

Independent Auditor's Report



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PNS/DW/AD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SARVODAYA DEVELOPMENT FINANCE LIMITED

Report on the audit of the financial statements

Opinion

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

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. V A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
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Principal T P M Ruberu FCMA FCCA

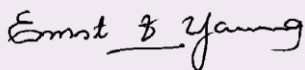
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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and,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

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

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.



29 June 2020
Colombo

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March	Notes	2020 Rs.	2019 Rs.
Income	6	1,802,435,773	1,575,246,892
Interest Income		1,681,678,539	1,433,374,472
Interest Expenses		(750,116,462)	(606,621,257)
Net Interest Income	7	931,562,077	826,753,216
Net Fee and Commission Income	8	29,580,891	24,992,979
Other Operating Income	9	91,176,343	116,879,440
Total Operating Income		1,052,319,311	968,625,635
Impairment Charges for Loans and Other Losses	10	(119,317,776)	(94,014,169)
Net Operating Income		933,001,535	874,611,466
Operating Expenses			
Personnel Expenses	11	(356,879,823)	(357,108,571)
Depreciation of Property, Plant and Equipment		(40,442,919)	(45,088,470)
Amortisation of Intangible Assets		(13,285,897)	(13,051,870)
Other Operating Expenses	12	(290,302,786)	(302,645,855)
Operating Profit before Tax on Financial Services		232,090,111	156,716,700
Tax on Financial Services	13	(108,022,553)	(87,760,056)
Profit/(Loss) before Taxation		124,067,558	68,956,645
Income Tax Expenses	14	(22,351,216)	(27,740,393)
Profit/(Loss) for the Year		101,716,342	41,216,252
Other Comprehensive Income			
Actuarial Gains/(Losses) on Defined Benefit Plans	31	(2,062,826)	5,548
Gain/(Loss) due to changes in Assumptions	31	(4,302,064)	930,725
Deferred Tax (Charge)/Reversal on above items		1,782,169	(262,156)
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		(4,582,721)	674,117
Surplus from Revaluation of Property, Plant & Equipment		-	1,900,707
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment		-	(532,198)
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		-	1,368,509
Other Comprehensive Income for the Year, Net of Tax		(4,582,721)	2,042,626
Total Comprehensive Income/(Expenses) for the Year		97,133,622	43,258,878
Basic Earnings Per Share (Rs.)			
Earning per Share - Basic *	15	1.51	0.61

* Calculated based on profit/(loss) for the year

Accounting Policies and Notes from pages 182 to 233 form an integral part of these Financial Statements.

Statement of Financial Position

Year ended 31 March	Notes	2020 Rs.	2019 Rs.
Assets			
Cash and Cash Equivalents	18	73,226,394	140,902,916
Loans and Receivables	19	5,230,704,947	5,113,657,129
Lease Rentals Receivables	20	1,702,847,496	1,102,513,124
Financial Investments	21	444,939,031	442,595,260
Other Financial Assets	22	164,535,666	189,276,648
Other Non Financial Assets	23	142,043,956	144,424,300
Intangible Assets	24	15,111,123	27,008,129
Investment Property	25	126,094,500	118,594,500
Property, Plant and Equipment	26	146,268,040	170,852,219
Right-of-use Lease Assets	27	169,444,369	-
Total Assets		8,215,215,520	7,449,824,224
Liabilities			
Due to Banks and Other Institutions	28	1,595,035,613	835,873,973
Due to Customers	29	5,101,975,953	5,385,341,597
Other Non Financial Liabilities	30	99,220,587	79,667,975
Post Employment Benefit Liability	31	33,753,016	27,212,065
Current Tax Liabilities	32	15,432,447	14,768,247
Lease Creditor	33	171,735,097	-
Deferred Tax Liabilities	34	2,383,540	8,414,722
Total Liabilities		7,019,536,254	6,351,278,580
Shareholders' Funds			
Stated Capital	35	890,000,020	890,000,020
Retained Earnings	36	195,476,359	118,686,006
Reserves	37	110,202,886	89,859,618
Total Shareholders' Funds		1,195,679,266	1,098,545,644
Total Liabilities and Shareholders' Funds		8,215,215,520	7,449,824,224
Net assets value per share		17.71	16.27
Commitments and Contingencies	39	9,365,100	6,940,000

I certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

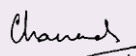


Deshantha de Alwis
DGM - Finance & Planning



Nilantha Jayanetti
Chief Executive Officer

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



Channa de Silva
Chairman



Chamindha Rajakaruna
Director

Accounting Policies and Notes from pages 182 to 233 form an integral part of these Financial Statements.

26 June 2020
Colombo

Statement of Changes in Equity

Note	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserves Rs.	Revaluation Reserves Rs.	Total Equity Rs.
Balances as at 31 March 2018 (Restated)	890,000,020	160,561,930	38,819,607	41,428,252	1,130,809,809
Impact of adopting SLFRS 9 as at 1 April 2018	-	(39,748,039)	-	-	(39,748,039)
Restated balance under SLFRS 9 as at 1 April 2018	890,000,020	120,813,891	38,819,607	41,428,252	1,091,061,770
Profit for the Year	-	41,216,251	-	-	41,216,251
Other Comprehensive Income	-	674,117	-	-	674,117
Transfer to Statutory Reserves Fund	-	(8,243,250)	8,243,250	-	-
Revaluation of Land & Building	-	-	-	1,368,509	1,368,509
Final Dividend Paid	(35,775,003)	(35,775,003)	-	-	-
Balances as at 31 March 2019	890,000,020	118,686,006	47,062,857	42,796,761	1,098,545,644
Profit for the Year	-	101,716,342	-	-	101,716,342
Other Comprehensive Income	-	(4,582,721)	-	-	(4,582,721)
Transfer to Statutory Reserves Fund	-	(20,343,268.46)	20,343,268	-	-
Revaluation of Land & Building	-	-	-	-	-
Final Dividend Paid	-	-	-	-	-
Balances as at 31 March 2020	890,000,020	195,476,359	67,406,125	42,796,761	1,195,679,266

Accounting Policies and Notes from pages 182 to 233 form an integral part of these Financial Statements.

Statement of Cash Flow

Year ended 31 March	Notes	2020 Rs.	2019 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		124,067,558	68,956,644
Adjustments for			
Impairment Provision	10.	119,317,776	94,014,169
Reversal of Provision of Loan Risk Assurance Benefit Fund		(1,030,125)	(5,585,990)
Loss/(Profit) on Disposal of Property, Plant and Equipment		(7,832,178)	(46,464)
Provision for Defined Benefit Plans	11.	10,733,365	8,491,897
Depreciation of Property, Plant and Equipment	26.1.2	40,442,919	45,088,470
Amortisation of Intangible Assets		13,285,897	13,051,870
Operating Profit before Working Capital Changes		298,985,211	223,970,595
(Increase)/Decrease in Loans and Receivables	19.	(160,271,308)	(523,322,568)
(Increase)/Decrease in Lease Rentals Receivable	20.	(676,290,858)	(539,381,909)
(Increase)/Decrease in Other Financial Assets		24,740,982	18,094,400
(Increase)/Decrease in Other Non Financial Assets		2,380,344	(43,229,194)
Increase/(Decrease) in Amounts Due to Customers	29.	(283,365,644)	760,506,567
Increase/(Decrease) in Other Non Financial Liabilities		22,559,165	1,203,000
Cash Generated from Operations		(771,262,107)	(102,159,108)
Retirement Benefit Liabilities Paid		(10,557,304)	(6,759,250)
Net Collection of LRAB Fund		370,125	215,990
Income Tax Paid	32.	(25,936,029)	(14,475,303)
Net Cash From/(Used in) Operating Activities		(807,385,315)	(123,177,670)
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		8,015,000	238,338
Acquisition of Property, Plant and Equipment	26.1.1	(23,735,187)	(23,965,355)
Acquisition of Intangible Assets		(1,388,891)	(4,925,640)
Financial Investments		(2,343,771)	(160,326,307)
Dividend Paid		-	(35,775,003)
Net Cash Flows from/(Used in) Investing Activities		(19,452,848)	(224,753,967)
Cash Flows from / (Used in) Financing Activities			
Funds received from bank and other institutional borrowings	28.2	990,494,489	500,120,116
Net Cash Flow from Debt Issued and Other borrowings	28.2	(398,338,806)	-
Net Cash Flows from/(Used in) Financing Activities		592,155,683	500,120,116
Net Increase in Cash and Cash Equivalents		(234,682,480)	152,188,479
Cash and Cash Equivalents at the beginning of the year		99,328,332	(52,860,148)
Cash and Cash Equivalents at the end of the year	A	(135,354,147)	99,328,332
A Cash and Cash Equivalents at the end of the year			
Favorable Cash & Cash Equivalents		73,226,394	140,902,916
Unfavorable Cash & Cash Equivalents		(208,580,540)	(41,574,583)
Total Cash and Cash Equivalents at the end of the year	19	(135,354,147)	99,328,332

Accounting Policies and Notes from pages 182 to 233 form an integral part of these Financial Statements.

Notes to the Financial Statement

1. CORPORATE INFORMATION

1.1 General

Sarvodaya Development Finance Limited (The 'Company') is a public limited liability company incorporated and domiciled in Sri Lanka and is a Registered Finance Company regulated under the Finance Business Act No.42 of 2011 and amendments thereto.

The registered office of the Company is located at No 155/A, Dr. Danister De Silva Mawatha, Colombo 08 and the principal place of business is situated at the same place.

The Company's parent undertaking is Sarvodaya Economic Enterprises Development Services (Gte) limited, which is also the Company's ultimate Parent.

1.2 Principal Activities of the Company

The principal activities of the Company consist of Acceptance of Deposits, Granting Micro Finance Loans, SME Loan, Leasing, Housing Loans, Business Loans, Pawning and other credit facilities and related services.

1.3 Approval of the Financial Statements

The Financial Statements of the Company for the year ended 31 March 2020 (including comparatives) have been approved and authorized for issue by the Board of Directors on 26th June 2020.

1.4 Statement of Compliance

The Financial Statements of the Company which comprise of the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Significant Accounting Policies and Notes have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act No. 7 of 2007. The presentation of Financial Statements is also in compliance with the requirements of Finance Business Act No. 42 of 2011 and amendments thereto.

1.5 Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company, in compliance with the provisions of the Companies Act No. 07 of 2007 and SLFRSs/LKASs.

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

These Financial Statements include

The Statement of Profit or Loss and Other Comprehensive Income provides the information on the performance for the year under review (Refer page 178). Statement of Financial Position provides the information on the financial position of the Company as at the yearend (Refer page 179). Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 180). Statement of Cash Flows provides the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs for entities to utilize those cash flows (Refer page 181) and Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 182 to 233).

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1.6 Preparation of Financial Statements

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position:

Name	Basis of Measurement	Note Number/s	Page Number/s
Land & buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	Note 26	Page 204
Defined benefit obligations	Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	Note 31	Page 212
Investment Properties	Measured at fair value at the time of transferred from Property, plant & Equipment.	Note 25	Page 204

1.7 Presentation of Financial Statements

The Company present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 38 to these Financial Statements.

