Independent Auditor's Report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sarvodaya Development Finance Limited ("the Company), which comprise the statement of financial position as at 31 March 2019, and the statement of Profit or Loss and Other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 March 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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- 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

25 June 2019
Colombo

Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March	Notes	2019 Rs.	Restated 2018 Rs.
Income	7	1,575,246,892	1,320,761,083
Interest Income		1,433,374,472	1,179,563,193
Interest Expenses		(606,621,257)	(416,598,838)
Net Interest Income	8	826,753,216	762,964,355
Net Fee and Commission Income	9	24,992,979	30,837,094
Other Operating Income	10	116,879,440	110,360,797
Total Operating Income		968,625,635	904,162,245
Impairment Charges for Loans and Other Losses	11	(94,014,169)	(89,116,323)
Net Operating Income		874,611,466	815,045,922
Operating Expenses			
Personnel Expenses	12	(357,108,571)	(322,738,479)
Depreciation of Property, Plant and Equipment		(45,088,470)	(46,923,650)
Amortisation of Intangible Assets		(13,051,870)	(11,263,143)
Other Operating Expenses	13	(302,645,855)	(249,265,028)
Operating Profit before Tax on Financial Services		156,716,700	184,855,622
Tax on Financial Services	14	(87,760,056)	(70,751,368)
Profit before Taxation		68,956,644	114,104,254
Income Tax Expenses	15	(27,740,393)	(21,921,964)
Profit for the Year		41,216,251	92,182,290
Other Comprehensive Income			
Actuarial Gains/(Losses) on Defined Benefit Plans	31	5,548	(3,346,548)
Gain/(Loss) due to changes in Assumptions	31	930,725	(1,974,056)
Deferred Tax (Charge)/Reversal on above items		(262,156)	1,489,769
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		674,117	(3,830,835)
Surplus from Revaluation of Property, Plant & Equipment		1,900,707	11,794,414
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment		(532,198)	(16,110,987)
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		1,368,509	(4,316,573)
Other Comprehensive Income for the Year, Net of Tax		2,042,626	(8,147,408)
Total Comprehensive Income/(Expenses) for the Year		43,258,877	84,034,882
Basic Earnings Per Share (Rs.)			
Earning per Share - Basic *	16	0.61	1.37
Dividend per Share (Rs.)			
Dividend per Share : Gross	17	-	0.53
Dividend per Share : Net		-	0.46

* Calculated based on profit for the year

Accounting Policies and Notes from pages 169 to 229 form an integral part of these Financial Statements.

Statement of Financial Position

Year ended 31 March	Notes	2019 Rs.	Restated 2018 Rs.
Assets			
Cash and Cash Equivalents	19	140,902,916	116,978,318
Loans and Receivables	20	5,113,657,129	4,697,449,566
Lease Rentals Receivables	21	1,102,513,124	611,054,718
Financial Investments	22	442,595,260	282,268,953
Other Financial Assets	23	189,276,648	207,371,048
Other Non Financial Assets	24	144,424,300	101,195,106
Intangible Assets	25	27,008,129	35,134,360
Investment Property	26	118,594,500	-
Property, Plant and Equipment	27	170,852,218	308,724,162
Total Assets		7,449,824,224	6,360,176,231
Liabilities			
Due to Banks and Other Institutions	28	835,133,455	463,277,223
Due to Customers	29	5,385,341,597	4,624,835,030
Other Non Financial Liabilities	30	80,408,493	84,070,152
Post Employment Benefit Liability	31	27,212,065	26,415,691
Current Tax Liabilities	32	14,768,247	11,051,015
Deferred Tax Liabilities	33	8,414,722	19,717,312
Total Liabilities		6,351,278,580	5,229,366,422
Shareholders' Funds			
Stated Capital	34	890,000,020	890,000,020
Retained Earnings	35	118,686,006	160,561,930
Reserves	36	89,859,618	80,247,859
Total Shareholders' Funds		1,098,545,644	1,130,809,809
Total Liabilities and Shareholders' Funds		7,449,824,224	6,360,176,231
Net assets value per share		16.27	16.75
Commitments and Contingencies	39	6,940,000	15,500,000

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

Deshantha de Alwis
DGM - Finance & Planning

Nilantha Jayanetti
Chief Executive Officer

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

Channa de Silva
Chairman

Chamindha Rajakaruna
Director

Accounting Policies and Notes from pages 169 to 229 form an integral part of these Financial Statements.

25 June 2019
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 2017		890,000,020	90,646,933	20,383,148	45,744,825	1,046,774,926
Profit for the year		-	92,182,290	-	-	92,182,290
Other Comprehensive Income/(Expenses)		-	(3,830,835)	-	-	(3,830,835)
Transfer to Statutory Reserves Fund		-	(18,436,459)	18,436,459	-	-
Revaluation of Land & Building	36	-	-	-	(4,316,573)	(4,316,573)
Balances as at 31 March 2018 (Restated)		890,000,020	160,561,930	38,819,607	41,428,252	1,130,809,809
Impact of adopting SLFRS 9 as at 1 April 2018		-	(39,748,039)	-	-	(39,748,039)
Restated balance under SLFRS 9 as at 1 April 2018		890,000,020	120,813,891	38,819,607	41,428,252	1,091,061,770
Profit for the year		-	41,216,251	-	-	41,216,251
Other Comprehensive Income		-	674,117	-	-	674,117
Transfer to Statutory Reserves Fund	36	-	(8,243,250)	8,243,250	-	-
Revaluation of Land & Building		-	-	-	1,368,509	1,368,509
Final Dividend Paid		-	(35,775,003)	-	-	(35,775,003)
Balances as at 31 March 2019		890,000,020	118,686,006	47,062,857	42,796,761	1,098,545,644

Accounting Policies and Notes from pages 169 to 229 form an integral part of these Financial Statements.

Statement of Cash Flow

Year ended 31 March	Notes	2019 Rs.	2018 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		68,956,644	114,104,254
Adjustments for			
Impairment Provision	11	94,014,169	89,116,323
Reversal of Provision of Loan Risk Assurance Benefit Fund	10	(5,585,990)	(6,835,413)
Loss/(Profit) on Disposal of Property, Plant and Equipment	10	(46,464)	1,087,861
Provision for Defined Benefit Plans	31.1	8,491,897	6,739,853
Depreciation of Property, Plant and Equipment	27.1.2	45,088,470	46,923,650
Amortisation of Intangible Assets	25.1	13,051,870	11,263,143
Notional Tax Credit on Interest on Treasury Bills		-	2,940,945
Operating Profit before Working Capital Changes		223,970,596	265,340,615
(Increase)/Decrease in Loans and Advances	20	(523,322,568)	(1,305,957,454)
(Increase)/Decrease in Lease Rentals Receivable	21	(539,381,909)	(331,064,301)
(Increase)/Decrease in Other Financial Assets	23	18,094,400	72,265,510
(Increase)/Decrease in Other Non Financial Assets	24	(43,229,194)	(26,277,076)
Increase/(Decrease) in Amounts Due to Customers	29	760,506,567	1,061,135,230
Increase/(Decrease) in Other Non Financial Liabilities		1,203,000	(87,336,547)
Cash Generated from Operations		(102,159,107)	(351,894,023)
Retirement Benefit Liabilities Paid	31	(6,759,250)	(6,441,700)
Net Collection of LRAB Fund		215,990	1,895,413
Income Tax Paid	32	(14,475,303)	(4,756,204)
Net Cash From/(Used in) Operating Activities		(123,177,670)	(361,196,513)
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		238,338	671,563
Acquisition of Property, Plant and Equipment	27	(23,965,355)	(24,203,439)
Acquisition of Intangible Assets	25	(4,925,640)	(9,702,939)
Financial Investments	22	(160,326,307)	(14,057,681
Dividend Paid			(35,775,003)
Net Cash Flows from/(Used in) Investing Activities		(224,753,967)	(47,292,496)
Cash Flows from / (Used in) Financing Activities			
Payment under Finance Lease Liabilities		-	-
Net Cash Flow from bank and other institutional borrowings	28.2	500,120,116	267,602,520
Net Cash Flow from Debt Issued and Other borrowings		-	-
Net Cash Flows from/(Used in) Financing Activities		500,120,116	267,602,520
Net Increase in Cash and Cash Equivalents		152,188,479	(140,886,490)
Cash and Cash Equivalents at the beginning of the year		(52,860,148)	88,026,341
Cash and Cash Equivalents at the end of the year	A	99,328,332	(52,860,148)
A Cash and Cash Equivalents at the end of the year			
Favorable Cash & Cash Equivalents		140,902,916	116,978,318
Unfavorable Cash & Cash Equivalents		(41,574,583)	(169,838,466)
Total Cash and Cash Equivalents at the end of the year	19	99,328,332	(52,860,148)

Accounting Policies and Notes from pages 169 to 229 form an integral part of these Financial Statements.

