Independent Auditors' Report

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

REPORT ON THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Sarvodaya Development Finance Limited, which comprise the statement of financial position as at 31st March 2018, 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 give a true and fair view of the financial position of the Company as at 31st March 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

BASIS FOR OPINION

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Ernst & Young

31 May 2018
Colombo.

Statement of Proflt or Loss and Other Comprehensive Income

Year ended 31 March	Notes	2018 Rs.	2017 Rs.
Income	6	1,320,761,083	1,092,958,179
Interest Income		1,179,563,193	883,758,122
Interest Expenses		(416,598,838)	(280,902,184)
Net Interest Income	7	762,964,355	602,855,938
Net Fee and Commission Income	8	30,837,094	25,719,759
Other Operating Income	9	110,360,797	183,480,298
Total Operating Income		904,162,245	812,055,995
Impairment Charges for Loans and Other Losses	10	(89,116,323)	(172,259,081)
Net Operating Income		815,045,922	639,796,914
Operating Expenses			
Personnel Expenses	11	(322,738,479)	(361,457,648)
Depreciation of Property, Plant and Equipment	26	(46,923,650)	(40,736,446)
Amortisation of Intangible Assets	25	(11,263,143)	(6,683,064)
Other Operating Expenses	12	(249,265,028)	(226,751,183)
Operating Profit Before Tax on Financial Services		184,855,622	4,168,574
Tax on Financial Services	13	(70,751,368)	(48,027,957)
Profit/(Loss) Before Taxation		114,104,254	(43,859,383)
Income Tax Expenses	14	(33,619,018)	9,323,911
Profit/(Loss) for the Year		80,485,235	(34,535,473)
Other Comprehensive Income			
Actuarial Gains/(Losses) on Defined Benefit Plans	31	(3,346,548)	(6,311,370)
Gain/(Loss) due to Changes in Assumptions	31	(1,974,056)	-
Deferred Tax (Charge)/Reversal on Above Items		1,489,769	2,082,867
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		(3,830,835)	(4,228,503)
Surplus from Revaluation of Property, Plant & Equipment		11,794,414	-
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment		(611,972)	-
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		11,182,442	-
Other Comprehensive Income for the Year, Net of Tax		7,351,608	(4,228,503)
Total Comprehensive Income/(Expenses) for the Year		87,836,843	(38,763,976)
Basic Earnings Per Share (Rs.)			
Earning per Share - Basic *	15	1.19	(0.51)
Dividend per Share (Rs.) **			
Dividend per Share : Gross	16	0.53	-
Dividend per Share : Net		0.46	-

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

** Calculated based on proposed final dividend which is to be approved at the Annual General Meeting

Accounting Policies and Notes from pages 162 to 216 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Notes	2018 Rs.	2017 Rs.
Assets			
Cash and Cash Equivalents	19	116,978,318	138,046,068
Loans and Receivables	20	4,697,449,566	3,477,040,068
Lease Rentals Receivables	21	611,054,718	283,558,784
Financial Investments	22	282,268,953	268,211,272
Other Financial Assets	23	207,371,048	282,577,503
Other Non Financial Assets	24	90,613,760	64,336,684
Income Tax Refund		-	29,768
Intangible Assets	25	35,134,360	36,694,563
Property, Plant and Equipment	26	308,724,162	321,409,381
Deferred Tax Asset	27	-	988,885
Total Assets		6,349,594,884	4,872,892,976
Liabilities			
Due to Banks and Other Institutions	28	463,277,223	75,855,963
Due to Customers	29	4,624,835,030	3,563,699,800
Other Non Financial Liabilities	30	73,488,805	165,765,352
Post Employment Benefit Liability	31	26,415,691	20,796,934
Current Tax Liabilities		11,051,013	-
Deferred Tax Liabilities	27	15,915,351	-
Total Liabilities		5,214,983,113	3,826,118,050
Shareholders' Funds			
Stated Capital	32	890,000,020	890,000,020
Retained Earnings	33	151,358,483	90,646,934
Reserves	34	93,253,268	66,127,972
Total Shareholders' Funds		1,134,611,770	1,046,774,926
Total Liabilities and Shareholders' Funds		6,349,594,884	4,872,892,976
Net Assets Value Per Share		16.8	15.5
Commitments and Contingencies	37	15,500,000	15,850,000

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

Deshantha de Alwis
DGM - Finance & Planning

Dharmasiri Wickramatilake
Chief Executive Officer

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

Channa de Silva
Chairman

Dr. Vinya Ariyaratne
Director

Accounting Policies and Notes from pages 162 to 216 form an integral part of these Financial Statements.
31st May 2018
Colombo

Statement of Changes in Equity

	Note	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserves Rs.	Revaluation Reserves Rs.	Total Equity Rs.
Balances as at 01 April 2016		890,000,020	129,410,910	20,383,147	45,744,825	1,085,538,902
Profit/(Loss) for the Year		-	(34,535,473)	-	-	(34,535,473)
Other Comprehensive Income/(Expenses)		-	(4,228,503)	-	-	(4,228,503)
Transfer from Investment Fund Reserve	34	-	-	-	-	-
Balances as at 31 March 2017		890,000,020	90,646,934	20,383,147	45,744,825	1,046,774,926
Profit for the Year		-	80,485,235	-	-	80,485,235
Other Comprehensive Income/(Expenses)		-	(3,830,835)	-	-	(3,830,835)
Transfer to Statutory Reserves Fund	34	-	(15,330,880)	15,330,880	-	-
Revaluation of Land & Building		-	(611,972)	-	11,794,414	11,182,442
Balances as at 31 March 2018		890,000,020	151,358,482	35,714,027	57,539,239	1,134,611,770

Accounting Policies and Notes from pages 162 to 216 form an integral part of these Financial Statements.

Statement of Cash Flow

Year ended 31 March	Notes	2018 Rs.	2017 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		114,104,254	(43,859,383)
Adjustments for			
Impairment Provision	8	89,116,323	172,259,081
Profit from Sale of Subsidiary		-	(100,280,782)
Reversal of Provision of Loan Risk Assurance Benefit Fund		(6,835,413)	(15,116,703)
Loss/(Profit) on Disposal of Property, Plant and Equipment	9	1,087,861	(877,984)
Provision for Defined Benefit Plans	26	6,739,853	5,778,323
Depreciation of Property, Plant and Equipment		46,923,650	40,736,446
Amortisation of Intangible Assets		11,263,143	6,683,064
Notional Tax Credit on Interest on Treasury Bills		2,940,945	2,547,619
Operating Profit before Working Capital Changes		265,340,615	67,869,680
(Increase)/Decrease in Loans and Advances	20	(1,305,957,454)	(880,648,372)
(Increase)/Decrease in Lease Rentals Receivable		(331,064,301)	(286,341,389)
(Increase)/Decrease in Other Financial Assets	23	72,265,510	(49,717,939)
(Increase)/Decrease in Other Non Financial Assets	24	(26,277,076)	14,629,864
Increase/(Decrease) in Amounts Due to Customers		1,061,135,230	493,282,390
Increase/(Decrease) in Other Non Financial Liabilities		(87,336,547)	73,292,189
Cash Generated from Operations		(351,894,023)	(567,633,576)
Retirement Benefit Liabilities Paid		(6,441,700)	(7,381,000)
Net Collection of LRAB Fund		1,895,413	10,693,703
Income Tax Paid		(4,756,204)	(9,501,353)
Net Cash From/(Used in) Operating Activities		(361,196,513)	(573,822,226)
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		671,563	7,262,685
Acquisition of Property, Plant and Equipment	26	(24,203,439)	(88,578,227)
Acquisition of Intangible Assets	25	(9,702,939)	(12,934,325)
Financial Investments	22	(14,057,681)	(25,034,121)
Net Cash Received from Sale of Subsidiary		-	479,755,667
Net Cash Flows from/(Used in) Investing Activities		(47,292,497)	360,471,680
Cash Flows from / (Used in) Financing Activities			
Payment under Finance Lease Liabilities		-	-
Net Cash Flow from Bank and Other Institutional Borrowings		267,602,520	(5,389,218)
Net Cash Flow from Debt Issued and Other Borrowings		-	-
Net Cash Flows from/(Used in) Financing Activities		267,602,520	(5,389,218)
Net Increase in Cash and Cash Equivalents		(140,886,491)	(218,739,764)
Cash and Cash Equivalents at the Beginning of the Year		88,026,341	306,766,105
Cash and Cash Equivalents at the End of the Year	A	(52,860,149)	88,026,341
A Cash and Cash Equivalents at the End of the Year			
Favourable Cash & Cash Equivalents		116,978,318	138,046,068
Unfavourable Cash & Cash Equivalents		(169,838,466)	(50,019,727)
Total Cash and Cash Equivalents at the end of the year	19	(52,860,149)	88,026,341

Accounting Policies and Notes from pages 162 to 216 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

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

The registered office of the Company is located at "Arthadharma Kendraya", No 45, Rawatawatte Road, Moratuwa and the principal place of business is situated at the same place.

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

1.2 Principal Activities of the Company

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

1.3 Approval of the Financial Statements

The Financial Statements of the Company for the year ended 31 March 2018 (including comparatives) have been approved and authorized for issue by the Board of Directors on 31 May 2018.

1.4 Statement of Compliance

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

1.5 Responsibility for the Financial Statements

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

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

These Financial Statements include

The Statement of Profit or Loss and Other Comprehensive Income provides the information on the performance for the year under review (Refer page 158). Statement of Financial Position provides the information on the financial position of the Company as at the year end (Refer page 159). Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 160). Statement of Cash Flows provides the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs for entities to utilize those cash flows (Refer page 161) and Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 162 to 216).

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Preparation of Financial Statements

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

Name	Basis of Measurement	Note Number/s	Page Number/s
Land & buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	Note 26	Page 188
Defined benefit obligations	Net liability for defined benefit obligations are recognised as the present value of the defined benefit obligation, less net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses	Note 31	Page 198

2.2 Presentation of Financial Statements

The Company present its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery and settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 35 to these Financial Statements.

2.3 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards – LKAS 01 on 'Presentation of Financial Statements', each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, unless they are immaterial.

Financial assets and financial liabilities are off set and the net amount is reported in the Statement of Financial Position of the Company only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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

2.4 Functional and presentation currency

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

2.5 Rounding

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

2.6 Going Concern

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

3. GENERAL ACCOUNTING POLICIES

3.1 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the accounting policies of the Company, management is required to make judgments, which may have significant effects on the amounts recognized in the Financial Statements. Further, the management is also required to consider key assumptions concerning the future and other key sources of estimation of uncertainty at the date of the Statement of the Financial Position that have significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

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

- Allowance for Impairment Charges for Loans and Receivables (Details under note 10)
- Deferred Taxation (Details under note 27)
- Post-Employment Benefit Liability (Details under note 31)
- Related Party Transactions (Details under note 40)
- Fair Value of Financial Instruments (Details under note 18)

3.2 Financial Instruments

Initial Recognition Date

All financial assets and liabilities are initially recognized on the trade date; i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per Sri Lanka Accounting Standard - LKAS 39, 'Financial Instruments: Recognition and Measurement'.