1.8 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards – 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 off set and the net amount is reported in the Statement of Financial Position of the Company 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 liabilities simultaneously.

Income and expenses are not offset in the Statement of Profit or Loss of the Company unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the Notes to these Financial Statements of the Company.

1.9 Functional and presentation currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency, unless indicate otherwise. No adjustments have been made for inflationary factors.

1.10 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on 'Presentation of Financial Statements.

1.11 Going Concern

The Board of Directors of the Company has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast significant doubt upon the ability of the Company to continue as a going concern. Therefore, the Financial Statements of the Company continue to be prepared on the going concern basis.

2. GENERAL ACCOUNTING POLICIES

2.1 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Company, management is required to make judgments, which may have significant effects on the amounts recognized in the Financial

Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

The key significant accounting judgments, estimates and assumptions involving uncertainty for each type of assets, liabilities, income and expenses along with the respective carrying amounts of such items are given in the Notes to these Financial Statements are as follows

- Allowance for Impairment Charges for Loans and Receivables (Details under note 3.2.9)
- Deferred Taxation (Details under note 34)
- Post-Employment Benefit Liability (Details under note 31)
- Related Party Transactions (Details under note 42)

2.2 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

2.2.1 Date of Recognition

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

2.2.2 Initial measurement of Financial Instruments

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

2.2.3 'Day 1' profit or loss

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

Notes to the Financial Statement

2.2.4 Measurement categories of Financial Assets and Financial Liabilities

On initial recognition, a financial asset is classified as measured at,

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

3.2.4 (a) (i) Financial Assets at Amortised cost :

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

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

Loans and Receivables consist of cash and cash equivalents, lease receivables, loan and receivables, Financial investments and other assets.

The details of the above conditions are outlined below.

Business model assessment

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

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

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

The 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 newly originated or newly purchased financial assets going forward.

The SPPI test

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

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

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

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

3.2.4 (a) (ii) Equity instruments at FVOCI

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

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

The Company has not classified any Equity instruments at FVOCI.

3.2.4 (a) (iii) Due to Banks and other institutions

After initial measurement, due to banks are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Currently, the Company has recorded due to banks as Financial Liabilities at Amortised Cost in the form of Overdrafts term loans and short term loans.

3.2.9 Impairment of Financial Assets

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

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 46.2.

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

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

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

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

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

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

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

POCI : Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

b. The Calculation of Expected Credit Loss (ECL)

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

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

PD : The probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise expected draw downs on committed facilities, and accrued interest from missed payments.

LGD: The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Notes to the Financial Statement

The mechanism of the ECL method are summarised below.

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

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

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

Loan Commitments: When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For factoring receivables and revolving loans that include both a loan and an undrawn commitment. ECLs are calculated and presented with the loan.

Financial Guarantee contracts: The Company's liability under each guarantee is measured at the higher of the initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability –weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

c. Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the Statement of Financial Position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to Income Statement. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.

d. Debt factoring and revolving loans

The Company's product offering includes debt factoring and revolving loan facilities, in which the Company has the right to cancel and/or reduce the facilities within a short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behaviour, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12 months.

The ongoing assessment of whether a significant increase in credit risk has occurred for debt factoring and revolving loan facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in utilization.

e. Forward looking information

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

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

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

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets are deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers are experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation default or delinquency in interest or principal payments; and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.2.9 (iii) Reversals of impairment

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

3.2.9 (iv) Renegotiated Loans

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renegotiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

From 1 April 2019, when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 45.2. The Company also considers whether the assets should be classified as Stage 3.

3.2.9 (v) Write-off of Financial Assets at Amortised Cost

The Company's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

3.2.9 (vi) Collateral Valuation

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

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

3.2.9 (vii) Collateral repossessed

The Company's accounting policy under SLFRS 9 remains same as it was under LKAS 39. The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

3.2.9 (viii) Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

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

3.3 Finance and Operating Lease

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

3.3.1 Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the

Notes to the Financial Statement

Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease Receivable'. The finance income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Company is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' and the corresponding liability to the lessor is including 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net interest income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

3.3.2 Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'other operating expenses' and 'other operating income', respectively.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

SLFRS 17 Insurance Contracts

SLFRS 17 Insurance Contracts, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 Insurance contracts. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first applies SLFRS17.

This standard is not applicable to the Company.

Amendments to LKAS 1 and LKAS 8: Definition of Material

Amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting policies, Changes in accounting Estimates and Errors are made to align the definition of "material" across the standard and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1 January 2020 with early application permitted.

The amendments to the definition of material are not expected to have a significant impact on the Company's Financial Statements.

5. CHANGES IN ACCOUNTING POLICIES

5.1 New Accounting Standards/Interpretations effective during the year

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

5.1.1 SLFRS 16 –Leases

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

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 April 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4 at the date of initial application.

The Company has lease contracts for various branches. Before the adoption of SLFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 4.2.2 for the accounting policy prior to 1 April 2019.

Upon adoption of SLFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 4.2.1 for the accounting policy beginning 1 April 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously classified as finance leases

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

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

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

Notes to the Financial Statement

6. INCOME

Gross income (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 specific recognition criteria, for each type of gross income, are given under the respective income notes.

	2020 Rs.	2019 Rs.
Interest Income	1,681,678,539	1,433,374,472
Net Fee and Commission Income	29,580,891	24,992,979
Other Operating Income (net)	91,176,343	116,879,440
Total Income	1,802,435,773	1,575,246,892

7. NET INTEREST INCOME

Accounting Policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

The Company use the Effective Interest Rate (EIR) method for recognising the interest income and interest expenses of Financial Assets and Financial Liabilities that are measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income under SLFRS 09. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the Financial Asset or Financial Liability

Once the recorded value of financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

	2020 Rs.	2019 Rs.
7.1 Interest Income		
Loans and Receivables	1,263,494,470	1,179,240,913
Lease Rentals Receivables	357,115,232	191,001,130
Financial Investments	40,686,088	30,326,307
Savings Deposits	1,496,777	4,350,666
Other Financial Assets	18,885,971	28,455,456
Total Interest Income	1,681,678,539	1,433,374,472
7.2 Interest Expenses		
Due to Bank and Other Institution	179,260,061	60,402,155
Due to Customers	546,799,253	546,219,102
Interest Expenses on Lease Creditor	24,057,148	
Total Interest Expenses	750,116,462	606,621,257
Net Interest Income	931,562,077	826,753,216

8. NET FEE AND COMMISSION INCOME

Accounting Policy

The Company earns fee and commission income from a diverse range of services it provides to its customers. The Company recognises Fee and Commission income net of directly attributable expenses.

Credit Related Fees and Services

Fees earned for the provision of services over a period of time are accrued over that period. These fees include professional fees, trade service fees, CRIB charges, Insurance commission and Other credit related changes.

Other Fee and Commission Expense

Other Fee and commission expense relate mainly to transactions and services fees which are expensed as the services are received. Fee and commission expense are recognised on an accrual basis.

	2020 Rs.	2019 Rs.
8.1 Fee and Commission Income		
Credit Related Fees and Commissions	18,702,957	12,745,744
Documentation Charges	25,697,061	28,720,423
Service Charge	10,207,124	924,116
Total Fee and Commission Income	54,607,141	42,390,283

	2020 Rs.	2019 Rs.
8.2 Fee and Commission Expenses		
Credit Related Fees and Commissions	15,226,578	11,714,192
Documentation Charges	278,571	362,709
Service Charge	9,521,101	5,320,403
Total Fee and Commission Expenses	25,026,250	17,397,304
Total Net Fee and Commission Income	29,580,891	24,992,979

Notes to the Financial Statement

9. OTHER OPERATING INCOME

Accounting Policy

Income earned on other sources, which are not directly related to the normal operations of the Company is recognised as other operating income on an accrual basis.

Other operating income includes recoveries of written-off loans and receivables, gains from property, plant & equipments and reversal of provision of Loan Risk Assurance Benefit Fund.

	2020 Rs.	2019 Rs.
Recoveries of Written-Off Loans & Receivables	56,319,546	97,545,842
Profit/(Loss) on Disposal of Property Plant & Equipment	7,832,178	46,464
Reversal of Provision of Loan Risk Assurance Benefit Fund	1,030,125.42	5,585,990
Other Sundry Income (Note 9.1)	25,994,493	13,701,144
Total Other Operating Income	91,176,343	116,879,440

9.1 Other Sundry Income included savings accounts threshold charges, office rent re-imburements, stationery income and other.

10. IMPAIRMENT CHARGES /(REVERSAL) FOR LOANS AND OTHER LOSSES

Accounting Policy

The Company recognises the changes in the impairment provisions for loans and lease receivables and other customers, which are assessed as per the LKAS 9: Financial Instruments. The methodology adopted by the Company is explained in Note 3.2.9 to these Financial Statements.

	2020 Rs.	2019 Rs.
Loans and Receivables	43,223,491	61,693,889
Finance Lease Rental Receivables	76,094,285	32,320,280
Total Impairment Charges for Loans and Other Losses	119,317,776	94,014,169

The Impact on COVID 19- Impairment of Financial Assets - Expected Credit Loss calculation

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

11. PERSONNEL EXPENSES

Accounting Policy

Personnel costs includes salaries and bonus, other staff related expenses, terminal benefit charges and other related expenses. The provisions for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in accordance with the respective statutes and regulations. The Company contributes 12% and 3% of gross salaries of employees to the Employees' Provident Fund and the Employees' Trust Fund respectively.

Contributions to defined benefit plans are recognised in the Statement of profit or Loss and other comprehensive income based on an actuarial valuation carried out for the gratuity liability of the Company in accordance with LKAS 19, Defined benefit Obligations.

Year ended 31 March	2020 Rs.	2019 Rs.
Salaries and Other Related Expenses	312,413,478	314,570,215
Employer's Contribution to Employees' Provident Fund	23,587,300	23,961,690
Employer's Contribution to Employees' Trust Fund	5,896,825	5,988,236
Gratuity Charge for the Year	10,785,865	8,491,897
Other Staff Related Expenses	4,196,354	4,096,534
Total Personnel Expenses	356,879,823	357,108,571

12. OTHER OPERATING EXPENSES

Accounting Policy

Other operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

	2020 Rs.	2019 Rs.
Directors' Emoluments	7,454,305	8,235,417
Auditors Remuneration	2,029,874	2,440,262
Professional and Legal Expenses	2,274,528	950,352
Deposit Insurance Premium	6,898,474	6,717,039
General Insurance Expenses	4,420,263	3,758,520
Office Administration and Establishment Expenses	201,765,609	196,875,369
Travelling & Transport Expenses	35,978,600	28,818,535
Other Expenses	5,218,327	10,961,711
Marketing and Promotional Expenses	24,262,806	43,888,651
Total Other Operating Expenses	290,302,786	302,645,855

Notes to the Financial Statement

Crop Insurance Levy

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

13. TAX ON FINANCIAL SERVICES

Accounting Policy

Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation computed on prescribed rates and emoluments payable to employees and provision relating to terminal benefits.

