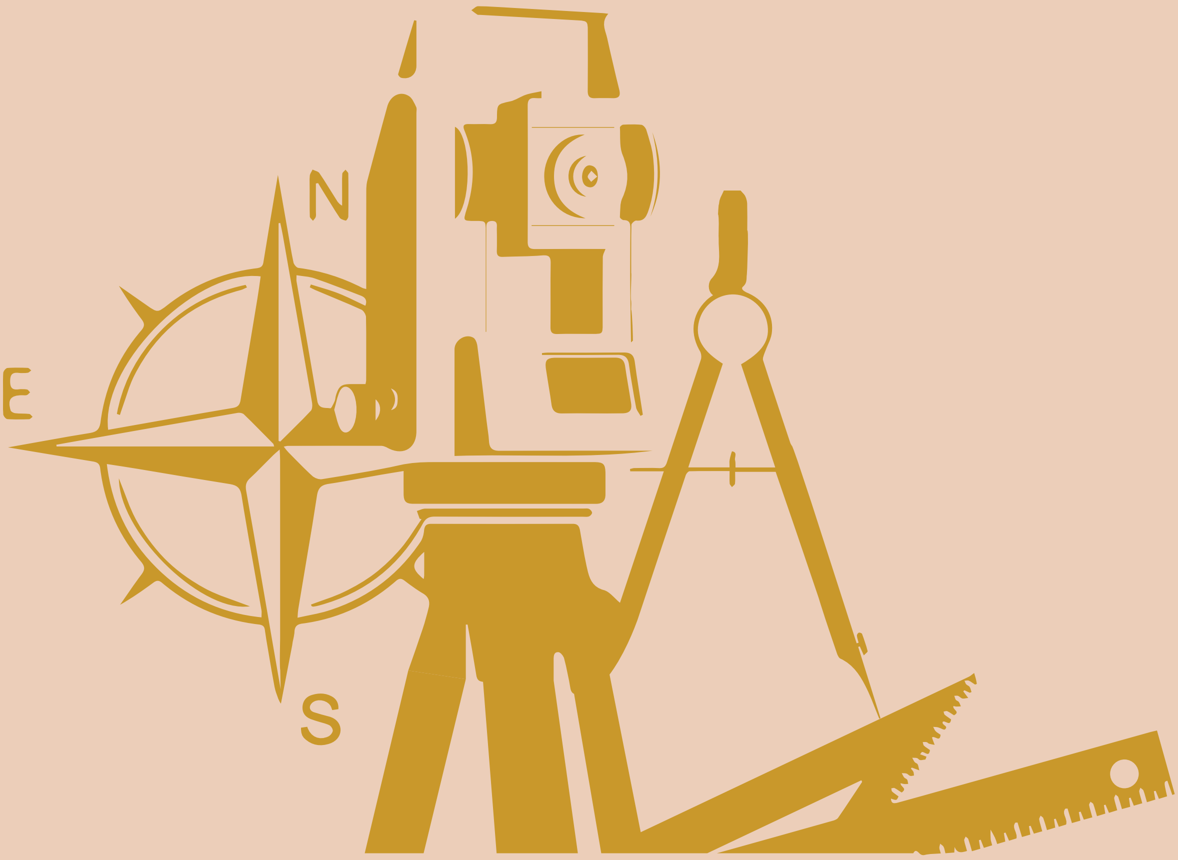


PLANNING OUR COURSE

Associated Motor Finance Company PLC

Annual Report 2019/20

AMF

Trustees of Your Trust

Contents

PLANNING OUR COURSE

A clear vision, backed by definite plans enables us to withstand adversity, and dive into the unknown with fortitude and strength.

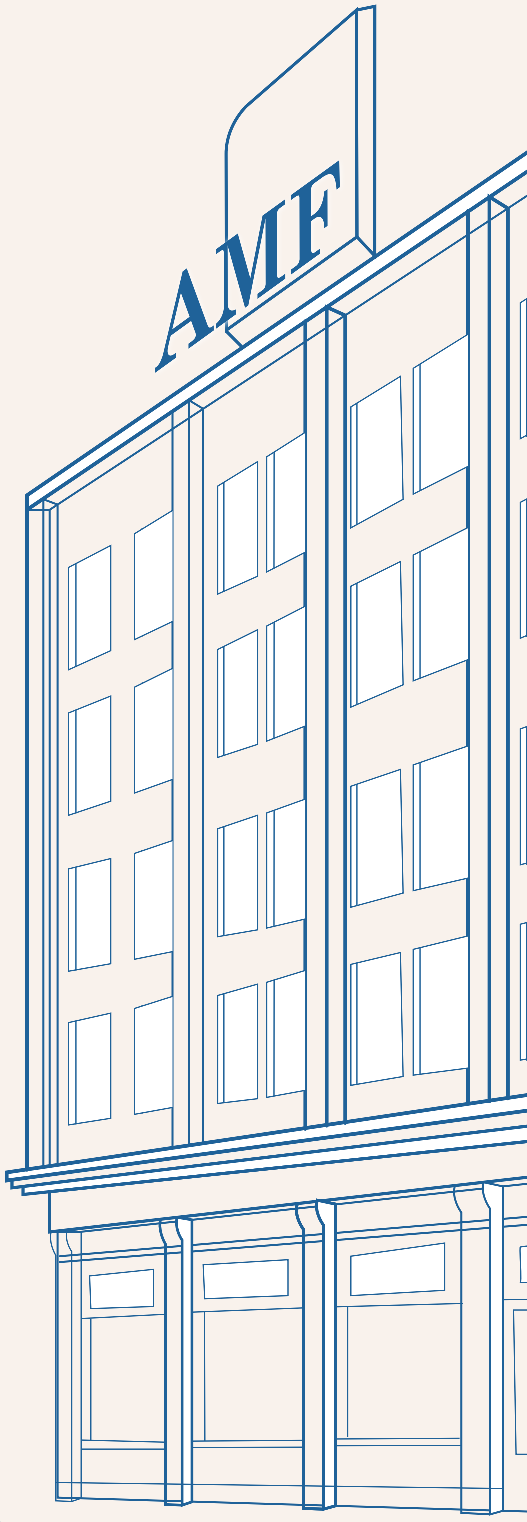
At Associated Motor Finance Company PLC, we are committed to journey in a direction that gives us the strength to deliver powerful, structured solutions to every stakeholder we serve. Our end goal is to assist the nation to rise from times of adversity; fortified with a spirit of resilience and optimism.

Today, as we move into a time of uncertainty following the impact of the COVID-19 pandemic, we are planning our course to ensure success, as we actively seek out opportunities designed to deliver value and achieve growth in the years ahead.

Company Profile

Associated Motor Finance (AMF) Company PLC is one of the oldest finance companies registered in Sri Lanka. Incorporated on 25th July 1962 under Companies Ordinance No. 51 of 1938, the Company was subsequently re-registered under the Companies Act No. 07 of 2007. AMF is a registered finance company with the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011 as well. The principal activities of AMF include acceptance of public deposits, leasing and hire purchase, real estate trading, import and trading of private and commercial vehicles.

In an era where Sri Lanka espoused a closed economy model, the great visionary business leaders of AMF established a firm foundation by leveraging on the indigenous business opportunities. This exemplary leadership continued to take AMF to greater heights by successfully circumventing challenges and constraints such as the 30-year civil war which had a negative impact on Sri Lanka's economy. AMF with long years of success and considerable strength in the specialised area of financing acquired Arpico Finance; the second oldest finance company in Sri Lanka, with a highly diversified asset portfolio double its size.



Vision

To be renowned among all our stakeholders as a pre-eminent financial institution and maximise and sustain a rate of return well above the industry level on all investments made by our stakeholders.

Mission

To be the premier provider of superior financial solutions and innovations in leasing solutions to all our customer segments, through committed and quality services, and provide assistance to allow them the ability to realise their financial needs.

Our Core Values

Customers

Our passion is to serve our niche markets to the best of our ability providing them with trusted and steadfast services that will allow them to fulfil their financial goals.

Shareholders

We are committed to manage all aspects of our business affairs prudently to ensure the highest, sustainable returns on investments and thereby building shareholders' value at a rate above the industry level, upholding shareholders' confidence towards our operations.

Deposit Holders

We are committed to provide our depositors the highest return for their investments, within the regulator's guidelines, whilst ensuring the security of their investments.

Employees

To build a culture that promotes teamwork and empowers employees at all levels to take prudent initiatives and to make positive changes for the continuous improvement of the quality of our business operations.

Financial Highlights

For the year ended 31st march	Company 2019/20	Company 2018/19	Company % Change	Group 2019/20	Group 2018/19	Group % Change
Result on Operation						
For the year ended Rs. Mn.						
Interest Income	1,339	1,422	-6%	4,025	5,411	-26%
Interest expense	872	911	-4%	4,554	3,157	-19%
Net interest income	467	511	-9%	1,471	2,255	-35%
Profit before income tax	12	36	-67%	(63)	161	-139%
Income(tax) /Reversal on profits	11	98	-88%	(81)	308	-126%
Profit after income tax	23	134	-83%	(144)	469	-131%
Financial Position						
At the year end Rs. Mn.						
Total Asset	7,714	7,419	4%	20,336	22,440	-9%
Lending portfolio	4,616	4,473	3%	14,249	17,754	-20%
Deposits from public	4,622	4,915	-6%	13,287	13,460	-1%
Borrowings	1,406	1,090	29%	3,980	6,543	-39%
Shareholders' funds	1,232	1,207	2%	2,060	1,959	5%
Market capitalisation	2,255	2,256	0%			
Information per Ordinary Share						
Earnings - basic (Rs.)	4.16	23.95	-83%	(23.97)	79.68	-130%
Dividends (Rs.)	-	-				
Net asset Value (Rs)	219.73	215.26	2%	349.91	332.61	5%
Market value at the end of the period (Rs.)	402.10	402.20	0%			
Price earnings (time)- ordinary shares	96.77	16.80	476%			
Ratios						
Return on average assets (%)	0.16	0.47	-67%	(0.30)	0.68	-143%
Return on average Shareholders' funds (%)	0.97	3.17	-69%	(3.15)	9.28	-134%
Net interest margin (%)	6.17	6.63	-7%	6.88	9.61	-28%
Equity to assets (%)	15.97	16.27	-2%	10.13	8.73	16%
Compliance Ratios						
Core capital to risk weighted assets (Tier I) (%)	13.72	14.98	-8%	-	-	-
Total capital to risk weighted assets (Tier I & II) (%)	14.80	16.07	-8%	-	-	-
Liquid assets to total assets (%)	13.64	14.04	-3%	-	-	-
Liquid assets to deposits (%)	22.77	21.84	4%	-	-	-
NPL(%)	6.55	6.61	-1%	-	-	-
NPL (net) (%)	1.74	0.93	88%	-	-	-

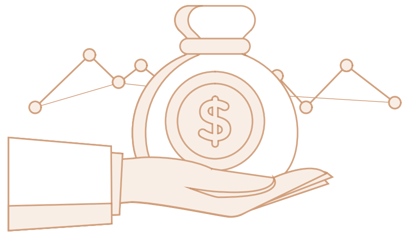
ROA - Profit before tax as a percentage of average assets.

ROE - Profit Before tax as a percentage of average equity.

NIM - The ratio of interest income less interest expenses to average assets.

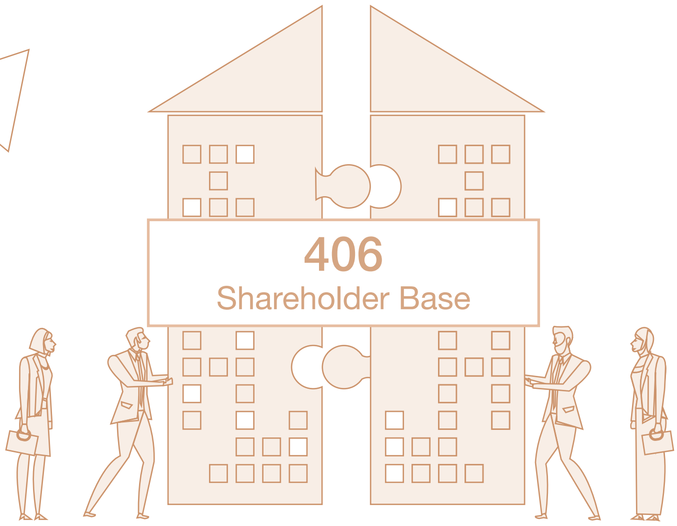
Non-Financial Highlights

2,027 Deposit Customers

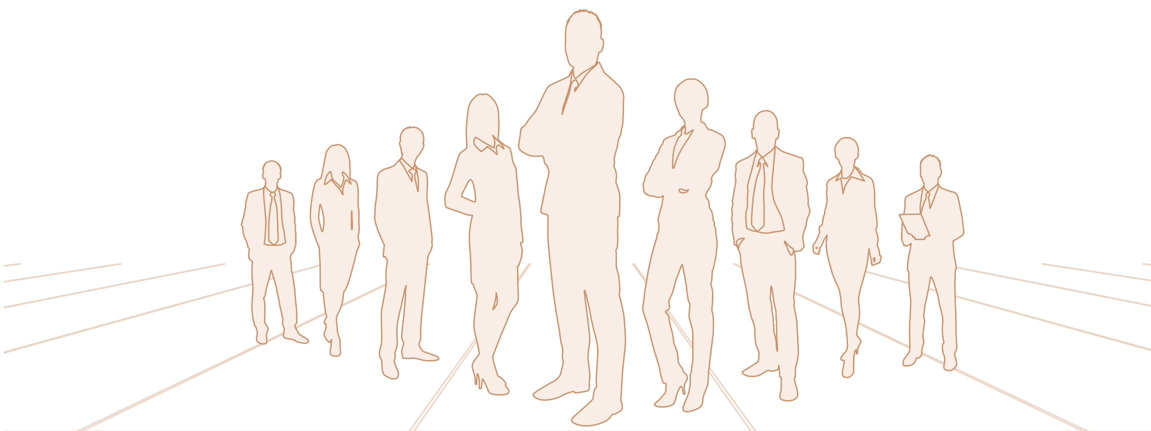


36,104
Lending Customers

88%
Deposit Renewal Ratio



406
Shareholder Base



189
Total Employees

Chairman's Review

Our focus in the year under review and ahead will be to strengthen the AntiMoney laundering knowledge framework while ensuring greater compliance all round strongly supported by a robust risk and governance framework, while strengthening credit quality and keeping NPAs low..

Dear Shareholders,

I am pleased to welcome you to the Annual General Meeting of Associated Motor Finance Company (AMF) and to place before you the Annual Report and audited Financial Statements for the year ending 31st March 2020. The year gone by was replete with challenges at every turn but your Company's record of resilience and fortitude helped tide over the period to the best of its ability and in a more resilient manner than many others in the industry.

MACRO-ECONOMIC BACKDROP

Subdued growth in the Sri Lankan economy resulted in GDP growth weakening to 2.3% in 2019, compared to the growth of 3.3 per cent in 2018. Almost all the parameters indicated a weak economic outlook coming into 2019 which was further impacted by the unfortunate Easter Sunday attacks in April and the tumultuous events in the immediate aftermath of the event; followed by the presidential elections by year-end. As a result, the NBFIs sector contracted during the year compared to the previous year.

PERFORMANCE OF NBFI SECTOR

Lending activities in the Non-Banking Financial Institutions (NBFIs) sector showed signs of slowing down during 2019 in response to macro prudential policy measures to curtail importation of motor vehicles and lending towards vehicles, higher market interest rates on lending, sluggish economic and commercial activities due to loss of business confidence which resulted from political instability in the run up to the presidential election and negative sentiments caused by the Easter Sunday attacks. Credit provided by the sector declined by 2% to Rs.1,107.9 billion, compared to the growth of 4% in the corresponding period ended March 2019. The sector as a whole remained stable, with capital maintained at healthy levels along with adequate liquidity buffers well above the regulatory minimum levels. Deposits dominated the funding mix, as increased assets were mainly funded through deposits, while borrowings of the sector largely declined compared to the previous year. The Central Bank continued to take prudential measures to maintain the stability of the sector. The gross Non-Performing Advances (NPA) ratio increased to 11.37% at March 2020, from 7.71% reported at end-March 2019, reflecting deterioration in the asset quality of the sector. The sector posted a profit after tax of Rs. 13.2 billion, a decline of 38% compared to the profit recorded in March 2019, mainly due to increased non-interest expenses and higher loan loss provisions. Overall, the sector remained resilient, with capital maintained at healthy levels during the year.

CHALLENGES FACED AND STRATEGIES FOR THE FUTURE

Despite this challenging backdrop, your Company forged ahead emboldened by its decades-long experience in managing tough market conditions situations with confidence and successfully maintained the Non-Performing Asset (NPA) ratio well below industry levels. Further, our sustainable business model proved its efficacy at a time when we envision the next financial year too to be extremely challenging due to the COVID-19 outbreak. Our investment in technology platforms and efforts during the year to strengthen credit quality helped us navigate the year under review with confidence.

As a natural corollary to the events of the year, profitability was impacted. Your Company posted a consolidated Group Loss After Tax (PAT) of (Rs. 144Mn)while at the company level, it posted PAT of. Rs. 23Mn. Meanwhile, the NPL ratio stayed under 6.55% as compared to industry NPLs of 11.37%.

Our focus in the year under review and ahead will be to strengthen the AntiMoney laundering knowledge framework while ensuring greater compliance all round strongly supported by a robust risk and governance framework, while strengthening credit quality and keeping NPAs low. Your Company's strategic risk and governance framework further strengthens our operation at every stage while remaining in strict compliance with the Central Bank of Sri Lanka Regulations, CA Sri Lanka and SEC joint Code of Best Practice on Corporate Governance and the Continuing Listing Requirements of the Colombo Stock Exchange.

The news of the COVID-19 outbreak was filtering through just after the conclusion of the 2019/20 financial year. The economic devastation it has wrought is very apparent and one that we will have to contend with going into 2020/21. Our ability to maintain cost controls and exercise prudence and financial discipline will strengthen our position in the year ahead. I have great faith in our experienced Board, senior management and highly trained staff to soldier on and mitigate the many challenges we can expect. The well-being and financial security of our customers remains our foremost priority and we remain committed to ensuring the best outcome for Your Company and its shareholders and other stakeholders. The inclusion of Arpico Finance Company into our fold will help us strategically serve diverse market segments while further entrenching our credentials in the market.

ACKNOWLEDGEMENTS

I would like to express my gratitude to my colleagues on the Board and the senior management for strategising the best way forward for the company in a year full of challenges. I extend my whole-hearted appreciation to the former Chairman Dr. Rohan Karunaratne who retires after building AMF into a strong and sustainable entity. My gratitude is also due to our outgoing Director Mr. L.C.W. Edirisooriya for his dedicated service to the company.

The support and guidance extended by the Governor of the Central Bank of Sri Lanka and the Director and the officials of the Department of Supervision of Non-Bank Financial Institutions proved invaluable. The entire team strived hard to provide the best outcome for the company and I applaud their commitment. I appreciate customers and depositors for placing their faith in the company's ability to secure their investments. I believe the company still remains well-positioned to thrive in what will be an even more challenging year ahead.

Mr. K.D.U.S. Nanayakkara
Chairman

7th September 2020

Managing Director's/ Chief Executive Officer's Review

AMF's business strategy of concentrating on customers has proved effective and has made the company capable of shouldering shocks from the wider economy, cushioning the company from any permanent effects.

Dear Stakeholder,

EXTERNAL ENVIRONMENT

Adversely impacted by successive blows from the 2018 political crisis and Easter Sunday attacks in April 2019, Sri Lanka's economic growth declined to 2.3% in 2019. Although the second half of the year showed signs of recovery, the run-up to the presidential elections slowed business activity yet again. During the year under review, the economy was never quite able to reach normalcy and as a result most sectors under-performed. Due to the disruptions emanating from the Easter Attacks in April, the services sector went through two consecutive months of contraction in April and May, while the impact on manufacturing was moderate. Tourism was the worst hit sector while banking lost pace in 2019 due to eroding profitability, deteriorating asset quality and slower asset growth.

The Central Bank intervened to bring the interest rates down, however the depreciating rupee further eroded business confidence. The banking sector lost pace in 2019 due to eroding profitability, deteriorating asset quality and slower asset growth. The sector faced a challenging operating environment due to multiple reasons - sluggish economy, tougher liquidity requirement, poor corporate performance, deteriorating asset quality and lending cap. The Non-Performing Loan (NPL) ratio reached a five-year high in the first eight months of 2019.

Meanwhile, the Non-Banking Financial Sector too deteriorated during the year, with negative credit growth, declining profitability and increase in NPLs. The slowdown in the sector was mainly due to subdued economic activities, political uncertainty, lack of investor confidence and security concerns created by the

Easter Sunday attacks. Overall, all manner of obstacles had to be surmounted by companies to achieve a modicum of growth and we are pleased to state that Associated Motor Finance Company PLC (AMF) was successful in steering its ship steadily amidst the turbulent environment.

FINANCIAL PERFORMANCE

In keeping with the state of the industry during FY2019/20, the company's income and profit declined, however AMF succeeded in sustaining relatively low gross NPLs of 6.6% and net NPLs of 1.7% with a provision coverage of 73.4% as compared to industry gross NPLs of 11.4% and net NPLs of 3.8% with a provision coverage of 54.7% . Considering the volatile nature of the industry, we made a concerted effort to cut back on lending and instead focused on improving the loan book. The circumstances although not conducive to growth were manageable for AMF, as we have historically held a competitive advantage in managing impairments.

The company recorded Profit Before Tax of Rs.11.8 Mn as compared to Rs. 36.2Mn in 2018/19. The marginal drop in deposits in 2019/20 was compensated with institutional borrowings. The dip in deposits industry-wide was largely attributable to the temporary negative perception of finance companies caused by the gross mismanagement of several finance companies in that period, a view that should not be projected on responsible corporates such as ours which are in total compliance with mandatory regulations. Moreover the drop in fixed deposit rates caused an outflow of deposits as customers moved to banks, viewing them as more secure alternatives.

Operational Achievements

Despite all factors being negative in the wider industry, AMF benefited by way of its low cost business model which consists of one main branch supported by field agents who service customers located across the country thereby helping to keep costs under control.

Meanwhile, with the acquisition of Aprico Finance we are operating as a group with joint synergies and have diversified into three and four-wheel leasing categories by leveraging on Aprico Finance's expertise and geographic spread with 9 strategically located branches.

AMF's business strategy of concentrating on customers has proved effective and has made the company capable of shouldering shocks from the wider economy, cushioning the company from any permanent effects.

PEOPLE & PROCESSES

Our success in a difficult year was driven by our set of valued employees who reflect a blend of longstanding experience and youth with fresh ideas and therefore investing in their growth and development as well as their safety and well-being is not just a priority but rather a fundamental principle. As a practice we follow best practices in human resource management where employees receive adequate training, skills and incentives to explore their potential. Just as much as we value human capital, we are also relentless in ensuring our operations have no negative impact on the environment while also assisting local communities in simple yet meaningful ways.

Simultaneously, we have invested in advanced IT systems to empower the field force and to infuse greater efficiency. The company has made a concerted effort to partner fin-tech companies and technologies that design disruptive and path-breaking technologies that truly enhance convenience of customers and strengthen our value proposition. By tracking global, regional and local fin-tech trends in the sector, we are able to identify and adopt key IT systems that reflect innovation at their best and deliver the most convenient services to clients.

FUTURE OUTLOOK

The events of the year spurred us to relook at our strategy to gear up for the hardships that lie ahead in 2020/21 due to the impact of COVID-19. We are reviewing the company's past strategies while also stringently studying lagging indices. Thus far, our focus on the two-wheelers segment has proved effective as although industry NPLs are higher, AMF's unique business model serves to keep its NPL rate to reasonable levels. .

We expect the directive to extend moratoriums for customers will take a toll on profitability in the year ahead and therefore our concentration will be mainly on sustaining high liquidity levels. This strategy to focus on cash flow proved apt post April 2019 as due to our liquidity position we were able to be more flexible and accommodate depositors' investments. There is no doubt that customers will be majorly affected due to the economic downturn and we have to face up to the fact that due to economic hardship and uncertainty customers might wish to withdraw deposits.

Another area we will be exploring in the year ahead is securitisation to manage cash flow better and reduce reliance on deposits by attracting more institutional investment. Considering the economic climate in the past five years, the financial services industry has had few opportunities for growth and expansion and against this background we believe AMF has performed satisfactorily.

APPRECIATION

I would like to place on record my gratitude to the Chairman and Board of Directors for their valuable guidance in a challenging year. The entire team at AMF is grateful to the Former Chairman, Dr. Rohan Karunaratne for his valuable guidance and encouraging presence which inspired each and every employee. We will also miss the wise counsel extended by the outgoing Director Mr. L.C.W. Edirisooriya during his tenure with AMF. The dedication of the senior management down to the most junior employee has been instrumental in helping the company thrive. The direction provided by the Governor of the Central Bank of Sri Lanka, Director and officials of the Department of Supervision of Non-Bank Financial Institutions supplied the support and confidence we need to forge ahead. Finally, I wish to thank the loyal shareholders, stakeholders, customers, depositors and business partners for their unstinted support at all times.

J.P.I. Nalatha Dayawansa
Managing Director

T.M.A. Sallay
Chief Executive Officer

7th September 2020

Board of Directors

(from left to right)

Mr. Tauchira Gooneratne Kandamby
Independent Non-Executive Director

Mr. J.P.I. Nalatha Dayawansa
Managing Director

Mr. K.D.U.S. Nanayakkara
Chairman –
Independent Non-Executive Director

Mr. Ranil Wijegunawardane
Independent Non-Executive Director

Mrs. A.S. Dayawansa
Executive Director

Mr. J.P.I. Shanil Dayawansa
Executive Director

Board of Directors

Mr. K.D. Uditha Suranga Nanayakkara

Chairman –
Independent Non-Executive Director

Mr. K.D.U.S Nanayakkara, an Independent Non-Executive Director of the Board of Associated Motor Finance Company PLC since 5th November 2015 was appointed as Chairman of the Company on 18th May 2020.

Mr. Nanayakkara holds a Bachelor of Science Degree in Pure Mathematics and Physics from the University of Colombo and an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura. He is also a Fellow of the Chartered Institute of Management Accountants, UK.

Mr. Nanayakkara commenced his career at Linea Intimo, a fully-owned subsidiary of the MAS Holdings in 1999 and moved up the rank to become the Director Finance of MAS Active division in 2014, where he served in this capacity till the end of 2017. During this period, the Finance Team of MAS Active won the prestigious CIMA Case Study Award in 2012 under his leadership. This case study was based on the successful Finance transformation with the implementation of the Lean Enterprise in a service function. Subsequently, he served as the Director – Manufacturing and Planning of MAS Active, the sportswear division of MAS Holdings. He has been an active member in setting up a manufacturing partnership in China and manufacturing subsidiaries in India and Jordan. Under his leadership a feasibility study was conducted to set up a manufacturing facility in the Northern Province which became a reality in 2012. He was responsible in setting up MAS operations in the Western Hemisphere. He was appointed as a Board Director of MAS Legato (Pvt) Ltd., MAS's shared services operation with effect from 1st January 2017.

Mr. Tauchira Gooneratne Kandamby

Independent Non-Executive Director

Mr. T.G. Kandamby was appointed to the Board of Associated Motor Finance Company PLC on 23rd April 2020.

Mr. Kandamby is a Fellow member of the Institute of Chartered Accountants of Sri Lanka and Certified Management Accountants of Sri Lanka. He also holds a Post-graduate Executive Diploma in Bank Management from the Institute of Bankers Sri Lanka.

He counts over 30 years of professional experience in management & consultancy in the fields of accounting, auditing, corporate management, finance, tax and has extensive exposure to a wide range of enterprises relating to construction, engineering, services, trading, agriculture, energy, information technology, entertainment etc. He has functioned as Chief Executive Officer/General Manager of Nanda Investments & Finance PLC and also held senior management positions as Accountant abroad and presently serves as Director of private companies & practice in the name of T G Kandamby & Company.

Mr. Ranil Wijegunawardane

Independent Non-Executive Director

Mr. R. Wijegunawardane was appointed to the Board of Associated Motor Finance Company PLC on 18th May 2020.

Mr. Wijegunawardane is a Fellow member of the Institute of Chartered Accountants of Sri Lanka. He also has a Post-graduate Diploma in Management awarded by the University of Sri Jayewardenepura and a Diploma in Treasury Investment & Risk Management awarded by the Institute of bankers in Sri Lanka.

He counts over 30 years of professional experience in Financial & Management accounting, Taxation, Auditing, Administration, Procurement, Information Technology, Systems implementations and General & Corporate Management in leading listed Companies as well as other Institutions.

He has functioned as the Managing Director /Chief Executive Officer of Colombo Dockyard PLC and also previously held the position of Chief Finance Officer at the said company. He has served at several leading Companies in Sri Lanka and overseas in the capacity of Director, CEO, CFO and General Manager.

Presently he is engaged in consultations & social service activities.

Mr. J.P.I. Nalatha Dayawansa

Managing Director

Mr. J.P.I. Nalatha Dayawansa is a Diploma holder in Automobile Engineering in Stuttgart, Germany and has been an Apprentice of the Dimo, Mercedes Benz AG and Bosch GmbH. He has undergone extensive training locally and internationally in relation to automobile engineering. He possesses a vast knowledge and experience in this field, which prompted him to start his own business venture namely, Imperial Import & Export Company (Pvt) Ltd., in 1983 and pioneered the import of used high end cars. It also involves the importation of farm and earth moving equipment and prime movers from UK. He is also the holder of a Diploma in Economic and Management from the London School of Economics and Management in UK. He was appointed as an Executive Director to the Board of Associated Motor Finance Company PLC in 1982 and after the demise of his father late the Mr. J.P.I. Piyadasa in 1995: he succeeded as the Chairman and Managing Director of the Company. He has over 35 years of extensive experience in many industries such as Finance, Hospitality and Leisure, Garments, Exports and Imports. In addition to the above, he is currently the Chairman and Managing Director of Poltech (Ceylon) Ltd., a public company engaged in garment exports and also the Chairman and Managing Director of Imperial Import & Export Company (Pvt) Ltd., a private limited company engaged in importing and trading of used motor vehicles from UK. He has been appointed as an Executive Director of Arpico Finance Company PLC since December 2014.

Mr. J.P.I. Shanil Dayawansa

Executive Director

Mr. J.P.I. Shanil Dayawansa holds a Degree in Accounting and Management (BA) from the University of Essex (UK) and Master's Degree in International Business (MA) from the Monash University in Melbourne, Australia. Both these qualifications focus on finance and management of business. He was appointed as an Executive Director to the Board of Associated Motor Finance Company PLC in September 2009. He has been the recent inclusion to the Board to bring youthfulness to the Board of Associated Motor Finance Company PLC, with a view to strengthen it further, with the financial and accounting aspects and to improve the corporate governance of the Company. He has been appointed as an Executive Director of Arpico Finance Company PLC, since December 2014, subsequently he was appointed as the Managing Director of Arpico Finance Company PLC since June 2015.

Mrs. Ayanthi Shammalka Dayawansa

Executive Director

Mrs. A.S. Dayawansa was appointed as an Executive Director to the Board of Associated Motor Finance Company PLC in 1995. In addition to this, she has been holding directorships at Poltech (Ceylon) Ltd., a public company engaged in garment exports and also at Imperial Import & Export Company (Pvt) Ltd., a company engaged in importing and trading of used motor vehicles from UK. She is also the Managing Partner of Ayathi, a dress boutique, which caters exclusively to the high end market. She has over 21 years of experience in sectors such as Finance, Garments, Imports and Exports.

Management Team

T.M.A. Sallay

Chief Executive Officer

Mr. Sallay is a Fellow of the Chartered Institute of Management Accountants (FCMA), UK and Chartered Global Management Accountant (CGMA), UK and a fully-qualified Member of the Institute of Certified Management Accountants of Australia. He is also a holder of a Master's in Business Administration from the Asia University of Malaysia.

Mr.Sallay is a financial professional with over 34 years of extensive and diverse work experience in the fields of Finance, Auditing, Marketing, Credit and Recoveries, Project Management and Event Management. He has held many positions, both strategic and operational, in many organisations and has a wide exposure in diverse sectors such as Finance, Hospitality, Healthcare, International Event Organisation, Communications and Trading and Manufacturing. Mr. Sallay joined Associated Motor Finance Company Ltd., in 1997 as the Group Accountant. He was promoted to the post of General Manager in 2003 and to the post of CEO/ General Manager in 2011. He performs as the Head of Finance of the Company. He has been appointed as an Executive Director of Arpico Finance Company PLC since December 2014. His past work experience has seen him focus on his core strengths in the realm of finance, through over 24 years of service with several established financial institutions.

G.S. Shantha Gunasekara

Senior Manager Marketing (Leasing and Hire Purchase)

Mr. Gunasekara holds a Diploma in Marketing from the Faculty of Asia Lanka Vocational Education and a Higher Diploma in Practical Accountancy from the Institute of Professional Accountancy Training. He is also a part qualified member of the Association of Accounting Technicians of Sri Lanka and holds a Diploma in Public Management from the University of Sri Jayewardenepura. He holds a Diploma in Micro Finance from the Institute of Bankers of Sri Lanka. He has over 28 years of experience in the finance industry, 17 years of which have been spent in managerial positions.

Mr. P.A. Nilan Perera

Senior Manager Operations and IT

Mr. Perera is a part qualified member of the Accounting Technicians of Sri Lanka and is a registered student of the Institute of Certified Management Accountants of Sri Lanka. He is also reading for his Bachelor's Degree in Information Technology through an external degree course offered through the University of Colombo. He has over 27 years of experience in the field of accountancy of which, 13 years have been spent in managerial positions.

