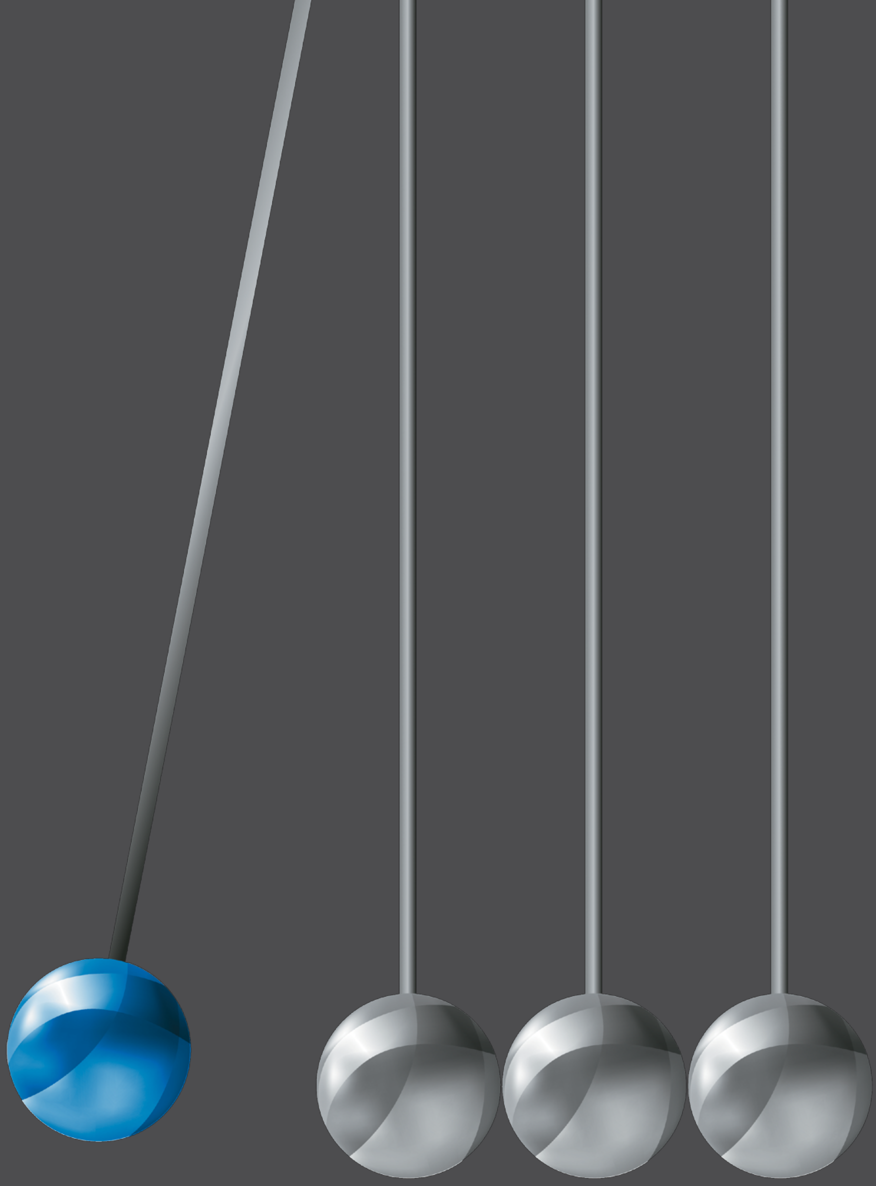

# SETTING THE PACE

ASSOCIATED MOTOR FINANCE COMPANY PLC

ANNUAL REPORT 2020/2021

AMF

*Trustees of Your Trust*

# SETTING THE PACE

The longer you intend to stay in the game, the more important it is to know your pace. At the Associated Motor Finance Company, we believe in progressing at the correct pace; redefining our strengths and values with renewed vigour and endurance.

This annual report details how we are setting the pace to improve our resources and expertise by consolidating our business model with Arpico Finance – a strategic collaboration that will help us build a stronger foundation in our commitment to serve the needs of the people better.

As we stand together as one today, Associated Motor Finance Company is setting the pace for a future of progressive opportunities through diverse strengths.

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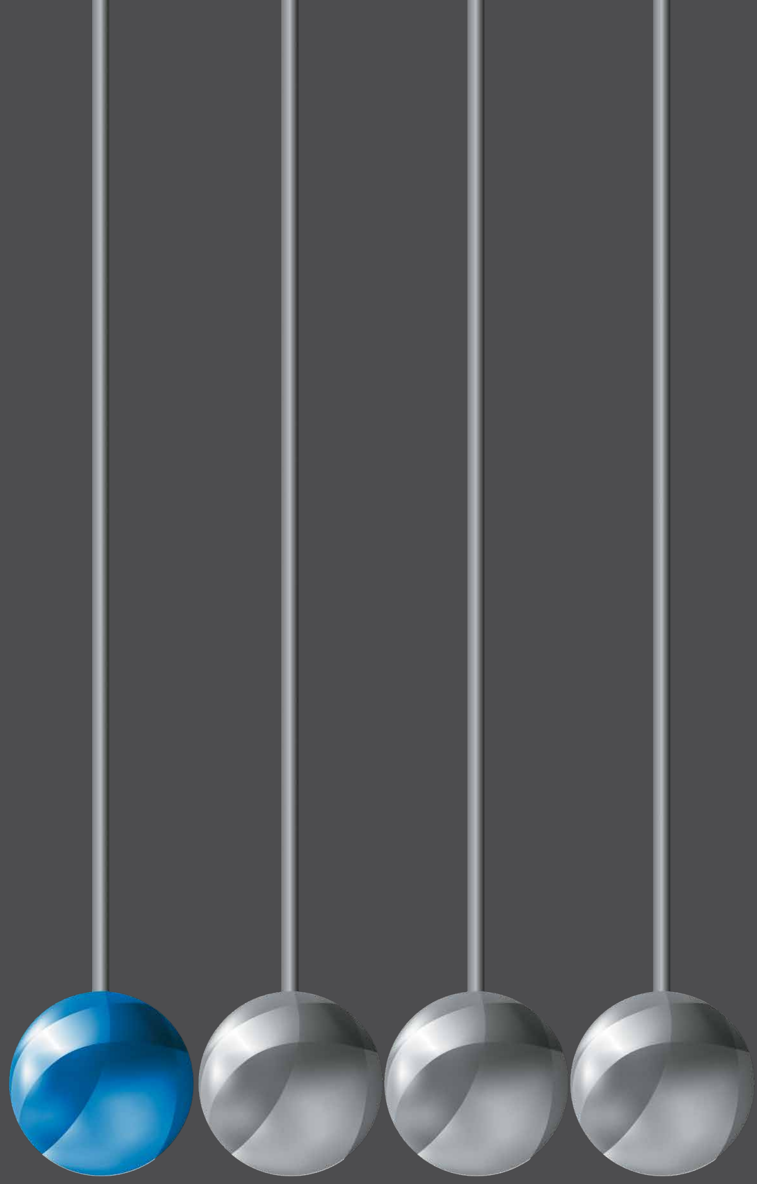


# RENEWING OUR PERSPECTIVES

OVERVIEW

# COMPANY PROFILE


## VISION

"Trusted partner for your financial needs"

## MISSION

"To provide a resilient foundation for our clients to experience the best in financial services by constantly offering diverse and innovative services, in an empowering and rewarding work culture that ensures increased shareholder value."

## VALUES

### Trust

It is a core value that must be upheld by every employee in order to ensure an honest and value-driven work environment, a strong client relationship and a stable and sustainable organization. It has been a value that has been upheld with pride in the past and continues to be an important principle the company aspires to maintain.

### Innovation

This core value is instilled to view the company as an organization that introduces new services, practices and products that fosters a progressive outlook on its employees and customers. It is important not merely to be on par with other financial institutions but to surpass competitors and fulfill the organization's responsibility towards its clients by ensuring service excellence and advancement.

**Associated Motor Finance Company PLC (AMF), incorporated on 25th July 1962, is one of the oldest licensed finance companies registered in Sri Lanka under the Companies Act No. 07 of 2007 and Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.**

**AMF with long years of success and considerable strength in the specialized area of financing acquired Arpico Finance Company PLC (AFC); the oldest operational finance company in the country with a history of over 70 years and highly diversified asset portfolio to double its size in 2014.**

**In line with the Central Bank of Sri Lanka's (CBSL) Master Consolidation Plan, the two entities merged with effect from 1st April 2021. With two entities now becoming one as Associated Motor Finance Company, its record of resilience and fortitude will help the merged entity to tide over this challenging period to the best of their abilities and in a more resilient manner than many others in the industry. The inclusion of AFC into AMF will help the merged entity strategically serve diverse target segments while further entrenching its credentials in the market. AMF is backed by a clear vision, with definite plans that enable them to withstand adversity, with strength to deliver powerful, structured solutions to every stakeholder that company serves.**

**The principal activities of AMF include acceptance of public deposits, leasing and hire purchase, Islamic Finance, real estate, import and trading. By offering various financing solutions, AMF endeavour to give its customers the best deals and products, tailored to their needs.**

## Teamwork

Ensuring the employees work in cohesion towards the achievement of the company goals, providing support and assistance to one another and thus, establishing a positive work environment that ensures efficiency, effectiveness and equity.

## Accountability

Ensuring responsible management of client wealth and provision of services in an ethical, reliable and answerable manner. Maintaining accountability is the response of the organization to the trust placed in them by their clients.

## Agility

The ability to adapt to changes and developments in the industry in order to sustain customer demands and expectations. It enhances the responsiveness to reasonable expectations and developments in the market, ensuring a competitive advantage.

## Performance Driven Culture

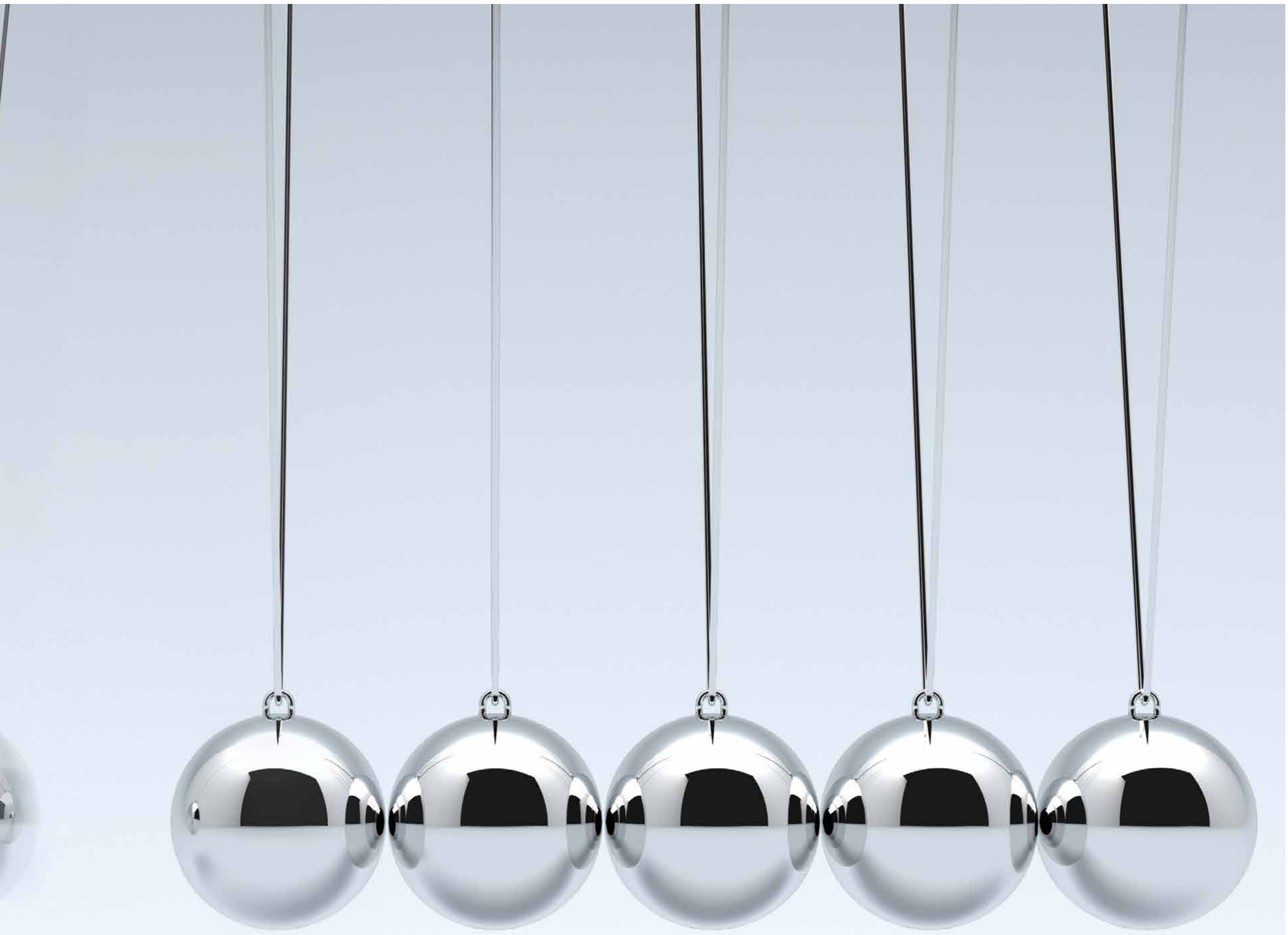
This core value is imperative to attract future talent into the organization for long run survival. It guarantees a just and equitable work environment, thereby empowering employees and providing equal opportunities for success.

# FINANCIAL HIGHLIGHTS

| For the year ended 31st march | Company | | | Group | | |
|---|---|---|---|---|---|---|
| | 2020/21 | 2019/20 | % Change | 2020/21 | 2019/20 (Restated) | % Change |
| **Result on Operation** | | | | | | |
| **For the year ended Rs. Mn** | | | | | | |
| Interest Income | 1,107 | 1,339 | -17% | 2,932 | 4,025 | -27% |
| Interest expense | 696 | 872 | -20% | 1,882 | 2,554 | -26% |
| Net interest income | 411 | 467 | -12% | 1,050 | 1,471 | -29% |
| Profit before income tax | (9) | 12 | -180% | 114 | (63) | 280% |
| Income( tax) /Reversal on profits | 3 | 11 | -71% | (108) | (48) | -126% |
| Profit after income tax | (6) | 23 | -126% | 6 | (111) | 106% |
| **Financial Position** | | | | | | |
| **At the year end Rs. Mn** | | | | | | |
| Total Assets | 6,492 | 7,714 | -16% | 17,156 | 20,152 | -15% |
| Lending portfolio | 2,916 | 4,616 | -37% | 10,109 | 14,249 | -29% |
| Deposits from public | 4,059 | 4,622 | -12% | 11,912 | 13,287 | -10% |
| Borrowings | 1,056 | 1,406 | -25% | 2,977 | 3,980 | -25% |
| Shareholders' funds | 1,229 | 1,232 | 0% | 1,889 | 1,877 | 1% |
| Market capitalisation | 1,670 | 2,256 | -26% | | | |
| **Information per Ordinary Share** | | | | | | |
| Earnings - basic (Rs.) | (1) | 24 | -105% | 1 | (18) | 105% |
| Net asset Value (Rs.) | 219 | 220 | 0% | 321 | 319 | 1% |
| Market value at the end of the period (Rs.) | 298 | 402 | -26% | | | |
| Price earnings (time)- ordinary shares | (272) | 17 | -1721% | | | |
| Dividends (Rs.) | - | - | | | | |
| **Ratios** | | | | | | |
| Return on average assets (%) | (0.13) | 0.47 | -128% | 0.61 | (0.30) | 305% |
| Return on average shareholder's funds (%) | (0.77) | 3.17 | -124% | 6.05 | (3.49) | 273% |
| Net interest margin (%) | 5.78 | 6.63 | -13% | 5.63 | 6.93 | -19% |
| Equity to assets (%) | 18.93 | 15.97 | 19% | 11.01 | 9.31 | 18% |
| **Compliance Ratios** | | | | | | |
| Core capital to risk weighted assets (Tier1) (%) | 1.84% | 13.71% | -87% | | | |
| Total capital to risk weighted assets (Tier1 & 11) (%) | -10.29% | 14.79% | -170% | | | |
| Liquid assets to total assets (%) | 27.12 | 10.58 | 156% | | | |
| Liquid assets to deposits (%) | 43.38 | 19.40 | 124% | | | |

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



**4,487**
Deposit Customers

**451**
Shareholder Base

**73%**
Deposit Renewal Ratio

**48,793**
Lending Customers

**404**
Total Employees

# CHAIRMAN'S REVIEW

**As we move out of a sustained period of uncertainty, it gives us a great opportunity to forge a stronger, more cohesive and motivated team at AMF. The magic of the moment is that operating models have been unfrozen, perhaps more than in any time in a generation. There is an opportunity to reset and redefine how work gets done in a new normal.**

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

Dear Shareholders,

I take great pride in welcoming 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 2021. The challenges in the previous year pale in comparison to the scale of the COVID-19 spread in Sri Lanka and elsewhere. The implications on lives and livelihoods have indeed been catastrophic. Despite these daunting challenges, Your Company remained focused on ensuring the health and safety of employees and customers, while ensuring uninterrupted access to our products and services.

## STATE OF ECONOMY AND COVID-19 IMPACT

The Sri Lankan economy shrank by 3.6% in real terms in 2020, recording the deepest recession, compared to 2.3% of expansion recorded in 2019. Mobility restrictions and other containment measures imposed locally and internationally to prevent the spread of COVID-19, hampered economic activities across all sectors. As a result, all sectors of the economy shrank during 2020 – agriculture by 2.4%, industry by 6.9% and services by 1.5% compared to the previous year. Within the service sector, the tourism industry was severely affected by global and local travel restrictions. As a result, the overall size of the Sri Lankan economy shrank to US$ 80.7 billion in 2020 from US$ 84.0 billion in the previous year and per capita GDP declined to US$ 3,682 in 2020 from US$ 3,852 in 2019. After experiencing a slump at the onset of the pandemic, export earnings rebounded strongly within a relatively short span of time to reach pre-pandemic levels, while measures to curtail non-essential imports (including vehicles), together with the significantly low global petroleum prices, helped to reduce the import expenditure in 2020, leading to a notable reduction in the country's trade deficit.

## NON-BANKING FINANCIAL INSTITUTIONS (NBFI) INDUSTRY PERFORMANCE

Lending by the NBFI sector slowed considerably during 2020 as business activities continued to shrink amidst the COVID -19 lockdowns and retrenchment of vehicle imports. Credit provided by the sector shrank by 4.2% in March 2021 compared to the curtailment of 2.3% in March 2020, with the main target market of NBFI sector - self-employed individuals and Micro Small and Medium Enterprises (MSMEs) - being among the worst-affected by the pandemic-induced economic downturn.

Total assets of the NBFI sector deteriorated by 2.9% in March 2021 compared to a negative growth of 1.4% in March 2020. Thus, total assets amounted to Rs. 1,391.9Bn as of March 2021 compared to Rs. 1,434.1Bn as of March 2020. Despite the deterioration in total assets & lending portfolio, the NBFI sector's gross NPL ratio marginally decreased to 11.30% by end March 2021 from 11.37% reported as at end March 2020.

The profitability of the NBFI sector saw an improvement with a growth in profit after tax by 124% from Rs. 13.3Bn by year-end March 2020 to Rs. 29.7Bn by year-end March 2021. Despite the lackluster growth in the lending portfolio, a majority of the financial institutions managed to bring down their operating costs, loan loss provision and vastly reduced their interest expenses due to the plunge in the interest rates. Whist total income has reduced by 11% year-on-year, total expenses have reduced by 24% which led to an overall increase in profitability.

## CHALLENGES FACED AND MITIGATION STRATEGIES USED

The lockdowns, travel restrictions and limitation of staff numbers allowed in the workplace necessitated that employees work remotely - as the majority of the nation's workforce adjusted to the 'work from home' concept. The Company ensured the transition was smooth for its employees and that they were supported with the required technology framework and firewalls. Staff safety and well-being was the foremost priority during the year under review.

Falling in line with the guidelines set out by the Central Bank of Sri Lanka, as well as supporting the country during this pandemic, the key focus was to safeguard both internal and external stakeholders' well-being. A diverse set of activities were strategized for business resumption and to capitalize emerging opportunities whilst managing the COVID-19 socio-economic crisis to increase the stakeholder benefits.

As a responsible corporate citizen, AMF was mindful about the safety of the community and several community support projects were conducted by the Company during this pandemic, such as providing medical equipment to government hospitals.

Yet another critical challenge during the year was the total ban imposed on vehicle imports by the regulator in a bid to conserve foreign exchange. The climate for NBFIs was further constrained due to restrictions on vehicle repossessions by defaulting customers and the moratoriums announced by the regulator. Financial assistance was given to individuals/ businesses affected by the COVID-19 pandemic by granting moratorium facilities to ease their rental payments as per CBSL circulars. The Company decided to restructure loan facilities even for customers not eligible for moratoriums in order to ease their burden and provide relief.

During this time of uncertainty, one of the primary strategies adopted by the Company was to build up a strong liquidity position to ensure smooth service to deposit customers, lenders and suppliers despite the effect on our reserves and profitability by pandemic-induced challenges. Whilst contemplating external stakeholders' interests, AMF offered the similar prominence level to their internal stakeholders by ensuring no pay cuts for its staff.

# CHAIRMAN'S REVIEW

In order to engage with customers in a more secure and safe manner, the Company accelerated digitalization for enhancing customer interactions via social media. Customers were also encouraged to use online payment platforms and mobile applications to make their payments without visiting the branch.

During the period under review, AMF adopted lean management by undertaking detailed process studies to identify areas it could streamline, automate and cut down costs while maintaining operational efficiency. As a result, the Group was able to reduce operating expenses by Rs. 73Mn for FY2020/21 and thereby acting as a catalyst to improve the PBT by 280% YoY to reach Rs. 114Mn by year-end March 2021.

## FUTURE STRATEGY

As we move out of a sustained period of uncertainty, it gives us a great opportunity to forge a stronger, more cohesive and motivated team at Associated Motor Finance PLC. The magic of the moment is that operating models have been unfrozen, perhaps more than in any time in a generation. There is an opportunity to reset and redefine how work gets done in a new normal, that makes it multiple times more efficient and effective - free of the burden of traditional norms. Pandemic is a full-stop on business as usual and a launching pad for organizations to become virtual, digital-centric, and agile and to do it all at lightning-fast speed.

The Company's ability to stay resilient in the face of such a challenging year gives us the confidence to look ahead with optimism. Our immediate focus is to improve profitability via increasing Net Interest margins by leveraging on high yielding products, reducing operational costs through cost savings, optimizing synergies of the merged entity and reducing NPAs by strengthening and concentrating more on recoveries to achieve impairment reversals through stringent collection policies and other strategies. Further going ahead, we will remain focused on strengthening our equity so that we have sufficient capital to withstand market shocks that may arise in the future

As a long-term objective, we will actively focus on growth by using branches as regional administrative units and leveraging technology to expand our network and cater to customers island wide. The aim is to strike a balance between volume-driven and margin-driven lending through product diversification to mitigate portfolio risk, investing in new technology to simplify processes and provide a hassle-free service to customers, and expansion strategy focusing on both organic and inorganic growth.

## ACKNOWLEDGEMENTS

I would like to thank my fellow directors on the Board for their unstinted support, and the senior management for remaining resolute in the face of the many challenges we had to contend with as a Company. The guidance provided 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 is always useful.

I would also like to thank our customers, depositors and other stakeholders for partnering with us. AMF employees have shown exceptional courage and dedication to the Company's vision, and I truly appreciate their cooperation. On behalf of the entire AMF family, I wish for a more positive operating environment in the upcoming financial year.

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

28th July 2021

# EXECUTIVE DIRECTOR/ CHIEF EXECUTIVE OFFICER'S REVIEW

**In line with the Central Bank of Sri Lanka's Master Consolidation Plan, the Company merged with Arpico Finance Company PLC with effect from 1st April 2021. The inclusion of AFC into AMF is helping the merged entity strategically to serve diverse market segments while further entrenching its brand name in the market.**

**Mr. T.M.A. Sallay**
Executive Director/
Chief Executive Officer

# EXECUTIVE DIRECTOR/ CHIEF EXECUTIVE OFFICER'S REVIEW

Dear Stakeholders,

## MACROECONOMIC BACKDROP

The Sri Lankan economy encountered complex challenges in the 2020/21 financial year as the COVID-19 virus outbreak grew through the period to cause an adverse economic impact on all sectors and on the national economy. Alongside the global economic downturn induced by the pandemic, the Sri Lankan economy contracted by 3.6 per cent in real terms in 2020. The sharp contraction observed in Industry activities during the year was driven by the significant slowdown in construction and manufacturing activities. Services activities also registered a notable contraction due to the pandemic driven deceleration in transportation, other personal services, and accommodation, food and beverage services. The tourism sector was severely affected by global travel restrictions. The Agriculture sector, too, registered a contraction during the year as the impact of the pandemic outweighed the positive effects of timely policy support and favourable weather conditions.

The Central Bank implemented extremely accommodative monetary policy measures during 2020, through the reduction of the key policy interest rates to historic lows with a downward adjustment of 250 basis points in total, and the lowering of the Statutory Reserve Ratio (SRR) applicable on rupee deposit liabilities of licensed commercial banks (LCBs) by a total of 300 basis points and the Bank Rate by 650 basis points. In addition, the Central Bank introduced several concessionary loan schemes aimed at providing working capital for businesses affected by the pandemic. Meanwhile, the Central Bank ensured the maintenance of financial system stability by introducing several measures aimed at safeguarding the interests of financial institutions as well as those of depositors, while enabling the financial sector to provide the extraordinary support required by the economy due to the pandemic.

## INDUSTRY DEVELOPMENTS

Faced with a multitude of challenges, the operational model of the financial services landscape changed considerably during the period under consideration. Companies had to adapt to the new policies announced by the regulator including moratoriums and ban on repossession of vehicles of defaulting customers, which was further exacerbated by the vehicle import ban, which caused a sharp decline in vehicle financing, which is a key revenue generator for financial institutions. Adapting to the new normal and travel and mobility restrictions, companies had to adopt digital platforms to remain connected with customers while facilitating them to conduct their financial transactions through payment gateways and mobile apps. The accelerated digitalization in the industry and the work-from-home mode served to lower operational and personnel costs to balance out the impact of higher Non-Performing Loans ratio prevailing in the industry.

## OPERATIONAL HIGHLIGHTS

AMF was quick to adapt to digitalization since the process was already underway. Customer interactions were enhanced through social media for a more targeted interaction. Chatbots were also introduced to answer general queries from customers to tackle the increase in customer calls during this period. The Company encouraged and facilitated customers to use mobile apps and payment gateways to make their payments without putting themselves at risk by travelling to branches and guided them through the process, all the while assuring them of the privacy and security of the financial transaction. AMF also successfully integrated with large banks for payments platforms to provide convenient services to clients. Further, AMF adopted digital platforms such as zoom and MS teams to hold meetings with internal and external stakeholders. Since employees were forced to work from home, the management ensured staff remained motivated and updated about the latest developments and felt connected. These calls also served as channels for employees to express their views and get clarifications.

During the year under review, a detailed process review was conducted to identify areas which could be streamlined and automated, and where costs could be controlled. This intervention was highly successful as AMF was able to reduce operating expenses by Rs.73Mn for FY2020/21 which favourably impacted PBT to significantly improve by 280% YOY and reach Rs.114Mn by year-end March 2021.

The industry was also badly impacted by the curtailment of vehicle imports, as vehicle financing and leases accounts for the majority of income earned by financial institutions while supporting customers to fulfill their aspirations for a better lifestyle. Nonetheless, AMF was able to circumvent these challenges with foresight, prudence and agility by seizing new opportunities and by encouraging customers to continue repayments.

## STAKEHOLDER MANAGEMENT

During this challenging period, the key focus of the company was to safeguard the interests of both internal and external stakeholders of the company and ensure their well-being. The company undertook a wide array of strategies to provide an interrupted service to deposit customers, lenders and suppliers. As a result, the Company paid interest in advance to all public depositors in order to boost confidence in their investments. Also, deposit withdrawals were serviced immediately on depositors' request to assist them in meeting their personal commitments during the challenging period. In addition, debt repayments were serviced to institutional fund providers in a timely manner without resorting to any moratoriums. Apart from external stakeholders, the company also ensured no pay cuts for its internal customers, the employees. It is noteworthy to mention that your Company did not opt for any liquidity support scheme offered by the regulators when fulfilling any of its commitments towards these stakeholders.

## BRAND PERFORMANCE

In line with the Central Bank of Sri Lanka's (CBSL) Master Consolidation Plan, Associated Motor Finance Company merged with Arpico Finance Company PLC with effect from 1st April 2021. The inclusion of AFC into AMF is helping the merged entity strategically to serve diverse market segments while further entrenching its brand name in the market. The merged entity is in a better position to pursue more growth opportunities due to extended geographical locations as it can leverage former AFC branches as well as AMF dealer network, increasing total touch points to 1,000+ and thereby improving brand awareness and presence throughout the island.

## REWARDS AND RECOGNITION

As the Company forges ahead with its renewed identity and focus, it has received accolades from several quarters. AMF was awarded the Merit award at the National ICT Awards NBQSA 2020 under in-house category for its internally-developed Anti-Money Laundering (AML) software solution.

## LOOKING AHEAD

The economy and the industry will continue to face economic headwinds in the first half of the 2021/22 year until the threat from the pandemic subsides, but we are optimistic about prospects for the second half of the year improving as economic activities gather pace and the country opens up to tourists. The resumption of normal economic activity will boost disposable incomes in the customer segment AMF caters to and should witness higher profitability levels. AMF is looking ahead to drive branch expansion to cater to customers island-wide, striking a balance between volume driven and margin driven lending through product diversification to mitigate portfolio risk, investing in new technology to simplify processes. All efforts will be directed to achieve organic growth.

The Company's focus will be on maximizing profitability by marketing high yielding products that will bring in higher returns through products such as two and three-wheel financing and gold loans. The experience of reducing operational costs by a wide margin this year has infused some valuable lessons which will be carried forward. Meanwhile, as brand-building efforts continue, greater opportunities are expected from the joint synergy of the merged entity – AMF, which we will leverage on.

In order to recover from the impact of the pandemic-induced disruption, the Company is focusing on accelerating recovery to achieve impairment reversals through stringent collection policies and other strategies. At the same time, greater prominence was given to ensuring liquidity over short term profitability in order to withstand abrupt shocks given the uncertainty involved in the entire economy. The company maintained an excess liquidity level of Rs, 4.2Bn during the year under review which is well above the regulatory requirement as a prudent approach to meet the obligations of the key stakeholders on demand and thereby upholding their trust towards the company during these trying times. Further, the board and senior management remains committed to strengthening equity so that the Company holds sufficient capital to withstand market shocks that may arise in the future.