VAT rate applied for the financial year ended 31 March 2020 was 15%.

Nations Building Tax (NBT) on Financial Services

As per provisions of the Nations Building Tax Act (NBT) Act No. 9 of 2009 and amendments thereto, NBT was payable at 2 percent on Company's value additions attributable to financial services with effect from 1st January 2014. The value addition attributable to financial service is same as the value using to calculate VAT on financial services.

As per the notice published by the Department of Inland Revenue dated 29th November 2019, Nations Building Tax (NBT) on Financial Services has been abolished with effect from 01 January 2020.

Debt Repayment Levy

As per the provisions of the Finance Act No.35 of 2018, Debt repayment levy has been imposed for a limited period from 01 October 2018 to 31 December 2021.

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25C of the Value Added Tax (VAT) Act No. 14 of 2002.

As per the notice published by the Department of Inland Revenue dated 20th January 2020, Debt Repayment Levy has been abolished with effect from 01 January 2020

	2020 Rs.	2019 Rs.
Value Added Tax on Financial Services	70,959,752	61,970,225
National Building Tax on Financial Services	6,082,516	8,262,696
Debit Repayment Levy	30,980,285	17,527,134
Total Tax on Financial Services	108,022,553	87,760,056

14. INCOME TAX EXPENSES

Accounting Policy

As per the Sri Lanka Accounting Standard - LKAS 12 on Income Taxes, the tax expense/tax income is the aggregate amount included in determination of profits or loss for the period in respect of income tax and deferred tax. The tax expense/Income is recorded in the Statement of Profit or Loss except to the extent it relates to items recognized directly in Equity or Statement of Comprehensive Income (OCI), in which case it is recognized in Equity or OCI.

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years.

Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 32 to the financial statements.

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The regulatory income tax rate for the first 9 months period was 28% and it was changed as 24% with effect from 1 January 2020 (2019 - 28%).

The components of the income tax expense for the years ended 31 March 2020 and 2019 are:

	2020 Rs.	2019 Rs.
Income Taxation		
Taxation based on Profits for the Year (Note 14.1)	19,554,842	-
(Over) / Under Provision in Respect of 2014/15	3,862,469	-
(Over) / Under Provision in Respect of 2015/16	3,182,917	-
(Over) / Under Provision in Respect of 2017/18	-	1,550,102
Deferred Taxation		
Transfers to/(from) Deferred Taxation (Note 34.2)	(4,249,013)	26,190,291
Total Tax Expenses	22,351,216	27,740,393

Notes to the Financial Statement

14.1 Reconciliation Of Accounting Profit And Taxable Income

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

	2020 Rs.	2019 Rs.
Profit Before Tax	124,067,558	68,956,644
Add : Disallowable Expenses	264,584,242	233,883,316
Taxable Loss on Leasing Business	(8,737,906)	(6,294,331)
Adjustment on SLFRS 16	8,778,731	-
Less: Tax Deductible Expenses	(135,464,188)	(141,138,023)
Disallowable Income	(92,679,503)	(19,648,652)
Adjusted Profit / (Loss) for Tax Purposes	160,548,934	135,758,955
Assessable Income	160,548,934	135,758,955
Less - Allowable Losses	(88,123,592)	(135,758,955)
Taxable Income	72,425,342	-
Income Tax @ 28%	15,209,322	-
Income Tax @ 24%	4,345,521	-
Income Tax on Current Year's Profit	19,554,842	-

14.2 (Over) / Under Provision in Respect of Y/As 2014/15 and 2015/16

The Company recorded an income tax under provision Rs 3,862,469/- and Rs 3,182,917 in respect of the years 2014/15 and 2015/16. This under provision arose a result of finalizing two tax assessment.

15. EARNINGS PER SHARE

Accounting Policy

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 as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) on 'Earnings per Share':

	2020 Rs.	2019 Rs.
Amount used as the numerator		
Profit attributed to ordinary shareholders (Rs.)	101,716,342	41,216,251
Amount used as the denominator		
Weighted average number of ordinary shares as at the date of the Statement of Financial Position for basic EPS calculation	67,500,006	67,500,006
Weighted average basic Earnings per Share (Rs.)	1.51	0.61

16. DIVIDEND PAID AND PROPOSED

The Board of Directors did not recommend distribution of dividend for the year ended 31 March 2020 and 2019.

17. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

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

17.1 Analysis of Financial Instruments by Measurement Basis

	2020		2019	
	Amortised Cost Rs.	Total Rs.	Amortised Cost Rs.	Total Rs.
Financial Assets				
Cash and Cash Equivalents	73,226,394	73,226,394	140,902,916	140,902,916
Loans and Receivables	5,230,704,947	5,230,704,947	5,113,657,129	5,113,657,129
Lease Rentals Receivables	1,702,847,496	1,702,847,496	1,102,513,124	1,102,513,124
Financial Investments	444,939,031	444,939,031	442,595,260	442,595,260
Other Financial Assets	164,535,666	164,535,666	189,276,648	189,276,648
Total Financial Assets	7,616,253,533	7,616,253,533	6,988,945,076	6,988,945,076
Financial Liabilities				
Due to Banks and Other Institutions	1,595,035,613	1,595,035,613	835,873,973	835,873,973
Due to Customers	5,101,975,953	5,101,975,953	5,385,341,597	5,385,341,597
Total Financial Liabilities	6,697,011,566	6,697,011,566	6,221,215,570	6,221,215,570

18. CASH AND CASH EQUIVALENTS

Accounting Policy

Cash and cash equivalents for the purpose of reporting in the Statement of Financial Position, comprise of cash in hand and balances with banks. The cash in hand comprises of local currency only.

Year ended 31 March	2020 Rs.	2019 Rs.
Cash in Hand	34,089,998	44,382,608
Balances with Banks	39,136,396	96,520,308
Total Cash and Cash Equivalents	73,226,394	140,902,916

18.1 Net cash and Cash Equivalents for the Purpose of the Cash Flow Statement

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.

Favorable Cash & Cash Equivalents (Note 18)	73,226,394	140,902,916
Unfavorable Cash & Cash Equivalents (Note 28)	(208,580,540)	(41,574,583)
Cash & Cash Equivalents for Cash Flow Purposes	(135,354,146)	99,328,333

Notes to the Financial Statement

19. LOANS AND RECEIVABLES

Accounting Policy

Loans and receivables include financial assets measured at amortized cost if both following conditions are made ;

Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.

Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding

After initial measurement loans and receivables are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of comprehensive income.

	2020 Rs.	2019 Rs.
Gross Loan and Receivables	5,523,994,556	5,363,723,248
Less : Allowance for Impairment Charges for Loans and Receivables (Note 19.1)	(293,289,609)	(250,066,119)
Net Loans and Receivables	5,230,704,947	5,113,657,129

19.1 Analysis of loans and receivables on maximum exposure to credit risk

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired loans and receivables	3,206,499,229	830,138,581	1,487,356,746	5,523,994,556
Gross Loan and Receivable	3,206,499,229	830,138,581	1,487,356,746	5,523,994,556
Allowance for expected credit losses(ECL)	(58,248,938)	(41,976,964)	(193,063,707)	(293,289,609)
	3,148,250,291	788,161,617	1,294,293,039	5,230,704,947

19.2 Allowance for Impairment Charges for Loans and Receivables

Reversal of Impairment

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

Year ended 31 March	2020 Rs.	2019 Rs.
Allowance for Impairment Losses on Loans & Receivables		
Balance as at Beginning of the Year	250,066,119	142,951,114
Impact of adopting SLFRS 9 as at 1 April 2019	-	45,788,865
	250,066,119	188,739,979
Charge for the Year	43,223,490	61,326,139
Amounts Written Off	-	-
Balance as at End of the Year	293,289,609	250,066,119
Individual Impairment	-	-
Collective Impairment	293,289,609	250,066,119
Total	293,289,609	250,066,119

19.3 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2019	82,088,713	30,911,399	137,066,006	250,066,119
Charge/ (Reversal) to income statement	(23,839,775)	11,065,565	55,997,701	43,223,490
Write-off during the year	-	-	-	-
Balance as at 31st March 2020	58,248,938	41,976,964	193,063,707	293,289,609

20. LEASE RENTALS RECEIVABLE

Accounting Policy

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are recognised on the statement of financial position. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Lease rental receivable include financial assets measured at amortized cost if both following conditions are made ;

Assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.

Contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding

After initial measurement, lease rental receivable is subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of Profit or Loss.

Notes to the Financial Statement

20. LEASE RENTALS RECEIVABLE (CONTD.)

20.1 Lease Rentals Receivable

	2020 Rs.	2019 Rs.
Gross Lease Rentals Receivables	2,635,271,050	1,645,200,014
Less: Unearned Income	(802,192,592)	(488,412,414)
Total Lease Rentals Receivables	1,833,078,458	1,156,787,600
(Less): Allowance for Impairment Charges (Note 20.5)	(130,230,964)	(54,274,476)
Net Lease Rentals Receivables	1,702,847,496	1,102,513,124

20.2 Analysis of loans and receivables on maximum exposure to credit risk

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impaired loans and receivables	994,966,920	502,844,238	335,267,300	1,833,078,458
Less - Allowance for expected credit losses (ECL)	(17,990,868)	(28,179,267)	(84,060,828)	(130,230,964)
	976,976,052	474,664,971	251,206,471	1,702,847,496

20.3 Maturity of Lease Rentals Receivables

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	895,952,803	1,425,538,069	-	2,321,490,872
Less: Unearned Income	(279,173,975)	(209,238,439)	-	(488,412,414)
Total Lease Rental Receivables	616,778,828	1,216,299,630	-	1,833,078,458
(Less): Allowance for Impairment Charges (Note 20.5)	(70,341,185)	(59,889,778)	-	(130,230,964)
Net Lease Rentals Receivables	546,437,643	1,156,409,852	-	1,702,847,496

20.4 Maturity of Lease Rentals Receivables

As at 31 March 2019	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	393,833,875	1,251,366,140	-	1,645,200,015
Less: Unearned Income	(210,058,973)	(278,353,441)	-	(488,412,414)
Total Lease Rental Receivables	183,774,902	973,012,699	-	1,156,787,601
(Less): Allowance for Impairment Charges (Note 20.2)	-	(54,274,476)	-	(54,274,476)
Net Lease Rentals Receivables	183,774,902	918,738,223	-	1,102,513,124

20.5 Allowance for Impairment Charges for Lease Rentals Receivable

Accounting Policy

The accounting policy used in calculating impairment charge is fully described under Note 3.2.9.

