Independent Auditors' Report

Building a better working world

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KHRC/KTS

TO THE SHAREHOLDERS OF SARVODAYA DEVELOPMENT FINANCE LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Sarvodaya Development Finance Limited, ("the Company"), which comprise the Statement of Financial Position as at 31 March 2017, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow for the year then ended, and a summary of significant accounting policies and other explanatory information, set out on pages 118 to 161.

BOARD'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion, scope and limitations of the audit are as stated above.
b) In our opinion:

   - 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,

   - The financial statements of the Company, comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

Ernst & Young

26 May 2017
Colombo

Statement of Profit or Loss and Other Comprehensive Income

Year Ended 31 march	Notes	2017 Rs.	2016 Rs.
Income	6	1,096,432,113	1,014,753,642
Interest Income		883,758,122	922,993,919
Interest Expenses		(280,902,184)	(255,915,002)
Net Interest Income	**7**	**602,855,938**	**667,078,917**
Fee and Commission Income	8	29,193,693	17,351,163
Other Operating Income	9	183,480,298	74,408,560
Total Operating Income		**815,529,929**	**758,838,640**
Impairment Charges for Loans and Other Losses	10	(172,259,081)	(61,294,116)
Net Operating Income		643,270,847	697,544,524
Operating Expenses			
Personnel Expenses	11	(361,457,648)	(314,185,138)
Depreciation of Property, Plant and Equipment	27	(40,736,446)	(34,771,373)
Amortisation of Intangible Assets	26	(6,683,064)	(10,662,306)
Other Operating Expenses	12	(230,225,116)	(212,142,771)
Operating Profit before Tax on Financial Services		**4,168,574**	**125,782,936**
Tax on Financial Services	13	(48,027,957)	(49,272,363)
Profit/(Loss) before Taxation		(43,859,383)	76,510,573
Income Tax Expenses	14	9,323,911	(30,368,790)
Profit/(Loss) for the Year		**(34,535,473)**	**46,141,783**
Other Comprehensive Income / (Expenses)			
Actuarial Gains/(Losses) on Defined Benefit Plans	32	(6,311,370)	(1,768,842)
Gain/(Loss) due to changes in Assumptions	32	-	2,896,283
Income Tax (Charge) / Credit Relating to Components of Other Comprehensive Income		2,082,867	771,066
Net Other Comprehensive Income not to be Reclassified to Profit or Loss		**(4,228,503)**	**1,898,507**
Other Comprehensive Income for the Year, Net of Tax		(4,228,503)	1,898,507
Total Comprehensive Income/(Expenses) for the Year		(38,763,976)	48,040,290
Basic Earnings Per Share (Rs)			
Earning per share - Basic	15	(0.51)	0.68

Accounting Policies and Notes from pages 118 to 161 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 march	Notes	2017 Rs.	2016 Rs.
Assets			
Cash and Cash Equivalents	19	138,046,068	306,766,105
Loans and Receivables	20	3,477,040,068	2,766,806,059
Lease Rental Receivables	21	283,558,784	-
Financial Investments	22	268,211,272	243,177,150
Other Financial Assets	23	282,577,503	232,859,565
Investment in Subsidiary Companies	24	-	379,474,885
Other Non Financial Assets	25	64,336,684	78,966,548
Current Tax Refund		29,768	-
Intangible Assets	26	36,694,563	30,443,303
Property, Plant and Equipment	27	321,409,381	281,535,732
Deferred Tax Assets	28	988,885	-
Total Assets		**4,872,892,976**	**4,320,029,346**
Liabilities			
Due to Banks and Other Institutions	29	75,855,964	31,225,454
Due to Customers	30	3,563,699,800	3,070,417,410
Other Non Financial Liabilities	31	165,765,352	96,909,412
Post Employment Benefit Liability	32	20,796,934	16,088,241
Current Tax Liabilities		-	9,471,585
Deferred Tax Liabilities	28	-	10,378,342
Total Liabilities		**3,826,118,050**	**3,234,490,444**
Shareholders’ Funds			
Stated Capital	33	890,000,020	890,000,020
Retained Earnings	34	90,646,934	129,410,910
Reserves	35	66,127,972	66,127,972
Total Shareholders’ Funds		**1,046,774,926**	1,085,538,902
Total Liabilities and Shareholders’ Funds		**4,872,892,976**	**4,320,029,346**

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

Deshantha de Alwis
DGM - Finance & Planning

Dharmasiri Wickramatilake
Chief Executive Officer

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

Channa de Silva
Chairman

Dr. Vinya Ariyarathne
Director

Accounting Policies and Notes from pages 118 to 161 form an integral part of these Financial Statements.

26th May 2017
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 2015		890,000,020	83,677,710	18,076,058	45,744,825	1,037,498,612
Profit for the Year		-	46,141,783	-	-	46,141,783
Other Comprehensive Income		-	1,898,507	-	-	1,898,507
Transfer from Investment Fund Reserve	35	-	(2,307,089)	2,307,089	-	-
Balances as at 31 march 2016		**890,000,020**	**129,410,910**	**20,383,147**	**45,744,825**	**1,085,538,902**
Loss for the Year		-	(34,535,473)	-	-	(34,535,473)
Other Comprehensive Income		-	(4,228,503)	-	-	(4,228,503)
Transfer to Statutory Reserves Fund	35	-	-	-	-	-
Balances as at 31 march 2017		**890,000,020**	**90,646,934**	**20,383,147**	**45,744,825**	**1,046,774,926**

Accounting Policies and Notes from pages 118 to 161 form an integral part of these Financial Statements.

Statement of Cash Flow

Year Ended 31 march	Notes	2017 Rs.	2016 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		(43,859,383)	76,510,573
Adjustments for			
Impairment Provision	8	172,259,081	61,294,116
Profit from Sale of Subsidiary		(100,280,782)	-
Reversal of Provision of Loan Risk Assurance Benefit Fund		(15,116,703)	(5,606,967)
Loss/(Profit) on Disposal of Property, Plant and Equipment	9	(877,984)	27,103
Provision for Defined Benefit Plans	32	5,778,323	4,754,295
Depreciation of Property, Plant and Equipment		40,736,446	34,771,373
Amortisation of Intangible Assets		6,683,064	10,662,306
Notional Tax Credit on Interest on Treasury Bills		2,547,619	1,738,897
Operating Profit before Working Capital Changes		**67,869,680**	**184,151,695**
(Increase)/Decrease in Loans and Advances	20	(880,648,372)	(55,066,124)
(Increase)/Decrease in Lease Rentals Receivable		(286,341,389)	-
(Increase)/Decrease in Other Financial Assets	23	(49,717,939)	(225,810,690)
(Increase)/Decrease in Other Non Financial Assets	25	14,629,864	(12,363,388)
Increase/(Decrease) in Amounts Due to Customers		493,282,390	294,178,805
Increase/(Decrease) in Other Non Financial Liabilities		73,292,189	36,428,237
Cash Generated from Operations		**(567,633,576)**	**221,518,536**
Retirement Benefit Liabilities Paid		(7,381,000)	(5,775,310)
Net Collection of LRAB Fund		10,693,703	18,221,991
Income Tax Paid		(9,501,353)	-
Net Cash From/(Used in) Operating Activities		**(573,822,226)**	**233,965,217**
Cash Flows from / (Used in) Investing Activities			
Sales of Property, Plant and Equipment		7,262,685	1,305,204
Acquisition of Property, Plant and Equipment	27	(88,578,227)	(76,496,267)
Acquisition of Intangible Assets	26	(12,934,325)	(2,777,600)
Financial Investments	22	(25,034,121)	(41,333,564)
Net cash received from sale of subsidiary		479,755,667	-
Net Cash Flows from/(Used in) Investing Activities		360,471,680	**(119,302,226)**
Cash Flows from / (Used in) Financing Activities			
Net Cash Flow from bank and other institutional barrowings		(5,389,218)	(6,878,629)
Net Cash Flows from/(Used in) Financing Activities		**(5,389,218)**	**(6,878,629)**
Net Increase in Cash and Cash Equivalents		(218,739,764)	107,784,362
Cash and Cash Equivalents at the Beginning of the Year		306,766,105	198,981,741
Cash and Cash Equivalents at the End of the Year	A	**88,026,341**	**306,766,105**
A Cash and Cash Equivalents at the End of the Year			
Favourable Cash & Cash Equivalents		138,046,068	306,766,105
Unfavourable Cash & Cash Equivalents		(50,019,727)	-
Total Cash and Cash Equivalents at the End of the Year		**88,026,341**	**306,766,105**

Accounting Policies and Notes from pages 118 to 161 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 General

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

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

1.2 Principal Activities of the Company

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

1.3 Consolidated Financial Statements

The requirement to prepare and present separate consolidated Financial Statements for the year under review did not arise due to non-existence of the subsidiary, Summit Finance PLC (Formerly: George Steuart Finance PLC), as at the Statement of Financial Position date which arose as a result of the Company disposing its total shareholding of 75.54% of the shares in issue of its subsidiary company, during the year under review. The operating results of the subsidiary as at the last reporting date immediately prior to the disposal date and the fair value of consideration received and the resulting gain of the disposal are disclosed under note no:24.1 -'Discontinued Operation'- on page 137 to these Financial Statements.

