax liability as 31st March 2021. Accordingly, deferred tax asset of Rs. 163,974,158/- (2020 - Rs. 118,477,423/-) has been recognized for the tax losses amounting to Rs. 683,255,658/- (2020 - Rs. 423,133,654/-).

23. GOODWILL ON ACQUISITION

There was a premium amounting to Rs. 800,425,746/- on the amalgamation of former Orient Finance PLC with former Bartleet Finance PLC during the quarter ended 30th June 2015 which has been computed as follows:

	Rs.
Total consideration paid	1,730,906,250
Total identifiable net assets	930,480,504
Total premium	<u>800,425,746</u>

23.1 Brand value

Out of the total premium on the acquisition of former Orient Finance PLC, Rs. 235,880,000/- was attributed as Brand Value of former Orient Finance PLC based on a valuation carried out by an independent professional valuer.

Valuation methodology and principal assumptions used for the brand valuation

"Income approach" has been considered for the valuation of brand by the independent professional valuer and the following principal assumptions were used.

- Implied royalty rate - 1.68%
- Cost of equity - 16.54% (risk free rate - 11.04% + equity risk premium - 5% + alpha 5%)
- Terminal growth rate - 3%
- Terminal multiplier 5.77

To determine appropriate royalty rates for the trade names, the Independent professional valuer has considered royalty rates available in the international markets for banking and finance related brands/trade marks.

23. GOODWILL ON ACQUISITION (CONTD....)

23.2 Goodwill

Pursuant to recognition of brand value as described in note 23.1 above, the remainder of the premium on acquisition amounting to Rs. 564,545,746/- has been recognised as goodwill on acquisition.

23.3 Impairment

The management has assessed to ascertain whether there could be any impairment on the brand value and/or goodwill. A separate assessment of value in use of brand value and goodwill is not practicable as the future cash flows attached to the cash generating unit pertaining to pre-acquisition of Orient Finance PLC due to the following reasons:

- (a) Departments of the two entities have been merged post amalgamation
- (b) Certain employees resigned and the remaining employees took over the responsibilities of the areas of the employees who left.

Consequently, the management has taken the approach of assessing impairment with a combined approach of both the brand value and goodwill. For this purpose, the management assessed the recoverable amount of goodwill and brand based on value in use taking into consideration the future estimated cash flows to equity.

Management determined forecast operating results based on past performance and expectations for the future. The pre-tax discount rate used is 12.05% and the growth rate used to extrapolate cash flow projections beyond five years is 3% per annum. Value in Use (VIU) is computed based on these data and assumptions support the carrying value of goodwill.

The summary of assessments is as follows:

	<u>Rs.</u>
Value in Use as per management's assessment	3,263,498,789
Carrying value of brand value and goodwill	800,425,746
Carrying value of tangible assets	2,086,504,264
Total carrying value (net assets)	<u><u>2,886,930,010</u></u>

Since the carrying value is less than the value in use, the management concluded that there was no impairment of brand value and goodwill taken together as at 31st March 2021.

24. OTHER INTANGIBLE ASSETS

As at 31st March	<u>2021</u>	<u>2020</u>
	<u>Rs.</u>	<u>Rs.</u>
Computer software		
Cost		
Balance at the beginning of the year	11,653,860	11,653,860
Additions during the year	51,056,741	-
Balance at the end of the year	<u>62,710,601</u>	<u>11,653,860</u>
Accumulated amortization		
Balance at the beginning of the year	10,848,389	10,148,430
Amortized during the year	1,198,092	699,959
Balance at the end of the year	<u>12,046,481</u>	<u>10,848,389</u>
Carrying amount as at 31st March	<u><u>50,664,120</u></u>	<u><u>805,471</u></u>

25. PROPERTY, PLANT AND EQUIPMENT

Cost	Furniture and fittings Rs.	Office equipment Rs.	Computer equipment Rs.	Motor vehicles Rs.	Total Rs.
Balance as at 01st April 2020	84,713,940	104,953,355	135,361,017	1,141,875	326,170,187
Additions during the year	19,887,699	24,930,148	9,079,999	320,000	54,217,846
Written off for the year	(51,269,391)	(58,813,667)	-	(845,483)	(110,928,541)
Disposals during the year	(1,924,987)	(1,767,438)	(568,348)	-	(4,260,773)
Balance as at 31st March 2021	51,407,261	69,302,398	143,872,668	616,392	265,198,719
Accumulated depreciation					
Balance as at 01st April 2020	55,961,947	73,660,280	120,225,287	1,141,875	250,989,389
Charge for the year	12,063,202	14,158,187	9,404,676	46,453	35,672,518
Written off for the year	(35,142,621)	(43,053,492)	-	(845,483)	(79,041,596)
On disposals	(1,916,819)	(1,767,438)	(542,705)	-	(4,226,962)
Balance as at 31st March 2021	30,965,709	42,997,537	129,087,258	342,845	203,393,349
Carrying amount as at 31st March 2021	20,441,552	26,304,861	14,785,410	273,547	61,805,370
Carrying amount as at 31st March 2020	28,751,993	31,293,075	15,135,730	-	75,180,798

25.1 Based on the assessment of potential impairment carried out internally for property, plant and equipment as at 31st March 2021, the Board of Directors has decided to write off furniture and fittings and office equipment with a carrying value of Rs. 31,886,945/- as at 31st March 2021.

25.2 Property, plant and equipment included fully depreciated assets having a gross amount of Rs.171,125,250/- as at 31st March 2021. (31st March 2020 - Rs.208,642,829/-).