Notes to the Financial Statement

1. Corporate Information

1.1 General

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

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

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

1.2 Principal Activities of the Company

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

1.3 Approval of the Financial Statements

The Financial Statements of the Company for the year ended 31 March 2019 (including comparatives) have been approved and authorized for issue by the Board of Directors on 25th June 2019.

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 165). Statement of Financial Position provides the information on the financial position of the Company as at the yearend (Refer page 166). Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 167). 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 168) and Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 169 to 229).

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
Investment Properties	Measured at fair value at the time of transferred from Property, plant & Equipment.	Note 26	Page 198
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 27	Page 198
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 33	Page 207

Notes to the Financial Statement

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 37 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 3.2.9)
- Deferred Taxation (Details under note 33)
- Post-Employment Benefit Liability (Details under note 31)
- Related Party Transactions (Details under note 42)

3.2 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

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

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

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

3.2.4 Measurement categories of Financial Assets and Financial Liabilities

3.2.4 (a) Policy applicable from 1 April 2019

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

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

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

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

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

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

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

The details of the above conditions are outlined below.

Business model assessment

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

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

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

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

The SPPI test

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

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

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

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

3.2.4 (a) (ii) Equity instruments at FVOCI

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

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

Notes to the Financial Statement

The Company has not classified any Equity instruments at FVOCI.

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

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

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

3.2.4 (b) Policy applicable before 1 April 2019

The Company classified its financial assets into one of the following categories, as per Sri Lanka Accounting Standard LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

a) Financial assets at Fair value through profit or loss (FVTPL);
b) Loans & Receivables (L&R)
c) Held to Maturity (HTM) Financial assets
d) Financial assets available for sale

The Company determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments were acquired or originated and based on the Company's ability to hold.

Subsequent measurement of financial assets depends on their classification.

a) Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

The Company does not have financial assets under this category.

b) Financial Assets Available for Sale

Financial Assets available for sale include equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

c) Held to Maturity Financial Assets

Held to Maturity Financial assets are non- derivative financial assets with fixed or determinable payments and fixed maturities, which the company has the intention and ability to hold to maturity. This includes investment in government securities.

After the initial measurement, held to maturity financial instruments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement in 'impairment charges for loans and other losses'.

If the Company were to sell or reclassify more than an insignificant amount of Held to Maturity investments before maturity (other than in certain specific circumstances) the entire category would be tainted and would be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial assets as held to maturity during the following two years.

The Company has not classified any Financial Assets as Held for Maturity.

d) Loans and Receivables

Loans and receivables include non-derivative 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 in the near term and those that, upon initial recognition, designates as 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 investments, other than because of credit deterioration

After initial measurement, 'Loans and Receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking in to account any discount or premium on acquisition, fees, and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in impairment charges for loans and receivables' in the Income Statement.

Loans and Receivables consist of cash and bank balances, securities purchased under repurchase agreements, factoring receivables, lease receivables, hire purchase receivables, loan receivables, gold loan receivables and other assets.

3.2.5 Classification and Subsequent Measurement of Financial Liabilities

Financial liabilities, other than loan commitments and financial guarantees, are classified as,

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
a) Financial liabilities held for trading
b) Financial liabilities designated at fair value through profit or loss

(ii) Financial liabilities at amortised cost,when they are held for trading and derivative instruments or the fair value designation is applied.

The subsequent measurement of financial liabilities depends on their classification.

i. Financial Liabilities at Fair Value Through Profit or Loss (FVTPL)
Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are fair value, and changes therein recognized in Income Statement.

ii. Financial Liabilities at Amortised Cost
Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortised cost under 'bank overdraft', 'due to other customers', 'debt issued and other borrowed funds' and 'other payables' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognized in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortised Cost in the form of term loans, short term loans and debentures.

3.2.6 Reclassifications of Financial assets and Financial Liabilities
From 1 April 2019, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2018.

3.2.7 Derecognition of Financial Assets and Financial Liabilities
3.2.7(a) Derecognition of Financial Assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset, if and only if, either:
- The Company has transferred its contractual rights to receive cash flows from the financial asset

Or
- It retains the rights to cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if 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

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had

Notes to the Financial Statement

been recognised in other comprehensive income is recognised in profit or loss.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises as 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 the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

3.2.7 (b) Derecognition - Financial Liabilities

A financial liability is derecognised 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 recognised in profit or loss.

3.2.9 Impairment of Financial Assets

3.2.9 (i) Policy applicable from 1 April 2019

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

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

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

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

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

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

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

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

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

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

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

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

b. The Calculation of Expected Credit Loss (ECL)

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

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

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

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

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

The mechanism of the ECL method are summarised below.

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

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

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

Loan

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

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

Financial Guarantee contracts:

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

c. Debt instruments measured at fair value through OCI

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

d. Debt factoring and revolving loans

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

Notes to the Financial Statement

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

e. Forward looking information

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

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

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

3.2.9 (ii) Policy applicable before 1 April 2019

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

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

a. Financial Assets carried at Amortised Cost

(i) Individually assessed Loans and Receivables-Factoring and Loans

For financial assets carried at amortised cost (such as loans and advances to customers as well as held to maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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 realisation; and
- Significant downgrading in credit rating by an external credit rating agency

For those loans where objective evidence of impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount 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 Income Statement.

The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

(ii) Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Company has incurred as a result of events occurring before the reporting date, which the Company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

(iii) Collectively assessed Loans and Receivables

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
- for homogeneous groups of loans that are not considered individually significant.

(iv) Homogeneous groups of Loans and Advances
Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

- When the group of loan by nature short term, the company use net flow rate method

Under this methodology the movement in the outstanding balance of customers in to bad categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Under the methodology, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required covering inherent loss.

These additional macro and portfolio risk factors may include:
- recent loan portfolio growth and product mix,
- unemployment rates, Gross Domestic Production (GDP) growth, inflation
- exchange rates, interest rates
- changes in government laws and regulations

b. Available for Sale Financial Investments
For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Company treats 'significant 'generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

c. Held to Maturity Financial Assets
An impairment loss in respect of held to maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of future cash flows discounted at the asset's original EIR and is recognised in profit or loss. Interest on impaired asset continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

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

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

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3.2.9 (vi) Collateral Valuation

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

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

3.2.9 (vii) Collateral repossessed

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

3.2.9 (viii) Offsetting Financial Assets and Liabilities

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

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

3.3 Finance and Operating Lease

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

3.3.1 Finance Lease

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

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

3.3.2 Operating Lease

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

4. New Accounting Standards Issued but not yet Effective

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which is not yet effective as at 31st March 2019. The Company intends to adopt these standards, if applicable, when they become effective.

A. SLFRS 16- LEASES

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations.

The Company is required to adopt SLFRS 16 Leases from 1 April 2019. The Company has done a preliminary assessment of the impact that the initial application of SLFRS 16 will have on its financial statements. The actual impact of adopting the standard on 1 April 2019 may change because:

- the Company has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

SLFRS 16 replaces existing leases guidance, including LKAS 17 Leases.

Leases in which the Company is a lessee

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying SLFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Company's lease portfolio, the Company's assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

The new standard requires a lessee to:

- Recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS – 16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company will recognise new assets and liabilities for its operating leases of branch and office premises. The nature of expenses related to these leases will now change because SLFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

No significant impact is expected for the Company's finance leases.

Transition

The Company plans to apply SLFRS 16 initially on 1 April 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting SLFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply SLFRS 16 to all contracts entered into before 1 April 2019 and identified as leases in accordance with LKAS 17. The impact on the implementation of the above Standard has not been quantified yet.

5. Changes in Accounting Policies

The Company has adopted SLFRS 9 –Financial Instruments, SLFRS 7 (Revised) - Financial Instruments Disclosures, SLFRS 15-Revenue from Contracts with Customers, effective for annual periods beginning on or after 01 April 2018, for the first time. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

SLFRS 9 - Financial Instruments

The Company has initially adopted SLFRS 9 with the date of transition as 1st April 2018. The Company has not early adopted this standard in previous periods. The adoption of SLFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. SLFRS 9 significantly amends the other standards dealing with financial instruments such as SLFRS 7 'Financial Instruments: Disclosure'.

As permitted by the transitional provisions of SLFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities, at the date of transition were recognized in the retained earnings as at 1 April 2018. Accordingly, the information presented for year 2018 does not reflect the requirements of SLFRS 9 and therefore not comparable to the information presented for the year 2019 under SLFRS 9.

SLFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement. The requirements of SLFRS 9 represents a significant change from LKAS 39. This new standard brings fundamental changes to the accounting for financial assets and to certain aspects of accounting for financial liabilities.