Mr. Vajira Panditharathne

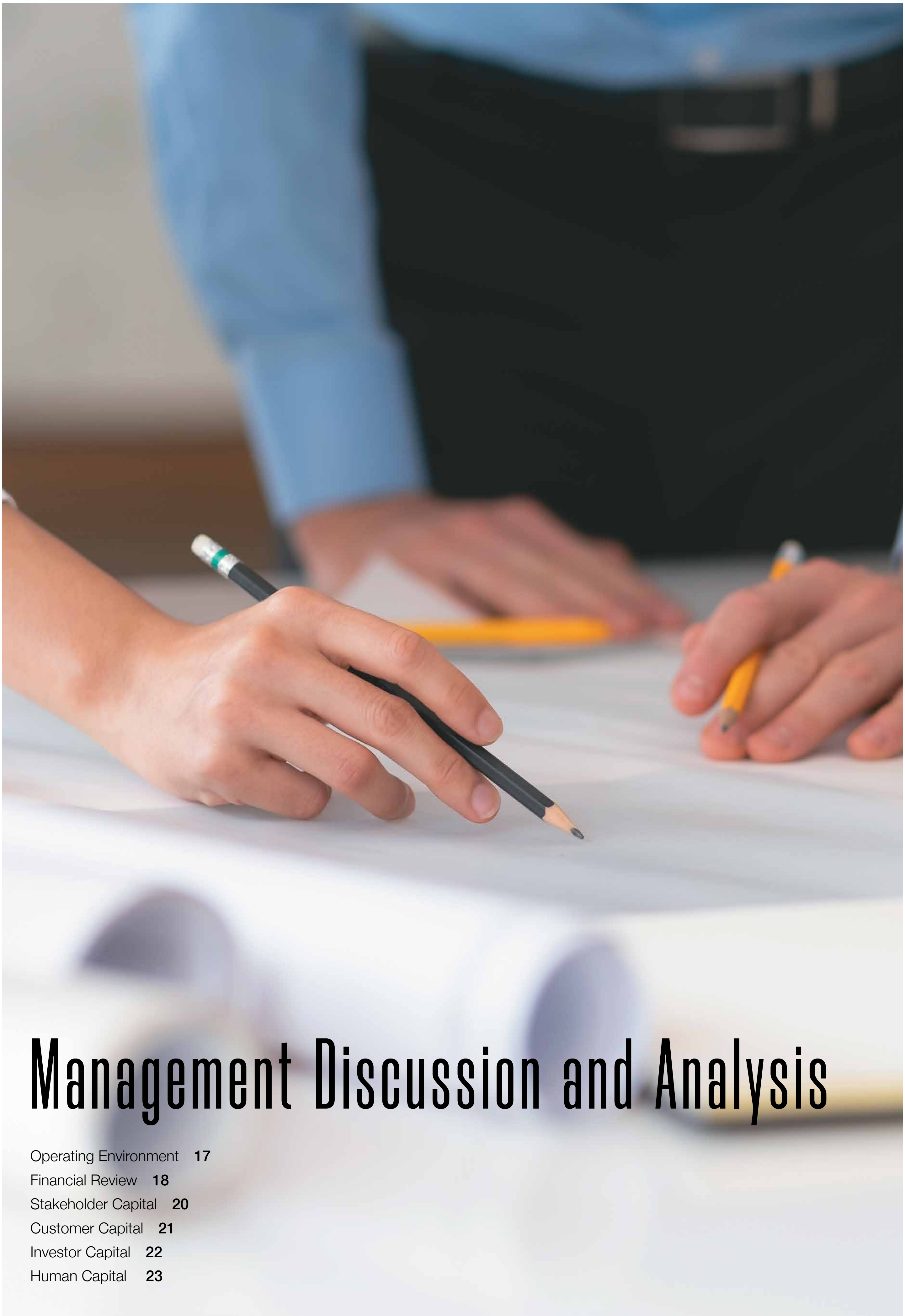
Senior Manager Recoveries

Mr. Panditharathne holds a Diploma in Writership and Communication from the University of Sri Jayewardenepura and also holds a Diploma in Psychology and Counselling. He has successfully completed the Certificate in Marketing from SLIM. He possesses over 17 years of experience in the finance industry and 11 years in the field of Mass Media Communications. Of this period, 8 years were spent in managerial positions.

K.I.S. Grero

Manager Sales (Vehicles)

Mr. Grero counts 24 years of experience in the field of Sales and Marketing in sectors such as Travel, Tourism and Finance, of which 16 years were spent in managerial positions.



Management Discussion and Analysis

Operating Environment

SRI LANKAN ECONOMY

It is known fact that 2019 was one of the toughest years in Sri Lanka's recent history. With the Easter Sunday terror attacks incident in April 2019, there were consequences on the country's economic progress which had a negative impact on different sectors in Sri Lanka. In the aftermath of the Easter attack, the slump in the economic activity worsened. Main industries in Sri Lanka were crippled while business confidence collapsed.

Due to the impact of the Easter Sunday attacks on tourism related activities, the growth of the service sectors decelerated significantly in 2019. When it comes to Agriculture sector, it continued to be plagued by unpredictable weather. However, it is worth noting that the performance of the industry sector showed a slight improvement in 2019 compared to the previous year. This was backed largely by the export-oriented industries which benefited from eternal factors such as the restoration of the GSP+ program and shifting global trade patterns caused by US-China trade tensions.

Against this backdrop, the Sri Lankan economy growth slowed down to 2.3% in 2019, compared to the growth of only 3.3% 2018. Subdued economic growth, coupled with the sharp depreciation of the Sri Lankan Rupee towards end 2018, resulted in a substantially depreciated average exchange rate in 2019.

Inflation remained largely under control, thanks to subdued demand conditions and well anchored inflation expectations that saw both headline and core inflation move broadly in the desired mid-single digit range throughout 2019. Furthermore, tighter fiscal controls aimed at curtailing import expenditure resulted in a notable improvement in the country's trade and current account balances which along with significant inflows to the financial accounts, helped strengthen gross official reserves. The growth in the trade balance was mainly due to lower import expenditure the result of ongoing fiscal policy measures to curtail imports. A modest growth of export earning also contributed towards lowering of the trade deficit in 2019.

Sri Lanka managed to achieve an important milestone in its economic journey by graduating to the upper middle-income country status, in terms of per capita gross national income (GNI), as per the world bank's country classification in 2019.

For the time being, just as domestic economic activity indicates to be showing early responses to the policy measures taken to revive the economy and improve business sentiments the COVID-19 pandemic in March 2020 put an end to what little progress was made in the first two months of 2020. step taken by the government to curb the spread of the virus including a nationwide lockdown starting mid-March 2020 pushed the country to the brink of a crisis as economic activity came to a complete standstill for several weeks thereafter.

NON-BANK FINANCIAL INSTITUTION (NBFI) SECTOR

It became a tough year for the local NBFI sector amidst a notable slowdown in lending activities. This was due to the fact that the weakened economy and commercial activity in the months following the Easter Sunday attacks and thereafter due to political uncertainty ahead of the presidential election in November 2019. Government efforts to curtail imports through strict macro prudential policy measures, such the LTV ratio to control credit facilities granted in respect of motor vehicle, also continued to dampen the credit appetite from businesses and individuals alike.

A culmination of these factors saw the volume of credit provided by the NBFI sector in 2019 decrease by 3% year-on-year compared to a growth of 7.6% reported in 2018. Within the lending portfolio, the demand for finance leases, secured loans and advances and hire purchases, all contracted in 2019. While gold loan advances increased significantly compared to the previous year.

ASSET BASE

As a result of the stagnation in lending activities, the NBFI sector asset base did not expand in 2019. The general composition of the asset base however remained unchanged from the previous year, with loans and advances accounting for the majority of the total.

ASSET QUALITY

A significant deterioration was seen in sector wide asset quality in 2019, mainly as a result of the economic downturn following the Easter Sunday attacks, as well as the deceleration of lending activities and the spillover effects of the debt relief program announced by the government in 2018. Reflecting the stress on the asset quality, sector-wide gross Non-performing advances (NPA) ratio jumped to 10.6% by end December 2018. Stemming from this, the sector reported higher impairment charges in 2019.

PROFITABILITY

Challenged by higher impairment charges, the NBFI sector profitability fell sharply in 2019. The sector posted a profit after tax of Rs. 14.5 Billion, a decline of 31.9% year-on-year from the profit recorded in year 2018. Consequently, a steep decline in both ROA and ROE was only to be expected.

FUNDING AND LIQUIDITY

Despite being challenged on other fronts, the sector as a whole succeeded in maintaining its capital and liquidity buffers well above the regulatory minimum levels. All NBFI were seen taking keen action to enhance their minimum core capital to comply with the CBSL mandated Rs. 2.0 Billion requirements by 1st January 2020. Hence the sector's core capital and total risk weighted capital adequacy ratio (RWCAR) stood at 11.1% and 12.5% respectively, by end December 2019, compared to 9.8% and 11.1% respectively reported in 2018.

Furthermore, the sector continued to maintain adequate liquidity buffers well above the regulatory minimum levels with the overall regulatory liquid assets available as at end December 2019 indicating a surplus against the stipulated minimum requirement. The sector-wide liquidity increased to 11.3% at end December 2019, from 9.6% record at end December 2018.

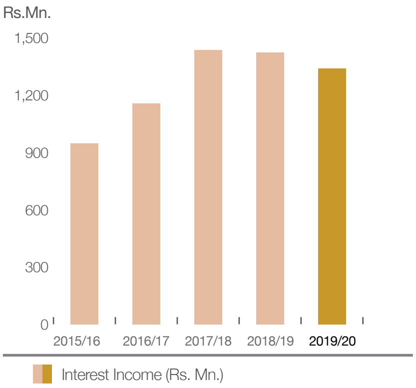
Deposit mobilization activities continued to remain the primary source of funding for the NBFI sector. Deposit growth accelerated in 2019, while borrowings declined.

Financial Review

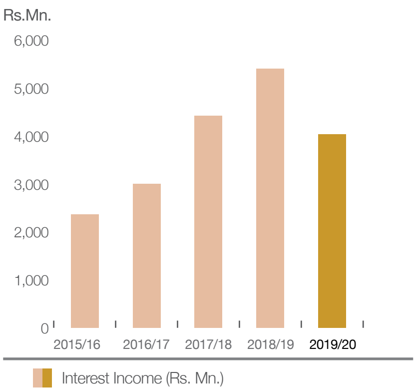
INTEREST INCOME

During the year under review, the Company's interest income decreased from Rs. 1.4Bn to Rs. 1.3Bn, which was mainly due to the low growth in lending portfolio and reduction in interest rates.

Growth in Interest Income - Company



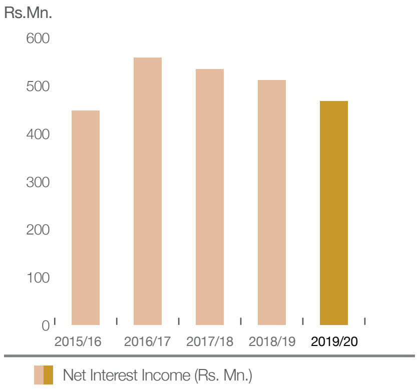
Growth in Interest Income - Group



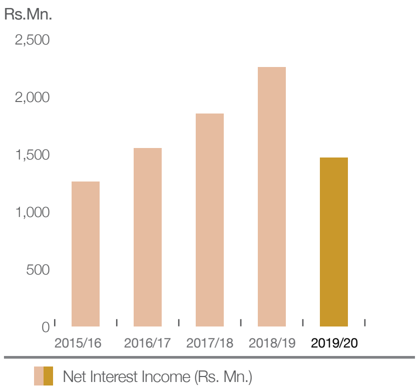
NET INTEREST INCOME

The Company's net interest income decreased by Rs. 44Mn to Rs. 467Mn in 2019/20. Consolidated net interest income also decreased during the year under review, by Rs. 783Mn to Rs. 1,471Mn. This was mainly due to the strategic focus on asset quality improvement over lending expansion during most parts of the year by both the Company and the Group.

Growth in Net Interest Income - Company



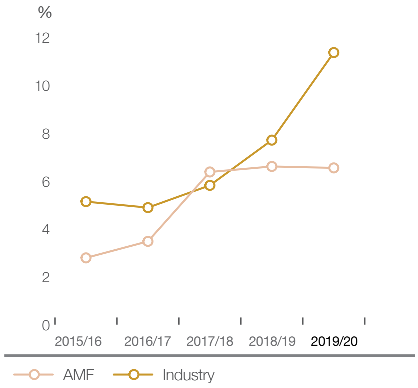
Growth in Net Interest Income - Group



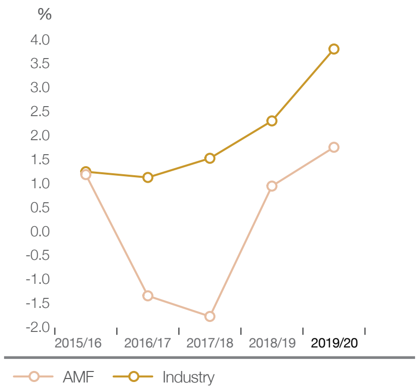
IMPAIRMENT

Impairment charge and other losses for the year decreased by Rs. 44Mn from Rs. 187Mn to Rs. 143Mn during the year as a result of the strategic focus on asset quality improvement. Furthermore, despite a highly challenging business environment where asset quality of the sector deteriorated, the Company was able to maintain better asset quality ratios than the industry (LFCs and SLCs).

Gross NPL



NET NPL



OTHER OPERATING INCOME

Other operating income of the Company, encompassing mainly of revaluation on investment property, profit on sale of motor vehicles, and bad debt recoveries, recorded a year-on-year increase of 16%.

OPERATING EXPENSES

Total operating expenses for the year under review increased by 8%. Personnel costs, which accounted for 64% of the total operating expenses, increased by 14% as there was an increase in manpower compared to the previous year to strengthen recoveries during the year and lending in latter parts of the year. In addition, a new performance-based allowance was introduced to ensure that employee contributions to Company performance are recognised and rewarded. Further, Administration expenses reduced by 10% due to the strategic decision to focus on Western Province over outstations during the year.

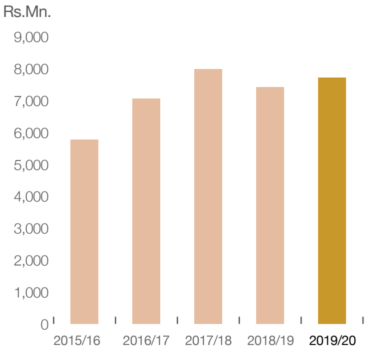
PROFITABILITY

For the 2019/20 financial year, the Company recorded a profit after tax of Rs. 23Mn whereas the Group recorded a net loss after tax of Rs. 144Mn. But we are confident that we would be able to improve our financial performance in a sustainable manner in the medium and long term.

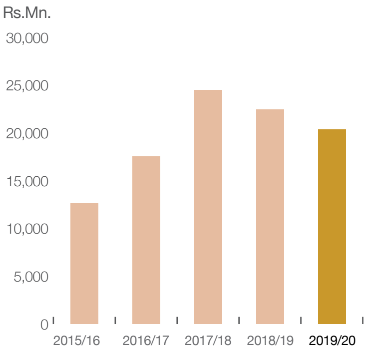
Total Assets

Consolidated total assets decreased by 9% from Rs.22Bn to Rs. 20Bn during the year under review.

Total Assets - Company



Total Assets - Group



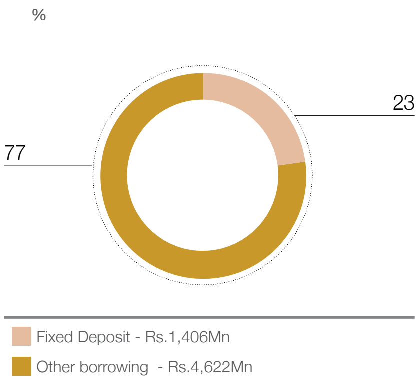
Lending

The lending portfolio of the Company increased by 3% from Rs. 4.5Bn as at 31st March 2019 to Rs. 4.6Bn as at 31st March 2020 due to increased lending volumes during the latter part of the year.

Funding

AMF was seen as a deposit driven finance company where 77% of total funding were financed by public deposits and the remaining 23% by banks and other borrowings as at 31 March 2020. The management decided to adopt a diversified funding policy instead of relying on its FD base since it has dropped by 6% during the year mainly due to interest rate reduction in the market.

Funding



Liquidity Management

The Company was able to maintain liquidity levels well above the regulatory requirements throughout the year. At the end of the financial year, the Company's regulatory liquid asset levels were Rs. 393Mn in excess of the minimum regulatory level. Further, the Company had access to other unutilized funds, in the form of unit trusts and securitization investments, and credit lines of more than Rs. 430Mn. The Company's liquid asset ratio increased from 21.8% at the end of the previous year to 22.8%.

Shareholder's fund

The Consolidated total shareholders' fund as at 31st March 2020 was Rs. 2,060Mn, which was an increase of 5% compared to Rs.1,959Mn at the end of the previous financial year. This was due to the increase in revaluation reserve.

The total shareholders' fund of the Company as at 31st March 2020 was Rs. 1,207Mn, which was an increase of 2% compared to Rs. 1,232 at the end of the previous financial year.

Stakeholder Capital

Stakeholders are the individuals, groups and entities that are affected by the products, services and operations of the Company or whose actions, decisions or attitudes affect the strategy, objectives and operations of the Company. AMF aims to build lasting relationships that add value to both parties, with its stakeholders. AMF has in place a rigorous process to identify its significant stakeholders. Through its process of engagement with the stakeholders, AMF is able to identify and understand their aspirations, concerns and also find ways and means of adding value to the stakeholder relationships in order to build lasting relationships. A process of continuous dialogue and engagement enables AMF to comprehend the aspirations and intents of its stakeholders and take them into consideration in formulating its business strategies, adding value to the relationships. The process of value addition works in directions, giving value to stakeholders and deriving value from the stakeholders.

In order to attain sustainability in economic, environmental and social aspects, it is imperative that we engage meaningfully with our stakeholders. As such, our stakeholder engagement process, is an organised mechanism so that we could identify all stakeholder groups, and engage with them effectively in order to address their concerns. Through a process of scanning the business environment, the parties who are impacted by our business operations are identified, who are then grouped according to similarities in order to identify broad stakeholder groups. Stakeholder engagement takes place, addressing their concerns in the best possible way so as to provide them a superior service and at the same time, ensuring the optimal performance of the company.

Customer Capital

Our customers remain at the heart of our business and are an integral stakeholder of the Organisation. We continually work hard to earn our customer's loyalty and deliver increased value to them. Therefore, our focus is on extending a great customer experience, building strong customer relationships, investing in service enhancements and offering attractive products and services to cater to their diverse needs.

Through these efforts, the year closed with a total count of 13,089 contracts being signed off during the year. By offering a range of products including finance leases, hire purchase facilities, fixed deposits and secured loans against fixed deposits, we support our customers to progress in life. We also enable customers to make informed decisions by providing adequate information and clear explanations about our products and services. Upholding customers' right to privacy and securing their personal data also remains important priorities for us.

The highest number of customer contracts was generated from the Gampaha District, followed by the Kurunegala District.

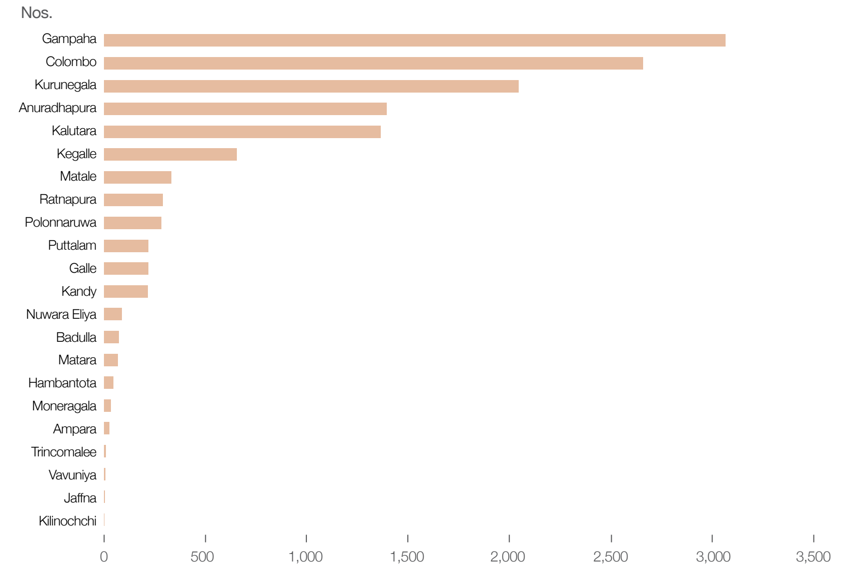
Number of contracts initiated during the year

13,089

Average renewal ratio based on the number of deposits

88.0%

District-wise Analysis as at 31st March 2019/2020



MARKETING COMMUNICATION

Our strong brand is one of our most important business assets. We continually strive to strengthen our brand through marketing communications. Our primary mode of marketing communication is through paper advertisements. We communicate in all three languages – Sinhala, Tamil and English, and the main language of communication remains Sinhala. We also ensure all relevant information is disseminated clearly, accurately and in a timely manner to all our customers.

CUSTOMER REACH

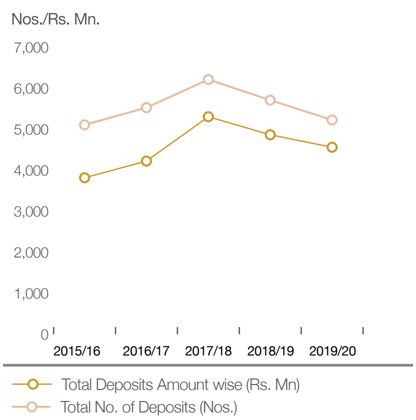
All our operations are carried out through our head office in Colombo and through the Melsiripura office in the Kurunegala District.

DEPOSITS

Deposits are our primary source of funding and accounted for 67% of the total liabilities as at the end of the financial year under review. Valuing the loyalty and trust of our depositors, we strive to offer the highest return for their investments within the regulatory guidelines.

We have consistently maintained a high renewal ratio, reflecting the strong customer loyalty in our Organisation and the customer satisfaction in the premium service standards extended by us. The average renewal ratio based on the number of deposits was maintained at 88% in 2019/20.

Deposit Base



Investor Capital

The required capital for expansion and growth of our business is provided by investors. Therefore, we continually strive to achieve sustainable growth and deliver increased returns to our investors. As at the end of the financial year 2020, our total shareholder base amounted to 391 of which 96% were individuals and 4% were institutions.

SHAREHOLDER FUND

At Company level, shareholder funds increased by 2% YoY to Rs. 1,232 Mn as at 31 March 2020. At Group level, shareholder's funds swelled by 5% to Rs. 2,060Mn., in the year under review.

The Company's return on average shareholders' funds for the year under review declined YoY to 0.97 in 2019/20 from 3.17 in 2018/19.

MARKET CAPITALIZATION AND SHARE PRICE MOVEMENT

At the end of the current financial year, market capitalization of AMF remained at Rs. 2.256Bn, same as last year. The share price of AMF recorded a high of Rs. 533 and a low of Rs. 351.20 during the FY 2019/20. The year-end share price was Rs.402.10.

RETURN ON ASSETS (ROA) AND RETURN ON EQUITY (ROE)

For the year ended 31 March 2020, the ROA and ROE of our Company stood at 0.16 % and 0.97% respectively.

EARNINGS PER SHARE (EPS) AND PRICE EARNINGS RATIO

Company's earnings attributable to ordinary shareholders decreased to Rs.4.16 compared to Rs. 23.95 at the end of last year. The Company's price earnings ratio increased from 16.8 times to 96.77 times during the year under review.

NET ASSET VALUE (NAV)

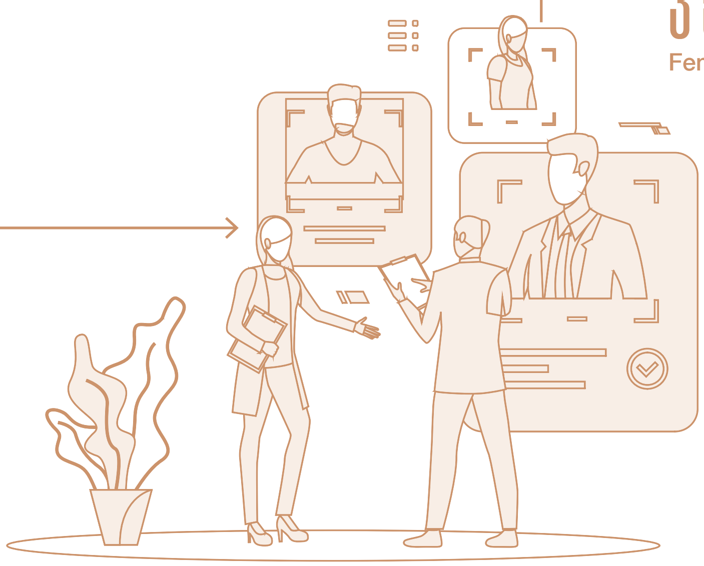
The NAV per share of the Company increased from Rs. 215.26 at the beginning of the financial year to Rs. 219.73 at the end of the FY in review, resulting an YoY increase of 2%.

Human Capital

As finance sector operator, employees are the most valuable asset as they deliver a good customer service and are the ambassadors of our brand and corporate value. And we consistently empower them with the right tool to drive the company's strategic goals & objectives.

35%
Female Representation

189
Employees

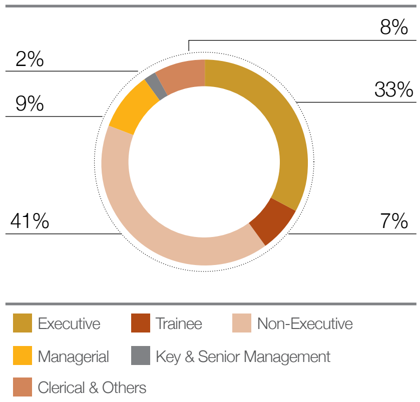


RECRUITMENT & SELECTION

Our HR strategy and HR policies are always aligned with the company vision and mission to attract the right talents for the right job. And our policies are based on diversity and equality with a benefit package that is competitive in the industry. We give priority to internal candidates to fill the vacancies which open up in the company. External recruitments are made if the vacancies cannot be filled by internal candidates or if specialised skills which are not available in house.

Every new recruit undergoes a comprehensive induction and orientation program to absorb the AMF culture values, policies, and procedures.

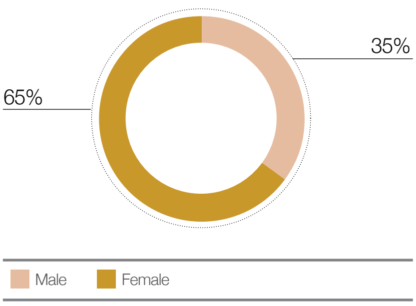
Our Strength



Grade	Male	Female	Total
Key & Senior Management	4		4
Managerial	10	6	16
Executive	46	16	62
Non - Executive	42	36	78
Trainee	5	8	13
Clerical & Others	16		16
Total	123	66	189

Human Capital

Gender



We encourage female staff to pursue opportunities at every level of the corporate ladder. Our talent pipeline is open equally to all employees. By promoting females as much as men, we show they are valued, and we grow their skills, and thus their potential.

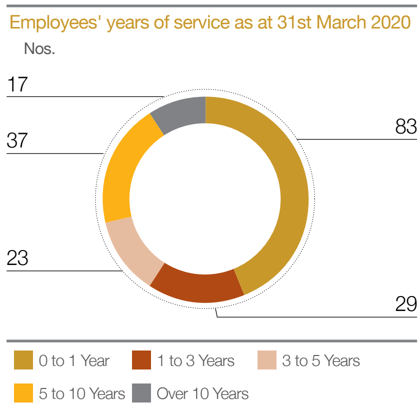
LEARNING AND DEVELOPMENT

The company's learning and development strategy is the key feature of how Associated Motor Finance Co. PLC creates long term value for human capital. We are given many internal learning opportunities based on their professional and career objectives. We always encourage them to learn from others and develop their skills within the company. Hence, our learning and development function is designed to equip employees to achieve the desired level of competencies to ensure achievement of company objectives. Through continuous learning and development, career progression and impartial reward and remuneration schemes, we motivate and develop our human capital to reach their highest potential. Accordingly, on the job training and internally developed training programmes are conducted by our own resource personnel to train our staff.

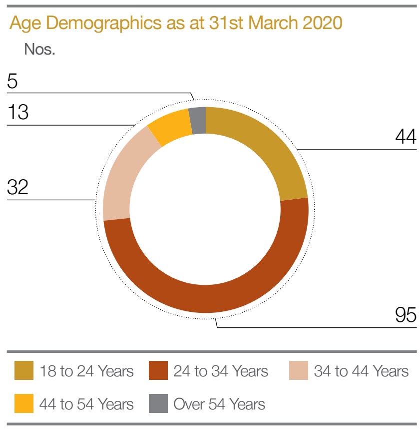
EMPLOYEE RETENTION

Following a non – discriminative culture, through remuneration and benefits, training and development, high level of employee engagement and numerous other factors, we strive to increase employee retention in our organisation.

Number of Years (service)	Male	Female	Total
0 to 1 Year	45	38	83
1 to 3 Years	19	10	29
3 to 5 Years	15	8	23
5 to 10 Years	29	8	37
Over 10 Years	15	2	17
Total	123	66	189



Number of Years (service)	Male	Female	Total
18 - 24 Years	24	20	44
24 - 34 Years	58	37	95
34 - 44 Years	26	6	32
44 - 54 Years	11	2	13
Over 54 Years	4	1	5
Total	123	66	189



EMPLOYEE RELATION

Associated Motor Finance Co.PLC always maintains a strong bond with employees for building a good employer employee relationship across the company. At Associated Motor Finance Co.PLC we believe that a good employee relationship will lead to the success of the company's strategic plan.

During the year 2019/20 we organised many activities with our workforce to build a good relationship bond across the company.

SPORTS ACTIVITIES

For 2019/20 we organised a Cricket tournament to motivate the young generation, relaxation and enjoyment. In October 2019 we qualified semifinals with LB Finance at a sports meet which was organised by the Finance House Association of Sri Lanka.

And in November we organised an outbound training for the staff at Che – Adventure park.

CSR PROJECT FOR THE ANNIVERSARY

AMF organised a blood donation program for the 57th anniversary of AMF. And the event was attended by MD, Executive Directors, Senior Managers, Managers, Customers and other well wishes.

REMUNERATION AND BENEFITS

At AMF we believe in fair and equal wages and benefit system for all employees ensuring non-discriminations and equality. We identified that to keep staff motivated and satisfied while meeting higher level needs, compensation and benefits provided must be aligned with their expectation. We set KPIs that enable us to meet our company objectives while satisfying their individual needs.

In addition to basic pay we provide company life insurance, incentive schemes, bonus, EPF & ETF, overtime payments and gratuity schemes as per government regulations.

Stewardship

Managing Risk at AMF

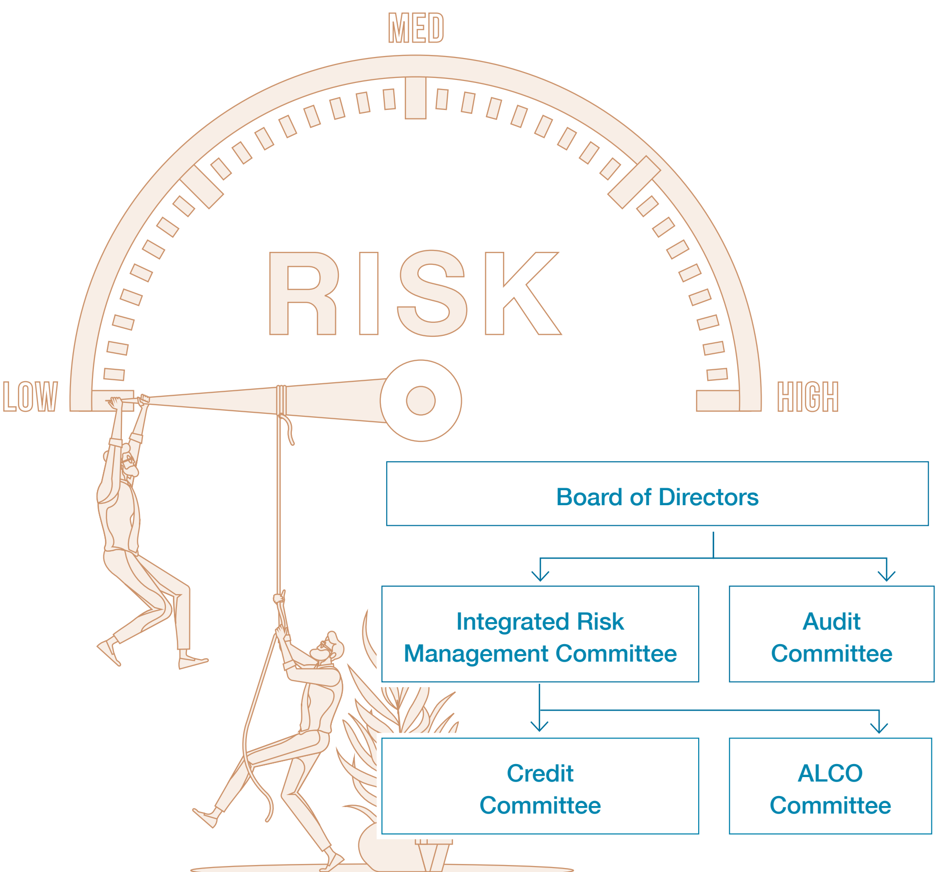
RISK ENVIRONMENT

Unprecedented events of the Easter Sunday terror attacks, political instabilities and lockdowns imposed by local authorities to curb the outbreak of the COVID-19 pandemic slowed down the expansion and performance of the financial sector during the year 2019/2020 compared to the previous year. Further, customer confidence on the NBFI sector was shaken due to license cancellations of a few LFCs by the CBSL which subsequently made deposit mobilization challenging. Therefore, as a financial institution it was more important than ever to be proactive in our risk management strategies.

RISK MANAGEMENT AT AMF

AMF's risk management strategy aims to manage the risks of the Company in a proactive manner while taking calculated risks that are within the risk appetite and risk tolerance levels of the Company in order to deliver greater benefits to all our stakeholders.

The overall adequacy and effectiveness of the risk management process is managed through the Board appointed Integrated Risk Management Committee (IRMC), Credit Committee and Asset and Liability Committee (ALCO). Acting within the authority delegated by the Board, these committees monitor identified risks on a continuous basis and assume responsibility for the effective implementation of strategies related to Risk Management.