25.3 There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2019/2020 -nil).

25.4 There were no restrictions on the title of the property, plant and equipment as at 31st March 2021.

25.5 There were no items of property, plant and equipment pledged as security as at 31st March 2021

25.6 There were no temporary idle items of property, plant and equipment as at 31st March 2021.

As at 31st March

	2021 Rs.	2020 Rs.
26. RIGHT-OF-USE-ASSETS		
Cost		
Balance at the beginning of the year	158,078,230	-
Day 01 impact on adoption of SLFRS 16	-	158,078,230
Addition made during the year	32,480,346	-
Balance at the end of the year	<u>190,558,576</u>	<u>158,078,230</u>
Accumulated amortization		
Balance at the beginning of the year	29,183,673	-
Charge for the year	32,207,083	29,183,673
Balance at the end of the year	<u>61,390,756</u>	<u>29,183,673</u>
	<u>129,167,820</u>	<u>128,894,557</u>

27. INVESTMENT PROPERTIES

Balance at the beginning of the year	538,250,002	400,600,002
Additions during the year	50,224,151	132,250,000
Fair value gain on investment properties	39,525,849	5,400,000
Balance at the end of the year	<u>628,000,002</u>	<u>538,250,002</u>

27.1 The details of lands and buildings

Location and address	Land Extent (Perches)	Building Area (Sq.Ft)	Value as at 31st March 2021 (Rs.)	Value as at 31st March 2020 (Rs.)
38, Station Road, Matara	37.8	9,400	130,000,000	126,000,000
197/4, Galle Road, Kalutara	39.87	36,141	283,000,000	280,000,000
Eluwila, Panadura	A1-R3-P22	-	90,000,000	90,000,000
3rd Lane, Pubudu Kreedangana Mawatha, Halbarawa, Malambe	R1-P11	2,623	45,000,000	42,250,000
Homagama, Kuruduwatthe Wala Kumbure Peellewa	1A-R3-P32		38,000,000	-
Katupotha, Dambulla	R1-P32.62		22,000,000	-
Kaluwarippuwa, Katana	A01.R1.P32		20,000,000	-
Total			<u>628,000,000</u>	<u>538,250,000</u>
			2021 Rs.	2020 Rs.

28. DEPOSITS FROM CUSTOMERS

Fixed deposits (Note 28.1)	8,642,382,922	8,956,019,504
Savings deposits	50,558,011	64,612,727
	<u>8,692,940,933</u>	<u>9,020,632,231</u>

28.1 Public deposits	8,376,159,628	8,662,171,507
Interest accrued	266,223,294	293,847,997
Public deposits at amortized cost	<u>8,642,382,922</u>	<u>8,956,019,504</u>

28.2 Rs.6,880,497,933/- (2019/2020 -Rs.6,231,868,863/-) of deposits from customers are expected to be matured after a 12 month period from the reporting date, 31st March 2021.

	2021 Rs.	2020 Rs.
29. INTEREST BEARING BORROWINGS		
Institutional borrowings (Note 29.1)	2,650,800,328	3,038,038,298
	<u>2,650,800,328</u>	<u>3,038,038,298</u>
29.1 Movement in institutional borrowings		
Balance at the beginning of the year	2,968,063,206	2,043,385,377
Obtained during the year	3,018,000,000	7,283,733,568
Payments made during the year	(3,417,212,273)	(6,359,055,739)
Balance before adjusting for amortized interest (Note 29.3)	2,568,850,933	2,968,063,206
Net effect on amortized interest payable (Note 29.3)	81,949,395	69,975,092
Balance at the end of the year	<u>2,650,800,328</u>	<u>3,038,038,298</u>
29.2 Interest bearing borrowings - Current and non-current		
Payable within one year	2,145,843,328	2,251,584,961
Payable after one year (1-5 years)	504,957,000	786,453,337
	<u>2,650,800,328</u>	<u>3,038,038,298</u>

29.3 Institutional borrowings

Bank	Facility amount Rs.	Capital outstanding as at 31.03.2021 Rs.	Finance cost payable as at 31.03.2021 Rs.	Total payable at amortized cost as at 31.03.2021 Rs.	Tenure of loan (months)
Long-term loans					
Union Bank PLC	318,750,000	265,625,000	101,884	265,726,884	48
Pan Asia Banking Corporation PLC	68,209,801	54,567,841	403,653	54,971,494	24
Bank of Ceylon	595,803,026	447,972,200	207,646	448,179,846	36
Cargills Bank PLC	237,396,002	175,848,890	207,646	176,056,536	36
Medium term loans					
Sampath Bank PLC					
Nations Trust Bank PLC	51,561,572	34,375,000	99,902	34,474,902	24
Short-term loans - Revolving					
National Development Bank PLC	360,000,000	300,000,000	1,278,603	301,278,603	Revolving
Union Bank PLC	240,000,000	200,000,000	372,603	200,372,603	Revolving
Pan Asia Banking Corporation PLC	250,000,000	202,558,305	295,890	202,854,195	Revolving
Securitization					
Hatton National Bank PLC	190,428,405	108,209,022	26,016,136	134,225,158	36
First Capital Trustee Services (Private) Limited	1,158,820,491	779,694,675	52,965,432	832,660,107	36
		<u>2,568,850,933</u>	<u>81,949,395</u>	<u>2,650,800,328</u>	