## APPRECIATION

We would like to thank the Chairman and Board of Directors for their visionary approach to surmounting obstacles in a truly challenging year. The contribution by the senior management and the cooperation and hard work by the entire team has been exceptional and helped the Company navigate the tough year. We were suitably guided by the Governor of the Central Bank of Sri Lanka, Director and officials of the Department of Supervision of Non-Banking Financial Institutions. Our loyal shareholders and stakeholders including customers and business partners have been our pillars of support. The year gone by has tested our mettle and the resilience, but the manner in which stood firm reflects the brand strength and financial stability of our entity.

**Mr. T.M.A. Sallay**
Executive Director/
Chief Executive Officer

28th July 2021

# BOARD OF DIRECTORS

**Mr. K.D.U.S. 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 member 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 2013, 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, India and Jordan. He was also 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. Currently he serves as the Chief Executive Officer of MAS Legato (Pvt) Ltd.

**Mr. J.P.I. Nalatha Dayawansa**

Deputy Chairman /
Executive 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 Mr. J.P.I. Piyadasa in 1995: he succeeded as the Chairman and Managing Director of the Company. He has over 36 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) Company Limited, 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 the Deputy Chairman of the company since 1st of April 2021.

**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.

### T.M.A. Sallay
**Executive Director / Chief Executive Officer**

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

Mr. Sallay is a financial professional with over 35 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 organizations and has wide exposures in diverse sectors such as Finance, Hospitality, Healthcare, International Event Organization, 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 25 years of service with several established financial institutions. He has been appointed to the Board of AMF as an Executive Director since 1st of April 2021.

### Mrs. A.S.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) Company Limited, a public company engaged in garment exports and at Imperial Import & Export Company (Pvt) Ltd., a private company engaged in importing and trading of used motor vehicles from the UK. She is also the Managing Partner of Ayathi, a dress boutique, which caters exclusively to the high-end market. She has over 22 years of experience in sectors such as Finance, Garments, Imports and Exports.

### 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.

# BOARD OF DIRECTORS

**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. P. Suren Goonewardene**
Independent Non-Executive Director

Mr. Suren Goonewardene has over three decades worth of rich domain experience spanning across multiple industries from Telecom to Information Communication Technology and has an exceptionally strong track record of transforming organizations and leading business into successes in each of his roles.

He holds a bachelor's degree in Business Accounting from Monash University, Australia, a Fellow Member and holder of the Graduate Diploma in Marketing from the Chartered Institute of Marketing, UK., and Certified Management Accountants of Sri Lanka. He is a Member of the Certified Practicing Accountants, Australia and a Fellow Member of the Sri Lanka Institute of Marketing.

He is the Managing Director of Lankem Ceylon PLC, a well diversified conglomerate. He also serves on numerous Boards of Private and Public Companies which include First Guardian Equities (Pvt) Ltd and Dawi Investment Trust (Pvt) Ltd.

He has functioned in the capacity of Chairman and Managing Director, Bharti Airtel Lanka Limited, Chief Operating Officer, Dialog Television and Fixed Line Services, Group Managing Director, Lanka Bell Limited and has also served on the Boards of Ceylon Shipping Corporation and Civil Aviation Authority of Sri Lanka. He was a Council Member of the Employers' Federation of Ceylon and a former Vice President of the Indian Chamber of Commerce in Sri Lanka.

Mr. Goonewardene was appointed to the Board of Arpico Finance Company PLC as an Independent Non Executive Director in August 2019 and functioned as the Chairman of the Audit Committee. He was appointed to the Board of Associated Motor Finance in April 2021.

Mr. Goonewardene's experience spans across multiple industries and possess expertise in the fields of Telecommunication, Information Technology, Strategic Planning, Organizational Restructuring, Investment/ Credit Management, Finance, Marketing & Sales, General Management and Business Consultancy.

**Mr. Nilanka Pieris**
Non-Independent Non-Executive Director

Mr Pieris is a Finance Professional with over 30 years of diverse experience in areas of Financial Planning & Control, Financial Auditing, Credit Operations & Management, Business Development & Analysis, Information Technology, Project Management and Logistics Operations.

He is a Fellow Member of the Institute of Bankers (Sri Lanka), Fellow Member of the Sri Lanka Institute of Credit Management, Associate Member of the Chartered Institute of Management Accountants and a Chartered Global Management Accountant, Member of the Sri Lanka Institute of Directors and Chartered Member of the Chartered Institute of Logistics and Transport.

Having commenced his banking career with Seylan Bank he was subsequently appointed to the Board of Arpico Finance Company PLC as an Independent Non Executive Director in January 2012 and appointed as the Senior Director in 2019 until January 2021. He served as the Chairman of the Audit Committee, Integrated Risk and Related Party Transactions Committees. He also functioned as an Independent Non Executive Director of People's Bank where he served as the Chairman of the Audit, Risk, IT Committee and was a member of the Credit Committee. He was appointed to the Board of Associated Motor Finance Company PLC in April 2021.

In addition to his appointments in the Banking and Non Banking Financial sector he is the Managing Director of Gensoft (Pvt) Ltd which is the largest software development company for the logistics industry in Sri Lanka and also serves as a Director of Black Hat Force (Pvt) Ltd an Information Security company focused on cyber security.

From an educational perspective he is a visiting lecturer at the University of Kelaniya. In a Honorary Capacity he serves on the Governing Council of the Sri Lanka Institute of Credit Management, as the Treasurer of the Singhalese Sport Club and as a Member of the Technology and Innovation Committee of the Sri Lanka Institute of Directors.

# MANAGEMENT TEAM

### Chandrin Fernando
**Deputy Chief Executive Officer**

Chandrin Fernando is the Deputy Chief Executive Officer. Former CEO of Arpico Finance Company PLC Mr. Fernando is a Fellow of the Chartered Institute of Management Accountants, UK and Chartered Global Management Accountant, UK. He is a Fellow of the Chartered Certified Accountants, UK. He is a Chartered Marketer holding an Associate Membership from the Chartered Institute of Marketing, UK. He also holds a Bachelor's Degree in Business Administration (Special) from the University of Sri Jayewardenapura with a Second Upper Division Class Honors and an MBA from the University of Cardiff Metropolitan, UK. Mr. Fernando served on the CIMA Sri Lanka Board in 2014. He held many positions while serving as a Director of CIMA Sri Lanka Division and he was a member of the 'Global Markets Committee' which reports to the CIMA London Council. He is the former Chairman of MESANA Regional Board which covers Middle East, South Asia and North Africa comprising 28 countries. Mr. Fernando possesses extensive experience in Non Banking Financial Service industry and counts over 21 years of professional experience. He is well versed in the fields of Finance, Marketing, Trading, Construction, Real Estate and Plantations.

### Geethika Wickramasinghe
**Deputy General Manager - Deposits**

Geethika Wickramasinghe counts over 30 years of experience in Banking & Finance sector. She has headed both Operations & Credit departments in branches at Seylan Bank PLC & served as a Branch Manager in Union Bank PLC. Geethika was at UB Finance Company Ltd as AGM Deposits & AGM Credits. She worked at Orient Finance PLC as AGM Fund Mobilization prior to joining Arpico Finance PLC as a Deputy General Manager. She is currently appointed to Associated Motor Finance Company PLC as Deputy General Manager-Deposits, with effect from 01 April 2021. Geethika is a Double Master's Degree holder from the University of Colombo & American City University USA and a Diploma holder from the Institute of Bankers of Sri Lanka. Geethika also holds two international diplomas in Compliance & Anti Money Laundering (Merit) from University of Manchester UK, awarded by the International Compliance Association UK.

### Dileepa Dharnarathne
**Senior Assistant General Manager - Credit & Operations**

Mr. Dharmarathna holds a BSc Degree and Master of Business Degree from the University of Colombo. He has over 22 years' experience in finance covering credit, marketing, and recoveries. He was the Credit Manager at Nation Lanka Finance PLC prior to joining Arpico Finance Company PLC in June 2012 and was appointed to Associated Motor Finance Company PLC as Senior Assistant General Manager - Credit & Operations w.e.f. 01 April 2021.

### Anusha Prasangika

**Senior Assistant General Manager - Finance**

Anusha is a fellow member of the Institute of Chartered Accountants of Sri Lanka (ICASL) and an associate member of the Chartered Institute of Management Accountants, UK and the Chartered Global Management Accountant, UK and is currently reading for the Master of Business Administration degree at the University of Colombo. She started her career at Deloitte Sri Lanka (SJMS Associates) as an Auditor and was subsequently promoted as Manager – Assurance and Advisory – Technical and worked in Assurance and Advisory services. She counts over 13 years' experience in accounting, auditing and due diligence and taxation and IFRS consultancy in Banking and Finance, Insurance and Manufacturing and Trading sectors. She joined Arpico Finance Company PLC as the Asst. General Manager – Finance in October 2016 and appointed to Associated Motor Finance Company PLC as the Senior Asst. General Manager - Finance w.e.f. 01 April 2021.

### Vajira Panditharathne

**Assistant General Manager - Recovery & Operations**

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 16 years of experience in the finance industry and 10 years in the field of Mass Media Communications. Of this period, 8 years were spent in managerial positions.

### Chamila Herath

**Senior Manager - Legal**

Mrs. Herath is an Attorney at Law, Notary Public, Commissioner for Oaths and a Company Secretary. She has obtained an Advanced Diploma in Finance Banking and Insurance Law conducted by the Institute of Advanced Legal Studies in Sri Lanka. She has more than twenty-five years of experience as an Attorney at Law in the finance sector. She started her career at Palitha Mathew & Company and then at Mercantile Credit Ltd. She joined Arpico Finance Company PLC in 1999 as a Legal Officer and was promoted to Senior Manager Legal in April 2014. Currently she serves as the Senior Manager - Legal at Associated Motor Finance PLC.

# MANAGEMENT TEAM

**Suneth Piumal**

Head of IT

Mr. Piumal holds a B.Sc. Special Honors Degree in Information Technology from the Sri Lanka Institute of Information Technology (SLIIT). He is a member of the Computer Society of Sri Lanka (MCSL), Microsoft Certified professional (MCP) and ISO 27001:2013 ISMS Lead Auditor. He has started his career at LAUGFS Group of Companies and counts over 12 years of experience in the IT sector. He was the Manager – IT at Co-operative Leasing Company Limited prior to joining Arpico Finance Company PLC. Mr. Piumal has joined Arpico Finance Company PLC as Manager - ICT in May 2017 and appointed to Associated Motor Finance Company PLC as Head of IT w.e.f. 01 April 2021.

**Niluka Mahanama**

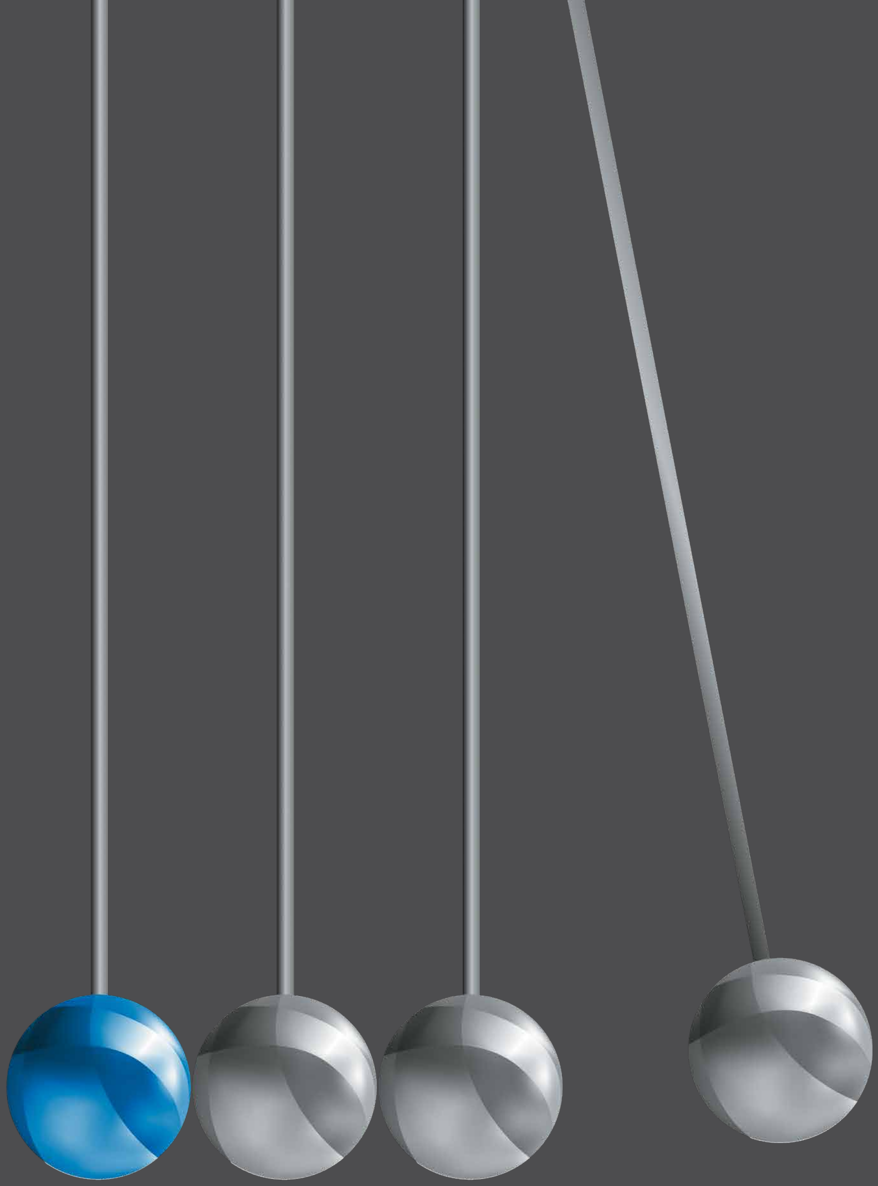
Senior Manager - Internal Audit

Ms. Niluka is an Associate Member of The Institute of Chartered Accountants of Sri Lanka (ICASL) and she holds a bachelor's degree in Business Administration (Special) from the University of Sri Jayewardenepura with a Second Class. Niluka started her career at KAL Rupasinghe & Company as an Auditor and she was the Chief Internal Auditor at The Finance Company PLC prior to joining Arpico Finance Company PLC in January 2019 and appointed to Associated Motor Finance Company PLC as Senior Manager - Internal Audit w.e.f. 01 April 2021.

**Nilmini Karunathilake**

Senior Manager - Compliance

Mrs. Nilmini Karunathilake with more than 7 years experience as a Compliance officer in UAE, started her career as an Accounting Software Instructor in UAE and joined the Financial industry as a Compliance Officer in a leading Money Exchange Company Abu Dhabi UAE in 2008. Nilmini holds a Diploma in Compliance from IBSL, Certified Anti Money Laundering Specialist (CAMS) from the Association of Certify Anti Money Laundering Miami, USA. She's currently reading for a Diploma in Bank Integrated Risk Management (IBSL). Mrs. Karunathilake joined Arpico Finance Company PLC in February 2019 and was appointed to Associated Motor Finance Company PLC as Senior Manager - Compliance w.e.f. 01 April 2021.



# IMPLEMENTING OUR STRATEGIES

MANAGMENT DISCUSSION & ANALYSIS

# OPERATING ENVIRONMENT

## MACROECONOMIC CONDITIONS

Beside the global economic slump induced by the COVID-19 pandemic, the Sri Lankan economy shrank by 3.6% in real terms in 2020, recording the deepest recession, compared to 2.3% of expansion recorded in 2019. As a result, the overall size of the Sri Lankan economy shrank to US dollars 80.7 billion in 2020 from US dollars 84.0 billion in the previous year and per capita GDP declined to US dollars 3,682 in 2020 from US dollars 3,852 in 2019.

Mobility restrictions and other containment measures imposed locally and internationally to prevent the spread of COVID-19, hindered real economic activities across all sectors. As a result, all sectors of the economy shrank during 2020 – agriculture by 2.4%, industry by 6.9% and services by 1.5%, compared to the previous year. Within the service sector, the tourism industry was severely affected by global and local travel restrictions.

In the meantime, considering the difficulties faced by borrowers due to the pandemic, the Government declared a debt moratorium to bring relief to COVID-19 affected individuals and businesses, which came into effect in April 2020 and was to end in September 2020. However, the period was further extended for certain sectors considering the longer recovery period of those sectors affected by the pandemic. On a positive note, Sri Lanka's external sector performed reasonably well even amidst COVID-19 related uncertainties, supported by a resilient export sector coupled with timely measures taken by the Government and the Central Bank of Sri Lanka.

After experiencing a slump at the onset of the pandemic, export earnings rebounded strongly within a relatively short span of time to reach pre-pandemic levels, while measures to curtail non-essential imports (including vehicles), together with the significantly low global petroleum prices helped to reduce the import expenditure in 2020, leading to a notable reduction in the country's trade deficit.

Despite pressures experienced during March-April 2020 and in late 2020, significant volatilities in the exchange rate too were prevented thanks to timely interventions by the Central Bank of Sri Lanka, ensuring the depreciation of the Sri Lankan rupee against the US dollar was contained at 2.6% in 2020.

## PERFORMANCE OF THE NON-BANK FINANCIAL INSTITUTION (NBFI) SECTOR

Lending by the NBFI sector slowed considerably during 2020 as business activities continued to shrink amidst the COVID-19 lockdowns and restriction on vehicle imports. Credit provided by the sector shrank by 4.2% in March 2021 compared to the curtailment of 2.3% in March 2020, with the main target market of the NBFI sector, self-employed individuals and Micro, Small and Medium Enterprises (MSMEs) being among the worst affected by the pandemic-induced economic downturn.

## ASSET BASE

The sector's total assets deteriorated by 2.9% in March 2021 compared to a negative growth of 1.4% in March 2020. Thus, total assets amounted to Rs. 1,391.9Bn as at March 2021, compared to Rs. 1,434.1Bn as at March 2020. Loans and advances account for 76.2% of the sector's total assets, while leases represent 43.7% with loans having the second highest share of 33.4%. Investments and other assets account for 11.2% and 13.5%, respectively, of the total assets of the sector.

## ASSET QUALITY

Despite the deterioration in total assets and lending portfolio, the NBFI sector's gross Non-Performing Loans (NPL) ratio marginally decreased to 11.30% by end March 2021, from 11.37% reported as at end-March 2020.

## PROFITABILITY

The profitability of the NBFI sector saw an improvement with a growth in Profit after tax by 124% from Rs. 13.2Bn by year-end March 2020, to Rs. 29.7Bn by year-end March 2021. Despite the lackluster growth in the lending portfolio, majority of the financial institutions have managed to bring down their operating costs, loan loss provision and vastly reduced their interest expenses due to the plunge in the interest rates. Although total income was reduced by 11% year-on-year, total expenses also reduced by 24% which led to an overall profitability increment.

## FUNDING & LIQUIDITY

The capital requirements set by the Central Bank of Sri Lanka were maintained above the minimum levels by the sector during 2020. The capital base achieved a positive growth of 19.3%, increasing to Rs. 218.7Bn by the end of March 2021 compared to Rs. 183.4Bn recorded at the end of March 2020. This position was attained as Licensed Finance Companies (LFCs) continued to increase their capital to comply with the minimum core capital regulations, while the governing body took proactive measures to improve the sector's outlook and performance. Considering the upheavals caused by the pandemic, the Central Bank of Sri Lanka offered a 12-month extension to LFCs to comply with minimum core capital requirements and minimum capital adequacy ratios. Resultantly, the sector's total risk-weighted capital ratio increased to 15.55% by the end of March 2021 compared to the 12.53% recorded at the end of March 2020.

When it comes to deposit mobilization activities, the impact of the pandemic resulted in the decline in deposits of the sector. Thus, deposits by customers shrank by 0.7% in March 2021 compared to the 1.6% growth achieved in March 2020. Total deposits stood at Rs. 757.9Bn at the end of March 2021 compared to Rs. 763Bn at the end of March 2020. Meanwhile, Borrowings significantly dropped by 25.7% year-on-year from Rs. 390.9Bn in March 2020 to Rs. 290.3Bn in March 2021.

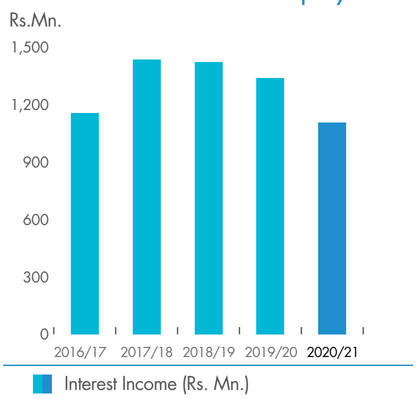
Furthermore, the sector continued to maintain adequate liquidity buffers well above the regulatory minimum levels, with the overall regulatory liquid assets available as at end March 2021, indicating a surplus against the stipulated minimum requirement. The sector-wide liquidity increased to 12.57% at end March 2021, from 11.02% recorded at end-March 2020.

# FINANCIAL REVIEW

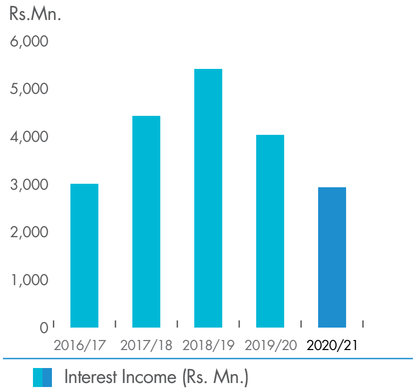
## INTEREST INCOME

During the year under review, the Company's and Group's interest income decreased from Rs. 1,339Mn to Rs. 1,107Mn, and Rs. 4,025Mn to Rs. 2,932Mn respectively, which was mainly due to, the degrowth in our lease rentals receivable resulted from the restrictions imposed on importation of motor vehicles which in turn diminished the number of vehicle registrations. Moreover, the waiver of default interest of customers and moratoriums provided to our customers in compliance with the directions issued by the Central Bank of Sri Lanka (CBSL) under moratorium scheme also negatively affected the interest income.

Growth in Interest Income - Company




Growth in Interest Income - Group




## INTEREST EXPENSES

The company's interest expense dropped by 20% from Rs. 872Mn to Rs. 696Mn and Group's by 26% from Rs. 2,554Mn to Rs. 1,882Mn cushioning the impact as CBSL reduced its policy rates several times during the early part of the year.

## NET INTEREST INCOME

The Company's net interest income decreased from Rs. 467Mn to Rs. 441Mn in 2020/21. Group's net interest income also decreased during the year under review, from Rs.1,471Mn to Rs. 1,050Mn.

## IMPAIRMENT

Company's Impairment charge and other losses for the year decreased from Rs. 143Mn to Rs. 45Mn during the year as a result of the strategic focus on asset quality improvement. Group's impairment charge also reduced substantially from Rs. 685Mn to Rs. 158Mn, despite the highly challenging business environment where asset quality of the sector deteriorated.

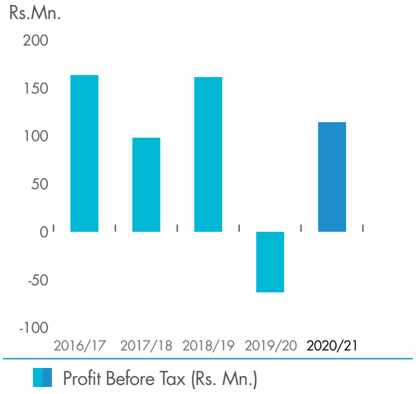
## OPERATING EXPENSES

The Group's total operating expenses has reduced by 7% from Rs. 1,051Mn to Rs. 978Mn during the year under review. Personnel costs, which accounted for 54% of the total operating expenses, has decreased by 10% compared to the last year.

## PROFITABILITY

Despite the disruptions on operations caused by COVID-19 pandemic the group was able to deliver a resilient performance. The Group reported a profit before tax of Rs. 114Mn in 31-03-2021 compared to loss before tax of Rs. 63Mn previous year.

PBT Group



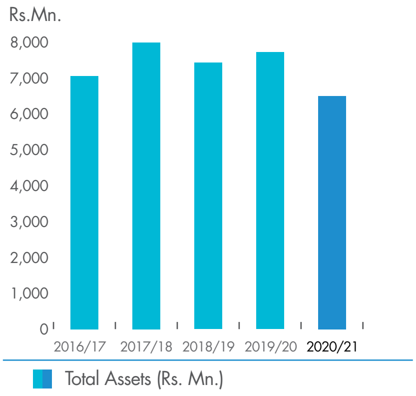

For the 2020/2021 financial year, the Company recorded a Loss after tax of Rs. 6Mn whereas the Group recorded a net profit after tax of Rs. 6Mn for the year 2020/2021.

# FINANCIAL REVIEW

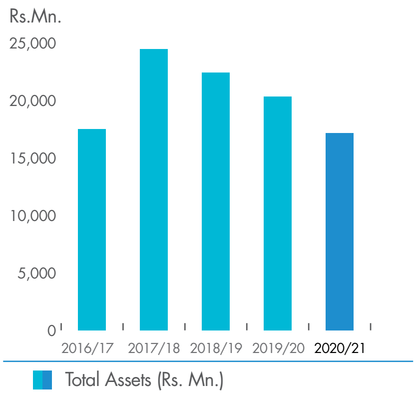
## TOTAL ASSETS

Consolidated total assets base had decreased from Rs.20Bn to Rs. 17Bn during the year under review.

Total Assets - Company




Total Assets - Group




## LENDING

The lending portfolio of the company consists of leasing, hire purchases, loans against FD. Lending portfolio of the Company was valued at Rs. 2.9Bn as at 31-03-2021 with a decrease of 37% compared to 31-03-2020.The Group's lending base also reduced by 29% from Rs.14Bn to Rs. 10Bn compared to last year.

This contraction was mainly impacted by COVID-19 outbreak together with the restrictions imposed on the importation of vehicles which eventually resulted a shrinkage in number of vehicle registrations.

## 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 was Rs. 1,657Mn in excess of the minimum regulatory level of Rs. 405Mn. The Company's liquid asset ratio increased from 19% at the end of previous year to 41% as at the 31st March 2021, against CBSL minimum requirement of 6% reflecting company's advantageous liquidity position.

## SHAREHOLDERS' FUND

The Consolidated total shareholders' fund as at 31st March 2021 was Rs. 1,889Mn, which was an increase of 1% compared to Rs.1,877Mn at the end of the previous financial year.

The total shareholders' fund of the Company as at 31st March 2020 was Rs 1,229Mn, which was same as remaining compared to Rs. 1,232Mn 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

Customer satisfaction is the primary factor that drives customer relationships. Our customers remain at the heart of our business and are an integral stakeholder of the organization. We, at AMF, continually work hard to deliver increased value to our customers and earn their loyalty. Therefore, our focus is on extending a great customer experience, building strong customer relationships, and investing in service enhancements to cater to their diverse needs.

Our customer portfolio comprises mainly of individual customers and Small and Medium Enterprises (SMEs), which is an indication of our commitment to cater to customers at the bottom of the economic pyramid, who have limited or no access to obtain services from banks and help them to become financially stable and bankable.

Most of our customers were affected by the COVID-19 pandemic. To ensure continuity of services amidst nation-wide and area wise lockdowns, we upgraded our online payment system to facilitate customers to transact online smoothly. Further, to ease their financial burden due to the pandemic, we assisted our leasing and loan customers by offering them moratoriums, loans at concessionary rates, new rental payment plans and waiving of default interest.

We also enabled customers to make informed decisions by providing adequate information and clear explanations about our products and services. We employ several mechanisms by which customers can access our products and services and engage directly with our well-trained frontline customer service staff:

- → Door-to-door after sales services are offered by staff
- → Automated services, whereby customers can log in and check the status of financial facility details and any other information without standing in queue
- → Online facilities to save time and infuse greater convenience
- → Well-equipped call center to interact with customers and provide a high standard of personalized service.

As an ethical company that operates in line with regulatory requirements and customer confidentiality, we employ state-of-the-art technology to ensure that we comply with this aspect. Customer data is not divulged on the phone and is done only in the instance of a requirement by a legal authority to do so.

## DEPOSITS

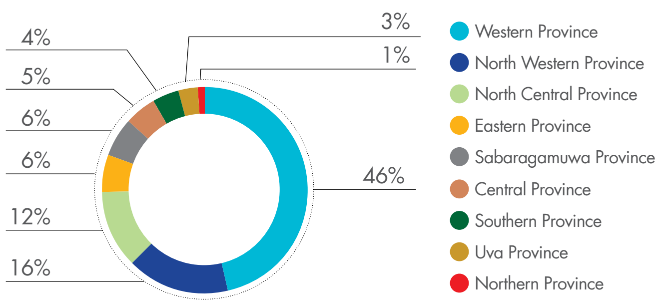
Deposits are our primary source of funding and accounted for 78% of the total liabilities as at the end of the financial year under review. Valuing the loyalty and trust of our depositors, we strive to offer the highest return for their investments within the regulatory guidelines. Moreover, we were able to ensure that our depositors were serviced their obligations in a timely manner as we were well-equipped to face the challenging economic conditions during the pandemic.

Despite heavy withdrawals in deposits in the industry due to the uncertain environment that prevailed through the year under review, AMF managed to maintain high renewal ratios, reflecting the strong customer loyalty in our organization 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 73% in 2020/21.

## CUSTOMER REACH

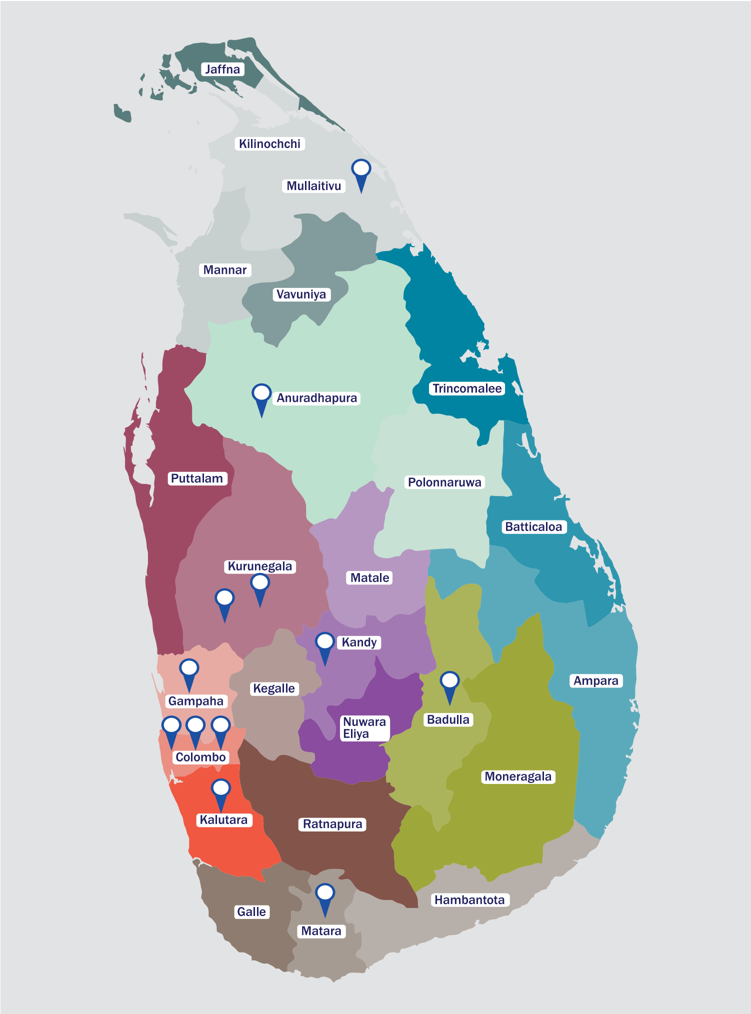
A majority of our customer base hails from the Western Province, followed closely by the North Western and the North Central provinces. It is encouraging to see in recent years that our reach is spreading island-wide, as our base now counts customers from diverse parts of the country and from all walks of life. In operation for close to six decades, AMF has consolidated its customer base to over 50,000 and continues to understand their evolving personal and business needs.