	2020 Rs.	2019 Rs.
Balance as at beginning of the Year	54,274,476	6,350,973
Impact of adopting SLFRS 9 as at 1 April 2019	-	15,603,224
	54,274,476	21,954,197
Charge / (Reversal) for the year	75,956,487	32,320,280
Balance as at End of the Year	130,230,964	54,274,476
Individual Impairment	-	-
Collective Impairment	130,230,964	54,274,476
Total	130,230,964	54,274,476

20.6 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2019	12,684,971	14,092,112	27,497,393	54,274,476
Charge/ (Reversal) to income statement	5,305,897	14,087,154	56,563,436	75,956,487
Write-off during the year	-	-	-	-
Balance as at 31st March 2020	17,990,868	28,179,267	84,060,828	130,230,964

21. FINANCIAL INVESTMENTS

Accounting Policy

Financial investments include Government Securities and securities purchased under resale agreements. After initial measurement, these are subsequently measured at amortized cost using the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

	2020 Rs.	2019 Rs.
Sri Lanka Government Securities - REPO	444,939,031	442,595,260
Total Financial Investments	444,939,031	442,595,260

Notes to the Financial Statement

22. OTHER FINANCIAL ASSETS

Accounting Policy

Financial investments include Fixed Deposit. After initial measurement, these are subsequently measured at amortized cost using the EIR. The amortization is included in interest income in the Statement of Profit or Loss.

	2020 Rs.	2019 Rs.
Fixed Deposits	164,535,666	189,276,648
Total Other Financial Assets	164,535,666	189,276,648

22.1 Contractual Maturity Analysis of Other Financial Assets

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	164,535,666	-	-	164,535,666
Total Other Financial Assets	164,535,666	-	-	164,535,666

23. OTHER NON FINANCIAL ASSETS

Accounting Policy

The Company classifies all non-financial assets other than Intangible Assets, Property, Plant & Equipment and Deferred Tax Assets under other non-financial assets. Other non-financial assets, include inventories, other advance, rent deposit and other receivable amounts. These assets are non-interest earning and recorded at the amounts that are expected to be received. Prepayments that form a part of other receivable are amortized during the period in which it is utilized.

	2020 Rs.	2019 Rs.
Inventories	3,562,565	7,808,584
Other Advance	14,575,770	2,056,535
Rent Deposit	17,581,500	31,800,517
Other Receivable	106,324,121	102,758,664
Total Other Non Financial Assets	142,043,956	144,424,300

Amounts Receivable from Government

Other receivable includes Amounts Receivable from Government Rs 33,624,587/- As per signed MOU between SDF and Ministry of Finance and Mass Media under "Special debit relief for Microfinance Loan granted to women in drought affected Districts".

24. INTANGIBLE ASSETS

Accounting Policy

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the supply of services, for rental to others or for administrative purposes.

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

24.1 Software

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the 'Statement of Financial Position' under the category 'intangible assets' and carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the year ended 31 March 2020 and 2019 is given below.

Computer software	3 Years
Computer software - E-Finance	5 Years

Intangible assets are derecognized on disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset is included in the Statement of Profit or Loss in the year the asset is derecognized.

24.2 Computer Software

	2020 Rs.	2019 Rs.
Cost		
Cost as at begging of the year	58,009,845	53,084,205
Additions and Improvements	1,388,891	4,925,640
Disposal during the year	-	-
Cost as at end of the year	59,398,736	58,009,845
Amortisation & Impairment		
Amortisation as at begging of the year	31,001,716	17,949,845
Charge for the year	13,285,897	13,051,870
Disposal during the year	-	-
Amortisation as at end of the year	44,287,613	31,001,716
Net book value as at end of the year	15,111,123	27,008,129
Net book value of total intangible assets	15,111,123	27,008,129

Notes to the Financial Statement

25. INVESTMENT PROPERTY

Accounting Policy

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are initially recognised at cost. Subsequent to initial recognition the investment properties are stated at fair values, which reflect market conditions at the Statement of Financial Position date. Gains or losses arising from changes in fair value are included in the Statement of Other Comprehensive Income in the year in which they arise.

Derecognition

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Statement of Profit or Loss in the year of retirement or disposal.

	2020 Rs.	2019 Rs.
Balance as at 1 April	118,594,500	-
Transfer from during the year	7,500,000	118,594,500
Gain from fair value adjustment	-	
Balance as at 31 March	126,094,500	118,594,500

26. PROPERTY, PLANT & EQUIPMENT

Accounting Policies

Basis of Recognition

Property, plant & equipment are recognized 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.

Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the assets and subsequent cost as explained below. The cost of self-constructed assets includes the cost of the materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for its intended use and cost of dismantling and removing the old items and restoring site on which they are located. Purchased software which is integral to the functionality of the related equipment is capitalized as part of computer equipment.

Cost Model

The Company applies the 'Cost Model' to all property, plant & equipment other than free hold land and building and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Company applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at revalued amounts, being their fair value at the date reporting date, less any subsequent accumulated depreciation on land and buildings and any accumulated impairment losses charged subsequent to the date of the valuation.

Freehold land and buildings of the Company are revalued every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

The Company engages an Independent Valuer to determine the fair value of free hold land and buildings. In estimating the fair values, the Independent Valuer considers current market prices of similar assets.

During the current financial year, the Company revalued its freehold lands and buildings.

Subsequent Cost

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

Repairs and Maintenance

Repairs and Maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

Derecognition

An item of property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year the asset is derecognized.

Useful Life Time of Property, Plant & equipment and Depreciation

Depreciation is calculated on a straight-line basis over the useful life of the assets, commencing from when the assets are available for use, since this method closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The Company review the residual values, useful lives and methods of depreciation of property, plant & equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

The estimated useful lives of the assets for the year ended 31 March 2020 and 2019, are as follows:

Assets Category	Useful Life
Buildings	40 Years
Office Equipment	5 Years
Computer Equipment	5 Years
Furniture & Fittings	10 Years
Plant & Machinery	8 Years
Motor Vehicles	5 Years

The depreciation rates are determined separately for each significant part of assets and depreciation is provided proportionately for the completed number of days the asset is in use, if it is purchased or sold during the financial year. Depreciation methods, useful lives and residual values are reassessed at each reporting date and is adjusted, as appropriate.

Notes to the Financial Statement

26. PROPERTY, PLANT & EQUIPMENT (CONTD.)

26.1 The Movement in Property, Plant & Equipment

	Balance As at 01.04.2019 Rs.	Additions during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2020 Rs.
26.1.1 Cost or Valuation					
Freehold Assets					
Land	25,550,000	-	(7,500,000)	-	18,050,000
Furniture & Fittings	98,249,035	2,667,813	-	123,459	100,793,390
Office Equipment	60,212,608	10,522,363	-	91,483	70,643,488
Computer Equipment	80,565,796	248,933	-	80,814,729	
Plant & Machinery	40,356,954	521,078	-	157,251	40,720,781
Motor Vehicle	43,328,322	9,775,000	-	10,350,000	42,753,322
Total cost or valuation	348,262,715	23,735,187	(7,500,000)	10,722,193	353,775,709

	Balance As at 01.04.2019 Rs.	Charge during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2020 Rs.
26.1.2 Depreciation					
Freehold Assets					
Furniture & Fittings	34,070,685	9,963,952	-	(78,673)	43,956,994
Office Equipment	41,791,824	8,393,975	-	(57,469)	50,128,330
Computer Equipment	60,254,673	9,980,412	-	-	70,233,944
Plant & Machinery	15,002,689	5,073,861	-	(150,709)	19,925,842
Motor Vehicle	26,290,625	7,030,719	-	(10,058,784)	23,262,559
Total Depreciation	177,410,496	40,442,919	-	(10,345,634)	207,507,669

	2020 Rs.	2019 Rs.
26.1.3 Net Book Value		
Land	18,050,000	25,550,000
Furniture & Fittings	56,836,396	64,178,350
Office Equipment	20,515,157	18,420,784
Computer Equipment	10,580,785	20,311,123
Plant & Machinery	20,794,939	25,354,265
Motor Vehicle	19,490,763	17,037,697
Total Carrying Amount of Property, Plant and Equipment	146,268,040	170,852,219

26.1.4 Property, Plant & Equipments Acquired During the Financial Year

During the financial year, the Company acquired property, plant & equipments to the aggregate value of Rs. 23,735,187/- (2019 - Rs. 23,965,355/-) Cash payment amounting to Rs. 23,735,187/- (2019 - Rs 23,965,355) was paid during the year for purchase of property, plant & equipment.

26.1.5 Fully-depreciated property, plant & equipment

The initial cost of fully-depreciated property, plant & equipment, which are still in active use as at reporting date is Rs. 82,452,109/- (2019 - Rs. 51,346,941/-)

26.2 Fair value related disclosures of Freehold land

Freehold land located at No 45, Rawathawatta Road, Moratuwa is carried at the revalued amount. The independent valuers provide the fair value of land once in three years or more frequently if the fair values are substantially different from carrying amounts according to the Company policy.

Therefore the fair value exist in the recent valuation (31 March 2020) which was carried out by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard-SLFRS 13 (Fair Value Measurement) less subsequent accumulated depreciation and impairment losses considered as the fair value exist as at the reporting date (31 March 2020). Accordingly, there were no any changed in valuation as at 31 March 2020.

26.3 Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of Property, Plant and Equipment as at 31 March 2020 and 31 March 2019.

26.4 Compensation from Third Parties for items of Property, Plant and Equipment

There were no compensation received during the year from third parties for items of Property, Plant and Equipment that were impaired, lost or given up. (2019: Nil)

26.5 Temporarily Idle of Property, Plant and Equipment

There were no Property, Plant and Equipment idle as at 31 March 2020 and 31 March 2019.

26.6 Property, Plant and Equipment Retired from Active Use

There were no Property, Plant and Equipment retired from active use as at 31 March 2020 and 31 March 2019.

27. RIGHT-OF-USE ASSETS

	2020 Rs.	2019 Rs.
Cost		
Effect of adoption of SLFRS 16 as at 01 April 2019	188,564,089	-
Opening Balance of Advance Payment for the Right-of-Use Assets as at 01 April 2019	17,744,017	-
Rent Payable Under LKAS 17 as at 01 April 2019	(1,748,000)	-
Adjusted Balance as at bening of the year	204,560,106	-
Additions during the year	29,914,134	-
Balance as at end of the Year	234,374,877	-
Accumulated Depreciation		
Balance as at begging of the year		
Charges for the year	64,930,508	-
Balance as at end of the year	64,930,508	-
Carrying Amount as at end of the Year	169,444,369	-

Notes to the Financial Statement

27.1 Reconciliation between the Operating Lease Commitments to the Lease Liability Balances Reported under SLFRS 16 as at 1 April 2019

	Rs. '000
Operating lease commitments as at 31 March 2019	1,748,000
Recognition exemptions adopted for short-term leases and leases of low-value assets	-
Adjustments as a result of de-scoped leases	-
Undiscounted lease liabilities as at 1 April 2019	1,748,000
Weighted average incremental borrowing rate as at 1 April 2019 (%)	13.5%
Lease liabilities due to initial application of SLFRS 16, recognised as at 1 April 2019	171,735,097

28. DUE TO BANKS & OTHER INSTITUTIONS

Accounting Policy

Due to banks include bank and other institutional borrowings and bank overdrafts. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method. Interest paid/payable on these dues are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

	2020 Rs.	2019 Rs.
Bank Overdrafts (Note 28.1)	208,580,540	41,574,583
Loans and Other Bank Facilities (Note 28.2)	1,374,276,405	793,558,872
Interest Payable on Bank Facilities	12,178,668	740,518
Total Due to Banks & Other Institution	1,595,035,613	835,873,973

28.1 Bank Overdraft

The outstanding balances of bank overdrafts as at the Statement of Financial Position date are fully secured by Loan & Receivables and the Company has unutilised Bank Overdraft of Rs. 59,031,301 /- as at 31 March 2020 (2019 - Rs. 634,857/-).