As at 31st March	2021 Rs.	2020 Rs.
30. TERM DEBTS		
Balance at the beginning of the year	-	1,000,000,000
Redeemed during the year	-	(1,000,000,000)
Balance at the end of the year	-	-
31. REDEEMABLE PREFERENCE SHARES		
Balance at the beginning of the year	-	400,049,600
Converted to ordinary shares	-	(399,896,300)
Redeemed during the year	-	(153,300)
Balance at the end of the year	-	-
32. LEASE LIABILITY-RIGHT-OF-USE-ASSETS		
Balance at the beginning of the year	117,941,195	-
Day 01 impact on adoption of SLFRS 16	-	158,078,230
During the year additions	32,480,347	-
Interest charged for the year	21,289,888	19,028,537
Payment made during the year	(67,336,244)	(59,165,572)
	<u>104,375,186</u>	<u>117,941,195</u>
Payable within one year	32,125,850	38,917,796
Payable after one year	72,249,336	79,023,399
	<u>104,375,186</u>	<u>117,941,195</u>
33. OTHER LAIBILITIES		
Vendor payable	191,907,480	136,136,161
Insurance payable	44,135,171	49,419,932
Accrued expenses and other payable	186,363,072	244,744,532
Real estate advances	12,481,244	12,312,244
	<u>434,886,967</u>	<u>442,612,869</u>
34. RETIREMENT BENEFIT OBLIGATIONS		
Balance at the beginning of the year	42,587,258	50,305,976
Amount recognized in the total comprehensive income (Note 34.1)	7,125,000	10,937,109
Payments during the year	(9,907,520)	(18,655,827)
Balance at the end of the year	<u>39,804,738</u>	<u>42,587,258</u>
34.1 The amount recognised in the total comprehensive income is as follows:		
Interest cost	4,133,038	5,178,908
Current service cost	2,761,549	5,038,250
Actuarial gain / (loss) recognized	230,413	719,951
	<u>7,125,000</u>	<u>10,937,109</u>

34.2 An actuarial valuation of the retirement benefit obligation was carried out as at 31st March 2021 by Actuarial and Management Consultants (Pvt) Ltd. The company has estimated its gratuity liability as at 31st March 2021 based on the forecast given by the actuary using the census and assumptions as at 31st March 2021.

The principal assumptions used were as follows:

	2021	2020
Discount rate	7.00%	10.5%
Future salary increases	8%	8%
Staff turnover factor	37%	41%
Retirement age	55 years	55 years

34. RETIREMENT BENEFIT OBLIGATIONS (CONTD....)

34.3 Sensitivity of assumptions employed in actuarial valuation

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

The sensitivity of the income statement and the statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

Increase/decrease in discount rate	Increase/decrease in salary increment	2020/2021	2019/2020
		Sensitivity effect on income statement increase/(reduction) in results for the year	Sensitivity effect on income statement increase/(reduction) in results for the year
		Rs.	Rs.
1%	-	(978,107)	(756,660)
-1%	-	1,034,673	796,885
-	1%	1,158,408	944,668
-	-1%	(1,114,942)	(912,737)

	2021	2020
	Rs.	Rs.

35. STATED CAPITAL

Ordinary shares (Note 35.1)	2,431,879,039	2,431,879,039
	<u>2,431,879,039</u>	<u>2,431,879,039</u>

No.of shares (Note 35.2)	211,091,155	211,101,155
	<u>211,091,155</u>	<u>211,101,155</u>

35.1 Movement in ordinary shares

At the beginning of the year	2,431,879,039	1,378,689,779
Add: Conversion of redeemable preference shares and interest accrued		
Right issue of ordinary shares	-	546,546,486
At the end of the year	<u>2,431,879,039</u>	<u>2,431,879,039</u>

35.2 Movement in number of shares

	Nos.	Nos.
At the beginning of the year	211,091,155	148,018,370
Add: Conversion of preference shares and interest to ordinary shares	-	27,889,259
Right issue of shares	-	35,183,526
At the end of the year	<u>211,091,155</u>	<u>211,091,155</u>

35.3 Conversion of preference shares to ordinary voting shares

In 2019/2020, the company has converted preference shares into 23,993,778/- ordinary shares at the ratio of six (06) ordinary shares for every one (01) preference share at a value of Rs.19.59 per ordinary share. Additionally 3,905,481 fully paid shares have been issued in respect of preference share dividend amounting to Rs. 76,508,375/- calculated at Rs. 19.59 per ordinary share. The issued ordinary shares have been listed in the Colombo Stock Exchange (CSE) on 11th September 2019.

35.4 Right issue of shares

In 2019/2020, the company has issued 35,183,526 ordinary voting shares in the proportion of one (1) new ordinary voting share for every five (5) ordinary voting shares in the capital of the company by way of a Rights Issue amounting to Rs. 506,642,774/- to the holders of the issued ordinary voting shares of the company at a price of Rs. 14.40 per share. The issued ordinary shares have been listed in the Colombo Stock Exchange (CSE) on 28th February 2020.

35.5 The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the company.

35.6 All ordinary shares rank equally with regard to the company's residual assets.

As at 31st March

	2021 Rs.	2020 Rs.
36. STATUTORY RESERVE FUND		
At the beginning of the year	311,080,742	306,478,542
Transfer during the year	19,356,288	4,602,200
At the end of the year	<u>330,437,030</u>	<u>311,080,742</u>

36.1 Statutory reserve fund is a capital reserve which contains profits transferred as required by Section 3 (b) (i) of Finance Companies Capital Funds Direction No. 01 of 2003 issued by the Central Bank of Sri Lanka.