Risk Governance Structure of AMF

These committees:

- Oversee formal reviews of activities associated with the effectiveness of risk management and internal control processes.
- Review issues raised by Internal Audit that impact the risk management framework.
- Ensure that the Company is taking appropriate measures to achieve prudent balance between risk and reward in both ongoing and new business activities.
- Monitor external development relating to the practice of Corporate Accountability and the reporting of specifically associated risk, including emerging and prospective impacts.
- Perform other activities related to risk management as requested by the Board or to address issues related to any significant subject within its term of reference.

RISK MANAGEMENT FRAMEWORK

To ensure a robust risk management framework, the Company has adopted the 'three lines of defense' model which promotes accountability for risk taking, oversight and assurance within the Company. Risk as decided by the Board is accepted, monitored and managed by the business units which report to the CEO forming the first line of defense. The Risk & Control Department provides an independent oversight function, acting as the second line of defense within the Company. The department assists business units and functional departments in identifying and managing risks related to their operations and monitors the status and effectiveness of the mitigation action plans. Assurance over the first and second lines of defense is provided by external audit which reports directly to the AC forming the third line of defense. This structure facilitates constructive challenge of the balance between risk and reward which is necessary for effective risk management.

Managing Risk at AMF

KEY RISK CATEGORIES AND MITIGATION STRATEGIES

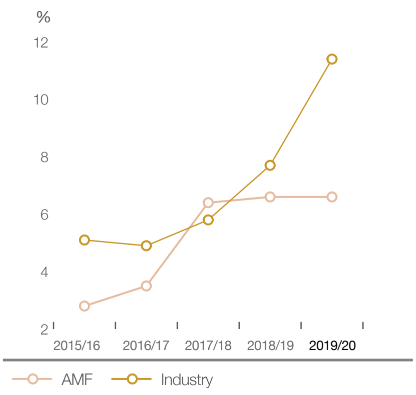
AMF is primarily exposed to credit risk, market risk, business risk, liquidity risk, operational risk, and reputation risk. The approach used by the Company to effectively manage these risks is detailed below.

1. Credit Risk

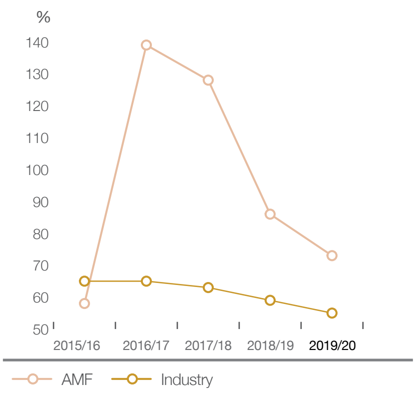
Credit risk can be defined as borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorised into three types – default, concentration and settlement risk. The objective of credit risk management is to safeguard asset quality and reduce exposure to high risk segments.

Key Risk Indicators

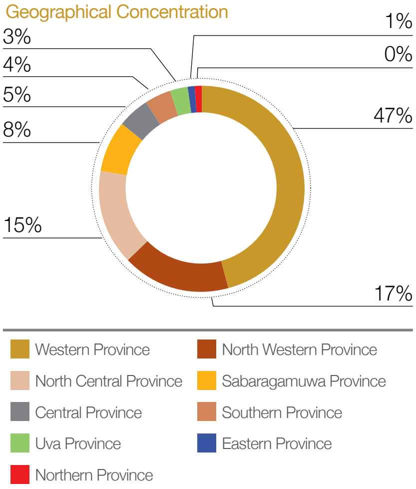
Gross NPL Ratio



Provision Coverage



Geographical Concentration



Risk Minimization Strategies

Credit risk is managed at two broad levels, Pre and Post disbursement. Pre disbursement is regulated by having experienced credit professionals evaluating and approving credit within a clearly delegated authority framework. Post disbursement is regulated by having visiting officers to ensure recoveries of the credit transactions and following-up customers with outstanding balances with the support of credit indicators and analytical tools through the call centre on a daily basis.

2. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, currency risk and other price risk such as equity price risk. The objective of market risk management is to minimize adverse effects of interest rate volatility and maintain cost of borrowing at optimum level.

Risk Minimization Strategies

Market risk is managed by maintaining a mix of funding options, minimizing interest rate sensitive asset and liability gaps, and ensuring net interest margin is maintained through periodic review of product pricing.

3. Business Risk

Business risk is the possibility a company will have lower than anticipated profits and it is influenced by numerous factors, including sales volume, competition, the overall economic climate and government regulations. The objective of business risk management is to maximize the Company market share and maintain leadership in the operating market segment.

Risk Minimization Strategies

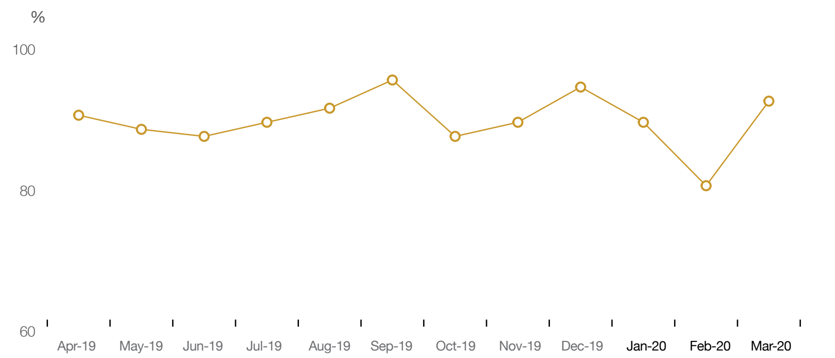
Business risk is managed by ensuring speedy delivery of high-quality service to customers, carrying out market analyses whenever necessary to identify key areas to be focused, implementing new strategies to build strong relationships with dealers, and assessing variance between budgeted disbursements and actual disbursements and taking corrective action wherever necessary.

4. Liquidity Risk

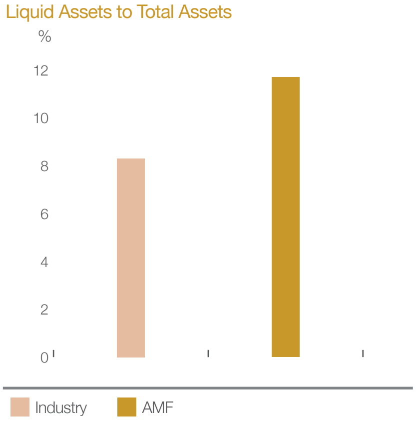
Liquidity risk arises when the Company, despite being solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due or can only do so at materially disadvantageous terms. The objective of liquidity risk management is to ensure proper management of liquidity position in the Company and to raise funds at lowest possible cost.

Key Risk Indicators

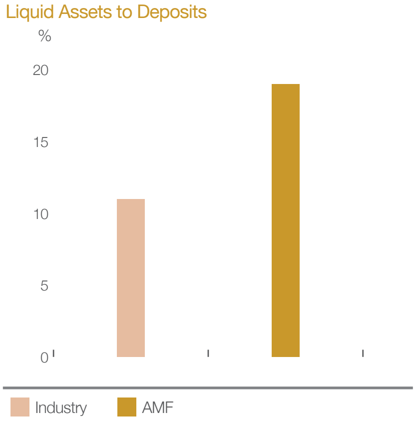
Renewal Ratio



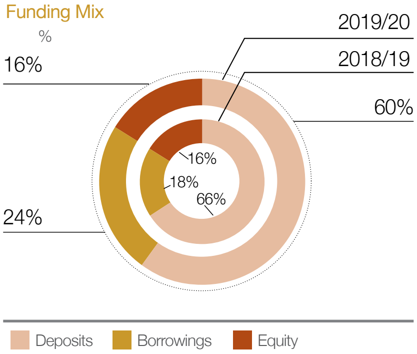
Liquid Assets to Total Assets



Liquid Assets to Deposits



Funding Mix



Risk Minimization Strategies

The liquidity risk is managed by consistently monitoring liquidity position to ensure compliance to internal targets and regulatory requirements, using a diversified funding strategy and ensuring availability of adequate funding for business at all times, even in periods of financial distress.

5. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. When operational risks materialize, it often triggers other risks such as reputational, compliance, credit, market and liquidity risks. The objective of operational risk management is to identify and minimize risks associated with processes and systems of the Company and improve reliability and effectiveness of business operations.

Risk Minimization Strategies

The operational risk is managed by regularly reviewing processes for the effectiveness of operational functions in the Company and taking necessary actions. The Company has outsourced the internal auditing function to ensure adequacy and effectiveness of internal controls. Their reports are reviewed, discussed and recommendations are implemented. Proper training sessions for staff members are provided to train them on compliance with operational policies and controls of the organisation.

6. Reputation Risk

Reputation risk is a risk of loss resulting from damages to an organisation's reputation, in lost revenue; increased operating, capital or regulatory costs; or destruction of shareholder value. The objective of reputation risk management is to prevent the adverse impacts to the reputation of the organisation.

Risk Minimization Strategies

The reputation risk is managed by ensuring effective communication with various stakeholders such as employees, bankers, regulators, customers, suppliers and the shareholders and having in place a budgetary process & a budgetary control mechanism on a monthly & ongoing basis to ensure that the Company's performance is continuously in line with its targets.

Report of the Integrated Risk Management Committee

The Integrated Risk Management Committee (IRMC) is a subcommittee of the Board established to assist the Board in performing its oversight function in relation to different types of risks faced by the company in its business operations and to ensure adequacy and effectiveness of the Risk Management Framework of the Company.

The Committee comprises the following members:

Mr. R. Wijegunawardane - (The Committee Chairman)- Independent Non-Executive Director

Mr. T.G. Kandamby - Independent Non-Executive Director

Mr. J.P.I.N. Dayawansa - Executive Director

Mr. J.P.I.S. Dayawansa - Executive Director

Mr. T.M.A. Sallay - CEO

The Committee presented reports on the risks identified in the respective areas of supervision of each Committee member. Mitigation measures were continuously assessed and developed over time and it was ensured that measures in place were viable and actively understood and supported by all officers. Constant review of processes and analysis ensured that risk identification is a continuous process. During the year, the Committee met four times and proceedings of the meetings were reported to the Board. A dedicated officer has been entrusted to ensure the Company's level of conformance with laws, regulations, directions, rules and guidelines.

The Committee worked closely with the Key Management Personnel, Internal Auditors and the Board in fulfilling its duties in risk management.

R. Wijegunawardane
Committee Chairman

7th September 2020

FINANCE COMPANIES DIRECTION NO 03 OF 2008 (AND SUBSEQUENT AMENDMENTS THERETO) ON CORPORATE GOVERNANCE FOR LICENCED FINANCE COMPANIES IN SRI LANKA

Section No.	Description	State of Compliance
2. The Responsibilities of the Board of Directors	1) The Board of Directors shall strengthen the safety and soundness of the finance company by– a) approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;	Complied
	b) approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;	Complied
	c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	Complied
	d) approving a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Complied
	e) reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	Complied
	f) identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied
	g) defining the areas of authority and key responsibilities for the Board and for the key management personnel;	Complied
	h) ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy;	Complied
	i) periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of Directors and appointment of key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied
	j) ensuring that the finance company has an appropriate succession plan for key management personnel;	Complied
	k) meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	Complied
	l) understanding the regulatory environment;	Complied
	m) exercising due diligence in the hiring and oversight of external auditors.	Complied
	(2) The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with paragraph 7 of this Direction.	Complied

Corporate Governance

Section No.	Description	State of Compliance
	(3) There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge the duties to the finance company.	Complied
	(4) A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied
	(5) The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	Complied
	(6) The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	Such a situation has not arisen
	(7) The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied
	(8) The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied
3. Meetings of the Board	(1) The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied
	(2) The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied
	(3) A notice of at least 7 days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Complied
	(4) A Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	This situation has not arisen
	(5) The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied
	(6) If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied
	(7) All Directors shall have access to advise and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied
	(8) The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied

Section No.	Description	State of Compliance
	(9) Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied
4. Composition of the Board	(1) Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than 5 and not more than 13.	Complied
	(2) Subject to the transitional provisions contained herein and subject to paragraph 5(1) of this Direction the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years. The total period in office of a Non Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	Complied
	(3) Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a Director of the finance company (hereinafter referred to as an "Executive Director") provided that the number of Executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the company.	Complied
	(4) With effect from three years commencing 01.01.2009 of this Direction, the number of Independent Non-Executive Directors of the Board shall be at least one fourth of the total numbers of Directors. A Non-Executive Director shall not be considered Independent if such Director:	
	a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company;	Complied
	b) has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;	Complied
	c) has been employed by the finance company during the two year period immediately preceding the appointment as Director;	Complied
	d) has a relative, who is a Director or Chief Executive Officer or a key management personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company.	Complied
	e) represents a shareholder, debtor, or such other similar stakeholder of the finance company;	Complied

Corporate Governance

Section No.	Description	State of Compliance
	f) is an employee or a Director or has a share holding of 10% or more of the paid up capital in a company or business organisation: i. which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or ii. in which any of the other Directors of the finance company is employed or is a Director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company; or iii. in which any of the other Directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company.	Complied
	(5) In the event an alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	Situation has not arisen
	(6) Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied
	(7) With effect from three years commencing 01.01.2009 of this Direction, a meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	Complied
	(8) The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the finance company. The finance company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied
	(9) There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied
	(10) All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied
	(11) If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	Complied
5. Criteria to assess the fitness and propriety of Directors	(1) Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company.	Complied
	(2) A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance company.	Complied

Section No.	Description	State of Compliance
6. Delegation of Functions	(1) The Board shall not delegate any matters to a board committee, Chief Executive Officer, Executive Directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied
	(2) The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied
7. The Chairman and the Chief Executive Officer	(1) The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the one and the same person after 3 years commencing from January 1, 2009.	Complied
	(2) The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	This situation has not arisen
	(3) The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied
	(4) The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	Complied
	(5) The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied
	(6) The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied
	(7) The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied
	(8) The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between executive and Non-Executive Directors.	Complied
	(9) Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied
	(10) The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied
	(11) The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.	Complied

Corporate Governance

Section No.	Description	State of Compliance
8. Board appointed Committees	(1) Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.	Complied
	(2) Audit Committee The following shall apply in relation to the Audit Committee:	
	a) The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied
	b) The Board members appointed to the committee shall be Non-Executive Directors.	Complied
	c) The committee shall make recommendations on matters in connection with: (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	Complied
	d) The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied
	e) The committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider: (i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor.	Complied
	f) The committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved.	Complied

Section No.	Description	State of Compliance
	g) The committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied
	h) The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.	Complied
	i) The committee shall review the external auditor's management letter and the management's response thereto.	Complied
	j) The committee shall take the following steps with regard to the internal audit function of the finance company: (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;(70) (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied
	k) The committee shall consider the major findings of internal investigations and management's responses thereto;	Complied
	l) The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the external auditors without the Executive Directors being present.	Complied

Corporate Governance

Section No.	Description	State of Compliance
	m) The committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied
	n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied
	o) The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.	Complied
	p) The secretary to the committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	Complied
	q) The committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied
	(3) Integrated Risk Management Committee The following shall apply in relation to the Integrated Risk Management Committee:	
	a) The committee shall consist of at least one Non-Executive Director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	Complied
	b) The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	Complied
	c) The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	Complied
	d) The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Complied
	e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied

Section No.	Description	State of Compliance
	f) The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied
	g) The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied
	h) The committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Complied
9. Related party transactions	(1) The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.	
	(2) The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A Director of the finance company; d) A key management personnel of the finance company; e) A relative of a Director or a key management personnel of the finance company ; f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; g) A concern in which a Director of the finance company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.	Complied
	(3) The transactions with a related party that are covered in this Direction shall be the following: a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	Complied

Corporate Governance

Section No.	Description	State of Compliance
	(4) The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, "more favourable treatment" shall mean: a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.(72) b) Charging of a lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty; c) Providing preferential treatment, such as favourable terms, covering trade losses and/ or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties; d) Providing or obtaining services to or from a related-party without a proper evaluation procedure; e) Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.	Complied
10. Disclosures	(1) The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that	Complied
	(b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied
	(2) The Board shall ensure that at least the following disclosures are made in the Annual Report:	Complied
	a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied
	b) A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied
	c) The external auditor's certification on the effectiveness of the internal control mechanism reffrered to in sub paragraph (2) (b) above, in respect of any statements prepared or published from the date of this Direction.	Complied
	d) Details of Directors, including names, transactions with the finance company.	Complied

Section No.	Description	State of Compliance
	e) Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after January 1, 2010.	Complied
	f) Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied
	g) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied
	h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.	Complied
	i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Complied
	j) The external auditor's certification of the compliance with the Corporate Governance Directions in the annual corporate governance reports published from the date of this Direction.	Complied

Corporate Governance

The Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka in 2013.

Section No.	Description	Adoption Status
A	THE BOARD	
A.1	The company should be headed by an effective Board, which should direct, lead and control the Company.	
A.1.1	The Board meets regularly on monthly intervals. The Board met 12 times during the year. The attendance at the Board committee meeting for the year 2019/20 is mentioned on page No 61.	Adopted
A.1.2	**The Board's role and responsibilities** The Board as a whole is responsible for, → Formulation and implementation of a sound business strategy → Ensures that the Chief Executive Officer and Management team possess the skills, experience and knowledge to implement the strategy → Ensuring the adoption of an effective CEO and Key Management Personnel succession strategy → Implementing effective systems to secure integrity of information, internal controls, business continuity and risk management → Ensuring compliance with laws, regulations and ethical standards → Ensuring all stakeholders interests are considered in corporate decision → Recognising sustainable business development in Corporate strategy, decisions and activities → Ensuring that the company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations → Fulfilling other Board functions as are vital given the scale, nature and complexity of the business concerned	Adopted
A.1.3	**The Board collectively and Directors individually are bound to act according to the laws in the country and establish a procedure to obtain independent professional services when required.** The Board members functions collectively and individually according to the laws in the country and the members established procedure to obtain independent professional service upon the request.	Adopted
A.1.4	**The Board members have access to advice the Company Secretary on Corporate services.** The Company Secretary provides corporate services to the company. The Board has access to advise the Company Secretary in all corporate matters related to the applicable laws and regulations. Removal of the Company Secretary would be a matter for the Board as a whole.	Adopted
A.1.5	**Providing Independent judgment** All Directors provide independent judgment for their decision makings on strategy, performance resources and standards of business conduct.	Adopted

Section No.	Description	Adoption Status
A.1.6	**Dedicating adequate time and effort to matters of the Board and the company** The Board allocates sufficient time to scrutinise the matters of the company prior and post to meetings and ensures that the duties and responsibilities owned to the company are satisfactorily discharged.	Adopted
A.1.7	**Every Director should receive appropriate training at the first appointment to the Board.** The Directors at their first appointment receive an induction with regard to the directorship and affairs of the company and also recognise the need for continuous training and an expansion of the knowledge and skills required to effectively perform his duties as a Director.	Adopted
A.2	**Chairman and Chief Executive Officer (CEO)** There should be a clear division of responsibilities at the head of the company, which will ensure balance of power and authority, so that no individual has unfettered powers of decision.	
A.2.1	**Division of responsibilities of the Chairman and CEO** The Chairman and the CEO positions of the Company are held by separate persons.	Adopted
A.3	**Chairman's Role** The Chairman's role in preserving good corporate governance is crucial. As the person responsible for running of the Board, the Chairman should preserve order and facilitate the effective discharge of the Board functions.	
A.3.1	**Chairman's responsibility to conduct Board proceedings in a proper manner.** The Chairman of the Board committee ensures the effective participation and contribution of both Executive and Non-Executive Directors. Also ensures that a balance of power between Executive and Non-Executive Directors is maintained and the Board is in complete control of the company's affairs.	Adopted
A.4	**Financial Acumen** The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board comprises of Directors who have the capacity to provide sufficient financial acumen and knowledge to offer guidance on matters of finance. The Chairmen of the Audit Committee and Integrated Risk Committee are Fellow members of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) (FCA).	Adopted
A.5	**Board Balance** It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group can dominate the Board's decision taking.	
A.5.1	**Contribution of Non-Executive Directors** The Board comprises three Non-Executive Directors and it carries significant weight in the Board's decisions.	Adopted
A.5.2	**Independent Non-Executive Directors** The Board comprises three Independent Non-Executive Directors.	Adopted
A.5.3 & A.5.4	**Evaluation of independence of Non-Executive Directors** The Independent Non-Executive Directors are complied with the applicable rules and regulations and they annually submit declarations on their independency.	Adopted

Corporate Governance

Section No.	Description	Adoption Status
A.5.5	**Determination of independence of Non-Executive Directors** The disclosure is made on the independence status of the Directors on page No 60.	Adopted
A.5.6	**Appointment of Alternative Directors** No alternative Director was appointed during the year of 2019/20.	Adopted
A.5.7 & A.5.8	**Senior Independent Director** Situation has not risen.	Adopted
A.5.9	**Meeting with Non-Executive Directors** The Chairman holds meetings with Non-Executive Directors on an annual basis.	Adopted
A.5.10	**Recording of concerns about the matters of the company which cannot be unanimously resolved.** Concerns raised by the Directors are recorded in the minutes and there were no such instances which the Directors could not unanimously resolve.	Adopted
A.6	**Supply of Information** The Board should be provided with timely information in a form and of quality appropriate to enable it to discharge its duties.	
A.6.1	**Providing adequate information to the Board** The Management provides adequate information to the Board within the stipulated time period.	Adopted
A.6.2	**Minutes, Agendas and papers should provide to the Board members at least seven days before the meeting.** The Minutes, agendas and papers are provided to the Board seven days prior to the meeting.	Adopted
A.7	**Appointment to the Board** There should be a formal and transparent procedure for the appointment of new Directors to the Board.	
A.7.1	**Establishment of the Nomination Committee** The Company has formed a Nomination Committee and the report of the Nomination Committee is presented on page No 57.	Adopted
A.7.3	**Disclosure of details of the new Directors to shareholders** Disclosures are made to the shareholders subsequent to the approval obtained by the Central Bank of Sri Lanka.	Adopted
A.8	**Re-Election** All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	
A.8.1	**Appointment of Non-Executive Directors** The requirement is specified in the Articles of Association of the company.	Adopted
A.8.2	**Re-Election by the Shareholders** The requirement is specified in the Articles of Association of the company	Adopted

Section No.	Description	Adoption Status
A.9	**Appraisal of Board Performance** Board members should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	
A.9.1, A.9.2 & A.9.3	**Annual appraisal of Board performance** The Board annually evaluates its performance in the discharge of its key responsibilities and the relevant disclosures are made on page No 60.	Adopted
A.10	**Disclosure of Information in Respect of Directors** Shareholders should be kept advised of relevant details in respect of Directors.	
A.10.1	**Disclosure of information in respect of Directors** Profiles of the Board of Directors are given on page No 12.	Adopted
A.11	**Appraisal of Chief Executive Officer (CEO)** The Board is required at least annually to assess the performance of the CEO	
A.11.1 & A.11.2	**Setting targets by the Board in line with the short, medium and long term objectives of the company, reasonable financial and non-financial targets that should be met by the CEO during the year.** The Board appraises the CEO by a formal annual review at the end of each financial year.	Adopted
B	**DIRECTORS' REMUNERATION**	
B.1	**Remuneration Procedure** The company has a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.	
B.1.1	**Formation of Remuneration Committee** The committee is responsible for making recommendations to the Board with regard to the remuneration of Executive Directors.	Adopted
B.1.2 & B.1.3	**Composition of Remuneration Committee** The Remuneration Committee comprised of Non-Executive Directors. The Remuneration Committee report is given on page No 52.	Adopted
B.1.4	**Remuneration of Non-Executive Directors** The Board as a whole determines the remuneration of Non-Executive Directors and they receive a fee for attending Board and subcommittee meetings.	Adopted
B.1.5	**Access to professional advice** The Committee is empowered to seek professional advice inside and outside the Company as and when it is deemed necessary.	Adopted
B.2	**The Level and Makeup of Remuneration** Level of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully.	

Corporate Governance

Section No.	Description	Adoption Status
B.2.1 to B.2.8	**The level and make up of Remuneration of the Executive Directors** The committee considers the following when determining the remuneration, → Sufficient capacity to attract, retain and motive the Executive Directors to achieve the company objectives. → Comparison of industrial remuneration standards	Adopted
B.2.9	**Level of remuneration for Non-Executive Directors** The remuneration for the Non-Executive Directors is paid according to the time commitment, responsibilities of their role and market practices.	Adopted
B.3	Disclosure of Remuneration The company's Annual Report should contain a statement of Remuneration policy and details of remuneration of the Board as a whole.	
B.3.1	**Disclosure of Directors' remuneration in the Annual Report** The pertinent disclosures are made on page Nos 52,85 and 120.	Adopted
C	RELATIONS WITH SHAREHOLDERS	
C.1	Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings. Board should use the AGM to communicate with shareholders and should encourage their participation.	
C.1.1	**Use of proxy votes** The Company has recorded all proxy votes for each resolution prior to the AGM.	Adopted
C.1.2	**Separate resolution for separate issues** A separate resolution is proposed for each substantially separate issue.	Adopted
C.1.3	**Availability of subcommittee Chairmen at the AGM** The Chairmen of the sub committees are present at the AGM to answer questions by shareholders.	Adopted
C.1.4 & C.1.5	**Circulation of AGM Notice and pertinent documents** Company circulates the AGM Notice and a summary of the procedures within a stipulated time period.	Adopted
C.2	Communication with Shareholders The Board should implement effective communication with shareholders.	Adopted
C.2.1 & C.2.7	**Communication with Shareholders** A Board approved policy on communication with shareholders is available. The core communication modes are Annual Report and the AGM. Additionally the shareholders could communicate through the company website, announcement on CSE, newspaper publications pertinent to corporate matters. The company adopts open communication with shareholders. Chairman, CEO and the Company Secretary are contactable at short notice. The Company Secretary maintains records of all correspondence received from shareholders and directs the same to appropriate channels for resolution.	Adopted

Section No.	Description	Adoption Status
C.3	**Major and Material Transactions** Directors are required to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the company.	
C.3.1	**Major Transactions** The company did not engage in any major transactions during the period of 2019/20 as defined by Section 185 of the Companies Act No.07 of 2007.	Adopted
D	**ACCOUNTABILITY AND AUDIT**	
D.1	The Board should present a balanced and an understandable assessment of the company's financial position and prospects.	
D.1.1	**Reports to public, regulatory & statutory reporting** AMF has complied with the requirements of the Companies Act No. 7 of 2007, Finance Business Act No. 42 of 2011 and Sri Lankan Accounting Standards in the preparation and presentation of financial statements and complied with the reporting requirement prescribed by the Regulatory Authorities such as the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.	Adopted
D.1.2	**Directors' report in the Annual Report** The Report of the Board of Directors on the Affairs of the Company is given in this Annual Report on page No 59.	Adopted
D.1.3	**Statement of Directors' and Auditor's responsibility for the Financial Statements** Directors Responsibility for Financial Reporting is given on page No 62.	Adopted
D.1.4	**Management discussion and analysis** Management discussion and analysis is given on pages 16 to 25.	Adopted
D.1.5	**Declaration by the Board that the business is a going concern** Refer the Report of the Board of Directors on pages 59 to 61.	Adopted
D.1.6	**Summoning an Extraordinary meeting to notify serious loss of capital** The situation has not arisen during the year 2019/20.	Adopted
D.1.7	**Disclosure of Related Party Transactions** Related party transactions are disclosed in this Annual Report. A process is in place to obtain the required declaration and to maintain the relevant records.	Adopted
D.2	**Internal Control** The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the company assets.	
D.2.1	**Annual evaluation of the Internal Control System** Adequacy and integrity of the company's internal control systems is reviewed by the Board Audit Committee on a quarterly basis or more frequently as it deems necessary.	Adopted
D.2.2 to D.2.4	**Internal Audit Function** The company's internal audit function has been outsourced and is carried out by BDO Partners. Internal Audit reports are discussed at the Audit Committee meetings and appropriate recommendations/actions are agreed upon based on those findings.	Adopted

Corporate Governance

Section No.	Description	Adoption Status
D.3	**Audit Committee** The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the company's Auditors.	
D.3.1	**Composition of the Audit Committee** The Audit Committee consists of three members, all of whom are Independent Non-Executive Directors. Details of the committee members, are mentioned in the Report of the Audit Committee given in this Annual Report on Page No. 53.	Adopted
D.3.2	**Duties of the Audit Committee** The duties of the Audit Committee are mentioned in the Report of Board Audit Committee in this Annual Report.	Adopted
D.3.3	**Terms of Reference of the Audit Committee** The Audit Committee is guided by the Board approved Terms of Reference which specifies the authority and responsibility of the Committee.	Adopted
D.3.4	**Disclosures of the Audit Committee** Refer 'Audit Committee Report' on page No 53 of this Annual Report.	Adopted
D.5	**Corporate Governance Disclosures** The company should disclose the extent of adoption of best practices in Corporate Governance.	
D.5.1	**Disclosure of corporate governance compliance** This requirement is met through the disclosures related to Corporate Governance made in this Annual Report.	Adopted
E	**INSTITUTIONAL INVESTORS** Institutional shareholders are required to make considerable use of their votes and are encouraged to ensure their voting intentions are translated into practice.	
E.1.1	**Shareholder Voting** Regular dialogue to be maintained with shareholders and Chairman to communicate shareholders views to the Board. General Meetings are used to have an effective dialogue with the shareholders on matters which are relevant.	Adopted
F.1	**Investing/Divesting Decision** Individual shareholders who invest directly in shares of the Company are encouraged seeking independent advice in investing or divesting decisions.	Adopted
F.2	**Shareholder Voting** Individual shareholders are encouraged to participate at the Annual General Meeting and to exercise their voting rights.	Adopted

The following table indicates the status of compliance on the contents of Annual Report in terms of the Listing Rules of the Colombo Stock Exchange Rule No.7.6.

Section No.	Description	State of Compliance
7.6 (i)	Names of the Directors who held duties during the financial year. Refer the Annual report of the Board of Directors on the affairs of the company on page No 59.	Compliant
7.6 (ii)	Principal activities of the company and its subsidiaries during the year and any changes therein. Refer the Annual report of the Board of Directors on the affairs of the company on page No 59.	Compliant
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held as at the end of the financial year. The company has not issued any non-voting shares. Refer Share Information of Annexures on page No 140.	Compliant
7.6 (iv)	The public holding percentage. Refer Share Information of Annexures on page No 141.	Compliant
7.6 (v)	Directors' and Chief Executive Officer's holding in shares of the company at the beginning and end of the financial year. Refer Share Information of Annexures on page No 141.	Compliant
7.6 (vi)	Information pertaining to material foreseeable risk factors. Refer 'Managing Risk at AMF' on page No 27.	Compliant
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	There were no material issues pertaining to the employees and industrial relations during the year 2019/20
7.6 (viii)	Extents, locations, valuation and the number of buildings of the land holdings and investment properties as at the end of the financial year. Refer notes to the Financial Statements on page No 101.	Compliant
7.6 (ix)	Number of shares representing the stated capital as at the end of the financial year. Refer notes to the Financial Statements on page No 118.	Compliant
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holding as at the end of the financial year. Refer Share Information of Annexures on page No. 140.	Compliant

Corporate Governance

Section No.	Description	State of Compliance
7.6 (xi)	Ratios and market price information on : Equity Dividend per share, Dividend payout, Net asset value per share, Market value per share (highest and lowest values recorded during the financial year and the value as at the end of financial year) Debt Interest rate of comparable Government Security ,Debt/ equity ratio, Interest cover, Quick asset ratio, market prices and yield during the year (Highest, lowest and last traded price) Any changes in credit ratings. Refer page Nos 60 and 139.	Compliant
7.6 (xii)	Significant changes in the company's or its subsidiaries' fixed assets and the market value of land. If the value differs substantially from the book value as at the end of the year. Refer notes to the financial statements on page No 103.	
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement during the year.	The company has not raised funds through public issue or rights issue during the year 2019/20
7.6 (xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes	The company does not have any Employee share ownership or Stock Option Schemes at present
7.6 (xv)	Disclosures pertaining to Corporate Governance Practices in terms of Rules 7.10.3, 7.10.5c and 7.10.6c of Section 7 of the Listing Rules. Refer report of the Board of Directors on the affairs of the company, Report of the Remuneration and Audit Committees and Corporate Governance section in this Annual Report	Compliant
7.6 (xvi)	Related Party Transactions exceeding 10 percent of the equity or 5 percent of the total assets of the entity as per Audited Financial Statements, whichever is lower.	Refer Note 39 in page No 120.
The following table indicates the status of compliance on the contents of Annual Report in terms of the Listing Rules of the Colombo Stock Exchange Rule No.7.10.		
7.10	Corporate Governance statement confirming that as at the date of the Annual Report , report they are in compliance with the Corporate Governance Rule	The company is compiled as per the below sections
7.10 (1)	Non-Executive Directors to be at least two or 1/3 of the total number whichever is higher. The Board consists of three Non-Executive Directors.	Compliant
7.10 (2)	Independent Directors to be at least two or 1/3 of the total number of Non-Executive Directors. The three Non-Executive Directors are independent and submit annual declarations on their independence.	Compliant

Section No.	Description	State of Compliance
7.10 (3)	**Disclosures relating to Directors** Annual determinations as to the independence of Directors and a profile of the Directors have been made and disclosed in the Annual Report.	Compliant
7.10 (4)	**Criteria for defining independence** Criteria that determines the independence of Directors have been taken into consideration for the determination of independence status of the company's Independent Directors.	Compliant
7.10 (4)	**Criteria for defining independence** Criteria that determines the independence of Directors have been taken into consideration for the determination of independence status of the company's Independent Directors.	Compliant
7.10 (5)	Remuneration Committee a) Composition b) Functions c) Disclosures The Remuneration Committee report is given on page No 52.	Compliant
7.10 (6)	Audit Committee a) Composition b) Functions c) Disclosure The Audit Committee report is given on page No 53.	Compliant

Report of the Remuneration Committee

The Remuneration Committee, appointed by and responsible to the Board of Directors, comprises three Non-Executive Independent Directors.