28.2 Loans and Other Bank Facilities

	As at 01.04.2019 Rs.	Loans Obtained Rs.	Repayment Rs.	As at 31.03.2020 Rs.
NDB Vehicle Loan	1,963,729	-	(1,963,729)	-
NDB Term Loan	510,000,000	375,000,000	(175,000,000)	710,000,000
HNB Term Loan	262,500,000	300,000,000	(225,000,000)	337,500,000
SDB Term Loan	-	300,000,000	-	300,000,000
Rotary Loan	13,133,193	15,494,489	(7,813,227)	20,814,455
Other Borrowings	5,961,950	-	-	5,961,950
Total Loans and Other Bank Facilities	793,558,872	990,494,489	(409,776,956)	1,374,276,405

28.3 Contractual Maturity Analysis of Due to Bank & Other Institution

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
NDB Vehicle Loan	1,963,729	-	-	1,963,729
NDB Term Loan	240,000,000	470,000,000	-	710,000,000
HNB Term Loan	225,000,000	112,500,000	-	337,500,000
SDB Term Loan	200,000,000	100,000,000	-	300,000,000
Rotary Loan	7,819,261	12,995,194	-	20,814,455
Other Borrowings	-	-	5,961,950	5,961,950
Bank Overdrafts	208,580,540	-	-	208,580,540
Interest Payable on Bank Facilities	12,178,668	-	-	12,178,668
Total Due to Customers	895,542,198	695,495,194	5,961,950	1,596,999,342

As at 31 March 2019	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
NDB Vehicle Loan	1,963,729	-	-	1,963,729
NDB Term Loan	120,000,000	390,000,000	-	510,000,000
HNB Term Loan	75,000,000	187,500,000	262,500,000	
Rotary Loan	6,705,625	6,427,568	-	13,133,193
Other Borrowings	-	-	5,961,950	5,961,950
Bank Overdrafts	41,574,583	-	-	41,574,583
Total Due to Customers	245,243,937	583,927,568	5,961,950	835,133,455

Notes to the Financial Statement

29. DUE TO CUSTOMERS

Accounting Policies

Due to other customers include non-interest bearing deposits, savings deposits, term deposits and other deposits. Subsequent to initial recognition, deposits are measured at their amortized cost using the EIR method. Interest paid/payable on deposits are recognized in the Statement of Profit or Loss under 'Interest Expenses'.

	2020 Rs.	2019 Rs.
Fixed Deposits	3,565,672,847	3,824,280,592
Savings Deposits	1,536,303,106	1,559,656,229
Inactive Society-Savings	-	1,404,776
Total Due to Customers	5,101,975,953	5,385,341,597

29.1 Sri Lanka Deposit Insurance And Liquidity Support Scheme

Under the Direction No. 2 of 2010 Finance Companies (Insurance of Deposit Liabilities)] issued by the Central Bank of Sri Lanka, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation up to a maximum of Rs. 600,000/- for each depositor. The Company has paid Rs. 6,898,474/- as the premium of the said Insurance scheme during the financial year under review (2019 - Rs. 6,717,039/-).

29.2 Contractual Maturity Analysis Of Customer Deposits

As at 31 March 2020	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	2,467,672,652	1,098,000,195	-	3,565,672,847
Savings Deposits	1,306,513,761	135,226,451	94,562,895	1,536,303,106
Inactive Society-Savings	-	-	-	-
Total Due to Customers	3,774,186,413	1,233,226,646	94,562,895	5,101,975,953

As at 31 March 2019	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	2,610,234,242	1,214,046,350	-	3,824,280,592
Savings Deposits	1,313,210,490	140,250,188	106,195,551	1,559,656,229
Inactive Society-Savings	1,404,776	-	1,404,776	-
Total Due to Customers	3,924,849,508	1,354,296,539	106,195,551	5,385,341,597

We have raised fixed deposits with a pre-termination option to the customers; hence, fixed deposit pre-terminations may cause actual maturities to differ from contractual maturities.

30. OTHER NON FINANCIAL LIABILITIES

Accounting Policy

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

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Board of directors and approved by the Shareholders. Interim dividends are deducted from Equity when they are declared and no longer at the discretion of the Company.

Dividend for the year that are approved after the reporting date are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standards LKAS 10 on 'Events after the Reporting Period'.

	2020 Rs.	2019 Rs.
Accrued Expenses	37,440,102	36,656,739
Others (Note 30.1)	59,712,891	35,318,653
Loan Risk Assurance Fund (Note 30.2)	1,830,000	2,490,000
Amount Due to Related Parties	237,594	5,202,583
	99,220,587	79,667,975

30.1 This balance included staff welfare fund, unidentified deposit, loan sundry charges payable and WHT collections.

30.2 The Company obtained an actuarial valuation on its 'Loan Risk Assurance Fund' as at 31st March 2020. The actuarial valuation was performed by Piyal S Goonetilleke and Associates, Professional Actuary. The reversal of provision that resulted from the actuarial valuation has been recognised as income under 'Other Operating Income'. All loan customers who enrolled with this assurance program will be eligible for total payment of the outstanding loan amounts at the time of death or total disability. The actuarial valuation will serve as the basis for calculating the liability adequate for covering the outstanding loan balances of customers (with a loan less than or equaling Rs. 250,000/-) in the event of a participant death or a total disability.

Notes to the Financial Statement

31. POST-EMPLOYMENT BENEFIT OBLIGATIONS

Accounting Policy

Employee benefit liability includes the provisions for retirement gratuity liability.

Gratuity

The costs of retirement gratuities are determined by a qualified actuary using projected unit credit actuarial cost method. Actuarial gains and losses are recognized as income or expense in other comprehensive income during the financial year in which it arises.

Basis of Measurement

The cost of the defined benefit plans (gratuity) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation is given below: 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 the Company's policy on salary revisions.

Recognition of Actuarial Gains and Losses

The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in other comprehensive income during the period in which it occurs.

31.1 Provision for Retirement Gratuity

	2020 Rs.	2019 Rs.
Balance at the beginning of the year	27,212,065	26,415,691
Amount Charged for the Year	10,733,365	8,491,897
Actuarial (Gains)/Losses	2,062,826	(5,548)
(Gain)/Loss Due to Changes in Assumptions	4,302,064	(930,725)
Payments Made During the Year	(10,557,304)	(6,759,250)
Balance at the End of the Year	33,753,016	27,212,065

31.2 Expenses on Defined Benefit Plan

	2020 Rs.	2019 Rs.
Current Service Cost for the Year	7,628,469	5,571,046
Interest Cost for the Year	3,104,896	2,920,851
Actuarial (Gains)/ Losses (31.5)	2,062,826	(5,548)
(Gains)/ Losses Due to Changes in Assumptions	4,302,064	(930,725)
Total Expenses on Defined Benefit Plan	17,098,255	7,555,624

31.3 Assumptions and the sensitivity of the assumptions used for the provision of retirement gratuity

An actuarial valuation of the retirement gratuity liability was carried out as at 31 March 2020 and 2019 by Messrs Piyal S Goonetilleke Associates, a professional actuary.

The valuation method used by the actuary to value the Fund is the 'Projected Unit Credit Actuarial Cost Method', recommended by LKAS 19 - 'Employee Benefits'.

31.4 Actuarial Assumptions

	2020	2019
Discount Rate	9.7%	11.4%
Salary scale	10.0%	10.0%
Staff Turnover		
20 to 30 years	10.0%	10.0%
35 years	7.5%	7.5%
40 years	5.0%	5.0%
45 years	2.5%	2.5%
50 years	1.0%	1.0%
Average Future Working Life	9.5 Years	10 Years
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Disability	Long Term 1987 Soc. Sec. Table.	Long Term 1987 Soc. Sec. Table.
Retirement age	Retirement age of 55 Years	Retirement age of 55 Years

31.5 Actuarial Gains and Losses

As per actuarial valuation, actuarial gain and loss has arisen during the year because of change in Discount rate.

31.6 Sensitivity of Assumptions Employed on Actuarial Valuation

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in statement of comprehensive income and statement of financial position.

The following table demonstrates the sensitivity of a reasonably possible change in such assumptions with all other variables held constant, in the actuarial valuation of the retirement gratuity as at 31 March 2020.

	Increase/(decrease) in Discount Rate %	Increase/(decrease) in Salary Increment Rate %	Sensitivity Effect on Statement of Comprehensive Income Increase/(decrease) in Results for the year Rs.	Sensitivity Effect on Pension Fund Surplus Increase/ (decrease) Rs.
	+1%		(2,664,242)	2,664,242
	(-1%)		3,067,263	(3,067,263)
		+1%	2,932,224	(2,932,224)
		(-1%)	(2,600,423)	2,600,423

Notes to the Financial Statement

32. CURRENT TAX LIABILITIES

	2020 Rs.	2019 Rs.
Balance as at 1st April	14,768,247	11,051,013
Add - Trafered duing the year	-	16,642,435
Less: Tax paid	(18,131,413)	(721,048)
Adjustment (ESC/WHT/Notional Tax etc.)	(7,804,616)	(13,754,255)
Provision for the year	26,600,229	1,550,102
Balance as at 31st March	15,432,447	14,768,247

33. LEASE CREDITOR

	2020 Rs.	2019 Rs.
Balance as at 1 April 2019	204,560,106	-
Additions	29,914,134	-
Interest Expenses	24,057,148	-
Payments	(86,796,291)	-
Balance as at end of the Year	171,735,097	-

34. DEFERRED TAXATION

Accounting Policy

Deferred tax is provided on temporary differences at the date of the Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- (I) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (II) Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:
 - Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
 - Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

34.1 Statement of Financial Position

Year ended 31 March	2020 Rs.	2019 Rs.
Deferred Tax Liabilities		
Accelerated depreciation for tax purposes	24,288,306	29,273,316
Finance leases	16,476,201	20,268,031
Right-of Use Assets	3,735,087	-
Total Deferred Tax Liabilities	41,810,331	49,541,347
Deferred Tax Assets		
Defined benefit plans - Profit or loss	9,450,844	7,619,378
Carry forward losses	-	11,713,222
Impairment Provision	29,975,947	21,794,026
Total Deferred Tax Assets	39,426,792	41,126,626
Net Deferred Tax Liabilities/(Assets)	2,383,540	8,414,722

34.2 Statement of Profit or Loss

Year ended 31 March	2020 Rs.	2019 Rs.
Deferred Tax Liabilities		
Revaluation Reserve	-	532,198
Accelerated depreciation for tax purposes	(4,985,010)	(5,420,630)
Finance leases	(3,791,831)	(2,525,633)
Lease Creditor	1,045,824	-
Deferred Tax Income/(Expense)	(7,731,017)	(7,414,065)
Deferred Tax Assets		
Defined benefit plans - Profit or loss	(3,613,635)	(1,712,754)
Defined benefit plans - Other comprehensive income	1,782,169	1,489,769
Carry forwarded Impairment Expenses	11,713,222	7,517,605
Carry forward Loss on other operations	(8,181,922)	27,254,065
Deferred expenses to be claimed in income tax liability of future years	-	(149,975)
Deferred Tax Income/(Expense)	1,699,834	34,398,710
Net Deferred Tax Income/(Expense) - Statement of profit or loss	(4,249,013)	26,190,291
Net Deferred Tax Income/(Expense) - Statement of Other comprehensive income	1,782,169	(794,354)

Notes to the Financial Statement

35. STATED CAPITAL

	Number of Shares	2020 Rs.	Number of Shares	2019 Rs.
Issued and Fully Paid-Ordinary shares				
At the beginning of the year	67,500,006	890,000,020	67,500,006	890,000,020
Issued during the year	-	-	-	-
At the end of the year	67,500,006	890,000,020	67,500,006	890,000,020

35.1 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting.