	2021 Rs.	2020 Rs.
37. REVALUATION RESERVE		
At the beginning of the year	141,120,773	141,120,773
At the end of the year	<u>141,120,773</u>	<u>141,120,773</u>

38. OTHER RESERVES

38.1 Fair value reserve

Balance at the beginning of the year	-	1,069,031
Gain on fair value of financial assets	-	(1,069,031)
Balance at the end of the year	<u>-</u>	<u>-</u>

39. FINANCIAL REPORTING BY SEGMENTS

Business Segments

The company has five reportable segments, as described below, which are the company's strategic divisions. The strategic divisions offer different products and services, which are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the company's management reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the company's reportable segments.

- a) Hire purchase, finance leasing- Provision of hire purchase and leasing facilities to customers
- b) Loans - Provision of Loan facilities to customers
- c) Factoring - Debt factoring
- d) Pawning - Provision of loans against gold
- e) Others

For the year ended 31 March	Finance leases, Hire purchases		Loans		Factoring		Pawning		Others		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest income	1,792,099,417	2,255,114,756	153,740,816	297,775,883	18,280,832	51,007,077	429,681,125	334,202,952	47,241,809	114,577,128	2,441,043,999	3,052,677,796
Fee and commission income	77,371,335	93,352,818	3,109,202	-	1,921,243	5,335,697	-	-	40,131,713	64,113,555	122,533,493	162,802,070
Other income	54,497,653	24,232,575	-	-	-	-	-	-	57,646,736	45,525,119	112,144,389	69,757,694
Total segmental income	1,923,968,405	2,372,700,149	156,850,018	297,775,883	20,202,075	56,342,774	429,681,125	334,202,952	145,020,258	224,215,802	2,675,721,881	3,285,237,560
Less: Interest expense	(959,058,164)	(1,299,804,654)	(78,186,466)	(163,126,588)	(10,070,313)	(30,865,510)	(214,187,088)	(183,081,943)	(72,289,577)	(122,829,150)	(1,333,791,609)	(1,799,707,844)
Segmental results	964,910,241	1,072,895,495	78,663,552	134,649,295	10,131,762	25,477,264	215,494,037	151,121,009	72,730,681	101,386,652	1,341,930,272	1,485,529,716
Depreciation and amortization	(49,670,072)	(45,923,008)	(4,049,314)	(5,763,376)	(521,546)	(1,090,500)	(11,092,850)	(6,468,413)	(3,743,911)	(4,339,640)	(69,077,693)	(63,584,937)
Impairment charge	(9,022,286)	(784,514,837)	(45,150,930)	(154,154,297)	(44,599,390)	(71,286,151)	(11,691,955)	(4,833,911)	-	-	(110,464,561)	(1,014,789,196)
Other Expenses	(648,963,896)	(601,505,796)	(52,906,273)	(75,489,488)	(6,814,258)	(14,283,518)	(144,933,532)	(84,724,154)	(48,916,038)	(56,841,192)	(902,533,998)	(832,844,148)
Value Added Tax and NBT on financial services	(47,666,405)	(8,420,141)	(3,885,966)	(1,056,735)	(500,507)	(199,947)	(10,645,370)	(1,186,006)	(3,592,884)	(795,688)	(66,291,132)	(11,658,516)
Profit/(loss) after tax	209,587,582	(367,468,286)	(27,328,931)	(101,814,601)	(42,303,939)	(61,382,852)	37,130,330	53,908,526	16,477,848	39,410,132	193,562,888	(437,347,081)
Segmental assets	9,953,838,908	8,969,772,689	1,161,026,946	1,411,496,089	148,784,116	282,716,551	2,224,732,482	1,675,312,743	1,400,536,168	3,298,237,686	14,888,918,620	15,637,535,758
Segmental liabilities	8,023,810,476	7,415,182,215	935,906,263	1,166,863,538	119,935,189	233,717,711	1,793,361,532	1,384,956,976	1,128,975,150	2,726,605,710	12,001,988,610	12,927,326,149

As At 31 March 2021

40. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	Less than 3	3-12	1-3	3-5	Over 5	Total	
	months	months	years	years	years	2021	2020
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
ASSETS							
Cash and cash equivalents	225,161,509	-	-	-	-	225,161,509	70,618,412
Financial assets at fair value through other comprehensive income	849,632,814	-	-	-	-	849,632,814	934,478,086
Loans and receivables to customers	1,496,045,000	4,673,633,601	4,142,271,075	1,129,239,000	5,841,664	11,447,030,340	12,339,298,071
Investments with banks and other financial institutions	-	31,684,600	-	-	-	31,684,600	82,492,401
Other assets	269,749,720	-	-	-	-	269,749,720	279,432,153
Real estate stock	-	24,764,518	-	-	-	24,764,518	16,772,709
Deferred tax asset	-	-	-	370,832,054	-	370,832,054	370,887,353
Brand value	-	-	-	-	235,880,000	235,880,000	235,880,000
Goodwill	-	-	-	-	564,545,746	564,545,746	564,545,746
Intangible assets	-	-	-	-	50,664,120	50,664,120	805,470
Property, plant and equipment and right-of-use of assets	-	-	-	-	190,973,190	190,973,190	204,075,355
Investment properties	-	-	-	-	628,000,002	628,000,002	538,250,002
Total assets	2,840,589,043	4,730,082,719	4,142,271,075	1,500,071,054	1,675,904,722	14,888,918,620	15,637,535,758
LIABILITIES							
Bank overdrafts	79,180,458	-	-	-	-	79,180,458	265,514,298
Deposits from customers	2,635,248,933	4,245,249,000	1,573,210,000	239,233,000	-	8,692,940,933	9,020,632,231
Interest bearing borrowings	795,317,328	1,350,526,000	504,957,000	-	-	2,650,800,328	3,038,038,298
Lease Liability - Right-of- use assets	-	-	-	-	104,375,186	104,375,186	117,941,195
Other liabilities	422,405,723	12,481,244	-	-	-	434,886,967	442,612,869
Retirement benefit obligations	-	-	-	-	39,804,738	39,804,738	42,587,258
	3,932,152,442	5,608,256,244	2,078,167,000	239,233,000	144,179,924	12,001,988,610	12,927,326,149
Maturity Gap	(1,091,563,399)	(878,173,525)	2,064,104,075	1,260,838,054	1,531,724,798		