1.4 Loss of Control

When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the Subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an Associate or in accordance with the Group's Accounting Policy for financial instruments depending on the level of influence retained.

1.5 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.

1.6 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 114). Statement of Financial Position provides the information on the financial position of the Company as at the yearend (Refer page 115). Statement of Changes in Equity provides the movement in the shareholders' funds during the year under review for the Company (Refer page 116).

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 utilise those cash flows (Refer page 117) and Notes to the Financial Statements, which comprises of the Accounting Policies and other explanatory notes and information (Refer pages 118 to 161).

1.7 Approval of the Financial Statements

The Financial Statements of the Company for the year ended 31 March 2017 (including comparatives) have been approved and authorised for issue by the Board of Directors on 26 May 2017.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Preparation of Financial Statements

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

Name	Basis of measurement	Note Number/s	Page Number/s
Land & buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation	Note 27	Page 139
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 32	Page 146

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 36 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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are not offset in the Statement of 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 Basis of Consolidation

Consolidated Financial Statements for the year ended 31 March 2017 have not been prepared and presented separately in the Financial Statements of the year under review due to the non-existence of a "Group" as a result of the sale of subsidiary during the year under review (Refer Note 24.1).

2.5 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.

2.6 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 01 on 'Presentation of Financial Statements.

2.7 Going Concern

The Board of Directors of the Company has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for 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 recognised 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 a material adjustments to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

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

- Allowance for Impairment Charges for Loans and Receivables (Details under note 10)
- Deferred Taxation (Details under note 28)
- Post-Employment Benefit Liability (Details under note 32)
- Related Party Transactions (Details under note 40)
- Fair Value of Financial Instruments (Details under note 18)

3.2 Financial Instruments

Initial Recognition Date

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

Initial measurement of Financial Instruments

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

Classification and Subsequent measurement of Financial Assets

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

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

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

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value though profit or loss. Financial liabilities are classified as 'Held-for-Trading' if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position

Notes to the Financial Statements

taking. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by Sri Lanka Accounting Standards -LKAS 39, 'Financial Instruments: Recognition and Measurement'.

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

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

Other Financial Liabilities

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

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

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

Derecognition of Financial Assets and Financial Liabilities

a) Financial Assets

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

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

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

b) Financial Liabilities

A financial liability is 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 the Statement of Profit or Loss.

Re-classification of Financial Assets and Liabilities

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

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

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

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

3.3 Impairment of Non-Financial Assets

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

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

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

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

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

4.1 SLFRS 9 -Financial Instruments: Classification and measurement

This standard will replace Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). The improvements introduced by SLFRS 9 includes a logical model for classification and measurment, a single, forward-looking ‘expected loss’ impairment model and a substantially - reformed approach to hedge accounting which are detailed below. SLFRS 9 will become effective on 01 January 2018.

Classification and measurement

Classification determines how financial assets and financial liabilities are accounted for in the Financial Statements and, in particular, how they are measured on an ongoing basis. SLFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle based approach replaces existing rule-based requirements that are complex and difficult to apply. Accordingly, financial assets are measured at amortised cost, fair value through other comprehensive income (‘FVOCI’) or fair value through profit or loss (‘FVPL’).

Although the classification and measurement outcomes will be similar to LKAS 39 in many instances, the combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared to LKAS 39.

The classification of financial liabilities is essentially unchanged.

Impairment

SLFRS 9 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised. This credit loss (impairment) requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (‘ECL’) resulting from default events that are possible within the next 12 months (’12 - month ECL’) for all financial assets to which impairment requirement is applied.

In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’).

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events. Current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under LAKS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with LKAS 39.

Notes to the Financial Statements

The Company has not yet quantified the impact on the Company's Financial Statements from the implementation of this Standard. Company needs to build a model with appropriate methodologies and controls to ensure that judgment exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

Given the nature of the company's operation, this standard is expected to have a pervasive impact on the Company's Financial Statements, in particular, calculation of impairment of the financial instruments on an expected credit loss model is expected to result an increase in the overall level of impairment allowances. The Standard also introduces new presentation and extensive new disclosure requirements.

4.2 Sri Lanka Accounting Standard (SLFRS 15) –"Revenue from Contracts with Customers"

The objective of this standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

SLFRS 15 introduces a five step approach for revenue recognition from contracts with customers. The approach specifies that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

The new Standard will replace the existing Revenue recognition guidelines, including, LKAS 18 on 'Revenue', LKAS 11 on 'Construction Contacts' and IFRIC 13 on 'Customer Loyalty Programmes'..

SLFRS 15 will become effective on 1st January 2018 with early adoption permitted

The Company does not expect a significant impact on its Financial Statements resulting from the adoption of DLFRS 15.

4.3 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. SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

SLFRS 16 will become effective on 1st January 2019. The Company has not yet quantified the impact on the Company's Financial Statements from the implementation of this Standard.

4.4 Amendments to Sri Lanka Accounting Standard - LKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than the carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate),without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 01 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. This amendment is not expected to have a material impact on the company.

4.5 Amendments to Sri Lanka Accounting Standard - LKAS 7 Disclosure Initiative "Statement of Cash Flows"

The amendments to LKAS 7 "Statement of Cash Flows" are part of the Institute of Chartered Accountants of Sri Lanka's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 01 January 2017, with early application permitted. Application of amendments will result in additional disclosures to be provided by the company.

4.6 Amendments to Sri Lanka Accounting Standard - SLFRS 2 "Classification and measurement of Share-based Payment Transactions"

The Institute of Chartered Accountants of Sri Lanka issued amendments to SLFRS 2 "Share based Payment" that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The impact on the implementation of the above standard has not been quantified yet by the company.

5. AMENDMENTS TO EXISTING ACCOUNTING STANDARDS THAT BECAME EFFECTIVE FROM 01 JANUARY 2016

Amendments to the below detailed existing Accounting Standards with effect from 01st January 2016 as published by the Institute of Chartered Accountants of Sri Lanka are not expected to have an impact on the Financial Statements of the company.

SLFRS 14 - Regulatory Deferral Accounts

The objective of this standard is to specify the financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.

SLFRS 14 is effective for a period beginning on or after 01 January 2016. Implementation of this standard is not expected to have an impact on the Financial Statements of the company.

Notes to the Financial Statements

6. INCOME

Accounting Policy

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

Year Ended 31 march	2017 Rs.	2016 Rs.
Interest Income	883,758,122	922,993,919
Fee and Commission Income	29,193,693	15,177,472
Other Operating Income (net)	183,480,298	76,582,251
Total Income	**1,096,432,113**	**1,014,753,642**

7. NET INTEREST INCOME

Accounting Policy

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

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

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

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

Year Ended 31 march	2017 Rs.	2016 Rs.
7.1 Interest Income		
Loans and Receivables	788,179,275	880,258,554
Lease Rentals Receivables	16,442,769	-
Financial Investments (Note 7.3)	25,476,186	17,388,970
Savings Deposits	13,776,659	13,912,868
Other Financial Assets	39,883,233	11,433,527
Total Interest Income	**883,758,122**	**922,993,919**
7.2 Interest Expenses		
Due to Bank and Other Institutions	4,122,634	3,347,711
Due to Customers	276,779,550	252,567,291
Total Interest Expenses	**280,902,184**	**255,915,002**
Net Interest Income	**602,855,938**	**667,078,917**

7.3 Notional tax credit on secondary market transactions

According to section 137 of the Inland Revenue Act No. 10 of 2006, Net Interest Income of the Company derived from the secondary market transactions in Treasury Bills and Treasury Bonds (Interest income accrued or received on outright or reverse repurchase transactions on such securities, bonds or bills less interest expenses on repurchase transaction with securities, Treasury Bonds or Treasury Bills from which such interest income was earned) for the period 1st April 2016 to 31 st March 2017 has been grossed up by Rs. 2,547,619/- (2016 : Rs 1,738,897/-) for the notional tax credit, consequent to the interest income on above instruments being subjected to withholding tax.