Classification and Subsequent Measurement of Financial Assets

At inception, a financial asset is classified into one of the following categories:

- At fair value through profit or Loss
  - Held-for-trading; or
  - Designated at fair value through profit or loss
- Loans and Receivables
- Available-for-Sale; or
- Held-to-Maturity

The subsequent measurement of the financial assets depends on their classifications.

Notes to the Financial Statements

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value though profit or loss. Financial liabilities are classified as 'Held-for-Trading' if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category includes derivative financial instruments entered by the Company that are not designated as hedging instruments in hedge relationships as defined by Sri Lanka Accounting Standards -LKAS 39, 'Financial Instruments: Recognition and Measurement'.

Gains or losses on liabilities fair value through profit or loss are recognised in the Statement of Profit or Loss.

The Company has not designated any financial liabilities upon recognition, at fair value though Profit or Loss.

Other Financial Liabilities

Financial instruments issued by the Company that are not designated at fair value through profit or loss, are classified as 'other financial liabilities', where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Other financial liabilities include, amounts due to banks, due to other customers, debt securities and other borrowed funds and subordinate debts.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR.

Derecognition of Financial Assets and Financial Liabilities

a) Financial Assets

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

- The rights to receive cash flows from the asset have expired,
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,
- the Company has transferred substantially all the risks and rewards of the asset, or
- the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

b) Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 recognized in the Statement of Profit or Loss.

Re-classification of Financial Assets and Liabilities

The Company reclassifies non-derivative financial assets out of the 'held-for-trading' category and into the 'available-for-sale', 'loans and receivables', or 'held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39, 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset with a fixed maturity reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognized in Equity is amortized to the Statement of Profit or Loss over the remaining life of the asset using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. In the case of a financial asset does not have a fixed maturity, the gain or loss is recognized in the profit or loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Profit or Loss.

The Company may reclassify a non-derivative trading asset out of the 'held-for-trading' category and in to the 'loans and receivables' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Company subsequently increase its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate. Reclassification is at the election of management, and is determined on an instrument-by-instrument basis.

The Company does not reclassify any financial instruments into the fair value through profit or loss category after initial recognition. Further, the Company does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

3.3 Impairment of Non-Financial Assets

The Company assesses at each Statement of Financial Position date whether there is an indication that an asset may be impaired.

If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets, an assessment is made at each Statement of Financial Position date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards, which have been issued but not yet effective as at the Reporting date, have not been applied in preparing these Financial Statements. Accordingly, the following Accounting standards and interpretations have not been applied in preparing these Financial Statements plans to apply these standards on the respective effective dates.

Sri Lanka Accounting Standard - LFRS 9 (Financial Instruments: Classification and Measurement)

SLFRS 9 Financial Instruments will replace LKAS 39 for annual periods on or after 1 January 2018 with early adoption permitted.

The Company took several initiatives in early 2017 including various deliberations at the Board Audit Committee (BAC) and Board level for early preparations of the implementation of this standard. The BAC set up a multi-disciplinary team with a high technical expertise to initiate the implementation project with the Company's auditors, Ernst & Young. The Chief Executive Office and Deputy General Manager –Finance and Planning provided the necessary guidance and advice in the implementation process.

Classification and Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business Model Assessment

Company determines it's business model at the level that best reflects how it manages the financial assets to achieve it's objectives.

Notes to the Financial Statements

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

- How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affects 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 flow collected)
- The expected frequency, value and timing of sales are also important aspect of Company's assessment

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 Company's original expectation, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets

Contractual Cash flow Characteristic Test

As the second test of the classification process the Company assesses the contractual terms of the financial asset to identify whether they meet Solely the Payment of Principle & Interest (SPPI)

'Principle' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principle 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 judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than deminis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at FVPL

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the Company's loan loss provision method by replacing LKAS 39 Financial Instrument Recognition & Measurement's incurred loss approach with a forward looking ECL Approach.

ECL allowance will be based on credit losses expected to arise over the life of the asset (Lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12month expected credit loss (12mECL).

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12months after the reporting date.

The Company has established a policy to perform an assessment, at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition. Based on such process Company groups loans in to stage 1, stage 2, stage 3 as described below:

Stage 1: When loans are first recognized, the Company recognizes an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been re-classified from Stage 2. Assessment of Stage 1 will be performed collectively.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 2. Assessment of stage 2 will be performed collectively.

Stage 3: Loan considered to be credit Impaired/contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed individually/Collectively.

Significant Increase in Credit Risk

The Company continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assess whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the either of the following criteria are met:

- Facilities exceeding 30 days past due
- Rating of the financial instrument is below investment grade
- Downgrade movement in the external ratings of the instrument – i.e.: movement result in doubling of PD

Grouping financial assets measured on a collective basis

As explained above, Company calculates ECL on a collective or individual basis. Asset classes where Company calculates ECL on an Individual basis includes All Individually Significant Assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for Impairment. The Company does not have any assets classes which falls into stage 3 category where individual impairment is required.

Company groups these exposures for smaller homogeneous exposures, based on a combination of internal and external characteristics of the premium receivable as described below:

- Product /Asset Type
- Type of Collateral
- Days Past Due
- Industry

The Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

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

EAD: Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities.

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

When estimating the ECL, Company considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products Company considers the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

Forward-looking Information

In it’s ECL model Company relies on broad range qualitative/quantitative forward-looking information as economic input such as:

Quantitative

- GDP Growth
- Inflation
- Average LTV
- Interest Rates
- Unemployment

Qualitative

- Government Policies
- Status of the Industry Business
- Regulatory Impact

Company performed the Diagnostic Phase (Preliminary Impact Assessment exercise) and Implementation Phase (solution development) on SLFRS 9 Financial Instruments and calculated the potential impact of the new requirement based on 31st March 2018. It is anticipated that the impact will be significant to the Company. The resulting increase in the impairment charge will be treated through the Statement of Changes in Equity when preparing the audited financial statements for the financial year ending 31st March 2019. The Company has also undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

Sri Lanka Accounting Standard - SLFRS 15 (Revenue from Contracts with Customers)

SLFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under SLFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

Either a full retrospective application or a modified retrospective application is required for 1 January 2018.Contracts within the scope of SLFRS 4 Insurance Contracts are scope out according to scope (paragraph 5 (b)) of SLFRS 15. The Company is evaluating the impact of other revenue contacts currently.

Notes to the Financial Statements

Sri Lanka Accounting Standard - SLFRS 16 (LEASES)

SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 – 'Leases', IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17.

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting under SLFRS 16 is substantially unchanged from today's accounting under LKAS 17. Lessors will continue to classify all leases using the same classification principle as in LKAS 17 and distinguish between two types of leases: operating and finance leases. SLFRS 16 also requires lessees and lessors to make more extensive disclosures than under LKAS 17.

SLFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, Lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The impact on the implementation of the above Standard has not been quantified yet.

IFRIC Interpretation 23 : Uncertainty over income tax treatment

This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of Sri Lanka Accounting Standard - LKAS 12 (Income tax) and does not apply to taxes or levies outside the scope of Sri Lanka Accounting Standard - LKAS 12 (Income tax), nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following;

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates

How an entity considers changes in facts and circumstances. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, the Company may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

5. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Company are consistent with those used in the previous financial year.

6. INCOME

Accounting Policy

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

	2018 Rs.	2017 Rs.
Interest Income	1,179,563,193	883,758,122
Net Fee and Commission Income	30,837,094	25,719,759
Other Operating Income (net)	110,360,797	183,480,298
Total Income	1,320,761,083	1,092,958,179

7. NET INTEREST INCOME

Accounting Policy

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income or expense is recorded using the Effective Interest Rate.

The carrying amount of the financial assets or financial liabilities is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR. The amortised cost is calculated by taking into account any discount or premium on an acquisition and fees and costs that are an integral part of the EIR. The change in carrying amount is recorded as 'Interest income' for financial assets and interest expenses for financial liabilities.

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

Interests from overdue rentals have been accounted for on a cash received basis.

	2018 Rs.	2017 Rs.
7.1 Interest Income		
Loans and Receivables	1,031,487,663	788,179,275
Lease Rentals Receivables	93,523,012	16,442,769
Financial Investments (Note 7.3)	29,409,449	25,476,186
Savings Deposits	5,847,396	13,776,659
Other Financial Assets	19,295,673	39,883,233
Total Interest Income	1,179,563,193	883,758,122
7.2 Interest Expenses		
Due to Bank and Other Institution	23,679,095	4,122,634
Due to Customers	392,919,743	276,779,550
Total Interest Expenses	416,598,838	280,902,184
Net Interest Income	762,964,355	602,855,938

Notes to the Financial Statements

7. NET INTEREST INCOME (CONTD.)

7.3 Notional tax credit on secondary market transactions

According to section 137 of the Inland Revenue Act No. 10 of 2006, Net Interest Income of the Company derived from the secondary market transactions in Treasury Bills and Treasury Bonds (Interest income accrued or received on outright or reverse repurchase transactions on such securities, bonds or bills less interest expenses on repurchase transaction with securities, Treasury Bonds or Treasury Bills from which such interest income was earned) for the period 1st April 2017 to 31st March 2018 has been grossed up by Rs. 2,940,945/- (2017 : Rs. 2,547,619/-) for the notional tax credit, consequent to the interest income on above instruments being subjected to withholding tax.

8 NET FEE AND COMMISSION INCOME

Accounting Policy

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

Credit Related Fees and Services

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

Other Fee and Commission Expense

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

	2018 Rs.	2017 Rs.
8.1 Fee and Commission Income		
Credit Related Fees and Commissions	9,965,335	11,285,327
Documentation Charges	28,060,578	17,507,998
Service Charge	719,470	400,368
Total Fee and Commission Income	38,745,383	29,193,693
8.2 Fee and Commission Expenses		
Credit Related Fees and Commissions	6,687,575	3,473,934
Documentation Charges	137,324	-
Service Charge	1,083,389	-
Total Fee and Commission Expenses	7,908,289	3,473,934
Total Net Fee and Commission Income	30,837,094	25,719,759

9 OTHER OPERATING INCOME

Accounting Policy

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

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

Capital Gains

Capital gains from sale of securities and group investments present the difference between the sales proceeds from sale of such investments and the carrying value of such investments.