41. RELATED PARTY TRANSACTIONS

The company carries out transactions in the ordinary course of the business with parties who are defined as related parties according to Sri Lanka Accounting Standard, LKAS 24 "Related Party Disclosures", the details of which are reported below.

41.1 Parent and ultimate controlling party

The parent and ultimate controlling party of the company is Janashakthi Limited.

41.2 Transactions with key management personnel

According to LKAS 24, "Related Party Disclosures", key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the board of directors (including executive and non-executive directors) and their immediate family members have been classified as key management personnel of the company.

The company has paid Rs. 5,175,000/- (2019/2020 -Rs. 5,900,000/-) to the directors as emoluments, of which all are comprised of short term employment benefits and no post-employment benefits have been paid during the year (2019/2020 - Nil). There are no direct transactions, arrangements and agreements involving key management personnel of the company other than disclosed in other related party transactions.

The company accepts and holds fixed deposits from key management personnel and their relatives in the normal course of its business and the amount outstanding on such deposits as at 31st March 2021 is Rs.123,250,000/-(2019/2020- Rs.152,250,000/-).

41.3 Other related party transactions

The following transactions have been carried out with related parties during the year ended 31st March 2021.

41.3.1 Recurrent related party transactions

Company	Relationship	Nature of transactions	Aggregate value of related party transactions entered in to during the financial year	Aggregate value of related party transactions as a % gross revenue/ income	Terms and conditions of the related party transactions
			2021 Rs.		
Janashakthi Insurance PLC	Affiliate	Rent and utility paid	(21,293,147)	(1)%	As per the rent agreements
		Payments for Inhouse insurance policies	(8,191,397)	0%	As per the insurance policies
		Rent income received	1,512,000	0%	As per the rent agreements
		Life insurance payments for customers	(13,950,763)	(1)%	As per the insurance policies
Orient Capital Limited	Affiliate	Reimbursement of collections on assigned debtors	(4,427,124)	0%	As per the agreements
Kelsey Homes (Private) Limited	Affiliate	Repayment of loans	111,842,916	4%	As per the agreements
First Capital Limited	Affiliate	Obtained business loan	462,500,000	17%	As per the agreements
		Repayment of loans	(317,194,675)	(12)%	As per the agreements
KHL Corporate Services Limited	Affiliate	Payments for secretary function	(726,024)	0%	

41.3.2 Non-recurrent related party transactions

The company has entered in to following non-recurrent related party transactions which are below the specified threshold as given under CSE listing rules.

Transactions - Statements of Comprehensive Income (from 01 April 2020 To 31 March 2021)

Name of the Related Parties	Relationship	The rationale for entering into the transaction	Value of Related Party Transaction entered during the financial year Rs.
First Capital Limited	Affiliate	Managers fees	2,466,233
First Capital Trustee Services (Pvt) Limited	Affiliate	Trustee fee	50,000
First Capital Markets Limited	Affiliate	Professional fee	150,000
Janashakthi Limited	Parent	Guarantee Fee	1,240,651

42. CAPITAL COMMITMENTS

The company does not have material capital commitments outstanding as at the reporting date.

43. CONTINGENT LIABILITIES

The company does not anticipate any contingent liabilities to arise out of any contingent events as at the reporting date except as disclosed below:

The Inland Revenue Department has issued assessments on Value Added Tax on Financial Services amounting to Rs. 285,573,002/- (including penalties of Rs. 119,046,115/-) and the Board of Directors is confident that there will not be any additional tax liability on that.

44. ASSETS PLEDGED AS SECURITIES

The following assets have been pledged as securities against the long-term and short-term borrowings that have been disclosed under the note No.29 to the financial statements.