36. RETAINED EARNINGS

	2020 Rs.	2019 Rs.
Balance as at beginning of the Year	118,686,006	160,561,930
Impact of adopting SLFRS 9 as at 1 April 2018	-	(39,748,039)
	118,686,006	120,813,891
Profit for the Year	101,716,342	41,216,251
Other Comprehensive Income	(4,582,721)	674,117
Transfer to Statutory Reserves Fund	(20,343,268)	(8,243,250)
Dividend Paid	-	(35,775,003)
Balance as at end of the Year	195,476,359	118,686,006

Retained Earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

37. RESERVES

37.1 Statutory Reserve Fund

Accounting Policy

The statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b) of Central Bank Direction No. 1 of 2003. Accordingly, Company has transferred 20% of its net profit after taxation to the Reserve Fund as Company's Capital Funds to Deposit Liabilities, belongs to less than 25% and not less than 10%.

37.2 Revaluation Reserve Fund

Accounting Policy

The Revaluation Reserve Fund is a capital reserve which contains the revaluation surplus resulted from revaluing the Company's Property, Plant & Equipment with net of differed tax on revaluation.

Company	Statutory Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
As at 01 April 2018	38,819,607	41,428,252	80,247,859
Transfers to/(from) during the year	8,243,250	-	8,243,250
Revaluation of Land & Building	-	1,368,509	1,368,509
As at 31 March 2019	47,062,857	42,796,761	89,859,618
Transfers to/(from) during the year	20,343,268	-	20,343,268
Revaluation of Land & Building	-	-	-
As at 31 March 2020	67,406,125	42,796,761	110,202,886

Notes to the Financial Statement

38. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

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

	2020 Within 12 Months Rs.	2020 After 12 Months Rs.	2020 Total Rs.
Assets			
Cash and Cash Equivalents	73,226,394	-	73,226,394
Loans and Receivables	2,491,331,763	2,739,373,184	5,230,704,947
Lease Rentals Receivables	546,437,643	1,156,409,853	1,702,847,496
Financial Investments	444,939,030	-	444,939,031
Other Financial Assets	164,535,666	-	164,535,666
Other Non Financial Assets	79,490,760	62,553,196	142,043,956
Intangible Assets	-	15,111,123	15,111,123
Investment Property	-	126,094,500	126,094,500
Property, Plant and Equipment	-	146,268,040	146,268,040
Right-of-Use Assets	-	169,444,369	169,444,369
Total Assets	3,799,961,256	4,415,254,264	8,215,215,520
Liabilities			
Due to Banks and Other Institutions	893,578,469	701,457,144	1,595,035,613
Due to Customers	3,774,186,413	1,327,789,541	5,101,975,953
Other Non Financial Liabilities	45,097,684	54,122,903	99,220,587
Post Employment Benefit Liability	-	33,753,016	33,753,016
Current Tax Liabilities	15,432,447	-	15,432,447
Lease Creditor	171,735,097	-	171,735,097
Deferred Tax Liabilities	-	2,383,540	2,383,540
Total Liabilities	4,728,295,013	2,119,506,143	7,019,536,253
Net Assets/(Liability)	(928,333,757)	2,295,748,121	1,195,679,267

	2019 Within 12 Months Rs.	2019 After 12 Months Rs.	2019 Total Rs.
Assets			
Cash and Cash Equivalents	140,902,916	-	140,902,916
Loans and Receivables	2,386,305,386	2,727,351,743	5,113,657,129
Lease Rental Receivable	339,559,398	762,953,726	1,102,513,124
Financial Investments	442,595,260	-	442,595,260
Other Financial Assets	189,276,648	-	189,276,648
Other Non Financial Assets	79,490,760	64,933,540	144,424,300
Intangible Assets	-	27,008,129	27,008,129
Investment Property	118,594,500	118,594,500	237,189,000
Property, Plant and Equipment	-	170,852,219	170,852,219
Total Assets	3,578,130,368	3,871,693,856	7,449,824,224
Liabilities			
Due to Banks	245,984,455	589,889,518	835,873,973
Due to Customers	3,925,060,074	1,460,281,523	5,385,341,597
Other Non Financial Liabilities	44,357,166	35,310,809	79,667,975
Post Employment Benefit Liability	-	27,212,065	27,212,065
Current Tax Liabilities	14,768,247	-	14,768,247
Deferred Tax Liabilities	-	8,414,722	8,414,722
Total Liabilities	4,230,169,943	2,121,108,637	6,351,278,580
Net Assets/(Liability)	(652,039,575)	1,750,585,219	1,098,545,644

39. COMMITMENTS AND CONTINGENCIES

Accounting Policy

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured as defined in the Sri Lanka Accounting Standard - LKAS 37 "Provisions contingent liabilities and Contingent Assets". Contingent Liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

39.1 Contingent Liabilities

	2020 Rs.	2019 Rs.
Guarantees issues to other institution	4,225,000	-
Total contingent Liabilities	4,225,000	-

39.2 Commitments

The Company did not have significant capital commitments as at the Statement of Financial Position date.

39.3 Litigation Against the Company

	2020 Rs.	2019 Rs.
Cases pending against the Company	5,140,100	6,940,000
Total contingent Liabilities	5,140,100	6,940,000

Company did not have any significant contingent liabilities which requires disclosures in the Financial Statements of the Company as at the Statement of Financial Position date.

40. ASSETS PLEDGE

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2020 Rs.	2019 Rs.	
Rental receivable on Micro Business and Personal Loan	Bank Overdraft	325,043,547	526,581,515	Loans and Receivables
Rental receivable on SME Loan	Bank Overdraft	-	82,052,807	Loans and Receivables
Rental receivable on SME Loan	Term Loan	1,098,333,229	896,372,078	Loans and Receivables
Rental receivable on Lease	Term Loan	453,579,866	475,067,552	Lease Rental Receivable
		1,876,956,643	1,980,073,952	

Notes to the Financial Statement

41. EVENTS OCCURRING AFTER THE REPORTING DATE

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

42. RELATED PARTY TRANSACTIONS

The Company carried out transactions with parties in the ordinary course of its business who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures', on an arms length basis at commercial rate.

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

42.1 Transactions with Key Managerial Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company. Accordingly, the board of directors of the Company (inclusive of executive and non executive directors), the immediate parent company, and Chief Executive Officer who directly report to Board of Directors have been classified as KMPs of the Company.

42.1.1 Key Management Personnel Compensation

	2020 Rs.	2019 Rs.
Short Term Employment Benefits	5,373,904	5,769,590
Directors Fees & Expenses	7,454,305	5,609,524
Total Key Management Personnel Compensation	12,828,209	11,379,114

In addition to above, the Company has also provided non-cash benefits such as company maintained vehicles to KMPs in line the approved employment terms of the Company.

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

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

The Company carries out transactions with KMPs and their close family members in the ordinary course of its business on an arms length basis at commercial rates, except the loans given to staff under the Company's staff loan scheme uniformly applicable to all the staff of the Company.

42.1.2.1 Transaction with KMPs, and their Close Members of the Family

	2020 Rs.	2019 Rs.
Items in Statement of Financial Position		
Deposit accept during the year	585,000	563,231
Deposit repayment during the year	(979,547)	(11,052,631)
	(394,547)	(10,489,400)
Items in Statement of Profit or Loss		
Interest accrued during the period	18,812	156,236
	18,812	156,236

42.1.3 Transaction, arrangements and agreements involving Entities which are controlled, and/or jointly controlled by the KMPs and their CFMs or Shareholders

No transactions were there as of Statement of Financial Position date to be disclosed in the Financial Statements.

42.1.4 Transactions with Group Entities

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

42.1.4.1 Transactions with Parent Company

Sarvodaya Economic Enterprises Development (Gte) Ltd.	2020 Rs.	2019 Rs.
Statement of Financial Position		
Transaction Made During the Year		
Loan Interest Payable	-	-
Interest Accrued during the Year	-	407,778
Loan Interest Paid during the Year	(1,866,840)	(62,191)
Deposit withdrawal during the year	2,000,000	-
	133,160	345,587

42.1.4.2 Transactions with Shareholders

Gentosa Total Assets Inc.

	2020 Rs.	2019 Rs.
Items in Statement of Financial Position		
Deposit Accepted during the period including interest capitalisation	52,796,499	144,496,500
Interest payable on Deposits	2,537,231	305,622
	55,333,730	144,802,122
Items in Statement of Profit or Loss		
Interest Accrued During the Period	16,740,033	21,347,878
	16,740,033	21,347,878

Notes to the Financial Statement

43. CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's Capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka. In terms of Section 2.1 of Finance Business Act Direction No. 02 of 2017 – Minimum Core Capital, a cap of Rs. 5.5 Bn on total deposits including accrued interest has been imposed by the Central Bank of Sri Lanka.

43.1 Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

44. COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year.

	As Reported Previously Rs.	Reclassification Rs.	Current Presentation Rs.	Current Classification
Statement of Financial Position				
Due to Banks and Other Institutions	835,133,455	740,518	835,873,973	Due to Banks and Other Institutions
Other Non Financial Liabilities	80,408,493	(740,518)	79,667,975	Other Non Financial Liabilities

(a) During the financial year, interest payable on Bank and Other Borrowings was reclassified under Due to Bank and Other Institutions for better presentation.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting Policy

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

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

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

The principal or the most advantageous market must be accessible by the Company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 - Inputs include quoted prices for identical instruments and are the most observable.

Level 2 - Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves.

Level 3 - Inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments

Valuation framework

The Company has an established control framework for the measurement of fair values. The Finance Department is responsible for the valuation of financial instruments. Obtaining input data, valuing of financial instruments and verifying the valuation models are being segregated within the finance department.