	2018 Rs.	2017 Rs.
Recoveries of Written-Off Loans & Receivables	90,304,250	58,848,069
Profit/(Loss) on Disposal of Property Plant & Equipment	(1,087,861)	877,984
Net Gain from Sale of Subsidiary	-	100,280,782
Reversal of Provision of Loan Risk Assurance Benefit Fund	6,835,413	15,116,703
Other Sundry Income (Note 9.1)	14,308,995	8,356,760
Total Other Operating Income	110,360,797	183,480,298

9.1 Other Sundry Income included Savings Accounts Threshold Charges, Office Rent Re-imbursements, Training Income, Stationery Income, Profit /(Loss) from Pawning Auctions and other.

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

Accounting Policy

The Company recognises the changes in the impairment provisions for loans and lease receivables and other customers, which are assessed as per the LKAS 39: Financial Instruments: Recognition and Measurement. The methodology adopted by the Company is explained in Note 20.3 to these Financial Statements.

	2018 Rs.	2017 Rs.
Loans and Receivables Excluding Pawing Advance	85,412,155	170,414,363
Finance Lease Rental Receivables	3,568,367	2,782,605
Pawning Advances	135,800	(937,887)
Total Impairment Charges for Loans and Other Losses	89,116,323	172,259,081

11 PERSONNEL EXPENSES

Accounting Policy

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

Employees’ Provident Fund and Employees’ Trust Fund

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

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

Notes to the Financial Statements

11 PERSONNEL EXPENSES (CONTD.)

Year ended 31 March	2018 Rs.	2017 Rs.
Salaries and Other Related Expenses	285,828,651	320,442,118
Employer’s Contribution to Employees' Provident Fund	21,486,145	23,364,478
Employer’s Contribution to Employees' Trust Fund	5,356,320	5,839,325
Gratuity Charge for the Year	6,739,853	5,778,323
Other Staff Related Expenses	3,327,511	6,033,404
Total Personnel Expenses	322,738,479	361,457,648

12 OTHER OPERATING EXPENSES

Accounting Policy

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

	2018 Rs.	2017 Rs.
Directors' Emoluments	5,609,524	5,744,444
Auditors Remuneration	1,873,265	1,914,805
Professional and Legal Expenses	2,094,476	4,811,581
Deposit Insurance Premium	5,258,314	4,595,993
General Insurance Expenses	2,805,596	2,786,781
Office Administration and Establishment Expenses	177,920,285	167,440,474
Travelling & Transport Expenses	23,497,745	10,610,144
Other Expenses	126,000	4,611,089
Marketing and Promotional Expenses	30,079,824	24,235,872
Total Other Operating Expenses	249,265,028	226,751,183

Crop Insurance Levy

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

13 TAX ON FINANCIAL SERVICES

Accounting Policy

Value Added Tax (VAT) on Financial Services

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

VAT rate applied for the financial year ended 31 March 2018 was 15%.
VAT rates applied during the financial year ended 31 March 2017 at 11% for 143 days and 15% for balance 222.

Nations Building Tax (NBT) on Financial Services

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

	2018 Rs.	2017 Rs.
Value Added Tax on Financial Services	62,407,111	42,081,318
National Building Tax on Financial Services	8,344,258	5,946,639
Total Tax on Financial Services	70,751,368	48,027,957

14 INCOME TAX EXPENSES

Accounting Policy

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

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. 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. 10 of 2006 and the amendments thereto.

Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 27 to the financial statements.

The tax rates and laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. The regulatory income tax rate for the year was 28% (2016 - 28%).

The components of the income tax expense for the years ended 31 March 2018 and 2017 are:

	2018 Rs.	2017 Rs.
Income Taxation		
Taxation based on Profits for the Year (Note 14.1)	9,345,181	-
(Over) / Under Provision in Respect of 2012/2013 (Note 14.2)	11,042,645	-
(Over) / Under Provision in Respect of 2013/2014 (Note 14.2)	(4,550,840)	-
(Over) / Under Provision in Respect of 2015/2016	-	(39,551)
Deferred Taxation		
Transfers to/(from) Deferred Taxation (Note 27.2)	17,782,033	(9,284,360)
Total Tax Expenses	33,619,018	(9,323,911)

Notes to the Financial Statements

14 INCOME TAX EXPENSES (CONTD.)

14.1 Reconciliation of Accounting Profit and Taxable Income

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

	2018 Rs.	2017 Rs.
Profit Before Tax	114,104,254	(43,859,383)
Add : Disallowable Expenses	224,016,830	232,601,592
Taxable Loss on Leasing Business	41,630,728	-
Less: Tax Deductible Expenses	(286,202,417)	(144,400,557)
Disallowable Income	(42,202,248)	(101,158,766)
Adjusted Profit / (Loss) for Tax Purposes	51,347,146	(56,817,114)
Assessable Income	51,347,146	-
Less - Allowable Losses	(17,971,501)	-
Taxable Income	33,375,645	-
Income Tax @ 28%	9,345,181	-
Income Tax on Current Year's Profit	9,345,181	-
Effective Tax Rate		

14.2 (Over) / Under Provision in Respect of Y/As 2012/13 and 2013/14

The IRD has finalized tax assessments which were issued for Y/A 2012/13 and Y/A 2013/14 with disallowing 1 % allowable provision claimed against the actual provision made as per LKAS 39. The basis determined by the IRD for disallowing this is, according to the Section 25(1) (eee) of the Inland Revenue Act, No.10 of 2006. Only such sum the Commissioner General considers as reasonable for doubtful debts could be deducted in asserting the taxable profit of the Company. Accordingly, the collective impairment charges provided for FY 2012/2013 was determined as not reasonable by IRD. Further, the IRD has disallowed impairment reversal which was recorded in 2013/14 against the disallowable provision recorded under FY 2012/13.

15 EARNINGS PER SHARE

Accounting Policy

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period as required by the Sri Lanka Accounting Standard No. 33 (LKAS 33) on 'Earnings per Share':

	2018 Rs.	2017 Rs.
Amount Used as the Numerator		
Profit Attributed to Ordinary shareholders	80,485,235	(34,535,473)
Amount Used as the Denominator		
Weighted Average Number of Ordinary Shares as at the Date of the Statement of Financial Position for Basic EPS Calculation	67,500,006	67,500,006
Weighted average basic Earnings per Share (Rs.)	1.19	(0.51)

16 DIVIDEND PAID AND PROPOSED

Provision for the final dividend is recognized at the time the dividend is recommended and declared by the Board of Directors and is approved by the shareholders in accordance with section 56(1) (b) of the Companies Act No. 07 of 2007.

The Board of Directors of the Company has recommended distribution of final dividend of Cents 53 per share for the year ended 31 March 2018. The Board of Directors did not recommend distribution of dividend for the year ended 31st March 2017.

16.1 Final Dividend Proposed for the Year - 2017/18 Respectively

	Gross Dividend Rs.	Dividend Tax Rs.	Net Dividend Rs.
Final dividend for FY 2017/18	35,775,003	5,008,500	30,766,503
Dividend per Ordinary Share	0.53	-	0.46

In accordance with Sri Lanka Accounting Standard - LKAS 10 "Event after the Reporting Period", above proposed final divined has been recognised as a liability as at the year end.

17 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

	2018 Loans and Receivable Rs.	2018 Total Rs.	2017 Loans and Receivable Rs.	2017 Total Rs.
Assets				
Cash and Cash Equivalents	116,978,318	116,978,318	138,046,068	138,046,068
Loans and Receivables	4,697,449,566	4,697,449,566	3,477,040,068	3,477,040,068
Lease Rentals Receivables	611,054,718	611,054,718	283,558,784	283,558,784
Financial Investments	282,268,953	282,268,953	268,211,272	268,211,272
Other Financial Assets	207,371,048	207,371,048	282,577,503	282,577,503
Total Financial Assets	5,915,122,603	5,915,122,603	4,449,433,694	4,449,433,694

	2018 Amortized Cost Rs.	2018 Total Rs.	2017 Amortized Cost Rs.	2017 Total Rs.
Liabilities				
Due to Banks and Other Institutions	463,277,223	463,277,223	75,855,963	75,855,963
Due to Customers	4,624,835,030	4,624,835,030	3,563,699,800	3,563,699,800
Total Financial Liabilities	5,088,112,253	5,088,112,253	3,639,555,764	3,639,555,764

Notes to the Financial Statements

18 FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting Policy

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

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

- In the principal market for the asset or liability

  Or

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

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

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

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

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

Level 1: Inputs include quoted prices for identical instruments and are the most observable.
Level 2: Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates, and yield curves.
Level 3: Inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments.

Valuation framework

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

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

18.1 Determination of Fair Value and Fair Value Hierarchy

	Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.	Total Fair Value Rs.	Carrying Value at amortised Cost 31.03.2018 Rs.
Financial Assets					
Cash and Cash Equivalents	116,978,318	-	-	116,978,318	116,978,318
Loans and Receivable	-	-	4,358,878,195	4,358,878,195	4,697,449,566
Lease Rentals Receivables	-	-	782,454,072	782,454,072	611,054,718
Financial Investments	-	282,268,953	-	282,268,953	282,268,953
Other Financial Assets	-	207,371,048	-	207,371,048	207,371,048
Total Financial Assets	-	489,640,001	5,141,332,267	5,747,950,586	5,915,122,603
Financial Liabilities					
Due to Banks and Other Institutions	-	463,277,223	-	463,277,223	463,277,223
Due to Customers	-	-	4,624,857,704	4,624,857,704	4,630,914,413
Total Financial Liabilities	-	463,277,223	4,624,857,704	5,088,134,927	5,094,191,635

	Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.	Total Fair Value Rs.	Carrying Value at amortised Cost 31.03.2017 Rs.
Financial Assets					
Cash and Cash Equivalents	138,046,068	-	-	138,046,068	138,046,068
Loans and Receivable	-	-	3,697,316,985	3,697,316,985	3,477,040,068
Lease Rentals Receivables	-	-	286,341,389	286,341,389	283,558,784
Financial Investments	-	268,211,272	-	268,211,272	268,211,272
Other Financial Assets	-	282,577,503	-	282,577,503	282,577,503
Total Financial Assets	138,046,068	550,788,775	3,983,658,374	4,672,493,216	4,449,433,694
Financial Liabilities					
Due to Banks and Other Institutions	-	75,855,963	-	75,855,963	75,855,963
Due to Customers	-	-	3,563,699,800	3,563,699,800	3,563,699,800
Total Financial Liabilities	-	75,855,963	3,563,699,800	3,639,555,764	3,639,555,764

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

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

Notes to the Financial Statements

18 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

Assets & Liabilities for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to fixed deposits and savings deposits which doesn't have a specific maturity. Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books. (Cash and Cash Equivalents, Financial Investments , Other Financial Assets)

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. There is a significant difference between carrying value and fair value of Reverse Repurchase Agreements and Repurchase Agreements with original tenors above one year. In fair valuing held to maturity securities, rates published by the CBSL for similar trading securities were used. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year.