Mr. T.G. Kandamby - Independent Non-Executive Director (Chairman of the Remuneration Committee)

Mr. R. Wijegunawardane - Independent Non-Executive Director

Mr. K.D.U.S. Nanayakkara - Chairman / Independent Non-Executive Director

The remuneration policy of the Company endeavors to attract, motivate, and retain quality management in a competitive environment with the skills, experience and quality demanded necessary to achieve the objectives of the Company. This is to ensure that the Company is able to attract, motivate and retain high quality management in a competitive environment and this is well-placed to meet the challenges of the Company. The Committee is responsible for ensuring that the total compensation package is competitive and can attract the best talent in the market.

The following decisions were taken by the committee;

- Equity based or performance based compensation will not be extended to Non-Executive Directors as adopted previously.
- The remuneration policy of the Company encourages enhanced performance and in a fair and responsible manner rewards individuals for their contribution to the success of the Company.
- The Committee should lead the process for make recommendations to the Board, ensuring there is a formal, rigorous and transparent procedure.
- Determine and agree with the Board the remuneration policy set and monitor the remuneration of the Chairman and Executive Directors of the Company and members of the Company's senior management group as agreed from time to time, and recommend to the Board a remuneration framework for the Group.
- Request the structure of, and determine targets for performance related pay schemes provided by the Company.
- Review the ongoing appropriateness of the remuneration policy taking into consideration the provisions and recommendations.
- When setting the remuneration of the Executive Directors and the Company's senior management review and have regard to the remuneration trends across the Group.

The Committee review the remuneration levels annually by evaluating the individual performances of senior management staff and its impacts to the company together with matching market levels.

All Executive remuneration decisions are made at Board level, upon recommendation by the Remuneration Committee.

MEETINGS

The Remuneration Committee held two (02) meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below:

Remuneration Committee Meeting Attendance

Name of Committee member	No of Meetings eligible to attend	Attended
Mr. T.G. Kandamby *	-	-
Mr. R. Wijegunawardane*	-	-
Mr. K.D.U.S. Nanayakkara	02	02
Mr. L.C.W. Edirisooriya **	02	02

* *Mr. T. G. Kandamby and Mr. R. Wijegunawardane were appointed to the Board with effect from 23rd April 2020 and 18th May 2020 respectively.*

** *Mr. L.C.W. Edirisooriya was retired with effect from 28th November 2019*

FEES AND REMUNERATION

The aggregate remuneration of the Board of Directors during the financial year was Rs. 84,610,355/-.

On behalf of the Remuneration Committee Meeting.

T. G. Kandamby
Chairman - Remuneration Committee

7th September 2020

Audit Committee Report

The Company's Audit Committee was constituted on 8th September 2011 and the members were appointed by the Board of Directors of Associated Motor Finance PLC, comprise of three Independent Non-Executive Directors, and are chaired by Mr. T.G. Kandamby.

The members of the Audit Committee are –

Mr. T.G. Kandamby -
Independent Non-Executive Director (Chairman of the Audit Committee)

Mr. R. Wijegunawardane -
Independent Non-Executive Director

Mr. K.D.U.S. Nanayakkara -
Chairman / Independent Non-Executive Director

Mr. Kandamby is a Fellow member of the Institute of Chartered Accountants of Sri Lanka and Certified Management Accountants of Sri Lanka. He also holds a Post-graduate Executive Diploma in Bank Management from Institute of Bankers Sri Lanka. He counts over 30 years of professional experience in management & consultancy in the fields of accounting, auditing, corporate management, finance, and tax.

Mr. Wijegunawardane is a Fellow member of the Institute of Chartered Accountants of Sri Lanka. He also has a Post-graduate Diploma in Management awarded by the University of Sri Jayewardenepura and a Diploma in Treasury Investment & Risk Management awarded by the Institute of Bankers in Sri Lanka. He counts over 30 years of professional experience in Financial & Management accounting, Taxation, Auditing, Administration, Procurement, Information Technology, Systems implementations and General & Corporate Management in leading listed Companies as well as other Institutions

K. D. U. S. Nanayakkara holds a Bachelor of Science Degree in Pure Mathematics and Physics from the University of Colombo and an MBA from the Postgraduate Institute of Management, University of Sri Jayawardenapura. He is also a Fellow of the Institute of Management Accountants, UK. He is currently the Director – Manufacturing and Planning of MAS Active, the sportswear division of MAS Holdings

The Company's Secretaries Chart Business Systems (Pvt) Ltd. functions as the Secretaries to the Audit Committee.

Audit committee is designed to help the Boards and Directors discharge their duties regarding reported financial information, internal controls and corporate codes of conduct. In many cases, the Audit Committee is also expected to assume responsibility for risk management as well.

Members of the Audit Committee must be able to discuss the fundamental accounting issues faced by the company and advise the Board on their impact and consequences.

The role of the Audit Committee will typically cover overseeing the financial reporting process; improving the quality of financial reporting in terms of accuracy, clarity and timeliness; appointing the external and internal auditors; reviewing the scope and results of the external and internal auditing processes; and ensuring, as a result, that the Board makes properly informed decisions regarding accounting policies, practices and disclosure.

The Company's Management is responsible for the Financial Statements and for maintaining effective internal control over financial reporting. The key purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibility for,

a. The quality and integrity of the Company's Financial Statement and financial reporting process including the preparation, presentation and adequacy of disclosures in the Financial Statements of the Company in accordance with the Sri Lanka Accounting Standards.

b. The Company's compliance with financial reporting and information requirement of the Companies Act No. 07 of 2007 and other relevant financial reporting-related regulations.

c. Ensure that the Company's internal controls and risk management are adequate to meet the requirement of Sri Lanka Auditing Standards and Compliance by the Company with legal and statutory requirements.

d. Assessing the independence and performance of the Company's External Auditors.

e. Monitoring of timely payments of all statutory liabilities.

The Audit Committee invited Mr. J.P.I.N. Dayawansa, Managing Director, Mr. J.P.I.S. Dayawansa, Executive Director and Mr. T.M.A. Sallay, the CEO to attend its meetings.

During the year the Committee carried out the following activities:

→ Review of Quarterly Financial Statements and discussion of these Financial Statements with management.

→ Review of the Audited Financial Statements for the year and discussion of those Financial Statements with the management and External Auditors.

→ Discussion of the management letter issued by the External Auditors and monitoring follow-up action by the management.

→ Review of the internal audit plan for the Company and monitoring the performance of the Internal Auditors.

→ Review of the internal audit reports and monitoring follow-up action by the management of the Company.

Audit Committee Report

MEETINGS

The Audit Committee held four (4) meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below;

Audit Committee Meeting Attendance

Name of Committee member	No of Meetings eligible to attend	Attended
Mr. T.G. Kandamby *	01	01
Mr. R. Wijegunawardane*	01	01
Mr. K.D.U.S. Nanayakkara	04	04
Mr. L.C.W. Edirisooriya **	03	03

* *Mr. T.G. Kandamby and Mr. R. Wijegunawardane were appointed to the Board with effect from 23rd April 2020 and 18th May 2020 respectively.*

** *Mr. L.C.W. Edirisooriya was retired with effect from 28th November 2019*

*** *March 2020 Audit Committee meeting was held on 30th June 2020.*

Other members of the Board and the members of the Management, as well as the external auditors were present at the discussions when appropriate.

INTERNAL AUDITS

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Auditors' roles include monitoring, assessing, and analysing organisational risk and controls; and reviewing and confirming information and compliance with policies, procedures, and laws. Working in partnership with management, internal auditors provide the board, the audit committee, and executive management assurance that risks are mitigated and that the organisation's corporate governance is strong and effective. And, when there is room for improvement, internal auditors make recommendations for enhancing processes, policies, and procedures.

EXTERNAL AUDITS

External audit is a periodic or specific purpose conducted by an external party. Its objectives is to determine, among other things, whether the accounting records are accurate and complete, prepared in accordance with the provisions of GAAP, and the statements prepared from the accounts present fairly the organisation's financial position, and the results of its financial operations.

The committee with the approval of the Board of Directors developed and implemented policy for engagement of External Auditor to provide non-audit services to safe guard the Auditors' independence and objectivity.

The committee had meetings with the external auditors to review the nature, approach and scope of the audit. Action taken by the management in response to the issues raised were discussed with the key management personnel of the company.

On behalf of the Audit Committee.

T. G. Kandamby
Chairman - Audit Committee

7th September 2020

Risk Committee Report

The Company's Risk Committee was constituted on 15th February 2012 and the members were appointed by the Board of Directors of Associated Motor Finance PLC, comprise five members including two Independent Non-Executive Directors, and are chaired by Mr. R. Wijegunawardane.

The members of the Committee are –

Mr. R. Wijegunawardane - Chairman of the Risk Committee/ Independent Non-Executive Director

Mr. T.G.Kandamby - Independent Non-Executive Director

Mr. J P I N Dayawansa - Managing Director

Mr. J P I S Dayawansa - Executive Director

Mr. T M A Sallay - Chief Executive Officer

PURPOSE

The Committee integrated all the risk areas, and these along with identified Company requirements make up the overall function of the committee being:

- Reviewing and assessing the integrity and effectiveness of the risk management process considering the consolidated risk assessment results and determining trends, common areas of concern, emerging risks, and the most significant risks for reporting to the Board
- Monitoring and reviewing changes in stakeholders' expectations, corporate governance codes and best practice guidelines relating to risk issues
- Reviewing and approving the renewal programme
- Assisting the board with activities relating to the governance of information technology

DUTIES CARRIED OUT

The committee assists the board in recognising all material risks to which the Company is exposed and ensuring that the requisite risk management culture, policies and systems are progressively implemented and functioning effectively. The Committee is accountable to the Board for implementing and monitoring the processes of risk management and integrating this into day-to-day activities.

This ensures risks and opportunities are adequately identified, evaluated and managed at the appropriate level in each division, and that their individual and joint impact on the Company is considered.

MEETINGS

The Risk Management Committee held four (04) meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below;

Risk Management Committee Attendance

Name of Committee member	No of Meetings eligible to attend	Attended
Mr. R. Wijegunawardane*	01	01
Mr. T.G. Kandamby *	01	01
Mr. J.P.I.N. Dayawansa	04	04
Mr. J.P.I.S. Dayawansa	04	04
Mr. L.C.W. Edirisooriya**	03	03
Mr. K.D.U.S. Nanayakkara ***	03	03
Mr. T.M.A Sallay - CEO	04	04

* *Mr. T.G. Kandamby and Mr. R. Wijegunawardane were appointed to the Board with effect from 23rd April 2020 and 18th May 2020 respectively*

** *Mr. L.C.W. Edirisooriya was retired with effect from 28th November 2019*

*** *Change in composition of the committee*

**** *March 2020 Risk Committee meeting was held on 30th June 2020*

On behalf of the Risk Committee.

R. Wijegunawardane
Chairman - Risk Committee

7th September 2020

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee was established on 3rd June 2016 in terms of the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practices on Related Party Transactions issued by CA and the Securities and Exchange Commission of Sri Lanka (SEC). The Committee is formally constituted as a sub-committee of the Board of Directors and reports to the Board.

COMPOSITION

The Committee comprises of three Independent Non-Executive Directors. Mr. R. Wijegunawardane, Independent Non-Executive Director is the Chairman of the Committee and the composition meets the requirements stipulated in the Listing Rules of the CSE. The Company Secretary functions as the Secretary to the Committee.

The members of the Committee are –

Mr. R. Wijegunawardane - Chairman of the Related Party Transactions Review Committee/ Independent Non-Executive Director

Mr. T.G. Kandamby - Independent Non-Executive Director

Mr. K.D.U.S. Nanayakkara - Board Chairman / Independent Non-Executive Director

DUTIES CARRIED OUT

The primary function of the Committee is to review Related Party Transactions (RPTs) as prescribed in Section 9 of the Listing Rules of the CSE, in order to ensure that transactions with related parties are on normal commercial terms, similar to those afforded to non-related parties.

Scope of the Committee includes,

- Review in advance all proposed related party transactions of the company, except those explicitly exempted in the Code.
- Determine whether the Related Party Transaction is fair and in the best interest of the Company
- Review, revise, formulate and approve policies on Related Party Transactions

MEETINGS

The Related Party Transactions Review Committee held Four (04) meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below;

Related Party Transactions Review Committee Attendance

Name of Committee member	No of Meetings eligible to attend	Attended
Mr. R. Wijegunawardane*	-	-
Mr. T.G. Kandamby *	-	-
Mr. K.D.U.S. Nanayakkara	04	04
Mr. L.C.W. Edirisooriya **	04	04
Mr. J.P.I.N. Dayawansa ***	04	04
Mr. J.P.I.S. Dayawansa ***	04	04

* Mr. T.G. Kandamby and Mr. R. Wijegunawardane were appointed to the Board with effect from 23rd April 2020 and 18th May 2020 respectively

** Mr. L.C.W. Edirisooriya was retired with effect from 28th November 2019

*** Change in composition of the committee

RELATED PARTY TRANSACTIONS DURING THE PERIOD

During the financial year, the Committee reviewed possible Related Party Transactions and communicated its comments/observations to the Board of Directors.

The aggregate value of all RPTs during the year is disclosed in Note 39 to the Financial Statements on page No 120.

The value of non-recurrent RPTs during the year was below the threshold for immediate disclosure in terms of Listing Rules.

The aggregate value of recurrent Related Party Transactions entered into during the year was below the threshold for disclosure in the Annual Report as per Rule 9.3.2(b) of the Listing Rules

POLICIES AND PROCEDURES

The Board has adopted a Related Party Transactions Policy that gives necessary guidelines in recognising, recording and reporting of Related Party Transactions. According to the policy, declarations are obtained quarterly from each Director on Related Party Transactions.

DECLARATION

A declaration by the Board of Directors as an affirmative statement of the compliance with the Listing Rules pertaining to Related Party Transactions is given on page No 61. On behalf of the Related Party Transactions Review Committee.

On behalf of the Related Party Transactions Review Committee.

R. Wijegunawardane
Chairman - Related Party Transactions Review Committee

7th September 2020

Nomination Committee Report

Pursuant to the Corporate Governance, the Company's Nomination Committee was constituted on 25th September 2015. The members were appointed by the Board of Directors of Associated Motor Finance PLC, comprise of following members and chaired by Mr. T.G. Kandamby.

The members of the Committee are –

Mr. T.G. Kandamby -
Independent Non-Executive Director (Chairman of the Nomination Committee)

Mr. R. Wijegunawardane -
Independent Non-Executive Director

Mr. K.D.U.S. Nanayakkara -
Chairman / Independent Non-Executive Director

Mr. J.P.I.N. Dayawansa -
Managing Director

Mr. T.M.A. Sallay -
CEO

SCOPE AND OBJECTIVE

The main objective of the Nomination Committee is to lead the process for new appointments to the Board.

DUTIES CARRIED OUT

The Nomination Committee recommends new appointments to the Board. Based on the recommendation of the Nomination Committee, the Board approves the new appointments of Executive and Non-Executive Directors to the Board. Any Director of the Board may be invited to attend.

MEETINGS

During the Financial year 2019/20 there was one meeting held and the attendance of the committee members are as follows,

Name of Committee member	No of Meetings eligible to attend	Attended
Mr. T.G. Kandamby *	-	-
Mr. R. Wijegunawardane*	-	-
Mr. K.D.U.S. Nanayakkara	1	1
Mr. L.C.W. Edirisooriya **	1	1
Mr. J.P.I.N. Dayawansa	1	1
Mr. T.M.A. Sallay	1	1

* Mr. T.G. Kandamby and Mr. R. Wijegunawardane were appointed to the Board with effect from 23rd April 2020 and 18th May 2020 respectively

** Mr. L.C.W. Edirisooriya was retired with effect from 28th November 2019

On behalf of the Nomination Committee.

T.G. Kandamby
Chairman - Nomination Committee

7th September 2020

Financial Reports

The Annual Report of the Board of Directors on the Affairs of the Company

The Board of Directors of Associated Motor Finance Company PLC has pleasure in presenting their Report on the affairs of the Company together with the audited financial statements of the Company, and the audited consolidated financial statements of the Group for the year ended 31st March 2020. The Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and directions issued thereunder.

This report provides the information as required by the Companies Act No 07 of 2007, Finance Business Act No 42 of 2011 and Directions issued thereunder, the code of best practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) and Listing Rules of the Colombo Stock Exchange. This report was approved by the Board of Directors on 7th September 2020

LEGAL STATUS

Incorporated as a Limited Liability Company on July, 25, 1962 under Chapter 145 of the Companies Ordinance No.51 of 1938 and a registered Finance Company with the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act No. 78 of 1988 and the Finance Business Act No. 42 of 2011 and re-registered under the Companies Act No. 07 of 2007 and changed its status of the name as Associated Motor Finance Company PLC on 09th August 2011. Ordinary Shares of the Company are listed on the Colombo Stock Exchange from 23rd May, 2011 onwards.

COMPANY VISION, MISSION AND CORPORATE CONDUCT

The Company Vision and Mission are provided on page No 2 of this Annual Report.

ICRA Lanka Ltd has assigned a [SL]B+ (Negative) rating to the company.

PRINCIPAL BUSINESS ACTIVITIES

Company	The principal activities of the company are accepting public deposits, lending money for facilities including leases, hire purchases, loans and other trading activities such as real estate business, selling of imported vehicle.
Subsidiaries	The Company has one subsidiary and given below provide details on the nature of the principal business activities.

Name of the Subsidiary (Percentage of Holding)	Principle Activities and nature of operations
Arpico Finance Company PLC (94.02%)	Accepting public deposits - Fixed and Savings, lending money for facilities including leases, hire purchases, corporate loans,personal loans,micro credit and Islamic Financing .

REVIEW OF OPERATIONS

A review of Company's business and its performance during the year with comments on financial results and future developments contained in the Chairman's Review on pages No 6 and the Managing Director's /CEO's Review on pages No 8.

FINANCIAL STATEMENTS OF THE GROUP AND THE COMPANY

The Financial Statements of the Group and the Company, which are approved by the Board of Directors and signed by the two Directors and the Chief Executive Officer of the Company, are appearing on pages 68 to 137 of this Annual Report.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements, the maintaining of proper accounting records and disclosures regarding accounting policies and principles of the Company and the Group.

The Directors are of the view that the Financial Statements appearing on pages 68 to 137 have been prepared in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS/ LKAS) as issued under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

AUDITOR'S REPORT

The Company's Auditors, Messrs SJMS Associates performed the audit on the consolidated financial statements for the year ended 31st March 2020 and the Auditor's Report issued thereon is given on page 64 of this Annual Report.

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

Section 168 (1) (d) of the Companies Act No. 07 of 2007 Significant new accounting policies adopted in preparation of the financial statements of the Group and the Company are given on pages 74 to 137 These financial statements comply with the requirements of Sri Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

CORPORATE GOVERNANCE

The Board of Directors has adopted a Corporate Governance Charter to ensure that proper systems and procedures are in place within the Company.

The Board has ensured that the Company is in compliant with the recommendations of the Code of Best Practices on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, the Listing Rules of the Colombo Stock Exchange and the Finance Companies – Corporate Governance Directions.

The Annual Report of the Board of Directors on the Affairs of the Company

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments in relation to the Government had been made up to date.

STATED CAPITAL

The Stated Capital of the Company as per the Audited Accounts as at 31st March 2020 was Rs. 56,086,280 /-.

RESERVES

The reserves of the company with the movements during the year are given on page No 119 of the Financial Statements.

PROPERTY AND EQUIPMENT

Details and movements of Property and Equipment are shown on Note No 25 to the Financial Statements on page No 102.

DONATIONS

The total donations made by the Company were Rs. 807,000/-.

APPRAISAL OF BOARD PERFORMANCE

The Directors perform a self-assessment of the Board conduct annually by answering a Self-Assessment Questionnaire. The responses to the Self-Assessment Questionnaire are evaluated by the Chairman and any action, recommendations and/or concerns are discussed with the Board and accordingly noted and action taken where deemed appropriate.

DIRECTORS' INTEREST IN CONTRACTS

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on this Annual Report. These interests have been declared at Directors' meetings. As a practice, Directors have refrained from voting on matters in which they were materially interested.

INTEREST REGISTER

The Directors of the Company has made the General Disclosures provided for in Section 192(2) of Companies Act No. 07 of 2007 and maintains an Interest Register.

Directors' shareholding of ordinary shares in the Company is given below.

Names of the Directors	No. of Shares as at 31.03.2020	No. of Shares as at 31.03.2019
Mr. J.P.I.N. Dayawansa	2,375,405	2,375,405
Mrs. A.S. Dayawansa	98,784	98,784
Mr. J.P.I.S. Dayawansa	92,386	92,386

DIRECTORATE

The Board of Directors of the company consists of six Directors with financial and commercial knowledge and experience. The qualifications and experience of the Directors are given on pages 12 to 13 of the annual report.

Mr. K.D.U.S. Nanayakkara
Chairman / Independent Non-Executive Director

Mr. J.P.I.N. Dayawansa
Managing Director

Mrs. A.S. Dayawansa
Executive Director

Mr. J.P.I.S. Dayawansa
Executive Director

Mr. T.G. Kandamby
Independent Non-Executive Director

Mr. R. Wijegunawardane
Independent Non-Executive Director

The names of the Directors of the Company who served during the year are given below.

Dr. L.R. Karunaratne
Former Chairman /Independent Non-Executive Director

Mr. J.P.I.N. Dayawansa
Managing Director

Mrs. A.S. Dayawansa
Executive Director

Mr. J.P.I.S. Dayawansa
Executive Director

Mr. L.C.W. Edirisooriya
Independent Non-Executive Director

Mr. K.D.U.S. Nanayakkara
Independent Non-Executive Director

RETIREMENTS DURING THE FINANCIAL YEAR

Mr. L.C.W. Edirisooriya retired from the Board with effect from 28th November 2019 upon the completion of nine years of service as a Director as per Section 4 (2) of the Corporate Governance Direction No. 03 of 2008 of the Central Bank of Sri Lanka.

RETIREMENTS / NEW APPOINTMENTS/CHANGE OF DESIGNATIONS SUBSEQUENT TO THE FINANCIAL YEAR END

Mr. T.G. Kandamby was appointed to the Board of Directors as an Independent Non-Executive Director with effect from 23.04.2020 in place of Mr. L.C.W. Edirisooriya's retirement.

Dr. L.R. Karunaratne the Chairman of the Board of Directors retired from office on 04.05.2020 upon the completion of nine years of service as a Director as per Section 4 (2) of the Corporate Governance Direction No. 03 of 2008 of the Central Bank of Sri Lanka.

Pursuant to the retirement of Dr. L.R. Karunaratne, Mr. K.D.U.S. Nanayakkara an existing Independent Non-Executive Director of the Board of Directors since 05.11.2015 was appointed Chairman with effect from 18.05.2020.

In order to fill the casual vacancy arising from the retirement of Dr. L.R. Karunaratne, Mr. Ranil Wijegunawardane was appointed to the Board of Directors as an Independent Non-Executive Director with effect from 18.05.2020

The Company has obtained the approval of the Central Bank of Sri Lanka for the above mentioned retirements, appointments and designation change.

RE-ELECTION OF DIRECTORS

In terms of the Articles of Association of the Company, one-third of the Directors, excluding Executive Directors (or the number nearest to one third) retire by rotation at each AGM and offer themselves for reappointment by the shareholders.

Mr. K.D.U. Suranga Nanayakkara, who has been the longest in office since his appointment, retires by rotation in terms of Article 35 of the Articles of Association of the Company and being eligible offer him for re-election. Mr. Ranil Wijegunawardane & Mr. Tauchira Gooneratne Kandamby also re-appoint.

BOARD MEETINGS AND ATTENDENCE

The Company held Twelve (12) board meetings during the financial year. Information on the attendance at these meetings are given below:

Names of the Director	Attendance
Mr. L.R. Karunaratne	11/12
Mr. L.C.W. Edirisooriya*	11/11
Mr. K.D.U.S. Nanayakkara	12/12
Mr. J.P.I.N. Dayawansa	11/12
Mrs. A.S. Dayawansa	12/12
Mr. J.P.I.S. Dayawansa	12/12

* *Mr. L.C.W Edirisooriya retired with effect from 28th November 2019*

DISCLOSURES

There is no financial, business, family or other relationship between the Chairman and the CEO. Mr. J.P.I.N. Dayawansa, A.S.Dayawansa and J.P.I.S.Dayawansa share a family relationship.

THE REMUNERATION AND OTHER BENEFITS OF THE DIRECTORS

Directors' remuneration and other emoluments in respect of the Company for the year ended 31st March 2020 was Rs. 84,610,355/- as compared with the remuneration of Rs. Rs.72,728,320/-. during previous financial year.

AUDITORS

The financial statements for the year have been audited by Messrs. SJMS Associates, Chartered Accountants. Messrs. SJMS Associates are deemed to have been re-appointed as auditors in terms of the Section 158 of the Companies Act, No.7 of 2007.

The Auditors, Messrs. SJMS Associates, was paid Rs. 506,646/- as audit fees by the Company.

As far as the Directors are aware, the Auditors do not have any relationships (other than that of an auditor) with the Company other than those disclosed above. The Auditors also do not have any interests in the Company.

RELATED PARTY TRANSACTIONS

The Directors have disclosed transactions that could be classified as Related Party Transactions in terms of LKAS 24 in the presentation of financial statement.

During the year ended 31st March 2020, there were no non recurrent Related Party Transactions that exceeds the respective thresholds set out in the Listing rules of the Colombo Stock Exchange.

The aggregate value of Related Party Transactions are disclosed in Note 39 to the Financial statements on pages 120 to 121.

The Directors declare that the company is in compliance with Section 9 - Related Party Transactions of the Listing Rules of the Colombo Stock Exchange, during the financial year ended 31st March 2020.

GOING CONCERN

After considering the financial position, operating conditions regulatory and other factors, the Directors have a reasonable expectations that the company possesses adequate resources to continue in operation for the foreseeable future.For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Sinhalese Sports Club Main Air conditioned Pavilion, No 35, Maitland Place, Colombo 7 on the 30th September 2020 at 9.30 a.m.

NOTICE OF MEETING

Notice of the meeting relating to the Annual General Meeting is provided on page 142 of this Annual Report.

Signed on behalf of the Board,

ASSOCIATED MOTOR FINANCE COMPANY PLC

K.D.U.S.Nanayakkara
Chairman

J.P.I.S Dayawansa
Executive Director

CHART BUSINESS SYSTEMS (PVT) LTD. COMPANY SECRETARIES

Chart Business Systems (Pvt) Ltd
Secretaries

7th September 2020

Directors' Responsibility for Financial Reporting

The following statement sets out the responsibilities of the Board of Directors in relation to the preparation and presentation of the Financial Statement of the company. These responsibilities differ from those of the Auditors, which are set out in their Report appearing on Page No 64 of this Annual Report.

The Companies Act No. 07 of 2007 requires that the Directors are required to prepare financial statements for each financial year, giving a true and fair view of the state of affairs of the company as at the end of the financial year and the profit or loss of the company for the financial year.

The Board of Directors is responsible for ensuring that the company maintains adequate accounting records, which are sufficient enough to prepare financial statements that disclose with reasonable accuracy the financial position of the company. Further the Directors have the responsibility for the general supervision, control and administration of the affairs and business of the company.

The overall responsibility for the company's internal control systems lies with the Board of Directors. Whilst recognising the fact that there is no single system of internal control that could provide absolute assurance against material misstatements and fraud, the Directors confirm that the prevalent internal control systems are so designed that, there is reasonable assurance that the assets are safeguarded and transactions properly authorised and recorded so that materials misstatements and irregularities are either prevented or detected within a reasonable period of time. The Finance Committee under the guidance of the Management monitor the effectiveness of the system of internal controls and recommends modifications where necessary.

The Directors are responsible to ensure that the Financial Statements presented in the Annual Report give a true and fair view of the state of affairs of the company as at 31st March 2020 and the profit/loss for the year ended.

The Directors confirm that the financial statements have been prepared and presented in accordance with Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Listing Rules of the Colombo Stock Exchange. The Directors confirm that suitable accounting policies have been used and applied consistently and that all applicable accounting standards have been followed in the preparation of the Financial Statements. Furthermore, reasonable and prudent judgments and estimates have been made in the preparation of these Financial Statements. Directors confirm that to the best of their knowledge all taxes, statutory dues and levies payable by the company as at the Balance Sheet date have been paid for or where relevant provided for.

By order of the Board,

Chart Business Systems (Private) Limited
Secretaries

7th September 2020

Directors' Statement on Internal Control

RESPONSIBILITY

Pursuant to the section 10 (2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors presents this report on internal control over financial reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of Associated Motor Finance Company PLC's ('the Company') System of Internal Controls. Such a system is designed to manage the Company's key areas of risk within an acceptable risk profile in achieving the policies and business objectives of the Company, rather than eliminating the risk of failure. Accordingly, the System of Internal Controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses of fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the System of Internal Controls as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the Company and in the design, operation and monitoring of suitable Internal Controls to mitigate and control these risks. The Board of the view that the Systems of Internal Controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Key features of the process adopted in reviewing the design and effectiveness of the Internal Control System

The key processes that have been established in reviewing the adequacy and integrity of the System of Internal Controls with respect to financial reporting include the following;

Subcommittees are established to assist the Board in ensuring the effectiveness of the Company's daily operations in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved by the Board.

The Internal Auditors which has been outsourced checks for compliance with policies and procedures and the effectiveness of the Internal Control System on an ongoing basis using samples and rational procedures and highlight significant findings in respect of any non-compliance. Internal Audits are carried out and the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the Internal Auditors are submitted to the Audit Committee for review at their periodic meetings.

The Audit Committee of the Company reviews Internal Control issues identified by the Internal Auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Internal Control System. They also review the internal audit function with particular emphasis on the quality of audits performed. The minutes of the Audit Committee meetings are tabled for the information of the Board on a period basis.

In assessing the Internal Control System, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures in the Financial Statements. The Internal Auditors checks for suitability of design and effectiveness of these procedures and controls on an ongoing basis during their audit process.

CONFIRMATION

Based on the above process, the Board confirms that the financial reporting system of the company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka

REVIEW OF THE STATEMENT BY EXTERNAL AUDITOR

The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting. The matters addressed by the External Auditors in this respect, are being looked into.

T.G. Kandamby
Chairman of the Audit Committee

J.P.I. Shanil Dayawansa
Executive Director

7th September 2020

Independent Auditors' Report

Deloitte.

SJMS Associates
Chartered Accountants
No.11, Castle Lane
Colombo 04
Sri Lanka

Tel: +94 11 2580409, 5444400
Fax: +94 11 2582452
www.deloitte.com

TO THE SHAREHOLDERS OF ASSOCIATED MOTOR FINANCE COMPANY PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

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

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group 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 Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and receivables and transition with the adoption of SLFRS 9 – "Financial instruments"	
Risk description:	**How the matter was addressed in our audit**

As disclosed in Note 20 to the financial statement the Company and Group has recorded "Loans and Receivables" of Rs. 4,615,509,913 and Rs. 14,249,166,496 respectively and "Allowances for impairment losses" of loans and receivables amounted to Rs. 232,981,338 of the Company and Rs. 1,871,983,129 of the Group". Further Note 5.2.1 of the financial Statements describes the basis of impairment allowance and assumptions used by the management in its calculations.
 	
Recognition of expected credit loss (ECL) under SLFRS 9, is a complex accounting policy which requires considerable judgement in its implementation. ECL is dependent on management judgements in assessing the level of credit risk and classification of credit facilities in to various stages, determine when a default has occurred, determining probability of default (PD) of customers, estimating cash flows from recovery procedures or realisation of collateral and the impact of outbreak of COVID- 19 pandemic on the economically impacted customers and key assumptions used in ECL model.
 	
Due to the significance of Financing facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter
	Our audit procedures to assess impairment of leases and hire purchase and Loans and receivables from customers included the following:
	
	→ Obtained an understanding, testing the design, and operating effectiveness of key controls within the management process of determination of impairment of financial assets under ECL model.
	→ Challenged and evaluated the key assumptions and management judgements used in the ECL model, including staging, PD and Loss given in default (LGD) etc.
	→ Tested the arithmetical accuracy of the underlying calculation in the ECL model.
	→ Tested the accuracy and completeness of the data inputs including the testing of reconciliations between source systems and the ECL model
	→ Verified the economic factor inputs, used in the model to compute the forward-looking scenarios and management overlays (including the impact of COVID- 19), against the market information and economic statistics to assess whether they were aligned with the current macro-economic scenario.
	→ In addition to above , the following focused procedures were performed ; For contracts individually assessed for impairment;
	  → We assessed the main criteria used by the management for determining whether an impairment event had occurred.
	  → Where impairment indicator' s existed, we assessed the reasonableness of management's estimated future cash flows, discount rates and the valuation of collateral held.
	→ Assessed the disclosures made in note 44 with reference to the requirements of SLFRS 7.

P. E. A. Jayewickreme, M. B. Ismail, Ms. S. L. Jayasuriya, G. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, R. H. M. Minfaz, Ms. S. Y. Kodagoda

Recoverability of deferred tax assets	
Risk description: The Group has recognized significant deferred tax asset related to investment allowance and carried forward tax losses as disclosed in the Note 29 ,subsequent to the merger, which the management considered would probably be utilised or recovered in the future through the generation of future taxable profits by the Group entities or by off-setting against deferred tax liabilities. The recognition of deferred tax assets relies on the exercise of significant judgement by management in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profit being generated. COVID-19 continues to spread around the world; Due to this, the companies face unprecedented challenges, which may adversely impact their operations. Hence Company should consider the effect of any changes to the projections and probability of future taxable profits on the recognition of deferred tax assets since COVID 19 may impact projections of future taxable profits that are used to assess the recoverability of deferred tax. We identified the recognition of deferred tax assets as a key audit matter because of its significance to the financial statements and significant management judgement involved in the estimation in forecasting future taxable profits which could be subject to management bias.	**Our Response:** Our audit procedures included → Assessed and challenged the Group's approach for evaluating the likelihood of the recoverability of deferred tax assets. At each entity level, The key assumptions used in future taxable profits forecasts of the Group by comparing the most significant inputs used in the forecasts were challanged, including future revenue, margins and operating cost growth rates, with historical performance of the Group, management's forecasts used for other purposes and our knowledge of the business gained from other audit procedures → Assessed adequacy of disclosures made in the financial statements.