We review the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. Transfers into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

45.1 Assets & Liabilities Recorded at Fair Value

The following is a description of how fair values are determined for assets and liabilities that are recorded at fair value. These incorporate the Company's estimate of assumptions that a market participant would make when valuing assets and liabilities.

Property, Plant & Equipment

Property, Plant & Equipment Freehold land and buildings are carried at revalued amount, being their fair value at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Notes to the Financial Statement

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Non Financial Assets measured at fair value

Level 3 Fair Value Measurement

	2020		2019	
	Investment Property Rs.	Freehold Land Rs.	Investment Property Rs.	Freehold Land Rs.
Balance as at begging of the Year	118,594,500	25,550,000	-	144,144,500
Revaluation reserve credit to revaluation reserve	-	-	-	1,900,707
Total gain / (loss) recognised in profit or loss:				
Depreciation of buildings	-	-	-	(1,900,707)
Transfer during the Year	7,500,000	(7,500,000)	118,594,500	(118,594,500)
Balance at end on the Year	126,094,500	18,050,000	118,594,500	25,550,000

The company has transferred free hold land and bulling as Investment property as at 31 March 2020 and 2019.

45.2 Fair Value of Financial Assets and Liabilities Carried at Amortised Cost

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

Assets of which Fair Value Approximates Carrying Value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity.

Variable Rate Financial Instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments by classes that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

As at 31 March 2020	Fair Value			Carrying Value	
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	73,226,394	-	-	73,226,394	73,226,394
Loans and Receivables		-	5,194,937,239	5,194,937,239	5,230,704,947
Lease Rentals Receivables		-	1,692,490,922	1,692,490,922	1,702,847,496
Financial Investments	444,939,031	-	-	444,939,031	444,939,031
Other Financial Assets		164,535,666	-	164,535,666	164,535,666
	682,701,090	6,887,428,160	-	7,570,129,250	7,616,253,533
Financial Liabilities					
Due to Banks and Other Institutions		-	1,595,035,613	1,595,035,613	1,595,035,613
Due to Customers		-	5,101,975,953	5,101,975,953	5,109,040,104
		-	6,697,011,566	6,697,011,566	6,704,075,717

As at 31 March 2019	Fair Value			Carrying Value	
	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	140,902,916	-	-	140,902,916	140,902,916
Loans and Receivables	-	5,536,157,881	-	5,536,157,881	5,363,721,143
Lease Rentals Receivables	-	1,197,308,675	-	1,197,308,675	1,156,787,601
Financial Investments	442,595,260	-	-	442,595,260	442,595,260
Other Financial Assets	189,276,648	-	-	189,276,648	189,276,648
	772,774,824	6,733,466,556	-	7,506,241,380	7,293,283,568
Financial Liabilities					
Due to Banks and Other Institutions		-	835,133,455	835,133,455	835,133,455
Due to Customers		-	5,357,395,535	5,357,395,535	5,385,339,493
		-	6,192,528,990	6,192,528,990	6,220,472,948

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

Notes to the Financial Statement

46. RISK MANAGEMENT

46.1 Introduction

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

Risk Management Structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed a subcommittee, Integrated Risk Management (IRM) Committee, which has the responsibility to monitor the overall risk process within the Company. The IRM Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The IRM Committee is responsible for managing risk decisions and monitoring risk levels and reports on a periodical basis to the Board.

Risk Management Framework

At Sarvodaya Development Finance Company the management of risk plays a pivotal part in all its business activities. The identification, evaluation, measurement, mitigation, monitoring and reporting of risks associated with products, processes, systems and services of Sarvodaya Development Finance Company is an integral part that forms the scope of risk management when fulfilling requirements of its customers and counterparties.

The risk management function of Sarvodaya Development Finance Company comes under the purview of the Director of Non Bank Supervision and the Integrated Risk Management Committee (IRMC) where its independence from the business lines. In the course of its business activities, Sarvodaya Development Finance Company is constantly exposed to risks that include but are not limited to Credit Risk, Liquidity Risk and Operational Risk.

Sarvodaya Development Finance Company is aware of a wide spectrum of risks that it is exposed to and provides attention to each and every risk factor that could hinder the achievement of the company's overall objectives. The risk management function strives therefore to manage the integrated risks by developing a companywide risk appetite and measures and controls to ensure that the risk taken is within the set limits.

Sarvodaya Development Finance Company has put in place structures and processes to address these risks which are vested to departmental heads. Additionally the company has an IRMC which carry out independent risk evaluations both qualitative and quantitative and the results are shared with Management of Sarvodaya Development Finance Company as well as the members of the Board of Directors.

Three Lines of Defense

In achieving its goals, Sarvodaya Development Finance Company deploys risk management and internal control structure referred to as the 'three lines of defense', where in roles between the line management, risk management and inspection /audit are segregated.

Risk Profile Dashboard

Sarvodaya Development Finance Company has established policy parameters on tolerance limits on a number of identified key risk indicators. These encompass compliance with CBSL and other regulatory frameworks. Credit Risk aspects are evaluated through numerous types of concentrations and asset quality levels whereas Market Risk aspects focus on liquidity and interest rate. Operational Risk aspects focus on major risk types developed under the Risk Control Self Assessment (RCSA) exercise. The desired level under each indicator is being monitored against achievement on a regular basis to provide a clear perspective of the risk profile of the Sarvodaya Development Finance Company.

Sarvodaya Development Finance Company's Risk Appetite Framework

Within a volatile financial market, it is important to understand the accurate risk profile of the company. For starters the company has implemented simple risk appetite framework that helps to better understand and manage the risks through the development of action plan and through day-to-day business decisions.

Risk appetite defines the aggregate quantum of risk the company is willing to assume in different areas of business. It is to achieve its strategic objectives while maintaining the desired risk profile. Tolerance limits have been set for certain risk. A limit system is adopted to translate the risk appetite of the company so that it is understood by the management and practical to implement, while catering to current levels of the operations.

Integrated Risk Management Unit (IRMU)

The business units (i.e. Credit Department, Operations Department and Branches etc.) have primary responsibility for risk management. The Integrated Risk Management Unit, which provides an independent oversight function, acts as the 2nd line of defense. The IRMU is headed by the Assistant General Manager – Risk Management & Acting Compliance Officer who directly reports to the Chair of IRMC and also has a functional reporting to the CEO.

Risk Measurement & Reporting

The Company's risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Company also carries out procedures to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to IRMC on a periodic basis.

Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept.

Assets and Liability Management Committee (ALCO)

ALCO is chaired by the CEO and has representatives from the Operation, Credit, Risk & Compliance and Finance & Planning Departments. The Committee meets regularly to monitor and manage the assets & liabilities of the Company and also overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements.

Credit Committee

There are two Credit Committees, namely Board Credit Committee (BCC) and Internal Credit Committee (ICC). BCC is comprised of three non-executive board members including the Chairman and two directors and the ICC is comprised of the CEO, AGM -Credit, AGM -Risk Management & Acting Compliance Officer, AGM Alternative Channels and Audit and AGM -Branch Operation & Marketing. BCC is the supreme authority to approve credit facilities and formulate credit policies for the company and ICC is the supreme management level approving authority beyond the delegated authority of the CEO.

46.2 Credit Risk

Over view

Credit risk is the risk of financial loss to SDF if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the SDF's loans and advances to customers. The exposure to the credit risk is mainly derived from financial sector companies as the sector engage primarily in providing financing facilities to its customers. The Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

Credit Risk Management

The Board of Directors of the Company has delegated responsibility for the oversight of credit risk to its Board Credit Committee. The credit department and recoveries department are responsible for management of the companies' credit risk, including the 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. They are also responsible for establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to respective officers with the DA of the CEO.

It is the Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of qualitative as well as quantitative variables for the measurement of borrowers' risk. All internal risk ratings are tailored to various products namely PCBE and Leasing. For accounting purposes, the Company uses a collective model for the recognition of losses on impaired financial Assets.

Notes to the Financial Statement

46. RISK MANAGEMENT (CONTD.)

Collateral Management

The primary source of repayment of credit exposures is the cash flows while the collaterals obtained by the company act as a possible secondary recourse. Collateral generally include cash, marketable securities, properties, stocks, trade debtors, other receivables machinery and equipment and other physical or financial assets.

Clear guidelines are in place to determine the suitability of collateral in credit risk mitigation based on their different characteristics and for valuation, to ensure the collaterals will continue to provide the anticipated secondary source of repayment in an eventuality. The company has a panel of appointed professional valuers in order to obtain valuation of the properties, machinery and vehicles obtained as collateral.

Periodic estimation of values of collateral ensures that they will continue to provide the expected repayment source in an event where the primary source has not materialized. The collaterals vulnerable to frequent fluctuations in values are subject to stringent haircuts and/ or more frequent valuations.

The company also accepts personal guarantees, guarantees from other financial institutions and credit-worthy bodies as collateral for credit facilities. The financial strength of guarantors as against their cash flows, net worth, etc. is taken into consideration to establish their capacity to repay the facilities in case of a default.

46.2.1 Credit Quality by Class of Financial Assets

	2020 Neither Past Due Nor Impaired Rs.	2020 Past Due But Not Impaired Rs.	2020 Individually Impaired Rs.	2020 Collectively Impaired Rs.	2020 Total Rs.
Assets					
Cash and Cash Equivalents	73,226,394	-	-	-	73,226,394
Loans and Receivable (Gross) (Note 45.2.1.1)	492,268,426	-	-	5,031,726,130	5,523,994,556
Lease Rentals Receivables (Gross) (Note 45.2.1.1)	-	-	-	1,833,078,458	1,833,078,458
Financial Investments	444,939,031	-	-	-	444,939,031
Other Financial Assets	164,535,666	-	-	-	164,535,666
Total Financial Assets	1,174,969,516	-	-	6,864,804,589	8,039,774,105

46.2.1.1 The Company consider total loan and lease balances to calculate collective impairment.

	2019 Neither Past Due Nor Impaired Rs.	2019 Past Due But Not Impaired Rs.	2019 Individually Impaired Rs.	2019 Collectively Impaired Rs.	2019 Total Rs.
Assets					
Cash and Cash Equivalents	140,902,916	-	-	-	140,902,916
Loans and Receivable (Gross)	656,877,369	-	-	4,706,845,879	5,363,723,248
Lease Rentals Receivables (Gross)	-	-	-	1,156,787,600	1,156,787,600
Financial Investments	282,268,953	-	-	-	442,595,260
Other Financial Assets	207,371,048	-	-	-	189,276,648
Total Financial Assets	1,287,420,286	-	-	5,863,633,479	7,293,285,671