Lease Rentals Receivable

We measure performing finance receivables at fair value for purposes of disclosure using internal valuation models. These models project future cash flows of financing contracts based on scheduled contract payments (including principal and interest). The projected cash flows are discounted to present value based on assumptions regarding credit losses and applicable spreads to approximate current rates. We use the fair value of collateral to determine the fair value of non-performing finance receivables. The collateral for finance receivable is the vehicle financed, gold or other property. The fair value of finance receivables is categorized within Level 3 of the fair value measurement hierarchy. Loans and advances granted to customers with a variable rate are considered to be carried at fair value in the books net of credit losses.

Due to Customers

We measure the fair value using internal valuation models. These models project future cash flows of fixed deposits based on scheduled maturities (including principal and interest). The projected cash flows are discounted to present value based on applicable spreads to approximate current deposit rates for each tenor. Certificate of deposits that have a maturity of less than one year and savings deposits without a specific maturity are assumed that the carrying amounts approximate their fair values. The fair value of Due to Customers is categorized within Level 3 of the hierarchy.

19 CASH AND CASH EQUIVALENTS

Accounting Policy

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

Year ended 31 March	2018 Rs.	2017 Rs.
Cash in Hand	49,855,664	40,921,997
Balances with Banks	67,122,654	97,124,071
Total Cash and Cash Equivalents	116,978,318	138,046,068

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

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

	2018 Rs.	2017 Rs.
Favourable Cash & Cash Equivalents (Note 19)	116,978,318	138,046,068
Unfavourable Cash & Cash Equivalents (Note 28)	(169,838,466)	(50,019,727)
Cash & Cash Equivalents for Cash Flow Purposes	(52,860,148)	88,026,341

20 LOANS AND RECEIVABLES

Accounting Policy

Loans and receivables include financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Company, upon initial recognition, designates as available for sale.
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

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.

	2018 Rs.	2017 Rs.
Gross Loan and Receivables	4,840,400,680	3,697,316,985
Less : Allowance for Impairment Charges for Loans and Receivables (Note 20.3)	(142,951,114)	(220,276,917)
Net Loans and Receivables	4,697,449,566	3,477,040,068
20.1 Gross Loans and Receivables - By Product		
Micro Personnel Loan	718,161,031	310,927,599
SME Loan	1,255,950,895	396,280,885
Micro Business Loan	776,802,024	674,067,218
Housing Loan	977,818,923	695,319,195
Cash Margin	493,771,621	265,209,148
Sarvodaya Society Loan	159,595,585	180,432,602
Staff Loan	4,063,007	3,117,983
Pawning Advance	20,200,826	2,269,609
Other Loan	434,036,769	1,169,692,744
Total Gross Loan and Receivable	4,840,400,680	3,697,316,985

Notes to the Financial Statements

20 LOANS AND RECEIVABLES (CONTD.)

	2018 Rs.	2017 Rs.
20.2 Gross Loans and Receivables - By Province		
Western Province	1,179,279,059	928,595,868
Southern Province	676,759,609	508,549,565
Central Province	449,959,198	387,215,608
North Central Province	612,350,350	513,337,192
Uva Province	380,962,666	258,310,243
Sabaragamuwa Province	423,107,797	316,022,264
Eastern Province	498,546,468	312,965,991
North Western Province	444,490,110	314,563,183
Northern Province	174,945,423	157,757,071
Total Gross Loan and Receivable	4,840,400,680	3,697,316,985

The province-wise disclosure is made based on the location of the branch from which the loan has been disbursed.

	2018 Rs.	2017 Rs.
20.3 Gross Loans and Receivables - By Industry		
Agriculture & Fishing	1,540,141,621	980,709,299
Manufacturing	370,591,522	399,868,730
Tourism	21,260,040	9,303,426
Transport	33,783,682	25,793,375
Constructions	385,662,838	513,769,792
Trades	655,527,066	615,234,308
New Economy	22,683,436	16,383,123
Financial and Business Services	49,400,843	38,951,568
Infrastructure	7,780,034	8,382,375
Other Services	922,889,175	463,737,560
Other Customers	830,680,424	625,183,430
Total Gross Loan and Receivable	4,840,400,680	3,697,316,985

20.4 Allowance for Impairment Charges for Loans and Receivables

Accounting Policy

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

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of loan or portfolio of loans has occurred. Impairment allowances are calculated on individual and collective basis. Impairment losses are recorded as charges to the Statement of Profit or Loss. The carrying amount of impaired loans on the Statement of Financial Position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

The allowance for credit losses represents our estimate of the probable loss on the collection of finance receivables from customers as of the balance sheet date. The adequacy of the allowance for credit losses is assessed monthly and the assumptions and models used in establishing the allowance are evaluated regularly. Because credit losses may vary substantially over time, estimating credit losses requires a number of assumptions about matters that are uncertain. The credit losses are attributable to lease, hire purchase, loans and receivables portfolio.

The uncollectible portion of finance receivables are charged to the provision for impairment when an account is deemed to be uncollectible taking into consideration the financial condition of the customer, borrower or lessee, the value of the collateral, recourse to guarantors and other factors. Recoveries on finance receivables previously taken as impaired are debited to the allowance for credit losses.

Individually Impaired Receivables

The Company review their individually-significant loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio such as loan ownership types, levels of arrears, industries etc. and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation rate, interest rates, and exchange rates).

Individually Assessed Financial Assets

The criteria used to determine that there is such objective evidence includes:

- known cash flow difficulties experienced by the borrower
- past due contractual payments of either principal or interest
- breach of loan covenants or conditions
- the probability that the borrower will enter bankruptcy or other financial realization; and
- a significant downgrading in credit rating by an external credit rating agency.
- known cash flow difficulties experienced by the borrower;

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

Company's aggregate exposure to the customer;

- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The extent of other creditors' commitments ranking ahead of, or pari-passu with, the Company and the likelihood of other creditors continuing to support the Company;
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- The realisable value of security (or other credit mitigates) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding;
- The ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- The likely dividend available on liquidation or bankruptcy;

Notes to the Financial Statements

20 LOANS AND RECEIVABLES (CONTD.)

20.4 Allowance for Impairment Charges for Loans and Receivables (contd.)

f there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Finance receivables that are more than five months in arrears, related to repossessed collaterals, subjected to legal action/ongoing legal action, untraceable or unattainable collaterals, or are determined to be uncollectible, are identified as individually impaired. Impairment is estimated based on the present value of the expected future cash flows of the receivable discounted at the loan's original effective interest rate or the fair value of any collateral adjusted for estimated costs to sell. Loss severity/Loss Given Default (LGD) of each category of impaired receivable is assumed to be a vital factor for the allowance for impairment.

The LGD assumptions are based on historical information and may not fully reflect losses inherent in the present portfolio. Therefore, we may adjust the estimate to reflect management judgment regarding observable changes in recent economic trends and conditions, portfolio composition and other relevant factors.

Collectively Assessed Loans and Receivables

Impairment is assessed on a collective basis to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the credit risk characteristics such as asset type, industry, past-due status and other relevant factors.

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and individually significant.
- For homogeneous groups of loans that is not considered.

The collective impairment is evaluated primarily using net-flow method that based on historical experience, indicates credit losses have been incurred in the portfolio even though the particular accounts that are uncollectible cannot be specifically identified. In addition to the Loss Given Default (LGD), we make projections for Probability of Default (PD) to estimate the collective impairment of future cash flows of loans and receivables.

The net-flow-method is based on the most recent years of history. Each probability of Default (PD) is calculated by dividing default contracts of each age category by beginning-of-period total contacts of each age category. The loss emergence period is a key assumption within our model and represents the average amount of time between when a loss event first occurs and when it is incurred. This time period starts when the borrower begins to experience financial difficulty. It is evidenced, typically through observable data for above average company NPL, historically low collection ratio, historically high rental arrears, and unacceptable low level of business volumes which may result in a portfolio level impairment. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Where ever, historical loss experiences have not yet incurred and/or our historical loss experiences are lower than the industry averages, we may use the industry averages in assessing the probability of default (PD) and loss given default (LGD) of such loans and receivables for prudent recognition and measurement.

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 realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security

Rescheduled Loan Facilities

Where possible, the Company seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been negotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, vehicles, gold, securities, letters of guarantees, real estate, receivables, inventories, 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.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

Reversal of Impairment

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

Year ended 31 March	2018 Rs.	2017 Rs.
20.5 Allowance for Impairment Losses on Loans & Receivables		
Balance as at Beginning of the Year	220,276,917	147,582,704
Charge for the Year	85,412,155	170,414,363
Amounts Written Off	(162,737,958)	(97,720,150)
Balance as at End of the Year	142,951,114	220,276,917
Individual Impairment	-	-
Collective Impairment	142,951,114	220,276,917
Total	142,951,114	220,276,917

Notes to the Financial Statements

21 LEASE RENTALS RECEIVABLE

Accounting Policy

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

Lease rental receivable include financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Company, upon initial recognition, designates as available for sale.
- Those for which the Company may not recover substantially all its initial investment, other than because of credit deterioration.

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

	2018 Rs.	2017 Rs.
21.1 Lease Rentals Receivable		
Gross Lease Rentals Receivables	877,201,547	417,577,387
Less: Unearned Income	(259,795,856)	(131,235,997)
Total Lease Rentals Receivables	617,405,690	286,341,389
(Less): Allowance for Impairment Charges (Note 20.2)	(6,350,973)	(2,782,605)
Net Lease Rentals Receivables	611,054,718	283,558,784

As at 31 March 2018	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
21.2 Maturity of Lease Rentals Receivables				
Gross Lease Rental Receivables	165,124,364	712,077,182	-	877,201,547
Less: Unearned Income	(111,768,986)	(148,026,870)	-	(259,795,856)
Total Lease Rental Receivables	53,355,378	564,050,312	-	617,405,690
(Less): Allowance for Impairment Charges (Note 20.2)	(3,071,531)	(3,279,442)	-	(6,350,973)
Net Lease Rentals Receivables	50,283,847	560,770,870	-	611,054,718

As at 31 March 2017	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
21.3 Maturity of Lease Rentals Receivables				
Gross Lease Rental Receivables	107,977,472	309,599,915	-	417,577,387
Less: Unearned Income	(50,856,415)	(80,379,582)	-	(131,235,997)
Total Lease Rental Receivables	57,121,057	229,220,333	-	286,341,390
(Less): Allowance for Impairment Charges (Note 20.2)	(2,782,605)	-	-	(2,782,605)
Net Lease Rentals Receivables	54,338,452	229,220,333	-	283,558,785

	2018 Rs.	2017 Rs.
21.4 Gross Lease Rental Receivables - By Province		
Western Province	344,804,275	212,462,300
Southern Province	32,567,702	19,752,544
Central Province	79,932,897	19,086,498
North Central Province	41,272,855	9,509,632
Uva Province	44,126,186	9,024,096
Sabaragamuwa Province	26,073,571	5,008,640
Eastern Province	12,986,297	2,438,504
North Western Province	27,844,940	8,126,707
Northern Province	7,796,970	932,469
Total Gross Lease Rental Receivables	617,405,690	286,341,389

	2018 Rs.	2017 Rs.
21.5 Gross Lease and Receivables - By Industry		
Agriculture & Fishing	144,794,617	24,592,375
Manufacturing	28,469,780	17,125,640
Tourism	6,863,044	1,734,720
Transport	24,702,064	14,222,215
Constructions	13,914,768	8,814,532
Trades	49,909,608	18,262,023
New Economy	6,869,824	7,959,105
Financial and Business Services	7,848,509	11,209,836
Infrastructure	72,569	151,571
Other Services	192,043,133	110,575,981
Other Customers	141,917,774	71,693,391
Total Gross Lease Rental Receivables	617,405,690	286,341,389

21.6 Allowance for Impairment Charges for Lease Rentals Receivable

Accounting Policy

The accounting policy used in calculating impairment charge is fully described under Note 20.3.