**Geographical Spread of Customers**




Additionally, after the merger with AFC, we are in a better position to pursue more growth opportunities due to an extended geographical presence as we can leverage on 11 fully-fledged branches of AFC as well as the dealer network of AMF, increasing our total touch points to 1000+. Reputed for our personalized service and warm and courteous staff, AMF capitalizes on the opportunity to make lasting connections with customers by fulfilling their financial needs in the simplest manner, backed by technological platforms.

## Map of Sri Lanka with the Branch Locations




## MARKETING COMMUNICATION

Our strong brand is one of our most important business assets. We continually strive to strengthen our brand through marketing communications. Hence, information on our product offerings, terms and conditions and interest rates are made available to our customers via promotional material, display boards at branches and via our website and social media platforms. We ensure that all information required by customers to make well informed decisions are provided in all three languages – Sinhala, English and Tamil - and are published clearly, accurately and in a timely manner.

# 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 451 of which 97% were individuals and 3% were institutions.

## SHAREHOLDER FUND

At Company level, shareholder funds remaining at same level compared to last year. At Group level, shareholder's funds increased by 1% to Rs. 1,890Mn., in the year under review. The Company's return on average shareholders' funds for the year under review declined YoY to -0.77 in 2020/21 from 3.17 in 2019/20.

## MARKET CAPITALIZATION AND SHARE PRICE MOVEMENT

At the end of the current financial year, market capitalization of AMF remained at Rs. 1.76Bn,. The share price of AMF recorded a high of Rs. 425 and a low of Rs. 250 during the FY 2020/21. The year-end share price was Rs.297.75

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

For the year ended 31 March 2021, the ROA and ROE of our Company stood at -0.13 % and -0.77% respectively.

## EARNINGS PER SHARE (EPS) AND PRICE EARNINGS RATIO

Company's earnings attributable to ordinary shareholders decreased to Rs-1 compared to Rs. 24 at the end of last year.

## NET ASSET VALUE (NAV)

The NAV per share of the Company decreased from Rs. 220 at the beginning of the financial year to Rs. 219 at the end of the FY in review.

# HUMAN CAPITAL

Human Capital is the stock of habits, knowledge, social and personality attributes embodied in the ability to perform labour to produce economic value. Human capital is unique and differs from any other capital and is vital to achieve goals, develop and remain competitive. Led by this definition, Associated Motor Finance has developed a committed and competent workforce which drives its corporate goals and vision. The skills, experience, and the business acumen creates the competitive advantage which is supported by substantial investments in training and development of staff. Associated Motor Finance enjoys the reputation of being an equal opportunity employer who values diversity.

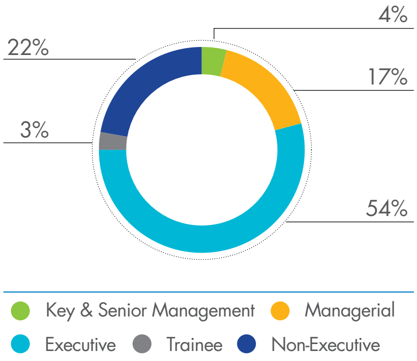
## EMPLOYEE ANALYSIS

The male-to-female ratio is not optimal because of the nature of the role of field staff, however, the Company remains committed to recruiting females in every department to improve the ratio further.

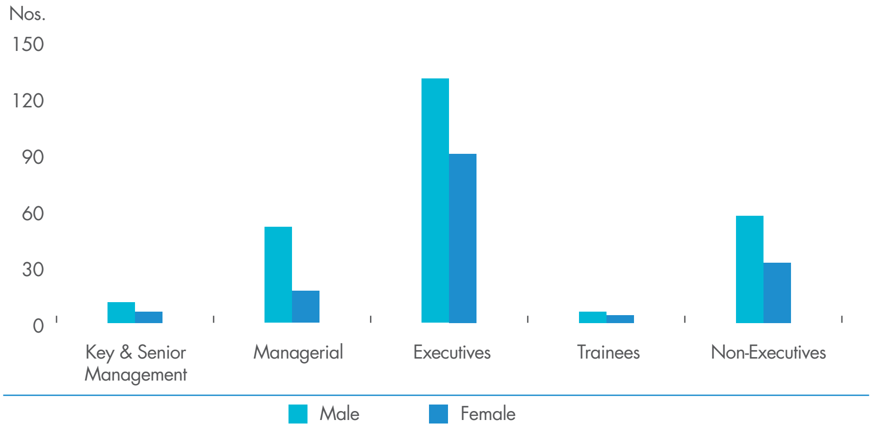
The Company has an optimal blend of long-standing experienced staff and young recruits who together lend a dynamic work culture. Our staff strength as at the end of the 2020/21 financial year was 404.

| Job Category | Count | Male | Female | % |
|---|---|---|---|---|
| Key & Senior Management | 17 | 11 | 6 | 4% |
| Managerial | 68 | 51 | 17 | 17% |
| Executives | 220 | 130 | 90 | 54% |
| Trainees | 10 | 6 | 4 | 2% |
| Non-Executives | 89 | 57 | 32 | 22% |
| Total | 404 | 255 | 149 | 100% |

Our Strength

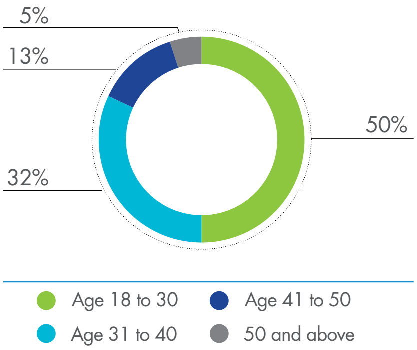



Gender




| Age Analysis | Total |
|---|---|
| Age 18 to 30 | 203 |
| Age 31 to 40 | 131 |
| Age 41 to 50 | 51 |
| 50 and above | 19 |
| Total | 404 |

Age Analysis



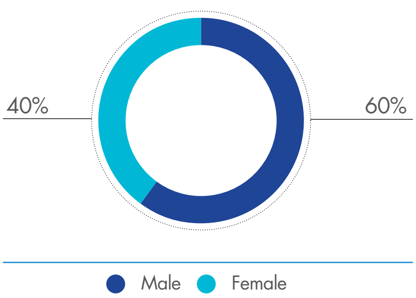
# HUMAN CAPITAL

## RECRUITMENT AND SELECTION

The Company continues to strengthen its employer brand by offering a distinctive work culture, career growth opportunities, competitive remuneration and challenging job roles. Our recruitment process focuses on attracting the right talent for the right role. Being an equal employment opportunity provider, we value diversity and focus on hiring for attitude as a positive attitude engenders a positive culture. Our recruitment policy focuses on internal sourcing as well as external sourcing. We ensure that priority is given to internal candidates to be promoted from within before recruiting from the industry.

| | Male | Female |
|---|---|---|
| Recruitments | 33 | 22 |

Recruitments




## LEARNING & DEVELOPMENT

The financial industry relies on trust and a strong reputation and in order to sustain these qualities, the Company invests heavily in providing the right training to employees about products and services, customer relationship management and ethical conduct to ensure they are always acting in the interest of the customers and other stakeholders.

A needs analysis serves to identify skill gaps which are discussed with the supervisors at the performance review and employees are subsequently provided with inhouse or external training. Moreover, employees are encouraged to pursue academic and technical qualifications by extending financial assistance to them through a professional development scheme where the Company contributes 64% of the total fee of the course.

## PERFORMANCE MANAGEMENT

With business environments becoming increasingly fluid and fast-moving, an agile performance-driven culture has been established to ensure corporate goals are driven from top to bottom of the organization. The Company's well-organized performance management ensures consistency and continuous improvement through performance review meetings and performance improvement plans on an ongoing basis.

## EMPLOYEE ENGAGEMENT AND RETENTION

At Associated Motor Finance, our success in this sphere can be evaluated by the high number of longstanding staff who are responsible for the organizational growth. Transparency and open communication amongst management and staff has built a culture of mutual trust and respect and enhanced employee engagement.

Retention continues to be an industry-wide challenge given the shortage of skilled employees and increasing competition for prevailing staff. This issue was further compounded during the year, with the adverse industry conditions compelling employees to leave the industry for alternative employment. The overall employee turnover rate amounted to 39% during the year.

## REWARDS AND REMUNERATION

The Company believes in fair and just benefits and rewards structure without discrimination. Associated Motor Finance ensures that employees are offered a competitive remuneration and benefits package. Our performance-driven culture ensures employees are evaluated against Key Performance Indicators (KPIs) and are granted rewards and benefits accordingly.

## OCCUPATIONAL HEALTH AND SAFETY

The health, safety and well-being of our employees is a crucial pillar, and we comply with all workplace health and safety regulations in addition to providing a personal accident cover and a surgical and hospitalization policy that covers medical expenses of the staff members, funded by the Company.

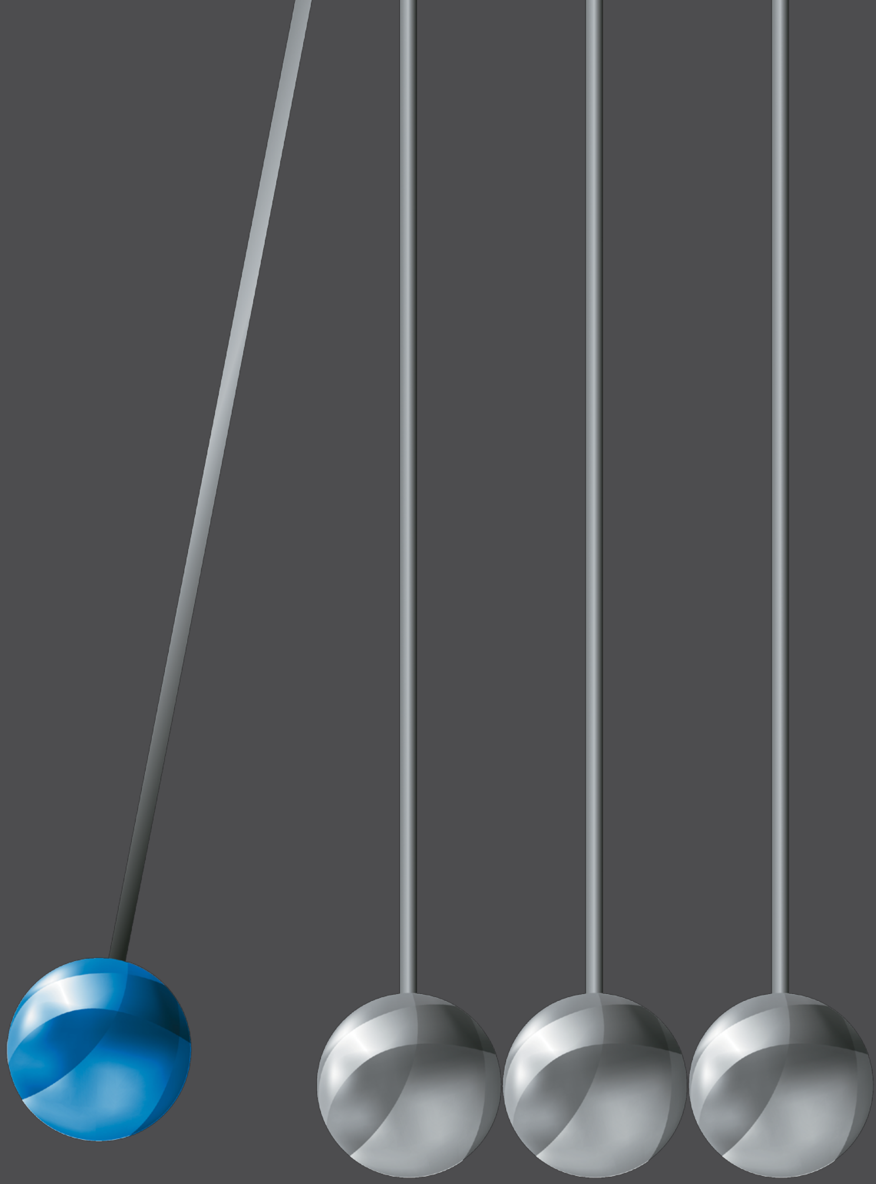
Associated Motor Finance responded swiftly to the COVID-19 outbreak to ensure safety of staff and customers and to ensure business continuity. The Company adopted measures such as 'Work from Home', provided Personal Protective Equipment for staff, and organized transport for staff who were deemed as essential workers.

## ENGAGING EMPLOYEES

Towards encouraging employee volunteerism, a CSR project was carried out for cleaning Mount Lavinia Beach on 13th June 2020, in which many employees participated to keep the environment clean.

## WAY FORWARD

As a finance industry operator, our employees are the most valuable asset. Despite the prevailing uncertainties, we will take every effort to ensure job security while balancing sustainability of the organization. Associated Motor Finance is in a strong position to support employees through the prevailing difficult time.



# EMPLOYING OUR EXPERTISE

STEWARDSHIP

# INTEGRATED RISK MANAGEMENT REPORT

## RISK ENVIRONMENT

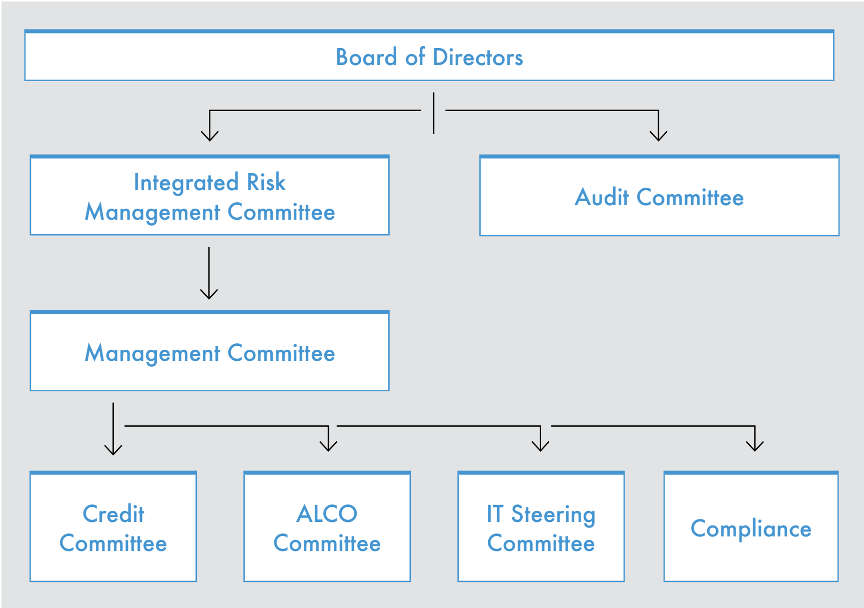
The outbreak of the COVID-19 pandemic impacted adversely to the expansion and performance of the financial sector during the 2020/2021 with the result of political instabilities, deteriorated income levels, & imposition of various government regulations such as providing moratoriums to affected individuals and sectors, restrictions on importation of motor vehicles, etc. Moreover, customer confidence on the NBFI sector was shaken due to the publication of LFCs not complying with certain regulatory ratios stipulated by the Central Bank of Sri Lanka 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), Management Committee, 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




## ROLES OF THE COMMITTEES:

### ALCO Committee -

Optimize AMF's economic goals while maintaining liquidity risk within the predetermined risk appetite.

- Monitor and manage Assets & Liabilities and overall liquidity
- Ensure the adherence to the regulatory requirements
- Develop and maintain contingency funding plan
- Review immediate funding needs

### Credit Committee -

- Reviews and approves credit policies and procedures pertaining to the effective management of all credit portfolios within the lending strategy of AMF
- Reviews and monitors AMF's Non-Performing Advances (NPAs) above a predetermined threshold to initiate timely corrective actions to prevent/ reduce credit losses to the Company
- Monitor and manage lending portfolio, asset quality and recovery action

### IT Steering Committee -

Focuses continuously on meeting the information security objectives and requirements of the Company in line with emerging technology and Company's Strategy.

- Ensure that IT has sufficient resources to meet the Company's demand.
- Assess and report IT-related risks and organizational impact
- Provide feedback about compliance of IT carrying out the system reviews according to CBSL.
- Review to ensure that the objectives are achieved.

### Management Committee –

Monitors and reviews all risk exposures and risk-related policies and procedures affecting credit, market and operational areas in line with the directives from the Integrated Risk Management Committee (IRMC).

- Matters & risks which are not mitigated at the management appointed committees are escalated and reviewed under the Management Committee.
- The management Committee reports all risk related information to the IRMC in a well-articulated Risk Matrix. The Risk Matrix is a comprehensive risk assessment prepared by the Strategic Planning & Risk Management Unit which defines the level of risk for each risk item under key risk areas by considering the probability or likelihood against the category of consequence severity. Risk owners are identified in this assessment with the action plan and the timeline to complete the action plan for each risk item is indicated. Furthermore, a risk score is calculated for each risk item with overall company risk score.

### Audit Committee –

Assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal controls, the audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct.

## RISK MATRIX

| | | | | | |
|---|---|---|---|---|---|
| SEVERITY | 1. Insignificant | 2. Minor | 3. Moderate | 4. Major | 5. Fatal |
| LIKELYHOOD | 1. Rare | 2. Unlikely | 3. Possible | 4. Likely | 5. Certain |
| RISK SCORE | 1 - 2 | 3 - 5 | 6 - 10 | 12 - 16 | 20 - 25 |

## KEY RISKS CATEGORIES AND MITIGATION STRATEGIES

The Company is exposed to risks which have the potential to impact the Company's ability to achieve agreed strategic goals including the financial performance. While some risks can be managed by the Company, there are other key risks that need to be monitored to assess their impact as described below.

**Risks**

**Risks that are monitored but cannot be managed by the company**

- Macroeconomic Risk
- Macro prudential, Regulatory and Legal Risk

**Risks that are managed by the company**

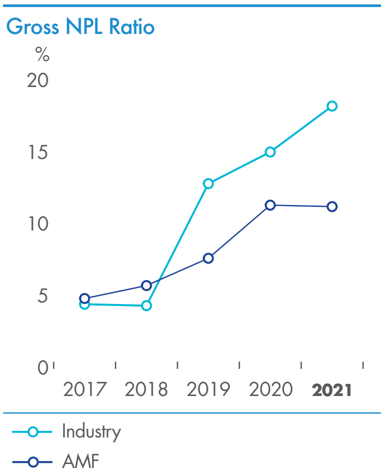
- Credit Risk
- Market Risk
- Operational Risk
- Liquidity Risk
- Strategical Risk
- Business Risk
- Reputational Risk
- Compliance Risk

# INTEGRATED RISK MANAGEMENT REPORT

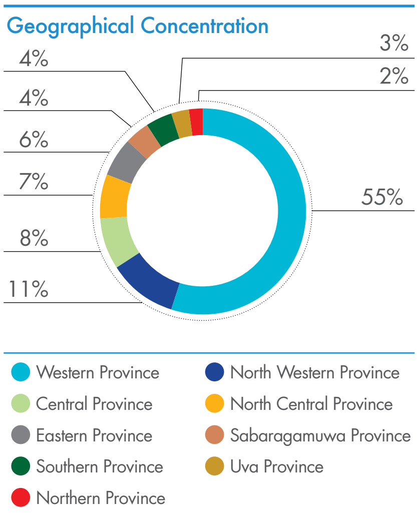
## 1. Credit Risk

Credit Risk is the risk of potential loss resulting from the failure of a customer/ borrower or counterparty to honor its financial or contractual obligations to the Company. It arises mainly from direct lending activities which are reflected on the Balance Sheet. Credit risk is composed of counterparty risk, concentration risk and settlement risk. Credit risk may result in the loss of the principal amount and interest with adverse implications on profits due to the impairment provisions or write-offs of non-performing facilities. At AMF, the credit risk is applicable for leases, hire purchases and loan receivables, which in effect accounts for a major percentage of the total assets.

### Key Risk Indicators








### Risk Minimization Strategies

Areas to be focused under AMF Credit Risk Management Processes

- → Credit Appraisal
- → Credit Approval
- → Credit Disbursement
- → Credit Risk Measurement and Monitoring
- → Credit Recovery
- → Impairment Process

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 call centre on a daily basis.

**Pre-disbursement**

- → Stringent credit appraisal and pre-credit sanctioning
- → Well defined credit criteria
- → Delegated approval authority at multiple levels

**Post-disbursement**

- → Consistent monitoring of sector and product exposures
- → Monitoring and reporting of NPLs at multiple levels
- → Periodic revaluation of collaterals
- → Periodic Risk Reporting
- → Management Committee

## 2. Market Risk

Market Risk is the risk of loss arising from movements in interest rates, foreign exchange rates, commodity prices, equity and debt prices and their correlations. Most of the Company's operations are subject to at least one or more elements of market risk. Interest rate risk is the volatility in interest sensitive products and the susceptibility of the future income and expense levels to the changes in line with the market interest rates.

### 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. Finance department and the Strategical Planning & Risk Management Unit continuously evaluate and review the interest rates, market information and report for necessary policy decisions to mitigate the related market risks.

## 3. 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 Internal Audit Department ensures adequacy and effectiveness of internal controls and reports independently to the Audit Committee for necessary actions. 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 organization.

## 4. Strategical Risk

In a competitive environment, pragmatic strategy and effective implementation are essential to ensure the sustainability of profits. The key drivers of strategic risk are competition, customer changes, industry trends, technological innovation, and regulatory developments.

### Risk Minimization Strategies

The Strategic Planning & Risk Management Unit independently carries out an assessment of the corporate strategy against the business environment and the findings are duly reported to the senior management for their deliberations. At the monthly Management Committee meetings, the corporate strategy is assessed through brainstorming and sharing experiences and knowledge on the market, industry, and competitor behaviour.

Based on the quantitative and qualitative information gathered, the Strategic risk is assessed on a every two months by the IRMC and remedial measures are taken at the top management level. The achievement and adequacy of budgetary targets are reviewed daily, weekly and reported monthly at the Management Committee and at the Board level.

## 5. Business Risk

Business risk is a part of strategic risk which arises from the competitiveness within the financial services industry. As is the case in the present context, intense competition in the industry together with the volatilities in the macroeconomic environment, particularly, the changes in policy interest rates, import duty levels and government restrictions on vehicle imports, adversely impact business volumes, and market share and in turn, the profitability of the Company.

### Risk Minimization Strategies

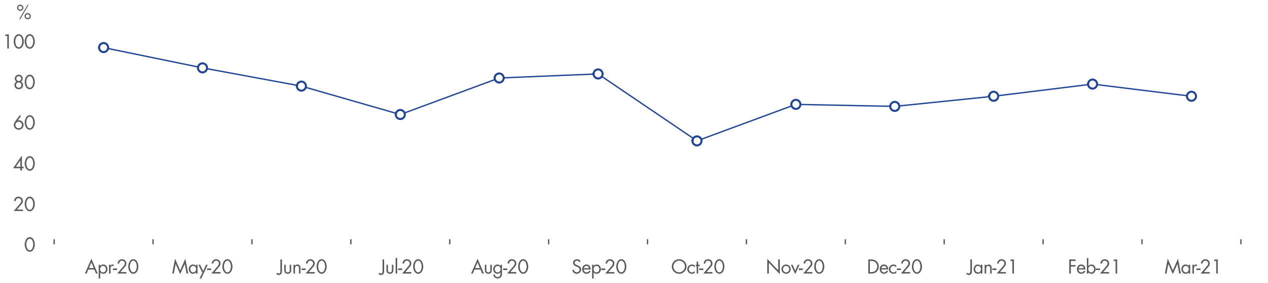
Business risk is managed by ensuring speedy delivery of high-quality service to customers, carrying out market analyses whenever necessary to identify key areas to be focused, implementing new strategies to build strong relationships with dealers, and assessing variance between budgeted disbursements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

# INTEGRATED RISK MANAGEMENT REPORT

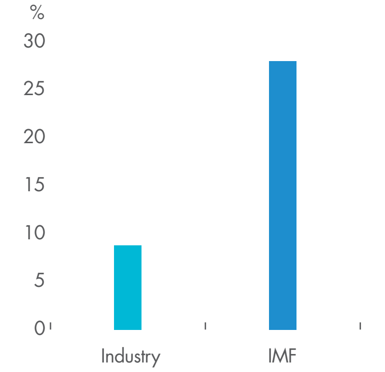
## 6. Liquidity Risk

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.

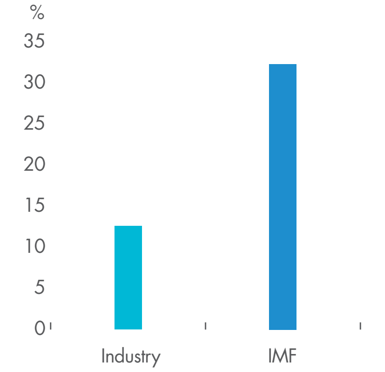
Renewal Ratio



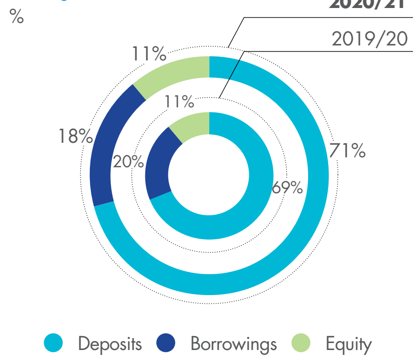

Liquid Assets to Total Assets




Liquid Assets to Deposits & Borrowings




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.

The ALCO holds overall responsibility for ensuring that the Company maintains adequate liquidity levels to fulfil its contractual obligations. Key aspects of the Company's liquidity management framework are as follows;

- The Company's liquidity position is consistently monitored to ensure compliance to internal targets and regulatory requirements.
- Diversified funding strategy where funds are sourced from multiple sources
- Committed lines of credit in place as contingency sources

All the Company's liquidity ratios have been maintained well above the regulatory requirement during the period under review. Our customer deposit base is granular, with top 10 depositors accounting for only 7% of the total deposit base.

## 7. Reputation Risk

Reputation risk is a risk of loss resulting from damages to an organization'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 organization.

### 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.

## Risk of Unforeseen Events

This refers to the risk of business operations being disrupted due to unexpected events. It is difficult for anybody to predict all the possible events which may materialize in the future. Therefore, every organization is left with the risk of unforeseen events.