Management's use of significant judgements relating to the impacts of the evolving COVID 19 pandemic on the company	
Risk description: The outbreak and spread of the COVID 19 globally has caused disruption to business and economic activities and had created a widespread uncertainty in the global economy. As the banking and NBFI sectors are the backbone of any economy, any significant economic downturn will directly affect banks and NBFI. The Management has assessed the existing and anticipated effects of COVID-19 on the Group Companies and the appropriateness of the use of the going concern basis. We have considered the Management assessment of the impact of COVID-19 and related disclosures as a key audit matter, since use of management judgement and estimates considering future events and circumstances is significant.	**Our Response:** Our audit procedures included the following; → We gained an understanding of the significant judgements used by the management in assessing related to the impact of the COVID 19 pandemic on the business of the company → We obtained an understanding of the procedures adopted by the management to manage and mitigate the prevailing business interruption and possible effects on the going concern ability of the company → We obtained an understanding of management practices in response to COVID-19 which are extended debt relief to borrowers and specific guidance issued by governments or regulators. We assessed the adequacy of qualitative disclosures made in group financial statements focusing on credit risk and liquidity risk in the light of objective of SLFRS 7.

Independent Auditors' Report

Deloitte.

Valuation of Properties	
Risk description: **Investment property** As at 31 March 2020, the Land and Building carried at fair value, classified as Investment Property amounts to Rs.85,000,000 and the fair value gain recognised in Profit or Loss amounts to Rs.56, 852,637 and was determined by external valuers engaged by the group with recognised specific industry standards. **Property , plant and equipment** As at 31 March 2020, the Land and Buildings are carried at fair value, classified as Property, Plant & Equipment amounts to Rs.1,148,735,677 and the fair value gain recognised in Other Comprehensive Income amounts to Rs.237,790,469 respectively. The fair value of such properties was determined by external valuers engaged by the group. The valuation of land and buildings was significant to our audit due to the use of significant assumptions disclosed in note 24 and 25 to the financial statements. We identified investment property valuation and revaluation of PPE as a key audit matter since fair value and fair value gain material significant to the audit and has a material impact to the financial statements. In addition to that fair value involves significant judgments, estimation and assumptions used to value the fair value.	**Our Response:** Our audit procedures focused on the valuations performed by external valuers engaged by the group, and included the following; → We evaluated the appropriateness of the estimations, judgements and assumptions used by the external valuer to derive at the fair value of the investment property. → We also evaluated the qualifications & experiences of the valuer. → We involved our internal specialized expert to review the valuation reports and assess whether key assumptions, Judgment, estimations & method used to value are in accordance with the recognised industry standards. → We assessed the recognition of the Investment property and property plant and equipment and it's gain & Loss calculations in the financial statement recorded in accordance with the accordance with recognised accounting standard. → We assessed adequacy of disclosures made in financial statement in relation to the investment property and property plant and equipment includes the key assumptions, Method and estimates.

OTHER INFORMATION

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group'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 and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group'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 and the Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2347.

SJMS ASSOCIATES
Chartered Accountants

07th September 2020

Statement of Comprehensive Income

For the Year ended 31st March	Note	Company 31.03.2020 Rs.	Company 31.03.2019 Rs.	Group 31.03.2020 Rs.	Group 31.03.2019 Rs.
Income		1,460,240,697	1,538,366,298	4,352,391,371	5,642,006,852
Interest and similar income	7	1,339,102,887	1,422,416,302	4,025,066,777	5,411,189,588
Interest expense and similar charges	8	(872,491,931)	(911,496,051)	(2,553,758,990)	(3,156,513,496)
Net interest income		466,610,956	510,920,251	1,471,307,787	2,254,676,092
Fee and commission income	9	30,634,288	38,081,242	107,801,851	161,022,525
Other operating income	10	90,503,523	77,868,754	219,522,743	69,794,739
Total operating income		587,748,766	626,870,247	1,798,632,381	2,485,493,356
Impairment charge for loans and other losses	11	(143,390,294)	(187,224,104)	(685,817,361)	(1,115,463,112)
Net operating income		444,358,472	439,646,142	1,112,815,020	1,370,030,245
Less: operating expenses					
Personnel expenses	12	(251,962,008)	(220,587,825)	(589,760,598)	(481,222,183)
Depreciation of property, equipment and amortisation of Right of Use Assets		(35,534,911)	(25,212,640)	(86,898,526)	(54,614,931)
Amortisation of intangible assets		(983,175)	(940,694)	(6,361,502)	(5,804,362)
Other operating expenses	13	(103,028,114)	(114,268,745)	(368,706,074)	(492,102,267)
Profit from operations		52,850,265	78,636,239	61,088,320	336,286,502
Operating profit before tax on financial services		52,850,265	78,636,239	61,088,320	336,286,502
Tax on financial services	14	(41,030,843)	(42,417,856)	(124,313,472)	(175,548,100)
Profit before taxation		11,819,422	36,218,383	(63,225,153)	160,738,401
Income tax(expense) / reversal	15	11,484,292	98,082,549	(81,230,384)	308,400,456
Profit for the year		23,303,713	134,300,932	(144,455,537)	469,138,857
Other comprehensive income net of tax					
Items that may be subsequently reclassified to profit or loss					
Net amount transferred to profit or loss		-	-	372,685	-
Items that will not be reclassified to profit or loss					
Net change in fair value during the year		-	(145,560)	(2,469,861)	(1,295,507)
Actuarial gains / (loss) on retirement benefit obligations, net of tax		1,739,739	(1,251,730)	10,773,439	(5,114,118)
Gain on revaluation of land and buildings, net of tax		-	-	237,790,469	-
Other comprehensive income / (loss) for the year, net of tax		1,739,739	(1,397,290)	246,466,732	(6,409,625)
Total comprehensive income for the year		25,043,452	132,903,642	102,011,196	462,729,233
Profit attributable to					
Equity holders of the parent		23,303,713	134,300,932	(134,423,533)	446,857,635
Non controlling interest		-	-	(10,032,003)	22,281,222
		23,303,713	134,300,932	(144,455,537)	469,138,857
Total comprehensive income attributable to					
Equity holders of the parent		25,043,452	132,903,642	97,408,525	440,747,748
Non controlling interest		-	-	4,602,671	21,981,484
		25,043,452	132,903,642	102,011,196	462,729,233
Earning per share - basic	16	4.16	23.95	-23.97	79.68

The accounting policies and notes from 1 to 44 form an integral part of these financial statements.

Statement of Financial Position

As at 31st March	Note	Company 31.03.2020 Rs.	Company 31.03.2019 Rs.	Group 31.03.2020 Rs.	Group 31.03.2019 Rs.
Assets					
Cash and cash equivalents	18	260,351,158	89,053,079	1,319,866,517	310,770,340
Financial assets - amortised cost	19	815,839,897	1,041,843,204	2,173,056,102	1,928,841,964
Financial assets at amortized cost / loans and receivables	20	4,615,509,914	4,472,890,455	14,249,166,496	17,754,251,691
Financial assets - measured at fair value through profit or loss	21	155,782,514	-	174,896,898	10,904,749
Financial assets - measured at fair value through other comprehensive income	22	1,165,929	1,165,929	18,496,907	20,892,153
Inventories	23	54,543,128	137,534,485	55,503,357	139,301,829
Investment properties	24	85,000,000	-	85,000,000	-
Property, equipment and right of use assets	25	108,399,912	74,728,313	1,148,735,677	880,042,632
Intangible assets	26	2,306,295	2,984,694	16,091,588	21,087,761
Current tax asset	27	86,634,236	67,808,276	223,849,860	177,829,986
Deferred tax assets	28	332,789,820	321,305,529	382,115,491	469,063,411
Other assets	29	35,422,183	49,099,464	103,932,418	341,950,490
Investment in subsidiary	30	1,160,387,961	1,160,387,961	-	-
Goodwill	31	-	-	385,244,360	385,244,360
Total assets		7,714,132,947	7,418,801,389	20,335,955,670	22,440,181,365
Liabilities					
Dues to bank and financial institutions	32	1,406,286,349	1,089,792,114	3,980,156,122	6,542,756,353
Deposits from customers	33	4,622,186,395	4,914,785,274	13,286,809,065	13,460,222,256
Other liabilities	34	412,928,602	170,825,432	898,428,464	365,477,699
Retirement benefit obligations	35	40,410,809	36,121,227	110,237,195	113,038,743
Total liabilities		6,481,812,154	6,211,524,047	18,275,630,846	20,481,495,052
Equity					
Stated capital	36	56,086,280	56,086,280	56,086,280	56,086,280
Capital reserve	38	17,930	17,930	17,930	17,930
General reserve	38	1,029,052	1,029,052	1,029,052	1,029,052
Statutory reserve	38	88,613,706	87,448,521	320,077,504	316,633,413
Available for sale reserve	38	978,472	978,472	4,350,682	6,672,846
Revaluation reserve		-	-	230,309,625	6,739,025
Retained earnings	37	1,085,595,353	1,061,717,086	1,350,567,461	1,478,201,862
Total equity attributable to equity holders of the company		1,232,320,793	1,207,277,341	1,962,438,534	1,865,380,408
Non-controlling interests		-	-	97,886,290	93,305,905
Total equity		1,232,320,793	1,207,277,341	2,060,324,824	1,958,686,313
Total liabilities and equity		7,714,132,947	7,418,801,389	20,335,955,670	22,440,181,365

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

T.M.A. Sallay
Head of Finance

The Board of Directors is responsible for the preparation and presentation of these financial statements. Signed for and on behalf of the Board 07 September 2020.

J.P.I. Nalatha Dayawansa
Managing Director
7th September 2020

J.P.I.S. Dayawansa
Executive Director

The accounting policies and notes from 1 to 44 form an integral part of these financial statements.

Statement of Changes in Equity

	Notes	Stated capital Rs.	Capital reserves Rs.	General reserves Rs.
Company				
Restated balance as at 31 March 2018		56,086,280	17,930	1,029,052
Profit for the year		-	-	-
Other comprehensive income net of tax		-	-	-
Transfer to reserve fund		-	-	-
Balance as at 31 March 2019		56,086,280	17,930	1,029,052
Profit for the year		-	-	-
Other comprehensive income net of tax		-	-	-
Transfer to reserve fund		-	-	-
Balance as at 31 March 2020		56,086,280	17,930	1,029,052
Group				
Restated balance as at 31 March 2018				
Restated balance as at 31 March 2018		56,086,280	17,930	1,029,052
Profit for the year		-	-	-
Other comprehensive income net of tax		-	-	-
Dividend paid		-	-	-
Transfer to reserve fund		-	-	-
Balance as at 31 March 2019		56,086,280	17,930	1,029,052
Profit for the year		-	-	-
Other comprehensive income net of tax		-	-	-
Transfer to reserve fund	38.1	-	-	-
Balance as at 31 March 2020		56,086,280	17,930	1,029,052

The accounting policies and notes from 1 to 44 form an integral part of these financial statements.

Statutory reserve fund Rs.	Revaluation reserve Rs.	Available for reserve Rs.	Retained earnings Rs.	Non controlling interest	Total Rs.
80,733,474	-	1,124,032	935,382,931	-	1,074,373,699
-	-	-	134,300,932	-	134,300,932
-	-	(145,560)	(1,251,730)	-	(1,397,290)
6,715,047	-	-	(6,715,047)	-	-
87,448,520	-	978,472	1,061,717,086	-	1,207,277,341
-	-	-	23,303,713	-	23,303,713
-	-	-	1,739,739	-	1,739,739
1,165,186	-	-	(1,165,186)	-	-
88,613,706	-	978,472	1,085,595,353	-	1,232,320,793
235,399,230	6,739,025	7,899,586	1,117,461,556	80,091,040	1,504,723,699
-	-	-	446,857,635	22,281,222	469,138,857
-	-	(1,226,740)	(4,883,147)	(299,738)	(6,409,625)
-			-	(8,766,619)	(8,766,619)
81,234,183	-	-	(81,234,183)	-	-
316,633,413	6,739,025	6,672,846	1,478,201,862	93,305,905	1,958,686,313
-	-	-	(134,423,533)	(10,032,003)	-144,455,537
-	223,570,599	(2,322,163)	10,233,223	14,612,388	246,094,047
3,444,091	-	-	(3,444,091)		-
320,077,504	230,309,625	4,350,682	1,350,567,461	97,886,290	2,060,324,824

Cash Flow Statement

For the Year ended 31st March	Note	Company 31.03.2020 Rs.	Company 31.03.2019 Rs.	Group 31.03.2020 Rs.	Group 31.03.2019 Rs.
Cash flow from operating activities					
Profit before taxation		11,819,422	36,218,383	(63,225,153)	160,738,401
Adjustments for;					
Depreciation		36,518,086	26,153,334	93,260,028	60,419,293
Gain on disposal of property and equipment		(4,601,360)	(21,782,510)	(4,636,360)	(18,477,168)
Impairment provision		(37,135,968)	(128,573,206)	505,291,099	799,665,801
Gratuity charge for the year	12	7,416,071	6,340,953	23,458,721	20,597,427
Dividend income	10	(113,348)	(37,856,312)	(987,463)	(1,260,593)
Interest on borrowings	8	178,049,623	177,447,697	686,847,853	1,160,706,466
Fair value loss / (gain) on investment property	10	(56,852,637)	-	(56,852,637)	-
Loans and advances written off		-	-	(862,867,477)	(214,694,489)
Operating profit before working capital changes		135,099,888	57,948,339	320,288,610	1,967,695,140
(Increase) / decrease in financial investments		71,093,943	628,979,941	(294,269,572)	184,504,389
(Increase) / decrease in other assets		3,771,230.74	1,845,909	221,630,804	(149,991,098)
(Increase) / decrease in loans and advances		(106,356,641)	127,260,025	3,861,788,420	1,553,347,350
(Increase) / decrease in inventories		54,843,993	(18,607,365)	55,651,109	(19,468,749)
Increase / (decrease) in amount due to customers		(292,598,879)	(521,013,008)	(286,032,081)	(391,869,096)
Increase / (decrease) in other liabilities		210,006,990	(115,607,256)	472,806,934	(464,220,870)
		(59,239,363)	102,858,247	4,031,575,613	712,301,926
Cash generated from operations		75,860,526	160,806,586	4,351,864,224	2,679,997,066
Tax paid	27	(18,825,959)	(21,628,652)	(50,450,504)	(78,132,935)
Gratuity paid	35	(1,386,750)	(1,044,500)	(11,973,725)	(2,282,125)
Interest paid	8	(178,049,623)	(177,447,697)	(678,982,672)	(933,582,229)
Net cash flow from / (used) in operating activities		(122,401,807)	(39,314,262)	3,610,457,322	1,665,999,776
Cash flow from investment activities					
Dividend received	10	113,348	37,856,312	987,463	1,260,593
Proceeds from disposal of property and equipment		7,739,130	24,700,435	7,774,130	24,839,670
Purchase of property and equipment	25	(30,342,051)	(39,874,310)	(38,291,999)	(231,681,680)
Purchase of intangible assets	26	(304,776)	(644,585)	(1,365,328)	(644,585)
Net cash flow from / (used) investing activities		(22,794,348)	22,037,852	(30,895,733)	(206,226,002)

For the Year ended 31st March	Note	Company 31.03.2020 Rs.	Company 31.03.2019 Rs.	Group 31.03.2020 Rs.	Group 31.03.2019 Rs.
Cash flow from financing activities					
Dividend paid		-	-	-	(8,766,618)
Proceeds on borrowings		1,030,803,793	497,963,100	4,528,915,186	10,455,341,255
Repayment of borrowings		(714,309,558)	(568,476,986)	(7,076,668,875)	(11,978,319,552)
Repayment of Debenture		-	-	-	(359,804,292)
Net cash flow from / (used) financing activities		316,494,234	(70,513,885)	(2,547,753,690)	(1,891,549,207)
Net increase / (decrease) in cash and cash equivalents		171,298,079	(87,790,295)	1,031,807,900	(431,775,434)
Cash and cash equivalent at the beginning of the year		89,053,079	176,843,373	237,482,725	669,258,160
Cash and cash equivalent at the end of the year		260,351,158	89,053,079	1,269,290,625	237,482,725
Cash and cash equivalents					
Cash in hand and at bank	18	260,351,158	89,053,079	1,319,866,517	310,770,340
Bank overdrafts		-	-	(50,575,892)	(73,287,615)
		260,351,158	89,053,079	1,269,290,625	237,482,725

The accounting policies and notes from 1 to 44 form an integral part of these financial statements.

Summary of Significant Accounting Policies

1. REPORTING ENTITY

1.1 Corporate information

Associated Motor Finance Company PLC ("The Company') regulated under the Finance Business Act No. 42 of 2011, was incorporated on 25th July 1962 and domiciled in Sri Lanka under the provisions of the companies Act No 17 of 1982 as a public limited liability company and re-registered under the companies Act No 07 of 2007. The registered office and the principal place of business of the Company is located at 89, Hyde Park Corner, Colombo 2. The shares of the Company have a primary listing on the Diri Savi Board of the Colombo Stock Exchange.

No. of employees

The staff strength of the Company as at 31 March 2020 was 189. (As at 31 March 2019 - 161).

1.2 Consolidated financial statement

The consolidated financial statements of Associated Motor Finance Company PLC for the year ended 31 March 2020 comprise the Company and its subsidiary (together referred to as the 'Group'). The Company does not have an identifiable parent on its own.

1.3 Principle activities and nature of operations of the Company and its subsidiary

Company

Associated Motor Finance Company PLC

The principal activities of the Company are accepting public deposits, lending money for facilities including leases, hire purchases, loans and other trading activities such as real estate business, selling of imported vehicles and dealing in securities.

Subsidiary

Arpico Finance Company PLC

The principal activities of the Company are accepting public deposits, lending money for facilities including leases, hire purchases, loans, pawning activities, and other trading activities such as real estate business and dealing in securities. The Company has discontinued the operations of pawning activities with effect from August 2013.

1.4 Date of authorization for issues

The consolidated financial statements for the year ended 31st March 2020 were authorized for issue by the board of directors on 07th September 2020.

2. BASIS OF PREPARATION

2.1 Statements of compliance

The consolidated financial statements of the Group and the separate financial statements of the Company, which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the statement of cash flows together with the accounting policies and notes (the 'financial statements') have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007 and amendments thereto and the Finance Business Act No. 42 of 2011; and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.2 Responsibility for the financial statements

The Board of Directors is responsible for preparation and presentation of these financial statements of the Group as per the provision of the Companies Act No. 07 of 2007 and SLFRS and LKAS.

2.3 Basis of measurement

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

- → Liability of defined benefit obligation is recognised as the present value of the defined benefit obligation.
- → Investment properties are measured at cost at the time of acquisition and subsequently at revalued amounts, which are the fair values of the date of revaluation.
- → Financial assets measured at fair value through profit/ loss & fair value through other comprehensive income.

2.4 Functional and presentation currency

The consolidated financial statements are presented in Sri Lankan Rupees, which is the Group's functional currency and presentational currency. All financial information presented in Sri Lanka Rupees has been rounded to the nearest rupee unless otherwise stated.

2.5 Presentation of financial statements

The assets and liabilities of the Group presented in its statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

2.6 Comparative information

The accounting policies have been consistently applied by the Company and the Group with those of the previous financial year in accordance with those of the previous financial year in accordance with LKAS 01 – Presentation of Financial Statements. The presentation and classification of the financial statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

Having evaluated the facts and circumstances which Impacts the future operations of the group and after giving due consideration to the possible outcomes of Covid-19, the directors are satisfied that the group, has adequate resources to continue in its operations in the foreseeable future and continue to adopt the going concern basis in preparing and presenting these financial statements.

2.7 Materiality and aggregation

In compliance with LKAS 01 on presentation of financial statements, each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or functions are presented separately, if they are material.

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

2.8 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 01 on 'Presentation of financial statements'.

2.9 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of comprehensive income, unless required or permitted by an Accounting Standard or Interpretation and as specifically disclosed in the Significant Accounting Policies of the Company.

2.10 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements of the Group in conformity with SLFRS and LKAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Further, management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

Accounting judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key significant accounting judgments, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related notes.

a) Taxation

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

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

b) Useful life-time of the property and equipment and intangible assets

The Group reviews the residual values, useful lives and methods of depreciation of assets as 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.

c) Going concern

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for a foreseeable future. Furthermore, having evaluated the facts and circumstances which impacts the future operations of the group and after giving due consideration to the possible outcomes of Covid-19, management is not aware of any material uncertainties that may cast significant doubts upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

d) Determination of Increment Borrowing rate

Details on the basis for determination of lease terms and estimating incremental borrowing rate is given in Note 6 of the financial statements.

e) Impairment losses on Loans & receivables (Expected credit losses (ECL) on financial assets)

The Group measures loss allowances using both lifetime ECL and 12-month ECL. When estimating ECL the group determines whether the credit risk of a financial asset has increased significantly since initial recognition. In regard to this the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessments including forward-Details of the 'impairment losses on loans and receivables' are given in Note 20.1.1 of the financial statements.

Summary of Significant Accounting Policies

f) Impairment losses on property, plant and equipment and intangible assets

The Group assesses at each reporting date whether there is an indication of objective evidence of impairment of assets. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. This requires the estimation of the value in use of such individual asset. Estimating the value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit, which requires management judgment on expected future cash flows and discount rates to be used in determining the value in use.

g) Deferred tax assets

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

Deferred tax assets are measured at the highest amount that is more likely than not to be recovered, based on current or estimated future taxable profit. The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are Recognised in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which management expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period. New tax rates which have been gazette have not been approved by the Parliament, therefore for deferred tax, previous rates have been applied.

h) Defined benefit plans

The cost of defined benefit plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, etc. Due to the complexity of the valuation, the underlying assumptions and their long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate given in Note 35 of the Financial Statement.

i) Events after the reporting period

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

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate adjustments are made in note 41 where necessary.

j) Provisions for liabilities and contingencies and Commitments

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effects on the amounts recognised in the consolidated financial statements are described under respective notes.

k) Classification of investment properties

Management judgment is required to determine whether a property qualifies as an investment property. Properties held for capital appreciation and which generate cash flows largely independently of the other assets held by the group are accounted for as investment properties. Inception of an operating lease to another party, for a transfer from inventories to investment property.

l) Fair value measurement of investment properties

Investment properties of the group are measured at fair value for the purposes of preparing the consolidated financial statements. Group management determines the main appropriate techniques and inputs required for measuring the fair value. Indetermining the fair value of the investment properties, management uses observable market data and the services of a qualified external valuer. For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

3. FAIR VALUE MEASUREMENT

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

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

All assets and liabilities which are measured or disclosed at fair value in the financial statements are categorized within the fair value hierarchy given below based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements.

Level 1 - quoted market prices in active markets for identical assets or liabilities

Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

External professional valuers are involved for valuation of significant assets such as land and building.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in preparation of its financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in theses financial statements of the Group, unless otherwise is indicated.

5. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 March 2020 in terms of the Sri Lanka Accounting Standard (SLFRS 10) - consolidated financial statements. The financial statements of the subsidiary are prepared in compliance with the Group's accounting policies unless otherwise stated.

Intra-group balances and transactions, income and expenses and any unrealized gains arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

The consolidated financial statements for the year ended 31 March 2020 comprise the financial statements of the Company (Parent Company) and its subsidiaries (together referred to as the “Group”). The Financial Statements of all companies in the Group have common financial year which ends on March 31 and use consistent accounting policies.

- → Recognises the fair value of any investment retained.
- → Recognises any surplus or deficit in profit or loss.
- → Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

5.1.1 Investment in subsidiary

Subsidiary included in the consolidated financial statements is the Company controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- → Power over the investee
- → Exposure or rights to variable returns from its involvement with the investee
- → The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. When the Group has less than a majority of the voting rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangements with the other vote holders of the investee and the rights arising from other contractual arrangements.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by Associated Motor Finance. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (or groups of cash generating units) that is expected to benefit from the synergies of the combination.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

Summary of Significant Accounting Policies

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interests.
- Recognises the fair value of the consideration received.

In the Separate Financial Statements investments in subsidaries are carried at cost.

5.1.2 Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary.

Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

5.1.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

5.1.4 Goodwill

Goodwill arising on an acquisition of business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses if any.

A cash generating unit to which goodwill has been allocated is tested for impairment annually, more frequently when there is an indication that the unit may be impaired.

5.2 Financial instruments

Date of Recognition

Financial assets and financial liabilities, except the loans and advances to customers and balances due to depositors, are initially recognized on the trade date, i.e. the date the company becomes a party to the contractual provisions of the instrument. This includes the regular way trades, purchases or sales of financial assets that require delivery of assets to customers within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts and the balances due to customers are recognised when the funds are transferred to the Group.

5.2.1 Classification and measurement of financial assets and financial liabilities

SLFRS 9 – Financial Instruments contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under SLFRS 9 –Financial Instruments is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

5.2.1 (a) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as fair value through profit or loss (FVTPL):

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

5.2.1 (b) Financial Assets measured at Fair Value through Profit or Loss (FVTPL)

Investments in equity instruments are measured in the statement of financial position at fair value with the gains and losses recognised in the profit or loss except that if an equity investment is not held for trading, an entity may make an irrevocable election on initial recognition, on an instrument-by-instrument basis.

5.2.1 (c) Impairment of financial assets

The group has recorded the impairment for expected credit losses for all loans and advances, net investment in leases and hire purchase and other financial assets not held at FVTPL in accordance with SLFRS 9. Fair value through profit or loss financial instruments are not subject to impairment under SLFRS 9.

5.2.2 Loans and receivables

Under ECL model, Group uses a dual measurement approach, under which the loss allowance is measured as either 12-month ECL or lifetime ECL. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. Special rules apply to assets that are credit-impaired. Key changes in the Group's accounting policy for expected losses of financial assets are listed below. The Group applies a three stage approach in measuring expected credit losses (ECL) on loans and receivables and other financial assets measured at amortized cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognized.

Stage 2: Lifetime ECL – not credit impaire

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

The EAD of a financial asset is its gross carrying amount.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. The assessment whether credit risk on a financial asset has increased significantly will be one of the critical judgments used in the impairment model prescribed in SLFRS 9 – Financial Instruments which uses a combination of both qualitative factors and backstop based on delinquency.

The indications of credit impairments are as similar to LKAS 39 – Financial Instruments: Recognition and Measurement. The Group considers that indication of credit default does not occur equal or later than 120 days. The key inputs used for measurement of ECL is likely to be the term structures of the following variables:

Significant increase in credit risk

Group considers that a significant increase in credit risk occurs no later than when contractual payments are equal to or more than 30 days past due for loans and advances and 60 days past due for net investment in leases and hire purchases Where there is a significant increase in credit risk the Group uses lifetime ECL model to assess loss allowances instead of 12–month ECL model.

Determining Stage for Impairment and related policies are disclosed in Note 20.

Probability of Default (PD)

PD estimates are made at a given date, which are calculated based on statistical models, and assessed using various categories based on homogeneous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Group forecast PD by incorporating forward looking economic variables (unemployment, GDP growth, inflation, interest rate and using lag effect of these variables).

Loss Given Default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation.

5.2.3 Reclassification of financial assets and liabilities

When the Group reclassifies the financial assets, it applies the reclassification prospectively from the reclassification date without restating any previously recognised gains or losses (including impairment losses) or interest. Financial liabilities are never reclassified.

When a financial asset is reclassified out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

When a financial asset is reclassified out of the fair value through profit or loss measurement category and into amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

Reclassification is at the discretion of management, and is determined on an instrument-by-instrument basis. Further the Group does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as fair value through profit or loss.

5.3 Financial liabilities

5.3.1 Initial recognition and measurement

Financial liabilities are classified as deposits from customers and due to other financial institutions, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

5.3.2 De-recognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

The rights to receive cash flows from the asset have expired.

The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement and either:

existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Summary of Significant Accounting Policies

i) Financial liability at FVTPL

As per SLFRS 9, all financial assets other than those classified at amortised cost or FVOCI are classified as measured at FVTPL. Financial assets at fair value through profit or loss include financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets and financial assets designated upon initial recognition at fair value through profit or loss.

Financial assets measured at FVTPL are measured initially at fair value and transaction costs that are directly attributable to its acquisition or issue is charged to profit or loss.

ii) Other financial liabilities

Other financial liabilities including deposits, debts issued by the Group and the other borrowed funds are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method. Amortized cost is calculated by issue and costs that are an integral part of the EIR.

5.3.3 De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the income statement.

5.4 Provisions

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

5.5 Tax 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 and emoluments of employees including cash, Non-cash benefits and provisions relating to terminal benefits, computed on prescribed rate.

5.6 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria that must be met for each type of income is given under the respective income notes.

5.7 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's 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 events after the reporting date.

5.8 Statement of cash flows

The statement of cash flows is prepared using the 'Indirect Method' of preparing cash flows in.

5.9 Segment reporting

The Group does not have any operating segment that engages in business activities from which it may earn revenues and on which expenses incurred whose operating results are regularly reviewed by the entity's management to determine the resources to be allocated to the segment and asses its performance for which discrete financial information is available.

Changes in accounting Policies and Disclosures

6. SLFRS 16 (LEASES) TRANSITION DISCLOSURE

SriLanka Accounting Standard - SLFRS16 replaced SriLanka Accounting Standard - LKAS17 as well as the related interpretations, with effect from 1 January 2019. The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on Statement of Financial Position. The most significant change pertaining to the accounting treatment for operating leases is from the perspective. Sri Lanka Accounting Standard - SLFRS 16 eliminates the classification of leases for lessees as either operating or finance leases, as was required by Sri Lanka Accounting Standard - LKAS 17, and introduces a single lessee accounting model, where a right- of-use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. Sri Lanka Accounting Standard - SLFRS 16 did not introduce significant changes for lessors, as a result the accounting policies applicable to the company as a lessor are not different from those under Sri Lanka Accounting Standard - LKAS 17.

The Company adopted Sri Lanka Accounting Standard - SLFRS 16 using the modified retrospective method of adoption with the date of initial application being 1 April 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard being recognised at the date of initial application. Accordingly, the company previously reported financial results up to 31 March 2019 are presented in accordance with the requirements of Sri Lanka Accounting Standard - LKAS 17 and for the year ended 31 March 2020, and future reporting periods, are presented in terms of Sri Lanka Accounting Standard - SLFRS 16.
On adoption of SLFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of Sri Lanka Accounting Standard - LKAS 17. These liabilities were measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate as at 01 April 2019.

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 March 2019.

6.1 Determination of Lease Term and Estimating the Incremental Borrowing Rate

The Company uses its judgement to determine whether an operating lease contract qualifies for recognition of right-of-use assets. The Company applies judgements in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That considers all relevant factors that create an economic benefits for it to exercise either the renewal or termination.

Further, as the Company cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate(IBR) to measure the lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The present value of operating lease commitments as at 01st April 2019 has been calculated using incremental borrowing rate 15.24%.

SLFRS -16 Key Financial Impact

For the Year ended 31st March Company Impact	31-Mar-2019 Rs.	SLFRS 16 transition adjustment at 1-Apr-2019 Rs.	1-Apr-2019 Rs.
Assets			
Property, Equipment and Right-of-Use Assets	74,728,313	42,002,229	116,730,542
Other financial and non-financial assets*	7,344,073,076	-	7,344,073,076
Total Assets	7,418,801,389	-	7,460,803,618
Liabilities and Equity			
Liabilities **	6,211,524,047	42,002,229	6,253,526,276
Equity	1,207,277,342	-	1,207,277,342
Total Liabilities and Equity	7,418,801,389	-	7,460,803,618

Notes to the Financial Statements

For the Year ended 31st March Group Impact	31-Mar-2019 Rs.	SLFRS 16 transition adjustment at 1-Apr-2019 Rs.	1-Apr-2019 Rs.
Assets			
Property, Equipment and Right-of-Use Assets	880,042,632	76,531,101	956,573,733
Other financial and non-financial assets*	21,560,138,733	(6,481,219)	21,553,657,514
Total Assets	22,440,181,365	70,049,882	22,510,231,246
Liabilities and Equity			
Liabilities **	20,481,495,052	70,049,882	20,551,544,934
Equity	1,958,686,313	-	1,958,686,313
Total Liabilities and Equity	22,440,181,365	70,049,882	22,510,231,247

* Due to derecognition of the LKAS 17 prepaid lease asset

** Due to recognition of lease liabilities

7. INTEREST INCOME

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company/Group and the revenue can be reliably measured. specific recognition criteria, for each type of income, is given under the respective income notes.

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

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

Interest income on impaired financial instruments continue to be recognised at original EIR to the unadjusted carrying amount until the financial asset reached the age of 12. Until such the accrued interest added to the unadjusted carrying amount has been impaired to the estimated Loss Given Default (LGD). Overdue interest on arrears rentals have been accounted when the related amount is received.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Interest income from leasing	1,182,274,386	1,259,840,611	3,538,225,947	4,615,296,594
Interest income from the hire purchases and others	12,925,725	13,311,673	212,874,928	601,970,471
Interest on government securities and other financial assets	119,543,399	148,249,547	125,726,005	111,696,841
Interest on unit trust	24,359,376	-	24,359,376	-
Income on other financial assets	-	1,014,471	123,880,521	82,225,682
	1,339,102,887	1,422,416,302	4,025,066,777	5,411,189,588

8. INTEREST EXPENSE

Interest expenses are recognised in profit or loss using the effective interest rate (EIR) method.

Effective interest rate

The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

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

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Interest on public deposits	694,442,308	734,048,354	1,862,863,594	1,930,857,805
Debt instruments issued and other borrowings	178,049,623	177,447,697	690,895,397	1,225,655,690
	872,491,931	911,496,051	2,553,758,990	3,156,513,496

9. FEE AND COMMISSION INCOME

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the document and inspection of vehicle is recognised on completion of the underlying transaction. Fee or components of fee that is linked to a certain performance is recognised after fulfilling the corresponding criteria.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Service charges	1,221,019	6,430,151	21,407,096	129,371,434
Insurance commission	29,413,269	31,651,091	86,394,756	31,651,091
	30,634,288	38,081,242	107,801,851	161,022,525

10. OTHER OPERATING INCOME

Other operating income includes gains on disposal of property and equipment and Motor vehicles, dividend income, fair value gain on investment property and other income.