	2018 Rs.	2017 Rs.
Balance as at Beginning of the Year	2,782,605	-
Charge / (Reversal) for the Year	3,568,367	2,782,605
Balance as at End of the Year	6,350,973	2,782,605
Individual Impairment	-	-
Collective Impairment	6,350,973	2,782,605
Total	6,350,973	2,782,605

Notes to the Financial Statements

22 FINANCIAL INVESTMENTS

Accounting Policy

Financial investments - Loans and receivables include Government Securities, unquoted debt instruments and securities purchased under resale agreements. After initial measurement, these are subsequently measured at amortized cost using the EIR, less provision for impairment. The amortization is included in interest income in the Statement of Profit or Loss.

	2018 Rs.	2017 Rs.
Sri Lanka Government Securities - REPO	282,268,953	268,211,272
Total Financial Investments	282,268,953	268,211,272

23 OTHER FINANCIAL ASSETS

Accounting Policy

Other financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has not the intention and ability to hold to maturity. After initial measurement, other financial assets are subsequently measured at amortized cost using the EIR, less impairment. The amortization is included in ‘interest income’ in the Statement of Profit or Loss.

	2018 Rs.	2017 Rs.
Fixed Deposits	207,371,048	282,577,503
Total Other Financial Assets	207,371,048	282,577,503

	Free from Lien 2018 Rs.	Under -Lien 2018 Rs.	Total 2018 Rs.	Free from Lien 2017 Rs.	Under -Lien 2017 Rs.	Total 2017 Rs.
23.1 Other Financial Assets -Under Lien						
Fixed Deposits	207,371,048	-	207,371,048	132,577,503	150,000,000	282,577,503
Total Other Financial Assets	207,371,048	-	207,371,048	132,577,503	150,000,000	282,577,503

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
23.2 Contractual Maturity Analysis of Other Financial Assets				
Fixed Deposits	207,371,048	-	-	207,371,048
Total Other Financial Assets	207,371,048	-	-	207,371,048

24 OTHER NON FINANCIAL ASSETS

Accounting Policy

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

	2018 Rs.	2017 Rs.
Inventories	15,792,281	6,293,256
Other Advance	1,811,859	2,199,437
Rent Deposit	26,909,222	28,226,732
Other Receivable	46,100,398	27,617,258
Total Other Non Financial Assets	90,613,760	64,336,684

Economic Service Charge (ESC)

Other receivable includes Economic Service Changes As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and amendments thereto, ESC was payable at 0.5 % on Company's liable turnover and was deductible from income tax payable.

25 INTANGIBLE ASSETS

Accounting Policy

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

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

25.1 Software

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

Intangible assets are amortized using the straight-line method to write down the cost over its estimated useful economic lives and the useful life for the year ended 31 March 2018 and 2017 is given below.

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

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

Notes to the Financial Statements

25 INTANGIBLE ASSETS (CONTD.)

	2018 Rs.	2017 Rs.
25.2 Computer Software		
Cost		
Cost as at Beginning of the Year	43,381,266	30,446,941
Additions and Improvements	9,702,939	12,934,325
Disposal during the Year	-	-
Cost as at end of the Year	53,084,205	43,381,266
25.3 Amortisation & Impairment		
Amortisation as at Beginning of the Year	6,686,702	3,638
Charge for the Year	11,263,143	6,683,064
Disposal during the Year	-	-
Amortisation as at End of the Year	17,949,845	6,686,702
Net Book Value as at End of the Year	35,134,360	36,694,563
Net Book Value of Total Intangible Assets	35,134,360	36,694,563

26 PROPERTY, PLANT & EQUIPMENT

Accounting Policies

Basis of Recognition

Property, plant & equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

Basis of Measurement

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

Cost Model

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

Revaluation Model

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

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

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

During the current financial year, the Company revalued its freehold lands and buildings and the details of the such revaluation and the resulted revaluation surplus are fully described under Note 26.2

Subsequent Cost

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

Repairs and Maintenance

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

Derecognition

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

Useful Life Time of Property, Plant & Equipment and Depreciation

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

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

The estimated useful lives of the assets for the year ended 31 March 2017 and 2018, are as follows:

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

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

Notes to the Financial Statements

26 PROPERTY, PLANT & EQUIPMENT (CONTD.)

26.1 The Movement in Property, Plant & Equipment (contd.)

	Balance As at 01.04.2017 Rs.	Additions during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2018 Rs.
26.1.1 Cost or Valuation					
Freehold Assets					
Land	67,781,200	-	9,608,800	-	77,390,000
Building	72,347,825	-	(5,593,325)	-	66,754,500
Furniture & Fittings	87,444,587	4,050,018	-	2,106,945	89,387,660
Office Equipment	50,779,043	6,193,018	-	1,089,303	55,882,758
Computer Equipment	71,114,530	2,907,115	-	465,053	73,556,592
Plant & Machinery	35,248,493	1,913,288	-	-	37,161,781
Motor Vehicle	33,988,422	9,140,000	-	-	43,128,422
Total cost or valuation	418,704,100	24,203,439	4,015,475	3,661,301	443,261,714

	Balance As at 01.04.2017 Rs.	Charge during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2018 Rs.
26.1.2 Depreciation					
Freehold Assets					
Building	5,971,173	1,807,766	(7,778,939)	-	-
Furniture & Fittings	16,806,688	8,896,563	-	836,971	24,866,280
Office Equipment	25,052,462	10,499,058	-	787,784	34,763,736
Computer Equipment	32,761,375	14,376,469	-	277,122	46,860,722
Plant & Machinery	5,698,172	4,538,596	-	-	10,236,768
Motor Vehicle	11,004,849	6,805,197	-	-	17,810,046
Total Depreciation	97,294,719	46,923,649	(7,778,939)	1,901,877	134,537,552

	2018 Rs.	2017 Rs.
26.1.4 Net Book Value		
Land	77,390,000	67,781,200
Building	66,754,500	66,376,652
Furniture & Fittings	64,521,380	70,637,898
Office Equipment	21,119,021	25,726,581
Computer Equipment	26,695,870	38,353,156
Plant & Machinery	26,925,013	29,550,321
Motor Vehicle	25,318,377	22,983,573
Total Carrying Amount of Property, Plant and Equipment	308,724,162	321,409,381

26.1.5 Property, Plant & Equipments Acquired During the Financial Year

During the financial year, the Company acquired property, plant & equipments to the aggregate value of Rs. 24,203,439/- (2017 - Rs. 88,578,227/-) Cash payment amounting to Rs. 22,572,142/- (2017 - Rs 88,578,227) was paid during the year for purchase of property, plant & equipment.

26.1.6 Fully-Depreciated Property, Plant & Equipment

The initial cost of fully-depreciated property, plant & equipment, which are still in active use as at reporting date is Rs. 23,587,615/-

26.2 Fair value related disclosures of Freehold land

Freehold land and building located at No 45, Rawathawatta Road, Moratuwa is carried at the revalued amount, being the fair value at the valuation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The independent valuers provide the fair value of land and buildings once in three years or more frequently if the fair values are substantially different from carrying amounts according to the Company policy.

Therefore the fair value exist in the recent valuation (31 March 2018) which was carried out by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard-SLFRS 13 (Fair Value Measurement) less subsequent accumulated depreciation and impairment losses considered as the fair value exist as at the reporting date (31 March 2018). Accordingly, a revaluation surplus amounting to Rs. 11,794,415/- had been credited to the revaluation reserve account as at 31 March 2018.

26.2.1 The carrying amount of the company revalued land and building, had they were carried at cost less accumulated depreciation, would be as follows;

As at 31 March			2018			2017
	Cost	Accumulated Depreciation	Carrying value	Cost	Accumulated Depreciation	Carrying value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Land	32,968,200	-	32,968,200	32,968,200	-	32,968,200
Building	61,416,000	7,774,544	53,641,456	61,416,000	5,971,173	55,444,827
Total	94,384,200	7,774,544	86,609,656	94,884,200	5,971,173	88,413,027

26.3 Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of Property, Plant and Equipment as at 31st March 2018 and 31st March 2017.

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

There were no compensation received during the year from third parties for items of Property, Plant and Equipment that were impaired, lost or given up. (2017: Nil).

26.5 Temporarily Idle of Property, Plant and Equipment

There were no Property, Plant and Equipment idle as at 31st March 2018 and 31st March 2017.

26.6 Property, Plant and Equipment Retired from Active Use

There were no Property, Plant and Equipment retired from active use as at 31st March 2018 and 31st March 2017.

Notes to the Financial Statements

27 DEFERRED TAXATION

Accounting Policy

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

(I) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

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

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

Year ended 31 March	2018 Rs.	2017 Rs.
27.1 Statement of Financial Position		
Deferred Tax Liabilities		
Accelerated Depreciation for Tax Purposes	34,693,946	33,167,885
Finance Leases	22,793,664	-
Total Deferred Tax Liabilities	57,487,610	33,167,885
Deferred Tax Assets		
Defined Benefit Plans - Profit or Loss	5,906,624	4,055,958
Defined Benefit Plans - Other Comprehensive Income	1,489,769	1,767,184
Carry Forward Loss on Leasing Business	19,230,827	7,560,974
Carry Forward Loss on Other Operations	14,945,039	20,772,654
Total Deferred Tax Assets	41,572,259	34,156,770
Net Deferred Tax Liabilities/(Assets)	15,915,351	(988,885)

Year ended 31 March	2018 Rs.	2017 Rs.
27.2 Statement of Profit or Loss		
Deferred Tax Liabilities		
Accelerated Depreciation for Tax Purposes	1,526,061	4,562,930
Finance Leases	22,793,664	-
Deferred Tax Income/(Expense)	24,319,725	4,562,930
Deferred Tax Assets		
Defined Benefit Plans - Profit or Loss	(1,850,666)	764,433
Defined benefit plans - Other Comprehensive Income	277,414	(2,082,867)
Carry Forward loss on Leasing Business	(11,669,853)	(7,560,974)
Carry Forward Loss on Other Operations	5,827,615	(7,050,748)
Deferred Tax Income/(Expense)	(7,415,489)	(15,930,156)
Net Deferred Tax Income/(Expense) - Statement of Profit or Loss 17,782,033	(9,284,359)	
Net Deferred Tax Income/(Expense) - Statement of Other Comprehensive Income	(877,797)	(2,082,867)

28 DUE TO BANKS & OTHER INSTITUTIONS

Accounting Policy

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

	2018 Rs.	2017 Rs.
Bank Overdrafts (Note 28.1)	169,838,466	50,019,727
Loans and Other Bank Facilities (Note 28.2)	293,438,756	25,836,237
Total Due to Banks & Other Institution	463,277,223	75,855,963

Notes to the Financial Statements

28 DUE TO BANKS & OTHER INSTITUTIONS (CONTD.)

28.1 Bank Overdraft

The outstanding balances of bank overdrafts as at the Statement of Financial Position date are fully secured by Loan & Receivables and the Company has unutilised Bank Overdraft of Rs. 80,161,534/- as at 31 March 2018 (2017 - Rs. 99,980,273/-).