8. FEE AND COMMISSION INCOME

Accounting Policy

Income from Fee-Based Activities

The Company earns fee and commission income from a diverse range of services it provides to its customers. These fees include credit-related fees, documentation charges and service income. All fees and commissions are recognised to the Statement of Profit or Loss on an accrual basis.

Year Ended 31 march	2017 Rs.	2016 Rs.
Credit Related Fees and Commissions	11,285,327	2,173,691
Documentation Income	17,507,998	14,710,684
Service Charge Income	400,368	466,788
Total Net Fee and Commission Income	**29,193,693**	**17,351,163**

9. OTHER OPERATING INCOME

Accounting Policy

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

Other operating income includes recoveries of written-down loans and advances, capital gains/(losses) and gains from property, plant & equipment.

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.

Year Ended 31 march	2017 Rs.	2016 Rs.
Recoveries of Bad Debts	58,848,069	61,171,202
Profit on Disposal of Property Plant & Equipment	877,984	27,103
Net Gain from Sale of Subsidiary	100,280,782	-
Reversal of Provision of Loan Risk Assurance Benefit Fund	15,116,703	5,606,967
Other Sundry Income (Note 9.1)	8,356,760	7,603,288
Total Other Operating Income	**183,480,298**	**74,408,560**

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

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

Accounting Policy

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

Year Ended 31 march	2017 Rs.	2016 Rs.
Loans and Advances Receivable Excluding Pawing Advance	170,414,363	67,269,948
Finance Lease Rental Receivable	2,782,605	-
Pawning Advance	(937,887)	(5,975,833)
Total Impairment Charges for Loans and Other Losses	**172,259,081**	**61,294,116**

Notes to the Financial Statements

11. PERSONNEL EXPENSES

Accounting Policy

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

Employees' Provident Fund and Employees' Trust Fund

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

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

Year ended 31 march	2017 Rs.	2016 Rs.
Salaries and Other Related Expenses	320,442,118	277,871,566
Employer's Contribution to Employees' Provident Fund	23,364,478	19,398,157
Employer's Contribution to Employees' Trust Fund	5,839,325	4,849,133
Gratuity Charge for the Year	5,778,323	5,881,736
Other Staff Related Expenses	6,033,404	6,184,546
Total Personnel Expenses	**361,457,648**	**314,185,138**

12. OTHER OPERATING EXPENSES

Accounting Policy

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.

Year Ended 31 march	2017 Rs.	2016 Rs.
Directors' Emoluments	5,744,444	5,126,662
Auditors Remuneration	1,914,805	1,821,649
Professional and Legal Expenses	4,811,581	10,318,285
Deposit Insurance Premium	4,595,993	4,533,905
General Insurance Expenses	2,786,781	1,908,753
Office Administration and Establishment Expenses	170,914,408	152,570,993
Travelling & Transport Expenses	10,610,144	10,815,742
Other Expenses	4,611,089	3,145,186
Marketing Expenses	24,235,872	21,901,596
Total Other Operating Expenses	**230,225,116**	**212,142,771**

13. TAX ON FINANCIAL SERVICES

Accounting Policy

Value Added Tax (VAT) on Financial Services

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

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.

Year Ended 31 march	2017 Rs.	2016 Rs.
Value Added Tax on Financial Services	42,081,318	41,691,999
National Building Tax on Financial Services	5,946,639	7,580,364
Total Tax on Financial Services	**48,027,957**	**49,272,363**

14. INCOME TAX EXPENSES

Accounting Policy

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

Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

Deferred Taxation

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 28 to the financial statements.

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

The components of the income tax expense for the years ended 31 March 2017 and 2016 are:

Year Ended 31 march	2017 Rs.	2016 Rs.
Income Taxation		
Taxation based on Profits for the Year (Note 14.1)	-	22,604,887
(Over) / Under Provision in Respect of 2014/2015 (Note 14.2)	-	(5,469,497)
(Over) / Under Provision in Respect of 2015/2016	(39,551)	-
Deferred Taxation		
Transfers to / (from) Deferred Taxation (Note 28)	(9,284,360)	13,233,400
Total Tax Expenses	**(9,323,911)**	**30,368,790**

Notes to the Financial Statements

14. INCOmE TAX EXPENSES (CONTD.)

14.1 Reconciliation of Accounting Profit and Taxable Income

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

Year Ended 31 march	2017 Rs.	2016 Rs.
Profit Before Tax	(43,859,383)	76,510,573
Add : Disallowable Expenses	232,601,592	167,657,372
Less: Tax Deductible Expenses	(144,400,557)	(119,965,270)
Disallowable Income	(101,158,766)	
Adjusted Profit / (Loss) for Tax Purposes	(56,817,114)	124,202,675
Assessable Income	-	124,202,675
Less - Allowable Losses	-	(43,470,936)
Taxable Income	-	80,731,739
Income Tax @ 28%	-	22,604,887
Income Tax on Current Year's Profit	-	22,604,887
Effective Tax Rate	-	30%

14.2 (Over)/Under Provision in Respect of 2014/2015

The Company claimed an income tax over provision of Rs. 5,469,497/- in respect of the year 2014/2015 from the income tax liability of the year of assessment 2015/2016. This over provision arose as a result of claiming the allowable bad debt expenses of the written off contracts amounting to Rs.197 Million in the year 2013/2014 when filing the income tax return for the year of assessment 2013/2014.

14.3 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and amendments thereto, ESC was payable at 0.25 percent on Company's liable turnover and was deductible from income tax payable.

14.4 Crop Insurance Levy

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

15. EARNINGS PER SHARE

Accounting Policy

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

Year Ended 31 march	2017 Rs.	2016 Rs.
Amount used as the numerator		
Profit attributed to ordinary shareholders	(34,535,473)	46,141,783
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.)	**(0.51)**	**0.68**

16. DIVIDEND PAID AND PROPOSED

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

The Board of Directors of the Company has not recommended any distribution of dividend for the year ended 31 March 2017.

The Board of Directors of the Company had recommended the payment of a first & final cash dividend of Rs. 0.25 per share for the year ended 31 March 2016. However, the Company did not distribute the dividend since the approval for the distribution was not received from the Central Bank.

17. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 march	2017 Loans and Receivable Rs.	2017 Total Rs.	2016 Loans and Receivable Rs.	2016 Total Rs.
Assets				
Cash and Cash Equivalents	138,046,068	138,046,068	306,766,105	306,766,105
Loans and Receivables	3,477,040,068	3,477,040,068	2,766,806,059	2,766,806,059
Lease Rentals Receivables	283,558,784	283,558,784	-	-
Financial Investments	268,211,272	268,211,272	243,177,150	243,177,150
Other Financial Assets	282,577,503	282,577,503	232,859,565	232,859,565
Total Financial Assets	**4,449,433,694**	**4,449,433,694**	**3,549,608,879**	**3,549,608,879**

As at 31 march	2017 Amortised Cost Rs.	2017 Total Rs.	2016 Amortised Cost Rs.	2016 Total Rs.
Liabilities				
Due to Banks and Other Institutions	75,855,963	75,855,963	31,225,454	31,225,454
Due to Customers	3,563,699,800	3,563,699,800	3,070,417,410	3,070,417,410
Total Financial Liabilities	**3,639,555,764**	**3,639,555,764**	**3,101,642,864**	**3,101,642,864**

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting Policy

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

18.1 Determination of Fair Value and Fair Value Hierarchy

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

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.