46.2.1.2 The Company consider total loan and lease balances to calculate collective impairment.

46.2.2 Analysis of Risk Concentration

46.2.2.1 Industry Analysis

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

Sector wise Breakdown	2020 Cash and Cash Equivalents Rs.	2020 Loans and Receivable Rs.	2020 Lease Rental Receivable Rs.	2020 Financial Investments Rs.	2020 Other Financial Assets Rs.	2020 Total Financial Assets Rs.
Agriculture & Fishing	-	354,731,368	21,213,332	-	-	375,944,700
Manufacturing	-	665,361,030	466,788,554	-	-	1,132,149,584
Tourism	-	32,716,148	2,987,497	-	-	35,703,645
Transport	-	21,085,695	182,516,944	-	-	203,602,639
Constructions	-	2,357,396,597	20,071,408	-	-	2,377,468,005
Trades	-	491,579,668	28,135,841	-	-	519,715,509
New Economy	-	23,184,189	11,008,741	-	-	34,192,930
Financial and Business Services	73,226,394	63,381,150	3,320,575	-	164,535,666	304,463,784
Infrastructure	-	53,155,077	381,429	-	-	53,536,506
Government	-	-	-	444,939,031	-	444,939,031
Other Services	-	1,531,416,588	1,049,091,303	-	-	2,580,507,891
Total	73,226,394	5,594,007,509	1,785,515,624	444,939,031	164,535,666	8,062,224,224

Sector wise Breakdown	2019 Cash and Cash Equivalents Rs.	2019 Loans and Receivable Rs.	2019 Lease Rental Receivable Rs.	2019 Financial Investments Rs.	2019 Other Financial Assets Rs.	2019 Total Financial Assets Rs.
Agriculture & Fishing	-	413,235,823	10,903,470	-	-	424,139,293
Manufacturing	-	542,541,597	175,915,512	-	-	718,457,110
Tourism	-	36,295,644	3,201,050	-	-	39,496,694
Transport	-	34,877,872	223,032,997	-	-	257,910,869
Constructions	-	1,435,258,109	19,937,417	-	-	1,455,195,525
Trades	-	735,816,589	41,750,050	-	-	777,566,639
New Economy	-	27,429,535	14,792,038	-	-	42,221,573
Financial and Business Services	140,902,916	75,541,144	4,719,737	-	18,927,648	410,440,444
Infrastructure	-	49,648,994	3,323,974	-	-	52,972,968
Government	-	-	-	442,595,260	-	442,595,260
Other Services	-	2,013,077,941	659,211,356	-	-	2,672,289,297
Total	140,902,916	5,363,723,248	1,156,787,601	442,595,260	18,927,648	7,293,285,671

Notes to the Financial Statement

46. RISK MANAGEMENT (CONTD.)

46.3 Liquidity Risk & Funding Management

Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a regular basis. The company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the asset and liability management committee (ALCO) analyses and monitors liquidity risk and maintains an adequate margin of safety in liquid assets.

ALCO meets at least once in two months and as and when necessary. ALCO is responsible for managing and controlling the overall liquidity of the company and reviews the impact of strategic decisions on Company's liquidity position.

Management considered different possible outcomes to assess the possible impact from Covid 19 to the company's operations and forecast cash flows in order to absorb sudden liquidity shock to comply financial covenant and CBSL Liquidity Requirement. I.e. consider sufficient cash and unused credit lines, deposits renewal ratio, customer collection ratios, availability of negotiate borrowing facilities to meet short term needs, restructure operations to reduce operating costs and defer capital expenditure

Furthermore the Company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk.

46.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities.

As at 31 March 2020	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	73,226,394	-	-	-	-	73,226,394
Loans and Receivables	478,898,287	704,914,996	1,307,518,480	2,739,373,184	-	5,230,704,947
Lease Rentals Receivables	50,653,069	137,948,513	357,836,062	1,156,409,852	-	1,702,847,496
Financial Investments	-	366,058,986	78,880,044	-	-	444,939,031
Other Financial Assets	-	163,796,793	738,873	-	-	164,535,666
Total Financial Assets	602,777,750	1,372,719,288	1,744,973,459	3,895,783,036	-	7,616,253,533
Financial Liabilities						
Due to Banks and Other Institutions	220,759,208	325,901,647	346,917,615	695,495,194	5,961,950	1,595,035,613
Due to Customers	1,264,246,886	1,359,994,966	1,149,944,561	1,233,226,646	94,562,895	5,101,975,953
Total Financial Liabilities	1,485,006,094	1,685,896,612	1,496,862,176	1,928,721,840	100,524,845	6,697,011,566
Total Net Financial Assets/(Liabilities)	(882,228,343)	(313,177,324)	248,111,283	1,967,061,196	(100,524,845)	919,241,967

As at 31 March 2019	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	140,902,916	-	-	-	-	140,902,916
Loans and Receivables	561,458,514	474,758,174	1,350,088,699	2,727,351,743	-	5,113,657,129
Lease Rentals Receivable	84,831,455	22,927,871	231,800,073	762,953,726	-	1,102,513,125
Financial Investments	-	347,317,986	95,277,274	-	-	442,595,260
Other Financial Assets	-	132,765,273	56,511,375	-	-	189,276,648
Total Financial Assets	787,192,885	977,769,304	1,733,677,421	3,490,305,469	-	6,988,945,078
Financial Liabilities						
Due to Banks and Other Institutions	-	93,081,310	152,162,626	583,927,568	-	829,171,505
Due to Customers	-	2,509,079,620	1,415,980,455	1,354,085,972	106,195,551	5,385,341,597
Total Financial Liabilities	-	2,602,160,930	1,568,143,081	1,938,013,540	106,195,551	6,214,513,102
Total Net Financial Assets/(Liabilities)	787,192,885	(1,624,391,627)	165,534,340	1,552,291,929	(106,195,551)	774,431,976

46.3.2 Contractual Maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2020.

46.3.2.1 Operational Risk

Overview

The operation risk management is the responsibility of all the staff in the company. The accountability of managing operation risk lies with the management committee members. They are responsible for maintaining an over sight over operational risk, and internal controls and covering all businesses and operations pertaining to SDF.

After reviewing the audit reports the Integrated Risk Management Committee has identified certain common KRI that is affecting the branch operations. These risks that have been identified are critically reviewed regularly with the help of Internal Audit Department.

SDF has introduced and implemented a comprehensive BCP and DR policy. The BCP and DR policy is supported by a BCP and DR plan to ensure that SDF has the capability to handle failure of system, disaster at branches and disruption of business.

Regulators are primarily interested in protecting the rights of customers. Greater attention has been given to risk appetite and mitigation both at Company and service-line levels. the fundamental data underlying record-keeping and the risk associated with their retention has been over looked by Operations and Information Technology.

46.3.2.2 Market Risk

Overview

Market risk is the potential of an adverse impact on SDF's earnings or capital due to changes in interest rates. During the normal course of its business, company deals in financial products such as loans and deposits to facilitate both customer-driven and proprietary transactions which expose the company to market risk in varying degrees.

Notes to the Financial Statement

46. RISK MANAGEMENT (CONTD.)

Market Risk Management

Risk Management Framework ensures the appropriate management of the market risks within the overall risk appetite so that adverse changes in market risk parameters, do not materially impact SDFC's profitability, capital or the risk profile.

Upon recognizing various sources of risks, their characteristics and possible outcomes resulting from transactions undertaken by the company risk management process functions in compliance with the Investment Policy and Asset and Liability Policy . Investment Policy and Asset and Liability Policy along with Integrated Risk Management Framework (IRMF) and Stress Testing Guidelines also define exposure limits and procedures within which such transactions are required to be undertaken. Market risk limits set out in the above policies are regularly reviewed by Asset and Liability Management Committee (ALCO) and Integrated Risk Management Committee (IRMC).

ALCO is the core management committee that regularly monitors market risk exposures and initiates appropriate action to optimize overall market risk exposures within the overall risk appetite of the company. In this regard, the major functions carried out by ALCO include:

- proactive managing of liquidity risk profile of SDFC
- articulating interest rate review of the SDFC
- monitoring asset and liability gaps, and rate shock results on Net Interest Income (NII) to initiate appropriate measures such as changing interest rate structure.

Functionalities of Market Risk Management

The Market Risk Management is done by Finance and Planning which is responsible for coordinating and performing Market Risk Management activities including measuring, monitoring and reporting of market risk exposures, and reviewing SDF's market risk related policies and exposure limits at least annually. It also provides independent reviews on market risks associated with new investment proposals and products, thus facilitating efficient decision-making through optimizing risk-return trade off. SDF has made a strategic decision to maintain a risk appetite moderately above competitor rates since it allows the best potential for creating shareholder value at an acceptable risk level. SDF manages the volatility and potential downward risk through diversification.

46.5.1 Interest Rate Risk

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

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

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

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

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

46.5.2 Interest Rate Risk Exposure on Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

Company	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31.03.2020 Rs.
Assets							
Cash and Cash Equivalents	39,136,396	-	-	-	-	34,089,998	73,226,394
Loans and Receivables	1,183,813,283	1,307,518,480	2,213,360,650	526,012,534	-	-	5,230,704,947
Lease Rentals Receivables	188,601,581	357,836,062	831,811,154	324,598,698	-	-	1,702,847,496
Financial Investments	366,058,986	78,880,044	-	-	-	-	444,939,031
Other Financial Assets	163,796,793	738,873	-	-	-	-	164,535,666
Total Financial Assets	1,941,407,039	1,744,973,459	3,045,171,805	850,611,232	-	34,089,998	7,616,253,533
Financial Liabilities							
Due to Banks and Other Institutions	546,660,854	346,917,615	555,495,194	140,000,000	-	5,961,950	1,595,035,613
Due to Customers	2,624,241,851	1,149,944,561	1,035,344,058	197,882,588	94,562,895	-	5,101,975,953
Total Financial Liabilities	3,170,902,706	1,496,862,176	1,590,839,252	337,882,588	94,562,895	5,961,950	6,697,011,566
Interest Sensitivity Gap	(1,229,495,667)	248,111,283	1,454,332,553	512,728,643	(94,562,895)	28,128,048	919,241,967

Company	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31.03.2019 Rs.
Assets							
Cash and Cash Equivalents	96,520,308	-	-	-	-	44,382,608	140,902,916
Loans and Receivables	1,036,216,688	1,350,088,699	2,017,764,591	709,587,152	-	-	5,113,657,129
Lease Rentals Receivables	107,759,326	231,800,073	545,355,412	217,598,314	-	-	1,102,513,124
Financial Investments	347,317,986	95,277,274	-	-	-	-	442,595,260
Other Financial Assets	132,765,273	56,511,375	-	-	-	-	189,276,648
Total Financial Assets	1,764,962,188	1,733,677,421	2,563,120,003	927,185,465	-	-	6,988,945,077
Financial Liabilities							
Due to Banks and Other Institutions	93,081,310	152,162,626	396,427,568	187,500,000	-	5,961,950	835,133,455
Due to Customers	2,509,079,620	1,415,980,455	912,124,891	441,961,081	106,195,551	-	5,385,341,597
Total Financial Liabilities	2,602,160,930	1,568,143,081	1,308,552,460	629,461,081	106,195,551	5,961,950	6,220,475,052
Interest Sensitivity Gap	(837,198,742)	165,534,340	1,254,567,544	297,724,385	(106,195,551)	(5,961,950)	768,470,024