	Period	Interest Rate	As at 01.04.2017 Rs.	Loans Obtained Rs.	Repayments Interest	Repayments Capital Rs.	As at 31.03.2018 Rs.
28.2 Loans and Other Bank Facilities							
NDB Vehicle Loan	5 Years	9.5 % to 10.5 %	7,791,219	-	(678,740)	(2,769,702)	5,021,517
NDB Term Loan	5 Years	AWPLR+3.5 %	-	300,000,000	(15,468,917)	(30,000,000)	270,000,000
Rotary Loan	3 Years	13% to 15 %	15,083,068	-	(2,217,112)	(1,627,778)	13,455,289
Other Borrowings			2,961,950	2,000,000	-	-	4,961,950
Total Loans and Other Bank Facilities			25,836,237	302,000,000	(18,364,768)	(34,397,480)	293,438,756

28.3 Contractual Maturity Analysis of Due to Bank & Other Institution

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
As at 31 March 2018				
NDB Vehicle Loan	3,057,788	1,963,729	-	5,021,517
NDB Term Loan	60,000,000	210,000,000	-	270,000,000
Rotary Loan	7,158,931	6,296,358	-	13,455,289
Other Borrowings	-	-	4,961,950	4,961,950
Bank Overdrafts	169,838,466	-	-	169,838,466
Total Due to Customers	240,055,186	218,260,087	4,961,950	463,277,223

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
As at 31 March 2017				
NDB Vehicle Loan	2,769,702	5,021,517	-	7,791,219
Rotary Loan	8,185,186	6,897,882	-	15,083,068
Other Borrowings	-	-	2,961,950	2,961,950
Bank Overdrafts	50,019,727	-	-	50,019,727
Total Due to Customers	60,974,615	11,919,399	2,961,950	75,855,964

29 DUE TO CUSTOMERS

Accounting Policies

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

	2018 Rs.	2017 Rs.
Fixed Deposits	3,070,215,632	1,955,249,581
Savings Deposits	1,553,214,622	1,607,045,443
Inactive Society-Savings	1,404,776	1,404,776
Total Due to Customers	4,624,835,030	3,563,699,800

29.1 Sri Lanka Deposit Insurance And Liquidity Support Scheme

Under the Direction No. 2 of 2010 Finance Companies (Insurance of Deposit Liabilities)] issued by the Central Bank of Sri Lanka, all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme implemented by the Monetary Board for compensation up to a maximum of Rs. 600,000/- for each depositor. The Company has paid Rs. 5,258,314/- as the premium of the said Insurance scheme during the financial year under review (2017 - Rs. 4,595,993/-).

29.2 Contractual Maturity Analysis Of Customer Deposits

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
As at 31 March 2018				
Fixed Deposits	2,224,911,565	845,302,725	-	3,070,215,632
Savings Deposits	1,255,954,467	149,910,386	147,349,770	1,553,214,622
Inactive Society-Savings	1,404,776	-	-	1,404,776
Total Due to Customers	3,482,270,807	995,213,111	147,349,770	4,624,835,030

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
As at 31 March 2017				
Fixed Deposits	1,607,150,316	348,099,265	-	1,955,249,581
Savings Deposits	1,323,990,610	132,767,575	150,287,259	1,607,045,444
Inactive Society-Savings	1,404,776	-	-	1,404,776
Total Due to Customers	2,932,545,702	480,866,840	150,287,259	3,563,699,801

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

Notes to the Financial Statements

30 OTHER NON FINANCIAL LIABILITIES

Accounting Policy

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

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

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

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

	2018 Rs.	2017 Rs.
Accrued Expenses	36,595,879	46,980,946
Others (Note 30.1)	24,175,930	101,467,225
Loan Risk Assurance Fund (Note 30.2)	7,860,000	12,800,000
Amount Due to Related Parties	4,856,996	4,517,181
	73,488,805	165,765,352

30.1 This balance included staff welfare fund, unidentified deposit, loan & lease creditor balance, loan sundry changes payable and WHT collections.

30.2 The Company obtained an actuarial valuation on its 'Loan Risk Assurance Fund' as at 31st March 2018. The actuarial valuation was performed by Piyal S Goonetilleke and Associates, Professional Actuary. The reversal of provision that resulted from the actuarial valuation has been recognised as income under 'Other Operating Income'. All loan customers who enrolled with this assurance program will be eligible for total payment of the outstanding loan amounts at the time of death or total disability. The actuarial valuation will serve as the basis for calculating the liability adequate for covering the outstanding loan balances of customers (with a loan less than or equaling Rs.250,000/-) in the event of a participant death or a total disability.

31 POST-EMPLOYEMENT BENEFIT OBLIGATIONS

Accounting Policy

Employee benefit liability includes the provisions for retirement gratuity liability.

Gratuity

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

Basis of Measurement

The cost of the defined benefit plans (gratuity) is determined using an actuarial valuation. The actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The assumptions used to arrive in defined benefit obligation is given below: In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and the Company's policy on salary revisions.

Recognition of Actuarial Gains and Losses

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

	2018 Rs.	2017 Rs.
31.1 Provision for Retirement Gratuity		
Balance at the beginning of the Year	20,796,934	16,088,241
Amount Charged/(Reversed) for the Year	6,739,853	5,778,323
Actuarial (Gains)/Losses	3,346,548	6,311,370
(Gain)/Loss Due to Changes in Assumptions	1,974,056	-
Payments Made During the Year	(6,441,700)	(7,381,000)
Balance at the End of the Year	26,415,691	20,796,934

	2018 Rs.	2017 Rs.
31.2 Expenses on Defined Benefit Plan		
Current Service Cost for the Year	4,244,221	3,847,735
Interest Cost for the Year	2,495,632	1,930,588
Actuarial (Gains)/ Losses (Note 31.5)	3,346,548	6,311,370
(Gains)/ Losses Due to Changes in Assumptions	1,974,056	-
Total Expenses on Defined Benefit Plan	12,060,457	12,089,693

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

An actuarial valuation of the retirement gratuity liability was carried out as at 31 March 2018 and 2017 by Messrs Piyal S Goonetilleke Associates, a professional actuary.

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

Notes to the Financial Statements

31 POST-EMPLOYEMENT BENEFIT OBLIGATIONS (CONTD.)

	2018	2017
31.4 Actuarial Assumptions		
Discount Rate	11.0%	12.0%
Salary scale	10.0%	10.0%
Staff Turnover		
20 to 30 years	10.0%	10.0%
35 years	7.5%	7.5%
40 years	5.0%	5.0%
45 years	2.5%	2.5%
50 years	1.0%	1.0%
Average Future Working Life	10 Years	10.2 Years
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Disability	Long Term 1987 Soc. Sec. Table	Long Term 1987 Soc. Sec.Table
Retirement age	Retirement age of 55 Years	Retirement age of 55 Years

31.5 Actuarial Gains and Losses

As per actuarial valuation, actuarial gain and loss has arisen during the year by net decrease of 33 participants and the salary increased by 14.9 % (vs. 10% assumed)

31.6 Sensitivity of Assumptions Employed on Actuarial Valuation

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

The following table demonstrates the sensitivity of a reasonably possible change in such assumptions with all other variables held constant, in the actuarial valuation of the retirement gratuity as at 31 March 2018.

Increase/(decrease) in Discount Rate	Increase/(decrease) in Salary Increment Rate	Sensitivity Effect on Statement Comprehensive Income Increase/(decrease) in Results for the year Rs.	Sensitivity Effect on Pension Fund Surplus Increase / (decrease) Rs.
+1%		(1,974,056)	1,974,056
(-1%)		2,267,065	(2,267,065)
	+1%	2,183,916	(2,183,916)
	(-1%)	(1,937,020)	1,937,020

	Number of Shares	2018 Rs.	Number of Shares	2017 Rs.
32 STATED CAPITAL				
Issued and Fully Paid-Ordinary Shares				
At the Beginning of the Year	67,500,006	890,000,020	67,500,006	890,000,020
Issued During the Year	-	-	-	-
At the end of the year	67,500,006	890,000,020	67,500,006	890,000,020

32.1 Rights of Shareholders

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

All shares rank equally with regard to the Company's residual assets.