Notes to the Financial Statements

18. FAIR VALUE OF FINANCIAL INSTRUmENTS (CONTD.)

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

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

As at 31 march 2017	Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.	Total Fair Value Rs.	Carrying Value at amortised Cost 31.03.2017 Rs.
Financial Assets					
Cash and Cash Equivalents	138,046,068	-	-	138,046,068	138,046,068
Loans and Receivables	-	-	3,697,316,985	3,697,316,985	3,477,040,068
Lease Rentals Receivables	-	-	286,341,389	286,341,389	283,558,784
Financial Investments	-	268,211,272	-	268,211,272	268,211,272
Other Financial Assets	-	282,577,503	-	282,577,503	282,577,503
Total Financial Assets	**-**	**550,788,775**	**3,983,658,374**	**4,672,493,217**	**4,449,433,694**
Financial Liabilities					
Due to Banks and Other Institutions	-	75,855,963	-	75,855,963	75,855,963
Due to Customers	-	-	3,563,699,800	3,563,699,800	3,567,683,774
Total Financial Liabilities	**-**	**75,855,963**	**3,563,699,800**	**3,639,555,764**	**3,639,555,764**

As at 31 march 2016	Quoted prices in active markets Level 1 Rs.	Significant observable inputs Level 2 Rs.	Significant unobservable inputs Level 3 Rs.	Total Fair Value Rs.	Carrying Value at amortised Cost 31.03.2016 Rs.
Financial Assets					
Cash and Cash Equivalents	306,766,105	-	-	306,766,105	306,766,105
Loans and Receivables	-	-	2,914,388,763	2,914,388,763	2,766,806,059
Financial Investments	-	245,757,551	-	245,757,551	243,177,150
Other Financial Assets	-	234,371,785	-	234,371,785	232,859,565
Total Financial Assets	**306,766,105**	**480,129,336**	**2,914,388,763**	**3,701,284,204**	**3,549,608,879**
Financial Liabilities					
Due to Banks and Other Institutions	-	31,225,454	-	31,225,454	31,225,454
Due to Customers	-	-	3,070,417,410	3,070,417,410	3,070,417,410
Total Financial Liabilities	**-**	**31,225,454**	**3,070,417,410**	**3,101,642,864**	**3,101,642,864**

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

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

18. FAIR VALUE OF FINANCIAL INSTRUmENTS (CONTD.)

Assets & Liabilities for which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

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

Lease Rentals Receivable

Lease rentals receivable & Stock out on hire with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year.

Reclassification of financial assets

The Financial assets reclassified during the financial year 2016/2017 and discussed under Note 42 to these Financial Statement.

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, balances with banks and cash in transit . The cash in hand comprises of local currency only.

As at 31 march	2017 Rs.	2016 Rs.
Cash in Hand	40,921,997	42,623,363
Balances with Banks	97,124,071	264,142,742
Total Cash & Cash Equivalents	**138,046,068**	**306,766,105**

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.

Notes to the Financial Statements

20. LOANS AND RECEIVABLES (CONTD.)

As at 31 march	2017 Rs.	2016 Rs.
Gross Loans and Receivables	3,697,316,985	2,914,388,763
(Less): Allowance for Impairment Charges for Loans and Receivables (Note 20.3)	(220,276,917)	(147,582,704)
Net Loans and Receivables	**3,477,040,068**	**2,766,806,059**

20.1 Gross Loans and Receivables - By Province

As at 31 march	2017 Rs.	2016 Rs.
Western Province	928,595,868	620,251,697
Southern Province	508,549,565	350,041,238
Central Province	387,215,608	441,194,978
North Central Province	513,337,192	383,297,383
Uva Province	258,310,243	235,365,681
Sabaragamuwa Province	316,022,264	272,927,832
Eastern Province	312,965,991	197,077,633
North Western Province	314,563,183	282,304,407
Northern Province	157,757,071	131,927,914
	3,697,316,985	**2,914,388,763**

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

20.2 Gross Loans and Receivables - By Industry

As at 31 march	2017 Rs.	2016 Rs.
Agriculture & Fishing	980,709,299	595,227,688
Manufacturing	399,868,730	429,296,458
Tourism	9,303,426	2,289,573
Transport	25,793,375	17,257,825
Constructions	513,769,792	601,370,571
Trades	615,234,308	711,232,237
New Economy	16,383,123	7,775,058
Financial and Business Services	38,951,568	1,392,245
Infrastructure	8,382,375	4,644,551
Other Services	463,737,560	288,821,637
Other Customers	625,183,430	255,080,920
	3,697,316,985	**2,914,388,763**

20.3 Allowance for Impairment Charges for Loans and Receivables & Lease Rental Receivables

Accounting Policy

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

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of loan or portfolio of loans has occurred. Impairment allowances are calculated on individual and collective basis. Impairment losses are recorded as charges to the Statement of Profit or Loss. The

20. LOANS AND RECEIVABLES (CONTD.)

20.3 Allowance for Impairment Charges for Loans and Receivables & Lease Rental Receivables (Contd.)

Accounting Policy (Contd.)

carrying amount of impaired loans on the Statement of Financial Position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised

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

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

Individually Impaired Receivables

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

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

Individually Assessed Financial Assets

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

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

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

Company's aggregate exposure to the customer;

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

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

Notes to the Financial Statements

20. LOANS AND RECEIVABLES (CONTD.)

20.3 Allowance for Impairment Charges for Loans and Receivables & Lease Rental Receivables (Contd.)

Accounting Policy (Contd.)

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

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

Collectively Assessed Loans and Receivables

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

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

Impairment is assessed on a collective basis in two circumstances:

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

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

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

Write-off of Loans and Receivables

Financial assets and the related impairment allowance accounts are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

Rescheduled Loan Facilities

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

Collateral Valuation

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

20. LOANS AND RECEIVABLES (CONTD.)

20.3 Allowance for Impairment Charges for Loans and Receivables & Lease Rental Receivables (Contd.)

Accounting Policy (Contd.)

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

Reversal of Impairment

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

As at 31 march	2017 Rs.	2016 Rs.
20.4 Allowance for Impairment Losses on Loans & Receivables		
Balance at the Beginning of Year	147,582,704	80,312,756
Charge for the Year	170,414,363	67,269,948
Amounts Written Off	(97,720,150)	-
Balance at the End of Year	220,276,917	147,582,704
Individual Impairment	-	-
Collective Impairment	220,276,917	147,582,704
Total	**220,276,917**	**147,582,704**

21. LEASE RENTALS RECEIVABLE

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.

As at 31 march	2017 Rs.	2016 Rs.
21.1 Lease Rentals Receivable		
Gross Lease Rentals Receivables	417,577,387	-
Less: Unearned Income	(131,235,997)	-
Total Lease Rentals Receivables	286,341,389	-
(Less): Allowance for Impairment Charges (Note 21.3)	(2,782,605)	
Net Lease Rentals Receivables	**283,558,784**	-

Notes to the Financial Statements

21. LEASE RENTALS RECEIVABLE (CONTD.)

As at 31 march	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
21.2 maturity of Lease Rentals Receivables				
Gross Lease Rental Receivables	107,977,472	309,599,915	-	417,577,387
Less: Unearned Income	(50,856,415)	(80,379,582)	-	(131,235,997)
Total Lease Rental Receivables	57,121,056	229,220,333	-	286,341,389
(Less): Allowance for Impairment Charges (Note 21.3)	(2,782,605)	-	-	(2,782,605)
Net Lease Rentals Receivables	54,338,451	229,220,333	-	283,558,784

21.3 Allowance for Impairment Charges for Lease Rentals Receivable

Accounting Policy

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

As at 31 march	2017 Rs.	2016 Rs.
Balance at the Beginning of Year	-	-
Charge / (Reversal) for the Year	2,782,605	-
Balance at the End of Year	2,782,605	-
Individual Impairment	-	-
Collective Impairment	2,782,605	-
Total	**2,782,605**	**-**

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 amortised cost using the EIR, less provision for impairment. The amortization is included in interest income in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss Account in impairment charges for loans and receivables.

As at 31 march	2017 Rs.	2016 Rs.
Sri Lanka Government Securities - REPO	268,211,272	243,177,150
Total Financial Investments	**268,211,272**	**243,177,150**

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 amortised cost using the EIR, less impairment. The amortization is included in ‘interest income’ in the Statement of Profit or Loss.

As at 31 march	2017 Rs.	2016 Rs.
Fixed Deposits	282,577,503	232,859,565
Total Other Financial Assets	**282,577,503**	**232,859,565**

23. OTHER FINANCIAL ASSETS (CONTD.)

As at 31 march	Free from Lien 2017 Rs.	Under -Lien 2017 Rs.	Total 2017 Rs.
23.1 Other Financial Assets -Under Lien			
Fixed Deposits	132,577,503	150,000,000	282,577,503
Total Other Financial Assets	**132,577,503**	**150,000,000**	**282,577,503**

	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
23.2 Contractual maturity Analysis of Other Financial Assets				
Fixed Deposits	282,577,503	-	-	282,577,503
Total Other Financial Assets	**282,577,503**	**-**	**-**	**282,577,503**

24. INVESTMENTS IN SUBSIDIARY COMPANIES

Accounting Policy

Investment in subsidiaries is accounted at cost less impairment in the Financial Statements of the Company. The net assets of each subsidiary company are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its net assets loss.