# CORPORATE GOVERNANCE

## 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–<br>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:<br>(i) significantly influence policy;<br>(ii) direct activities; and<br>(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:<br>(i) the selection, nomination and election of directors and appointment of key management personnel;<br>(ii) the management of conflicts of interests; and<br>(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 |
| | (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.<br>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 |

| Section No. | Description | State of Compliance |
|---|---|---|
| | (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 |

# CORPORATE GOVERNANCE

| 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:<br>(a) a summary of data and information used by the Board in its deliberations;<br>(b) the matters considered by the Board;<br>(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;<br>(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;<br>(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<br>(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.<br>A non-executive director shall not be considered independent if such director: | Complied |
| | 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 |

| 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 organization:<br>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<br>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<br>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) The Director who have reached the age of 70 years, will be assessed by the Monetary Board (MB) of the Central Bank of Sri Lanka (CBSL), based on the criteria that have been formulated in order to objectively asses fitness and propriety, as well as the contribution made by such Directors to the financial institution and the level of regulatory compliance of such financial institution. | 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 |
| **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 |

# CORPORATE GOVERNANCE

| Section No. | Description | State of Compliance |
|---|---|---|
| 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 |
| 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<br><br>The following shall apply in relation to the Audit Committee: | Complied |
| | 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 |

| Section No. | Description | State of Compliance |
|---|---|---|
| | 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:<br>(i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services;<br>(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<br>(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 |
| | 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 |

# CORPORATE GOVERNANCE

| Section No. | Description | State of Compliance |
|---|---|---|
| | j) The committee shall take the following steps with regard to the internal audit function of the finance company:<br>(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;<br>(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;<br>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;<br>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;<br>(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 )<br>(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 |
| | m) The committee shall have:<br>(i) explicit authority to investigate into any matter within its terms of reference;<br>(ii) the resources which it needs to do so;<br>(iii) full access to information; and<br>(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,<br>(i) details of the activities of the audit committee;<br>(ii) the number of audit committee meetings held in the year; and<br>(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 |

| Section No. | Description | State of Compliance |
|---|---|---|
| | (3) Integrated Risk Management Committee<br>The following shall apply in relation to the Integrated Risk Management Committee: | Complied |
| | 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 |
| | 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 |

# CORPORATE GOVERNANCE

| Section No. | Description | State of Compliance |
|---|---|---|
| **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:<br>a) A subsidiary of the finance company;<br>b) Any associate company of the finance company;<br>c) A director of the finance company;<br>d) A key management personnel of the finance company;<br>e) A relative of a director or a key management personnel of the finance company ;<br>f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company;<br>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:<br>a) Granting accommodation,<br>b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,<br>c) providing financial or non-financial services to the finance company or obtaining those services from the finance company,<br>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 |

| 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:<br>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.<br>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 )<br>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;<br>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;<br>d) Providing or obtaining services to or from a related-party without a proper evaluation procedure;<br>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:<br>(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 subparagraph (2) (b) above, in respect of any statements prepared or published from the date of this Direction. | Complied |

# CORPORATE GOVERNANCE

| Section No. | Description | State of Compliance |
|---|---|---|
| | d) Details of Directors, including names, transactions with the finance company. | Complied |
| | 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 |
| | h) 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 |

## 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 13 times during the year. The attendance at the Board Committee meeting for the year 2020/21 is mentioned on page No 68. | Adopted |
| A.1.2 | **The Board's role and responsibilities**<br>The Board as a whole is responsible for,<br>→ Formulation and implementation of a sound business strategy<br>→ Ensures that the Chief Executive Officer and Management team possess the skills, experience and knowledge to implement the strategy<br>→ Ensuring the adoption of an effective CEO and Key Management Personnel succession strategy<br>→ Implementing effective systems to secure integrity of information, internal controls, business continuity and risk management<br>→ Ensuring compliance with laws, regulations and ethical standards<br>→ Ensuring all stakeholders interests are considered in corporate decision<br>→ Recognising sustainable business development in Corporate strategy, decisions and activities<br>→ Ensuring that the company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations<br>→ 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.**<br>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 request. | Adopted |
| A.1.4 | **The Board members have access to advice the Company Secretary on Corporate services.**<br>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**<br>All Directors provide independent judgment for their decision makings on strategy, performance resources and standards of business conduct. | Adopted |
| A.1.6 | **Dedicating adequate time and effort to matters of the Board and the company**<br>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 |

# CORPORATE GOVERNANCE

| Section No. | Description | Adoption Status |
|---|---|---|
| A.1.7 | **Every Director should receive appropriate training at the first appointment to the Board.**<br><br>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)**<br><br>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**<br><br>The Chairman and the CEO positions of the Company are held by separate persons. | Adopted |
| A.3 | **Chairman's Role**<br><br>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.**<br><br>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**<br><br>The Board should ensure the availability of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.<br><br>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 are Fellow members of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) (FCA).<br><br>The current Chairman of the Integrated Risk Committee is a holds a Bachelor's Degree in Business Accounting from Monash University, Australia, a Fellow Member and holder of the Graduate Diploma in Marketing from the Chartered Institute of Marketing, UK., a Member of the Certified Practicing Accountants of Australia and a member of the Sri Lanka Institute of Marketing. | Adopted |
| A.5 | **Board Balance**<br><br>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**<br><br>There were three independent Non-Executive Directors during the financial year 2020/2021 and currently the Board comprises five Non-Executive Directors and it carries significant weight in the Board's decisions. | Adopted |
| A.5.2 | **Independent Non-Executive Directors**<br><br>There were three Independent Non-Executive Directors during the financial year 2020/2021 and currently the Board comprises four Independent Non-Executive Directors. | Adopted |

| Section No. | Description | Adoption Status |
|---|---|---|
| A.5.3 & A.5.4 | **Evaluation of independence of Non-Executive Directors**<br>The Independent Non-Executive Directors are complied with the applicable rules and regulations and they annually submit declarations on their independency. | Adopted |
| A.5.5 | **Determination of independence of Non-Executive Directors**<br>The disclosure is made on the independence status of the Directors on page No 67. | Adopted |
| A.5.6 | **Appointment of Alternative Directors**<br>No alternative Director was appointed during the year of 2020/21. | Adopted |
| A.5.7 & A.5.8 | **Senior Independent Director**<br>Situation has not risen. | Situation has not arisen |
| A.5.9 | **Meeting with Non-Executive Directors**<br>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**<br>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**<br>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**<br>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.**<br>The Minutes, agendas and papers are provided to the Board seven days prior to the meeting. | Adopted |
| A.7 | **Appointment to the Board**<br>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**<br>The Company has formed a Nomination Committee and the report of the Nomination Committee is presented on page No. 64. | Adopted |
| A.7.3 | **Disclosure of details of the new Directors to shareholders**<br>Disclosures are made to the shareholders subsequent to the approval obtained by the Central Bank of Sri Lanka. | Adopted |
| A.8 | **Re-Election**<br>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**<br>The requirement is specified in the Articles of Association of the company. | Adopted |

# CORPORATE GOVERNANCE

| Section No. | Description | Adoption Status |
|---|---|---|
| A.8.2 | **Re-Election by the Shareholders**<br>The requirement is specified in the Articles of Association of the company. | Adopted |
| A.9 | **Appraisal of Board Performance**<br>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**<br>The Board annually evaluates its performance in the discharge of its key responsibilities and the relevant disclosures are made on page No. 67. | Adopted |
| A.10 | **Disclosure of Information in Respect of Directors**<br>Shareholders should be kept advised of relevant details in respect of Directors. | |
| A.10.1 | **Disclosure of information in respect of Directors**<br>Profiles of the Board of Directors are given on page No. 14. | Adopted |
| A.11 | **Appraisal of Chief Executive Officer (CEO)**<br>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.**<br>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**<br>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**<br>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**<br>The Remuneration Committee comprised of Non-Executive Directors. The Remuneration Committee report is given on page No. 59. | Adopted |
| B.1.4 | **Remuneration of Non-Executive Directors**<br>The Board as a whole determines the remuneration of Non-Executive Directors and they receive a fee for attending Board and sub-committee meetings. | Adopted |
| B.1.5 | **Access to professional advice**<br>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**<br>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. | |

| Section No. | Description | Adoption Status |
| --- | --- | --- |
| B.2.1 to B.2.8 | **The level and make up of Remuneration of the Executive Directors**<br>The committee considers the following when determining the remuneration,<br>→ Sufficient capacity to attract, retain and motive the Executive Directors to achieve the company objectives.<br>→ Comparison of industrial remuneration standards | Adopted |
| B.2.9 | **Level of remuneration for Non-Executive Directors**<br>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**<br>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**<br>The pertinent disclosures are made on page Nos 59,91 and 129. | Adopted |
| C | RELATIONS WITH SHAREHOLDERS | |
| C.1 | **Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings.**<br>Board should use the AGM to communicate with shareholders and should encourage their participation. | |
| C.1.1 | **Use of proxy votes**<br>The Company has recorded all proxy votes for each resolution prior to the AGM. | Adopted |
| C.1.2 | **Separate resolution for separate issues**<br>A separate resolution is proposed for each substantially separate issue. | Adopted |
| C.1.3 | **Availability of subcommittee Chairmen at the AGM**<br>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**<br>Company circulates the AGM Notice and a summary of the procedures within a stipulated time period. | Adopted |
| C.2 | **Communication with Shareholders**<br>The Board should implement effective communication with shareholders. | Adopted |
| C.2.1 & C.2.7 | **Communication with Shareholders**<br>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.<br><br>The Company Secretary maintains records of all correspondence received from shareholders and directs the same to appropriate channels for resolution. | Adopted |

# CORPORATE GOVERNANCE

| Section No. | Description | Adoption Status |
|---|---|---|
| C.3 | **Major and Material Transactions**<br>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**<br>The company did not engage in any major transactions during the period of 2020/21 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**<br>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**<br>The Report of the Board of Directors on the Affairs of the Company is given in this Annual Report on page No. 66. | Adopted |
| D.1.3 | **Statement of Directors' and Auditor's responsibility for the Financial Statements**<br>Directors Responsibility for Financial Reporting is given on page No.69. | Adopted |
| D.1.4 | **Management discussion and analysis**<br>Management discussion and analysis is given on pages 22 to 30. | Adopted |
| D.1.5 | **Declaration by the Board that the business is a going concern**<br>Refer the Report of the Board of Directors on pages 66 to 68. | Adopted |
| D.1.6 | **Summoning an Extraordinary meeting to notify serious loss of capital**<br>The situation has not arisen during the year 2020/21. | Adopted |
| D.1.7 | **Disclosure of Related Party Transactions**<br>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**<br>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**<br>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**<br>The company had an outsourced internal audit function during the financial year 2020/2021 and currently the company has an in-house Internal Audit Department. Internal Audit reports are discussed at the Audit Committee meetings and appropriate recommendations/actions are agreed upon based on those findings. | Adopted |

| Section No. | Description | Adoption Status |
|---|---|---|
| D.3 | **Audit Committee**<br>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**<br>The Audit Committee was consisted of three members during the financial year 2020/2021 and currently consists of five members, four 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. 60. | Adopted |
| D.3.2 | **Duties of the Audit Committee**<br>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**<br>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**<br>Refer 'Audit Committee Report' on page No. 60 of this Annual Report. | Adopted |
| D.5 | **Corporate Governance Disclosures**<br>The company should disclose the extent of adoption of best practices in Corporate Governance. | |
| D.5.1 | **Disclosure of corporate governance compliance**<br>This requirement is met through the disclosures related to Corporate Governance made in this Annual Report. | Adopted |
| E | **INSTITUTIONAL INVESTORS**<br>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**<br>Regular dialogue to be maintained with shareholders and Chairman to communicate shareholders views to the Board.<br><br>General Meetings are used to have an effective dialogue with the shareholders on matters which are relevant. | Adopted |
| F.1 | **Investing/Divesting Decision**<br>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**<br>Individual shareholders are encouraged to participate at the Annual General Meeting and to exercise their voting rights. | Adopted |

# CORPORATE GOVERNANCE

**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.<br><br>Refer the Annual report of the Board of Directors on the affairs of the company on page No. 66. | Compliant |
| 7.6 (ii) | Principal activities of the company and its subsidiaries during the year and any changes therein.<br><br>Refer the Annual report of the Board of Directors on the affairs of the company on page No. 66. | 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.<br><br>The company has not issued any non-voting shares. Refer Share Information of Annexures on page No. 154. | Compliant |
| 7.6 (iv) | The public holding percentage.<br><br>Refer Share Information of Annexures on page No. 155. | 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.<br><br>Refer Share Information of Annexures on page No. 155. | Compliant |
| 7.6 (vi) | Information pertaining to material foreseeable risk factors.<br><br>Refer Integrated Risk Management report on page No. 32. | 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 2020/21 |
| 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.<br><br>Refer notes to the Financial Statements on page No. 107. | Compliant |
| 7.6 (ix) | Number of shares representing the stated capital as at the end of the financial year.<br><br>Refer notes to the Financial Statements on page No. 127. | 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.<br><br>Refer Share Information of Annexures on page No. 154. | Compliant |

| Section No. | Description | State of Compliance |
|---|---|---|
| 7.6 (xi) | Ratios and market price information on :<br><br>Equity<br>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)<br><br>Debt<br>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)<br><br>Any changes in credit ratings. Refer page Nos 66 and 153. | 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.<br><br>Refer notes to the financial statements on page No. 109. | |
| 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 2020/21 |
| 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.<br><br>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 129. |
| **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 has 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.<br><br>The Board was consisted of three Non-Executive Directors and currently the Board consists of Five Non-Executive Directors | Compliant |

# CORPORATE GOVERNANCE

| Section No. | Description | State of Compliance |
|---|---|---|
| 7.10 (2) | Independent Directors to be at least two or 1/3 of the total number of Non-Executive Directors.<br><br>The Board was consisted of three Independent Non-Executive Directors and currently the Board consists of Four Independent Non-Executive Directors and submit annual declarations on their independence. | Compliant |
| 7.10 (3) | **Disclosures relating to Directors**<br>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**<br>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**<br>a) Composition<br>b) Functions<br>c) Disclosures<br>The Remuneration Committee report is given on page No. 59. | Compliant |
| 7.10 (6) | **Audit Committee**<br>a) Composition<br>b) Functions<br>c) Disclosure<br>The Audit Committee report is given on page No. 60. | Compliant |

# REPORT OF THE REMUNERATION COMMITTEE

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

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 -
Board Chairman /
Independent Non-Executive Director

Mr. Peter Suren Goonewardene -
Independent Non-Executive Director

Mr. Nilanka Mevan Pieris -
Non-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* | 02 | 02 |
| Mr. R. Wijegunawardane* | 01 | 01 |
| Mr. K.D.U.S. Nanayakkara | 02 | 02 |
| Mr. S.P. Goonewardene** | - | - |
| Mr. N.M. Pieris** | - | - |

* *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. S.P. Goonewardene and Mr. N.M. Pieris were appointed to the Board with effect from 1st and 5th April 2021 respectively.*

## FEES AND REMUNERATION

The aggregate remuneration of the Board of Directors during the financial year was Rs. 78,550,990/- On behalf of the Remuneration Committee Meeting.

**Mr. T. G. Kandamby**
Chairman - Remuneration Committee

28th July 2021

# 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 Company PLC, comprise of four Independent Non-Executive Directors and a non-Independent Non-Executive Director, and 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 -
Board Chairman / Independent,
Non-Executive Director

Mr. Nilanka Mevan Pieris -
Non-Independent Non-Executive Director

Mr. Peter Suren Goonewardene -
Independent Non-Executive Director

Profiles of the Audit committee members are given on page No. 14.

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,

- → 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.
- → 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.
- → 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.
- → Assessing the independence and performance of the Company's External Auditors.
- → Monitoring of timely payments of all statutory liabilities.

The Audit Committee invited Mr. J.P.I.N. Dayawansa, Deputy Chairman/Executive Director, Mr. J.P.I.S. Dayawansa, Executive Director and Mr. T.M.A. Sallay, Executive Director/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

## MEETINGS

The Audit Committee held four (5) 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* | 05 | 05 |
| Mr. R. Wijegunawardane* | 05 | 05 |
| Mr. K.D.U.S. Nanayakkara | 05 | 05 |
| Mr. S.P. Goonewardene** | - | - |
| Mr. N.M. Pieris** | - | - |

* *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. S.P. Goonewardene and Mr. N.M. Pieris were appointed to the Board with effect from 1st and 5th April 2021 respectively.*

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

**Mr. T. G. Kandamby**
Chairman - Audit Committee

28th July 2021

# REPORT OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

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 Company PLC, comprise six members including three Independent Non-Executive Directors, and are chaired by Mr. S.P. Goonewardene.

The members of the Committee are –

Mr. Peter Suren Goonewardene -
Independent Non-Executive Director
(Chairman of the Risk Committee)

Mr. J.P.I.N. Dayawansa -
Deputy Chairman / Executive Director

Mr. Tuan Mohamed Anif Sallay -
Executive Director/ CEO

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

Mr. R. Wijegunawardane -
Independent Non-Executive Director

Mr. Nilanka Mevan Pieris -
Non-Independent Non-Executive Director

## 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 six (06) 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* | 05 | 05 |
| Mr. T.G. Kandamby* | 06 | 06 |
| Mr. J.P.I.N. Dayawansa | 06 | 06 |
| Mr. J.P.I.S. Dayawansa | 06 | 06 |
| Mr. T.M.A Sallay | 06 | 06 |
| Mr. S.P. Goonewardene** | - | - |
| Mr. N.M. Pieris** | - | - |

* 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. S.P. Goonewardene and Mr. N.M. Pieris* appointed to the Board with effect from 1st and 5th April 2021 respectively.

On behalf of the
Integrated Risk Management committee

**Mr. S.P. Goonewardene**
Chairman -
Integrated Risk Management committee

28th July 2021

# 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 four Independent Non-Executive Directors and a Non-Independent Non-Executive Director. 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 -**
Independent Non-Executive Director (Chairman of the Related Party Transaction Review Committee)

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

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

**Mr. Peter Suren Goonewardene -**
Independent Non-Executive Director

**Mr. Nilanka Mevan Pieris -**
Non-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* | 04 | 04 |
| Mr. T.G. Kandamby* | 04 | 04 |
| Mr. K.D.U.S. Nanayakkara | 04 | 04 |
| Mr. S.P. Goonewardene** | - | - |
| Mr. N.M. Pieris** | - | - |

* *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. S.P. Goonewardene and Mr. N.M. Pieris were appointed to the Board with effect from 1st and 5th April 2021 respectively.*

## 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. 129. 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. 68. On behalf of the Related Party Transactions Review Committee.

On behalf of the Related Party Transactions Review Committee.

**Mr. R. Wijegunawardane**
Chairman -
Related Party Transactions Review Committee

28th July 2021

# 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 Company 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 -
Board Chairman /
Independent Non-Executive Director

Mr. Nilanka Mevan Pieris -
Non-Independent Non-Executive Director

Mr. Peter Suren Goonewardene -
Independent Non-Executive Director

## 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

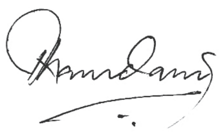
During the Financial year 2020/21 there were two meetings held and the attendance of the committee members are as follows,

| Name of Committee member | No. of Meetings eligible to attend | Attended |
|---|---|---|
| Mr. T.G. Kandamby* | 02 | 02 |
| Mr. R. Wijegunawardane* | 01 | 01 |
| Mr. K.D.U.S. Nanayakkara | 02 | 02 |
| Mr. S.P. Goonewardene** | - | - |
| Mr. N.M. Pieris** | - | - |

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

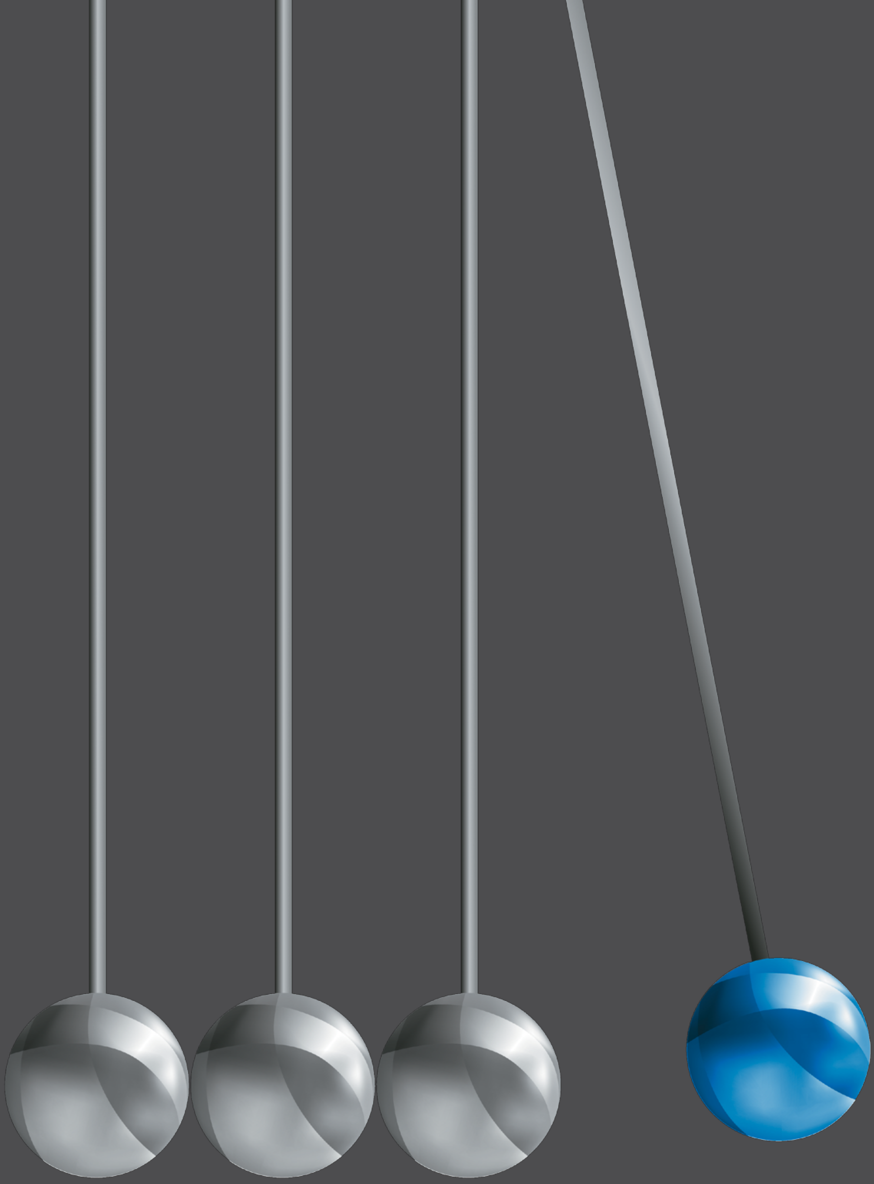
** *Mr. S.P. Goonewardene and Mr. N.M. Pieris were appointed to the Board with effect from* 1st and 5th April 2021 respectively

On behalf of the Nomination Committee



**Mr. T. G. Kandamby**
Chairman - Nomination Committee

28th July 2021



# PRESERVING OUR MOMENTUM

FINANCIAL REPORT

# 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 2021. 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 28 July 2021.

## 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. 4 of this Annual Report. ICRA Lanka Ltd has assigned a [SL] B+ (Negative) rating to the company.

In terms of Section 241 (1) of the Companies Act, No. 07 of 2007, Arpico Finance Company PLC was amalgamated with Associated Motor Finance Company PLC and a Certificate of Amalgamation has been issued by the Registrar of Companies on 31st March 2021 in terms of Section 244 (1) of the Companies Act, No. 07 of 2007.

## PRINCIPAL BUSINESS ACTIVITIES

The principal activities of the company are acceptance of public deposits, leasing and hire purchase, Islamic Finance, real estate trading, import and trading of private and commercial vehicles. By offering various financing solutions

## 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. 8 and the Executive Director/ CEO's Review on pages No. 11.

## 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 74 to 151 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 74 to 151 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 2021 and the Auditor's Report issued thereon is given on page 71 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 80 to 151. 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.

## 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 2021 was Rs. 56,086,280 /-.

## RESERVES

The reserves of the company with the movements during the year are given on page No. 128 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. 108

## DONATIONS

The total donations made by the Company were Rs. 72,000/-.

## 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 31.03.2021 | No. of Shares as at 31.03.2020 |
|---|---|---|
| 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 nine Directors with financial and commercial knowledge and experience. The qualifications and experience of the Directors are given on pages 14 to 16 of the annual report.

| | | |
|---|---|---|
| Mr. K.D.U.S. Nanayakkara | - | Chairman / Independent Non-Executive Director |
| Mr. J.P.I.N. Dayawansa | - | Deputy Chairman / Executive Director |
| Mrs. A.S. Dayawansa | - | Executive Director |
| Mr. J.P.I.S. Dayawansa | - | Executive Director |
| Mr. T.M.A Sallay | - | Executive Director /Chief Executive Officer |
| Mr. T.G. Kandamby | - | Independent Non-Executive Director |
| Mr. R. Wijegunawardane | - | Independent Non-Executive Director |
| Mr. S.P. Goonewardene | - | Independent Non-Executive Director |
| Mr. N.M. Peiris | - | Non-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 | - | Executive Director |
| Mrs. A.S. Dayawansa | - | Executive Director |
| Mr. K.D.U.S. Nanayakkara | - | Independent Non-Executive Director |
| Mr. T.G. Kandamby | - | Independent Non-Executive Director |
| Mr. R. Wijegunawardane | - | Independent Non-Executive Director |

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

Mr. J.P.I. Nalatha Dayawansa designated as Deputy Chairman / Executive Director with effect from 01.04.2021.

Mr. S.P. Goonewardene was appointed to the Board of Directors as an Independent Non-Executive Director with effect from 01.04.2021.

Mr. N.M. Peiris was appointed to the Board as an Non-Independent Non-Executive Director with effect from 05.04.2021.

Mr. T.M.A. Sallay was appointed to the Board of Directors as an Executive Director and designated as Executive Director / Chief Executive Officer with effect from 1st April 2021.

# THE ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

## 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. T.G.Kandamby, 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.

## BOARD MEETINGS AND ATTENDENCE

The Company held thirteen (13) board meetings during the financial year. Information on the attendance at these meetings are given below:

| Name of Committee member | Attendance |
|---|---|
| Dr. L.R. Karunaratne* | 1/13 |
| Mr. K.D.U.S. Nanayakkara | 13/13 |
| Mr. J.P.I.N. Dayawansa | 13/13 |
| Mrs. A.S. Dayawansa | 13/13 |
| Mr. J.P.I.S. Dayawansa | 13/13 |
| Mr. T.G. Kandamby** | 12/13 |
| Mr. R. Wijegunawardane** | 12 /13 |
| Mr. S.P. Goonewardene*** | - |
| Mr. N.M. Pieris*** | - |
| Mr. T.M.A. Sallay*** | - |

* Dr. L.R. Karunaratne retired from the Board w.e.f 4th May 2020

** Mr. T.G. Kandamby and Mr. R. Wijegunawardane appointed to the Board w.e.f 23rd April 2020 and 18th May 2020 respectively.

*** Mr. S.P. Gunawardene and Mr. T.M.A. Sallay appointed to the Board w.e.f 1st April 2021 and Mr. N.M. Pieris appointed to the Board w.e.f 5th April 2021.

## 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 2021 was Rs. 78,550,990/- as compared with the remuneration of Rs. 84,610,355/-. 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. 862,650/- 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 2021, 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 129 to 130.

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 2021.

## 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 virtually on the 30th September 2021 at 2.30pm.

## NOTICE OF MEETING

Notice of the meeting relating to the Annual General Meeting is provided on page 156 of this Annual Report.

Signed on behalf of the Board

**ASSOCIATED MOTOR FINANCE COMPANY PLC**

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

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

**Chart Business Systems (Pvt) Ltd**
Secretaries

28th July 2021

# 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. 71 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 2021 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 (PVT) LTD. COMPANY SECRETARIES

**Chart Business Systems (Private) Limited**
Secretaries

28th July 2021

# 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 Auditor has reviewed the above Director's statement on Internal Control included in the Annual Report of the Company for the year ended 31st March 2021 and reported to the Board that based on the procedures performed, except for the deficiencies observed in the general information technology controls, there were no matters which came to their attention that causes them to believe that the statement included in the annual report is inconsistent with their understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control of the company.

**Mr. T.G. Kandamby**
Chairman of the Audit Committee

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

28th July 2021

# 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 Company 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 2021, 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 2021, 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** | |
|---|---|
| **Risk description:**<br>The Company and Group has recorded Loans and Receivables of Rs. 2,916,037,443 and Rs. 10,109,460,419 respectively which represents approximately 45% and 59% respectively of the total assets. The Allowances for impairment losses of loans and receivables amounted to Rs. 229,028,770 of the Company and Rs. 1,523,884,438 of the Group. Significant judgments and assumptions were used by the management to determine the impairment allowance on such balances and complex calculations were involved in their estimations. Due to the higher level of estimation uncertainty involved and significance of its impact on the amounts presented in the financial statements, we have considered it as a Key Audit Matter. Basis of impairment allowance and assumptions used by the management in its calculation, is disclosed in note 5.2.2. | **How the matter was addressed in our audit**<br>We designed our audit procedures to obtain sufficient and appropriate evidence on the reasonableness of the impairment allowance and included the following:<br>→ Obtained an understanding on the management process for the determination of impairment of Loans and advances and Lease receivables and, evaluated the designing and operating effectiveness of the controls used by the management in that process.<br>→ Evaluated model including relevant assumptions used therein to calculate impairment allowance for its appropriateness.<br>→ Verified the underlying calculations in the model including corroborating the assumptions used in the calculations with the historical information available with the Company and publicly available data and information sources.<br>→ Assessed the completeness and relevance of the underlying information used in the impairment calculation by agreeing details to source documents and information in IT systems.<br>→ Considered the reasonableness of macro-economic factors used by comparing them with publicly available data and information sources. Our considerations included assessing the appropriateness of the weightages assigned to possible economic scenarios.<br>→ Assessed the adequacy of the disclosures made in the Note 20 of the financial statements reference to the requirements of SLFRS 7. |

P. E. Aruna Jayewickreme FCA, M. Basheer Ismail FCA, S. Lilani Jayasuriya FCA, Gerard J. David FCA, F. Maryam Marikkar FCA, M. Sharnila J. Henry FCA, R. Hilmy M. Minfaz ACA, Sarala Y. Kodagoda ACA, M. Manzeer M. Muzawwir ACA

Deloitte.

| Recoverability of deferred tax assets | |
|---|---|
| **Risk description:**<br>The Company and the Group has recognized total deferred tax asset amounting to Rs. 336,074,043 and Rs.200,073,275 respectively, and total of Rs 316,160,179 relating to investment allowance and carried forward tax losses as disclosed in Note 29. The said total amount, which is Rs 336,074,043 would be recovered in the future through the generation of future taxable profits by the Group entities.<br><br>The recognition of such deferred tax assets relies on the significant assumptions of the management in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profit being generated.<br><br>Due to the higher level of estimation uncertainty involved and significance of its impact on the amounts presented in the financial statements, we have considered it as a Key Audit Matter. | **Our Response:**<br>→ Obtained an understanding on the management process for the determination of Deferred tax and, evaluated the designing and operating effectiveness of the controls used by the management in that process.<br>→ Assessed the appropriateness of the key assumptions used in future taxable profits forecasts of the Group by collaborating such assumptions with the publicly available data and information sources, historical results experienced by the Group and our knowledge of the business gained while performing the other audit procedures, as appropriate.<br>→ Assessed adequacy of disclosures made in the Note 28 of the financial statements. |

## Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with financial statements or our knowledge obtained in the audit, or otherwise appeared 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 scepticism 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 doubts 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
Colombo

28 July 2021

# STATEMENT OF COMPREHENSIVE INCOME

| For the Year ended 31st March | Note | Company 31.03.2021 | Company 31.03.2020 | Group 31.03.2021 | Group 31.03.2020 Restated |
|---|---|---|---|---|---|
| | | Rs. | Rs. | Rs. | Rs. |
| Income | | 1,158,898,640 | 1,460,240,697 | 3,233,469,977 | 4,352,391,371 |
| Interest income | 7 | 1,106,813,613 | 1,339,102,887 | 2,932,036,246 | 4,025,066,777 |
| Interest expense | 8 | (696,194,819) | (872,491,931) | (1,881,769,335) | (2,553,758,990) |
| Net interest income | | 410,618,793 | 466,610,956 | 1,050,266,911 | 1,471,307,787 |
| Fee and commission income | 9 | 25,067,815 | 30,634,288 | 74,376,676 | 107,801,851 |
| Other operating income | 10 | 27,017,212 | 90,503,523 | 227,057,055 | 219,522,743 |
| Total operating income | | 462,703,821 | 587,748,766 | 1,351,700,642 | 1,798,632,381 |
| Impairment charge for loans and other losses | 11 | (45,437,332) | (143,390,294) | (158,541,351) | (685,817,361) |
| Net operating income | | 417,266,488 | 444,358,472 | 1,193,159,291 | 1,112,815,020 |
| Less: operating expenses | | | | | |
| Personnel expenses | 12 | (237,206,097) | (251,962,008) | (532,426,786) | (589,760,597) |
| Depreciation of property, equipment and amortisation of right of use assets | | (32,474,870) | (35,534,911) | (85,117,074) | (86,898,526) |
| Amortisation of intangible assets | | (543,113) | (983,175) | (5,401,817) | (6,361,502) |
| Other operating expenses | 13 | (120,105,920) | (103,028,114) | (355,543,290) | (368,706,074) |
| Operating profit before tax on financial services | | 26,936,489 | 52,850,265 | 214,670,324 | 61,088,321 |
| Tax on financial services | 14 | (36,353,026) | (41,030,843) | (100,828,020) | (124,313,472) |
| Profit / (loss) before taxation | | (9,416,536) | 11,819,422 | 113,842,305 | (63,225,152) |
| Income tax (expense) / reversal | 15 | 3,284,222 | 11,484,292 | (107,575,437) | (47,684,124) |
| Profit / (loss) for the year | | (6,132,314) | 23,303,713 | 6,266,868 | (110,909,276) |
| 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 | | - | - | 4,292,944 | (2,469,861) |
| Actuarial gains / (loss) on retirement benefit obligations, net of tax | | 2,821,122 | 1,739,739 | 2,706,069 | 10,773,439 |
| Gain on revaluation of land and buildings, net of tax | | - | - | - | 237,790,469 |
| Other comprehensive income / (loss) for the year, net of tax | | 2,821,122 | 1,739,739 | 6,999,013 | 246,466,732 |
| Total comprehensive income / (loss) for the year | | (3,311,192) | 25,043,452 | 13,265,881 | 135,557,456 |
| Profit attributable to | | | | | |
| Equity holders of the parent | | (6,132,314) | 23,303,713 | 5,525,397 | (102,883,339) |
| Non controlling interest | | - | - | 741,471 | (8,025,937) |
| | | (6,132,314) | 23,303,713 | 6,266,868 | (110,909,276) |
| Total comprehensive income attributable to | | | | | |
| Equity holders of the parent | | (3,311,192) | 25,043,452 | 12,274,572 | 128,948,719 |
| Non controlling interest | | - | - | 991,309 | 6,608,737 |
| | | (3,311,192) | 25,043,452 | 13,265,881 | 135,557,456 |
| Earning / (loss) per share - basic | 16 | (1.09) | 4.16 | 0.99 | (18.34) |

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

# STATEMENT OF FINANCIAL POSITION

| For the Year ended 31st March | Note | Company 31.03.2021 Rs. | Company 31.03.2020 Rs. | Group 31.03.2021 Rs. | Group 31.03.2020 Restated Rs. |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 18 | 343,839,692 | 260,351,158 | 931,933,597 | 1,319,866,517 |
| Financial assets - amortised cost | 19 | 1,443,658,412 | 815,839,897 | 4,051,070,517 | 2,173,056,102 |
| Financial assets at amortized cost / loans and lease receivables | 20 | 2,916,037,443 | 4,615,509,914 | 10,109,460,419 | 14,249,166,497 |
| Financial assets - measured at fair value through profit or loss | 21 | - | 155,782,514 | 17,987,079 | 174,896,898 |
| Financial assets - measured at fair value through other comprehensive income | 22 | 1,165,929 | 1,165,929 | 22,789,852 | 18,496,907 |
| Inventories | 23 | 10,499,785 | 54,543,128 | 10,743,048 | 55,503,357 |
| Investment properties | 24 | 88,850,000 | 85,000,000 | 88,850,000 | 85,000,000 |
| Property, equipment and right of use assets | 25 | 75,568,362 | 108,399,912 | 1,109,076,943 | 1,148,735,677 |
| Intangible assets | 26 | 2,063,182 | 2,306,295 | 12,619,037 | 16,091,587 |
| Current tax asset | 27 | 51,337,331 | 86,634,236 | 87,854,345 | 223,849,860 |
| Deferred tax assets | 28 | 336,074,043 | 332,789,820 | 200,073,275 | 198,582,685 |
| Other assets | 29 | 62,722,623 | 35,422,184 | 127,842,285 | 103,932,419 |
| Investment in subsidiary | 30 | 1,160,387,961 | 1,160,387,961 | - | - |
| Goodwill | | - | - | 385,244,360 | 385,244,360 |
| **Total assets** | | 6,492,204,763 | 7,714,132,948 | 17,155,544,756 | 20,152,422,865 |
| **Liabilities** | | | | | |
| Dues to banks and financial institutions | 32 | 1,055,618,793 | 1,406,286,348 | 2,976,854,877 | 3,980,156,121 |
| Deposits from customers | 33 | 4,058,791,023 | 4,622,186,395 | 11,911,536,836 | 13,286,809,065 |
| Other liabilities | 34 | 104,406,724 | 412,928,601 | 324,110,619 | 898,428,464 |
| Retirement benefit obligations | 35 | 44,378,622 | 40,410,809 | 53,604,522 | 110,237,195 |
| **Total liabilities** | | 5,263,195,161 | 6,481,812,153 | 15,266,106,854 | 18,275,630,845 |
| **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 | 88,613,707 | 88,613,706 | 322,557,340 | 320,077,504 |
| Available for sale reserve | 38 | 978,472 | 978,472 | 8,386,908 | 4,350,682 |
| Revaluation reserve | | - | - | 230,309,625 | 230,309,625 |
| Retained earnings | 37 | 1,082,284,161 | 1,085,595,353 | 1,183,148,429 | 1,178,009,919 |
| **Total equity attributable to equity holders of the company** | | 1,229,009,601 | 1,232,320,793 | 1,801,535,565 | 1,789,880,992 |
| Non-controlling interests | | - | - | 87,902,337 | 86,911,028 |
| **Total equity** | | 1,229,009,601 | 1,232,320,793 | 1,889,437,902 | 1,876,792,020 |
| **Total liabilities and equity** | | 6,492,204,763 | 7,714,132,948 | 17,155,544,756 | 20,152,422,865 |

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

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 on 28 July 2021.