	2018 Rs.	2017 Rs.
33 RETAINED EARNINGS		
Balance as at Beginning of the Year	90,646,934	129,410,910
Profit/(Loss) for the Year	80,485,235	(32,452,606)
Other Comprehensive Income	(4,442,807)	(6,311,370)
Transfer to Statutory Reserves Fund	(15,330,880)	-
Balance as at End of the Year	151,358,483	90,646,934

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

Notes to the Financial Statements

34 RESERVES

34.1 Statutory Reserve Fund

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

34.2 Revaluation Reserve Fund

The Revaluation Reserve Fund is a capital reserve which contains the revaluation surplus resulted from revaluing the Company's Property, Plant & Equipment

Company	Statutory Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
As at 01 April 2016	20,383,147	45,744,825	66,127,972
Transfers to/(from) During the Year	-	-	-
Transferred to Retaining Earnings	-	-	-
As at 31 March 2017	20,383,147	45,744,825	66,127,972
Transfers from During the Year	15,330,880	11,794,414	15,330,880
As at 31 March 2018	35,714,028	57,539,239	93,253,268

35 CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

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

	2018 Within 12 Months Rs.	2018 After 12 Months Rs.	2018 Total Rs.
Assets			
Cash and Cash Equivalents	116,978,318	-	116,978,318
Loans and Receivables	2,172,607,703	2,524,841,864	4,697,449,566
Lease Rentals Receivables	162,022,464	449,032,254	611,054,718
Financial Investments	282,268,953	-	282,268,953
Other Financial Assets	207,371,048	-	207,371,048
Other Non Financial Assets	63,704,537	26,909,222	90,613,760
Intangible Assets	-	35,134,360	35,134,360
Property, Plant and Equipment	-	308,724,162	308,724,162
Deferred Tax Asset	-	-	-
Total Assets	3,004,953,024	3,344,641,862	6,349,594,884
Liabilities			
Due to Banks and Other Institutions	70,216,719	393,060,504	463,277,223
Due to Customers	3,400,705,729	1,224,129,302	4,624,835,030
Other Non Financial Liabilities	40,418,843	33,069,962	73,488,805
Post Employment Benefit Liability	-	26,415,691	26,415,691
Current Tax Liabilities	11,051,013	-	11,051,013
Deferred Tax Liabilities	-	15,915,351	15,915,351
Total Liabilities	3,522,392,304	1,692,590,810	5,214,983,114
Net Assets/(Liability)	(517,439,280)	1,652,051,052	1,134,611,770

	2017 With in 12 Months Rs.	2017 After 12 Months Rs.	2017 Total Rs.
Assets			
Cash and Cash Equivalents	138,046,068	-	138,046,068
Loans and Receivables	1,816,369,362	1,660,670,705	3,477,040,067
Lease Rental Receivable	54,106,071	229,452,714	283,558,785
Financial Investments	268,211,272	-	268,211,272
Other Financial Assets	282,577,503	-	282,577,503
Other Non Financial Assets	36,109,951	28,226,732	64,336,683
Current Tax Liability	29,768	-	29,768
Intangible Assets	-	36,694,563	36,694,563
Property, Plant and Equipment	-	321,409,381	321,409,381
Current Tax Assets	-	988,885	988,885
Total Assets	2,595,449,995	2,277,442,980	4,872,892,976
Liabilities			
Due to Banks	19,870,778	55,985,185	75,855,963
Due to Customers	2,932,545,702	631,154,098	3,563,699,800
Other Non Financial Liabilities	91,170,942	74,594,407	165,765,350
Post Employment Benefit Liability	-	20,796,934	20,796,934
Total Liabilities	3,043,587,422	782,530,624	3,826,118,050
Net Assets/(Liability)	(448,137,427)	1,494,912,356	1,046,774,926

36 FINANCIAL REPORTING BY SEGMENT

For management purposes, the Company is organised into business units based on its products and services and has three reportable segments, as follows:

Lease

This segment includes Leasing products offered to the customers.

SME

This segment includes Loan products offered to the small and medium scale customers

Loan

This segment includes Loan products offered to the customers

Other Business

This segment include all other business activities that Company engaged other than above segments

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the financial statements. Also, the Company's financing (including finance costs and finance income) and income taxes are managed on a Company basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Notes to the Financial Statements

36 FINANCIAL REPORTING BY SEGMENT (CONTD.)

Year ended 31 March	Lease 2018 Rs.	Lease 2017 Rs.	SME 2018 Rs.	SME 2017 Rs.
Interest Income	93,523,012	16,442,769	154,013,067	22,591,106
Net Fee and Commission Income	5,148,742	1,005,288	8,450,430	1,867,875
Other Operating Income	6,818	-	173,013	-
Gross Income	98,678,572	17,448,057	162,636,509	24,458,981
Interest Expenses	(37,912,769)	(13,605,190)	(64,703,166)	(18,680,489)
Total Operating Income	60,765,804	3,842,867	97,933,343	5,778,491
Credit Loss Expenses	(3,568,367)	(2,782,605)	(1,840,869)	(3,164,254)
Net Operating Income	57,197,436	1,060,262	96,092,474	2,614,237
Other Expenses	(47,551,096)	(5,882,088)	(76,870,305)	(5,882,088)
Depreciation and Amortization	(4,837,113)	(2,370,976)	(7,819,596)	(2,370,976)
Segment Result	4,809,227	(7,192,802)	11,402,573	(5,638,827)
Tax on Financial Services				
Income Tax Expenses				
Profit Attributable to Share Holders	4,809,227	(7,192,802)	11,402,573	(5,638,827)
Segment Assets	612,636,978	286,425,047	1,185,991,085	393,273,461
Total Assets	612,636,978	286,425,047	1,185,991,085	393,273,461
Segment Liabilities	607,827,752	286,425,047	1,174,588,512	393,273,461
Total Liabilities	607,827,752	286,425,047	1,174,588,512	393,273,461

Micro & Other		Other		Total	
2018	2017	2018	2017	2018	2017
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
877,474,596	765,588,169	54,552,518	79,136,078	1,179,563,193	883,758,122
17,237,922	22,846,596	-	30,837,094	25,719,759	
96,918,319	73,964,772	13,262,647	109,515,526	110,360,797	183,480,298
991,630,837	862,399,538	67,815,165	188,651,604	1,320,761,083	1,092,958,179
(261,413,920)	(173,362,880)	(52,568,984)	(75,253,625)	(416,598,838)	(280,902,184)
730,216,917	689,036,658	15,246,181	113,397,979	904,162,245	812,055,995
(83,707,086)	(166,312,222)	-	(0)	(89,116,323)	(172,259,081)
646,509,830	522,724,436	15,246,181	113,397,979	815,045,922	639,796,914
(441,862,071)	(570,562,566)	(5,720,035)	(5,882,088)	(572,003,507)	(588,208,831)
(44,948,215)	(30,913,383)	(581,868)	(11,764,177)	(58,186,793)	(47,419,511)
159,699,544	(78,751,513)	8,944,278	95,751,714	184,855,622	4,168,573
				(70,751,368)	(48,027,957)
				(33,619,018)	9,323,911
159,699,544	(78,751,513)	8,944,278	95,751,714	80,485,235	(34,535,474)
3,514,636,204	3,086,944,329	1,036,330,617	1,106,250,139	6,349,594,884	4,872,892,976
3,514,636,204	3,086,944,329	1,036,330,617	1,106,250,139	6,349,594,884	4,872,892,976
3,264,289,726	3,086,944,329	168,277,124	59,475,213	5,214,983,113	3,826,118,050
3,264,289,726	3,086,944,329	168,277,124	59,475,213	5,214,983,113	3,826,118,050

Notes to the Financial Statements

37 COMMITMENTS AND CONTINGENCIES

Accounting Policy

All discernible risks are accounted for in determination amount of all known liabilities.

Contingent liabilities are possible obligations, where existence will be confirm only by uncertain future economics benefits is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard - LKAS 37 “Provisions contingent liabilities and Contingent Assets”. Contingent Liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

	2018 Rs.	2017 Rs.
37.1 Contingent Liabilities		
Guarantees Issues to Other Institution	1,000,000	1,500,000
Total Contingent Liabilities	1,000,000	1,500,000

37.2 Commitments

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

	2018 Rs.	2017 Rs.
37.3 Litigation Against the Company		
Cases Pending Against the Company	14,500,000	14,350,000
Total Contingent Liabilities	14,500,000	14,350,000

38 ASSETS PLEDGE

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount 2018 Rs.	Pledged 2017 Rs.	Included Under
Motor Vehicle	Vehicle Loan	5,021,517	6,870,348	Property, Plant and Equipment
Fixed Deposit	Bank Overdraft	-	132,577,503	Other Financial Assets
Rental Receivable on Micro Business and Personal Loan	Bank Overdraft	173,330,204	-	Loans and Receivables
Rental Receivable on SME Loan	Bank Overdraft	120,700,470	-	Loans and Receivables
Rental Receivable on SME Loan	Term Loan	89,228,028	-	Loans and Receivables
Rental Receivable on Lease	Term Loan	269,063,857	-	Lease Rental Receivable
		657,344,076	139,447,851	

39 EVENTS OCCURRING AFTER THE REPORTING DATE

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

Proposed Dividends

The Board of Directors of the Company has proposed a final dividend of Rs. 0.53 per share for the Ordinary Shareholders of the Company for the year ended 31st March 2018. This will be declared at the Annual General Meeting to be held on 28th June 2018, upon approval of the shareholders.

In accordance with Sri Lanka Accounting Standard - LKAS 10 (Events After the Reporting Period), this proposed final dividend has not been recognised as a liability as at 31st March 2018. As required by section 56(2) of the Companies Act No 7 of 2007, the Board of Directors has confirmed that the Company has satisfied the 'Solvency Test' in accordance with section 57 of the Companies Act No 7 of 2007, having obtained a certificate from the auditors, prior to recommending the final dividend for the year.

40 RELATED PARTY TRANSACTIONS

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

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

40.1 Transactions with Key Managerial Personnel (KMPs)

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

	2018 Rs.	2017 Rs.
40.1.1 Key Management Personnel Compensation		
Short Term Employment Benefits	5,769,590	4,825,000
Directors Fees & Expenses	5,609,524	5,744,444
Total Key Management Personnel Compensation	11,379,114	10,569,444

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

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

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

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

Notes to the Financial Statements

40 RELATED PARTY TRANSACTIONS (CONTD.)

	2018 Rs.	2017 Rs.
40.2.2.1 Transaction with KMPs, and their Close Members of the Family		
Items in Statement of Financial Position		
Deposit Accept During the Year	11,101,101	100,000
Interest Payable	159,923	310,126
Deposit Repayment During the Year	(1,031,601)	(3,926,667)
Assets Disposal During the Year	-	7,000,000
Amounts Settled During the Year	-	(7,000,000)
Total	10,229,423	(3,516,541)
Items in Statement of Profit or Loss		
Interest Accrued During the Period	256,205	310,126
Profit from Assets Disposal	-	1,286,466
Total	256,205	1,596,592

40.1.3

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

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

40.1.4 Transactions with Group Entities

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

Sarvodaya Economic Enterprises Development (Gte) Ltd.	2018 Rs.	2017 Rs.
40.1.4.1 Transactions with Parent Company		
Statement of Financial Position		
Transaction Made During the Year		
Rent Due on eight buildings leased from SEEDS (Gte) Ltd.	-	540,000
Loan Interest Payable	407,778	1,417,726
Loan Instalment deducted from Salary on behalf of parent	-	107,600
Reimbursement of salary cost of SEEDS (Gte) Ltd employees	149,860	984,613
Amount settled to SEEDS (Gte) Ltd	(217,823)	(2,078,972)
Total	339,815	970,967

Gentosa Total Assets Inc.	2018 Rs.	2017 Rs.
40.1.4.2 Transactions with Shareholders		
Items in Statement of Financial Position		
Deposit Accepted During the Period Including Interest Capitalisation	-	59,275,211
Interest Payable on Deposits	295,448	274,431
Total	295,448	59,549,642
Items in Statement of Profit or Loss		
Interest Accrued During the Period	19,787,648	14,872,483
Total	19,787,648	14,872,483

41 CAPITAL

The Company maintains capital in order to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka . The adequacy of the Company's Capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

41.1 Capital Management

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

42 Comparative Information

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

	As Reported	Reclassification Previously Rs.	Current Presentation Rs.	Current Classification Rs.
Statement of Profit or Loss				
Fees & Commission Income	29,193,693	(3,473,934)	25,719,759	Net Fees & Commission Income
Other Operating Expenses	(230,225,116)	3,473,934	(226,751,183)	Other Operating Expenses

(a) During the financial year, Fees & Commission related expenses was reclassified under net fees & commission income for better presentation.