Funding Institution	Nature of assets	Nature of liability	Balance Outstanding as at 31st March 2021	Value of assets pledged (Rs.)	Included under
Bank of Ceylon	Lease Receivable	POD	573,110	66,500,000	Future Rental Receivable
Commercial Bank of Ceylon PLC	Lease Receivable	POD	64,873,241	253,500,000	Future Rental Receivable
Hatton National Bank PLC	Lease Receivable	POD	8,091,875	32,500,000	Future Rental Receivable
Seylan Bank PLC	Lease Receivable	POD	2,896,578	127,500,000	Future Rental Receivable
DFCC Bank PLC	Lease Receivable	POD	1,618,354	97,500,000	Future Rental Receivable
Cargills Bank PLC	Lien over Savings Account Balance	POD	1,127,300	50,000,000	Lien over Savings A/C Balance
Hatton National Bank PLC - Trust 02	Lease Receivable	Securitization	81,209,022	143,709,826	Future Rental Receivable
Hatton National Bank PLC - HNB Trust 03	Lease Receivable	Securitization	25,000,000	43,727,884	Future Rental Receivable
Hatton National Bank PLC - HNB Trust 04	Lease Receivable	Securitization	2,000,000	2,990,694	Future Rental Receivable
First Capital Treasuries PLC - Trust 01	Lease Receivable	Securitization	317,194,675	501,547,682	Future Rental Receivable
First Capital Treasuries PLC - Trust 02	Gold Loan Receivable	Securitization	462,500,000	657,272,809	Future Rental Receivable
National Development Bank PLC	Lease Receivable	Short Term Revolving	300,000,000	360,000,000	Future Rental Receivable
Nations Trust Bank PLC	Lease Receivable	Medium Term Loan	34,375,000	51,561,572	Future Rental Receivable
Pan Asia Banking Corporation PLC	Lease Receivable	Short Term Revolving	202,558,305	250,000,000	Future Rental Receivable
Cargills Bank PLC	Lease Receivable	Term Loan	175,848,890	237,396,002	Future Rental Receivable
Bank of Ceylon	Lease Receivable	Term Loan	447,972,200	595,803,026	Future Rental Receivable
Pan Asia Banking Corporation PLC	Lease Receivable	Term Loan	54,567,841	68,209,801	Future Rental Receivable
Sampath Bank PLC	Lease Receivable	Short Term Revolving	Not utilized	133,000,000	Future Rental Receivable
Union Bank of Colombo PLC	Lease Receivable	Term Loan	265,625,000	318,750,000	Future Rental Receivable
Union Bank of Colombo PLC	Lease Receivable	Short Term Revolving	200,000,000	240,000,000	Future Rental Receivable

44. ASSETS PLEDGED AS SECURITIES (CONTD...)

44.1 In the ordinary course of the business, the company entered into transactions that resulted in the transfer of financial assets to third parties. The information above sets out the extent of such transfers and retained interest in transferred assets.

44.2 The company has transferred future rental receivable of lease and hire purchases, but has retained substantially all of the credit risks associated with the transferred assets. Due to the retention of substantially all the risk and rewards on these assets, the company continues to recognise these assets within lease rental receivable and stock out on hire.

45. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No circumstances have arisen since the reporting date which would require adjustments to, or disclosures, in the financial statements.

46. COMPARATIVE INFORMATION

Comparative information of the financial statements has been re-classified wherever necessary to conform to the current year's presentation/classification.

47. DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation and presentation of these financial statements.

48. NUMBER OF EMPLOYEES OF THE COMPANY AS AT THE YEAR END

The number of employees of the company as at 31st March 2021 is 441 (2020-509).

49. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the company uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Fair values are determined according to the following hierarchy:-

Level 1:- Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2:- Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:- Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets - fair value through other comprehensive income				
Government securities	782,877,214	-	-	782,877,214
Investments in unquoted shares	-	230,600	-	230,600
Investments in quoted shares	66,525,000	-	-	66,525,000
	849,402,214	230,600	-	849,632,814

50. FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST

The following table summarises the carrying amounts and the company's estimate of fair values of those financial assets and liabilities not presented on the company's statement of financial position at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair values in the table below may be different from the actual amounts that will be received/ paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 March	2021		2020	
	Carrying Value (Rs.)	Fair Value (Rs.)	Carrying Value (Rs.)	Fair Value (Rs.)
ASSETS				
Cash and cash equivalents	225,161,509	225,161,509	70,618,412	70,618,412
Loans and receivables to customers	11,447,030,340	11,447,030,340	12,339,298,071	12,339,298,071
Investments with banks and other financial institutions	31,684,600	31,684,600	82,492,401	82,492,401
	<u>11,703,876,449</u>	<u>11,703,876,449</u>	<u>12,492,408,884</u>	<u>12,492,408,884</u>
LIABILITIES				
Bank overdrafts	79,180,458	79,180,458	265,514,298	265,514,298
Deposits from customers	8,692,940,933	8,692,940,933	9,020,632,231	9,020,632,231
Interest bearing borrowings	2,650,800,328	2,650,800,328	3,038,038,298	3,038,038,298
	<u>11,422,921,719</u>	<u>11,422,921,719</u>	<u>12,324,184,827</u>	<u>12,324,184,827</u>

Given below is the methodologies and assumptions used in fair value estimates.

Cash and cash equivalents

The carrying amounts of cash and cash equivalents, approximate their fair value as those are short-term in nature and are receivable on demand.

Investments with banks and other financial institutions

The carrying amounts of fixed deposits with banks and other reverse repurchase agreements, approximate their fair value as those are short-term in nature. Almost all of these balances have a remaining maturity of less than six months from the reporting date.

Loans and receivables to customers

Fair value of the loans and receivables to customers is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables. The company calculated the fair value of the loans and receivables to customers based on interest rates at the reporting date for similar types of loans and receivables. Accordingly, fair value of such loans does not materially differ from its carrying value amounting to Rs. 11,447,030,340/-.

Bank overdrafts

The carrying amounts of bank overdrafts, approximate their fair value as those are short-term in nature.

Deposits from customers

More than 79% of the customer deposits have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre-mature uplift. Amounts paid to customers in the event of pre-mature uplift would not be materially different to its carrying value as at the reporting date. Therefore, fair value of customer deposits approximates their carrying value as at the reporting date.

Interest bearing borrowings

Interest bearing borrowings include both the fixed rate and floating rate borrowings. Floating rate borrowings represent nearly 62% of the portfolio. Accordingly, carrying value of the floating rate borrowings approximate their fair values as at the reporting date. Rest of the borrowings has a remaining contractual maturity of less than one year. Therefore, fair value of interest bearing borrowings approximate the carrying value as at the reporting date.