As at 31 march	2017 Percentage Holding %	2017 Cost Rs.	2016 Percentage Holding %	2016 Cost Rs.
Summit Finance PLC (Formally, George Steuart Finance Plc)	-	-	75.54%	379,474,885
Total Investments in Subsidiary Companies		-	**-**	**379,474,885**

24.1 Discontinued Operations

On 24 October 2016, the Board of Directors of the Company decided to dispose its total share holding of 75.54% of voting shares in issue of its subsidiary company, Summit Finance PLC (Formerly: George Steuart Finance PLC). The Board of Directors determined the Summit Finance PLC was a non-core business activity of the company and that selling the Summit Finance, would permit the company to focus fully on its core businesses. The Company received the approval from the Central Bank of Sri Lanka on 21st December 2016 for the said disposal and subsequently disposed its total share holding on 16th January 2017 for a total consideration of Rs. 510 million, with a gain on disposal of Rs. 100 million.

	Rs.
24.2 Subsidiary Statement of Profit or Loss for the period ended 31 December 2016	
Interest Income	215,599,397
Interest Expenses	(95,896,508)
Net Interest Income	**119,702,889**
Other Income	5,163,552
Personnel Expense	(45,377,873)
Other Expenses	(65,506,390)
Profit Before Taxation	**13,982,178**
VAT & NBT on Financial Services	(6,449,440)
Income Tax Expenses	(839,230)
Profit/(Loss) for the Year from Discontinued Operations	**6,693,508**

Notes to the Financial Statements

24. INVESTmENTS IN SUBSIDIARY COmPANIES (CONTD.)

	Rs.
24.3 The Fair Value of the Consideration Received and the Resulting Gain on Disposal of Subsidiary.	
Fair Value of Consideration Received	509,899,500
Less:	
Carrying Amount of Investment in Subsidiary as at the Date of Disposal	(379,474,885)
Transaction Cost Relating to the Disposal	(30,143,833)
Gain of Disposal of Subsidiary	**100,280,782**

25. 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 amortised during the period in which it is utilised and is carried at historical cost less provision for impairment.

As at 31 march	2017 Rs.	2016 Rs.
Inventories	6,293,256	5,458,569
Other Advance	2,199,438	11,414,759
Rent Deposit	28,226,742	30,313,767
Other Receivable (Note 25.1)	27,617,258	31,779,453
Total Other Non Financial Assets	**64,336,684**	**78,966,548**

25. 1 This balance included Unsettled Tax Credit Rs.12,492,129/-, Refundable Deposit and Pre payments Rs. 12,739,966/- , and Others Rs. 2,385,162/-.

26. 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.

26.1 Software

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

Intangible assets are amortised 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 2017 and 2016 is given below.

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

Intangible assets are derecognised 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 derecognised.

26. INTANGIBLE ASSETS (CONTD.)

The Company derecognised a computer software (SENOVA system) during the year 2016 which carried a net book value of 'Zero' as at 31st March 2016. This derecognition took place as a result of SENOVA system retiring from its active use during the year 2016 due to the Company migrating into a new computer software (E-finance system) during the year 2016. The loss that arose from this derecognition was recognised under profit /(loss) on disposal of property, plant & equiptment.

As at 31 march	2017 Rs.	2016 Rs.
26.2 Computer Software - Cost		
Cost at the Beginning of Year	30,446,941	31,976,002
Additions and Improvements	12,934,325	30,446,941
Disposal During the Year	-	(31,976,002)
Cost at the End of Year	**43,381,266**	**30,446,941**
26.3 Amortisation & Impairment		
Amortisation at the Beginning of Year	3,638	21,317,335
Charge for the year	6,683,064	10,662,305
Disposal during the year	-	(31,976,002)
Amortisation at the End of Year	6,686,702	3,638
Net Book Value at the End of Year	**36,694,563**	**30,443,303**
26.4 Computer Software Under Development		
Balance at the Beginning of Year	-	27,589,341
Additions during the year	-	2,777,600
Transfers/Adjustments	-	(30,366,941)
Balance at the End of Year	-	-
Net Book Value of Total Intangible Assets	**36,694,563**	**30,443,303**

27. PROPERTY, PLANT & EQUIPMENT

Accounting Policies

Basis of Recognition

Property, plant & equipment are recognised 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 labor, 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 capitalised 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.

Notes to the Financial Statements

27. PROPERTY, PLANT & EQUIPmENT (CONTD.)

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.

Subsequent Cost

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

Repairs and maintenance

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

Derecognition

An item of property, plant & equipment is derecognised 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 derecognised.

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 2016 and 2017, 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.

27. PROPERTY, PLANT & EQUIPmENT (CONTD.)

	Balance As at 01.04.2016 Rs.	Additions during the year Rs.	Adjustments During the year Rs.	Disposals during the year Rs.	Balance As at 31.03.2017 Rs.
27.1 The movement in Property, Plant & Equipment					
27.1.1 Cost or Valuation					
Freehold Assets					
Land	67,781,200	-	-	-	67,781,200
Building	72,347,825	-	-	-	72,347,825
Furniture & Fittings	50,892,583	38,375,791	1,240,000	583,787	87,444,587
Office Equipment	42,883,043	7,972,685	-	76,686	50,779,043
Computer Equipment	61,642,693	10,034,301	562,464	-	71,114,530
Plant & Machinery	18,903,044	16,345,449	-	-	35,248,493
Motor Vehicle	25,738,422	15,850,000	-	7,600,000	33,988,422
Total Cost or Valuation	**340,188,811**	**88,578,227**	**1,802,464**	**8,260,473**	**418,704,100**

	Balance As at 01.04.2016 Rs.	Charge during the year Rs.	Adjustments During the year Rs.	Disposals during the year Rs.	Balance As at 31.03.2017 Rs.
27.1.2 Depreciation					
Freehold Assets					
Building	4,162,478	1,808,696	-	-	5,971,173
Furniture & Fittings	10,284,120	6,702,532	36,234	216,198	16,806,688
Office Equipment	15,914,514	9,166,323	-	28,376	25,052,462
Computer Equipment	19,433,537	13,327,838	-	-	32,761,375
Plant & Machinery	2,106,142	3,592,030	-	-	5,698,172
Motor Vehicle	6,752,288	6,139,027	-	1,886,466	11,004,849
Total Depreciation	**58,653,079**	**40,736,446**	**36,234**	**2,131,039**	**97,294,719**

27.1.2.1 Transfers of Property, Plant and Equipments to their respective categories has been carried out to comply with the current year presentation. The increase /(decrease) in depreciation that has resulted due to these transfers has been charged to the Statement of Profit or Loss of the current year.

As at 31 march	2017 Rs.	2016 Rs.
27.1.3 Net Book Value		
Land	67,781,200	67,781,200
Building	66,376,652	68,185,347
Furniture & Fittings	70,637,898	40,608,463
Office Equipment	25,726,581	26,968,529
Computer Equipment	38,353,156	42,209,156
Plant & Machinery	29,550,321	16,796,902
Motor Vehicle	22,983,573	18,986,134
Total Carrying Amount of Property, Plant and Equipment	**321,409,381**	**281,535,732**

27.2 The Company had revalued its land and building in financial year 2014. The valuation had been performed by P.V.Kalugalagedara & Associates, Chartered valuation surveyor and estate agent in 31 December 2013. Accordingly a revaluation surplus amounting to Rs. 45,744,825/- had been credited to the revaluation reserve account in financial year 2014.

Notes to the Financial Statements

27. PROPERTY, PLANT & EQUIPmENT (CONTD.)

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

As at 31 march			2017			2016
	Cost	Accumulated Depreciation	Carrying value	Cost	Accumulated Depreciation	Carrying value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Land	17,027,000	-	17,027,000	17,027,000	-	17,027,000
Building	61,416,000	5,971,173	55,444,827	61,416,000	4,162,478	57,253,522
Total	**78,443,000**	**5,971,173**	**72,471,827**	**78,443,000**	**4,162,478**	**74,280,522**

27.4 Title Restriction on Property, Plant and Equipment
There were no restrictions on the title of Property, Plant and Equipment as at 31st March 2017 and 31st March 2016.

27.5 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. (2016: Nil)

27.6 Temporarily Idle of Property, Plant and Equipment
There were no Property, Plant and Equipment idle as at 31st March 2017 and 31st March 2016

27.7 Property, Plant and Equipment Retired from Active Use
There were no Property, Plant and Equipment retired from active use as at 31st March 2017 and 31st March 2016 other than those disclose under Note 26 Intangible Assets on page 138.

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

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

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

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

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

28. DEFERRED TAXATION (CONTD.)

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 utilised.