Notes to the Financial Statements

43 RISK MANAGEMENT

43.1 Introduction

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

Risk Management Structure

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

Risk Management Framework

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

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

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

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

Three Lines of Defense

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

Risk Profile Dashboard

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

Sarvodaya Development Finance Company's Risk Appetite Framework

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

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

Integrated Risk Management Unit (IRMU)

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

Risk Measurement & Reporting

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

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

Assets and Liability Management Committee (ALCO)

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

Credit Committee

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

43.2 Credit Risk

Over view

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

Credit Risk Management

The Board of Directors of the Company has delegated responsibility for the oversight of credit risk to its Board Credit Committee. The credit department and recoveries department are responsible for management of the companies' credit risk, including the formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. They are also responsible for establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to respective officers with the DA of the CEO.

Notes to the Financial Statements

43 RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (contd.)

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

Collateral Management

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

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

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

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

43.2.1 Credit Quality by Class of Financial Assets

	2018 Neither Past Due Not Impaired Rs.	2018 Past Due But Not Impaired Rs.	2018 Individually Impaired Rs.	2018 Collectively Impaired Rs.	2018 Total Rs.
Assets					
Cash and Cash Equivalents	116,978,318	-	-	-	116,978,318
Loans and Receivable (Gross) (Note 43.2.1.1)	493,771,621	-	-	4,346,629,060	4,840,400,680
Lease Rentals Receivables (Gross) (Note 43.2.1.1)	-	-	-	617,405,690	617,405,690
Financial Investments	282,268,953	-	-	-	282,268,953
Other Financial Assets	207,371,048	-	-	-	207,371,048
Total Financial Assets	1,100,389,940	-	-	4,964,034,750	6,064,424,690

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

	2017 Neither Past Due Not Impaired Rs.	2017 Past Due But Not Impaired Rs.	2017 Individually Impaired Rs.	2017 Collectively Impaired Rs.	2017 Total Rs.
Assets					
Cash and Cash Equivalents	138,046,068	-	-	-	138,046,068
Loans and Receivable (Gross)	265,209,148	-	-	3,432,107,837	3,697,316,985
Lease Rentals Receivables (Gross)	-	-	-	286,311,389	286,311,389
Financial Investments	268,211,272	-	-	-	268,211,272
Other Financial Assets	282,577,503	-	-	-	282,577,503
Total Financial Assets	954,043,991	-	-	3,718,449,226	4,672,493,217

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

43.2.2 Analysis of Risk Concentration

43.2.2.1 Industry Analysis

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

Sector wise Breakdown	2018 Cash and Cash Equivalents Rs.	2018 Loans and Receivable Rs.	2018 Lease Rental Receivable Rs.	2018 Financial Investments Rs.	2018 Other Financial Assets Rs.	2018 Total Financial Assets Rs.
Agriculture & Fishing	-	1,540,141,621	144,794,617	-	-	1,684,936,238
Manufacturing	-	370,591,522	28,469,780	-	-	399,061,302
Tourism	-	21,260,040	6,863,044	-	-	28,123,085
Transport	-	33,783,682	24,702,064	-	-	58,485,746
Constructions	-	385,662,838	13,914,768	-	-	399,577,607
Trades	-	655,527,066	49,909,608	-	-	705,436,674
New Economy	-	22,683,436	6,869,824	-	-	29,553,260
Financial and Business Services	116,978,318	49,400,843	7,848,509	-	207,371,048	381,598,718
Infrastructure	-	7,780,034	72,569	-	-	7,852,603
Government	-	922,889,175	192,043,133	282,268,953	-	1,397,201,260
Other Services	-	830,680,424	141,917,774	-	-	972,598,197
Total	116,978,318	4,840,400,680	617,405,690	282,268,953	207,371,048	6,064,424,690

Notes to the Financial Statements

43 RISK MANAGEMENT (CONTD.)

43.2 Credit Risk (contd.)

Sector wise Breakdown	2017 Cash and Cash Equivalents Rs.	2017 Loans and Receivable Rs.	2017 Lease Rental Receivable Rs.	2017 Financial Investments Rs.	2017 Other Financial Assets Rs.	2017 Total Financial Assets Rs.
Agriculture & Fishing	-	980,709,299	24,592,375	-	-	1,005,301,674
Manufacturing	-	399,868,730	17,125,640	-	-	416,994,370
Tourism	-	9,303,426	1,734,720	-	-	11,038,146
Transport	-	25,793,375	14,222,215	-	-	40,015,590
Constructions	-	513,769,792	8,814,532	-	-	522,584,324
Trades	-	615,234,308	18,029,642	-	-	633,263,950
New Economy	-	16,383,123	7,959,105	-	-	24,342,228
Financial and Business Services	138,046,068	38,951,568	11,209,836	282,577,503	470,784,974	
Infrastructure	-	8,382,375	151,571	-	-	8,533,946
Government	-	-	-	268,211,272	-	268,211,272
Other Services	-	1,088,920,990	182,501,753	-	-	1,271,422,743
Total	138,046,068	3,697,316,986	286,341,389	268,211,272	282,577,503	4,672,493,217

43.3 Liquidity Risk & Funding Management

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

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

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

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

43.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

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

As at 31 March 2018	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	116,978,318	-	-	-	-	116,978,318
Loans and Receivables	360,521,495	555,049,995	1,257,036,213	2,524,841,864	-	4,697,449,566
Lease Rentals Receivables	15,607,182	33,499,443	112,915,839	449,032,254	-	611,054,718
Financial Investments	-	245,608,329	36,660,624	-	-	282,268,953
Other Financial Assets	-	77,096,618	130,274,430	-	-	207,371,048
Total Financial Assets	493,106,995	911,254,385	1,536,887,106	2,973,874,118	-	5,915,122,603
Financial Liabilities						
Due to Banks and Other Institutions	164,981,470	17,791,603	52,425,116	223,117,083	4,961,950	463,277,223
Due to Customers	1,220,597,050	891,892,981	1,368,376,672	996,618,559	147,349,770	4,624,835,030
Total Financial Liabilities	1,385,578,520	909,684,584	1,420,801,788	1,219,735,642	152,311,720	5,088,112,253
Total Net Financial Assets/(Liabilities)	(892,471,525)	1,569,801	116,085,318	1,754,138,476	(152,311,720)	827,010,350

As at 31 March 2017	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	138,046,068	-	-	-	-	138,046,068
Loans and Receivables	253,541,529	498,542,835	1,064,284,998	1,660,534,118	136,587	3,477,040,068
Lease Rentals Receivable	71,228	10,013,668	44,021,175	229,452,714	-	283,558,784
Financial Investments	-	268,211,272	-	-	-	268,211,272
Other Financial Assets	-	282,577,503	-	-	-	282,577,503
Total Financial Assets	391,658,825	1,059,345,278	1,108,306,173	1,889,986,832	136,587	4,449,433,694
Financial Liabilities						
Due to Banks and Other Institutions	53,023,235	7,951,380	11,919,399	-	2,961,950	75,855,964
Due to Customers	1,136,648,191	848,945,080	946,952,431	480,866,840	150,287,259	3,563,699,800
Total Financial Liabilities	1,189,671,426	856,896,460	958,871,830	480,866,840	153,249,209	3,639,555,764
Total Net Financial Assets/(Liabilities)	(798,012,601)	202,448,818	149,434,343	1,409,119,992	(153,112,622)	809,877,930

43.3.2 Contractual Maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2018.

Notes to the Financial Statements

43 RISK MANAGEMENT (CONTD.)

43.4 Operational Risk

Overview

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

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

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

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

43.5 Market Risk

Overview

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

Market Risk Management

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

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

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

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

Functionalities of Market Risk Management

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

43.5.1 Interest Rate Risk

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

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

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

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

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

43.5.2 Interest Rate Risk Exposure On Financial Assets & Liabilities

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

	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31.03.2018 Rs.
Assets							
Cash and Cash Equivalents	45,065,971	-	-	-	-	71,912,347	116,978,318
Loans and Receivables	915,571,490	1,257,036,213	1,787,142,362	737,699,501	-	-	4,697,449,566
Lease Rentals Receivables	49,106,626	112,915,839	315,140,156	133,892,098	-	-	611,054,718
Financial Investments	245,608,329	36,660,624	-	-	-	-	282,268,953
Other Financial Assets	77,096,618	130,274,430	-	-	-	-	207,371,048
Total Financial Assets	1,332,449,034	1,536,887,106	2,102,282,518	871,591,599	-	71,912,347	5,915,122,603
Financial Liabilities							
Due to Banks and Other Institutions	187,630,069	52,425,116	128,260,087	90,000,000	-	4,961,950	463,277,223
Due to Customers	2,032,329,057	1,368,376,672	543,888,464	452,730,094	147,349,770	80,160,974	4,624,835,030
Total Financial Liabilities	2,219,959,126	1,420,801,788	672,148,552	542,730,094	147,349,770	85,122,924	5,088,112,253
Interest Sensitivity Gap	(887,510,093)	116,085,318	1,430,133,966	328,861,505	(147,349,770)	(13,210,577)	827,010,350

Notes to the Financial Statements

43 RISK MANAGEMENT (CONTD.)

43.5 Market Risk (contd.)

	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31.03.2017 Rs.
Assets							
Cash and Cash Equivalents	97,421,041	-	-	-	-	40,625,026	138,046,067
Loans and Receivables	752,084,364	1,064,284,998	1,299,583,006	360,951,112	136,587	3,477,040,067	
Lease Rentals Receivables	10,084,896	44,021,175	134,062,298	95,390,416	-	-	283,558,785
Financial Investments	268,211,272	-	-	-	-	-	268,211,272
Other Financial Assets	282,577,503	-	-	-	-	-	282,577,503
Total Financial Assets	1,410,379,076	1,108,306,173	1,433,645,304	456,341,528	136,587	40,625,026	4,449,433,694
Financial Liabilities							
Due to Banks and Other Institutions	53,023,235	7,951,380	11,919,399	-	-	2,961,950	75,855,964
Due to Customers	1,985,593,271	946,952,431	318,723,138	162,143,701	150,287,259	-	3,563,699,800
Total Financial Liabilities	2,038,616,506	954,903,811	330,642,537	162,143,701	150,287,259	2,961,950	3,639,555,764
Interest Sensitivity Gap	(628,237,430)	153,402,362	1,103,002,767	294,197,827	(150,150,672)	37,663,076	809,877,930