Director

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 | | | | |
| 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 |
| Profit for the year | | - | - | - |
| Other comprehensive income net of tax | | - | - | - |
| Transfer to reserve fund | | - | - | - |
| Balance as at 31 March 2021 | | 56,086,280 | 17,930 | 1,029,052 |
| Group | | | | |
| Balance as at 31 March 2019 | | 56,086,280 | 17,930 | 1,029,052 |
| Reversal of deferred tax asset (note 28.2) | | - | - | - |
| Restated balance as at 31 March 2019 | | - | - | - |
| Profit for the year | | - | - | - |
| Other comprehensive income net of tax | | - | - | - |
| Dividend paid | | - | - | - |
| Transfer to reserve fund | | - | - | - |
| Balance as at 31 March 2020 | | 56,086,280 | 17,930 | 1,029,052 |
| Profit for the year | | - | - | - |
| Other comprehensive income net of tax | | - | - | - |
| Transfer to reserve fund | | - | - | - |
| Repurchase of preference shares | 38.1 | | | |
| Balance as at 31 March 2021 | | 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. |
|---|---|---|---|---|---|
| 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 |
| - | - | - | -6,132,314 | - | -6,132,314 |
| - | - | - | 2,821,122 | - | 2,821,122 |
| - | - | - | - | - | - |
| 88,613,706 | - | 978,472 | 1,082,284,161 | - | 1,229,009,601 |
| 316,633,413 | 6,739,025 | 6,672,846 | 1,478,201,862 | 93,305,905 | 1,958,686,313 |
| - | - | - | (204,097,736) | (12,981,328) | (217,079,064) |
| - | - | - | | | - |
| - | - | - | (102,883,339) | (8,025,937) | (110,909,276) |
| - | 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 | 1,178,009,919 | 86,911,028 | 1,876,792,020 |
| - | - | - | 5,525,397 | 741,471 | 6,266,868 |
| - | - | 4,036,226 | 2,712,950 | 249,838 | 6,999,013 |
| 2,479,837 | - | - | (2,479,837) | - | - |
| | | | (620,000) | | (620,000) |
| 322,557,340 | 230,309,625 | 8,386,908 | 1,183,148,429 | 87,902,337 | 1,889,437,902 |

# CASH FLOW STATEMENT

| For the Year ended 31st March | Note | Company 31.03.2021 Rs. | Company 31.03.2020 Rs. | Group 31.03.2021 Rs. | Group 31.03.2020 Restated Rs. |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Profit/(loss) before taxation | | (9,416,536) | 11,819,422 | 113,842,305 | (63,225,152) |
| Adjustments for; | | | | | |
| Write off expenses | | 35,241,425 | - | 35,241,425 | - |
| Depreciation | | 33,017,983 | 36,518,086 | 90,518,891 | 93,260,028 |
| Gain on disposal of property and equipment | | (1,373,964) | (4,601,360) | (1,373,964) | (4,636,360) |
| Fair value loss / (gain) on investment property | 10 | (3,850,000) | (56,852,637) | (3,850,000) | (56,852,637) |
| Impairment provision | | (3,952,568) | (37,135,968) | 109,151,450 | 505,291,099 |
| Gratuity charge for the year | 12 | 7,478,185 | 7,416,071 | 16,251,928 | 23,458,720 |
| Dividend income | 10 | (137,600) | (113,348) | (1,118,926) | (987,463) |
| Interest on borrowings | 8 | 140,989,819 | 178,049,623 | 379,596,841 | 686,847,853 |
| Loans and advances written off | | - | - | (111,175,912) | (862,867,477) |
| **Operating profit before working capital changes** | | 197,996,742 | 135,099,889 | 627,084,037 | 320,288,611 |
| (Increase) / decrease in financial investments | | (472,036,001) | 71,093,943 | (1,683,723,487) | (294,269,572) |
| (Increase) / decrease in other assets | | (27,300,439) | 3,771,231 | (23,909,864) | 221,630,804 |
| (Increase) / decrease in loans and advances | | 1,703,425,038 | (106,356,641) | 4,141,730,539 | 3,861,788,420 |
| (Increase) / decrease in inventories | | 44,043,344 | 54,843,993 | 44,760,308 | 55,651,109 |
| Increase / (decrease) in amount due to customers | | (563,395,372) | (292,598,879) | (1,428,378,093) | (286,032,081) |
| Increase / (decrease) in other liabilities | | (308,521,878) | 210,006,990 | (574,317,845) | 472,806,934 |
| | | 376,214,692 | (59,239,363) | 476,161,559 | 4,031,575,613 |
| **Cash generated from operations** | | 574,211,435 | 75,860,526 | 1,103,245,596 | 4,351,864,224 |
| Tax paid | 27 | 55,479 | (18,825,959) | (8,275,604) | (50,450,504) |
| Gratuity paid | 35 | (689,250) | (1,386,750) | (70,214,864) | (11,973,725) |
| Interest paid | 8 | (140,989,819) | (178,049,623) | (498,250,130) | (678,982,672) |
| **Net cash flow from / (used) in operating activities** | | 432,587,845 | (122,401,806) | 526,504,998 | 3,610,457,322 |
| **Cash flow from investment activities** | | | | | |
| Dividend received | 10 | 137,600 | 113,348 | 1,118,926 | 987,463 |
| Proceeds from disposal of property and equipment | | 3,533,305 | 7,739,128 | 3,533,305 | 7,774,130 |
| Purchase of property and equipment | 25 | (1,802,662) | (30,342,051) | (47,617,685) | (38,291,999) |
| Purchase of intangible assets | 26 | (300,000) | (304,776) | (1,929,265) | (1,365,328) |
| **Net cash flow from / (used) investing activities** | | 1,568,244 | (22,794,350) | (44,894,718) | (30,895,731) |

| For the Year ended 31st March | Note | Company 31.03.2021 Rs. | Company 31.03.2020 Rs. | Group 31.03.2021 Rs. | Group 31.03.2020 Restated Rs. |
|---|---|---|---|---|---|
| **Cash flow from financing activities** | | | | | |
| Proceeds on borrowings | | 500,000,000 | 1,030,803,793 | 1,300,369,522 | 4,528,915,186 |
| Repayment of borrowings | | (850,667,556) | (714,309,558) | (2,280,572,372) | (7,076,668,875) |
| Repurchase of preference shares | | - | - | (620,000) | - |
| Net cash flow from / (used) financing activities | | (350,667,556) | 316,494,235 | (980,822,850) | (2,547,753,690) |
| | | | | | |
| Net increase / (decrease) in cash and cash equivalents | | 83,488,534 | 171,298,080 | (499,212,570) | 1,031,807,901 |
| Cash and cash equivalent at the beginning of the year | | 260,351,158 | 89,053,079 | 1,269,290,625 | 237,482,725 |
| Cash and cash equivalent at the end of the year | | 343,839,692 | 260,351,158 | 770,078,055 | 1,269,290,625 |
| | | | | | |
| **Cash and cash equivalents** | | | | | |
| Cash in hand and at bank | 18 | 343,839,692 | 260,351,158 | 931,933,597 | 1,319,866,517 |
| Bank overdrafts | | - | - | (161,855,542) | (50,575,892) |
| | | 343,839,692 | 260,351,158 | 770,078,055 | 1,269,290,625 |

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 total number of employees ending 31 March 2021 was 162. (Previous period ending 31 March 2020 total 189).

### 1.2 Consolidated financial statement

The consolidated financial statements of Associated Motor Finance Company PLC for the year ended 31 March 2021 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 pawning operations with effect from August 2013.

### 1.4 Date of authorization for issues

The consolidated financial statements for the year ended 31 March 2021 were authorized for issue by the board of directors on 28 July 2021.

## 2. BASIS OF PREPARATION

### 2.1 Statements of compliance

The consolidated financial statements of the Group and the 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 recognized 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
- → Freehold land and buildings are measured at cost at the time of acquisition and subsequently at revalued amounts less depreciation. Revalued amounts are the fair values at the date of revaluation.

### 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 the 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the 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 tax 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 recognized 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 was amalgamated with its subsidiary company - Arpico Finance Company PLC on 01 April 2021. Accordingly, with effect from 01 April 2021 onwards, Arpico Finance Company PLC ceased to exist, and Associated Motor Finance Company PLC continues as the remaining entity.

The management of Associated Motor Finance Company PLC has made an assessment of the amalgamated company's 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 lease terms and estimating incremental borrowing rate

The Company uses its judgement to determine whether a lease contract qualifies for recognition of right-of-use of 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.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 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.

### 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 recognized 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 recognized, 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 Recognized 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 realized 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 statements.

### 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 have been 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 recognized 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. In determining 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.

### m) Leases (SLFRS 16 )

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

### (i) Company as a Lessee

As per SLFRS 16, when the Company determined that a contract contains a lease component and one or more additional lease components or non-lease components, the consideration in the contract is allocated to each lease component on the basis of relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the commencement date, the Company recognises right-of-use of an asset and a lease liability which is measured at the present value of the lease payments that are payable on that date. Lease payments are discounted using the IBR. After initial recognition, the Company applies cost model for the right-of-use of an asset and depreciate the asset from commencement date to the end of the useful life of the underlying asset. Where the right does not transfer the ownership of the asset, the Company depreciates it from commencement date to the earlier of the end of the useful life of the right-of-use asset or end of the lease term. In addition, interest expense on the lease liability is recognised in the profit or loss.

### (ii) Company as a lessor

As per SLFRS 16, a lease which transfers substantially all the risks and rewards incidental to ownership of an underlying asset is classified as a finance lease. At the commencement date, the Company recognises assets held under finance lease in the SOFP and present them as a lease receivable at an amount equal to the net investment in the lease. Net investment in the lease is arrived by discounting lease payments receivable at the interest rate implicit in the lease. The Company's net investment in lease is included in Note 20.1 on "Investment in leases".

## 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 recognizes 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 2021 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.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2021 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.

- → Recognizes the fair value of any investment retained.
- → Recognizes any surplus or deficit in profit or loss.
- → Reclassifies the parent's share of components previously recognized 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:

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

In the separate financial statements investments in subsidiaries 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 recognized 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 unrealized 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 recognized when funds are transferred to the customers' accounts and the balances due to customers are recognized 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 recognized 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 impaired

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 recognized.

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 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 20.1.1.

#### 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.

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 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 recognized in profit or loss.

### 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 recognized 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

Dividend on ordinary shares are recognized 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.

Dividends 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 accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flows'. Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

### 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.

## 6. NEW ACCOUNTING STANDARDS THAT ARE ISSUED BUT NOT YET EFFECTIVE ARE STATED BELOW;

The following new accounting standard/ amendments have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these Financial Statements. Those accounting standards will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future Financial Statements. None of those have been early adopted by Company.

### 6.1 Amendments to SLFRS 16 - COVID-19 Related Rent Concessions

The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 Pandemic. The amendment applies to annual reporting periods beginning on or after June 01, 2020.

The amended pronouncements are expected to have no material impact on the financial statements of the Group in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

## 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 recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the 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 | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Interest income from leasing | 998,099,484 | 1,182,274,386 | 2,558,076,390 | 3,538,225,947 |
| Interest income from the hire purchases and others | 13,646,235 | 12,925,725 | 165,983,186 | 212,874,928 |
| Interest on government securities and other finance assets | 56,982,238 | 119,543,399 | 77,677,904 | 125,726,005 |
| Interest on unit trust | 38,085,656 | 24,359,376 | 38,085,656 | 24,359,376 |
| Income on other financial assets | - | - | 92,213,111 | 123,880,521 |
| | 1,106,813,613 | 1,339,102,887 | 2,932,036,246 | 4,025,066,777 |

## 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 the 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 | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Interest on public deposits | 555,205,001 | 694,442,308 | 1,494,962,425 | 1,862,863,594 |
| Debt instruments issued and other borrowings | 140,989,819 | 178,049,623 | 386,806,910 | 690,895,397 |
| | 696,194,819 | 872,491,931 | 1,881,769,335 | 2,553,758,990 |

## 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Service charges | 2,003,024 | 1,221,019 | 11,800,535 | 21,407,096 |
| Insurance commission | 23,064,791 | 29,413,269 | 62,576,141 | 86,394,756 |
| | 25,067,815 | 30,634,288 | 74,376,676 | 107,801,851 |

## 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 recognized in profit & Loss for the period in which its arises.

# NOTES TO THE FINANCIAL STATEMENTS

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Profit from the sale of motor vehicles (Note 10.1) | 1,490,658 | 7,907,881 | 1,490,658 | 7,907,881 |
| Profit from the sale of generator (Note 10.2) | - | 182,202 | - | 182,202 |
| Dividend income | 137,600 | 113,348 | 1,118,926 | 987,463 |
| Interest income on savings accounts | 4,772 | 5,223 | 4,772 | 5,223 |
| Sundry income | 387,777 | 341,225 | 84,289,609 | 65,789,068 |
| Bad debt recoveries | 19,772,442 | 20,496,390 | 78,032,854 | 59,331,015 |
| Profit on disposal of property equipment | 1,373,964 | 4,601,360 | 1,373,964 | 4,636,360 |
| Foreign exchange gain | - | 3,258 | - | 3,258 |
| Fair value gain on investment property | 3,850,000 | 56,852,637 | 3,850,000 | 56,852,637 |
| Fair value gain / (loss) on dealing securities | - | - | 56,896,273 | 23,827,636 |
| | 27,017,212 | 90,503,523 | 227,057,055 | 219,522,743 |

## 10.1 Profit from the sale of motor vehicles

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Sales proceeds | 82,100,000 | 144,805,000 | 82,100,000 | 144,805,000 |
| Less: Cost of vehicles | (77,158,814) | (126,983,847) | (77,158,814) | (126,983,847) |
| Less : Direct costs | (3,450,529) | (9,913,272) | (3,450,529) | (9,913,272) |
| Profit for the year | 1,490,658 | 7,907,881 | 1,490,658 | 7,907,881 |

## 10.2 Profit from the sale of generators

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 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 RECEIVABLES

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 | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Impairment charge / (reversal) on loans and advances | 516,780 | (1,821,521) | 32,645,394 | 67,498,007 |
| Impairment charge / (reversal) on leases | (1,311,364) | (25,531,122) | 79,656,923 | 447,528,579 |
| Loss on repossessed vehicles | 46,351,016 | 169,869,786 | 46,351,016 | 169,869,786 |
| Loss on inventory valuation | 747,899 | - | 747,899 | - |
| Impairment loss on other financial assets | (867,000) | 873,150 | (859,883) | 920,988 |
| | 45,437,332 | 143,390,294 | 158,541,351 | 685,817,361 |

## 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 | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Salaries and bonus | 116,656,646 | 115,605,850 | 281,670,115 | 291,662,867 |
| Directors' remuneration | 78,550,990 | 84,610,355 | 90,575,990 | 97,100,355 |
| Employer's contributions to EPF | 14,013,967 | 13,886,624 | 43,235,886 | 46,358,971 |
| Employer's contributions to ETF | 3,503,492 | 3,471,657 | 8,653,020 | 8,968,296 |
| Employee allowances | 17,002,817 | 26,971,451 | 92,039,848 | 122,211,387 |
| Gratuity charge for the year | 7,478,185 | 7,416,071 | 16,251,928 | 23,458,720 |
| | 237,206,097 | 251,962,008 | 532,426,786 | 589,760,597 |

# 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Auditor's remuneration - audit | 862,650 | 506,646 | 2,050,313 | 1,694,309 |
| Donations and subscriptions | 2,409,000 | 2,855,334 | 9,213,015 | 9,659,349 |
| Professional fees | 6,600,657 | 4,458,494 | 34,345,905 | 32,203,742 |
| Legal expenses | - | - | 11,300,547 | 11,300,547 |
| Right of use asset - interest expense | 5,400,121 | 6,177,725 | 8,990,937 | 9,768,541 |
| Crop Insurance Levy | 363,266 | 1,106,431 | 462,613 | 1,850,814 |
| Other expenses | 104,470,225 | 87,923,484 | 289,179,960 | 302,228,773 |

### 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 the notice issued by Department of Inland Revenue NBT on financial service was abolished with effect from 01 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Value added tax on financial services | 36,353,026 | 28,465,115 | 100,828,020 | 77,800,830 |
| Nations building tax on financial services | - | 2,348,175 | - | 10,697,281 |
| Debt repayment levy on financial services | - | 10,217,553 | - | 35,815,361 |
| | 36,353,026 | 41,030,843 | 100,828,020 | 124,313,472 |

## 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 28 to the financial statements.

### 15.1 Income tax recognised in the statement of comprehensive income

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Restated Rs. |
| Income tax for the year | - | - | 36,690,424 | 5,423,163 |
| Provision for income tax under provision (2016/2017) | - | - | 77,762,434 | - |
| Income tax over provision for previous FY | - | - | (5,423,163) | (992,533) |
| | - | - | 109,029,694 | 4,430,630 |
| Deferred taxation charge / (reversal) | (16,595,815) | - | - | - |
| Deferred tax expense (income) resulting from reduction in tax rate | 13,311,593 | (11,484,292) | (1,454,258) | 43,253,494 |
| | (3,284,222) | (11,484,292) | 107,575,437 | 47,684,124 |

**15.2** Income tax on profit of the company and its subsidiary has been computed at the rate of 24% (2019/20- 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 | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Accounting profit chargeable for income taxes | (9,416,536) | 11,819,422 | 113,842,306 | 140,545,664 |
| Income tax expense at the statutory income at 28% & 24% | (2,259,969) | 3,309,438 | 25,472,586 | 39,161,728 |
| Tax effect on deductible expenses / allowable credits | (173,950,468) | 426,290,801 | (598,064,169) | (2,053,508,620) |
| Tax effect on disallowable items | 27,579,950 | (418,916,772) | 463,087,869 | 2,031,533,125 |
| Tax effect on losses (claimed) / incurred | | | | - |
| On leasing activities | 104,648,131 | (12,963,299) | 104,648,131 | (12,963,299) |
| On general activities | 367,656 | (1,553,096) | 367,656 | (1,553,096) |
| Effect of tax exempt income | (1,286,775) | (10,599,767) | (3,723,125) | (11,679,370) |
| Tax effect on qualifying payments - investment in subsidiary | - | - | - | - |
| Income tax for subsidiary prior to the acquisition | - | - | - | - |
| Impact on tax losses of the company | - | - | 44,901,475 | 14,432,695 |
| Current tax expense | - | - | 36,690,423 | 5,423,163 |
| Effective tax rate | - | - | 89.94% | 45.96% |
| Effective tax rate (excluding deferred tax) | - | - | 88.46% | 3.44% |

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 | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Restated<br>Rs. |
| Amount used as the numerator | | | | |
| Profit for the year attributable to equity holders (Rs) | (6,132,314) | 23,303,713 | 5,525,397 | (102,883,339) |
| Amount used as the denominator | | | | |
| Weighted average number of ordinary shares | 5,608,355 | 5,608,355 | 5,608,355 | 5,608,355 |
| Basic (loss) / earning per ordinary share (Rs) | (1.09) | 4.16 | 0.99 | (18.34) |

## 17. DIVIDEND

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

The Company has not declared any dividend during the year 2020/2021.

## 18. CASH AND 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Cash in hand | 557,955 | 1,389,885 | 96,487,307 | 37,167,199 |
| Cash at bank | 343,281,738 | 258,961,273 | 835,446,290 | 1,282,699,318 |
| Cash in hand and at bank | 343,839,692 | 260,351,158 | 931,933,597 | 1,319,866,517 |

## 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 the investment using effective interest rate (EIR) method.

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Treasury bills | 290,827,518 | 269,724,737 | 290,827,518 | 269,724,737 |
| Investments in treasury bonds | - | - | 17,838,460 | 17,531,875 |
| Investments in repos | 1,009,037,660 | 267,655,714 | 3,415,433,384 | 1,485,308,717 |
| Investments in debt securities | 26,823,740 | 179,596,014 | 26,823,740 | 179,596,014 |
| Investments in fixed deposits (Note 19.1) | 116,969,494 | 98,863,433 | 300,147,415 | 220,894,759 |
| | 1,443,658,412 | 815,839,897 | 4,051,070,517 | 2,173,056,102 |

The collateral value of the repurchase agreements was Rs.1,399,817,018 in 31 March 2021. (Rs. 1,217,653,003.40 in 31 March 2020).

### 19.1 Investments in fixed deposits

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Investments in fixed deposits | 116,975,644 | 99,736,583 | 300,208,521 | 221,815,747 |
| Provision for impairment fixed deposits | (6,150) | (873,150) | (61,106) | -920,988.08 |
| | 116,969,494 | 98,863,433 | 300,147,415 | 220,894,759 |

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 LEASE 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 | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Investment in finance leases (Note 20.1) | 2,833,690,902 | 4,515,171,420 | 8,786,336,841 | 13,008,798,033 |
| Investment in hire purchase (Note 20.2) | 16,674 | 14,021 | 20,556 | 607,553 |
| Promissory notes (Note 20.3) | (7,253) | - | (7,253) | - |
| Loans against fixed deposits (Note 20.4) | 74,631,937 | 90,393,670 | 74,631,937 | 90,393,670 |
| Term loans (Note 20.5) | 3,330,439 | 2,331,180 | 1,244,103,595 | 1,141,767,619 |
| Staff loans and advances (Note 20.6) | 4,374,745 | 7,599,622 | 4,374,745 | 7,599,622 |
| | 2,916,037,443 | 4,615,509,914 | 10,109,460,419 | 14,249,166,497 |

## 20.1 Investments 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Gross investment in leases | 3,069,567,709 | 5,429,198,952 | 10,346,472,411 | 16,229,637,544 |
| Lease rental & other receivables | 802,764,967 | 834,806,080 | 2,153,541,939 | 2,296,025,468 |
| | 3,872,332,676 | 6,264,005,032 | 12,500,014,350 | 18,525,663,012 |
| Less : unearned income | (774,049,477) | (1,481,264,075) | (2,555,129,538) | (4,373,545,760) |
| | 3,098,283,199 | 4,782,740,957 | 9,944,884,812 | 14,152,117,252 |
| Less: prepaid rentals | (37,701,406) | (36,209,297) | (136,719,762) | (87,410,236) |
| | 3,060,581,793 | 4,746,531,660 | 9,808,165,050 | 14,064,707,016 |
| Less: Allowance for impairment losses (Note 20.1.2) | (226,890,891) | (231,360,239) | (1,021,828,209) | (1,055,908,983) |
| Net investment in finance leases | 2,833,690,902 | 4,515,171,420 | 8,786,336,841 | 13,008,798,033 |
| **Lease receivable within one year** | | | | |
| Total lease rental & other receivables within one year | 2,314,579,132 | 3,863,110,053 | 6,696,346,324 | 9,274,043,703 |
| Less : unearned income | (552,162,460) | (951,407,771) | (1,535,097,550) | (2,291,955,951) |
| | 1,762,416,672 | 2,911,702,282 | 5,161,248,773 | 6,982,087,752 |
| **Lease receivable from one to five years** | | | | |
| Total lease rental receivable from one to five years | 1,520,052,138 | 2,364,685,681 | 5,755,247,971 | 9,185,563,689 |
| Less : unearned income | (221,887,017) | (529,856,304) | (1,019,489,977) | (2,079,381,246) |
| | 1,298,165,121 | 1,834,829,377 | 4,735,757,994 | 7,106,182,442 |
| **Lease receivable from five to eight years** | | | | |
| Total lease rental receivable from one to five years | - | - | 10,718,650 | 29,846,323 |
| Less : unearned income | - | - | (542,011) | (2,208,563) |
| | - | - | 10,176,640 | 27,637,760 |
| Net investment in leases | 3,060,581,793 | 4,746,531,660 | 9,907,183,407 | 14,115,907,954 |

Maturity analysis for lease and Lease and loans disclosed in note 42.4 in these 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.

Asset classes where the Group calculates ECL on an individual basis include Repossessed contracts, Hire purchase contract, Consent motion contract, Age above 24+ and Legal cases on individual basis and other all contracts are assessed on collective basis.

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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| As at the beginning of the year | 231,360,239 | 265,801,537 | 1,055,908,983 | 1,451,050,166 |
| Charge for the year | (1,311,364) | (25,531,122) | 79,656,923 | 447,528,579 |
| Amounts written off | (3,157,984) | (8,910,176) | (113,737,698) | (842,669,762) |
| As at the end of the period | 226,890,891 | 231,360,239 | 1,021,828,209 | 1,055,908,983 |
| | | | | |
| Individual impairment | 111,896,158 | 39,471,273 | 594,515,709 | 370,344,398 |
| Collective impairment | 114,994,734 | 191,888,967 | 427,312,500 | 685,564,585 |
| | 226,890,891 | 231,360,239 | 1,021,828,209 | 1,055,908,983 |
| | | | | |
| Individual impairment charges | | | | |
| Balance at the beginning of the year | 39,471,273 | 25,549,201 | 370,344,399 | 349,216,025 |
| Charge to statement of comprehensive income | 75,582,869 | 22,832,247 | 337,909,008 | 30,038,549 |
| Amounts written off | (3,157,984) | (8,910,176) | (113,737,698) | (8,910,176) |
| Balance at the end of the year | 111,896,158 | 39,471,273 | 594,515,709 | 370,344,399 |
| | | | | |
| Collective impairment charges | | | | |
| Balance at the beginning of the year | 191,888,967 | 240,252,336 | 685,564,585 | 1,101,834,141 |
| Charge to statement of comprehensive income | (76,894,233) | (48,363,369) | (258,252,085) | (416,269,556) |
| Balance at the end of the year | 114,994,734 | 191,888,967 | 427,312,500 | 685,564,585 |
| Total | 226,890,891 | 231,360,239 | 1,021,828,209 | 1,055,908,983 |
| | | | | |
| Stage 1 impairment | 11,148,160 | 28,219,338 | 33,486,956 | 65,489,574 |
| Stage 2 impairment | 24,452,955 | 33,545,462 | 121,603,084 | 154,260,580 |
| Stage 3 impairment | 79,393,619 | 130,124,167 | 272,222,460 | 465,814,431 |
| | 114,994,734 | 191,888,967 | 427,312,500 | 685,564,585 |

### 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.

| | 0<24 | 24+ | |
|---|---|---|---|
| | | 5% | |
| LGD rate | 12.82% | 100% | |
| increase/(Decrease)1% | 1% | - | |
| | 13.82% | - | Total ECL Provision |
| ECL after sensitivity | 123,964,682 | - | 123,964,682 |
| Actual ECL | 114,994,734 | - | 114,994,734 |
| Increase / (decrease) | 8,969,948 | - | 8,969,948 |

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 2021 would have increased / decrease by Rs. 8,969,948.