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

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

As at 31 march	2017 Rs.	2016 Rs.
28.1 Statement of Financial Position		
Deferred Tax Liabilities		
Accelerated depreciation for tax purposes	33,167,885	28,604,955
	33,167,885	**28,604,955**
Deferred Tax Assets		
Defined Benefit Plans - Profit Or Loss	4,055,958	4,820,391
Defined Benefit Plans - Other Comprehensive Income	1,767,184	(315,683)
Carry Forward Loss On Leasing Business	7,560,974	-
Carry Forward Loss On Other Operations	20,772,654	13,721,906
	34,156,770	18,226,613
Net Deferred Tax Liabilities/(Assets)	**(988,885)**	**10,378,342**

As at 31 march	2017 Rs.	2016 Rs.
28.2 Statement of Profit or Loss		
Deferred Tax Liabilities		
Accelerated Depreciation for Tax Purposes	4,562,930	15,051,623
	4,562,930	**15,051,623**
Deferred Tax Assets		
Defined Benefit Plans - Profit Or Loss	764,433	1,056,950
Defined Benefit Plans - Other Comprehensive Income	(2,082,867)	(771,066)
Carry Forward Loss on Leasing Business	(7,560,974)	-
Carry Forward Loss on Other Operations	(7,050,748)	(13,721,906)
Allowance for Impairment Charges	-	10,846,734
	(15,930,157)	(2,589,288)
Deferred Tax Income / (Expense)	(9,284,360)	13,233,401
Deferred Tax Income / (Expense) - Statement of Other comprehensive income	**(2,082,867)**	**(771,066)**

Notes to the Financial Statements

29. 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 amortised cost using the EIR method. Interest paid/payable on these dues are recognised in the Statement of Profit or Loss under 'Interest Expenses'.

As at 31 march	2017 Rs.	2016 Rs.
Bank Overdrafts (Note 29.1)	50,019,727	-
Loans and Other Bank Facilities (Note 29.2)	25,836,237	31,225,454
Total Due to Banks & Other Institutions	**75,855,964**	**31,225,454**

29.1 Bank Overdraft

The outstanding balances of bank overdrafts as at the Statement of Financial Position date are fully secured by Other Financial Assets. Other Financial Assets which are under lien are disclosed under Note 23.1 to these Financial Statements.

	As at 01.04.2016 Rs.	Loans Obtained Rs.	Repayments Capital Rs.	Interest Rs.	As at 31.03.2017 Rs.	Period	Security
29.2 Loans and Other Bank Facilities							
NDB Loan	10,300,037	-	(2,508,818)	918,130	7,791,219	60 Months	Mortgage Two Vehicles
Rotary Loan	18,863,467	8,555,000	(12,335,400)	1,810,064	15,083,068	36 Months	Unsecured
Other Borrowings	2,061,950	900,000	-	-	2,961,950	NA	Unsecured
Total Loans and Other Bank Facilities	**31,225,454**	**9,455,000**	**(14,844,218)**	**2,728,194**	**25,836,237**		

As at 31 march 2017	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total
29.3 Contractual maturity Analysis of Due to Bank & Other Institution				
NDB Loan	2,769,702	5,021,517	-	[illegible]
Rotary Loan	8,185,186	6,897,882	-	[illegible]
Other Borrowings	-	-	2,961,950	[illegible]
Bank Overdrafts	50,019,727	-	-	[illegible]
Total Due to Customers	**60,974,615**	**11,919,399**	**2,961,950**	[illegible]

30. DUE TO CUSTOMERS

Accounting Policies

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

As at 31 march	2017 Rs.	2016 Rs.
Fixed Deposits	1,955,249,581	1,483,446,679
Savings Deposits	1,607,045,443	1,585,565,955
Inactive Society-Savings	1,404,776	1,404,776
Total Due to Customers	**3,563,699,800**	**3,070,417,410**

30.1 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. 4,595,993/- as the premium of the said Insurance scheme during the financial year under review (2016 - Rs. 4,533,905/-).

30.2 Contractual maturity Analysis Of Customer Deposits

As at 31 march	Within One Year Rs.	1 - 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Fixed Deposits	1,607,150,316	348,099,265	-	1,955,249,581
Savings Deposits	1,323,990,610	132,767,575	150,287,259	1,607,045,443
Inactive Society-Savings	1,404,776	-	-	1,404,776
Total Due to Customers	**2,932,545,702**	**480,866,840**	**150,287,259**	**3,563,699,800**

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

Notes to the Financial Statements

31. OTHER NON FINANCIAL LIABILITIES

Accounting Policy

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

Provisions are recognised 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 recognised 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'.

As at 31 march	2017 Rs.	2016 Rs.
Accrued Expenses	46,980,946	27,933,776
Others (Note 31.1)	101,467,225	50,413,223
Pawning Contingency Provision	-	937,887
Loan Risk Assurance Fund (Note 31.2)	12,800,000	17,223,000
Amount Due to Related Parties	4,517,181	401,526
	165,765,352	**96,909,412**

31.1 This balance included Staff Welfare Fund Rs. 6,506,441/-, Loan & Lease Creditor Balance Rs. 74,212,252/- , Loan Sundry Changes Payable Rs. 2,567,013/- and Others Rs. 18,181,518/-.

31.2 The Company obtained an actuarial valuation on its 'Loan Risk Assurance Fund' as at 31st March 2017. 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.

32. 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 recognised 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.

32. POST-EmPLOYEmENT BENEFIT OBLIGATIONS (CONTD.)

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.

As at 31 march	2017 Rs.	2016 Rs.
32.1 Provision for Retirement Gratuity		
Balance at the beginning of the year	16,088,241	17,109,256
Amount Charged/(Reversed) for the Year	5,778,323	5,881,736
Actuarial (Gains)/Losses	6,311,370	1,768,842
(Gain)/Loss Due to Changes in Assumptions	-	(2,896,283)
Payments Made During the Year	(7,381,000)	(5,775,310)
Balance at the End of the Year	**20,796,934**	**16,088,241**

32.2 Average future working life time as per the assumptions made is 10.1 years as of 31st March 2017 (10.2 years as of 31st March 2016).

As at 31 march	2017 Rs.	2016 Rs.
32.3 Expenses on Defined Benefit Plan		
Current Service Cost for the Year	3,847,735	4,170,811
Interest Cost for the Year	1,930,588	1,710,925
Actuarial (Gains)/ Losses (32.6)	6,311,370	1,768,842
(Gains)/ Losses Due to Changes in Assumptions	-	(2,896,283)
Total Expenses on Defined Benefit Plan	**12,089,693**	**4,754,295**

32.4 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 2017 and 2016 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'.

	2017	2016
32.5 Actuarial Assumptions		
Discount Rate	12.0%	12.0%
Salary scale	10.0%	10.0%
Staff Turnover		
20 to 30 years	10.0%	10.0%
35 years	7.5%	7.5%
40 years	5.0%	5.0%
45 years	2.5%	2.5%
50 years	1.0%	1.0%
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

Notes to the Financial Statements

32. POST-EmPLOYEmENT BENEFIT OBLIGATIONS (CONTD.)

32.6 Actuarial Gains and Losses

As per actuarial valuation, actuarial gain and loss has arisen during the year by net decrease of 46 participants and the salary increased by 14.4 % (vs. 10% assumed)

32.7 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 2017.

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	Sensitivity Effect on Pension Fund Surplus Increase / (decrease)
		Rs.	Rs.
+1%		422,314	(422,314)
(-1%)		(3,151,637)	3,151,637
	+1%	(3,103,105)	3,103,105
	(-1%)	408,831	(408,831)

As at 31 march	Number of Shares	2017 Rs.	Number of Shares	2016 Rs.
33. STATED CAPITAL				
Issued and Fully Paid-Ordinary shares				
At the Beginning of Year	67,500,006	890,000,020	67,500,006	890,000,020
Issued During the Year	-	-	-	-
At the End of Year	67,500,006	890,000,020	67,500,006	890,000,020

36.3 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.

As at 31 march	2017 Rs.	2016 Rs.
34. RETAINED EARNINGS		
Balance at the Beginning of Year	129,410,910	83,677,709
Company Balance as at beginning	-	-
Profit for the Year	(34,535,473)	46,141,783
Other Comprehensive Income	(4,228,503)	1,898,507
Transfer to Statutory Reserves Fund	-	(2,307,089)
Transfers from Investment Fund Account (Note 35)	-	-
Balance at the End of Year	**90,646,934**	**129,410,910**

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.

35. RESERVES

35.1 Statutory Reserve Fund

The statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3(b) of Central Bank Direction No. 1 of 2003.