Additionally, the Company has adopted consequential amendments to SLFRS 7 Financial Instruments: Disclosures that are applied to disclosures of 2019, but have not been applied to the comparative information.

The key changes to the Company's accounting policies resulting from its adoption of SLFRS 9 are summarised below. The full impact of adopting SLFRS 9 is set out in Note 06 to the Financial Statements.

Notes to the Financial Statement

Classification of Financial Assets & Financial Liabilities

SLFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and Fair value through Profit & Loss (FVTPL). SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income(FVOCI),with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

SLFRS 9 largely retains the existing requirements in LKAS 39 for classification of Financial Liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows.

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

The Company's classification of its financial assets and liabilities is explained in 3.2.4 to the Financial Statements. The quantitative impact of applying SLFRS 9 as at 1 April 2018 is disclosed in note 06 to the Financial Statements.

Impairment of financial assets

The adoption of SLFRS 9 has fundamentally changed the Company's accounting for loan loss impairments by replacing LKAS 39's incurred loss approach with a forward looking expected credit loss (ECL) approach. The SLFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Company's impairment method are disclosed in Note 3.2.9 to the Financial Statements. The quantitative impact of applying SLFRS 9 as at 1 April 2018 is disclosed in Note 06 to the Financial Statements.

To reflect the differences between SLFRS 9 and LKAS 39, Financial Instruments: Disclosures was updated and the Company has adopted it, together with SLFRS 7, for the year beginning 1 April 2018. Changes include transition disclosures as shown in Note 06, detailed information about the ECL calculations such as assumptions and inputs are set out in Note 3.2.9 to the Financial Statements.

SLFRS 15 –Revenue from Contracts with Customers

The Company has also adopted SLFRS 15 on 01 April 2018 prospectively. The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Company. Accordingly, the impact of comparative information is limited to new disclosure requirements.

Except for the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in these Financial Statements.

6. Transition Disclosures

The following set out the impact of adopting SLFRS 9 on the Statement of Financial Position, and retained earnings including the effect of replacing LKAS 39's incurred loss calculations with SLFRS 9's expected credit losses.

6.1 A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 1st April 2018 is, as follows.

	LKAS 39 Measurement		Remeasurement		SLFRS 9	
	Category	Amount	ECL	Other	Amount	Category
Cash and Cash Equivalents	L&R	116,978,318	-	-	116,978,318	Amortised cost
Loans and Receivables	L&R	4,697,449,566	(45,788,865)	-	4,651,660,701	Amortised cost
Lease Rentals Receivables	L&R	611,054,718	(15,603,224)	-	595,451,493	Amortised cost
Financial Investments	L&R	282,268,953	-	-	282,268,953	Amortised cost
Other Financial Assets	L&R	207,371,048	-	-	207,371,048	Amortised cost
Other Non Financial Assets	L&R	101,195,106	-	-	101,195,106	Amortised cost
Intangible Assets	L&R	35,134,360	-	-	35,134,360	Amortised cost
Investment Property	L&R	-	-	-	-	Amortised cost
Property, Plant and Equipment		308,724,162			308,724,162	
Total Assets		6,360,176,231	(61,392,089)	-	6,298,784,142	
Liabilities						
Due to Banks and Other Institutions	Amortised cost	463,277,223	-	-	463,277,223	Amortised cost
Due to Customers	Amortised cost	4,624,835,030	-	-	4,624,835,030	Amortised cost
Other Non Financial Liabilities	Amortised cost	84,070,152	-	-	84,070,152	Amortised cost
Post Employment Benefit Liability	Amortised cost	26,415,691	-	-	26,415,691	Amortised cost
Current Tax Liabilities		11,051,015	-	-	11,051,015	
Deferred Tax Liabilities		19,717,312	(21,644,050)	-	(1,926,738)	
Total Liabilities		5,229,366,422	(21,644,050)	-	5,207,722,373	
Equity						
Stated Capital		890,000,020	-	-	890,000,020	
Retained Earnings		160,561,930	(39,748,039)	-	120,813,891	
Reserves		80,247,859	-	-	80,247,859	
Total Equity		1,130,809,809	(39,748,039)	-	1,091,061,770	
Total Liabilities and Equity		6,360,176,232	(61,392,089)	-	6,298,784,143	

L&R: Loans & receivables

A. The impact of adopting SLFRS 9 on deferred tax is set out under Note 6.2 to the Financial Statements.

Notes to the Financial Statement

6. Transition Disclosures (Contd.)

6.2 The impact of transition to SLFRS 9 on retained earnings, is as follows.

	Retained Earnings Rs.
Closing balance under LKAS 39 as at 31st March 2018 (Restated)	160,561,930
Remeasurement adjustments on adoption of SLFRS 9	
Impact of expected credit losses under SLFRS 9	(61,392,089)
Deferred tax impact on above	21,644,050
Total change in equity due to adoption of SLFRS 9	(39,748,039)
Opening balance under SLFRS 9 as at 1st April 2018	120,813,891

6.3 The following table reconciles the aggregate opening loan loss provision allowances under LKAS 39 to the ECL allowances under SLFRS 9.

	Loan loss provision under LKAS 39 as at 31 March 2018 Rs.	Re-measurement Rs.	ECLs under SLFRS 9 as at 1 April 2018 Rs.
Loans and Receivables	142,951,114	45,788,865	188,739,979
Lease Rentals Receivables	6,350,973	15,603,224	21,954,197
	149,302,086	61,392,089	210,694,176

7. 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.

	2019 Rs.	2018 Rs.
Interest Income	1,433,374,472	1,179,563,193
Net Fee and Commission Income	24,992,979	30,837,094
Other Operating Income (net)	116,879,440	110,360,797
Total Income	1,575,246,892	1,320,761,083

8. 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.

	2019 Rs.	2018 Rs.
8.1 Interest Income		
Loans and Receivables	1,179,240,913	1,031,487,663
Lease Rentals Receivables	191,001,130	93,523,012
Financial Investments (Note 8.3)	30,326,307	29,409,449
Savings Deposits	4,350,666	5,847,396
Other Financial Assets	28,455,456	19,295,673
Total Interest Income	1,433,374,472	1,179,563,193
8.2 Interest Expenses		
Due to Bank and Other Institution	60,402,155	23,679,095
Due to Customers	546,219,102	392,919,743
Total Interest Expenses	606,621,257	416,598,838
Net Interest Income	826,753,216	762,964,355

8.3 Notional Tax

The Inland Revenue Act No 10 of 2006, effective up to 31 March 2018, provided that a company which derives interest income from the secondary market transactions in Government Security would be entitled to a notional tax credit provided such interest income forms part of the statutory income of the Company for that year of Assessment.

However, as per the provision of the Inland Revenue Act no 24 of 2017 effective from 1 April 2018, interest income from Government Securities are excluded from withholding tax. Hence, notional tax credit claimed by the Company was discontinued from 1 April 2018 with implementation of Inland Revenue Act no 24 of 2017

Notes to the Financial Statement

9. Net Fee and Commission Income 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.

	2019 Rs.	2018 Rs.
9.1 Fee and Commission Income		
Credit Related Fees and Commissions	12,745,744	9,965,335
Documentation Charges	28,720,423	28,060,578
Service Charge	924,116	719,470
Total Fee and Commission Income	42,390,283	38,745,383
9.2 Fee and Commission Expenses		
Credit Related Fees and Commissions	11,714,192	6,687,575
Documentation Charges	362,709	137,324
Service Charge	5,320,403	1,083,389
Total Fee and Commission Expenses	17,397,304	7,908,289
Total Net Fee and Commission Income	24,992,979	30,837,094

10. 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.

	2019 Rs.	2018 Rs.
Recoveries of Written-Off Loans & Receivables	97,545,842	90,304,250
Profit/(Loss) on Disposal of Property Plant & Equipment	46,464	(1,087,861)
Reversal of Provision of Loan Risk Assurance Benefit Fund	5,585,990	6,835,413
Other Sundry Income (Note 10.1)	13,701,144	14,308,995
Total Other Operating Income	116,879,440	110,360,797

10.1 Other Sundry Income included Savings Accounts Threshold Charges, Office Rent Re-imbursements, Training Income, Stationery Income and other.

11. Impairment Charges for Loans and Other Losses

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

	2019 Rs.	2018 Rs.
Loans and Receivables Excluding Pawing Advance	61,326,139	85,412,155
Finance Lease Rental Receivables	32,320,280	3,568,367
Pawning Advances and Other Loans	367,750	135,800
Total Impairment Charges for Loans and Other Losses	94,014,169	89,116,323

12. 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 Statement

12. Personnel Expenses (Contd.)

Year ended 31 March	2019 Rs.	2018 Rs.
Salaries and Other Related Expenses	314,570,215	285,828,651
Employer's Contribution to Employees' Provident Fund	23,961,690	21,486,145
Employer's Contribution to Employees' Trust Fund	5,988,236	5,356,320
Gratuity Charge for the Year	8,491,897	6,739,853
Other Staff Related Expenses	4,096,534	3,327,511
Total Personnel Expenses	357,108,571	322,738,479

13. 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.