Gain / loss on disposal of property and equipment

The profit / (loss) on disposal of property, plant and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of 'Other Operating Income' in the year in which significant risks and rewards of ownership are transferred to the buyer.

Dividend income

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

Bad debts recovered

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

Other income

Other income is recognised on an accrual basis.

Fair value gain on investment property

A gain or loss arising from a change in the fair value of investment property shall be recognised in profit & Loss for the period in which its arises.

Notes to the Financial Statements

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Profit from the sale of Motor Vehicles (Note 10.1)	7,907,881	6,164,400	7,907,881	6,164,400
Profit from the sale of Generator (Note 10.2)	182,202	-	182,202	
Dividend income	113,348	37,856,312	987,463	1,260,593
Interest income on savings accounts	5,223	5,014	5,223	5,014
Sundry income	341,225	250,953	65,789,068	20,281,427
Bad debt recoveries	20,496,390	11,793,453	59,331,015	27,335,682
Profit on disposal of property equipment	4,601,360	21,782,510	4,636,360	18,477,168
Foreign exchange gain	3,258	16,111	3,258	16,111
Fair value gain on investment property	56,852,637	-	56,852,637	-
Fair value gain/(loss) on dealing securities	-	-	23,827,636	(3,745,655)
	90,503,523	77,868,754	219,522,743	69,794,739

10.1 Profit from the sale of Motor Vehicles

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Sales proceeds	144,805,000	204,660,000	144,805,000	204,660,000
Less: Cost of vehicles	(126,983,847)	(184,630,539)	(126,983,847)	(184,630,539)
Less : Direct costs	(9,913,271)	(13,865,061)	(9,913,271)	(13,865,061)
Profit for the year	7,907,881	6,164,400	7,907,881	6,164,400

10.2 Profit from the sale of Generator

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Less: Cost of vehicles	2,004,219	-	2,004,219	-
Less : Direct costs	(1,822,017)	-	(1,822,017)	-
Profit for the year	182,202	-	182,202	-

11. IMPAIRMENT CHARGE FOR LOANS AND OTHER LOSSES

The Company/ Group recognises the changes in the impairment provisions for loans and receivables which are assessed as per the Sri Lanka Accounting Standard- SLFRS 9- Financial Instruments - Recognition and Measurement. The methodology adopted by the Company is explained in Note 20.1.1 to these financial statements.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Impairment charge / (reversal) on loans and advances	(1,821,521)	(4,677,331)	67,498,007	92,533,396
Impairment charge / (reversal) on leases	(25,531,122)	39,781,394	447,528,579	870,809,674
Loss on repossessed vehicles	169,869,786	153,795,767	169,869,786	153,795,767
Loss on inventory valuation	-	(1,675,726)	-	(1,675,726)
Impairment loss on other financial assets	873,150		920,988.08	
	143,390,294	187,224,104	685,817,361	1,115,463,112

12. PERSONNEL EXPENSES

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses. The provision 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 on the amount of the obligation.

Defined contribution plans – Employees' provident fund and Employees' trust fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standard – (LKAS 19) – 'Employee Benefits'.

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Group by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liabilities.

The Group and the employees contribute 12 percent and 8 percent respectively on the salary of each employee to the Employees' Provident Fund.

The Group contributes 3 percent of the salary of each employee to the Employees' Trust Fund.

Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The estimation of this liability, determined by an independent, qualified actuary, necessarily involves long-term assumptions, which However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service. Liabilities for the other companies in the group are computed on the basis of half a month's salary for each year of completed service.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Salaries and bonus	142,577,301	125,915,569	413,874,254	331,087,451
Directors' remuneration	84,610,355	72,728,320	97,100,355	72,728,320
Employer's contributions to EPF	13,886,624	12,483,550	46,358,971	47,942,486
Employer's contributions to ETF	3,471,657	3,119,433	8,968,296	8,866,500
Gratuity charge for the year	7,416,071	6,340,953	23,458,721	20,597,427
	251,962,008	220,587,825	589,760,598	481,222,183

Notes to the Financial Statements

13. OTHER OPERATING EXPENSES

Other operating expenses are recognised in the statement of comprehensive income on the basis of a direct association between the cost incurred and the earnings of the specific items of the income. All the expenses incurred in the running of the business and in maintaining the property, plant and equipment have been charged to the statement f comprehensive income in arriving at the profit for the year.

Other operating expenses also include the following expenses.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Auditor's remuneration - audit	506,646	965,379	1,694,309	1,791,960
Auditor's remuneration - -non audit	-	-	-	179,966
Donations and subscriptions	2,855,334	933,600	9,659,349	6,661,358
Professional fees	4,458,494	7,453,481	32,203,742	36,602,351
Legal expenses	-	-	11,300,547	5,381,672
Right of use asset - Interest Expense	6,177,725	-	9,768,541	-
Other Expenses	89,029,915	104,916,284.87	201,051,474.03	220,407,329.86

Crop Insurance Levy

As per the provisions of the section14 of the Finance Act No 12 of 2013, the Crop Insurance Levy was introduced with effect from 1 April 2013 and was payable to the National Insurance Trust Fund. Currently, the Crop Insurance Levy is payable at 1% of profit after tax.

14. TAX ON FINANCIAL SERVICES

Tax on Financial Services include Value Added tax on Financial Services, Nations Building Tax on Financial Services and Debt Repayment Levy on Financial Services.

Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with the Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of VAT on financial services is the accounting profit before VAT and NBT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non cash benefits and provision relating to the terminal benefits.

VAT rate applied for the current financial year is 15%

Nations Building Tax (NBT) on Financial Services

As per the provisions of the Nation Building Tax (NBT) Act No 9 of 2009 and amendment thereto, NBT on Financial Services was payable at 2% on Company’s value addition attributable to financial services with effect from 01 January 2014. The value addition attributable to financial service is same as the value using to calculate the VAT of Financial Services.

As per Notice published by the Department of Inland Revenue dated 29 November 2019, NBT was abolished with effect from 1 December 2019.

Debt Repayment Levy (DRL) on Financial Services

As per the Finance Act No 35 of 2018, with effect 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial services by each financial institution. DRL is chargeable on the same base used for calculation of VAT on Financial Services. As per the notice issued by the IRD (PN/DRL/2020-01) DRL has been abolished with effect from 01 January 2020.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Value Added Tax on Financial Services	28,465,115	29,670,402	77,800,830	116,723,353
Nations Building Tax on Financial Services	2,348,175	4,345,037	10,697,281	17,345,152
Debt Repayment Levy on Financial Services	10,217,553	8,402,417	35,815,361	41,479,596
	41,030,843	42,417,856	124,313,472	175,548,100

15. INCOME TAX EXPENSE

As per Sri Lanka Accounting Standard – (LKAS 12) – 'Income Taxes', tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the statement of comprehensive income except to the extent it relates to items recognised directly in 'Equity' or 'other comprehensive income (OCI)', in which case it is recognised in equity or in OCI.

Current tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto.

Accounting estimates

The Group is subject to income taxes and other taxes including VAT on financial services. Significant judgment was required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

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

Deferred tax

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 29 to the financial statements.

15.1 Income tax recognised in the statement of comprehensive income

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Tax expense comprise:	-	-	5,423,163	-
Current tax expense	-	-	-	-
Reversal of previous year income tax over provision	-	-	(992,533)	16,216
	-	-	4,430,630	16,216
Recognition / (reversal) of deferred tax asset	(11,484,292)	(98,082,549)	76,799,753	(308,416,672)
	(11,484,292)	(98,082,549)	81,230,384	(308,400,456)

Notes to the Financial Statements

15.2 Income tax on profit of the company and its subsidiary has been computed at the rate of 28% (2017/18- 28%) on the taxable income as per the provisions of Inland Revenue Act No.07 of 2017.

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

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Accounting profit chargeable for income taxes	11,819,422	36,218,383	(63,225,152)	207,251,752
Tax effect on chargeable profits (at 28%)	3,309,438	10,141,147	39,161,728	58,030,491
Tax effect on deductible expenses/allowable credits	426,290,801	694,541,841	(2,053,508,620)	3,608,040,095
Tax effect on disallowable items	(418,916,772)	(645,448,030)	2,031,533,125	(3,655,651,591)
Tax effect on losses (claimed)/incurred				
On leasing activities	(12,963,299)	(45,573,405)	(12,963,299)	(45,573,405)
On general activities	(1,553,096)	(5,460,020)	(1,553,096)	(5,460,020)
Effect of tax exempt income	(10,599,767)	(10,599,767)	(11,679,371)	(10,925,138)
Tax effect on qualifying payments - investment in subsidiary	-	-	-	-
Income tax for subsidiary prior to the acquisition	-	-	-	-
Current tax expense	-	-	-	-
Effective tax rate	-	-	-	-

A provision for income tax has not been made in the current year for the company since there is no taxable income after claiming the deductible tax loss and qualifying payment on investment in subsidiary.

16. EARNING PER SHARE - BASIC

The earnings per share have been calculated by dividing the profit for the year attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding during the year, as per the Sri Lanka Accounting Standard - LKAS 33 - Earnings per Share.

The weighted average number of ordinary shares outstanding during the year and the previous years are adjusted for events that have changed the number of ordinary shares outstanding during the year.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Amount used as the numerator				
Profit for the year attributable to equity holders (Rs)	23,303,713	134,300,932	(134,423,533)	446,857,635
Amount used as the denominator				
Weighted average number of ordinary shares	5,608,355	5,608,355	5,608,355	5,608,355
Basic earning per ordinary share (Rs)	4.16	23.95	(23.97)	79.68

17. DIVIDEND

Provision for final dividend is recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividend payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 07 of 2007.

The company has not declared any dividend during the year 2020/21.

18. CASH & CASH EQUIVALENTS

Cash and cash equivalents includes cash and bank balances and money at call and short notice. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Cash in hand	1,389,885	200,275	37,167,199	81,006,302
Cash at bank	258,961,273	88,852,804	1,282,699,318	229,764,038
Cash in hand and at bank	260,351,158	89,053,079	1,319,866,517	310,770,340

19. FINANCIAL ASSETS - AMORTISED COST

Investments in fixed deposits, treasury bonds and repos are initially measured at fair value and subsequently measured at amortised cost. Interest income is accrued over the tenor of eth investment using effective interest rate (EIR) method.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Treasury bills	269,724,737	244,441,364	269,724,737	244,441,364
Investments in Treasury bonds	-	5,086,959	17,531,875	22,338,916
Investments in repos	267,655,714	268,541,288	1,485,308,717	1,233,695,625
Investments in debt securities	179,596,014	57,393,921	179,596,014	57,393,921
Investments in fixed deposits	98,863,433	466,379,672	220,894,759	370,972,138
	815,839,897	1,041,843,204	2,173,056,102	1,928,841,964

The collateral value of the repurchase agreements was Rs. 1,217,653,003.40 as at 31 March 2020. (Rs. 1,241,154,602 in 31 March 2020).

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Investments in fixed deposits				
Investment in fixed deposits	99,736,583	466,379,672	221,815,747	370,972,138
Provision for impairment fixed deposits	(873,150)	-	(920,988)	-
	98,863,433	466,379,672	220,894,759	370,972,138

Sampath Bank Credit Rating (AA-(lka) Fitch Rating

Arpico Finance PLC Credit Rating (B+(lka) Fitch Rating

Notes to the Financial Statements

20. FINANCIAL ASSETS AT AMORTIZED COST/ LOANS AND RECEIVABLES

Loans and receivables include financial assets measured at amortised cost if both of the following conditions are met:

- 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 amortisation is included in 'interest income' in the statement of comprehensive income. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and other losses' in the statement of comprehensive income.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Investment in finance leases (Note 20.1)	4,515,171,420	4,405,397,522	13,008,798,033	16,208,197,965
Investment in hire purchase (Note 20.2)	14,021	219,294	607,553	14,027,086
Promissory notes (Note 20.3)	-	500,000	-	500,000
Loans against fixed deposits (Note 20.4)	90,393,670	57,679,067	90,393,670	57,679,067
Term loans (Note 20.5)	2,331,180	2,222,678	1,141,767,619	1,466,975,678
Staff loans and advances (Note 20.6)	7,599,622	6,871,893	7,599,622	6,871,893
	4,615,509,914	4,472,890,455	14,249,166,496	17,754,251,691

20.1 Investment in leases

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.

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 Group is a lessor under finance leases the amounts due under the lease, after deduction of unearned charges, are recognised on the statement of financial position. The finance income receivable is recognised as 'interest income' over the period of the lease so as to give a constant rate of return on the net investment in the lease.

After initial measurement, lease receivable and stock out on hire 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 amortisation is included in 'interest income' in the statement of comprehensive income. The loss arising from impairment is recognised in 'impairment (charge)/ reversal on loans and other loss' in the statement of comprehensive income.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Gross investment in leases	5,429,198,952	5,427,681,810	16,229,637,544	21,437,065,853
Lease rental & other receivables	834,806,080	523,311,805	2,296,025,468	2,219,219,581
	6,264,005,032	5,950,993,615	18,525,663,012	23,656,285,434
Less : unearned income	(1,481,264,075)	(1,218,183,404)	(4,373,545,760)	(5,822,099,089)
	4,782,740,957	4,732,810,212	14,152,117,252	17,834,186,345
Less: prepaid rentals	(36,209,297)	(61,611,153)	(87,410,236)	(174,938,214)
	4,746,531,660	4,671,199,059	14,064,707,016	17,659,248,131
Less: Allowance for impairment losses (Note 20.1.2)	(231,360,239)	(265,801,537)	(1,055,908,983)	(1,451,050,166)
Net investment in finance leases	4,515,171,420	4,405,397,522	13,008,798,033	16,208,197,965
Lease receivable within one year				
Total lease rental & other receivables within one year	3,863,110,053	3,464,860,416	9,274,043,703	12,210,087,106
Less : unearned income	(951,407,771)	(905,147,910)	(2,291,955,951)	(3,323,364,815)
	2,911,702,282	2,559,712,506	6,982,087,752	8,886,722,291
Lease receivable from one to five years				
Total lease rental receivable from one to five years	2,364,685,681	2,424,522,046	9,185,563,689	11,312,345,381
Less : unearned income	(529,856,304)	(313,035,494)	(2,079,381,246)	(2,495,182,711)
	1,834,829,377	2,111,486,553	7,106,182,442	8,817,162,671
Lease receivable from five to eight years				
Total lease rental receivable from one to five years	-	-	29,846,323	72,241,794
Less : unearned income	-	-	(2,208,563)	(3,551,564)
	-	-	27,637,760	68,690,230
Net investment in leases	4,746,531,660	4,671,199,059	14,115,907,954	17,772,575,191

Maturity analysis for lease and loans disclosed in note no 42.4 in these financial statements.

Notes to the Financial Statements

20.1.1 Allowance for individual and collective impairment losses

Accounting estimates

The Group recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Fair value through profit or loss financial 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 12 months ECL is the portion of Life time ECLs 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 Lifetime ECLs is 12 months ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the 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 such process Group allocates loans in to Stage 1, Stage 2, Stage 3 as described below;

Stage 01

When a loan is originated or purchased, the Group recognises an allowance based on 12 months ECLs. Stage 1 loans also includes facilities where the credit risk has improved and the loan has been reclassified from Stage 2 since the credit risk has improved.

Stage 02

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

Stage 03

When a loan is considered to be credit impaired/contain objective evidences of incurred loss, the Group records an allowance for the Lifetime ECLs.

Significant Increase in Credit Risk

The Group continuously monitors all assets subjects to ECL, in order to determine whether there has been a significant increase in credit risk since initial recognition and whether the instrument or a portfolio of instruments is subject to 12 months ECL or Lifetime ECL. The Company considers an exposure to have a significant increase in credit risk at 30 days past due. Group considers that a significant increase in credit risk occurs no later than when contractual payments are equal to or more than 90 days past due for net investment in leases and hire purchases Where there is a significant increase in credit risk the group uses lifetime ECL model to assess loss allowances instead of 12–month ECL model.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually

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

While establishing significant credit deterioration, Group will consider the following criteria;

- Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
- Other information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
- An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its obligation
- An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
- Significant increase in credit risk on other financial instruments of the same borrower
- An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the company considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Grouping Financial Assets Measured on a Collective Basis

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

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

Notes to the Financial Statements

Calculation of ECL

The expected cash shortfalls are calculated by multiplying respective loan level PDs, EADs and LGDs. The cash shortfall is discounted to the effective interest rate (EIR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

PDs and LGDs are adjusted to the forward looking information using statistically quantified variance.

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

- Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. Hence majority of our client base being retail; we use internal information to estimate the PDs. The client has two credit statuses which can be identified as default or not default. We used Cohort method (CM) to compute the PDs.
- Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of the principal and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.
- Loss Given Default (LGD): GD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as % of the EAD.For all products, Group considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

For all products, Group considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

Forward looking information

Group relies on broad range of qualitative / quantitative forward looking information as economic inputs in the Multiple economic factor model developed to forecast the expected Non-Performing Loans (NPL), such as;

- * GDP growth
- * Inflation
- * Interest rate
- * Unemployment rates
- * Exchange rate
- * Interest rate (AWPLR)

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 financial asset impairment allowance account accordingly. The write-back is recognised in the statement of comprehensive income.

Write-off of loans and receivables

Financial assets and the related impairment allowance accounts are normally written off, either partially or in full, when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

Collateral repossessed

Repossessed collateral will not be taken into books of accounts unless the Group has taken those collaterals into its business operations. However, such additions from the repossessed collaterals to the business operations are not significant.

20.1.2 Allowance for impairment losses - for lease

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
As at the beginning of the year	265,801,537	380,062,669	1,451,050,166	936,037,105
Charge for the period	(25,531,122)	39,781,394	447,528,579	870,809,674
Amounts written off	(8,910,176)	(154,042,527)	(842,669,762)	(355,796,613)
As at the end of the period	231,360,239	265,801,537	1,055,908,983	1,451,050,166
Individual impairment	39,471,273	25,549,201	370,344,398	349,216,025
Collective impairment	191,888,967	240,252,336	685,564,585	1,101,834,140
	231,360,239	265,801,537	1,055,908,983	1,451,050,166
Stage 1 impairment	28,219,338	35,979,483	65,489,574	84,593,954
Stage 2 impairment	33,545,462	80,073,054	154,260,580	339,878,308
Stage 3 impairment	130,124,167	124,199,799	465,814,431	677,361,878
	191,888,967	240,252,336	685,564,585	1,101,834,141

20.1.3 Sensitivity analysis of allowance for impairment

Sensitivity Analysis

Impact of increase/(Decrease) of loss rate by 1% on collective allowance for expected credit losses

	<6	6<12	12<24	24+	
		5%	30%		
LGD rate	15.87%	20.87%	45.87%	100.00%	
increase/(Decrease)1%	1%	1%	1%	-	
	16.87%	21.87%	46.87%	-	Total ECL Provision
ECL after Sensitivity	106,327,655	23,263,806	71,182,730	-	200,774,191
Actual ECL	100,024,890	22,200,074	69,664,003	-	191,888,967
Increase/(Decrease)	6,302,766	1,063,731	1,518,727	-	8,885,224

If the loss rates used by the Company in determining collective impairment has increased / decreased by 1%, ECL provision of the company as at 31 March 2020 would have increased / decrease by Rs. 8,885,223.87.

Notes to the Financial Statements

20.1.4 Allowance for impairment losses for other loans and advances

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Balance at the beginning of the year	3,442,620	17,754,693	432,234,917	362,276,665
Charge to statement of comprehensive income	(1,821,521)	(4,677,331)	36,079,746	92,533,396
Amounts written off	-	(9,634,742)	(12,940,402)	-22,575,144
Balance at the end of the year	1,621,099	3,442,620	455,374,261	432,234,917

20.2 Investment in hire purchase

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Hire purchase stock	-	337,139	-	12,804,835
Hire purchase rental receivable	114,492	220,577	8,257,285	18,461,219
	114,492	557,716	8,257,285	31,266,054
Less : Unearned income	-	(41,124)	-	(829,922)
	114,492	516,591	8,257,285	30,436,132
Less: prepaid rentals	11,780	(201,975)	11,669	(479,067)
	126,272	314,616	8,268,955	29,957,065
Less: Allowance for impairment	(112,251)	(95,322)	(7,661,402)	(15,929,979)
Net investment in hire purchase	14,021	219,294	607,553	14,027,086

20.3 Promissory notes

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Promissory note debtors	128,141	628,141	128,141	628,141
Less: unearned income	-	-	-	-
	128,141	628,141	128,141	628,141
Less: Allowance for impairment	(128,141)	(128,141)	(128,141)	(128,141)
	-	500,000	-	500,000

20.4 Loans against fixed deposits

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Loans against fixed deposits	90,393,670	57,679,067	90,393,670	57,679,067
	90,393,670	57,679,067	90,393,670	57,679,067

20.5 Investments in term loans

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Term loan stock	2,321,076	2,926,444	1,145,838,198	1,436,252,458
Term loan rental receivable	1,350,043	2,476,891	462,703,500	474,580,959
	3,671,119	5,403,335	1,608,541,698	1,910,833,417
Less: Term Loan rental paid in advance	-	-	(4,597,445)	(27,719,442)
	3,671,119	5,403,335	1,603,944,253	1,883,113,975
Less: Allowance for impairment	(1,339,939)	(3,180,656)	(462,176,634)	(416,138,297)
Net investment in term loan	2,331,180	2,222,678	1,141,767,619	1,466,975,678

20.6 Staff loans

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Staff loans	7,640,389	6,910,393	7,640,389	6,910,393
Less: Allowance for impairment	(40,767)	(38,500)	(40,767)	(38,500)
	7,599,622	6,871,893	7,599,622	6,871,893

21. FINANCIAL ASSETS - MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The group classifies financial assets as financial assets recognised through profit or loss when they have been purchased primarily for short term profit making through trading activities. Financial assets recognised through profit or loss are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in Net Trading Income.

Financial assets recognised through profit or loss include quoted equity securities that have acquired principally for the purpose of selling in the near term, and are recorded at fair values. The quoted equity securities are valued using the market prices published by the Colombo Stock Exchange.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Investments in quoted shares - (Note 21.1)	-	-	8,816,949	10,904,749
Investments in Unit Trust - (Note 21.2)	155,782,514	-	166,079,949	-
	155,782,514	-	174,896,898	10,904,749

Notes to the Financial Statements

21.1 Investments in quoted shares

	Group			
	31.03.2020		31.03.2019	
	No. of shares	Fair value Rs.	No. of shares	Fair value Rs.
Bank, financial & insurance				
Alliance Finance Co. PLC	52,000	1,768,000	52,000	2,802,800
DFCC PLC	24	1,440	24	1,673
Lanka Orix Leasing Company PLC	5,700	513,000	5,700	513,000
Citizens Development Bank PLC	4,109	296,259	4,000	318,800
Peoples Leasing & Finance Company PLC	107,149	1,285,788	104,000	1,393,600
Beverages, food & tobacco				
Lanka Milk foods PLC	21,600	1,944,000	21,600	2,354,400
Chemical and pharmaceuticals				
Lankem Ceylon PLC	42	718	42	924
Chemenex PLC	4,300	172,000	4,300	253,700
Hotel & tourism				
Sigiriya Village Hotel PLC	1,600	40,160	1,600	74,720
Hotel Corporation PLC	10,478	104,780	10,478	102,684
Serendib Hotels PLC (N/V)	10,000	110,000	10,000	110,000
Power and energy				
Laughs Gas PLC	8,000	72,000	8,000	136,000
Manufacturing				
Blue Diamond Jewellery PLC	19	4	19	6
ACL Cables PLC	23,800	737,800	23,800	768,740
Diversified Holdings				
Valible One PLC	104,000	1,248,000	104,000	1,487,200
Motors				
Diesel & Motor Engineering PLC	1,122	280,500	1,122	326,502
Land & property				
Seylan Developments PLC	25,000	242,500	25,000	260,000
Total		8,816,949		10,904,749

21.2 Investments in Unit Trust

		Company	
		31.03.2020	
	No of Units	Cost	Fair Value
Capital Alliance Limited	8,506,198	150,000,000	155,782,514
Total Unit Trust	8,506,198	150,000,000	155,782,514

22. FINANCIAL ASSETS - MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its investments in equity instruments as Financial Assets at FVOCI when they meet the definition of financial assets and are not held for trading. Such classification is determined on an instrument by instrument basis.

Investments in quoted shares are recorded at fair value .Gains and losses on these investments are never recycled to Profit. Dividends are recognised in the Statement of Profit or Loss as other operating income when the right of the payment has been established, except when the Company when the Company benefits from such proceeds as recovery of part of the cost of the instrument, in which case, such gains are recorded in Other Comprehensive Income. Equity instruments measured at FVOCI are not subject to an impairment assessment.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Investments in unquoted securities (Note 22.1)	682,934	682,934	6,421,337	6,803,161
Investments in quoted securities (Note 22.2)	-	-	11,592,575	13,605,997
Investments in unit trust (Note 22.3)	482,995	482,995	482,995	482,995
	1,165,929	1,165,929	18,496,907	20,892,153

22.1 Investments in unquoted securities - unquoted shares

	Company			
	31.03.2020		31.03.2019	
	No. of shares	Fair value Rs.	No. of shares	Fair value Rs.
Credit Information Bureau	43	682,934	43	682,934
Poltech (Ceylon) Ltd	12,715	125,000	12,715	125,000
		807,934		807,934
Less: provision for impairment		(125,000)		(125,000)
Fair value of the investment		682,934		682,934

Notes to the Financial Statements

	Group			
	31.03.2020		31.03.2019	
	No. of shares	Fair value Rs.	No. of shares	Fair value Rs.
Poltech (Ceylon) Ltd	12,715	125,000	12,715	125,000
Jetwing Symphony Ltd	-	-	-	-
Alliance Agencies Limited			1,303	392,517
Ranweli Holiday Resorts Limited	40,444	780,889	34,667	780,889
Credit Information Bureau of Sri Lanka	190	2,265,499	190	2,254,806
Comtrust Equity Fund				
Finance House Consortium	20,000	200,000	20,000	200,000
Nation Lanka Equities	800,005	3,174,949	800,005	3,174,949
		6,546,337		6,928,161
Less: Allowance for impairment		(125,000)		(125,000)
Fair value of the investment		6,421,337		6,803,161

22.2 Investments in quoted securities

	Group			
	31.03.2020		31.03.2019	
	No. of shares	Fair value Rs.	No. of shares	Fair value Rs.
Ceylinco Insurance PLC	1,250	2,218,750	1,250	2,656,250
Blue Diamond Jewellery World wide PLC	6,839	3,420	6,839	3,420
The Finance Company PLC	1,749	2,274	1,749	2,274
Central Industries PLC	24	780	24	696
Merchant Bank of Sri Lanka & Finance PLC	224	1,232	224	2,307
Chemanex PLC	600	24,000	600	35,400
Sinhaputhara Finance Company PLC	5,000	185,000	5,000	475,000
Citizen Development Bank PLC	95,485	6,801,702	95,485	7,722,329
Jetwing Symphony PLC	250,000	2,125,000	250,000	2,425,000
Comtrust Equity Fund	17,819	230,417	17,819	283,322
		11,592,575		13,605,997

22.3 Investments in unit trust

	Company/ Group			
	31.03.2020		31.03.2019	
	No. of units	Fair value Rs.	No. of units	Cost Rs.
Namal Unit Trust	19,608	482,995	19,608	482,995
		482,995		482,995

23. INVENTORIES

Unsold vehicles at the reporting date are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net realizable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost necessary to make the sale.

Investments in real estates are valued at cost or net realizable value whichever is lower. Net realizable value is the estimated selling price less estimated cost of completion and the estimated cost necessary to make the sale.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Trading Stock Generators	607,339		607,339	
Investments in land and buildings	-	28,147,363	-	28,147,363
Stationery stocks	-	-	960,228	1,767,344
Motor vehicles	54,555,896	110,007,228	54,555,896	110,007,228
	55,163,235	138,154,591	56,123,463	139,921,935
Less: Provision for inventory loss	(620,107)	(620,107)	(620,107)	(620,107)
	54,543,128	137,534,485	55,503,357	139,301,829

24. INVESTMENT PROPERTIES

24.1 Basis of Recognition

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

24.2 Classification of Investment Properties

Investment in Land & building were reclassified to investment property during the financial year. Management judgment is required to determine whether a property qualifies as an investment property. Properties held for capital appreciation and which generate cash flows largely independently of the other assets held by the group are accounted for as investment properties.

24.3 Basis of Measurement

Investment properties are initially recognized at cost and subsequently carried at fair value determined once in three years by independent professional valuers on the highest and best use basis. For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

The cost of major renovations and improvements is capitalized and the carrying amounts of the replaced components are recognised in the profit or loss. The cost of maintenance, repairs and minor improvements are recognised in the profit or loss when incurred.

De-recognition

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in the profit or loss.

	Level of fair value	31.03.2020 Rs.	31.03.2019 Rs.
Digana Land & Building	Level 3	85,000,000	-
		85,000,000	-

Notes to the Financial Statements

Property	Location	Building (sq.ft)	Extent	Cost	Fair value
Kirinda Land	Kirinda,Thissamaharama	-	2A-3R-30P	3,497,955	-
Digana Land & building	Gangapitiyawdta Lot 4A, 8,6,7,28,5 ond 48	2,526	1A-1R-21P	15,554,887	32,000,000
	Gangapitiyavtdta Lot 4		1A-3R-04.70P	6,650,000	6,650,000
	Gangapitiya estate Lot 1-13		6A-0R-20P	5,942,477	5,942,477
				31,645,318	31,645,318

Above all properties valued by Incorporated Valuer - Mr. N. M. Jayatilake.(Valued on 30th march 2020)

The company had not carried out the fair valuation of the Kirida Land due to a dispute over the ownership of the land.

25. PROPERTY AND EQUIPMENT

Recognition and measurement

Property and equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 - property, plant & equipment. Initially property and equipment are measured at cost.

Cost model

Property and equipment is stated at cost, excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Subsequent cost

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

Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of property, plant & equipment during the year.

Fully-Depreciated Property & Equipment

The initial cost of fully-depreciated property, plant & equipment, which are still in use as at reporting date is Rs.31,805,478 (31.03.2019- Rs.30,157,877)

Property and Equipment Pledged as Securities for Liabilities

The land and buildings of subsidiary of Arpico finance situated in Colombo 5, has been pledged as the security for the overdraft facility of Rs. 150 Mn obtained from Seylan Bank PLC.

Depreciation

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated. Depreciation of asset begins from the date they are available for use or in respect of self-constructed assets from the date that asset is completed and ready for use. The rate of depreciation is based on the estimated useful life is as follows:

Category of assets	Depreciation rate per annum
Motor vehicles	20%
Office equipment	10%
Computer equipment	20%
Furniture and fittings	10%
Generators and air conditioners	10%
Telephone system	20%
Agricultural equipment	20%
Tractors and trailers	20%
Building on leasehold land	20%

Fair value of the land and buildings

The carrying amount of the freehold properties, if they were carried at cost less accumulated depreciation would have been as follows:

	Company		Group	
Cost and accumulated depreciation of the revalued assets	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Land	-	-	418,860,335	418,860,335
Buildings	-	-	120,614,851	78,721,030
Accumulated depreciation on buildings	-	-	(15,217,341)	(9,327,253)
	-	-	524,257,845	488,254,112

Extent, locations, valuations of the land and the buildings of the entity's land holdings as follows.