51. FINANCIAL RISK MANAGEMENT

Risk is the most important factor considered in the strategic decision making process at Orient Finance PLC. Therefore, all possible risks are properly evaluated before taking any strategic or operational decision and the best options which minimize the risk are chosen. Risk management framework of the company is discussed in detail in this report. The major categories of financial risks are;

- 1 Credit risk
- 2 Liquidity risk
- 3 Operational risk
- 4 Market Risk

51.1 Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's loans and advances to customers. For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

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

- I 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.
- II 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 company's credit committee or the Board of Directors as appropriate.
- III Reviewing and assessing credit risk - company's credit division 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.
- IV Limiting concentrations of exposure to counterparties, geographies and industries.
- V Providing advice, guidance and specialized skills to business units to promote best practices throughout the company in the management of credit risk.
- VI During the early stages COVID-19 Pandemic, the company conducted an in-depth analysis on the probable industries which would get affected and the scale of impact it may have on the company's lending portfolio. The spread of COVID-19 in Sri Lanka stressed the importance of diversification of the company's lending portfolio across a wide range of industries which in turn would ensure the resilience of the company in an economic shock of this nature. The company is comfortable with the existing composition of its loan portfolio and continuous monitoring activities are being carried out to avoid accumulation of exposures to risky economic segments.

Regular audits of business units and the company's credit processes are evaluated by internal audit.

As at 31 March	2021	2020
Loans and advance to customers	Rs	Rs
Carrying amount at amortized cost		
Individually significant impaired loans and advances (Note 51.1.1)	3,142,569,589	1,482,319,810
Carrying amount of unimpaired loans and advances (Note 51.1.2)	8,304,460,751	10,856,978,264
	<u>11,447,030,340</u>	<u>12,339,298,074</u>

51.1.1 Individually significant impaired loans and advances

Gross receivable	3,836,781,884	3,098,285,547
Allowance for impairment	(694,212,295)	(1,615,965,738)
Individually significant impaired loans and advances	<u>3,142,569,589</u>	<u>1,482,319,809</u>

As at 31 March	2021 Rs	2020 Rs
51. FINANCIAL RISK MANAGEMENT (CONTD...)		
51.1.2 Individually significant unimpaired and individually not significant		
Gross receivable	8,652,411,355	11,564,429,481
Allowance for collective impairment	(347,950,604)	(707,451,217)
Carrying amount of unimpaired loan advances	<u>8,304,460,751</u>	<u>10,856,978,264</u>

Write-off policy

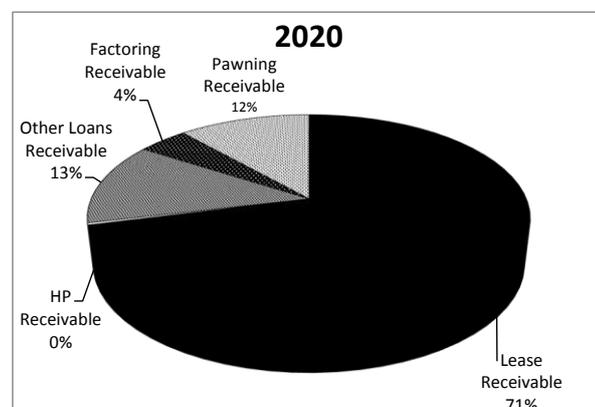
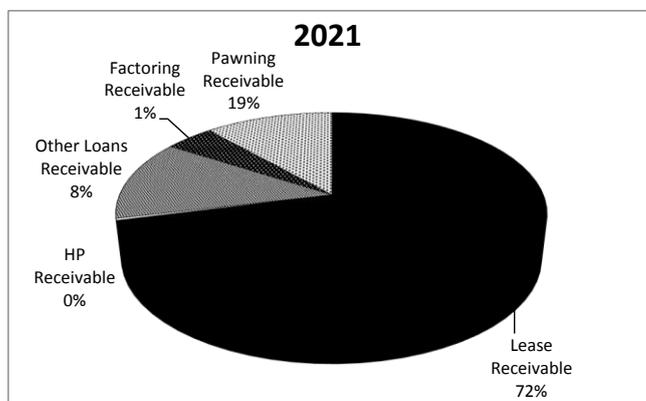
The company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the company's credit division determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position so 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.

Concentration of credit risk

The company monitors concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of credit risk from loans and advances and investment securities at the reporting date is shown below:

Product concentration



51.2 Liquidity risk

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

Management of liquidity risk

The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities to ensure that sufficient liquidity is maintained within the company as a whole.

51. FINANCIAL RISK MANAGEMENT (CONTD...)

51.2 Liquidity risk (Contd...)

Management of liquidity risk (Contd...)

The daily liquidity position is monitored and regular liquidity stress testing conducted under a variety of scenarios covering both the 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 and branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO which in turn submit monthly summary to the Board.

The company relies on deposits from customers and bank borrowings as its primary sources of funding. While the company's debt securities and subordinated liabilities have maturities of over one year, deposits from customers generally have shorter maturities and a large proportion of them are repayable on demand. 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 and maintaining unutilized credit lines.