	2019 Rs.	2018 Rs.
Directors' Emoluments	8,235,417	5,609,524
Auditors Remuneration	2,440,262	1,873,265
Professional and Legal Expenses	950,352	2,094,476
Deposit Insurance Premium	6,717,039	5,258,314
General Insurance Expenses	3,758,520	2,805,596
Office Administration and Establishment Expenses	196,875,369	177,920,285
Travelling & Transport Expenses	28,818,535	23,497,745
Other Expenses	10,961,711	126,000
Marketing and Promotional Expenses	43,888,651	30,079,824
Total Other Operating Expenses	302,645,855	249,265,028

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

14. 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.

Debt Repayment Levy

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

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

	2019 Rs.	2018 Rs.
Value Added Tax on Financial Services	61,970,225	62,407,111
National Building Tax on Financial Services	8,262,696	8,344,258
Debit Repayment Lavy	17,527,134	-
Total Tax on Financial Services	87,760,056	70,751,368

15. 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 Company has adopted the requirements of the New Inland Revenue Act 24 of 2017 which was effective from 1 April 2018 and deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Notes to the Financial Statement

15. Income Tax Expenses (Contd.)

Accounting Policy

Deferred Taxation
Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 33 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% (2018 - 28%).

The components of the income tax expense for the years ended 31 March 2019 and 2018 are:

	2019 Rs.	Restated 2018 Rs.
Income Taxation		
Taxation based on Profits for the Year (Note 15.1)	-	9,345,181
(Over) / Under Provision in Respect of 2012/2013 (Note 15.2)	-	11,042,645
(Over) / Under Provision in Respect of 2013/2014 (Note 15.2)	-	(4,550,840)
(Over) / Under Provision in Respect of 2017/2018	1,550,102	-
Deferred Taxation		
Transfers to/(from) Deferred Taxation (Note 33.2)	26,190,291	6,084,979
Total Tax Expenses	27,740,393	21,921,964

15.1 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.

	2019 Rs.	2018 Rs.
Profit Before Tax	68,956,644	114,104,254
Add : Disallowable Expenses	233,883,316	224,016,830
Taxable Loss on Leasing Business	(6,294,331)	41,630,728
Less: Tax Deductible Expenses	(141,138,023)	(286,202,417)
Disallowable Income	(19,648,652)	(42,202,248)
Adjusted Profit / (Loss) for Tax Purposes	135,758,955	51,347,146
Assessable Income	135,758,955	51,347,146
Less - Allowable Losses	(135,758,955)	(17,971,501)
Taxable Income	-	33,375,645
Income Tax @ 28%	-	9,345,181
Income Tax on Current Year's Profit	-	9,345,181

15.2 (Over) / Under Provision in Respect of Y/As 2018/19

The Company recorded an income tax under provision amounting Rs. 1,550,102/- in respect of the year 2017/18 from the income tax liability of the current year. This under provision arose a result of final adjustment made with adjusted tax computation prepared for income tax return filling purpose.

16. 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':

	2019 Rs.	2018 Rs.
Amount used as the numerator		
Profit attributed to ordinary shareholders	41,216,251	92,182,290
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.)	0.61	1.37

17. Dividend Paid And Proposed

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

The Board of Directors of the Company has recommended and paid of final dividend of Cents 53 per share for the year ended 31 March 2018.

17.1 Final Dividend Paid for the Year - 2017/18

	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

Notes to the Financial Statement

18. Analysis of Financial Instruments by Measurement Basis

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

18.1 Analysis of Financial Instruments by Measurement Basis

	2019		2018	
	Amortised Cost Rs.	Total Rs.	Amortised Cost Rs.	Total Rs.
Financial Assets				
Cash and Cash Equivalents	140,902,916	140,902,916	116,978,318	116,978,318
Loans and Receivables	5,113,657,129	5,113,657,129	4,697,449,566	4,697,449,566
Lease Rentals Receivables	1,102,513,124	1,102,513,124	611,054,718	611,054,718
Financial Investments	442,595,260	442,595,260	282,268,953	282,268,953
Other Financial Assets	189,276,648	189,276,648	207,371,048	207,371,048
Total Financial Assets	6,988,945,077	6,988,945,077	5,915,122,603	5,915,122,603
Financial Liabilities				
Due to Banks and Other Institutions	835,133,455	835,133,455	463,277,223	463,277,223
Due to Customers	5,385,341,597	5,385,341,597	4,624,835,030	4,624,835,030
Total Financial Liabilities	6,220,475,052	6,220,475,052	5,088,112,253	5,088,112,253

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	2019 Rs.	2018 Rs.
Cash in Hand	44,382,608	49,855,664
Balances with Banks	96,520,308	67,122,654
Total Cash and Cash Equivalents	140,902,916	116,978,318

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.

	2019 Rs.	2018 Rs.
Favorable Cash & Cash Equivalents (Note 19)	140,902,916	116,978,318
Unfavorable Cash & Cash Equivalents (Note 28)	(41,574,583)	(169,838,466)
Cash & Cash Equivalents for Cash Flow Purposes	99,328,333	(52,860,148)

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.

	2019 Rs.	2018 Rs.
Gross Loan and Receivables	5,363,723,248	4,840,400,680
Less : Allowance for Impairment Charges for Loans and Receivables (Note 20.2)	(250,066,119)	(142,951,114)
Net Loans and Receivables	5,113,657,129	4,697,449,566

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

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impared loans and receivables	3,858,410,284	500,916,016	1,004,396,948	5,363,723,248
Gross Loan and Receivable	3,858,410,284	500,916,016	1,004,396,948	5,363,723,248
Allowance for expected credit losses(ECL)	(82,088,713)	(30,911,399)	(137,066,006)	(250,066,119)
	3,776,321,571	470,004,617	867,330,941	5,113,657,129

Notes to the Financial Statement

20. Loans and Receivables (Contd.)

20.2 Allowance for Impairment Charges for Loans and Receivables

Accounting Policy (Applicable from 1 April 2018)
The Company recognize impairment provision which are assessed based on expected credit loss method in accordance with Sri Lanka Accounting Standards – SLFRS 09 (Financial Instruments). The methodology adopted by the Company is explained in the Note 4.18 to these Financial Statements.

Accounting Policy (Applicable up to 31 March 2018)
The Company recognize impairment provision which are assessed based on incurred loss method in accordance with Sri Lanka Accounting Standards – LKAS 39 (Financial Instruments: Recognition and Measurement) up to 31 March 2018. The methodology adopted by the Company is explained in the Note 4.18 to these Financial Statements

Year ended 31 March	2019 Rs.	2018 Rs.
Balance as at Being of the Year	142,951,114	220,276,917
Impact of adopting SLFRS 9 as at 1 April 2019	45,788,865	-
	188,739,979	220,276,917
Charge for the Year	61,326,139	85,412,155
Amounts Written Off	-	(162,737,958)
Balance as at End of the Year	250,066,119	142,951,114
Individual Impairment	-	-
Collective Impairment	250,066,119	142,951,114
Total	250,066,119	142,951,114

20.3 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2018	71,341,215	17,093,286	100,305,479	188,739,979
Charge/ (Reversal) to income statement	10,747,498	13,818,113	36,760,528	61,326,139
Write-off during the year	-	-	-	-
Balance as at 31st March 2019	82,088,713	30,911,399	137,066,006	250,066,119

21. Lease Rentals Receivables

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.

	2019 Rs.	2018 Rs.
Gross Lease Rentals Receivables	1,645,200,014	877,201,547
Less: Unearned Income	(488,412,414)	(259,795,856)
Total Lease Rentals Receivables	1,156,787,600	617,405,690
(Less): Allowance for Impairment Charges (Note 21.4)	(54,274,476)	(6,350,973)
Net Lease Rentals Receivables	1,102,513,124	611,054,718

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

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Collective Impared loans and receivables	778,062,769	234,001,712	144,723,120	1,156,787,600
Less - Allowance for expected credit losses (ECL)	(12,684,971)	(14,092,112)	(27,497,393)	(54,274,476)
	765,377,797	219,909,600	117,225,727	1,102,513,124

Notes to the Financial Statement

21. Lease Rentals Receivable (Contd.)

21.2 Maturity of Lease Rentals Receivables

As at 31 March 2019	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	393,833,875	1,251,366,140	-	1,645,200,014
Less: Unearned Income	(210,058,973)	(278,353,441)	-	(488,412,414)
Total Lease Rental Receivables	183,774,902	973,012,698	-	1,156,787,600
(Less): Allowance for Impairment Charges (Note 21.2)		(54,274,476)	-	(54,274,476)
Net Lease Rentals Receivables	129,500,426	973,012,698	-	1,102,513,123

21.3 Maturity of Lease Rentals Receivables

As at 31 March 2018	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross Lease Rental Receivables	165,124,364	712,077,182	-	877,201,546
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 21.2)	(3,071,531)	(3,279,442)	-	(6,350,973)
Net Lease Rentals Receivables	50,283,847	560,770,870	-	611,054,717

21.4 Allowance for Impairment Charges for Lease Rentals Receivable

Accounting Policy

Accounting Policy (Applicable from 1 April 2018)

The Company recognize impairment provision which are assessed based on expected credit loss method in accordance with Sri Lanka Accounting Standards – SLFRS 09 (Financial Instruments). The methodology adopted by the Company is explained in the Note 4.18 to these Financial Statements.