Location Extent		Cost	Valuation	Valuation date	Level of fair value	No. of Buildings
1. No 146, Colombo 05	13.80 Perches	88,774,926	339,000,000	02.11.2019	02.11.2019	Level 3
2. No 146/34, Colombo 05	20.12 Perches	223,982,049	245,885,569	14.10.2019	14.10.2019	Level 3
3. No 138, Colombo 05	10.60 Perches	144,199,000	164,114,431	14.10.2019	14.10.2019	Level 3
4. Kandy	11.35 Perches	48,663,081	89,500,000	15.10.2019	15.10.2019	Level 3
5. Matara	17.78 Perches	33,856,130	50,000,000	26.11.2019	26.11.2019	Level 3
		539,475,186	888,500,000			

Above all properties valued by Incorporated Valuer - Mr. N.M. Jayatilake.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Freehold	108,399,912	108,399,912	1,148,735,677	880,042,632
Leasehold	-	-	-	-
	108,399,912	108,399,912	1,148,735,677	880,042,632

Notes to the Financial Statements

25.1 Freehold

Company

	Balance at the beginning of the year Rs.	Additions Rs.	Transfers from leasehold Rs.	Disposals/ Written off Rs.	Balance at the end of the year Rs.
Cost					
31 March 2019					
Motor vehicles	111,891,474	36,525,000		(38,486,037)	109,930,437
Furniture fittings & fixtures	7,617,304	711,164	-	-	8,328,468
Office equipment	2,519,947	283,860	-	-	2,803,807
Generator	2,475,005	294,757	-	-	2,769,762
Computer equipment	12,112,494	2,059,530	-	-	14,172,024
Telephone system	173,000	-	-	-	173,000
Agricultural equipment	411,020	-	-	-	411,020
Tractor and trailer	1,455,950	-	-	-	1,455,950
	138,656,194	39,874,310	-	(38,486,037)	140,044,467
Cost					
31 March 2020					
Motor vehicles	109,930,437	26,328,498		(11,280,000)	124,978,935
Furniture fittings and fixtures	8,328,468	258,875	-	-	8,587,343
Office equipment	2,803,807	588,363	-	-	3,392,170
Generator	2,769,762	1,793,630	-	-	4,563,392
Computer equipment	14,172,024	1,372,685	-	-	15,544,709
Telephone system	173,000	-	-	-	173,000
Agricultural equipment	411,020	-	-	-	411,020
Tractor and trailer	1,455,950	-	-	-	1,455,950
Right of Use Assets		42,002,229			42,002,229
	140,044,467	72,344,280	-	-11,280,000	201,108,747

25.1 Freehold (Contd.)

	Balance at the beginning of the year Rs.	Charge for the year Rs.	Transfers from leasehold Rs.	Disposals/ Written off Rs.	Balance at the end of the year Rs.
Accumulated depreciation					
31 March 2019					
Motor vehicles	61,541,331	20,211,603		(35,568,112)	46,184,822
Furniture fittings and fixtures	4,466,665	576,210	-	-	5,042,874
Office equipment	1,051,309	244,832	-	-	1,296,141
Generator	947,206	255,120	-	-	1,202,326
Computer equipment	7,757,293	1,803,247	-	-	9,560,540
Telephone system	127,881	34,600	-	-	162,481
Agricultural equipment	411,020	-	-	-	411,020
Tractor and trailer	1,455,950	-	-	-	1,455,950
	46,184,822	23,125,612	-	(35,568,112)	65,316,154
Accumulated depreciation					
31 March 2020					
Motor vehicles	46,184,822	23,556,644		(8,142,230)	61,599,237
Furniture fittings & fixtures	5,042,874	575,882	-	-	5,618,756
Office equipment	1,296,141	291,180	-	-	1,587,322
Generator /air conditioner	1,202,326	392,557	-	-	1,594,883
Computer equipment	9,560,540	1,825,614	-	-	11,386,154
Telephone system	162,481	10,519	-	-	173,000
Agricultural equipment	411,020	-	-	-	411,020
Tractor and trailer	1,455,950	-	-	-	1,455,950
Right of Use Assets		8,882,514			8,882,514
	65,316,154	35,534,911	-	-8,142,230	92,708,835
Carrying amount as at 31 March 2019	92,471,372				74,728,313
Carrying amount as at 31 March 2020	74,728,313				108,399,912

Notes to the Financial Statements

25.2 Leasehold

Company/Group

	Balance at the beginning of the year Rs.	Additions Rs.	Disposals/ transfers to freehold Rs.	Balance at the end of the year Rs.
Cost				
31 March 2019				
Motor vehicles	-	-	-	-
Leasehold improvements - Buildings	18,179,379	-	-	18,179,379
	18,179,379	-	-	18,179,379
Cost				
31 March 2020				
Motor vehicles	-	-	-	-
Leasehold improvements - Buildings	18,179,379	-	-	18,179,379
	18,179,379	-	-	18,179,379

	Balance at the beginning of the year Rs.	Charge of the year Rs.	Disposals/ transfers to freehold Rs.	Balance at the end of the year Rs.
Accumulated depreciation				
31 March 2019				
Motor vehicles	-	-	-	-
Leasehold improvements - Buildings	16,092,350	2,087,028	-	18,179,379
	16,092,350	2,087,028	-	18,179,379
Accumulated depreciation				
31 March 2020				
Motor vehicles	-	-	-	-
Leasehold improvements - Buildings	18,179,379	-	-	18,179,379
	18,179,379	-	-	18,179,379
Carrying amount as at 31 March 2019	2,087,029			-
Carrying amount as at 31 March 2020	-			-

25.3 Freehold

Group

	Balance at the beginning of the year Rs.	Additions Rs.	Transfers from leasehold Rs.	Disposals/ Write off/ Transfers Rs.	Balance at the end of the year Rs.
Cost					
31 March 2019					
Land	376,492,586	144,199,000	-	-	520,691,586
Building	125,995,949	17,721,639	-	-	143,717,589
Motor vehicles	144,628,328	36,525,000	-	(38,486,037)	142,667,291
Furniture fittings and fixtures	111,899,478	20,508,418	-	(5,088,260)	127,319,635
Office equipment	35,335,329	8,382,115	-	(1,118,543)	42,598,901
Generator	2,475,005	294,757	-	-	2,769,762
Computer equipment	56,846,579	12,640,685	-	-	69,487,264
Telephone system	173,000	-	-	-	173,000
Agricultural equipment	411,020	-	-	-	411,020
Office lift	3,600,000	-	-	-	3,600,000
Tractor and trailer	1,455,950	-	-	-	1,455,950
Capital work in progress	22,970,738	49,608,458	-	(69,114,477)	3,464,719
	882,283,961	289,880,072	-	(113,807,317)	1,058,356,716
Cost					
31 March 2020					
Land	520,691,586	244,453,978	-	-	765,145,564
Buildings	143,717,589	(547,737)	-	(8,160,947)	135,008,905
Motor vehicles	142,667,291	26,328,498	-	(11,280,000)	157,715,788
Furniture fittings and fixtures	127,319,635	1,660,963	-	-	128,980,599
Office equipment	42,598,901	3,885,059	-	(153,884)	46,330,076
Generator	2,769,762	1,793,630	-	-	4,563,392
Computer equipment	69,487,264	4,650,806	-	(112,675)	74,025,395
Telephone system	173,000	-	-	-	173,000
Agricultural equipment	411,020	-	-	-	411,020
Office lift	3,600,000	-	-	-	3,600,000
Tractor and trailer	1,455,950	-	-	-	1,455,950
Capital work in progress	3,464,719	3,522,854	-	(3,549,812)	3,437,761
Right of Use Assets		76,531,101			76,531,101
	1,058,356,716	362,279,152	-	(23,257,318)	1,397,378,550

Notes to the Financial Statements

25.3 Freehold (Contd.)

	Balance at the beginning of the year Rs.	Charge for the year Rs.	Adjustment on Revaluation Rs.	Disposals/ Write off Rs.	Balance at the end of the year Rs.
Accumulated depreciation					
31 March 2019					
Buildings	2,835,511	3,356,576	-		6,192,087
Motor vehicles	67,176,297	26,758,974		(35,568,112)	58,367,159
Furniture fittings and fixtures	35,669,092	10,498,310	-	(1,737,948)	44,429,454
Office equipment	15,636,934	4,322,156	-	(585,377)	19,373,714
Generator	947,206	255,120	-	-	1,202,326
Computer equipment	36,986,481	7,285,412	-		44,271,893
Telephone system	127,881	34,600	-	-	162,481
Agricultural equipment	411,020	-	-	-	411,020
Office lift	2,088,000	360,000	-	-	2,448,000
Tractor and trailer	1,455,950	-	-	-	1,455,950
	163,334,373	52,871,148	-	(37,891,437)	178,314,084
Accumulated depreciation					
31 March 2020					
Building	6,192,087	3,371,117	-	(8,160,947)	1,402,257
Motor vehicles	58,367,159	30,104,015	-	(8,142,230)	80,328,944
Furniture fittings and fixtures	44,429,454	14,191,997	-	-	58,621,451
Office equipment	19,373,714	5,190,599	-	(153,884)	24,410,429
Generator /air conditioner	1,202,326	392,557	-	-	1,594,883
Computer equipment	44,271,893	8,797,327	-	(112,675)	52,956,545
Telephone system	162,481	10,519	-	-	173,000
Agricultural equipment	411,020	-	-	-	411,020
Office lift	2,448,000	360,000	-	-	2,808,000
Tractor and trailer	1,455,950	-	-	-	1,455,950
Right of Use Assets		24,480,396			24,480,396
	178,314,084	86,898,526	-	(16,569,736)	248,642,874
Carrying amount as at 31 March 2019	718,949,589				880,042,632
Carrying amount as at 31 March 2020	880,042,632				1,148,735,677

26. INTANGIBLE ASSETS

The company's intangible assets include the value of acquired computer software.

Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on 'Intangible Assets'.

Intangible assets that are acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the statement of financial position at cost, less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Derecognition of intangible assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from derecognition of an item of intangible asset is included in the Income Statement when the item is derecognised.

Useful economic lives, amortisation and impairment

Computer software

Intangible asset except for goodwill, are amortized using the straight–line method to write-down the cost of intangible assets to their residual values over their estimated useful lives as follows:

if any In definite-lived intangible assets, are not amortized,but are tested for impairment annually or more frequently if events or circumstances indicate the asset may be impaired.

Computer software	10 years

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Computer software				
Cost				
Balance at the beginning of the year	9,602,082	8,957,497	54,278,144	41,935,327
Additions during the year	304,776	644,585	1,365,328	12,892,816
Disposals during the year	-	-	-	(550,000)
Balance at the end of the year	9,906,858	9,602,082	55,643,472	54,278,143
Accumulated amortization				
Balance at the beginning of the year	6,617,387	5,676,693	33,190,382	27,386,020
Charge for the year	983,175	940,694	6,361,502	5,859,362
Disposals during the year			-	(55,000)
Balance at the end of the year	7,600,563	6,617,387	39,551,884	33,190,382
Carrying amount	2,306,295	2,984,694	16,091,588	21,087,761

Notes to the Financial Statements

27. CURRENT TAX ASSET

The Company is subject to income taxes and other taxes including VAT on financial services. Significant judgment is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

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

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Balance at the beginning of the year	67,808,276	46,179,625	177,829,987	99,713,267
Economic service charge	14,405,021	18,178,162	40,734,884	73,750,504
Withholding tax	4,420,939	3,450,490	5,284,990	4,366,215
Balance at the end of the year	86,634,236	67,808,276	223,849,860	177,829,987

28. DEFERRED TAX ASSETS

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

- 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
- n respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised 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 utilised 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
- in respect of deductible temporary differences associated with investments in subsidiary, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

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 utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised 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 in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the statement of profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax asset/liability

Deferred tax assets are recognised in respect of tax losses to the extent it is probable that future taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
The movement in the deferred tax is as follows:				
Balance at the beginning of the year	321,305,529	223,222,980	469,063,411	159,131,741
Deferred tax adjustment relating to additional depreciation on revaluation	-	-	-	-
Recognition / (reversal) to statement of comprehensive income	11,484,292	98,082,549	(86,947,921)	309,931,670
Recognition / (reversal) to other comprehensive income	-	-	-	-
Balance at the end of the year	332,789,820	321,305,529	382,115,491	469,063,411

Notes to the Financial Statements

28.1 Deferred tax assets, liabilities, and income tax relate to the following:

	Company			
	Statement of financial position	Statement of comprehensive income	Statement of financial position	Statement of comprehensive income
	31.03.2020 Rs.	2019/2020 Rs.	31.03.2019 Rs.	2017/2018 Rs.
Deferred tax liabilities				
Revaluation of Investment Property	(5,685,264)	(5,685,264)	-	
Available for financial assets	(682,885)	(787,518)	104,634	(67,863)
Deferred tax assets				
Capital allowances for tax purposes	50,790,073	29,758,001	21,032,072	(55,019,308)
Defined benefit plans	11,315,027	1,201,083	10,113,944	8,280,452
Investment allowance	227,012,175	-	227,012,175	216,329,706
Carried forward tax losses	13,269,404	6,453,364	6,816,041	53,705,582
Provision for impairment	35,328,118	(20,898,547)	56,226,665	
ROU Asset & Lease liability	1,443,173	1,443,173	-	
Deferred tax income / (expense)	332,789,821	11,484,292	321,305,529	223,228,569
Net deferred tax assets recognised	332,789,821	11,484,292	265,078,864	223,228,569
Unrecognised deferred tax asset				
- on carried forward tax losses	-		-	
- on investment allowance	92,963,704		92,963,704	103,410,688
Total unrecognised deferred tax asset	92,963,704		92,963,704	103,410,688
Tax rate used	28%		28%	28%

The Company is eligible for qualifying payment relief on the investment in subsidiary under the guidelines pursuant to the amendments introduced to the provisions of the Inland Revenue Act No 24 of 2017 to facilitate Financial Sector Consolidation. The value of future tax benefits have been recognised as a deferred tax asset as required by SLFRS based on best management estimates. The value of this asset is subject to eligibility for this allowance and the availability of taxable income during these respective periods.

	Group	
	31.03.2020 Rs.	31.03.2019 Rs.
Deferred tax asset / (liability)		
Capital allowances for tax purposes	(38,947,782)	(85,918,565)
Deferred tax assets		
Defined benefit plans	30,866,414	31,650,847
Investment allowance	227,012,175	227,012,175
Available for financial assets	(257,240)	419,326
Revaluation reserve on lands	(40,313,787)	(28,512,750)
Provision for impairment	179,184,230	308,628,748
Carried forward tax losses	13,269,404	6,816,041
	-	-
Net deferred tax assets	370,813,414	460,095,821

29. OTHER ASSETS

The Group classifies all other assets as other financial assets and other non financial assets. Other assets mainly comprises of deposits and prepayments, VAT receivable, debtors on sale of motor vehicles.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Deposits, advances and prepayments	16,341,723	30,292,539	65,285,271	308,011,022
Debtors on sale of motor vehicles	12,862	6,312,862	12,862	6,312,862
Debtors on insurance commission	8,326,668	6,171,886	8,326,668	6,171,886
VAT unabsorbed input tax	6,115,619	6,115,619	6,115,619	6,115,619
Miscellaneous	-	-	-	15,132,543
Other receivables	106,045	206,558	19,672,732	206,558
Related party transaction (Note 29.1)	4,519,267		4,519,267	
	35,422,183	49,099,464	103,932,418	341,950,490

Notes to the Financial Statements

29.1 Related Party Transactions

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Amount due from related party	6,901,667.00	-	6,901,667	-
Arpico Finance Payable	2,382,399.67		2,382,400	
	4,519,267.33	-	4,519,267.33	-

30. INVESTMENT IN SUBSIDIARY

Investment in subsidiary is accounted for at cost less accumulated impairment loss in the financial statements of the company. Provision for impairment is made, where the decline in value is other than temporary, and such impairment is made for investments individually.

	Company	
	31.03.2020 Rs.	31.03.2019 Rs.
Quoted shares		
Arpico Finance Company PLC		
Cost	1,160,387,961	1,160,387,961
	1,160,387,961	1,160,387,961
No of shares	6,992,610	6992610
Percentage of holdings	94.02%	94.02%

31. GOODWILL

Goodwill is allocated to Arpico Finance PLC which is a cash generating unit (CGU) operating within the Group. When testing for impairment on goodwill, the recoverable amount of a cash generating unit is determined on the basis of fair value less cost to sell and value-in-use, whichever is higher.

The fair value less cost to sell is computed based on earnings multiples / revenue multiples of comparable companies (listed), adjusted to reflect the liquidity. Value-in-use calculations are cash flow projections based on financial budgets, which are approved by the management, typically covering a five-year period. Further the net assets of the CGU also can be used to identify any indication of an impairment.

Accordingly, impairment test did not indicate an impairment on goodwill on acquisition of Arpico Finance PLC as at 31 March 2020.

32. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Due to banks and other financial institutions include bank overdrafts and long term and short term loans obtained from banks and other financial institutions. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Bank overdrafts	-	-	50,575,892	73,287,615
Securitization loans	1,406,286,349	1,089,792,114	3,929,580,229	6,469,468,737
	1,406,286,349	1,089,792,114	3,980,156,121	6,542,756,352

32.1 Security details of the loans

Lending Institutions	Nature of facilities	Securities Pledged	Value of Assets Pledged	31.03.2020 Rs.	31.03.2019 Rs.
Sampath Bank	Securitization loan - Trust 8	3,000,000 shares of Arpico Finance	280,000,000	41,654,000	74,990,000
Seylan Bank	Securitization loan - Trust 10	Performing lease receivables	455,000,000	79,900,000	167,500,000
DFCC/Indian bank	Securitization loan - Trust 12	Lease agreements identified by the company	325,000,000	11,100,000	71,500,000
Sampath Bank	Securitization loan - Trust 13	Lease agreements identified by the company	700,000,000	187,400,000	312,440,000
Wayamba Cooperative Rural Bank	Securitization loan - Trust 14	Lease agreements identified by the company	613,874,484	55,428,556	374,648,670
Individual investors	Securitization loan - Trust 15	Lease agreements identified by the company	115,327,476	-	88,713,444
Individual investors	Securitization loan - Trust 16	Lease agreements identified by the company	390,000,000	233,000,000	-
Sampath bank	Securitization loan - Trust 17	Lease agreements identified by the company	750,000,000	486,381,000	-
Wayamba Cooperative Rural Bank	Securitization loan - Trust 18	Lease agreements identified by the company	404,849,630	311,422,793	-
				1,406,286,349	1,089,792,114

Notes to the Financial Statements

33. DUES TO OTHER CUSTOMERS

Deposits from customers include fixed deposits. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the statement of profit or loss. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognise as well as through the EIR amortisation process.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Term deposits	4,622,186,395	4,914,785,274	13,264,955,128	13,458,820,895
Savings deposits	-	-	21,853,936	1,401,362
	4,622,186,395	4,914,785,274	13,286,809,065	13,460,222,256

Sri Lanka Deposit Insurance and Liquidity Support Scheme - Company

Under the Direction no 2 of 2010 finance companies(Insurance of Deposits Liabilities)issued by the central bank of Sri lanka and subsequent amendments thereto, all the eligible deposit liabilities have been insured with the Sri lank deposit insurance scheme implemented by monetory board with compensation up to a maximum of Rs. 600,000 for each individual depositor. The company has paid Rs. 6,816,951.00 as the premium of the said insurance scheme during the year.

34. OTHER LIABILITIES

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Trade payables are obligations to pay for vehicle suppliers in the ordinary course of business.

Company classifies all non-financial liabilities other than post employment benefit liability and current tax liabilities and trade payables under other non-financial liabilities. Other non-financial liabilities include accruals, advances and provisions. These liabilities are non-interest bearing and recorded at the amounts that are expected to be paid.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Accrued expenses	19,070,670	36,040,097	101,904,593	90,090,879
Other payables	393,852,634	134,780,038	796,518,574	275,381,523
Rental received in advance	5,298	5,298	5,298	5,298
	412,928,602	170,825,432	898,428,464	365,477,699

35. RETIREMENT BENEFIT OBLIGATIONS

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Group measures the present value of the promised retirement benefits for gratuity, which is a retirement benefit plan with the advice of an independent professional actuary using the 'Projected Unit Credit method' (PUC) as required by the Sri Lanka Accounting Standard- LKAS 19 on 'Employee Benefits'.

Interest Cost

Interest cost is the expected increase due to interest during the period in the present value of the plan liabilities because the benefits are one year closer to settlement.

Recognition of actuarial gains/losses

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

Funding arrangements

The gratuity liability is not externally funded.

The cost of the retirement benefit obligation is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future gratuity increases. Due to the long term nature of such obligation, these estimates are subjected to significant uncertainty. All assumptions are reviewed at each reporting date.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Provision as at the beginning of the year	36,121,227	29,573,044	113,038,743	88,094,326
Gratuity charge for the year	3,226,009	3,087,918	19,268,658	17,344,391
Interest charge for the year	4,190,062	3,253,035	4,190,063	3,253,036
(Gain)/ loss arising from changes in the assumptions	(1,739,739)	1,251,730	(14,286,544)	6,629,116
Payment during the year	(1,386,750)	(1,044,500)	(11,973,725)	(2,282,125)
Provision as at the end of the year	40,410,809	36,121,227	110,237,195	113,038,743

An actuarial valuation of the retirement benefit obligation in the company was carried out as of 31 March 2020 by qualified actuarial valuer Mr. M. Poopalanathan (Actuarial and Management Consultants (Pvt) Limited).

The following key assumptions and data were used in valuing the defined benefit obligations by the actuarial valuer:

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Expected salary increment rate	10%	10%	10%	10%-10.4%
Discount rate	11.6%	11%	11.6%	10%-11%
Staff turnover	22%			
Mortality	A 1967/70		A 1967/70	
Retirement age	Normal retirement age (55 Year)		Normal retirement age (55 Year)	

Notes to the Financial Statements

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected defined benefit obligation by the amounts shown below:

	Company		Group	
	+ 1% Rs.	- 1% Rs.	+ 1% Rs.	- 1% Rs.
Factor				
Discount rate	35,164,710	37,144,659	91,822,389	91,822,389
Expected salary increment rate	37,013,684	35,275,452	97,786,275	97,786,275

36. STATED CAPITAL

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Voting ordinary shares	56,086,280	56,086,280	56,086,280	56,086,280
Reconciliation of number of shares				
Voting ordinary shares	5,608,355	5,608,355	5,608,355	5,608,355

Rights of shareholders

The holders of ordinary shares have the right to receive dividends as declared from time to time and are entitled to one vote per share at meetings. All shares rank equally with regard to the Company's residual assets.

37. RETAINED EARNINGS

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

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Balance at the beginning of the year	1,061,717,086	935,382,931	1,478,201,862	1,117,461,556
Profit / (loss) for the year	23,303,713	134,300,932	(134,423,533)	446,857,635
Other comprehensive income for the year	1,739,739	(1,251,730)	10,233,223	(4,883,147)
(-) Transfers to statutory reserve fund	(1,165,186)	(6,715,047)	(3,444,091)	(81,234,183)
Balance at the end of the year	1,085,595,353	1,061,717,086	1,350,567,461	1,478,201,862

38. OTHER RESERVES

'General Reserves' represents the amounts set aside by the Directors for general application. The purpose of setting up the General Reserve is to meet the potential future unknown liabilities.

'A statutory reserve fund ' to secure the deposit holders of the Company was created under the directions issued by the Central Bank of Sri Lanka under Finance Companies Act No. 78 of 1988 and Finance Companies (capital funds) Direction No. 01 of 2003.

Funds are transferred to reserve fund out of the profit of each year based on the criteria specified as follows.

(i) so long as the capital funds are not less than twenty five (25) per cent of total deposit liabilities, a sum equal to not less than five (5) per cent of the net profits;

(ii) so long as the capital funds are less than twenty five (25) per cent of total deposit liabilities, but not less than ten (10) per cent thereof, a sum equal to not less than twenty (20) per cent of the net profits; and

(iii) so long as the capital funds are less than ten (10) per cent of the total deposit liabilities, a sum equal to not less than fifty (50) per cent of the net profits.

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
General reserve	1,029,052	1,029,052	1,029,052	1,029,052
Statutory reserve (Note 38.1)	88,613,706	87,448,521	320,077,504	316,633,413
Available for sale reserve	978,472	978,472	4,350,682	6,672,846
Capital reserve	17,930	17,930	17,930	17,930
	90,639,161	89,473,975	325,475,168	324,353,241

38.1 Statutory reserve fund

	Company		Group	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Balance at the beginning of year	87,448,521	80,733,474	316,633,413	235,399,230
Transfers during the year	1,165,186	6,715,047	3,444,091	81,234,183
Balance at the end of year	88,613,706	87,448,521	320,077,504	316,633,413

During the year2019/20 the Company transferred sum of Rs. 1,165,186 equivalent to 5% of the net profit for the year ended 31 March 2020 to reserve fund.

Notes to the Financial Statements

39. RELATED PARTY DISCLOSURES

The Company carries out transactions in the ordinary course of business with parties who are defined as related parties in the Sri Lanka Financial Reporting Standard (LKAS 24) - Related Party Disclosures, the details of which are reported below:

The Group carried out transactions with its key management personnel and its related entities and other related parties in the ordinary course of its business on an arms length basis at commercial rates except that the key management personnel have availed facilities under the loan schemes uniformly applicable to all the staff at concessionary rates.

39.1 Parent and ultimate Parent

The Company does not have a parent of its own.

39.2 Transactions with directors and other Key management Personnel (KMP)

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. The Company considered the members of its board and Chief Executive Officer as KMP with effect from 1 April 2012, since they have the authority and responsibility for planning, directing and controlling the activities of the Company.

Mr. J.P.I.N. Dayawansa, Mrs. W.A.S. Dayawansa, Mr. J.P.I.S. Dayawansa, Mr. K.D.U.S Nanayakkara & Mr. L.R. Karunarathna were the directors of the Company during the period.

The Group carries out transactions with KMP and their close family members in the ordinary course of its business on an arms length basis at commercial rates.

	Company	
	31.03.2020 Rs.	31.03.2019 Rs.
(i) Compensation of KMP		
Short term employment benefits	101,956,488	85,951,993
(ii) Lending facilities granted to KMP against their fixed deposit		
Aggregate amount	463,550	4,826,373
Outstanding balance as at 31 March	463,550	4,763,997
(iii) Deposits held by KMP with the Company		
Fixed deposits	135,730,566	149,881,791
(iv) Other business transactions with KMP		
Office rent payment	9,625,000	6,600,000

39.3 Transactions with subsidiary and other related companies

During the year the Company carried out the following transactions with its subsidiary Arpico Finance Company PLC and other related companies.

Related parties	Nature of relationship	Nature of transactions	Terms and Conditions	Aggregate value of RPTs as a % of Net income	Transaction value Rs.	Balance as at 31.03.2020 Rs.
(i) Arpico Finance Company PLC	Investment in 94% of shares of Arpico Finance Company PLC and common directors	→ Investment in 6,992,610 shares	-	-	-	1,160,387,961
		→ Reimbursement of expenses	-	0.38%	5,535,688	5,535,688
		→ Deposits accepted during the year	24 months maturity, Rate 13.11%	2.05%	30,000,000	30,000,000
		→ Interest on FD		0.90%	13,167,464	7,381,110
		→ Related Party Recivable		0.31%	4,519,267	4,519,267
(ii) Poltech Ceylon Company Ltd.	Common Directors	→ Rent of Poltech (Ceylon) Co.Ltd		0.05%	745,350	
		→ Fixed deposits in Poltech	15 months maturity, Rate 15.22% & 03 month monthly,Rate 9.34%	1%	17,182,040	17,182,040
		→ Refundable deposit on rent	Non interest bearing refundable Security deposit to the LESSEE	-	-	819,600
		→ Loan Against FD	Monthly, Rate Average 18.44%	1%	9,750,000	7,250,000
		→ Interest on Loan Against FD		-	471,338	265,111
(ii) Imperial Import and export company (Pvt) Ltd	One of the major shareholders of the Company and a common director	→ Investment in 2,422,308 shares		2%	24,223,080	24,223,080

40. CONTINGENT LIABILITIES AND COMMITMENTS

40.1 Capital commitments

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 readily measured as defined in the Sri Lanka Accounting Standard-LKAS 37 on 'Provisions, contingent liabilities and contingent assets'. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless its occurrence is remote.

There were no material capital commitments outstanding as at the reporting date that required adjustments to or disclosures in the financial statements of the company.

The Company and Group had no commitments for acquisition of property, plant and equipment, intangible assets incidental to the ordinary course of business as at 31 March 2020. (31 March 2019 - Nil)

40.2 Litigations against the company / group

Commitments and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard-LKAS 37 on 'Provisions, contingent liabilities and contingent assets'. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Notes to the Financial Statements

There were no material litigations against the Company that requires any adjustments to or disclosures in the financial statements.

Litigation is a common occurrence in the finance instititution due to the nature of its business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. At the reporting date the Company had several unresolved legal claims. The significant unresolved legal claims against the Company for which legal advisor of the Company advised as the loss is possible, but not probable, that the action will succeed. Accordingly, no provision for any claims has been made in these financial statements.

The subsidiary Company filed a case against the Richard Pieris Arpico Finance Limited, for using the word 'Arpico Finance' in the High Court of Western Province (Civil) in Colombo under the provisions of the Intellectual Property Act. An Interim order was issued in our favour, prohibiting Richard Peiris Arpico Finance Limited from using the name "ARPICO FINANCE" until the final judgment is delivered by the Commercial High Court. After several days of the trial, both parties closed their cases and the case was fixed for written submissions on 29 September 2020.

Tax assessment

As per the notice of assessment issued by the Department of Inland Revenue dated 30.05.2016 and 30.05.2017, the Company had to make an additional tax payments for the year of assessment 2014/15 and 2015/16 amounting to Rs. 28,402,545 and Rs. 51,632,714 respectively. The company had already appealed in this regard and the management is confidence that there will be no further tax payments.

41. EVENTS AFTER THE REPORTING DATE

On 11 July 2018, the Board of Directors of the Company granted its approval in principle for the proposed amalgamation between Associated Motor Finance Company PLC and its subsidiary company Arpico Finance Company PLC, whereby Arpico Finance Company PLC will be the surviving entity subject to obtaining requisite approvals. The Company is in the process of finalizing the terms upon which the proposed amalgamation would take effect, the ratio in which the shares of Arpico Finance Company PLC would be swapped for shares of the company, and obtaining the necessary approvals from the Central Bank of Sri Lanka is awaited.

Other than the above no circumstances have arisen since the reporting period which would require adjustments to, or disclosures in the financial statements.

42. RISK MANAGEMENT

42.1 Introduction

Risk Management of the Company is the systematic process of identifying, quantifying and managing all risks and opportunities that can affect the achievement of the Associated Motor Finance Company PLC strategic and financial goals. The Company has established a sound risk management framework to identify and mitigate the risk exposure.

The Board of Directors (BOD) is primarily responsible for overall risk management of the Company. Hence the BOD has established Integrated Risk Management Committee for prudent risk management. The Board's Integrated Risk Management Committee (IRMC) is responsible for determining the Company's risk management policy and overall strategies and ensuring that procedures at Board and Management level are in place to identify, monitor and mitigate risks to safeguard the Company's assets and interests by clearly communicating that policy and those strategies to the Management on a periodic basis.

Though the risk is inherent in the finance companies activities, it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. Finance companies are exposed to various risks during their business operations. The major categories of risks are credit, market, liquidity, operational and interest rate.

42.2 Risk mitigation and risk management systems

The Company is exposed to a multitude of risks when reaching its realisation of vision, mission and corporate objectives. The Board of Directors therefore places special emphasis on the management of risks and together with the Management Committee, ensures that a sound system of controls including financial, operational and compliance controls are in place, and reviews regularly the effectiveness of such controls, to safeguard shareholder investments. Based on the likelihood of occurrence and the impact of the risks, the Company takes risk minimisation strategies to deal with them.

42.3 Risk faced by the company

(a) Credit risk

"Credit risk can be defined as borrower's failure to repay a loan or otherwise meet a contractual obligation." Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorised into three types-default, concentration and settlement risk. A separate recovery office is established to manage the credit risk faced by the Company. It adopts strict credit risk evaluation processes by assessing credit worthiness of the customers, monitoring debt collection process and remedial actions and effective recovery processes. Company uses various credit indicators to identify the emerging credit risks and analytical tools to manage such risks.

The greatest of the credit risk assumed by the Company is the default risk. NPL (Non Performing Loan) ratio is an important measure which highlights the credit risk representing the default or non-payment of loans and advances by the customers. NPL ratio increases up to 6.55% during the current financial year in comparison to 6.61% in the last year.

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

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

	Neither past due nor impairment* Rs.	Past dues and impairment Rs.	Total Rs.
As at 31.03.2019			
Financial assets			
Cash and bank balances	260,351,158	-	260,351,158
Financial assets - amortised cost	815,839,897	-	815,839,897
Financial investments - available for sale	1,165,929	-	1,165,929
Loans and receivables	4,535,248,968	313,242,284	4,848,491,252
	5,612,605,953	313,242,284	5,925,848,237

* These are considered for collective impairments.

Definition of Past Dues

The Company considers that any amounts uncollected on the due date or more beyond their contractual due date as 'past due'.

Age Analysis of past due (i.e. facilities in arrears of 1 day and above) loans and receivables by class of Financial Assets are given below:

	< 3 months	> 3 & < = 6	> 6 & < =12	>12	Total
As at 31.03.2020					
Loans and advances	100,293,175	1,594,364	37,678	34,375	101,959,592
Finance lease receivable	3,879,897,463	553,592,107	170,023,379	143,018,711	4,746,531,660
As at 31.03.2019					
Loans and advances	68,063,526	9,923,013	4,774,739	4,973,186	87,734,465
Finance lease receivable	3,913,511,234	567,448,211	158,153,140	142,547,587	4,781,660,172

Notes to the Financial Statements

(b) Market risk

This is the risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices; currency exchange and interest rates; credit spreads; recovery rates and correlations; as well as implied volatilities in all the above. In managing the market risk Company uses a variety of quantitative methods to assess the Company's market risk exposures, portfolio performance and impact on earnings. Marketing Division in particular is responsible for quantifying the impact, advising the top management on acceptable tolerance levels and monitoring the set levels regularly.

(c) Liquidity risk

Liquidity risk arises when the Company, despite being solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due or can only do so at materially disadvantageous terms. The Company assures its liquidity position by ensuring the holdings of adequate liquid funds and effective review of assets and liabilities of the Company. The Company treasury function continuously maintains good relationships with banks and currently has an overdraft facility to meet its obligations.

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

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

Analysis of Financial Assets And Liabilities By Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2020:

	On demand	Less than 03 months	03 - 12 months	01 - 05 years	Over 05 years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial assets						
Cash and bank balances	260,351,158	-	-	-	-	260,351,158
Investments in fixed deposits and other financial assets	-	144,972,726	133,486,720	-	-	278,459,446
Investment in Government securities	-	267,655,713	269,724,737	-	-	537,380,450
Loans and receivables	-	30,869,573	40,155,491	29,313,430	-	100,338,493
Lease rentals receivables	-	756,644,740	2,023,647,243	1,734,879,438	-	4,515,171,420
Total financial assets	260,351,158	1,200,142,752	2,467,014,190	1,764,192,868	-	5,691,700,968
Financial liabilities						
Due to banks	-	212,716,556	506,632,000	686,937,793	-	1,406,286,349
Due to customers	-	885,377,693	1,407,778,804	2,314,845,263	14,184,635.19	4,622,186,395
Other financial liabilities	-	-	-	-	-	-
Total financial liabilities	-	1,098,094,249	1,914,410,804	3,001,783,056	14,184,635	6,028,472,744
Total net financial assets/ (liabilities)	260,351,158	102,048,503	552,603,386	(1,237,590,188)	(14,184,635)	(336,771,776)

(d) Operational risk

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

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

(e) Interest rate risk

Interest rate risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating rates. The Group manages its interest rate risk by monitoring and managing cash flows, negotiating favourable rates on borrowings and deposits including and maintaining an appropriate combination of fixed and floating rate debt.

(f) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Company has no investment and no borrowing in foreign currency and there is no currency risk for the company.

(g) Equity price risk

The Group is exposed to equity risk because of investments in quoted shares held by the Group classified as financial assets available for sale. The value of these investments is subjected to the performance of investee company and the factors that affects the status of the stock market. The Group manages the equity risk through diversification and by placing limits on individual and total equity instruments. The Board of Directors reviews and approves all equity investment decisions. Sensitivity analysis on the value of the investments is not provided as it is deemed to be not material.