35.2 Revaluation Reserve Fund

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

	Statutory Reserve Rs.	Revaluation Reserve Rs.	Total Rs.
As at 01 April 2015	18,076,058	45,744,825	63,820,883
Transfers to/(from) during the year	2,307,089	-	2,307,089
Transferred to Retaining Earnings	-	-	-
As at 31 march 2016	20,383,147	45,744,825	66,127,973
Transfers from during the year	-	-	-
As at 31 march 2017	**20,383,147**	**45,744,825**	**66,127,972**

36. 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.

As at 31 march	2017 Within 12 months Rs.	2017 After 12 months Rs.	2017 Total Rs.
Assets			
Cash and Cash Equivalents	138,046,068	-	138,046,068
Loans and Receivables	1,816,369,362	2,363,868,004	3,477,040,068
Lease Rentals Receivables	54,106,070	178,083,473	283,558,784
Financial Investments	268,211,272	-	268,211,272
Other Financial Assets	282,577,503	-	282,577,503
Other Non Financial Assets	36,109,951	28,226,732	64,336,684
Current Tax Liabilities	29,768	-	29,768
Intangible Assets	-	36,694,563	36,694,563
Property, Plant and Equipment	-	321,409,381	321,409,381
Deferred Tax Asset	-	988,885	988,885
Total Assets	**2,595,449,995**	**2,929,271,039**	**4,872,892,975**
Liabilities			
Due to Banks and Other Institutions	19,870,778	55,985,185	75,855,963
Due to Customers	2,932,545,702	631,154,098	3,563,699,800
Other Non Financial Liabilities	91,170,942	74,594,407	165,765,350
Post Employment Benefit Liability	-	20,796,934	20,796,934
Total Liabilities	**3,043,587,423**	**782,530,625**	**3,826,118,047**
Net Assets/(Liability)	**(448,137,428)**	**2,146,740,414**	**1,046,774,929**

Notes to the Financial Statements

36. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES (CONTD.)

As at 31 march	2016 Within 12 months Rs.	2016 After 12 months Rs.	2016 Total Rs.
Assets			
Cash and Cash Equivalents	306,766,105	-	306,766,105
Loans and Receivables	1,910,447,169	856,358,890	2,766,806,059
Financial Investments	243,177,150	-	243,177,150
Other Financial Assets	232,859,565	-	232,859,565
Investment in Subsidiary Companies	-	379,474,885	379,474,885
Other Non Financial Assets	47,379,929	31,586,619	78,966,548
Intangible Assets	-	30,443,303	30,443,303
Property, Plant and Equipment	-	281,535,732	281,535,732
Total Assets	**2,740,629,918**	**1,579,399,429**	**4,320,029,347**
Liabilities			
Due to Banks	13,825,557	17,399,897	31,225,454
Due to Customers	2,780,822,847	289,594,563	3,070,417,410
Other Non Financial Liabilities	53,300,177	43,609,235	96,909,412
Post Employment Benefit Liability	-	16,088,241	16,088,241
Current Tax Liabilities	9,471,585	-	9,471,585
Deferred Tax Liabilities	-	10,378,342	10,378,342
Total Liabilities	**2,857,420,166**	**377,070,278**	**3,234,490,444**
Net Assets/(Liability)	**(116,790,248)**	**1,202,329,151**	**1,085,538,903**

37. COMMITMENTS AND CONTINGENCIES

37.1 Contingent Liabilities

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

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.

37.2 Commitments

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

38. ASSETS PLEDGE

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2017 Rs.	2016 Rs.	Included Under
Motor Vehicle	Vehicle Loan	6,870,348	7,738,922	Property, Plant and Equipment
Fixed Deposit	Bank Overdraft	132,577,503	-	Other Financial Assets
		139,448,851	7,738,922	

39. EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to the Reporting date, no circumstances have arisen which would require adjustment to or disclosure in the Financial Statements.

40. RELATED PARTY TRANSACTIONS

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

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

40.1 Transactions with Key managerial Personnel (KmPs)

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

Year Ended 31 march	2017 Rs.	2016 Rs.
40.1.1 Key management Personnel Compensation		
Short Term Employment Benefits	4,825,000	4,200,000
Directors Fees & Expenses	5,744,444	5,126,662
Total Key management Personnel Compensation	**10,569,444**	**9,326,662**

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

40.1.2 Transactions, Arrangements and Agreements involving KmPs, and their Close members of the Family (CFms)

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

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

Year Ended 31 march	2017 Rs.	2016 Rs.
40.2.2.1 Transaction with KMPs, and their Close Members of the Family		
Items in Statement of Financial Position		
Deposit Accept During the Year	100,000	3,500,000
Interest Payable	310,126	16,541
Deposit Repayment During the Year	(3,926,667)	-
Assets Disposal During the Year	7,000,000	-
Amounts Settled During the Year	(7,000,000)	-
	(3,516,541)	**3,516,541**
Items in Statement of Profit or Loss		
Interest Accrued During the Period	310,126	116,890
Profit from Assets Disposal	1,286,466	-
	1,596,592	**116,890**

40.1.3 Transaction, arrangements and agreements involving Entities which are controlled, and/or jointly controlled by the KmPs and their CFms or Shareholders

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

Notes to the Financial Statements

40. RELATED PARTY TRANSACTIONS (CONTD.)

40.1.4 Transactions with Group Entities

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

Year Ended 31 march	2017 Rs.	2016 Rs.
40.1.4.1 Transactions with Parent Company		
Sarvodaya Economic Enterprises Development (Gte) Ltd.		
Statement of Financial Position		
Transaction made During the Year		
Rent Due on Eight Buildings Leased from SEEDS (Gte) Ltd.	540,000	323,750
Loan Interest Payable	1,417,726	-
Loan Installment Deducted from Salary on behalf of parent	107,600	-
Transport Charges, share of Electricity, water, telephone and security bills	-	8,092
Purchase of Land	-	4,679,000
Rent Received from SEEDS (Gte) Ltd.	-	740,100
Reimbursement of Salary Cost of SEEDS (Gte) Ltd Employees	984,613	288,220
Amount settled to SEEDS (Gte) Ltd	(2,078,972)	(5,953,502)
	970,967	**85,659**

Year Ended 31 march	2017 Rs.	2016 Rs.
40.1.4.2 Transactions with Shareholders		
Gentosa Total Assets Inc.		
Items in Statement of Financial Position		
Deposit Accepted During the Period	59,275,211	112,832,582
Deposit Repayment During the Period	-	(5,000,000)
Interest payable on Deposits	274,431	112,264
	59,549,642	**107,944,846**
Items in Statement of Profit or Loss		
Interest Accrued During the Period	14,872,483	6,598,377
	14,872,483	**6,598,377**

40.1.4.3 Transactions with Lanka Jathika Sarvodaya Shramadana Sangamaya (LJSSS)

The immediate parent of the Company is SEEDS (Gte) Ltd which is LJSSS owned entity. The Company enters into transactions, arrangements and agreements with LJSSS and its related entities. The significant dealings during the year under review and as at the reporting date are as follows.

40. RELATED PARTY TRANSACTIONS (CONTD.)

Year Ended 31 march	2017 Rs.	2016 Rs.
Items in Statement of Financial Position		
Deposit Accepted During the Period	42,725,017	103,000,000
Interest payable on Deposits	1,892,156	498,247
Purchase of Land	-	11,262,200
Loan Granted During the Period	(12,737,388)	(5,000,000)
Loan Repayment and Amounts Settled During the Period	(50,060,859)	(11,262,200)
	(18,181,073)	**98,498,247**
Items in Statement of Profit or Loss		
Loan Interest Income	530,703	367,121
Interest Expenses	(10,848,588)	(7,286,989)
Rent Expenses	-	(2,354,013)
	11,379,291	**10,008,123**

41. CAPITAL

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

41.1 Capital management

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

42. COMPARATIVE INFORMATION

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

	As Reported Previously Rs.	Reclassification Rs.	Current Presentation Rs.	Classified Under
Statement of Financial Position				
Rotary Loans (Rotary Up Town) (Note a)	5,458,569	(5,458,569)		Due to Banks
Amounts Due to Related Parties (Note b)		5,458,569	5,458,569	Other Non Financial Assets
Statement of Profit or Loss				
Other Sundry Income (Note 9.1) (Note b)	2,173,691	(2,173,691)		Other Operating Income
Credit Related Fees and Commissions (Note b)		2,173,691	2,173,691	Fee and Commission Income

(a) During the financial year, Rotary up town loan balance was reclassified as Amounts Due to Related Parties due to an error in classification.