Accounting Policy (Applicable up to 31 March 2018)

The Company recognize impairment provision which are assessed based on incurred loss method in accordance with Sri Lanka Accounting Standards – LKAS 39 (Financial Instruments: Recognition and Measurement) up to 31 March 2018. The methodology adopted by the Company is explained in the Note 4.18 to these Financial Statements

	2019 Rs.	2018 Rs.
Balance as at begging of the Year	6,350,973	2,782,605
Impact of adopting SLFRS 9 as at 1 April 2019	15,603,224	-
	21,954,197	2,782,605
Charge / (Reversal) for the year	32,320,280	3,568,367
Balance as at End of the Year	54,274,476	6,350,973
Individual Impairment	-	-
Collective Impairment	54,274,476	2,782,605
Total	54,274,476	2,782,605

21.5 Movement in allowance for expected credit losses

	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.
Balance as at 01st April 2018	4,471,185	8,019,758	9,463,254	21,954,197
Charge/ (Reversal) to income statement	8,213,786	6,072,354	18,034,139	32,320,280
Write-off during the year	-	-	-	-
Balance as at 31st March 2019	12,684,971	14,092,112	27,497,393	54,274,476

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 amortisation is included in interest income in the Statement of Profit or Loss.

	2019 Rs.	2018 Rs.
Sri Lanka Government Securities - REPO	442,595,260	282,268,953
Total Financial Investments	442,595,260	282,268,953

Notes to the Financial Statement

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 amortisation is included in 'interest income' in the Statement of Profit or Loss.

	2019 Rs.	2018 Rs.
Fixed Deposits	189,276,648	207,371,048
Total Other Financial Assets	189,276,648	207,371,048

23.1 Contractual Maturity Analysis of Other Financial Assets

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	189,276,648	-	-	189,276,648
Total Other Financial Assets	189,276,648	-	-	189,276,648

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.

	2019 Rs.	2018 Rs.
Inventories	7,808,584	15,792,281
Other Advance	2,056,535	1,811,859
Rent Deposit	31,800,517	26,909,222
Other Receivable	102,758,664	56,681,744
Total Other Non Financial Assets	144,424,300	101,195,106

Amounts Receivable from Government
Other receivable includes Amounts Receivable from Government Rs 42,030,733/- As per signed MOU between SDF and Ministry of Finance and Mass Media under "Special debit relief for Microfinance Loan grated to women in drought affected Districts".

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.

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 2019 and 2018 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.

25.1 Computer Software

	2019 Rs.	2018 Rs.
Cost		
Cost as at begging of the year	53,084,205	43,381,266
Additions and Improvements	4,925,640	9,702,939
Disposal during the year	-	-
Cost as at end of the year	58,009,845	53,084,205
Amortisation & Impairment		
Amortisation as at begging of the year	17,949,845	6,686,702
Charge for the year	13,051,870	11,263,143
Disposal during the year	-	-
Amortisation as at end of the year	31,001,716	17,949,845
Net book value as at end of the year	27,008,129	35,134,360
Net book value of total intangible assets	27,008,129	35,134,360

26. Investment Property

Accounting Policy

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

Derecognition

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

	2019 Rs.	2018 Rs.
Balance as at 1 April	-	-
Transfer from during the year	118,594,500	-
Gain from fair value adjustment	-	
Balance as at 31 March	118,594,500	-

27. Property, Plant & Equipment

Accounting Policy

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 27.2

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.

Reairs 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 2018 and 2019, are as follows:

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

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

Notes to the Financial Statement

27. Property, Plant & Equipment (Contd.)

27.1 The Movement in Property, Plant & Equipment

	Balance As at 01.04.2018 Rs.	Additions during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2019 Rs.
27.1.1 Cost or Valuation					
Freehold Assets					
Land	77,390,000	-	(51,840,000)	-	25,550,000
Building	66,754,500	-	(66,754,500)	-	-
Furniture & Fittings	89,387,660	8,944,120	-	(82,746)	98,249,035
Office Equipment	55,882,758	4,573,954	-	(244,103)	60,212,608
Computer Equipment	73,556,592	7,052,209	-	(43,005)	80,565,796
Plant & Machinery	37,161,781	3,195,172	-	-	40,356,954
Motor Vehicle	43,128,422	199,900	-	-	43,328,322
Total cost or valuation	443,261,714	23,965,355	(118,594,500)	(369,854)	348,262,715

	Balance As at 01.04.2018 Rs.	Charge during the year Rs.	Adjustments on Revaluation Rs.	Disposals during the year Rs.	Balance As at 31.03.2019 Rs.
27.1.2 Depreciation					
Freehold Assets					
Building	-	1,900,707	(1,900,707)	-	-
Furniture & Fittings	24,866,280	9,235,768	-	(31,362)	34,070,685
Office Equipment	34,763,736	7,272,191	-	(244,103)	41,791,824
Computer Equipment	46,860,722	13,433,304	-	(39,353)	60,254,673
Plant & Machinery	10,236,768	4,765,921	-	-	15,002,689
Motor Vehicle	17,810,046	8,480,579	-	-	26,290,625
Total Depreciation	134,537,552	45,088,470	(1,900,707)	(314,819)	177,410,496

	2019 Rs.	2018 Rs.
27.1.3 Net Book Value		
Land	25,550,000	77,390,000
Building	-	66,754,500
Furniture & Fittings	64,178,350	64,521,380
Office Equipment	18,420,784	21,119,021
Computer Equipment	20,311,123	26,695,870
Plant & Machinery	25,354,264	26,925,013
Motor Vehicle	17,037,697	25,318,377
Total Carrying Amount of Property, Plant and Equipment	170,852,218	308,724,162

27.1.4 Property, Plant & Equipments Acquired During the Financial Year

During the financial year, the Company acquired property, plant & equipments to the aggregate value of Rs. 23,965,355/- (2018 - Rs. 24,203,439/-) Cash payment amounting to Rs. 23,965,355/- (2017 - Rs 22,572,142) was paid during the year for purchase of property, plant & equipment.

27.1.5 Fully-depreciated property, plant & equipment

The initial cost of fully-depreciated property, plant & equipment, which are still in active use as at reporting date is Rs. 92,856,842/-. (2018 - Rs. 23,587,615/-)

27.2 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 2019) 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 2019). Accordingly, a revaluation surplus amounting to Rs. 1,900,707/- had been credited to the revaluation reserve account as at 31 March 2019.

27.2.1 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	2019 Cost Rs.	2019 Accumulated Depreciation Rs.	2019 Carrying value Rs.	2018 Cost Rs.	2018 Accumulated Depreciation Rs.	2018 Carrying value Rs.
Land	17,027,000	-	17,027,000	17,027,000	-	17,027,000
Building	61,416,000	7,774,544	53,641,456	61,416,000	5,971,173	55,444,827
Total	78,443,000	7,774,544	70,668,456	78,443,000	5,971,173	72,471,827

27.3 Title Restriction on Property, Plant and Equipment

There were no restrictions on the title of Property, Plant and Equipment as at 31 March 2019 and 31 March 2018.

27.4 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. (2018: Nil)

27.5 Temporarily Idle of Property, Plant and Equipment

There were no Property, Plant and Equipment idle as at 31 March 2019 and 31 March 2018.

27.6 Property, Plant and Equipment Retired from Active Use

There were no Property, Plant and Equipment retired from active use as at 31 March 2019 and 31 March 2018.

Notes to the Financial Statement

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'.

	2019 Rs.	2018 Rs.
Bank Overdrafts (Note 28.1)	41,574,583	169,838,466
Loans and Other Bank Facilities (Note 28.2)	793,558,872	293,438,756
Total Due to Banks & Other Institution	835,133,455	463,277,223

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. 249,365,143/- as at 31 March 2019 (2018 - Rs. 80,161,534/-).