Exposure to liquidity risk

The key measure used by the company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the following month. A similar, but not identical, calculation is used to measure the company's compliance with the liquidity limit established by the company's lead regulator, CBSL. Details of the reported company ratio of net liquid assets to deposits from customers at the reporting date and during the year were as follows:

As at 31 March	2021 (Rs.)	2020 (Rs.)
Time deposits	8,642,382,922	8,956,019,504
Saving deposits	50,558,011	64,612,727
Unsecured borrowings	6,172,000	265,514,298
Available liquid assets	1,039,757,323	1,074,649,158
Cash in hand	138,317,736	62,617,606
Balances in current accounts (favourable)	86,843,773	16,645,000
Deposits in commercial banks	31,718,600	61,139,066
Approved securities	782,877,214	934,247,486
Average month-end deposit liabilities	9,588,651,000	11,174,273,000
Average month-end outstanding borrowings	1,093,273,000	1,199,119,000
	10,681,924,000	12,373,392,000
Required minimum amount of liquid assets	872,439,194	934,987,559
10% of fixed deposits	864,238,292	894,311,950
15% of savings deposits	7,583,702	9,691,909
10% of unsecured borrowings	617,200	30,983,700
Required minimum amount of approved securities	518,302,081	618,669,600
Period 1/4/2020 to 31/03/2021 , fixed deposit 6%, borrowing 5% and savings deposit 10%		

51. FINANCIAL RISK MANAGEMENT (CONTD...)

Management of liquidity risk (Contd...)

Maturity analysis for financial liabilities

Contractual maturity of the assets and the liabilities of the company is disclosed in the note 40 to the financial statements.

To manage the liquidity risk arising from financial liabilities, the company holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

51.3 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Compliance with company standards is periodically reviewed by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the audit committee and senior management of the company.

Capital Management

The company manages its capital base to comply with regulatory capital requirements and to maintain a solid fund base.

CBSL has set minimum capital requirements for the finance companies as discussed below:

Tier 1 Capital, which includes stated capital, perpetual bonds (which are classified as innovative tier 1 securities), retained earnings, translation reserve and non-controlling interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and

Tier 2 Capital, which includes qualifying subordinated liabilities, collective impairment allowances (limited to those credit portfolios where the standardized approach is used under Basel II) and the element of the fair value reserve relating to unrealized gains/losses on equity instruments measured at fair value through other comprehensive income.

According to these regulations, the minimum capital requirement under Tier 1 is 6.5% of the total risk weighted assets and Tier 2 is 10.5% of the total risk weighted assets.

The company's Capital Adequacy Ratios as at 31 March 2021 were 9.71% (2020 - 10.23%) and 11.13% (2020 - 11.66%) for Tier I and Tier II respectively.

51.4 Market Risk

Market risk is the risk arising from fluctuations in market variables such as interest rates, foreign currencies, equity prices and gold prices. As the company's operations involve granting accommodations, accepting deposits and obtaining funding facilities, the movements in interest rates constitute the most important market risk to the company.

This risk is reviewed periodically by ALCO and by the Integrated Risk Management Committee.

51. FINANCIAL RISK MANAGEMENT (CONTD...)

51.4 Market risk (contd....)

Market risk is identified by the company as the possibility of loss to the company caused by changes in the market variables. Market risk mainly includes interest rate risk, liquidity risk, foreign exchange risk and country risk.

51.4.1 Interest rate risk

Interest rate risk is the potential negative impact on the net interest income based on rate fluctuations and impact to the profitability of the company. The movements in interest rates expose to fluctuations in Net Interest Income (NII) and have the potential to impact the underlying value of interest earning assets and interest-bearing liabilities and off-balance sheet items. The main types of IRR to which the company is exposed to are repricing risk, yield curve risk and basis risk. The company does not have variable interest rates and all facilities granted are on fixed interest rates. The global outbreak of the COVID-19 pandemic has resulted in consecutive reductions in policy rates and monetary easing policies by the Central Bank of Sri Lanka to encourage banks and finance companies to reduce lending rates.

When all borrowings and lending are done on fixed rates the net interest margin is affected due to the following reasons:

Maturity mismatch/GAP

One of the major concerns in financial business is the maturity mismatch, where the average loan period is over 2 years whilst the average deposit period is less than one year. Hence, where the interests are on an increasing trend the company's net interest margin will reduce.

Please refer note 40 to the financial statements for the maturity analysis.

Re-Investment risk

These are uncertainties with regard to the interest rate at which the future cash flows could be re-invested. On an increasing trend, this would be beneficial for the company.

Net interest position

When the market rates are on a downward trend and the company's earning assets are higher than its liabilities, the risk of net interest position falling is high.

51.4.2 Liquidity risk

Liquidity is the ability to efficiently accommodate deposits as reduction in liabilities as well and to fund the loan growth and possible funding of the off-balance sheet claims. Liquidity risk arises through maturity mismatch of loans and deposits.

The company considered that cash flow scrutiny is paramount and has adopted a disciplined approach across the units including setting up of company-wide spend control and cash management measures for preserving and increasing liquidity, particularly on account of the impact of COVID-19.

51.4.3 Foreign exchange (FOREX) and country risk

FOREX is the risk that finance companies may suffer loss as a result of adverse exchange rate movements. Country risk is the risk that arises due to cross border transactions. The uncertainty caused by the COVID 19 pandemic could lead to increased pressure on the local currency resulting in higher foreign exchange risk. However, since Orient Finance PLC does not have any foreign borrowings or foreign transactions overseas except for Oracle financials licensing fee, the company concludes that COVID-19 impact on FOREX is not substantial on the company to conduct in-depth analysis. However, there is a slight impact when budgeting for this cost. The above risks are triggered by the treasury operations.