# NOTES TO THE FINANCIAL STATEMENTS

### 20.1.4 Allowance for impairment losses for other loans and advances

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Balance at the beginning of the year | 1,621,099 | 3,442,620 | 470,006,944 | 432,234,917 |
| Charge to statement of comprehensive income | 516,780 | (1,821,521) | 32,645,394 | 67,498,007 |
| Amounts written off | - | - | (596,199) | (29,725,981) |
| Balance at the end of the year | 2,137,880 | 1,621,099 | 502,056,139 | 470,006,943 |

## 20.2 Investment in hire purchase

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Hire purchase rental receivable | 88,127 | 114,492 | 7,880,571 | 8,257,285 |
| | 88,127 | 114,492 | 7,880,571 | 8,257,285 |
| Less : Unearned income | - | - | - | - |
| | 88,127 | 114,492 | 7,880,571 | 8,257,285 |
| Less: prepaid rentals | 11,780 | 11,780 | 11,672 | 11,669 |
| | 99,907 | 126,272 | 7,892,243 | 8,268,955 |
| Less: Allowance for impairment | (83,233) | (112,251) | (7,871,687) | (7,661,402) |
| Net investment in hire purchase | 16,674 | 14,021 | 20,556 | 607,553 |

## 20.3 Promissory notes

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Promissory note debtors | 128,141 | 128,141 | 128,141 | 128,141 |
| Less: unearned income | (7,253) | - | (7,253) | - |
| | 120,888 | 128,141 | 120,888 | 128,141 |
| Less: Allowance for impairment | (128,141) | (128,141) | (128,141) | (128,141) |
| | (7,253) | - | (7,253) | - |

## 20.4 Loans against fixed deposits

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Loans against fixed deposits | 74,631,937 | 90,393,670 | 74,631,937 | 90,393,670 |
| | 74,631,937 | 90,393,670 | 74,631,937 | 90,393,670 |

## 20.5 Investments in term loans

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Term loan stock | 3,759,905 | 2,321,076 | 1,204,989,419 | 1,145,838,198 |
| Term loan rental receivable | 1,452,941 | 1,350,043 | 538,141,935 | 462,703,500 |
| | 5,212,845 | 3,671,119 | 1,743,131,354 | 1,608,541,698 |
| Less: Term Loan rental paid in advance | - | - | (5,015,547) | (4,597,445) |
| | 5,212,845 | 3,671,119 | 1,738,115,807 | 1,603,944,253 |
| Less: Allowance for impairment | (1,882,406) | (1,339,939) | (494,012,212) | (462,176,634) |
| Net investment in term loan | 3,330,439 | 2,331,180 | 1,244,103,595 | 1,141,767,619 |

## 20.6 Staff loans

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Staff loans | 4,418,843 | 7,640,389 | 4,418,843 | 7,640,389 |
| Less: Allowance for impairment | (44,099) | (40,767) | (44,099) | (40,767) |
| | 4,374,745 | 7,599,622 | 4,374,745 | 7,599,622 |

## 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Investments in quoted shares - (Note 21.1) | - | - | 17,987,079 | 8,816,949 |
| Investments in Unit Trust - (Note 21.2) | - | 155,782,514 | - | 166,079,949 |
| | - | 155,782,514 | 17,987,079 | 174,896,898 |

# NOTES TO THE FINANCIAL STATEMENTS

## 21.1 Investments in quoted shares

| | Group | | | |
|---|---|---|---|---|
| | 31.03.2021 | | 31.03.2020 | |
| | No. of shares | Fair value Rs. | No. of shares | Fair value Rs. |
| **Bank, financial and insurance** | | | | |
| Alliance Finance Co. PLC | 52,000 | 2,620,800 | 52,000 | 1,768,000 |
| DFCC PLC | 25 | 1,493 | 24 | 1,440 |
| Lanka Orix Leasing Company PLC | 5,700 | 1,653,000 | 5,700 | 513,000 |
| Citizens Development Bank PLC | 4,109 | 449,936 | 4,109 | 296,259 |
| Peoples Leasing & Finance Company PLC | 112,211 | 1,324,090 | 107,149 | 1,285,788 |
| **Beverages, food and tobacco** | | | | |
| Lanka Milk Foods PLC | 21,600 | 3,240,000 | 21,600 | 1,944,000 |
| **Chemical and pharmaceuticals** | | | | |
| Lankem Ceylon PLC | 42 | 1,138 | 42 | 718 |
| Chemenex PLC | 4,300 | 336,260 | 4,300 | 172,000 |
| **Hotel and tourism** | | | | |
| Sigiriya Village Hotel PLC | 1,600 | 54,400 | 1,600 | 40,160 |
| Hotel Corporation PLC | 10,478 | 111,067 | 10,478 | 104,780 |
| Serendib Hotels PLC (N/V) | 10,000 | 89,000 | 10,000 | 110,000 |
| **Power and energy** | | | | |
| Laughs Gas PLC | 8,000 | 169,600 | 8,000 | 72,000 |
| **Utilities** | | | | |
| Laughs Power | 8,000 | 73,600 | - | - |
| **Manufacturing** | | | | |
| Blue Diamond Jewellery PLC | 19 | 8 | 19 | 4 |
| ACL Cables PLC | 47,600 | 1,718,360 | 23,800 | 737,800 |
| **Diversified Holdings** | | | | |
| Valible One PLC | 109,012 | 5,167,169 | 104,000 | 1,248,000 |
| **Motors** | | | | |
| Diesel & Motor Engineering PLC | 1,122 | 594,660 | 1,122 | 280,500 |
| **Land and property** | | | | |
| Seylan Developments PLC | 25,000 | 382,500 | 25,000 | 242,500 |
| **Total** | | 17,987,081 | | 8,816,949 |

### 21.2 Investments in Unit Trust

| | Company | | |
|---|---|---|---|
| | | 31.03.2021 | |
| | No of Units | Cost | Fair Value |
| Capital Alliance Limited | - | - | - |
| Total Unit Trust | - | - | - |

## 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Investments in unquoted securities (Note 22.1) | 682,934 | 682,934 | 6,421,338 | 6,421,337 |
| Investments in quoted securities (Note 22.2) | - | - | 15,885,519 | 11,592,575 |
| Investments in unit trust (Note 22.3) | 482,995 | 482,995 | 482,995 | 482,995 |
| | 1,165,929 | 1,165,929 | 22,789,852 | 18,496,907 |

### 22.1 Investments in unquoted securities - unquoted shares

| | Company | | | |
|---|---|---|---|---|
| | 31.03.2021 | | 31.03.2020 | |
| | No. of shares | Fair value Rs. | No. of shares | Cost 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 |

| | Group | | | |
|---|---|---|---|---|
| | 31.03.2021 | | 31.03.2020 | |
| | No. of shares | Fair value Rs. | No. of shares | Cost Rs. |
| Poltech (Ceylon) Ltd | 12,715 | 125,000 | 12,715 | 125,000 |
| Ranweli Holiday Resorts Limited | 40,444 | 780,889 | 40,444 | 780,889 |
| Credit Information Bureau of Sri Lanka | 190 | 2,265,499 | 190 | 2,265,499 |
| 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 | | 6,546,337 |
| Less: Allowance for impairment | | (125,000) | | (125,000) |
| Fair value of the investment | | 6,421,338 | | 6,421,337 |

## 22.2 Investments in quoted securities

| | Group | | | |
|---|---|---|---|---|
| | 31.03.2021 | | 31.03.2020 | |
| | No. of shares | Fair value Rs. | No. of shares | Fair value Rs. |
| Ceylinco Insurance PLC | 1,250 | 2,625,000 | 1,250 | 2,218,750 |
| Blue Diamond Jewellery World wide PLC | 6,839 | 6,155 | 6,839 | 3,420 |
| The Finance Company PLC | 1,749 | - | 1,749 | 2,274 |
| Central Industries PLC | 24 | 2,520 | 24 | 780 |
| Merchant Bank of Sri Lanka & Finance PLC | 224 | 1,568 | 224 | 1,232 |
| Chemanex PLC | 600 | 46,920 | 600 | 24,000 |
| Sinhaputhara Finance Company PLC | 50,000 | 315,000 | 50,000 | 185,000 |
| Citizen Development Bank PLC | 102,820 | 10,407,939 | 95,485 | 6,801,702 |
| Jetwing Symphony PLC | 250,000 | 2,250,000 | 250,000 | 2,125,000 |
| Comtrust Equity Fund | 17,819 | 230,417 | 17,819 | 230,417 |
| | | 15,885,519 | | 11,592,575 |

## 22.3 Investments in unit trust

| | Company/ Group | | | |
|---|---|---|---|---|
| | 31.03.2021 | | 31.03.2020 | |
| | 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Trading stock generators | 607,339 | 607,339 | 607,339 | 607,339 |
| Stationery stocks | - | - | 243,264 | 960,228 |
| Motor vehicles | 11,260,452 | 54,555,896 | 11,260,452 | 54,555,896 |
| | 11,867,791 | 55,163,235 | 12,111,054 | 56,123,463 |
| Less: Provision for inventory loss | (1,368,006) | (620,107) | (1,368,006) | (620,107) |
| | 10,499,785 | 54,543,128 | 10,743,048 | 55,503,357 |

## 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 and 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 recognized in the profit or loss. The cost of maintenance, repairs and minor improvements are recognized 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 recognized in the profit or loss.

| | Level of fair value | 2020/2021 Rs. | 2019/2020 Rs. |
|---|---|---|---|
| Digana Land and Buildings | Level 3 | 88,850,000 | 85,000,000 |
| | | 88,850,000 | 85,000,000 |

### 24.3 Basis of Measurement

| Property | Location | Building (sq.ft) | Extent | Cost | Fair value |
|---|---|---|---|---|---|
| Kirinda Land | Kirinda,Thissamaharama | - | 2A-3R-30P | 3,497,955 | - |
| Digana Land & building | Gangapitiya Lot 4A, 8,6, 7, 28, 5 ond 48 | 2,526 | 1A-1R-21P | 15,554,887 | 33,250,000 |
| | Gangapitiya Lot 4 | | 1A-3R-04.70P | 6,650,000 | 27,000,000 |
| | Gangapitiya estate Lot 1-13 | | 6A-0R-20P | 5,942,477 | 28,600,000 |
| | | | | 31,645,318 | 88,850,000 |

Above all properties valued by Professional Valuer - Mr. N.M. Jayatilake (Valued on 30th march 2021).

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

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

| Valuation Technique | Significant Unobservable Inputs | Interrelationship between Key Unobservable Inputs and Fair Value Measurements |
|---|---|---|
| Land value is based on the market prices of each land respectively. | Market value of Land (Price per Perch) | The estimated fair value would increase/ (decrease), when market value per perch was higher (lower) |
| Building values are based on the market prices of each land respectively. | Market value of Buildings (Price per Square feet) | The estimated fair value would increase/ (decrease), when market value per square feet was higher (lower) |

Consequently, as at the reporting date, the value reflected represents the best estimate based on the market conditions that prevailed, which in values considered opinion, meets the requirements in SLFRS 13 fair Value Measurements.

## 25. PROPERTY AND EQUIPMENT

### Recognition and measurement

Property and equipment is recognized 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 recognized in the carrying amount of an asset. The costs associated with day-to-day servicing of property and equipment are recognized 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 and 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 150Mn 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% |

### Right-of-Use of Assets

Right-of-use assets are presented together with property, plant and equipment in the Statement of Financial Position. Right-of-use assets of the Company include land and buildings under long term rental agreements for its use as offices and branches.

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

Right-of-use assets are amortised on the straight line basis over the lease term.

### 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 | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Land | - | - | 418,860,335 | 418,860,335 |
| Buildings | - | - | 129,553,765 | 120,614,851 |
| Accumulated depreciation on buildings | - | - | (18,325,757) | (15,217,341) |
| | - | - | 530,088,343 | 524,257,845 |

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 | Level3 | 1 |
| 2. No 146/34, Colombo 05 | 20.12 Perches | 223,982,049 | 245,885,569 | 14.10.2019 | Level3 | 1 |
| 3. No 138, Colombo 05 | 10.60 Perches | 144,199,000 | 164,114,431 | 14.10.2019 | Level3 | 0 |
| 4. Kandy | 11.35 Perches | 48,663,081 | 89,500,000 | 15.10.2019 | Level3 | 1 |
| 5. Matara | 17.78 Perches | 42,795,044 | 50,000,000 | 26.11.2019 | Level3 | 1 |
| | | 548,414,100 | 888,500,000 | | | |

Above all properties valued by Incorporated Valuer - Mr. N.M. Jayatilake (B.sc. Est. Mgt & Val.) on the dates indicated above and there is no significant change to the values from then. Investment method & Contractor's Test method have been used for the valuation. Newly constructed building at Matara was capitalized at cost on 01.01.2021.

# NOTES TO THE FINANCIAL STATEMENTS

As a result of the COVID-19 outbreak in the country in mid March 2020, it has been concluded that there is no adjustment required for impairment of property, plant and equipment.

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Freehold | 75,568,362 | 108,399,912 | 1,109,076,943 | 1,148,735,677 |
| Leasehold | - | - | - | - |
| | 75,568,362 | 108,399,912 | 1,109,076,943 | 1,148,735,677 |

## 25.1 Freehold

**Company**

| | Balance at the beginning of the year<br>Rs. | Additions<br>Rs. | Transfers from leasehold<br>Rs. | Disposals/ Written off<br>Rs. | Balance at the end of the year<br>Rs. |
|---|---|---|---|---|---|
| **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 of assets | - | 42,002,229 | - | - | 42,002,229 |
| | 140,044,467 | 72,344,280 | - | -11,280,000 | 201,108,747 |
| **Cost** | | | | | |
| **31 March 2021** | | | | | |
| Motor vehicles | 124,978,935 | - | - | (2,650,000) | 122,328,935 |
| Furniture fittings and fixtures | 8,587,343 | 384,992 | - | - | 8,972,335 |
| Office equipment | 3,392,170 | - | - | - | 3,392,170 |
| Generator | 4,563,392 | 235,669 | - | (1,143,006) | 3,656,055 |
| Computer equipment | 15,544,709 | 1,182,000 | - | - | 16,726,709 |
| 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 |
| | 201,108,747 | 1,802,662 | - | (3,793,006) | 199,118,403 |

## 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 2020** | | | | | |
| Motor vehicles | 46,184,822 | 23,556,644 | | (8,142,230) | 61,599,237 |
| Furniture fittings and fixtures | 5,042,874 | 575,882 | - | - | 5,618,756 |
| Office equipment | 1,296,141 | 291,180 | - | - | 1,587,322 |
| Generators | 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 of assets | - | 8,882,514 | - | - | 8,882,514 |
| | 65,316,154 | 35,534,911 | - | (8,142,230) | 92,708,835 |
| **Accumulated depreciation** | | | | | |
| **31 March 2021** | | | | | |
| Motor vehicles | 61,599,237 | 20,843,199 | | (1,499,863) | 80,942,573 |
| Furniture fittings and fixtures | 5,618,756 | 591,311 | - | - | 6,210,068 |
| Office equipment | 1,587,322 | 311,760 | - | - | 1,899,081 |
| Generator /air conditioner | 1,594,883 | 363,199 | - | (133,800) | 1,824,281 |
| Computer equipment | 11,386,154 | 1,791,469 | - | - | 13,177,623 |
| Telephone system | 173,000 | - | - | - | 173,000 |
| Agricultural equipment | 411,020 | - | - | - | 411,020 |
| Tractor and trailer | 1,455,950 | - | - | - | 1,455,950 |
| Right of use of assets | 8,882,514 | 8,573,932 | - | - | 17,456,446 |
| | 92,708,835 | 32,474,870 | - | (1,633,663) | 123,550,041 |
| Carrying amount as at 31 March 2020 | 74,728,313 | | | | 108,399,912 |
| Carrying amount as at 31 March 2021 | 108,399,912 | | | | 75,568,362 |

### 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 2020** | | | | |
| Motor vehicles | - | - | - | - |
| Leasehold improvements - Buildings | 18,179,379 | - | - | 18,179,379 |
| | 18,179,379 | - | - | 18,179,379 |
| **Cost** | | | | |
| **31 March 2021** | | | | |
| 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 2020** | | | | |
| Motor vehicles | - | - | - | - |
| Leasehold improvements - Buildings | 18,179,379 | - | - | 18,179,380 |
| | 18,179,379 | - | - | 18,179,380 |
| **Accumulated depreciation** | | | | |
| **31 March 2021** | | | | |
| Motor vehicles | - | - | - | - |
| Leasehold improvements - Buildings | 18,179,380 | - | - | 18,179,379 |
| | 18,179,380 | - | - | 18,179,379 |
| Carrying amount as at 31 March 2020 | - | | | - |
| Carrying amount as at 31 March 2021 | - | | | - |

## 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 2020** | | | | | |
| Land | 520,691,586 | 244,453,978 | - | - | 765,145,564 |
| Building | 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 |
| **Cost** | | | | | |
| **31 March 2021** | | | | | |
| Land | 765,145,564 | - | - | - | 765,145,564 |
| Buildings | 135,008,905 | 8,938,914 | - | - | 143,947,819 |
| Motor vehicles | 157,715,788 | 2,200,000 | - | (2,650,000) | 157,265,788 |
| Furniture fittings and fixtures | 128,980,599 | 2,908,723 | - | - | 131,889,322 |
| Office equipment | 46,330,076 | 2,952,855 | - | - | 49,282,931 |
| Generator | 4,563,392 | 235,669 | - | -1,143,006 | 3,656,055 |
| Computer equipment | 74,025,395 | 7,337,810 | - | - | 81,363,205 |
| 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 | 3,437,761 | 19,610,297 | - | (16,610,254) | 6,437,804 |
| Right of use assets | 76,531,101 | 20,649,272 | | (12,721,125) | 84,459,248 |
| | 1,397,378,550 | 64,833,541 | - | -33,124,385 | 1,429,087,706 |

# 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 2020** | | | | | |
| Buildings | 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 | 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 of assets | | 24,480,396 | | - | 24,480,396 |
| | 178,314,084 | 86,898,526 | - | -16,569,736 | 248,642,874 |
| **Accumulated depreciation** | | | | | |
| **31 March 2021** | | | | | |
| Building | 1,402,257 | 3,575,078 | - | - | 4,977,335 |
| Motor vehicles | 80,328,944 | 26,877,687 | - | (1,499,863) | 105,706,768 |
| Furniture fittings and fixtures | 58,621,451 | 13,815,370 | - | - | 72,436,822 |
| Office equipment | 24,410,429 | 5,361,569 | - | - | 29,771,998 |
| Generator/air conditioner | 1,594,883 | 363,199 | - | -133,800 | 1,824,282 |
| Computer equipment | 52,956,545 | 8,922,325 | - | - | 61,878,870 |
| Telephone system | 173,000 | - | - | - | 173,000 |
| Agricultural equipment | 411,020 | - | - | - | 411,020 |
| Office lift | 2,808,000 | 360,000 | - | - | 3,168,000 |
| Tractor and trailer | 1,455,950 | - | - | - | 1,455,950 |
| Right of use of assets | 24,480,396 | 26,447,449 | | (12,721,125) | 38,206,719 |
| | 248,642,874 | 85,722,677 | - | (14,354,788) | 320,010,763 |
| Carrying amount as at 31 March 2020 | 880,042,632 | | | | 1,148,735,677 |
| Carrying amount as at 31 March 2020 | 1,148,735,677 | | | | 1,109,076,943 |

## 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| **Computer software** | | | | |
| **Cost** | | | | |
| Balance at the beginning of the year | 9,906,858 | 9,602,082 | 55,643,473 | 54,278,144 |
| Additions during the year | 300,000 | 304,776 | 1,929,265 | 1,365,328 |
| Balance at the end of the year | 10,206,858 | 9,906,858 | 57,572,738 | 55,643,472 |
| **Accumulated amortization** | | | | |
| Balance at the beginning of the year | 7,600,563 | 6,617,387 | 39,551,884 | 33,190,382 |
| Charge for the year | 543,113 | 983,175 | 5,401,817 | 6,361,502 |
| Balance at the end of the year | 8,143,675 | 7,600,563 | 44,953,701 | 39,551,884 |
| **Carrying amount** | 2,063,182 | 2,306,295 | 12,619,037 | 16,091,588 |

# 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 | |
|---|---|---|---|---|
| | 2020/2021 | 2019/2020 | 2020/2021 | 2019/2020 |
| | Rs. | Rs. | Rs. | Rs. |
| Income Tax | 15,806,823 | 15,806,823 | 15,806,823 | 27,870,099 |
| Economic service charge | 31,165,049 | 66,406,474 | 63,789,767 | 166,775,070 |
| Withholding tax | 4,365,459 | 4,420,939 | 8,257,755 | 29,204,691 |
| Balance at the end of the year | 51,337,331 | 86,634,236 | 87,854,345 | 223,849,860 |

## 28. DEFERRED TAX ASSET/LIABILITY

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
- in 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 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.

The company and the group expected to recover the net deferred tax assets through the future profit.

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| The movement in the deferred tax is as follows: | | | | |
| Balance at the beginning of the year | 332,789,820 | 321,305,529 | 198,582,685 | 251,984,346 |
| Originated / (reversal) during the year - profit and loss | 3,284,222 | 11,484,292 | 1,454,258 | (43,253,494) |
| Originated / (reversal) during the year - other comprehensive income | - | - | 36,332 | (10,148,167) |
| Balance at the end of the year | 336,074,043 | 332,789,820 | 200,073,275 | 198,582,685 |

## 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 |
| | 31.03.2021 Rs. | 2020/2021 Rs. | 31.03.2021 Rs. | 2019/2020 Rs. |
| Deferred tax assets/ liabilities | | | | |
| Revaluation of investment property | (6,070,264) | (385,000) | (5,685,264) | (5,685,264) |
| Available for financial assets | (104,634) | 578,251 | (682,885) | (787,518) |
| Capital allowances for tax purposes | 7,479,116 | (43,310,957) | 50,790,073 | 29,758,001 |
| Defined benefit plans | 10,650,869 | (664,157) | 11,315,027 | 1,201,083 |
| Investment allowance | 271,291,728 | 44,279,554 | 227,012,175 | - |
| Carried forward tax losses | 44,868,451 | 31,599,047 | 13,269,404 | 6,453,364 |
| Provision for impairment | 6,156,773 | (29,171,345) | 35,328,118 | (20,898,547) |
| ROU asset and lease liability | 1,802,002 | 358,829 | 1,443,173 | 1,443,173 |
| Deferred tax income / (expense) | 336,074,043 | 3,284,222 | 332,789,821 | 11,484,292 |
| Net deferred tax assets recognised | 336,074,043 | 3,284,222 | 332,789,821 | 11,484,292 |
| Unrecognised deferred tax asset | | | | |
| - on carried forward tax losses | - | - | - | - |
| - on investment allowance | - | - | 92,963,704 | 103,410,688 |
| Total unrecognised deferred tax asset | - | - | 92,963,704 | 103,410,688 |
| Tax rate used | 28% | 28% | 28% | 28% |

## 28.1 Deferred tax assets, liabilities, and income tax relate to the following: (Contd.)

| | Group | | | |
|---|---|---|---|---|
| | Statement of financial position | Statement of comprehensive income | Statement of financial position | Statement of comprehensive income |
| | 31.03.2021 | 2020/2021 | 31.03.2021 | 2019/2020 Restated |
| | Rs. | Rs. | Rs. | Rs. |
| **Deferred tax assets/ liabilities** | | | | |
| Revaluation of investment property | (6,070,264) | (385,000) | (5,685,264) | (5,685,264) |
| Available for financial assets | 240,422 | 602,295 | (361,873) | (1,330,851) |
| Revaluation reserve on lands | (34,628,523) | - | (34,628,523) | (6,115,773) |
| Capital allowances for tax purposes | (225,224,496) | 4,825,968 | (230,050,464) | 130,842,043 |
| Defined benefit plans | 12,865,084 | (18,001,330) | 30,866,414 | (784,434) |
| Investment allowance | 271,291,728 | 44,279,554 | 227,012,175 | - |
| Carried forward tax losses | 44,868,451 | 29,349,403 | 15,519,048 | 8,703,007 |
| Provision for impairment | 135,478,524 | (59,539,130) | 195,017,654 | (180,473,564) |
| ROU asset and lease liability | 1,802,002 | 358,829 | 1,443,173 | 1,443,173 |
| Deferred tax income / (expense) | 200,622,928 | 1,490,590 | 199,132,339 | (53,401,661) |
| Net deferred tax assets recognised | 200,622,928 | 1,490,590 | 198,582,685 | (53,401,661) |
| | | | | |
| Unrecognised deferred tax asset | | | | |
| - on carried forward tax losses | - | - | - | - |
| - on investment allowance | - | - | 92,963,704 | 103,410,688 |
| Total unrecognised deferred tax asset | - | - | 92,963,704 | 103,410,688 |
| Tax rate used | 28% | 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 recognized 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.

### 28.2 Restatement of Deferred tax asset / (liability) - Group

Due to the error in the determination of the accelerated depreciation of leased asset and amount in the year ended 31.03.2020 and prior period , the Deferred Tax Asset/ (liability) will be restated as follows.

| | 31.03.2019<br>Rs. | 31.03.2019 Restated<br>Rs. | 31.03.2020<br>Rs. | 30.03.2020 Restated<br>Rs. |
|---|---|---|---|---|
| Deferred tax arising from | | | | |
| Accelerated depreciation for tax purpose | | | | |
| Property and equipment | (38,928,676) | (38,928,676) | (43,764,743) | (43,019,622) |
| Leased assets | (59,054,371) | (342,995,904) | (35,459,922) | (237,820,915) |
| Provision for impairment | 252,402,083 | 319,264,552 | 143,856,112 | 159,689,536 |
| Revaluation reserve on lands | (28,512,750) | (28,512,750) | (34,628,523) | (34,628,523) |
| Retirement benefit obligation | 21,536,904 | 21,536,904 | 19,551,387 | 19,551,387 |
| Financial assets - FVTPL & FVTOCI | 864,344 | 864,344 | 321,012 | 321,012 |
| Tax losses | - | - | - | 2,249,643 |
| | 148,307,535 | (68,771,529) | 49,875,323 | (133,657,482) |
| Recognised through retained profits as at 01.04.2019 | | (217,079,064) | | - |
| Recognised in profit or loss 2019/2020 | | - | | (64,885,953) |

| | 31.03.2019<br>Rs. | 31.03.2019 Restated<br>Rs. | 31.03.2020<br>Rs. | 30.03.2020 Restated<br>Rs. |
|---|---|---|---|---|
| Deferred tax assets/ liabilities | | | | |
| Revaluation of investment property | - | - | (5,685,264) | (5,685,264) |
| Available for financial assets | 968,978 | 968,978 | (682,885) | (361,873) |
| Revaluation reserve on lands | (28,512,750) | (28,512,750) | - | (34,628,523) |
| Capital allowances for tax purposes | (76,950,974) | (360,892,507) | 50,790,073 | (230,050,464) |
| Defined benefit plans | 31,650,848 | 31,650,847 | 11,315,027 | 30,866,414 |
| Investment allowance | 227,012,175 | 227,012,175 | 227,012,175 | 227,012,175 |
| Carried forward tax losses | 6,816,041 | 6,816,041 | 13,269,404 | 15,519,048 |
| Provision for impairment | 308,628,748 | 375,491,217 | 35,328,118 | 195,017,654 |
| ROU asset and lease liability | - | - | 1,443,173 | 1,443,173 |
| Deferred tax income / (expense) | 469,613,066 | 252,534,000 | 332,789,821 | 199,132,339 |
| Recognised through retained profits as at 01.04.2019 | | (217,079,066) | | |
| Recognised in profit or loss 2019/2020 | | | | (53,401,661) |

## 28.2 Restatement of Deferred tax asset /(liability) - Group (Contd.)

"This error has been now corrected retrospectively in accordance with LKAS 08 — "Accounting policies, changes in accounting estimates and errors". The effect of the restatements on the company's Financial Statements is summarised below:

**Statement of profit or loss for the year ended 31 March 2020 (Group)**

| | Previously reported amount Rs. | Adjustment Rs. | Restated amount Rs. |
|---|---|---|---|
| Profit before tax | (63,225,152) | - | (63,225,152) |
| Income tax expense | (81,230,384) | 33,546,259 | (47,684,124) |
| Profit for the year | (144,455,535) | 33,546,259 | (110,909,276) |
| 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 | - | 372,685 |
| Items that will not be reclassified to profit or loss | | | |
| Net change in fair value during the year | (2,469,861) | - | (2,469,861) |
| Actuarial gains / (loss) on retirement benefit obligations, net of tax | 10,773,439 | - | 10,773,439 |
| Gain on revaluation of land and buildings, net of tax | 237,790,469 | - | 237,790,469 |
| Total other comprehensive income /(Expenses) for the year, net of taxes | 246,466,732 | - | 246,466,732 |
| Total comprehensive income for the year | 102,011,197 | 33,546,259 | 135,557,456 |
| Profit attributable to | | | |
| Equity holders of the parent | (134,423,532) | 31,540,193 | (102,883,339) |
| Non controlling interest | (10,032,003) | 2,006,066 | (8,025,937) |
| | (144,455,535) | 33,546,259 | (110,909,276) |
| Total comprehensive income attributable to | | | |
| Equity holders of the parent | 97,408,524 | 31,540,195 | 128,948,719 |
| Non controlling interest | 4,602,671 | 2,006,066 | 6,608,737 |
| | 102,011,195 | 33,546,261 | 135,557,456 |

## 28.2 Restatement of Deferred tax asset /(liability) - Group (Contd.)

"This error has been now corrected retrospectively in accordance with LKAS 08 — "Accounting policies, changes in accounting estimates and errors". The effect of the restatements on the company's Financial Statements is summarised below:

**Statement of profit or loss for the year ended 31 March 2020 (Group)**

| | Previously reported amount Rs. | Adjustment Rs. | Restated amount Rs. |
|---|---|---|---|
| **Statement of financial position** | | | |
| **Deferred tax (liabilities)/ assets** | | | |
| Balance as at 1 April 2019 | 469,063,411 | (217,079,064) | 686,142,475 |
| Balance as at 1 April 2020 | 382,115,491 | (183,532,806) | 198,582,685 |
| **Retained earnings** | | | |
| Balance as at 1 April 2019 | 1,478,201,862 | (204,097,733) | 1,682,299,595 |
| Balance as at 1 April 2020 | 1,350,567,461 | (172,557,542) | 1,178,009,919 |
| **Non-controlling interests** | | | |
| Balance as at 1 April 2019 | 93,305,905 | (12,981,328) | 106,287,233 |
| Balance as at 1 April 2020 | 97,886,290 | (10,975,262) | 86,911,028 |
| **Net assets per share** | | | |
| As at 1 April 2020 | 367 | (33) | 335 |

There is no impact on the total operating, investing or financing cash flows for the year ended 31 March 2019 and 31 March 2020 on above adjustment.

## 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Deposits, advances and prepayments | 46,477,709 | 16,341,723 | 91,884,025 | 65,285,271 |
| Debtors on sale of motor vehicles | 4,112,862 | 12,862 | 4,112,862 | 12,862 |
| Debtors on insurance commission | 5,899,174 | 8,326,668 | 5,899,174 | 8,326,668 |
| VAT unabsorbed input tax | 6,115,619 | 6,115,619 | 6,115,619 | 6,115,619 |
| Other receivables | 117,260 | 106,045 | 19,830,604 | 19,672,732 |
| Related party transaction (Note 29.1) | - | 4,519,267 | - | 4,519,267 |
| | 62,722,623 | 35,422,184 | 127,842,284 | 103,932,419 |

### 29.1 Related party transactions

| | Company | | Group | |
|---|---|---|---|---|
| | 31.03.2021<br>Rs. | 31.03.2020<br>Rs. | 31.03.2021<br>Rs. | 31.03.2020<br>Rs. |
| Amounts due from related parties | - | 6,901,667 | - | 6,901,667 |
| Arpico Finance payable | - | (2,382,400) | - | (2,382,400) |
| | - | 4,519,267 | - | 4,519,267 |

## 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 | |
|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>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 2021.