28.2 Loans and Other Bank Facilities

	As at 01.04.2018 Rs.	Loans Obtained Rs.	Repayments Interest Rs.	Repayments Capital Rs.	As at 31.03.2019 Rs.
NDB Vehicle Loan	5,021,517	-	(342,780)	(3,057,788)	1,963,729
NDB Term Loan	270,000,000	300,000,000	(37,136,904)	(60,000,000)	510,000,000
HNB Term Loan	-	300,000,000	(15,783,137)	(37,500,000)	262,500,000
Rotary Loan	13,455,289	7,610,000	(2,089,084)	(7,932,096)	13,133,193
Other Borrowings	4,961,950	1,000,000	-	-	5,961,950
Total Loans and Other Bank Facilities	293,438,756	608,610,000	(55,351,904)	(108,489,884)	793,558,872

28.3 Contractual Maturity Analysis of Due to Bank & Other Institution

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

As at 31 March 2018	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
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

29. Due to Customers

Accounting Policy
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'.

	2019 Rs.	2018 Rs.
Fixed Deposits	3,824,280,592	3,070,215,632
Savings Deposits	1,559,656,229	1,553,214,622
Inactive Society-Savings	1,404,776	1,404,776
Total Due to Customers	5,385,341,597	4,624,835,030

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. 300,000/- 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 (2018 - Rs. 4,595,993/-).

29.2 Contractual Maturity Analysis Of Customer Deposits

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

Notes to the Financial Statement

29. Due to Customers (Contd.)

29.2 Contractual Maturity Analysis Of Customer Deposits (Contd.)

As at 31 March 2018	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	2,224,912,907	845,302,725		3,070,215,632
Savings Deposits	1,255,954,466	149,910,386	147,349,770	1,553,214,622
Inactive Society-Savings	1,404,776	-	-	1,404,776
Total Due to Customers	3,482,272,150	995,213,111	147,349,770	4,624,835,031

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

30. Other Non Financial Liabilities

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

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

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

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

	2019 Rs.	2018 Rs.
Accrued Expenses	36,878,091	36,595,879
Others (Note 30.1)	35,837,819	34,757,277
Loan Risk Assurance Fund (Note 30.2)	2,490,000	7,860,000
Amount Due to Related Parties	5,202,583	4,856,996
Total Other Non Financial Liabilities	80,408,493	84,070,152

30.1 This balance included staff welfare fund, unidentified deposit, loan & lease creditor balance, loan sundry changes payable and WHT collections. The Company's welfare fund balance transferred to Sarvodaya Welfare Society on 20 August 2018.

30.2 The Company obtained an actuarial valuation on its 'Loan Risk Assurance Fund' as at 31st March 2019. 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.

31.1 Provision for Retirement Gratuity

	2019 Rs.	2018 Rs.
Balance at the beginning of the year	26,415,691	20,796,934
Amount Charged for the Year	8,491,897	6,739,853
Actuarial (Gains)/Losses	(5,548)	3,346,548
(Gain)/Loss Due to Changes in Assumptions	(930,725)	1,974,056
Payments Made During the Year	(6,759,250)	(6,441,700)
Balance at the End of the Year	27,212,065	26,415,691

31.2 Expenses on Defined Benefit Plan

	2019 Rs.	2018 Rs.
Current Service Cost for the Year	5,571,046	4,244,221
Interest Cost for the Year	2,920,851	2,495,632
Actuarial (Gains)/ Losses (31.5)	(5,548)	3,346,548
(Gains)/ Losses Due to Changes in Assumptions	(930,725)	1,974,056
Total Expenses on Defined Benefit Plan	7,555,624	12,060,457

Notes to the Financial Statement

31. Post-Employement Benefit Obligations (Contd.)

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 2019 and 2018 by Messrs Piyal S Goonetilleke Associates, a professional actuary.

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

31.4 Actuarial Assumptions

	2019	2018
Discount Rate	11.4%	11.0%
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 Years
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Disability	Long Term 1987 Soc. Sec. Table.	Long Term 1987 Soc. Sec. Table.
Retirement age	Retirement age of 55 Years	Retirement age of 55 Years

31.5 Actuarial Gains and Losses

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

31.6 Sensitivity of Assumptions Employed on Actuarial Valuation

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

The following table demonstrates the sensitivity of a reasonably possible change in such assumptions with all other variables held constant, in the actuarial valuation of the retirement gratuity as at 31 March 2019.

Increase/(decrease) in Discount Rate %	Increase/(decrease) in Salary Increment Rate %	Sensitivity Effect on Statement of Comprehensive Income Increase/(decrease) in Results for the year Rs.	Sensitivity Effect on Pension Fund Surplus Increase/ (decrease) Rs.
+1%		(2,063,523)	2,063,523
(-1%)		2,366,828	(2,366,828)
	+1%	2,290,393	(2,290,393)
	(-1%)	(2,032,734)	2,032,734

32. Current Tax Liabilities

	2019 Rs.	2018 Rs.
Balance as at 1st April	11,051,013	(29,768)
Add - Transferred during the year	16,642,435	-
Less: Tax paid	(721,048)	-
Adjustment (ESC/WHT/Notional Tax etc.)	(13,754,255)	(4,756,204)
Provision for the year (Note 15)	1,550,102	15,836,988
Balance as at 31st March	14,768,247	11,051,015

33. Deferred Taxation

Accounting Policy

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

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

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

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of deferred tax assets is reviewed at each 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.

Notes to the Financial Statement

33. Deferred Taxation (Contd.)

33.1 Statement of Financial Position

Year ended 31 March	2019 Rs.	Restated 2018 Rs.
Deferred Tax Liabilities		
Revaluation Reserve	-	16,110,987
Accelerated depreciation for tax purposes	29,273,316	34,693,946
Finance leases	20,268,031	22,793,664
Total Deferred Tax Liabilities	49,541,348	73,598,597
Deferred Tax Assets		
Defined benefit plans - Profit or loss	7,619,378	5,906,624
Defined benefit plans - Other comprehensive income	-	1,489,769
Carry forward loss on leasing business	11,713,222	19,230,827
Carry forward loss on other operations	-	27,254,065
Impairment Provision	21,816,188	-
Total Deferred Tax Assets	41,126,626	53,881,286
Net Deferred Tax Liabilities/(Assets)	8,414,722	19,717,312

33.2 Statement of Profit or Loss

Year ended 31 March	2019 Rs.	2018 Rs.
Deferred Tax Liabilities		
Revaluation Reserve	532,198	16,110,987
Accelerated depreciation for tax purposes	(5,420,630)	1,526,061
Finance leases	(2,525,633)	22,793,664
Deferred Tax Income/(Expense)	(7,414,065)	40,430,712
Deferred Tax Assets		
Defined benefit plans - Profit or loss	(1,712,754)	(1,850,666)
Defined benefit plans - Other comprehensive income	1,489,769	277,415
Carry forward loss on leasing business	7,517,605	(11,669,853)
Carry forward Loss on other operations	27,254,065	(6,481,411)
Deferred expenses to be claimed in income tax liability of future years	(149,975)	-
Deferred Tax Income/(Expense)	34,398,710	(19,724,516)
Net Deferred Tax Income/(Expense) - Statement of profit or loss	26,190,291	6,084,979
Net Deferred Tax Income/(Expense) - Statement of Other comprehensive income	(794,354)	(14,621,218)

34. Stated Capital

	Number of Shares	2019 Rs.	Number of Shares	2018 Rs.
Issued and Fully Paid-Ordinary shares				
At the beginning of the year	67,500,006	890,000,020	67,500,006	890,000,020
Issued during the year	-	-	-	-
At the end of the year	67,500,006	890,000,020	67,500,006	890,000,020

34.1 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.

35. Retained Earnings

	2019 Rs.	Restated 2018 Rs.
Balance as at beginning of the Year	160,561,930	90,646,933
Impact of adopting SLFRS 9 as at 1 April 2018	(39,748,039)	-
	120,813,891	90,646,933
Profit for the Year	41,216,251	92,182,290
Other Comprehensive Income	674,117	(3,830,835)
Transfer to Statutory Reserves Fund	(8,243,250)	(18,436,458)
Dividend Paid	(35,775,003)	-
Balance as at end of the Year	118,686,006	160,561,930

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.