(h) Capital adequacy risk

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

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

Although the Company has maintained the core capital ratio of 13.72%, the total risk weighted capital ratio of 14.8% of AMF was impacted due to the large leveraged investment in Arpico Finance Company PLC (AFCP). Currently, Central Bank of Sri Lanka has allowed AMF to operate below the regulatory requirement pending the merger with AFCP.

(i) Impact of COVID-19

The COVID-19 pandemic, has directly impacted the businesses and the economic activities of the global and local economy. It has created adverse economic stress among the public including our customers, which may lead to an increase in credit risk in the short term. As a result the company is continuously assessing the situation in order to counter possible disruptions due to the pandemic.

Accordingly, the Company is in the process of providing relief and facilitating debt moratorium to the affected businesses and individuals in line with the directions issued by CBSL.

The COVID-19 impact was considered, in calculating the Probability of Default (PD), Loss Given Default (LGD), Economic Factor Adjustment (EFA) and the staging of facilities computed as at 31st March 2020 in order to estimate the Expected Credit Loss (ECL) of the Company.

The Management of the Company has conducted an in-depth analysis on the probable industries which have and would get affected due to COVID-19 and assessed the scale of the impact on the Company's lending portfolio in terms of concentration risk.

Notes to the Financial Statements

42.4 Maturity analysis

Company

	Up to 3 months		3 to 12 months	
	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
Interest earning assets				
Investments in government securities	267,655,713	268,401,699	269,724,737	244,580,953
Investments in fixed deposits and other financial assets	144,972,726	523,773,593	133,486,720	-
Investments in hire purchases	14,021	56,307		162,988
Investments in leases	756,644,740	1,060,695,628	2,023,647,243	1,660,106,760
Investments of loans obtained against fixed deposits	28,219,529	28,714,256	34,958,140	14,236,116
Investments in other loans	2,636,023	3,085,513	5,197,351	6,509,058
Investments on unit trust	155,782,514			
	1,355,925,265	1,884,726,996	2,467,014,190	1,925,595,875
Non interest earning assets				
Cash in hand and at banks	260,351,158	89,053,079	-	-
Inventories	13,790,809	27,346,780	40,752,319	110,187,704
Investments in shares	-	-	-	-
Deferred tax assets	-	-	-	-
Other assets	35,422,183	49,099,464	86,634,236	67,808,276
Property and equipment	-	-	-	-
Intangible assets	-	-	-	-
Investment property	-	-	-	-
Investment in subsidiary	-	-	-	-
	309,564,150	165,499,323	127,386,555	177,995,980
Total assets	1,665,489,416	2,050,226,319	2,594,400,745	2,103,591,855
Percentage	21.59%	27.64%	33.63%	28.35%
Interest bearing liabilities				
Public deposits	872,889,739	927,604,237	1,388,139,523	1,605,540,630
Interest bearing public deposits	12,487,954	10,161,612	19,639,282	17,588,191
Bank overdrafts	-	-	-	-
Commercial papers	-	-	-	-
Securitization loan	212,716,556	148,958,480	506,632,000	556,683,295
Bank loans	-	-	-	-
	1,098,094,249	1,086,724,329	1,914,410,804	2,179,812,117
Non interest bearing liabilities				
Other liabilities	407,564,919	165,073,160	5,363,683	5,363,683
Retirement benefit obligations	-	-	-	-
	407,564,919	165,073,160	5,363,683	5,363,683
Total liabilities	1,505,659,167	1,251,797,489	1,919,774,487	2,185,175,800
Percentage	23.23%	20.15%	29.62%	35.18%

1 to 5 years		More than 5 years		Total	
31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.	31.03.2020 Rs.	31.03.2019 Rs.
	5,086,959	-	-	537,380,450	518,069,611
-	-	-	-	278,459,446	523,773,593
-	-	-	-	14,021	219,294
1,734,879,438	1,684,595,134	-	-	4,515,171,420	4,405,397,522
27,216,002	14,728,695	-	-	90,393,670	57,679,067
2,097,428	-	-	-	9,930,802	9,594,571
				155,782,514	
1,764,192,868	1,704,410,788	-	-	5,587,132,323	5,514,733,658
-	-	-	-	260,351,158	89,053,079
-	-	-	-	54,543,128	137,534,485
1,165,929	1,165,929	-	-	1,165,929	1,165,929
332,789,820	321,305,529	-	-	332,789,820	321,305,529
-	-	-	-	122,056,419	116,907,740
108,399,912	74,728,313	-	-	108,399,912	74,728,313
2,306,295	2,984,694	-	-	2,306,295	2,984,694
-	-	85,000,000	-	85,000,000	-
-	-	1,160,387,961	1,160,387,961	1,160,387,961	1,160,387,961
444,661,956	400,184,465	1,245,387,961	1,160,387,961	2,127,000,623	1,904,067,730
2,208,854,825	2,104,595,253	1,245,387,961	1,160,387,961	7,714,132,946	7,418,801,388
28.63%	28.37%	16.14%	15.64%	100.00%	100.00%
2,282,551,910	2,323,997,491	13,986,752	4,386,401	4,557,567,923	4,861,528,759
32,293,353	25,458,660	197,883	48,052	64,618,472	53,256,515
-	-	-	-	-	-
-	-	-	-	-	-
686,937,793	384,150,339	-	-	1,406,286,349	1,089,792,114
-	-	-	-	-	-
3,001,783,056	2,733,606,490	14,184,635	4,434,453	6,028,472,744	6,004,577,388
	388,590	-	-	412,928,602	170,825,433
40,410,809	36,121,227	-	-	40,410,809	36,121,227
40,410,809	36,509,817	-	-	453,339,411	206,946,660
3,042,193,865	2,770,116,308	14,184,635	4,434,453	6,481,812,155	6,211,524,049
46.93%	44.60%	0.22%	0.07%	100.00%	100.00%

Notes to the Financial Statements

42.5 Maturity analysis

Group

	31.03.2020				
	Up to 3 months Rs.	3 to 12 months Rs.	1 to 5 years Rs.	More than 5 years Rs.	Total Rs.
Interest earning assets					
Cash in hand and at bank	1,319,866,517	-	-	-	1,319,866,517
Financial assets - amortised cost	1,203,079,580	512,671,731	452260215.2	5,044,576	2,173,056,102
Financial assets - measured at FVPL	174,896,898	-		-	174,896,898
Investments in leases	2,601,434,517	4,198,041,996	7,237,592,743	27,637,760	14,064,707,016
Loans and advances	713,710,918	335,362,623	633,494,986	13,174,197	1,695,742,725
Financial assets - measured at FVOCI	17,330,977	-	1,165,929	-	18,496,906
	6,030,319,408	5,046,076,349	8,324,513,874	45,856,533	19,446,766,164
Non interest earning assets					
Cash in hand and at bank		-	-	-	1,319,866,517
Inventories	14,751,037	40,752,319	-	-	55,503,357
Deferred tax assets	-	-	382,115,491	-	382,115,491
Property and equipment	-	-	1,148,735,677	-	1,148,735,677
Other assets	35,422,183	292,360,096	-	-	327,782,279
Intangible assets	-	-	16,091,588	-	16,091,588
Investment property	-	-	-	85,000,000	85,000,000
	50,173,221	333,112,415	1,546,942,755	85,000,000	3,096,652,764
Total assets	6,080,492,629	5,379,188,764	9,871,456,629	130,856,533	22,550,800,037
Percentage	27%	23%	44%	-	100%
Interest bearing liabilities					
Public deposits	3,473,377,816	4,637,411,593	5,161,835,020	14,184,635	13,286,809,064
Banks	1,034,933,630	1,300,614,511	1,644,607,980	-	3,980,156,121
Other financial liabilities	428,454,970	-	-	-	428,454,970
	4,936,766,416	5,938,026,104	6,806,443,000	14,184,635	17,695,420,155
Non interest bearing liabilities					
Other liabilities	459,455,623	5,363,683	-	5,154,189	469,973,495
Retirement benefit obligations	-	-	110,237,197	-	110,237,197
	459,455,623	5,363,683	110,237,197	5,154,189	580,210,692
Total liabilities	5,396,222,039	5,943,389,787	6,916,680,197	19,338,824	18,275,630,846

43. 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 analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 09 'Financial Instruments : Recognition and Measurement' under the headings of the Statement of Financial Position.

FVPL : Fair value through profit or loss

AC : Amortised Cost

FVOCI : Fair Value through Other Comprehensive Income

Group	FVPL Rs.	AC Rs.	FVOCI Rs.	Rs.	Total Rs.
Financial assets					
Cash and cash equivalents	-	1,319,866,517	-	-	1,319,866,517
Financial assets - amortised cost	-	2,173,056,102	-	-	2,173,056,102
Loans and advances to customers	-	14,249,166,496	-	-	14,249,166,496
Financial assets - measured at FVPL	174,896,898	-	-	-	174,896,898
Financial assets - measured at FVOCI	-	-	-	18,496,907	18,496,907
Total financial assets	174,896,898	17,742,089,115	-	18,496,907	17,935,482,920

	FVPL Rs.	AC Rs.	Total Rs.
Financial liabilities			
Dues to financial institutions	-	3,980,156,122	3,980,156,122
Dues to other customers	-	13,286,809,065	13,286,809,065
Trade and other payables	-	898,428,464	898,428,464
Total financial liabilities	-	18,165,393,651	18,165,393,651

Notes to the Financial Statements

Analysis of financial instruments by measurement basis - as at 31.03.2020

Company	FVPL Rs.	AC Rs.	FVOCI Rs.	Rs.	Total Rs.
Financial assets					
Cash and cash equivalents	-	260,351,158	-	-	260,351,158
Financial assets - amortised cost		815,839,897	-	-	815,839,897
Loans and advances to customers	-	4,615,509,914	-	-	4,615,509,914
Financial assets - measured at fair value through other comprehensive income	-	-	1,165,929	-	1,165,929
Total financial assets	-	5,691,700,969	1,165,929	-	5,692,866,898

	FVPL Rs.	AC Rs.	Total Rs.
Financial liabilities			
Financial institutions	-	1,406,286,349	1,406,286,349
Others	-	4,622,186,395	4,622,186,395
Total financial liabilities	-	6,028,472,744	6,028,472,744

Analysis of financial instruments by measurement basis - as at 31.03.2019

Group	FVPL Rs.	AC Rs.	FVOCI Rs.	Rs.	Total Rs.
Financial assets					
Cash and cash equivalents	-	310,770,340	-	-	310,770,340
Financial assets - amortised cost	-	1,928,841,964	-	-	1,928,841,964
Loans and advances to customers		17,754,251,691			17,754,251,691
Financial assets - measured at FVPL	10,904,749		-	-	10,904,749
Financial assets - measured at FVOCI		-	20,892,153	-	20,892,153
Total financial assets	10,904,749	19,993,863,994	20,892,153	-	20,025,660,896

	FVPL Rs.	AC Rs.	Total Rs.
Financial liabilities			
Financial institutions	-	6,542,756,353	6,542,756,353
Other customers	-	13,460,222,256	13,460,222,256
Debentures	-	365,477,699	365,477,699
Total financial liabilities	-	20,368,456,308	20,368,456,308

Company	FVPL Rs.	AC Rs.	FVOCI Rs.	Rs.	Total Rs.
Financial assets					
Cash and cash equivalents	-	89,053,079	-		89,053,079
Financial assets - amortised cost		1,041,843,204			1,041,843,204
Loans and advances to customers	-	4,472,890,455	-		4,472,890,455
Financial assets - measured at Fair Value through Other Comprehensive income	-		1,165,929		1,165,929
Total financial assets	-	5,603,786,737	1,165,929	-	5,604,952,667

	FVPL Rs.	AC Rs.	Total Rs.
Financial liabilities			
Financial institutions	-	1,089,792,114	1,089,792,114
Others	-	4,914,785,274	4,914,785,274
Total financial liabilities	-	6,004,577,388	6,004,577,388

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Date of recognition

Financial assets and financial liabilities, except the loans and advances to customers and balances due to depositors, are initially recognised on the trade date, i.e. the date the Company becomes a party to the contractual provisions of the instrument. This includes the regular way trades, purchases or sales of financial assets that require delivery of assets to customers within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers 'accounts and the balances due to customers are recognised when the funds are transferred to the Company.

Initial measurement of financial instruments

Financial instruments are initially measured at fair value, except in case of financial assets and financial liabilities recorded at fair value through Profit or Loss (FVTPL), 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 the Day 1' Profit or loss.

Notes to the Financial Statements

Day 1'Profit or Loss

When the transaction price of the instrument differs from the fair value at the origination and the fair value is based on a valuation technique using only inputs from observable in market transactions, the company recognises the difference between the transaction price and the fair value.

Classification and subsequent measurement of financial assets

The Company classifies all its financial assets based on the business model for managing the assets and asset's contractual terms measured at either;

- Amortised cost or
- Pair Value through Profit or Loss (FVPL)
- Fair Value through Other Comprehensive Income (FVOCI)

The subsequent measurement of financial assets depends on their classification.

Business model assessment

The Company determines its business model at the level that reflects how it manages the financial assets to achieve its objectives. The Company's business models 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 business model and the financial assets held within 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 asset held within that business model) and , in particular, the way those risks are managed
- How mangers of the business are compensated (for example; whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and the timing of sales

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios in to account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectation, the Group 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.

Contractual Cash flow Characteristic Test (The SPPI Test)

As the second test of the classification process the Company assesses the contractual terms of the financial asset to identify whether those meet 'Solely the Payment of Principle and Interest' (SPPI) criteria.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition which may change over the life of the financial asset (for example, if there are repayments of principal or amortization 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 SPPI assessment, the Company applies judgement and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

Classification and subsequent measurement of financial liabilities

As per SLFRS 09, the Company classifies financial liabilities, other than financial guarantees and loan commitments into one of the following categories;

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

The subsequent measurement of financial liabilities depend on their classifications.

Reclassification of Financial Assets and Financial Liabilities

As per SLFRS 09, Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Company changes its objective of the business model for managing such financial assets which may include the acquisition, disposal or termination of a business line.

Financial liabilities are not reclassified as such reclassifications are not permitted by SLFRS 09.

Derecognition of Financial Assets and Financial Liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Offsetting Financial Instruments

Financial assets and financial liabilities are set-off and the net amount reported in the statement of financial position only if, there is a currently enforceable legal right to set-off 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 amount of 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 Company's trading activity.

During the year the Company had not set-off any financial assets with financial liabilities in the statement of financial position.

44.1 Determination of fair value and fair value hierarchy

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

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

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

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

Notes to the Financial Statements

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

Company

	Amortised cost Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
As at 31 March 2020					
Financial assets - amortised cost					
Cash and cash equivalents	260,351,158	260,351,158	-	-	260,351,158
Investments in fixed deposits	98,863,433	98,863,433	-	-	98,863,433
Investments in treasury bonds	-		-	-	-
Treasury bills	269,724,737	269,724,737	-	-	269,724,737
Investments in repos	267,655,714		267,655,714	-	267,655,714
Investments in debt securities	179,596,014	179,596,014	-	-	179,596,014
Financial assets at amortized cost / loans and receivables	4,615,509,914		-	4,615,509,914	4,615,509,914
Financial investments - FVOCI					
Investments in unquoted securities		-	-	682,934	682,934
Investments in unit trust		482,995	-	-	
Fair value through profit or loss FVPL					
Investments in unit trust		155,782,514	-	-	155,782,514
Total financial assets		964,800,850	267,655,714	4,616,192,848	5,848,166,417
Financial liabilities - amortised cost					
Dues to banks and financial institutions	1,406,286,349	-	1,406,286,349	-	1,406,286,349
Deposits from customers	4,622,186,395	-	-	4,622,186,395	4,622,186,395
Trade and other payables	412,928,602	-	412,928,602	-	412,928,602
		-	1,819,214,950	4,622,186,395	6,441,401,345

Company

	Amortised cost Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
As at 31 March 2019					
Financial assets - amortised cost					
Cash and cash equivalents	89,053,079	89,053,079	-	-	89,053,079
Investments in fixed deposits	466,379,672	466,379,672	-	-	466,379,672
Investments in treasury bonds	5,086,959	5,086,959	-	-	5,086,959
Treasury bills	244,441,364	244,441,364	-	-	244,441,364
Investments in repos	268,541,288	-	268,541,288	-	268,541,288
Investments in debt securities	57,393,921	57,393,921	-	-	57,393,921
Financial assets at amortized cost / loans and receivables	4,472,890,455	-	-	4,472,890,455	4,472,890,455
Financial investments - FVOCI					
Investments in unquoted securities		-	-	682,934	682,934
Investments in unit trust		482,995	-	-	482,995
Total financial assets		862,837,989	268,541,288	4,473,573,389	5,604,952,667
Financial liabilities - amortised cost					
Dues to banks and financial institutions	1,089,792,114	-	1,089,792,114	-	1,089,792,114
Deposits from customers	4,914,785,274	-	-	4,914,785,274	4,914,785,274
Trade and other payables	170,825,432	-	170,825,432	-	170,825,432
		-	1,260,617,546	4,914,785,274	6,175,402,820

Notes to the Financial Statements

Group

	Amortised cost Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
As at 31 March 2020					
Financial assets - amortised cost					
Cash and cash equivalents	1,319,866,517	1,319,866,517			1,319,866,517
Investments in fixed deposits	220,894,759	220,894,759			220,894,759
Investments in treasury bonds	17,531,875	17,531,875			17,531,875
Treasury bills	269,724,737	269,724,737			269,724,737
Investments in repos	1,485,308,717		1,485,308,717		1,485,308,717
Investments in debt securities	179,596,014	179,596,014			179,596,014
Financial assets at amortized cost / loans and receivables	14,249,166,496			14,249,166,496	14,249,166,496
Financial investments - FVOCI					
Unit trust		482,995	-	-	482,995
Unquoted shares		-	-	6,421,337	6,421,337
Quoted shares		11,592,575	-	-	11,592,575
Financial investments - fair value through profit or loss					
Quoted equities		8,816,949	-	-	8,816,949
Unit trusts		166,079,949	-	-	166,079,949
Total financial assets		2,194,586,370	1,485,308,717	14,255,587,834	17,935,482,920
Financial liabilities - amortised cost					
Dues to banks and financial institutions	3,980,156,122		3,980,156,122		3,980,156,122
Deposits from customers	13,286,809,065			13,286,809,065	13,286,809,065
Trade and other payables	898,428,464		898,428,464		898,428,464
	18,165,393,651	-	4,878,584,586	13,286,809,065	18,165,393,651

Group

	Amortised cost Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
As at 31 March 2019					
Financial assets - amortised cost					
Cash and cash equivalents	310,770,340	310,770,340			310,770,340
Investments in fixed deposits	370,972,138	370,972,138			370,972,138
Investments in treasury bonds	22,338,916	22,338,916			22,338,916
Treasury bills	244,441,364	244,441,364			244,441,364
Investments in repos	1,233,695,625		1,233,695,625		1,233,695,625
Investments in debt securities	57,393,921	57,393,921			57,393,921
Financial assets at amortized cost / loans and receivables	17,754,251,691			17,754,251,691	17,754,251,691
Financial investments - FVOCI					-
Unquoted shares		-		6,803,161	6,803,161
Quoted shares		13,605,997		-	13,605,997
Financial investments - fair value through profit or loss					
Quoted equities		10,904,749		-	10,904,749
Unit trusts		-		-	-
Total financial assets		1,030,910,419	1,233,695,625	17,761,054,852	20,025,660,896
Financial liabilities - amortised cost					
Dues to banks and financial institutions	6,542,756,353		6,542,756,353		6,542,756,353
Deposits from customers	13,460,222,256			13,460,222,256	13,460,222,256
Trade and other payables	365,477,699		365,477,699		365,477,699
	20,368,456,308	-	6,908,234,052	13,460,222,256	20,368,456,308

Five Year Summary

	31.03.2016 Rs. '000	31.03.2017 Rs. '000	31.03.2018 Rs. '000	31.03.2019 Rs. '000.	31.03.2020 Rs. '000
Balance Sheet					
Cash and cash equivalents	310,556	83,986	176,843	89,053	260,350
Investments in government securities	773,944	812,643	453,941	518,070	537,380
Placement with banks and other financial institutions		331,542	824,919	466,380	98,863
Financial assets - measured at fair value through other comprehensive income	120	628	1,311	1,166	1,166
Other investment	20,729	70,838	391,963	57,394	335,379
Financial assets at amortized cost / loans and receivables	3,036,038	4,081,066	4,471,577	4,472,890	4,615,510
Other assets	12,532	54,835	97,125	116,908	122,056
Inventories	124,148	78,273	118,927	137,534	54,543
Deferred tax assets	175,887	210,701	223,223	321,306	332,790
Investment properties	78,898	107,498			85,000
Intangible assets	4,115	3,301	3,281	2,985	2,306
Property and equipment	74,351	59,333	62,985	74,728	108,400
Investment in subsidiary company	1,160,388	1,160,388	1,160,388	1,160,388	1,160,388
Total Assets	5,771,708	7,055,032	7,986,484	7,418,801	7,714,133
Bank overdraft					
Public deposits	3,978,692	4,340,492	5,435,798	4,914,785	4,622,186
loan	0	90,000	2		-
Securitization loan	477,848	1,235,999	1,160,306	1,089,792	1,406,285
Other liabilities	216,619	274,215	286,433	170,825	412,929
Retirement benefit obligations	22,499	28,319	29,573	36,121	40,411
Total Liabilities	4,695,658	5,969,025	6,912,111	6,211,524	6,481,811
Shareholders' Fund					
Stated capital	56,086	56,086	56,086	56,086	56,086
Other reserves	64,645	76,196	82,904	89,474	90,639
Retained earnings	955,318	953,725	935,383	1,061,717	1,085,595
	1,076,050	1,086,007	1,074,373	1,207,277	1,232,321
Total liabilities and shareholders' funds	5,771,708	7,055,032	7,986,484	7,418,801	7,714,133

	31.03.2016 Rs. '000	31.03.2017 Rs. '000	31.03.2018 Rs. '000	31.03.2019 Rs. '000.	31.03.2020 Rs. '000
Income Statement					
Gross Income	1,030,791	1,261,014	1,596,423	1,538,366	1,460,241
Interest Income	946,346	1,154,715	1,434,304	1,422,416	1,339,103
Interest expense	498,328	596,971	900,309	911,496	872,492
Net interest income	448,018	557,744	533,995	510,920	466,611
Other Operating Income	70,724	106,298	162,119	115,950	121,138
Operating expenditure	281,653	325,413	305,356	361,010	391,508
Profit before income tax	174,532	59,994	43,383	36,218	11,819
Income tax on profits	46,590	34,468	13,103	98,083	-
Gross Dividends	67,300	84,125	70,104	-	-
Net Profit	219,763	94,462	56,485	134,301	23,304

	31.03.2016	31.03.2017	31.03.2018	31.03.2019	31.03.2020
Ratios					
Earning per Share (Rs.)	39.43	16.84	10.07	23.95	4.16
Net Assets Per Share (Rs.)	191.86	193.64	191.57	215.26	219.73
Return on Average Shareholder's fund (%)	17.46	5.55	4.02	3.17	0.97
Return on Average Assets (%)	3.36	0.94	0.58	0.47	0.16
Total Assets to Shareholder's funds (Time)	5.36	6.50	7.43	6.15	6.26
Net interest Margin (%)	8.89	8.70	7.10	6.63	6.17
Growth in Gross Income (%)	54.64	22.33	26.60	(3.64)	(5.08)
Growth in interest Income (%)	46.18	22.02	24.21	(0.83)	(5.86)
Growth in interest Expense (%)	61.55	19.79	50.81	1.24	(4.28)
Growth in net interest Income (%)	32.57	24.49	(4.26)	(4.32)	(8.67)
Growth in profit before Taxes (%)	120.04	(65.63)	(27.69)	(16.52)	(67.37)
Growth in Net Profit after Taxes (%)	58.56	(57.02)	(40.20)	137.76	(82.65)
Growth in Total Assets (%)	24.90	22.23	13.20	(7.11)	3.98
Growth in Total Advance (%)	48.08	34.42	9.57	0.03	3.19
Growth in Shareholder's Funds (%)	16.51	0.93	(1.07)	12.37	2.07

Share Information

A) Analysis of Shareholders According to the Number of Shares as at 31st March 2020

Shareholdings	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1,000 shares	386	23,394	0.42	2	33	0.00	388	23,427	0.42
1,001 - 10,000 shares	6	22,437	0.40				6	22,437	0.40
10,001 - 100,000 shares	9	664,650	11.85				9	664,650	11.85
100,001 - 1,000,000 shares	1	100,128	1.79				1	100,128	1.79
Over 1,000,000 shares	2	4,797,713	85.55				2	4,797,713	85.55
	404	5,608,322	100.00	2	33	0.00	406	5,608,355	100.00

B) Categories of Shareholders

	No. of Shareholders	No. of Shares
Individual	391	3,126,302
Institutional	15	2,482,053
	406	5,608,355

c) Twenty Largest holders of Shares as at 31st March

		31st March' 2020		31st March' 2019	
		No. of Shares	%	No. of Shares	%
1	Imperial Import & Export Co. (Pvt) Ltd	2,422,308	43.19	2,422,308	43.19
2	Mr. John Paulu Irugalbandarage Nalatha Dayawansa	2,375,405	42.35	2,375,405	42.35
3	Mr. John Paulu Irugalbandarage Nadishka Dayawansa	100,128	1.79	100,128	1.79
4	Mrs. Ayanthi Shammalka Dayawansa	98,784	1.76	98,784	1.76
5	Mr. John Paulu Irugalbandarage Nelaka Dayawansa	96,257	1.72	96,257	1.72
6	Mr. John Paulu Irugalbandarage Shanil Dayawansa	92,386	1.65	92,386	1.65
7	Miss. Akuranawattage Shiyonika Perera	90,000	1.60	90,000	1.60
8	Mr. Akuranawattage Prajith Perera	90,000	1.60	90,000	1.60
9	Mrs. Ayoma Shyamali Perera	89,962	1.60	89,962	1.60
10	Kottawa Industries & Tours Ltd.	51,560	0.92	51,560	0.92
11	Mrs. John Paulu Irugalbandarage Pushparani	44,948	0.80	44,948	0.80
12	Mrs. Podinona Perera	16,966	0.30	16,966	0.30
13	Mr. John Paulu Irugalbandarage Vajira Priyantha	7,762	0.14	7,762	0.14
14	Imperial Tours	5,000	0.09	5,000	0.09
15	Udyathilaka Indrapala suriyabandara	1,220	0.02		
16	Mr. Puvendran Gajendra	1,160	0.02	1,160	0.02
17	Imperial Motor Finance Co. Ltd.	1,082	0.02	1,082	0.02
18	Nanayakkara Management Service (Pvt) Ltd	1,000	0.02	1,000	0.02
19	Mrs. Sannasliyanarachchge Dona Mary Beatrice	1,000	0.02	1,000	0.02
20	Mrs. Jayanthi Mala Gunaratne	1,000	0.02	1,000	0.02

D) Market Value Per Share for the Year Ended

	31/Mar/20 Rs.	31/Mar/19 Rs.
Highest	533.00	750.00
Lowest	351.20	350.00
Closing	402.10	402.20

E) Directors Shareholding as at 31st March

Name	31/Mar/20 No. of Shares	31/Mar/19 No. of Shares
Dr. L.R. Karynaratne	-	-
Mr. J.P.I.N. Dayawansa	2,375,405	2,375,405
Mrs. A.S. Dayawansa	98,784	98,784
Mr. J.P.I.S. Dayawansa	92,386	92,386
Mr. K.D.U.S Nanayakkara	-	-

CEO's shareholding as at 31st March

Mr. T.M.A. Sallay	250	250

F) Public Holding

Name	31/Mar/20 No. of Shares	31/Mar/19 No. of Shares
No of Share Holders	398	385
No of Shares	574024	574024
% of Public Holding	10.24%	10.24%
Float Adjusted Market Capitalization(Rs.)	230,924,241	230,981,671

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Shareholders of Associated Motor Finance Company PLC, will be held at Sinhalese Sports Club, Main Air conditioned Pavilion, No 35, Maitland Place, Colombo 7 on 30th September 2020 at 9.30am for the following purposes:

AGENDA

1. To consider and receive the Annual Report of the Board and the Audited Financial Statements for the year ended 31st March 2020, together with the Report of the Auditors thereon.
2. To authorize Directors to determine donations for the year ending 31st March 2021 up to the date of next Annual General Meeting.
3. To re- elect Director Mr.K.D.U.Suranga Nanayakkara who retires by rotation under Articles of Association.
4. To authorize the Directors to determine the remuneration of the Auditors, Messrs. SJMS Associates, Chartered Accountants who are deemed to have been re-appointed as Auditors in terms of Section 158 of the Companies Act, No. 07 of 2007.
5. To consider any other business of which due notice has been given.

By Order of the Board
ASSOCIATED MOTOR FINANCE COMPANY PLC

CHART BUSINESS SYSTEMS (PVT) LTD
COMPANY SECRETARIES

Chart Business Systems (Private) Limited

Secretaries
No.141/3, Vauxhall Street,
Colombo 02.

7th September, 2020

Note

1. Health and safety

- Shareholder or their proxies are requested not attend the meeting if they are feeling unwell exhibiting any signs or symptoms of COVID -19 or have been placed on quarantine or stay home notices.
- Wear a suitable face mask when attending the meeting and refrain from carrying excess baggage in to the premises.
- All attendees will have to undergo a temperature check and sign a declaration form including contact details, historical and current health status, recent oversees travel history and exposure.
- Persons who record temperatures in excess norms prescribed by the ministry of Health, respiratory infections of any type including cough, cold, sore throat or exhibiting any other similar symptoms will not be permitted into the meeting.
- Physical contact such as shaking hands will not be permitted.
- Any person not adhering to health and safety guidelines and standards including wearing a mask and maintaining the minimum social distance required will be requested to leave the meeting.
- Food and beverage offerings are not guaranteed and may be limited in keeping with health and safety standards and regulations.
- As social distancing measures will be implemented, once the hall capacity is reached as per the relevant Government guidelines, members may not be permitted to enter.

2. Attending and Voting by Proxy

- A shareholder is entitled to appoint a proxy to attend and vote on his/ her behalf, and a proxy need not to be a shareholder of the Company. A Form of Proxy is attached for this purpose. The instrument appointing a Proxy shall be deposited at S S P Corporate Services (Pvt) Ltd at No.101, Inner Flower Road, Colombo 03 not less than forty-eight (48) hours before the time fixed for the meeting.
- Shareholders are requested to indicate any changes in their address.

Form of Proxy

I/We ....

of ....

being a *shareholder/shareholders of Associated Motor Finance Company PLC hereby appoint

(i) ....

of .... or failing him.

(ii) Mr. K.D.U. Suranga Nanayakkara, Chairman of the Board of Associated Motor Finance Company PLC, or failing him any one of the other Directors of the Company as *my/our proxy to attend and vote as indicated hereunder for *me/us and on *my/our behalf at the Annual General Meeting of the Company to be held on 30th September 2020 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To consider and receive the Annual Report of the Board and the Audited Financial Statements for the year ended 31st March 2020, together with the Report of the Auditors thereon.		
2. To authorize Directors to determine donations for the year ending 31st March 2021 up to the date of next Annual General Meeting.		
3. To re- elect Director Mr. K.D.U.Suranga Nanayakkara who retires under Articles of Association		
4. To authorize the Directors to determine the remuneration of the Auditors, Messrs. SJMS Associates, Chartered Accountants who are deemed to have been re-appointed as Auditors in terms of Section 158 of the Companies Act, No. 07 of 2007.		

(**) The proxy may vote as he thinks fit on any other resolution brought before the Meeting.

....

Signature of Shareholder

Date : 2020

Note

(a) * Please delete the inappropriate words.

(b) Instructions as to completion are noted on the reverse hereof

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

1. To be valid, this Form of Proxy must be deposited at S S P Corporate Services (Pvt) Ltd – Registrar of the Company at No.101, Inner Flower Road, Colombo 03 not less than forty-eight (48) hours before the time fixed for the meeting.
2. In perfecting the Form of Proxy, please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit. Please also delete (**) if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company / Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.

Corporate Information

NAME OF THE COMPANY
Associated Motor Finance Co.PLC

COMPANY REGISTERED NO.
PB 733 PQ

DATE OF INCORPORATION
25th July 1962

LEGAL FORM
A Public Limited Company, Licensed by the Monetary Board of the Central Bank of Sri Lanka in terms of the Finance Business Act No.42 of 2011.

REGISTERED OFFICE
No.89,Hyde Park Corner , Colombo 02

SECRETARIES
Chart Business Systems (Private) Limited.
No.141/3 ,Vauxhall Street, Colombo 02.

REGISTRARS
S.S.P.Corporate Services (Pvt) Ltd
No.101 ,Inner Flower Road, Colombo 03

AUDITORS
SJMS Associates, Chartered Accountants.

No.11,Castle Lane .Colombo 04.

INTERNAL AUDITORS
BDO Partners
'Charter House'
65/2, Sir Chittampalam A Gardiner
Mawatha, Colombo 01.

BANKERS TO THE COMPANY
People's Bank

Commercial Bank of Ceylon PLC,

Bank of Ceylon

Sampath Bank PLC

Nations Trust Bank PLC

National Development Bank

Hatton National Bank

Seylan Bank PLC

STOCK EXCHANGE LISTING
Ordinary shares of the Company were listed on the Colombo Stock Exchange from 23rd May 2011.

BOARD OF DIRECTORS
Mr. K.D.U.S. Nanayakkara

Mr. J.P.I.N. Dayawansa

Mrs. A.S. Dayawansa

Mr. J.P.I.S. Dayawana

Mr. T.G. Kandamby

Mr. R. Wijegunawardane

LEGAL ADVISOR
Gunawardena & Ranasignhe Associates
Attorneys-at-law, Notaries of public,
No.1056, Maradana Road, Colombo 08.

TAX ADVISORS
Amerasekara & Company,
Chartered Accountants,
No. 25, Rotunda Gardens
Colombo 03.

Designed & produced by
emagewise
Printed by Printage (Pvt) Ltd

Trustees of Your Trust

Associated Motor Finance Company PLC
No. 89, Hyde Park Corner, Colombo 02, Sri Lanka.
Tel : +94 11 268 7158, +94 11 268 2493, +94 11 268 7265
Fax : +94 11 268 8760
Web : www.amf.lk