## 32. DUES TO BANKS AND FINANCIAL INSTITUTIONS

Dues 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 | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Bank overdrafts | - | - | 161,855,542 | 50,575,892 |
| Securitization loans | 1,055,618,793 | 1,406,286,349 | 2,814,999,335 | 3,929,580,229 |
| | 1,055,618,793 | 1,406,286,349 | 2,976,854,877 | 3,980,156,121 |

# NOTES TO THE FINANCIAL STATEMENTS

## 32.1 Security details of the loans

| Lending Institutions | Nature of facilities | Securities Pledged | Value of Assets Pledged | 31.03.2021 Rs. | 31.03.2020 Rs. |
|---|---|---|---|---|---|
| Sampath Bank | Securitization loan - Trust 8 | 3,000,000 shares of Arpico Finance | 280,000,000 | | 41,654,000 |
| Seylan Bank | Securitization loan - Trust 10 | Performing lease receivables | 455,000,000 | | 79,900,000 |
| DFCC/Indian Bank | Securitization loan - Trust 12 | Lease agreements identified by the company | 325,000,000 | | 11,100,000 |
| Sampath Bank | Securitization loan - Trust 13 | Lease agreements identified by the company | 700,000,000 | 62,360,000 | 187,400,000 |
| Wayamba Cooperative Rural Bank | Securitization loan - Trust 14 | Lease agreements identified by the company | 613,874,484 | | 55,428,556 |
| Individual investors | Securitization loan - Trust 15 | Lease agreements identified by the company | 115,327,476 | | - |
| 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 | 304,836,000 | 486,381,000 |
| Wayamba Cooperative Rural Bank | Securitization loan - Trust 18 | Lease agreements identified by the company | 404,849,630 | 311,422,793 | 311,422,793 |
| Individual investors | Securitization loan - Trust 19 | Lease agreements identified by the company | 650,000,000 | 377,000,000 | |
| | | | | 1,055,618,793 | 1,406,286,349 |

## 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Term deposits | 4,058,791,023 | 4,622,186,395 | 11,874,161,305 | 13,264,955,128 |
| Commercial papers | - | - | 15,724,754 | - |
| Savings deposits | - | - | 21,650,777 | 21,853,936 |
| | 4,058,791,023 | 4,622,186,395 | 11,911,536,836 | 13,286,809,065 |
| **Contractual Maturity Analysis of Fixed Deposits** | | | | |
| Within one year | 1,995,459,531 | 2,293,156,497 | 7,394,230,536 | 8,088,935,473 |
| 1- 5 years | 2,063,331,492 | 2,314,845,263 | 4,479,930,768 | 5,161,835,020 |
| Over 5 years | | 14,184,635 | - | 14,184,635 |
| | 4,058,791,023 | 4,622,186,395 | 11,874,161,305 | 13,264,955,128 |

## 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Accrued expenses | 21,606,052 | 19,070,669.59 | 55,716,229 | 101,904,593 |
| Other payables | 73,730,513 | 393,852,634 | 259,324,232 | 796,518,574 |
| Rental received in advance | 9,070,159 | 5,297.63 | 9,070,159 | 5,298 |
| | 104,406,724 | 412,928,601 | 324,110,619 | 898,428,464 |

## 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| Provision as at the beginning of the year | 40,410,809 | 36,121,227 | 110,237,195 | 113,038,743 |
| Gratuity charge for the year | 3,437,105 | 3,226,009 | 12,210,847 | 19,268,658 |
| Interest charge for the year | 4,041,080 | 4,190,062 | 4,041,081 | 4,190,063 |
| (Gain) / loss arising from changes in the assumptions | (2,821,122) | (1,739,739) | (2,669,737) | (14,286,544) |
| Payment during the year | (689,250) | (1,386,750) | (70,214,864) | (11,973,725) |
| Provision as at the end of the year | 44,378,622 | 40,410,809 | 53,604,522 | 110,237,195 |

An actuarial valuation of the retirement benefit obligation in the company was carried out as of 31 March 2021 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 | |
|---|---|---|---|---|
| | 31.03.2021 Rs. | 31.03.2020 Rs. | 31.03.2021 Rs. | 31.03.2020 Rs. |
| Expected salary increment rate | 4.0% | 5% | 4% | 5% |
| Discount rate | 8.5% | 11.6% | 8.5% | 9%-11.6% |
| Staff turnover | 23% | 22% | | |
| Mortality | A 1967/70 | | A 1967/70 | |
| Retirement age | Normal retirement age (55 Year) | | Normal retirement age (55 Year) | |

The average future working life time of the company is 3.81 years as at 31.03.2021 (31.03.2020 - 3.49 years).

### 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 | 43,353,712 | 45,668,472 | 54,134,800 | 56,964,366 |
| Expected salary increment rate | 45,319,231 | 43,482,983 | 56,615,125 | 54,200,510 |

## 36. STATED CAPITAL

| | Company | | Group | |
|---|---|---|---|---|
| | 31.03.2021 Rs. | 31.03.2020 Rs. | 31.03.2021 Rs. | 31.03.2020 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 | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Restated Rs. |
| Balance at the beginning of the year | 1,085,595,353 | 1,061,717,086 | 1,178,009,919 | 1,478,201,862 |
| Reversal of deferred tax asset (note 33.1) | | | | (204,097,736) |
| Profit / (loss) for the year | (6,132,314) | 23,303,713 | 5,525,397 | (102,883,339) |
| Other comprehensive income for the year | 2,821,122 | 1,739,739 | 2,712,950 | 10,233,223 |
| Transfer from revaluation reserve | - | - | - | - |
| Repurchase of preference shares | - | - | (620,000) | - |
| (-) Transfers to statutory reserve fund | - | (1,165,186) | (2,479,837) | (3,444,091) |
| Balance at the end of the year | 1,082,284,161 | 1,085,595,353 | 1,183,148,429 | 1,178,009,919 |

# NOTES TO THE FINANCIAL STATEMENTS

## 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 | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| General reserve | 1,029,052 | 1,029,052 | 1,029,052 | 1,029,052 |
| Statutory reserve (Note 38.1) | 88,613,707 | 88,613,706 | 322,557,340 | 320,077,504 |
| Available for sale reserve | 978,472 | 978,472 | 8,386,908 | 4,350,682 |
| Capital reserve | 17,930 | 17,930 | 17,930 | 17,930 |
| | 90,639,161 | 90,639,161 | 331,991,231 | 325,475,168 |

### 38.1 Statutory reserve fund

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021<br>Rs. | 2019/2020<br>Rs. | 2020/2021<br>Rs. | 2019/2020<br>Rs. |
| Balance at the beginning of year | 88,613,707 | 87,448,521 | 320,077,504 | 316,633,413 |
| Transfers during the year | - | 1,165,186 | 2,479,837 | 3,444,091 |
| Balance at the end of year | 88,613,707 | 88,613,706 | 322,557,340 | 320,077,504 |

During the year 2020/2021 the Company transferred a sum of Rs. 2,479,837 equivalent to 5% of the net profit for the year ended 31 March 2021 to reserve fund.

## 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 personal and its related entities and other related parties in the ordinary course of business on an arms length basis at commercial rates except that the key management personal 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 KMPs and their close family members in the ordinary course of its business on an arms length basis at commercial rates.

| | Company | | Group | |
|---|---|---|---|---|
| | 2020/2021 Rs. | 2019/2020 Rs. | 2020/2021 Rs. | 2019/2020 Rs. |
| (i) Compensation of KMP | | | | |
| Short term employment benefits | 95,520,630 | 101,956,488 | 153,036,599 | 157,959,799 |
| (ii) Lending facilities granted to KMP against their fixed deposit | | | | |
| Aggregate amount | 103,760 | 463,550 | 103,760 | 463,550 |
| Outstanding balance as at 31 March | 54,246 | 463,550 | 54,246 | 463,550 |
| (iii) Deposits held by KMP with the Company | | | | |
| Fixed deposits | 122,847,920 | 135,730,566 | 122,847,920 | 135,730,566 |
| (iv) Other business transactions with KMP | | | | |
| Office rent payment | 10,642,500 | 9,625,000 | 10,642,500 | 9,625,000 |

# NOTES TO THE FINANCIAL STATEMENTS

## 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 31.03.2021 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 | | 0.76% | 8,807,392 | 1,249,368 |
| | | → Deposits accepted during the year | | 3.27% | 37,876,775 | - |
| | | → Interest on FD | | 0.09% | 1,007,113 | - |
| | | → Related party receivable | | - | - | - |
| (ii) Poltech Ceylon Company Ltd. | Common Directors | → Rent of Poltech (Ceylon) Co.Ltd | | 0.08% | 951,600 | - |
| | | → Fixed deposits in Poltech | 15 months maturity, Rate 15.22% & 03 month monthly, Rate 9.34% | 1.50% | 17,389,176 | 17,389,176 |
| | | → Refundable deposit on rent | Non interest bearing refundable Security deposit to the LESSEE | - | - | 819,600 |
| (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 | | 2.09% | 24,223,080 | 24,223,080 |

**The following transactions are shown at the Group Level.**

| 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 31.03.2021 Rs. |
|---|---|---|---|---|---|---|
| (i) Arpico Finance Company PLC | Common directors | → Rent of Poltech (Ceylon) Co.Ltd | | 0.13% | 4,245,825 | - |
| | | → Fixed deposits in Poltech | 15 months maturity, Rate 15.22% & 03 month monthly, Rate 9.34% | 0.54% | 17,389,176 | 17,389,176 |
| | | → Refundable deposit on rent | Non interest bearing refundable Security deposit to the LESSEE | - | - | 819,600 |
| (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 | | 0.75% | 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 2021. (31 March 2020 - 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 have not been recognised in the statement of financial position but are disclosed unless its occurrence is remote.

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

Litigation is a common occurrence in the finance institution due to the nature of its business. 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 its accounts for any adverse effects which the claims may have on its financial standing. At the reporting date the Company had several unresolved legal claims. These 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 have been made in the financial statements.

## 41. EVENTS AFTER THE REPORTING DATE

On 01 April 2021, the Company was amalgamated with its subsidiary - Arpico Finance Company PLC. Accordingly, with effect from 01st April 2021 onwards, Arpico Finance Company PLC ceased to exist, and Associated Motor Finance Company PLC continues as the remaining entity. On the amalgamation, the holders of 444,890 shares of Arpico Finance Company PLC constituting 5.98% of the issued shares of Arpico Finance Company PLC other than the 6,992,610 shares held by Associated Motor Finance Company PLC constituting 94.02%, received seventy six (76) ordinary shares of Associated Motor Finance Company PLC for every one hundred (100) shares of Arpico Finance Company PLC. In terms of Section 240(3) of the Companies Act, the shares held by Associated Motor Finance Company PLC in Arpico Finance Company PLC were cancelled, without payment or the provision of other consideration when the Amalgamation became effective on 01 April 2021.

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.

# NOTES TO THE FINANCIAL STATEMENTS

### 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 16.9% during the current financial year in comparison to 6.55% 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.

#### Analysis of credit risk exposure

The company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, real estate and other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

#### Maximum exposure to credit risk

The table below represents the company's maximum exposure to credit risk for its recognised and contingent financial instrument as at 31 March 2021, before taking into account any collateral held or other credit risk mitigation. For recognised instruments, the maximum exposure to credit risk is the carrying amount reported in the Statements of Financial Position. For contingent instruments, the maximum exposure to credit risk generally represents the contractual notional amounts.

#### On Financial Position exposure collateral type wise

| As at 31 March - Company | 2021 | | 2020 | |
|---|---|---|---|---|
| | Amortized cost Rs. | Net exposure Rs. | Amortized cost Rs. | Net exposure Rs. |
| Cash and bank balances | 343,839,692 | 343,839,692 | 260,351,158 | 260,351,158 |
| Securities bought under repurchase agreements and term deposit | 1,443,658,412 | - | 815,839,897 | - |
| Loan and receivable - Fixed deposit | 74,631,937 | - | 90,393,670 | - |
| Lease and loan receivable - Vehicles | 2,837,038,015 | | 4,517,516,621 | - |
| Lease and loan receivable - Others | 4,367,491.80 | | 7,599,622.32 | - |
| | 4,703,535,547 | 343,839,692 | 5,691,700,969 | 260,351,158 |

| As at 31 March - Group | 2021 | | 2020 | |
|---|---|---|---|---|
| | Amortized cost Rs. | Net exposure Rs. | Amortized cost Rs. | Net exposure Rs. |
| Cash and bank balances | 931,933,597 | 931,933,597 | 1,319,866,517 | 1,319,866,517 |
| Securities bought under repurchase agreements and term deposit | 4,051,070,517 | - | 2,173,056,102 | - |
| Loan and receivable - Fixed deposit | 74,631,937 | - | 90,393,670 | - |
| Lease and loan receivable - Vehicles | 10,030,460,991 | - | 14,151,173,205 | - |
| Lease and loan receivable - Others | 4,367,492 | 718,743,547 | 7,599,622 | 760,173,914 |
| | 15,092,464,534 | 1,650,677,144 | 17,742,089,116 | 2,080,040,431 |

## 42.3 Risk faced by the company (Contd.)

**Credit quality by class of financial assets**

The table below show the credit quality by the class of asset for all financial assets exposed to credit risk. The amounts presented are gross of impairment allowances.

| Company | Neither past due nor impairment* Rs. | Past dues and impairment Rs. | Total Rs. |
|---|---|---|---|
| As at 31.03.2021 | | | |
| Financial assets | | | |
| Cash and bank balances | 343,839,692 | - | 343,839,692 |
| Financial assets - amortised cost | 1,443,658,412 | - | 1,443,658,412 |
| Financial investments - available for sale | 1,165,929 | - | 1,165,929 |
| Loans and receivables | 3,144,533,943 | 532,271 | 3,145,066,214 |
| | 4,933,197,976 | 532,271 | 4,933,730,247 |

| Group | Neither past due nor impairment* Rs. | Past dues and impairment Rs. | Total Rs. |
|---|---|---|---|
| As at 31.03.2021 | | | |
| Financial assets | | | |
| Cash and bank balances | 931,933,597 | - | 931,933,597 |
| Financial assets - amortised cost | 4,051,070,517 | - | 4,051,070,517 |
| Financial investments - available for sale | 22,789,852 | - | 22,789,852 |
| Loans and receivables | 10,355,943,998 | 1,295,387,848 | 11,651,331,846 |
| | 15,361,737,964 | 1,295,387,848 | 16,657,125,812 |

* These are considered for collective impairments.

### Definition of past dues

The Company considers that any amounts uncollected on the due date or beyond their contractual 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:

| Company | < 3 months | > 3 & < = 6 | > 6 & < =12 | >12 | Total |
|---|---|---|---|---|---|
| As at 31.03.2021 | | | | | |
| Loans and advances | 82,818,003 | 1,594,364 | 37,678 | 34,375 | 84,484,420 |
| Finance lease receivable | 2,193,947,597 | 553,592,107 | 170,023,379 | 143,018,711 | 3,060,581,794 |
| 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 |

| Group | < 3 months | > 3 & < = 6 | > 6 & < =12 | >12 | Total |
|---|---|---|---|---|---|
| As at 31.03.2021 | | | | | |
| Loans and advances | 1,172,723,841 | 164,516,949 | 46,443,218 | 441,495,709 | 1,825,179,717 |
| Finance lease receivable | 6,705,966,121 | 1,680,517,582 | 698,518,730 | 723,162,617 | 9,808,165,051 |
| As at 31.03.2020 | | | | | |
| Loans and advances | 1,048,200,870 | 134,431,934 | 26,757,931 | 500,984,673 | 1,710,375,408 |
| Finance lease receivable | 10,567,335,827 | 2,015,769,105 | 586,171,088 | 895,430,996 | 14,064,707,016 |

### Concentration of credit risk

The risk of loss due to the concentration of credit risk to a specific product, asset class, sector or counterparty. Credit concentration risk is managed within limits set for counterparty , asset types, industry sectors, etc., Credit concentrations are monitored by IRMC and ALCO in each of the product type categories and such limits as material to the company are reviewed accordingly.

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

## 42.3 Risk faced by the company (Contd.)

**Geographical Analysis of the lending portfolio**

| As at 31 March - Company | 2021 | | 2020 | |
|---|---|---|---|---|
| | Rs. | % | Rs. | % |
| **Province** | | | | |
| Western Province | 1,552,549,928 | 50.73 | 2,263,890,243 | 47.66 |
| Southern Province | 111,722,603 | 3.65 | 181,542,554 | 3.82 |
| Central Province | 150,052,198 | 4.90 | 226,369,981 | 4.77 |
| North Western | 525,333,833 | 17.16 | 807,093,726 | 16.99 |
| North Central Province | 382,176,233 | 12.49 | 711,271,955 | 14.97 |
| Uva Province | 66,352,525 | 2.17 | 127,220,248 | 2.68 |
| Northern Province | 3,759,723 | 0.12 | 8,469,163 | 0.18 |
| Sabaragamuwa Province | 254,232,283 | 8.31 | 396,543,689 | 8.35 |
| Eastern Province | 14,402,466 | 0.47 | 28,135,957 | 0.59 |
| Total portfolio | 3,060,581,793 | 100.00 | 4,750,537,515 | 100.00 |

| As at 31 March - Group | 2021 | | 2020 | |
|---|---|---|---|---|
| | Rs. | % | Rs. | % |
| **Province** | | | | |
| Western Province | 6,549,960,694 | 56.72 | 8,661,009,480 | 55.25 |
| Southern Province | 995,936,504 | 8.62 | 1,285,594,455 | 8.20 |
| Central Province | 857,762,705 | 7.43 | 1,071,802,384 | 6.84 |
| North Western | 1,222,293,940 | 10.58 | 1,757,601,598 | 11.21 |
| North Central Province | 845,360,671 | 7.32 | 1,429,092,120 | 9.12 |
| Uva Province | 377,669,878 | 3.27 | 508,132,096 | 3.24 |
| Northern Province | 209,479,186 | 1.81 | 300,302,086 | 1.92 |
| Sabaragamuwa Province | 420,701,029 | 3.64 | 579,929,066 | 3.70 |
| Eastern Province | 69,695,740 | 0.60 | 83,665,402 | 0.53 |
| Total portfolio | 11,548,860,347 | 100.00 | 15,677,128,687 | 100.00 |

# NOTES TO THE FINANCIAL STATEMENTS

### Sector wise concentration of the lending portfolio

| As at 31 March - Company | 2021 | | 2020 | |
|---|---|---|---|---|
| | Rs. | % | Rs. | % |
| Province | | | | |
| Agriculture and fishing | 212,142,781 | 6.93 | 477,486,488 | 10.05 |
| Construction | 19,403,450 | 0.63 | 27,103,637 | 0.57 |
| Financial and business services | 6,675,672 | 0.22 | 11,764,563 | 0.25 |
| Infrastructure | 2,253,685 | 0.07 | 2,932,623 | 0.06 |
| Manufacturing | 64,939,390 | 2.12 | 100,359,172 | 2.11 |
| New economy | 813,240 | 0.03 | 1,071,202 | 0.02 |
| Other Services | 2,688,977,355 | 87.86 | 4,028,800,544 | 84.81 |
| Tourism | 17,478,912 | 0.57 | 28,440,272 | 0.60 |
| Trades | 33,281,123 | 1.09 | 50,943,156 | 1.07 |
| Transport | 14,616,187 | 0.48 | 21,635,858 | 0.46 |
| Total portfolio | 3,060,581,794 | 100.00 | 4,750,537,515 | 100.00 |

| As at 31 March - Group | 2021 | | 2020 | |
|---|---|---|---|---|
| | Rs. | % | Rs. | % |
| Province | | | | |
| Agriculture and fishing | 1,965,400,206 | 17.02 | 723,409,272 | 6.26 |
| Construction | 87,609,712 | 0.76 | 104,024,751 | 0.90 |
| Financial and business services | 4,266,246,304 | 36.94 | 5,237,668,189 | 45.35 |
| Infrastructure | 2,253,685 | 0.02 | 2,932,623 | 0.03 |
| Manufacturing | 64,939,390 | 0.56 | 100,359,172 | 0.87 |
| New economy | 813,240 | 0.01 | 1,071,202 | 0.01 |
| Other Services | 2,955,254,722 | 25.59 | 4,328,231,725 | 37.48 |
| Tourism | 69,667,214 | 0.60 | 94,098,949 | 0.81 |
| Trades | 1,412,593,235 | 12.23 | 1,971,089,752 | 17.07 |
| Transport | 724,082,639 | 6.27 | 853,197,458 | 7.39 |
| Total portfolio | 11,548,860,347 | 100.00 | 13,416,083,094 | 116.17 |

## 42.3 Risk faced by the company (Contd.)

### (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.

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2021:

| Company | On demand Rs. | Less than 03 months Rs. | 03 - 12 months Rs. | 01 - 05 years Rs. | Over 05 years Rs. | Total Rs. |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and bank balances | 343,839,692 | - | - | - | - | 343,839,692 |
| Financial assets - amortised cost | - | 1,090,867,427 | 352,790,985 | - | - | 1,443,658,412 |
| Financial assets - measured at FVPL | - | - | - | - | - | - |
| Financial assets at amortized cost / loans and lease receivables | - | 851,934,857 | 996,548,065 | 1,067,554,521 | - | 2,916,037,443 |
| Financial assets - measured at FVOCI | - | - | - | 1,165,929 | - | 1,165,929 |
| Total financial assets | 343,839,692 | 1,942,802,284 | 1,349,339,050 | 1,068,720,450 | - | 4,704,701,476 |
| **Financial liabilities** | | | | | | |
| Dues to banks | - | 200,341,291 | 714,512,502 | 140,765,000 | - | 1,055,618,793 |
| Dues to customers | - | 631,524,762 | 1,363,934,768 | 2,063,331,492 | - | 4,058,791,023 |
| Other financial liabilities | - | - | - | - | - | - |
| | - | 831,866,053 | 2,078,447,270 | 2,204,096,492 | - | 5,114,409,816 |
| Total net financial assets/ (liabilities) | 343,839,692 | 1,110,936,231 | (729,108,220) | (1,135,376,042) | - | (409,708,339) |

### 42.3 Risk faced by the company (Contd.)

| Group | On demand Rs. | Less than 03 months Rs. | 03 - 12 months Rs. | 01 - 05 years Rs. | Over 05 years Rs. | Total Rs. |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and bank balances | 931,933,597 | - | - | - | - | 931,933,597 |
| Financial assets - amortised cost | 1,958,321,959 | 1,090,867,427 | 996,736,167 | - | 5,144,965 | 4,051,070,518 |
| Financial assets - measured at FVPL | - | 17,987,079 | - | - | - | 17,987,079 |
| Financial assets at amortized cost / loans and lease receivables | 209,260,881 | 1,914,489,134 | 4,163,557,858 | 3,798,087,784 | 24,064,762 | 10,109,460,419 |
| Financial assets - measured at FVOCI | 21,623,922 | - | - | 1,165,929 | - | 22,789,852 |
| Total financial assets | 3,121,140,359 | 3,023,343,640 | 5,160,294,025 | 3,799,253,713 | 29,209,727 | 15,133,241,465 |
| **Financial liabilities** | | | | | | |
| Dues to banks | 161,855,542 | 472,488,628 | 1,603,699,919 | 754,535,542 | - | 2,992,579,631 |
| Dues to customers | 21,650,777 | 2,691,841,539 | 4,702,388,996 | 4,479,930,768 | - | 11,895,812,081 |
| Other financial liabilities | - | 96,191,342 | - | - | - | 96,191,342 |
| Total net financial assets/ (liabilities) | 21,650,777 | 2,788,032,881 | 4,702,388,996 | 4,479,930,768 | - | 11,992,003,423 |
| Total net financial assets/ (liabilities) | 3,099,489,582 | 235,310,759 | 457,905,029 | (680,677,056) | 29,209,727 | 3,141,238,042 |

#### (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 neither investment or borrowing in foreign currency and hence there is no livelihood of currency risk.

#### (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. As per the Finance Business Act Direction No 3 of 2018, the Licensed Finance Companies (LFCs) with assets less than of Rs. 100Bn required to maintain a minimum Capital Adequacy Ratio (CAR) of 11% and a Core Capital Ratio (Tier 1) of 7% by 1 July 2020. However, due to the stress on the Sri Lankan Financial System caused by the pandemic, the Central Bank of Sri Lanka (CBSL) has deferred the enhancements of these minimum capital adequacy requirements due by LFCs on 1 July 2020 and 1 July 2021, for a further period of one year until 1 July 2021 and 1 July 2022 respectively. Therefore, Company is required to maintain following minimum capital ratios within the stipulated time frames.

| | 1-Jul-21 | 1-Jul-22 |
|---|---|---|
| Tier 1 Capital (%) | 7% | 8.5% |
| Total Capital (%) | 11% | 13% |

As of 31 March 2021, the Company's T1 and T2 ratios are 1.83% and -10.29% respectively.

### (i) Impact of COVID-19

During 2021, estimation uncertainty has been affected by the COVID-19 pandemic and continued to cause significant economic and social disruption, and its effect on the global economy have impacted the customers, operations and company's performance. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery. While the specific areas of judgement may not change, the impact of COVID-19 resulted in the application of further judgement within those areas due to the evolving nature of the pandemic and the limited recent experience of the economic and financial impacts of such an event. The company used the key financial estimates based on management's latest available information while ensuring the compliances with the circulars and guidelines issued by the CBSL and the CA Sri Lanka.

### Key areas of significant judgments, estimates and assumptions used by management related to the impact of COVID-19 in the assessment of the impairment allowance included the following:

The Company has provided relief measures such as deferment of repayment terms of credit facilities for the affected businesses and individuals due to COVID-19 in line with the directions issued by the Central Bank of Sri Lanka. Given the high degree of uncertainty and unprecedented circumstances in the short term economic outlook, the management exercised judgements in the assessment of the impact of COVID-19 outbreak on the loans and advances portfolio relying more on the long term outlook as evidenced by past experience and taking into consideration various relief measures including concessionary financing and payment moratorium. Accordingly for the ECL computation as at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome.

Modifications to the original terms and conditions of the loans due to the above COVID-19 moratoriums, did not result in de-recognition of the original loans as the Management concluded that the modifications were not substantial. Accordingly, a modification loss (Day 1 Modification Loss) has been recognized under impairment loss representing the difference between the original carrying amount of the loan (before modification) and the discounted present value of the revised cash flows (at the Original EIR) at the date of the loan modification. The company recognizes the interest income on recalculated gross carrying amount based on the Original EIR from the commencement of moratorium to the end of the lifetime of the instrument. Interest income amounting to Rs. 998,099,484 and the modification loss amounting Rs. 3,986,274 relating to COVID-19 relief measures reflected in note 07 and note 11 respectively.