36. Reserves

36.1 Statutory Reserve Fund

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

36.2 Revaluation Reserve Fund

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

Notes to the Financial Statement

Company	Statutory Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
As at 01 April 2017	20,383,148	45,744,825	66,127,973
Transfers to/(from) during the year	18,436,459	-	18,436,459
Revaluation of Land & Building	-	(4,316,573)	(4,316,573)
As at 31 March 2018	38,819,607	41,428,252	80,247,859
Transfers to/(from) during the year	8,243,250	-	8,243,250
Revaluation of Land & Building	-	1,368,509	1,368,509
As at 31 March 2019	47,062,857	42,796,761	89,859,618

37. Current and Non Current Analysis of Assets and Liabilities

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

	2019 Within 12 Months Rs.	2019 After 12 Months Rs.	2019 Total Rs.
Assets			
Cash and Cash Equivalents	140,902,916	-	140,902,916
Loans and Receivables	2,386,305,387	2,727,351,743	5,113,657,129
Lease Rentals Receivables	339,559,399	762,953,726	1,102,513,124
Financial Investments	442,595,260	-	442,595,260
Other Financial Assets	189,276,648	-	189,276,648
Other Non Financial Assets	79,490,760	64,933,540	144,424,300
Intangible Assets	-	27,008,129	27,008,129
Investment Property	-	118,594,500	118,594,500
Property, Plant and Equipment	-	170,852,218	170,852,218
Total Assets	3,578,130,368	3,871,693,856	7,449,824,224
Liabilities			
Due to Banks and Other Institutions	245,243,937	589,889,518	835,133,455
Due to Customers	3,925,060,074	1,460,281,523	5,385,341,597
Other Non Financial Liabilities	45,097,684	35,310,809	80,408,493
Post Employment Benefit Liability	-	27,212,065	27,212,065
Current Tax Liabilities	14,768,247	-	14,768,247
Deferred Tax Liabilities	-	8,414,722	8,414,722
Total Liabilities	4,230,169,943	2,121,108,637	6,351,278,580
Net Assets/(Liability)	(652,039,575)	1,750,585,219	1,098,545,644

	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	2,172,607,702	2,524,841,864	4,697,449,566
Lease Rental Receivable	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	74,285,884	26,909,222	101,195,106
Intangible Assets	-	35,134,360	35,134,360
Property, Plant and Equipment	-	308,724,162	308,724,162
Total Assets	3,015,534,370	3,344,641,862	6,360,176,231
Liabilities			
Due to Banks	70,216,719	393,060,504	463,277,223
Due to Customers	3,400,705,728	1,224,129,302	4,624,835,030
Other Non Financial Liabilities	51,000,190	33,069,962	84,070,152
Post Employment Benefit Liability	-	26,415,691	26,415,691
Current Tax Liabilities	11,051,015	-	11,051,015
Deferred Tax Liabilities	-	19,717,312	19,717,312
Total Liabilities	3,532,973,652	1,696,392,771	5,229,366,422
Net Assets/(Liability)	(517,439,282)	1,648,249,091	1,130,809,809

38. Financial Reporting By Segment

Accounting Policy

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.

Notes to the Financial Statement

38. Financial Reporting By Segment (Contd.)

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

Year ended 31 March	Lease 2019 Rs.	Lease 2018 Rs.	SME 2019 Rs.	SME 2018 Rs.
Interest income	191,001,130	93,523,012	326,193,713	154,013,067
Net fee and commission income	2,307,547	5,148,742	5,264,644	8,450,430
Other operating income	67,454	6,818	478,175	173,013
Gross income	193,376,132	98,678,572	331,936,532	162,636,510
Interest expenses	(84,040,497)	(37,912,769)	(133,739,422)	(64,703,166)
Total operating income	109,335,634	60,765,803	198,197,109	97,933,344
Credit loss expenses	(32,320,280)	(3,568,367)	(44,672,478)	(1,840,869)
Net Operating Income	77,015,355	57,197,436	153,524,631	96,092,475
Other Expenses	(65,975,443)	(47,551,096)	(131,950,885)	(76,870,305)
Depreciation and Amortisation	(5,814,034)	(4,837,113)	(11,628,068)	(7,819,596)
Segment Result	5,225,878	4,809,227	9,945,678	11,402,574
Tax on financial services				
Income tax expenses				
Profit attributable to share holders	5,225,878	4,809,227	9,945,678	11,402,574
Segment assets	1,102,513,124	612,636,978	1,502,293,731	1,185,991,085
Total Assets	1,102,513,124	612,636,978	1,502,293,731	1,185,991,085
Segment labilities	1,092,478,020	607,827,752	1,480,945,479	1,174,588,512
Total labilities	1,092,478,020	607,827,752	1,480,945,479	1,174,588,512

Micro & Other		Other		Total	
2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
853,047,200	877,474,596	63,132,429	54,552,518	1,433,374,472	1,179,563,193
21,711,604	17,237,922	(4,290,816)	-	24,992,979	30,837,094
105,202,525	96,918,319	11,131,286	13,262,647	116,879,440	110,360,797
979,961,329	991,630,837	69,972,898	67,815,165	1,575,246,892	1,320,761,084
(341,218,880)	(261,413,920)	(47,622,457)	(52,568,984)	(606,621,257)	(416,598,839)
638,742,449	730,216,917	22,350,441	15,246,181	968,625,635	904,162,245
(16,653,661)	(83,707,086)	(367,750)	-	(94,014,169)	(89,116,322)
622,088,788	646,509,831	21,982,691	15,246,181	874,611,466	815,045,923
(442,035,465)	(441,862,071)	(19,792,633)	(5,720,035)	(659,754,426)	(572,003,507)
(38,954,028)	(44,948,215)	(1,744,210)	(581,868)	(58,140,340)	(58,186,792)
141,099,294	159,699,545	445,848	8,944,278	156,716,700	184,855,624
				(87,760,056)	(70,751,368)
				(27,740,393)	(21,921,964)
141,099,294	159,699,545	445,848	8,944,278	41,216,251	92,182,291
3,611,361,294	3,514,636,204	1,233,656,075	1,036,330,617	7,449,824,224	6,360,176,231
3,611,361,294	3,514,636,204	1,233,656,075	1,036,330,617	7,449,824,224	6,360,176,231
3,310,562,455	3,264,289,726	467,292,626	182,660,432	6,351,278,580	5,229,366,422
3,310,562,455	3,264,289,726	467,292,626	182,660,432	6,351,278,580	5,229,366,422

Notes to the Financial Statement

39. Commitments and Contingencies

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

39.1 Contingent Liabilities

	2019 Rs.	2018 Rs.
Guarantees issues to other institution	-	1,000,000
Total contingent Liabilities	-	1,000,000

39.2 Commitments

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

39.3 Litigation Against the Company

	2019 Rs.	2018 Rs.
Cases pending against the Company	6,940,000	14,500,000
Total contingent Liabilities	6,940,000	14,500,000

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

40. Assets Pledge

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2019 Rs.	Carrying Amount Pledged 2018 Rs.	Included Under
Rental receivable on Micro Business and Personal Loan	Bank Overdraft	526,581,515	173,330,204	Loans and Receivables
Rental receivable on SME Loan	Bank Overdraft	82,052,807	120,700,470	Loans and Receivables
Rental receivable on SME Loan	Term Loan	896,372,078	89,228,028	Loans and Receivables
Rental receivable on Lease	Term Loan	475,067,552	269,063,857	Lease Rental Receivable
		1,980,073,952	652,322,559	

41. Events Occurring after the Reporting date

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

42. Related Party Transactions

Accounting Policy

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

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

42.1 Transactions with Key Managerial Personnel (KMPs)

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

42.1.1 Key Management Personnel Compensation

	2019 Rs.	2018 Rs.
Short Term Employment Benefits	5,373,904	5,769,590
Directors Fees & Expenses	8,235,417	5,609,524
Total Key Management Personnel Compensation	13,609,320	11,379,114

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

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

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

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

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

	2019 Rs.	2018 Rs.
Items in Statement of Financial Position		
Deposit accept during the year	563,231	11,101,101
Interest payable	-	159,923
Deposit repayment during the year	(11,052,631)	(1,031,601)
	(10,489,400)	10,229,423
Items in Statement of Profit or Loss		
Interest accrued during the period	156,236	256,205
	156,236	256,205

Notes to the Financial Statement

42. Related Party Transactions (Contd.)

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

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

42.1.4 Transactions with Group Entities

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

42.1.4.1 Transactions with Parent Company

Sarvodaya Economic Enterprises Development (Gte) Ltd.	2019 Rs.	2018 Rs.
Statement of Financial Position		
Transaction Made During the Year		
Loan Interest Payable	-	407,778
Interest Accrued during the Year	407,778	-
Loan Interest Paid during the Year	(62,191)	-
Loan Installment deducted from Salary on behalf of parent	-	-
Reimbursement of salary cost of SEEDS (Gte) Ltd employees	-	149,860
Amount settled to SEEDS (Gte) Ltd	-	(217,823)
	345,587	339,815

42.1.4.2 Transactions with Shareholders

Gentosa Total Assets Inc.	2019 Rs.	2018 Rs.
Items in Statement of Financial Position		
Deposit Accepted during the period including interest capitalisation	144,496,500	-
Interest payable on Deposits	305,622	295,448
	144,802,122	295,448
Items in Statement of Profit or Loss		
Interest Accrued During the Period	21,347,878	19,787,648
	21,347,878	19,787,648

43. Capital

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

43.1 Capital Management

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

44. Comparative Information

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

	As Reported Previously Rs.	Reclassification Rs.	Current Presentation Rs.	Current Classification
Statement of Financial Position				
Other Non Financial Assets	90,613,760	10,581,347	101,195,106	Other Non Financial Assets
Other Non Financial Liabilities	84,070,152	(10,581,347)	62,907,458	Other Non Financial Liabilities

(a) During the financial year, Cheque control balance was reclassified under Other Non Financial Assets for better presentation.

45. Restatement of Financial Statements

The Company has rectified not recording of differed tax expense on revaluation surplus which tax impact imposed by Inland Revenue Department in line with new Inland Revenue Act, No 24. of 2017.

Impact on Financial Potions	Current Presentation Rs.	As reported Previously Rs.	Net Impact Rs.
Deferred Tax Liability	19,717,312	15,915,351	3,801,961
Retained Earnings	160,561,930	151,358,483	9,203,447
Reserves	80,247,859	93,253,268	(13,005,409)
Impact on Income Statement			
Income Tax Expenses	21,921,964	33,619,018	(11,697,054)
Other Comprehensive Income			
Deferred Tax Effect on Surplus from Revaluation of Property, Plant & Equipment	16,110,987	611,972	15,499,015

The change did not have an impact on operating, investing and financing cash flows.

Notes to the Financial Statement

46. Fare 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.

46.1 Assets & Liabilities Recorded at Fair Value

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

Property, Plant & Equipment

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

Non Financial Assets measured at fair value

Level 3 Fair Value Measurement

	2019 Investment Property Rs.	2019 Freehold Land Rs.	2018 Freehold Land & Building Rs.
Balance as at begging of the Year	-	144,144,500	134,157,852
Revaluation reserve credit to revaluation reserve	-	1,900,707	11,794,414
Total gain / (loss) recognised in profit or loss:			
Depreciation of buildings	-	(1,900,707)	(1,807,766)
Transfer during the Year	118,594,500	(118,594,500)	-
Balance at end on the Year	118,594,500	25,550,000	144,144,500

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

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

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

Assets of which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For variable rate instruments with a fixed credit spread, an adjustment is made to reflect the change in credit spread since the instrument was first recognised.

Variable Rate Financial Instruments

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

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

Notes to the Financial Statement

46. Fare Value of Financial Instruments (Contd.)

As at 31 March 2019	Fare Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	140,902,916	-	-	140,902,916	140,902,916
Loans and Receivables	-	5,536,157,881	-	5,536,157,881	5,363,721,143
Lease Rentals Receivables	-	1,197,308,675	-	1,197,308,675	1,156,787,601
Financial Investments	442,595,260	-	-	442,595,260	442,595,260
Other Financial Assets	189,276,648	-	-	189,276,648	189,276,648
	772,774,823	6,733,466,556	-	7,506,241,379	7,293,283,567
Financial Liabilities					
Due to Banks and Other Institutions	-	835,133,455	-	835,133,455	835,133,455
Due to Customers		5,357,395,535		5,357,395,535	5,385,339,493
	-	6,192,528,990	-	6,192,528,990	6,220,472,948

As at 31 March 2018	Fare Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets					
Cash and Cash Equivalents	116,978,318	-	-	116,978,318	116,978,318
Loans and Receivables	-	4,986,026,013	-	4,986,026,013	4,840,400,680
Lease Rentals Receivables	-	627,622,025	-	627,622,025	617,405,690
Financial Investments	207,371,048	-	-	207,371,048	207,371,048
Other Financial Assets	101,195,106	-	-	101,195,106	101,195,106
	425,544,473	5,613,648,039	-	6,039,192,511	5,883,350,843
Financial Liabilities					
Due to Banks and Other Institutions	-	463,277,223	-	-	463,277,223
Due to Customers	-	4,601,209,408	-	-	4,624,835,030
	-	5,064,486,631	-	-	5,088,112,253

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

47. Risk Management

47.1 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.

Notes to the Financial Statement

47. Risk Management (Contd.)

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.

47.2 Credit Risk

Overview
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 authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to respective officers with the DA of the CEO.

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

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.

47.2.1 Credit Quality by Class of Financial Assets

	2019 Neither Past Due Nor Impaired Rs.	2019 Past Due But Not Impaired Rs.	2019 Individually Impaired Rs.	2019 Collectively Impaired Rs.	2019 Total Rs.
Assets					
Cash and Cash Equivalents	140,902,916	-	-	-	140,902,916
Loans and Receivable (Gross) (Note 47.2.1.1)	656,877,369	-	-	4,723,236,783	5,380,114,152
Lease Rentals Receivables (Gross) (Note 47.2.1.1)	-	-	-	1,156,787,600	1,156,787,600
Financial Investments	442,595,260	-	-	-	442,595,260
Other Financial Assets	189,276,648	-	-	-	189,276,648
Total Financial Assets	1,429,652,192	-	-	5,880,024,383	7,309,676,575

47.2.1.1 The Company consider total loan and lease balances to calculate collective impairment other than cash back loan.

	2018 Neither Past Due Nor 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)	493,771,621	-	-	4,346,629,060	4,840,400,680
Lease Rentals Receivables (Gross)	-	-	-	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

47.2.1.2 The Company consider total loan and lease balances to calculate collective impairment other than cash back loan.

Notes to the Financial Statement

47. Risk Management (Contd.)

47.2 Credit Risk (Contd.)

47.2.2 Analysis of Risk Concentration

47.2.2.1 Industry Analysis

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

Sector wise Breakdown	2019 Cash and Cash Equivalents Rs.	2019 Loans and Receivable Rs.	2019 Lease Rental Receivable Rs.	2019 Financial Investments Rs.	2019 Other Financial Assets Rs.	2019 Total Financial Assets Rs.
Agriculture & Fishing	-	413,235,823	10,903,470	-	-	424,139,293
Manufacturing	-	542,541,597	175,915,512	-	-	718,457,110
Tourism	-	36,295,644	3,201,050	-	-	39,496,694
Transport	-	34,877,872	223,032,997	-	-	257,910,869
Constructions	-	1,435,258,109	19,937,417	-	-	1,455,195,525
Trades	-	735,816,589	41,750,050	-	-	777,566,639
New Economy	-	27,429,535	14,792,038	-	-	42,221,573
Financial and Business Services	140,902,916	75,541,144	4,719,737	-	189,276,648	410,440,444
Infrastructure	-	49,648,994	3,323,974	-	-	52,972,968
Government	-	-	-	442,595,260	-	442,595,260
Other Services	-	2,013,077,941	659,211,356	-	-	2,672,289,297
Total	140,902,916	5,363,723,248	1,156,786,600	442,595,260	189,276,648	7,293,285,671

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

47.3 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.

47.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

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

As at 31 March 2019	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	140,902,916	-	-	-	-	140,902,916
Loans and Receivables	561,458,514	474,758,174	1,350,088,699	2,727,351,743	-	5,113,657,129
Lease Rentals Receivables	84,831,455	22,927,871	231,800,073	762,953,726	-	1,102,513,125
Financial Investments	-	347,317,986	95,277,274	-	-	442,595,260
Other Financial Assets	-	132,765,273	56,511,375	-	-	189,276,648
Total Financial Assets	787,192,885	977,769,303	1,733,677,421	3,490,305,469	-	6,988,945,078
Financial Liabilities						
Due to Banks and Other Institutions	-	93,081,310	152,162,626	583,927,568	-	829,171,505
Due to Customers	-	2,509,079,620	1,415,980,455	1,354,085,972	106,195,551	5,385,341,597
Total Financial Liabilities	-	2,602,160,930	1,568,143,081	1,938,013,540	106,195,551	6,214,513,102
Total Net Financial Assets/(Liabilities)	787,192,885	(1,624,391,627)	165,534,340	1,552,291,929	(106,195,551)	774,431,976

Notes to the Financial Statement

47. Risk Management (Contd.)

47.3 Liquidity Risk & Funding Management (Contd.)

As at 31 March 2019	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-05 Years Rs.	Over 05 Years Rs.	Total Rs.
Financial Assets						
Cash and Cash Equivalents	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 Receivable	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)	827,010,349

47.3.2 Contractual Maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2019.

47.3.2.1 Operational Risk

Overview

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

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

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

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

47.3.2.2 Market Risk

Overview

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

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.

45.5.1 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.

Notes to the Financial Statement

47. Risk Management (Contd.)

47.3 Liquidity Risk & Funding Management (Contd.)

47.5.2 Interest Rate Risk Exposure On Financial Assets & Liabilities

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

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

Company	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31.03.2018 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)	827,010,349