# NOTES TO THE FINANCIAL STATEMENTS

## 42.4 Maturity analysis

**Company**

| | Up to 3 months | | 3 to 12 months | |
|---|---|---|---|---|
| | 31.03.2021 Rs. | 31.03.2020 Rs. | 31.03.2021 Rs. | 31.03.2020 Rs. |
| **Interest earning assets** | | | | |
| Cash and bank balances | 343,839,692 | 260,351,158 | - | - |
| Financial assets - amortised cost | 1,090,867,427 | 412,628,439 | 352,790,985 | 403,211,457 |
| Financial assets - measured at FVPL | - | 155,782,514 | - | - |
| Financial assets at amortized cost / loans and lease receivables | 851,934,857 | 787,514,313 | 996,548,065 | 2,063,802,734 |
| Financial assets - measured at FVOCI | | | | |
| | 2,286,641,976 | 1,616,276,424 | 1,349,339,050 | 2,467,014,191 |
| **Non interest earning assets** | | | | |
| Property, equipment and right of use of assets | - | - | - | - |
| Intangible assets | - | - | - | - |
| Deferred tax assets | - | - | - | - |
| Investment property | - | - | - | - |
| Investment in subsidiary | - | - | - | - |
| Other assets | 65,347,569 | 49,212,992 | 59,212,170 | 127,386,555 |
| | 65,347,569 | 49,212,992 | 59,212,170 | 127,386,555 |
| Total assets | 2,351,989,546 | 1,665,489,415 | 1,408,551,220 | 2,594,400,746 |
| Percentage | 36.23% | 21.59% | 21.7% | 33.63% |
| **Interest bearing liabilities** | | | | |
| Dues to banks and financial institutions | 200,341,291 | 212,716,556 | 714,512,502 | 506,632,000 |
| Deposits from customers | 631,524,762 | 885,377,693 | 1,363,934,768 | 1,407,778,804 |
| | 831,866,053 | 1,098,094,249 | 2,078,447,270 | 1,914,410,804 |
| **Non interest bearing liabilities** | | | | |
| Other liabilities | 99,043,041 | 407,564,919 | 5,363,683 | 5,363,683 |
| Retirement benefit obligations | - | - | - | - |
| | 99,043,041 | 407,564,919 | 5,363,683 | 5,363,683 |
| Total liabilities | 930,909,094 | 1,505,659,168 | 2,083,810,953 | 1,919,774,487 |
| Percentage | 17.69% | 23.23% | 39.59% | 29.62% |

| 1 to 5 years | | More than 5 years | | Total | |
|---|---|---|---|---|---|
| 31.03.2021 Rs. | 31.03.2020 Rs. | 31.03.2021 Rs. | 31.03.2020 Rs. | 31.03.2021 Rs. | 31.03.2020 Rs. |
| - | - | - | - | 343,839,692 | 260,351,158 |
| - | - | - | - | 1,443,658,412 | 815,839,896 |
| - | - | - | - | - | 155,782,514 |
| 1,067,554,521 | 1,764,192,868 | - | - | 2,916,037,443 | 4,615,509,915 |
| 1,165,929 | 1,165,929 | | | 1,165,929 | 1,165,929 |
| 1,068,720,450 | 1,765,358,797 | - | - | 4,704,701,476 | 5,848,649,412 |
| 75,568,361 | 108,399,912 | - | - | 75,568,361 | 108,399,912 |
| 2,063,182 | 2,306,295 | - | - | 2,063,182 | 2,306,295 |
| 336,074,043 | 332,789,820 | - | - | 336,074,043 | 332,789,820 |
| - | - | 88,850,000 | 85,000,000 | 88,850,000 | 85,000,000 |
| - | - | 1,160,387,961 | 1,160,387,961 | 1,160,387,961 | 1,160,387,961 |
| - | - | - | - | 124,559,739 | 176,599,547 |
| 413,705,586 | 443,496,027 | 1,249,237,961 | 1,245,387,961 | 1,787,503,287 | 1,865,483,535 |
| 1,482,426,037 | 2,208,854,824 | 1,249,237,961 | 1,245,387,961 | 6,492,204,763 | 7,714,132,947 |
| 22.83% | 28.63% | 19.24% | 16.14% | 100.00% | 100.00% |
| 140,765,000 | 686,937,793 | - | - | 1,055,618,793 | 1,406,286,349 |
| 2,063,331,492 | 2,314,845,263 | - | 14,184,635 | 4,058,791,023 | 4,622,186,395 |
| 2,204,096,492 | 3,001,783,056 | - | 14,184,635 | 5,114,409,816 | 6,028,472,744 |
| - | - | - | - | 104,406,724 | 412,928,602 |
| 44,378,622 | 40,410,809 | - | - | 44,378,622 | 40,410,809 |
| 44,378,622 | 40,410,809 | - | - | 148,785,346 | 453,339,411 |
| 2,248,475,114 | 3,042,193,865 | - | 14,184,635 | 5,263,195,161 | 6,481,812,155 |
| 42.72% | 46.93% | 0.00% | 0.22% | 100.00% | 100.00% |

# NOTES TO THE FINANCIAL STATEMENTS

## 42.4 Maturity analysis

**Group**

| | Up to 3 months | | 3 to 12 months | |
|---|---|---|---|---|
| | 31.03.2021 Rs. | 31.03.2020 Rs. | 31.03.2021 Rs. | 31.03.2020 Rs. |
| **Interest earning assets** | | | | |
| Cash and bank balances | 931,933,597 | 1,319,866,517 | - | - |
| Financial assets - amortised cost | 3,049,189,386 | 1,240,460,689 | 996,736,167 | 512,671,731 |
| Financial assets - measured at FVPL | 17,987,079 | 174,896,898 | - | - |
| Financial assets at amortized cost / loans and lease receivables | 2,123,750,016 | 3,315,145,436 | 4,163,557,858 | 4,529,961,999 |
| Financial assets - measured at FVOCI | 21,623,922.45 | 17,330,977 | | |
| | 6,144,484,000 | 6,067,700,517 | 5,160,294,024 | 5,042,633,730 |
| **Non interest earning assets** | | | | |
| Property, equipment and right of use of assets | - | - | - | - |
| Intangible assets | - | - | - | - |
| Deferred tax assets | - | - | - | - |
| Investment property | - | - | - | - |
| Goodwill | - | - | - | - |
| Other assets | 130,710,493 | 118,683,454 | 95,729,183 | 264,602,180 |
| | 130,710,493 | 118,683,454 | 95,729,183 | 264,602,180 |
| Total assets | 6,275,194,493 | 6,186,383,971 | 5,256,023,208 | 5,307,235,911 |
| Percentage | 36.58% | 30.70% | 30.64% | 26.34% |
| **Interest bearing liabilities** | | | | |
| Dues to banks and financial institutions | 634,344,170 | 1,034,933,630 | 1,603,699,919 | 1,300,614,511 |
| Deposits from customers | 2,713,492,316 | 3,510,758,927 | 4,702,388,997 | 4,600,030,483 |
| Other financial liabilities | 96,191,342 | 433,609,159 | - | - |
| | 3,444,027,829 | 4,979,301,716 | 6,306,088,915 | 5,900,644,994 |
| **Non interest bearing liabilities** | | | | |
| Other liabilities | 99,043,041 | 407,564,919 | 119,842,366 | 57,254,387 |
| Retirement benefit obligations | - | - | 2,408,354 | 16,362,893 |
| | 99,043,041 | 407,564,919 | 122,250,720 | 73,617,280 |
| Total liabilities | 3,543,070,869 | 5,386,866,635 | 6,428,339,635 | 5,974,262,274 |
| Percentage | 23.20% | 29.48% | 42.10% | 32.69% |

| 1 to 5 years | | More than 5 years | | Total | |
|---|---|---|---|---|---|
| 31.03.2021 Rs. | 31.03.2020 Rs. | 31.03.2021 Rs. | 31.03.2020 Rs. | 31.03.2021 Rs. | 31.03.2020 Rs. |
| - | - | - | - | 931,933,597 | 1,319,866,517 |
| - | 414,831,268 | 5,144,965 | 5,092,414 | 4,051,070,518 | 2,173,056,102 |
| - | - | - | - | 17,987,079 | 174,896,898 |
| 3,798,087,784 | 6,363,247,106 | 24,064,762 | 40,811,958 | 10,109,460,419 | 14,249,166,499 |
| 1,165,929 | 1,165,929 | | | 22,789,852 | 18,496,906 |
| 3,799,253,713 | 6,779,244,303 | 29,209,727 | 45,904,371 | 15,133,241,465 | 17,935,482,922 |
| 75,568,361 | 108,399,912 | 1,033,508,583 | 1,040,335,766 | 1,109,076,945 | 1,148,735,678 |
| 2,063,182 | 2,306,295 | 10,555,852 | 13,785,291 | 12,619,034 | 16,091,586 |
| 200,073,275 | 198,582,685 | - | - | 200,073,275 | 198,582,685 |
| - | - | 88,850,000 | 85,000,000 | 88,850,000 | 85,000,000 |
| - | - | 385,244,360 | 385,244,360 | 385,244,360 | 385,244,360 |
| - | - | - | - | 226,439,677 | 383,285,634 |
| 277,704,819 | 309,288,892 | 1,518,158,795 | 1,524,365,417 | 2,022,303,290 | 2,216,939,943 |
| 4,076,958,531 | 7,088,533,195 | 1,547,368,522 | 1,570,269,788 | 17,155,544,754 | 20,152,422,865 |
| 23.76% | 35.17% | 9.02% | 7.79% | 100.00% | 100.00% |
| 754,535,542 | 1,644,607,980 | - | - | 2,992,579,631 | 3,980,156,121 |
| 4,479,930,769 | 5,161,835,020 | - | 14,184,635 | 11,895,812,082 | 13,286,809,065 |
| - | - | - | - | 96,191,342 | 433,609,159 |
| 5,234,466,311 | 6,806,443,000 | - | 14,184,635 | 14,984,583,055 | 17,700,574,345 |
| 11,497,197 | - | - | - | 230,382,603 | 464,819,306 |
| 50,365,538 | 78,331,254 | 830,625 | 15,543,048 | 53,604,517 | 110,237,195 |
| 61,862,735 | 78,331,254 | 830,625 | 15,543,048 | 283,987,120 | 575,056,501 |
| 5,296,329,045 | 6,884,774,254 | 830,625 | 29,727,683 | 15,268,570,175 | 18,275,630,846 |
| 34.69% | 37.67% | 0.01% | 0.16% | 100.00% | 100.00% |

# NOTES TO THE FINANCIAL STATEMENTS

## 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

### Analysis of financial instruments by measurement basis - as at 31.03.2021

| Group | FVPL<br>Rs. | AC<br>Rs. | FVOCI<br>Rs. | <br>Rs. | Total<br>Rs. |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | - | 931,933,597 | - | - | 931,933,597 |
| Financial assets - amortised cost | - | 4,051,070,517 | - | - | 4,051,070,517 |
| Loans and advances to customers | - | 10,109,460,419 | - | - | 10,109,460,419 |
| Financial assets - measured at FVPL | 17,987,079 | - | - | - | 17,987,079 |
| Financial assets - measured at FVOCI | - | - | - | 22,789,852 | 22,789,852 |
| Total financial assets | 17,987,079 | 15,092,464,533 | - | 22,789,852 | 15,133,241,464 |

| | FVPL<br>Rs. | AC<br>Rs. | Total<br>Rs. |
|---|---|---|---|
| **Financial liabilities** | | | |
| Dues to financial institutions | - | 2,976,854,877 | 2,976,854,877 |
| Dues to other customers | - | 11,911,536,836 | 11,911,536,836 |
| Trade and other payables | - | 324,110,619 | 324,110,619 |
| Total financial liabilities | - | 15,212,502,332 | 15,212,502,332 |

### Analysis of financial instruments by measurement basis - as at 31.03.2020

| Company | FVPL<br>Rs. | AC<br>Rs. | FVOCI<br>Rs. | <br>Rs. | Total<br>Rs. |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | - | 343,839,692 | - | - | 343,839,692 |
| Financial assets - amortised cost | | 1,443,658,412 | - | - | 1,443,658,412 |
| Loans and advances to customers | - | 2,916,037,443 | - | - | 2,916,037,443 |
| Financial assets - measured at fair value through other comprehensive income | - | - | 1,165,929 | - | 1,165,929 |
| Total financial assets | - | 4,703,535,547 | 1,165,929 | - | 4,704,701,476 |

| | FVPL<br>Rs. | AC<br>Rs. | Total<br>Rs. |
|---|---|---|---|
| **Financial liabilities** | | | |
| Financial institutions | - | 1,055,618,793 | 1,055,618,793 |
| Others | - | 4,058,791,023 | 4,058,791,023 |
| Total financial liabilities | - | 5,114,409,816 | 5,114,409,816 |

## Analysis of financial instruments by measurement basis - as at 31.03.2020

| 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 | | 14,249,166,497 | | | 14,249,166,497 |
| 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 | 17,742,089,116 | 18,496,907 | - | 17,935,482,921 |

| | FVPL Rs. | AC Rs. | Total Rs. |
|---|---|---|---|
| **Financial liabilities** | | | |
| Financial institutions | - | 3,980,156,121 | 3,980,156,121 |
| Other customers | - | 13,286,809,065 | 13,286,809,065 |
| Trade and other payables | - | 898,428,464 | 898,428,464 |
| **Total financial liabilities** | - | 18,165,393,650 | 18,165,393,650 |

| Company | FVPL Rs. | AC Rs. | FVOCI 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 | - | 1,406,286,348 | 1,089,792,114 |
| Other customers | - | 4,622,186,395 | 4,914,785,274 |
| Trade and other payables | | | |
| **Total financial liabilities** | - | 6,028,472,743 | 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.

### 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
- Fair Value through Profit or Loss (FVPL)
- Fair Value through Other Comprehensive Income (FVOCI)

The subsequent measurement of financial assets depend on their classifications.

### 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 managers 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 setoff and the net amount reported in the statement of financial position only if, there is a currently enforceable legal right to setoff 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 setoff any financial assets with financial liabilities in the statement of financial position.

# NOTES TO THE FINANCIAL STATEMENTS

## 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.

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 2021 | | | | | |
| Financial assets - amortised cost | | | | | |
| Cash and cash equivalents | 343,839,692 | 343,839,692 | - | - | 343,839,692 |
| Investments in fixed deposits | 116,969,494 | 116,969,494 | - | - | 116,969,494 |
| Investments in treasury bonds | - | | - | - | - |
| Treasury bills | 290,827,518 | 290,827,518 | - | - | 290,827,518 |
| Investments in repos | 1,009,037,660 | | 1,009,037,660 | - | 1,009,037,660 |
| Investments in debt securities | 26,823,740 | 26,823,740 | - | - | 26,823,740 |
| Financial assets at amortized cost / loans and lease receivables | 2,916,037,443 | - | - | 2,916,037,443 | 2,916,037,443 |
| Financial investments - FVOCI | | | - | | - |
| Investments in unquoted securities | | - | - | 682,934 | 682,934 |
| Investments in unit trusts | | 482,995 | - | - | |
| Fair value through profit or loss FVPL | | | | | |
| Investments in unit trusts | | - | - | - | - |
| Total financial assets | | 778,943,438 | 1,009,037,660 | 2,916,720,378 | 4,704,218,481 |
| Financial liabilities - amortised cost | | | | | |
| Dues to banks and financial institutions | 1,055,618,793 | - | 1,055,618,793 | - | 1,055,618,793 |
| Deposits from customers | 4,058,791,023 | - | - | 4,058,791,023 | 4,058,791,023 |
| Trade and other payables | 104,406,724 | - | 104,406,724 | - | 104,406,724 |
| | | - | 1,160,025,516 | 4,058,791,023 | 5,218,816,539 |

**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 | - | - | 482,995 |
| Total financial assets | | 809,018,337 | 267,655,714 | 4,616,192,848 | 5,692,866,898 |
| | | | | | |
| **Financial liabilities - amortised cost** | | | | | |
| Dues to banks and financial institutions | 1,406,286,348 | - | 1,406,286,348 | - | 1,406,286,348 |
| Deposits from customers | 4,622,186,395 | - | - | 4,622,186,395 | 4,622,186,395 |
| Trade and other payables | 412,928,601 | - | 412,928,601 | - | 412,928,601 |
| | | - | 1,819,214,950 | 4,622,186,395 | 6,441,401,344 |

### Group

| | Amortised cost Rs. | Level 1 Rs. | Level 2 Rs. | Level 3 Rs. | Total Rs. |
|---|---|---|---|---|---|
| As at 31 March 2021 | | | | | |
| Financial assets - amortised cost | | | | | |
| Cash and cash equivalents | 931,933,597 | 931,933,597 | | | 931,933,597 |
| Investments in fixed deposits | 300,147,415 | 300,147,415 | | | 300,147,415 |
| Investments in treasury bonds | 17,838,460 | 17,838,460 | | | 17,838,460 |
| Treasury bills | 290,827,518 | 290,827,518 | | | 290,827,518 |
| Investments in repos | 3,415,433,384 | | 3,415,433,384 | | 3,415,433,384 |
| Investments in debt securities | 26,823,740 | 26,823,740 | | | 26,823,740 |
| Financial assets at amortized cost / loans and receivables | 10,109,460,419 | | | 10,109,460,419 | 10,109,460,419 |
| Financial investments - FVOCI | | | | | |
| Unit trusts | | 482,995 | - | - | 482,995 |
| Unquoted shares | | - | - | 6,421,338 | 6,421,338 |
| Quoted shares | | 15,885,519 | - | - | 15,885,519 |
| Financial investments - fair value through profit or loss | | | | | |
| Quoted equities | | 17,987,079 | - | - | 17,987,079 |
| Unit trusts | | - | - | - | - |
| Total financial assets | | 1,601,926,323 | 3,415,433,384 | 10,115,881,757 | 15,133,241,464 |
| | | | | | |
| Financial liabilities - amortised cost | | | | | |
| Dues to banks and financial institutions | 2,976,854,877 | | 2,976,854,877 | | 2,976,854,877 |
| Deposits from customers | 11,911,536,836 | | | 11,911,536,836 | 11,911,536,836 |
| Trade and other payables | 324,110,619 | | 324,110,619 | | 324,110,619 |
| | 15,212,502,332 | - | 3,300,965,496 | 11,911,536,836 | 15,212,502,332 |

## 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 | 14,249,166,497 | | | 14,249,166,497 | 14,249,166,497 |
| **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 | 14,255,587,835 | 17,935,482,921 |
| | | | | | |
| **Financial liabilities - amortised cost** | | | | | |
| Dues to banks and financial institutions | 3,980,156,121 | | 3,980,156,121 | | 3,980,156,121 |
| 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 |
| | 18,165,393,650 | - | 4,878,584,585 | 13,286,809,065 | 18,165,393,650 |

# FIVE YEAR SUMMARY

| | 31.03.2017<br>Rs. '000 | 31.03.2018<br>Rs. '000 | 31.03.2019<br>Rs. '000. | 31.03.2020<br>Rs. '000. | 31.03.2021<br>Rs. '000 |
|---|---|---|---|---|---|
| **Balance Sheet** | | | | | |
| Cash and cash equivalents | 83,986 | 176,843 | 89,053 | 260,351 | 343,840 |
| Investments in government securities | 812,643 | 453,941 | 518,070 | 537,380 | 1,299,865 |
| Placement with banks and other financial institutions | 331,542 | 824,919 | 466,380 | 98,863 | 116,969 |
| Financial assets - measured at fair value through other comprehensive income | 628 | 1,311 | 1,166 | 1,166 | 1,166 |
| Other investment | 70,838 | 391,963 | 57,394 | 335,379 | 26,824 |
| Financial assets at amortized cost / loans and receivables | 4,081,066 | 4,471,577 | 4,472,890 | 4,615,510 | 2,916,037 |
| Other assets | 54,835 | 97,125 | 116,908 | 122,056 | 114,060 |
| Inventories | 78,273 | 118,927 | 137,534 | 54,543 | 10,500 |
| Deferred tax assets | 210,701 | 223,223 | 321,306 | 332,790 | 336,074 |
| Investment properties | 107,498 | | | 85,000 | 88,850 |
| Intangible assets | 3,301 | 3,281 | 2,985 | 2,306 | 2,063 |
| Property and equipment | 59,333 | 62,985 | 74,728 | 108,400 | 75,568 |
| Investment in subsidiary company | 1,160,388 | 1,160,388 | 1,160,388 | 1,160,390 | 1,160,388 |
| **Total Assets** | 7,055,032 | 7,986,484 | 7,418,801 | 7,714,135 | 6,492,205 |
| **Bank overdraft** | | | | | |
| Public deposits | 4,340,492 | 5,435,798 | 4,914,785 | 4,622,186 | 4,058,791 |
| loan | 90,000 | 2 | | 2 | - |
| Securitization loan | 1,235,999 | 1,160,306 | 1,089,792 | 1,406,286 | 1,055,619 |
| Other liabilities | 274,215 | 286,433 | 170,825 | 412,929 | 104,407 |
| Retirement benefit obligations | 28,319 | 29,573 | 36,121 | 40,411 | 44,379 |
| **Total Liabilities** | 5,969,025 | 6,912,111 | 6,211,524 | 6,481,814 | 5,263,195 |
| **Shareholders' Fund** | | | | | |
| Stated capital | 56,086 | 56,086 | 56,086 | 56,086 | 56,086 |
| Other reserves | 76,196 | 82,904 | 89,474 | 90,639 | 90,639 |
| Retained earnings | 953,725 | 935,383 | 1,061,717 | 1,085,595 | 1,082,284 |
| | 1,086,007 | 1,074,373 | 1,207,277 | 1,232,321 | 1,229,010 |
| **Total liabilities and shareholders' funds** | 7,055,032 | 7,986,484 | 7,418,801 | 7,714,135 | 6,492,205 |
| **Income Statement** | | | | | |
| Gross Income | 1,261,014 | 1,596,423 | 1,538,366 | 1,460,241 | 1,158,899 |
| Interest Income | 1,154,715 | 1,434,304 | 1,422,416 | 1,339,103 | 1,106,814 |
| Interest expense | 596,971 | 900,309 | 911,496 | 872,492 | 696,195 |
| Net interest income | 557,744 | 533,995 | 510,920 | 466,611 | 410,619 |
| Other Operating Income | 106,298 | 162,119 | 115,950 | 121,138 | 52,085 |
| Operating expenditure | 325,413 | 305,356 | 361,010 | 391,508 | 390,330 |
| Profit before income tax | 59,994 | 43,383 | 36,218 | 11,819 | (9,417) |
| Income tax on profits | 34,468 | 13,103 | 98,083 | 11,484 | 3,284 |
| Gross Dividends | 84,125 | 70,104 | - | | - |
| **Net Profit** | 94,462 | 56,485 | 134,301 | 23,304 | (6,132) |

| | 31.03.2017 | 31.03.2018 | 31.03.2019 | 31.03.2020 | 31.03.2021 |
|---|---|---|---|---|---|
| **Ratios** | | | | | |
| Earning per Share (Rs) | 16.84 | 10.07 | 23.95 | 4.16 | (1.68) |
| Net Assts Per Share (Rs) | 193.64 | 191.57 | 215.26 | 219.73 | 219.14 |
| Return on Average Shareholder's fund (%) | 5.55 | 4.02 | 3.17 | 0.97 | (0.77) |
| Return on Average Assets (%) | 0.94 | 0.58 | 0.47 | 0.16 | (0.13) |
| Total Assets to Shareholder's funds (Time) | 6.50 | 7.43 | 6.15 | 6.26 | 5.28 |
| Net interest Margin (%) | 8.70 | 7.10 | 6.63 | 6.17 | 5.78 |
| Growth in Gross Income (%) | 22.33 | 26.60 | (3.64) | (5.08) | (20.64) |
| Growth in interest Income (%) | 22.02 | 24.21 | (0.83) | (5.86) | (17.35) |
| Growth in interest Expense (%) | 19.79 | 50.81 | 1.24 | (4.28) | (20.21) |
| Growth in net interest Income (%) | 24.49 | (4.26) | (4.32) | (8.67) | (12.00) |
| Growth in profit before Taxes (%) | (65.63) | (27.69) | (16.52) | (67.37) | (179.67) |
| Growth in Net Profit after Taxes (%) | (57.02) | (40.20) | 137.76 | (82.65) | (126.31) |
| Growth in Total Assets (%) | 22.23 | 13.20 | (7.11) | 3.98 | (15.84) |
| Growth in Total Advance (%) | 34.42 | 9.57 | 0.03 | 3.19 | (36.82) |
| Growth in Shareholder's Funds (%) | 0.93 | (1.07) | 12.37 | 2.07 | (0.27) |

# SHARE INFORMATION

## A) Analysis of Shareholders According to the Number of Shares as at 31st March 2021

| 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 | 430 | 28,740 | 0.51 | 2 | 33 | 0.00 | 432 | 28,773 | 0.51 |
| 1,001 - 10,000 shares | 7 | 17,092 | 0.30 | | | | 7 | 17,092 | 0.30 |
| 10,001 - 100,000 shares | 9 | 664,649 | 11.85 | | | | 9 | 664,649 | 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 |
| | 449 | 5,608,322 | 100.00 | 2 | 33 | 0.00 | 451 | 5,608,355 | 100.00 |

## B) Categories of Shareholders

| | No. of Shareholders | No. of Shares |
|---|---|---|
| Individual | 439 | 3,130,676 |
| Institutional | 12 | 2,477,679 |
| | 451 | 5,608,355 |

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

| | | 31st March' 2021 | | 31st March' 2020 | |
|---|---|---|---|---|---|
| | | 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. Chandranath Rajeendra Narangoda | 3,548 | 0.06 | | |
| 14 | Udyathilaka Indrapala suriyabandara | 2,507 | 0.02 | 1,220 | 0.02 |
| 15 | Nanayakkara Management Service (Pvt) Ltd | 1,500 | 0.02 | 1,000 | 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 | Mr. Walahanduwa Gamage Karunadasa | 1,082 | 0.02 | | |
| 19 | Mrs. Sannasliyanarachchge Dona Mary Beatrice | 1,000 | 0.02 | 1,000 | 0.02 |
| 20 | Mr. Hitihamilage Gamini Dissanayake | 1,000 | 0.02 | | |
| 21 | Mrs. Jayanthi Mala Gunaratne | 1,000 | 0.02 | 1,000 | 0.02 |

## D) Market Value Per Share for the Year Ended

| | 31/Mar/21 Rs. | 31/Mar/20 Rs. |
|---|---|---|
| Highest | 425.00 | 533.00 |
| Lowest | 250.00 | 351.20 |
| Closing | 297.75 | 402.10 |

## E) Directors Shareholding as at 31st March

| Name | 31/Mar/21 No. of Shares | 31/Mar/20 No. of Shares |
|---|---|---|
| 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 | - | - |
| Mr. T.G. Kandamby | - | - |
| Mr. Ranil Wijegunawardena | - | - |

CEO's shareholding as at 31st March

| | | |
|---|---|---|
| Mr. T.M.A. Sallay | 250 | 250 |

## F) Public Holding

| Name | 31/Mar/21 No. of Shares | 31/Mar/20 No. of Shares |
|---|---|---|
| No of Share Holders | 445 | 398 |
| No of Shares | 618972 | 574024 |
| % of Public Holding | 11.04% | 10.24% |
| Float Adjusted Market Capitalization( Rs.) | 184,288,807 | 230,924,241 |

# NOTICE OF ANNUAL GENERAL MEETING

## ASSOCIATED MOTOR FINANCE CO.PLC – PB 733 PQ

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of **ASSOCIATED MOTOR FINANCE COMPANY PLC** will be held as a virtual meeting at No.146, Havelock Road, Colombo 05, Sri Lanka at 2.30 p.m. on Thursday, 30th September 2021.

for the following purposes:

1) To consider and receive the Annual Report of the Board and the Audited Financial Statements for the financial year ended 31st March 2021, together with the Report of the Auditors thereon.

2) To authorize Directors to determine donations for the financial year ending 31st March 2022 up to the date of next Annual General Meeting.

3) To re- elect Mr. T.G. Kandamdy as a Non-Executive Director who retires by rotation in terms of Article D 35 (5) of the 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,

CHART BUSINESS SYSTEMS (PVT) LTD. COMPANY SECRETARIES

**Chart Business Systems (Private) Limited**
Secretaries
No.141/3, Vauxhall Street
Colombo 02

28th July 2021

## NOTES

1) In the interest of protecting public health and facilitating compliance with the Health and Safety guidelines issued by the Government of Sri Lanka, the Annual General Meeting of Associated Motor Finance Company PLC will be a virtual meeting held by participants joining in person or proxy and through audio or audio visual means in the manner specified below:

### I. Attendance of the Chairman and the Board of Directors

The Chairman, Board of Directors, certain Key Management Personnel, the External Auditors and the Secretaries will be presented virtually to the meeting on Thursday, 30th September 2021 at 2.30pm.

### II Shareholder Participation

a. The Shareholders are encouraged to appoint a Director of the Company as their proxy to represent them at the meeting.

b. The Shareholders may also appoint any other persons other than a Director of the Company as their proxy and the proxy so appointed shall participate at the meeting through audio or audio visual means only.

c. The shareholders who wish to participate at the meeting will be able to join the meeting through audio or audio visual means. To facilitate this process, the shareholders are required to furnish the details of the shareholder and proxy holder, if any, by perfecting **Annexure II** to the circular to shareholders and forward same to the Corporate Solution Unit of Central Depository Systems (Pvt) Ltd, the Registrars, at Ground Floor, M&M Center 341/5, Kotte Road, Rajagiriya, Sri Lanka, or via e-mail to registrars@cse.lk to be received by the Registrars **not less than five (05) days before the date of the meeting** so that the meeting login information could be forwarded to the e-mail address as provided.

d. To facilitate the appointment of proxies, the Form of Proxy is attached hereto and the duly filled Form of Proxy should be delivered to the Corporate Solution Unit of Central Depository Systems (Pvt) Ltd, the Registrars, at Ground Floor, M&M Center 341/5, Kotte Road, Rajagiriya, Sri Lanka, or via e-mail to registrars@cse.lk to be received by the Registrars by 2.30 p.m. on Tuesday, 28th September 2021 being not less than 48 hours before the time appointed for the holding of the Meeting.

### III Shareholder's queries

The shareholders are hereby advised that if they wish to raise any queries, such queries should be sent to the Corporate Solution Unit of Central Depository Systems (Pvt) Ltd, the Registrars, at Ground Floor, M&M Center 341/5, Kotte Road, Rajagiriya, Sri Lanka, or via e-mail to registrars@cse.lk to be received by the Registrars **not less than Five (05) days before the date of the meeting.** This is in order to enable the Company Secretary to compile the queries and forward same to the attention of the Board of Directors so that same could be addressed at the meeting.

2. The Annual Report of the Company for the year 2021 will be available for perusal on the Company website **www.amf.lk** and the Colombo Stock Exchange website on **www.cse.lk.**

   If you wish to receive a printed copy of the Annual Report for the year ended 2021, please complete and forward the Form of Request available on **www.cse.lk** to the Company Secretaries, Chart Business Systems (Private) Limited, Mrs.Prishanthi Marasignhe via Email to **prishanthi@chart.lk / Facsimile No.0112688760** or contact on +94 714109072 for queries on this matter.

3. Due to the prevailing situation in the country and uncertain circumstances due to travel restrictions , the Notice convening the AGM will be published in one issue of a daily newspaper/ e-newspaper in Sinhala, English and Tamil languages.

# NOTES

# NOTES

# FORM OF PROXY

| Folio No. | |
|---|---|

(Please write your Folio Number)

I/We ...............................................................................................of ........................................................................................

............................................................................................................ being a member /members of Associated Motor Finance

Company PLC hereby appoint ...............................................................................................................................................

of .............................................................................................................. whom failing.

| | |
|---|---|
| Mr. K.D.U.S. Nanayakkara | or failing him |
| Mr. J.P.I.N. Dayawansa | or failing him |
| Mr. T.M.A. Sallay | or failing him |
| Mr. J.P.I.S. Dayawansa | or failing him |
| Mrs. A.S. Dayawansa | or failing her |
| Mr. T.G. Kandamby | or failing him |
| Mr. R. Wijegunawardane | or failing him |
| Mr. P.S. Goonewardene | or failing him |
| Mr. N.M. Pieris | or failing him |

as my/our proxy to represent me/us and*.................................................... to vote on my/our behalf at the Annual General Meeting of the Company will be held as a **"Virtual Meeting" at 2.30 p.m. on 30th September 2021, at the No.146, Havelock Road, Colombo 05, Sri Lanka** and at any adjournment thereof and at every poll which may be taken in consequence of the above said meeting. I/We the undersigned hereby authorize my/our Proxy to vote on my/our behalf in accordance with the preference indicated below:

* Please delete the inappropriate words

| | For | Against |
|---|---|---|
| 1. To consider and receive the Annual Report of the Board and the Audited Financial Statements for the financial year ended 31st March 2021, together with the Report of the Auditors thereon. | | |
| 2. To authorize Directors to determine donations for the financial year ending 31st March 2022 up to the date of next Annual General Meeting. | | |
| 3. To re-elect Mr. T G Kandamby as a Non-Executive Director who retires by rotation in terms of Article D 35 (5) of the 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. | | |

Signed on this .......................................................day of .......................................................Two Thousand and Twenty One.

........................................................

Signature/s

# FORM OF PROXY

## Instructions for Completion of Form of Proxy

1. Kindly perfect the Form of Proxy by filling in the mandatory details required above, signing in the space provided and filling in the date of signature.
2. If the Form of Proxy is signed by an Attorney, the relative power of attorney should also accompany the proxy form for registration, if such power of attorney has not already been registered with the Company.
3. In the case of a Company/Corporation, the Form of Proxy shall be executed in the manner specified in the Articles of Association.
4. In the absence of any specific instructions as to voting, the proxy may use his/her discretion in exercising the vote on behalf of his appointor.
5. The duly completed and signed PROXY FORM should be delivered to the Corporate Solution Unit of Central Depository Systems (Pvt) Ltd, the Registrars, at Ground Floor, M&M Center 341/5, Kotte Road, Rajagiriya, Sri Lanka, or via e-mail to registrars@cse.lk to be received by the Registrars by 2.30 p.m. on Tuesday, 28th September 2021 being not less than 48 hours before the time appointed for the holding of the Meeting.

**Please provide the following details (mandatory):**

NIC/PP/Company Registration No. of the Shareholder/s : ..........................................................................................

..........................................................................................

Folio No : ..........................................................................................

E.mail address of the Shareholder/(s) or proxy holder
(other than a Director appointed as proxy) : ..........................................................................................

Mobile No. : ..........................................................................................

Fixed Line : ..........................................................................................

# 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

## CORPORATE OFFICE
No.146, Havelock Road, Thimbirigasyaya,
Colombo 05

## 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.

## 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
Mr. A.S. Dayawansa
Mr. J.P.I.S. Dayawana
Mr. T.G. Kandamby
Mr. R. Wijegunawardane
Mr. T.M.A. Sallay
Mr. S.P.G unawardene
Mr. N.M. Pieris

## TAX ADVISORS
Dasanayaka Associates
No. 172/1, Parsons Road,
Colombo 02

*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