(b) During the financial year, Other Operating Income was reclassified as Credit Related Fees and Commission for better presentation.

Notes to the Financial Statements

43. RISK MANAGEMENT

43.1 Introduction

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

Risk management Framework

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

The risk management function of Sarvodaya Development Finance Company comes under the purview of the Director of Non Bank Supervision and the Integrated Risk Management Committee (IRMC) where its independence from the business lines. In the course of its business activities, Sarvodaya Development Finance Company is constantly exposed to risks that include but are not limited to Credit Risk, Liquidity Risk and Operational Risk. Sarvodaya Development Finance Company is aware of a wide spectrum of risks that it is exposed to and provides attention to each and every risk factor that could hinder the achievement of the company's overall objectives. The risk management function strives therefore to manage the integrated risks by developing a companywide risk appetite and measures and controls to ensure that the risk taken is within the set limits.

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

Three Lines of Defense

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

Risk Profile Dashboard

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

Sarvodaya Development Finance Company's Risk Appetite Framework

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

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

Integrated Risk management Unit (IRmU)

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

Risk measurement & Reporting

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

43. RISK mANAGEmENT (CONTD.)

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 and AGM -Branch Operation & Marketing. BCC is the supreme authority to approve credit facilities and formulate credit policies for the company and ICC is the supreme management level approving authority beyond the delegated authority of the CEO.

43.2 CREDIT RISK

Over view

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

Credit Risk management

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

Individually impaired loans are loans and advances for which the company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan. Past due but not impaired loan other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but SDF believes that impairment is not appropriate on the basis of collateral available and/or the stage of collection of amounts owed to the Company.

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 materialised. 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.

Notes to the Financial Statements

43. RISK mANAGEmENT (CONTD).

	2017 Neither Past Due Nor Impaired Rs.	2017 Past Due But Not Impaired Rs.	2017 Individually Impaired Rs.	2017 Total Rs.
43.2.1 Credit Quality by Class of Financial Assets				
Assets				
Cash and Cash Equivalents	138,046,068	-	-	138,046,068
Loans and Receivables (Gross)	2,797,217,548	900,099,437	-	3,697,316,985
Lease Rentals Receivables (Gross)	217,407,577	68,933,812	-	286,341,389
Financial Investments	268,211,272	-	-	268,211,272
Other Financial Assets	282,577,503	-	-	282,577,503
Total Financial Assets	**3,703,459,967**	**969,033,249**	**-**	**4,672,493,217**

43.2.1.1.1 Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets.

	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	more than 91 days Rs.	Total Rs.
Loans and Receivables (Gross)	385,605,466	193,744,261	107,840,660	212,909,050	900,099,437
Lease Rental Receivable	53,760,509	15,173,303	-	-	68,933,812
	439,365,975	**208,917,564**	**107,840,660**	**212,909,050**	**969,033,249**

43.2 Credit Risk

	2016 Neither Past Due Nor Impaired Rs.	2016 Past Due But Not Impaired Rs.	2016 Individually Impaired Rs.	2016 Total Rs.
Assets				
Cash and Cash Equivalents	306,766,105	-	-	306,766,105
Loans and Receivables (Gross)	1,598,909,365	1,315,479,398	-	2,914,388,763
Financial Investments	243,177,150	-	-	243,177,150
Other Financial Assets	232,859,565	-	-	232,859,565
Total Financial Assets	**2,381,712,185**	**1,315,479,398**	**-**	**3,697,191,583**

43.2.1.2 Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets.

	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	more than 91 days Rs.	Total Rs.
Loans and Receivables (Gross)	430,862,330	275,053,039	156,984,198	452,579,831	1,315,479,398
	430,862,330	**275,053,039**	**156,984,198**	**452,579,831**	**1,315,479,398**

43. RISK mANAGEmENT (CONTD).

43.2.2 Analysis of Risk Concentration

43.2.2.1 Industry Analysis

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

Sector wise Breakdown	2017 Cash and Equalants Cash Rs.	2017 Loans and Receivables Rs.	2017 Lease Rental Receivables Rs.	2017 Financial Investments Rs.	2017 Other Financial Assets Rs.	2017 Total Financial Assets Rs.
Agriculture & Fishing	-	980,709,299	24,592,375	-	-	1,005,301,674
Manufacturing	-	399,868,730	17,125,640	-	-	416,994,370
Tourism	-	9,303,426	1,734,720	-	-	11,038,146
Transport	-	25,793,375	14,222,215	-	-	40,015,590
Constructions	-	513,769,792	8,814,532	-	-	522,584,324
Trades	-	615,234,308	18,029,642	-	-	633,263,950
New Economy	-	16,383,123	7,959,105	-	-	24,342,228
Financial and Business Services	138,046,068	38,951,568	11,209,836	-	282,577,503	470,784,974
Infrastructure	-	8,382,375	151,571	-	-	8,533,946
Government	-	-	-	268,211,272	-	268,211,272
Other Services	-	1,088,920,990	182,501,753	-	-	1,271,422,743
Total	**138,046,068**	**3,697,316,985**	**286,341,389**	**268,211,272**	**282,577,503**	**4,672,493,217**

Sector wise Breakdown	2016 Cash and Cash Rs.	2016 Loans and Receivables Rs.	2016 Financial Investments Rs.	2016 Other Financial Assets Rs.	2016 Total Financial Assets Rs.
Agriculture & Fishing	-	570,603,403	-	-	570,603,403
Manufacturing	-	408,561,392	-	-	408,561,392
Tourism	-	2,267,866	-	-	2,267,866
Transport	-	15,843,875	-	-	15,843,875
Constructions	-	569,018,537	-	-	569,018,537
Trades	-	674,953,202	-	-	674,953,202
New Economy	-	7,711,049	-	-	7,711,049
Financial and Business Services	306,766,105	1,355,436	-	232,859,565	540,981,106
Infrastructure	-	4,637,184	-	-	4,637,184
Government	-	-	243,177,150	-	243,177,150
Other Services	-	511,854,116	-	-	511,854,116
Total	**306,766,105**	**2,766,806,061**	**243,177,150**	**232,859,565**	**3,549,608,880**

Notes to the Financial Statements

43. RISK mANAGEmENT (CONTD).

43.3 Liquidity Risk & Funding management

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

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

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

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

43.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual maturities

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

As at 31 march 2017	On Demand	Less than 03 months	03-12 months	01-05 Years	Over 05 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and Cash Equivalents	138,046,068	-	-	-	-	138,046,068
Loans and Receivables	253,541,529	498,542,835	1,064,284,998	1,660,534,118	136,587	3,477,040,068
Lease Rentals Receivables	71,228	10,013,668	44,021,175	229,452,714	-	283,558,784
Financial Investments	-	268,211,272	-	-	-	268,211,272
Other Financial Assets	-	282,577,503	-	-	-	282,577,503
Total Financial Assets	**391,658,825**	**1,059,345,277**	**1,108,306,173**	**1,889,986,832**	**136,587**	**4,449,433,694**
Financial Liabilities						
Due to Banks and Other Institutions	55,985,185	7,951,380	11,919,399	-	-	75,855,963
Due to Customers	1,136,648,191	848,945,080	946,952,431	480,866,840	150,287,259	3,563,699,800
Total Financial Liabilities	**1,192,633,376**	**856,896,460**	**958,871,830**	**480,866,840**	**150,287,259**	**3,639,555,764**
Total Net Financial Assets/(Liabilities)	**(800,974,552)**	**202,448,818**	**149,434,344**	**1,409,119,993**	**(150,150,672)**	**809,877,931**

43. RISK mANAGEmENT (CONTD).

As at 31 march 2016	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	306,766,105	-	-	-	-	306,766,105
Loans and Receivables	441,162,599	614,255,933	1,306,200,858	1,034,545,460	252,750	3,396,417,600
Financial Investments	-	243,177,150	-	-	-	243,177,150
Other Financial Assets	-	200,000,000	32,859,565	-	-	232,859,565
Total Financial Assets	**747,928,704**	**1,057,433,083**	**1,339,060,423**	**1,034,545,460**	**252,750**	**4,179,220,420**
Financial Liabilities						
Due to Banks and Other Institutions	-	2,666,161	11,159,397	17,399,897	-	31,225,455
Due to Customers	1,589,977,917	487,853,251	703,965,186	289,542,316	-	3,071,338,670
Total Financial Liabilities	**1,589,977,917**	**490,519,412**	**715,124,583**	**306,942,213**	**-**	**3,102,564,125**
Total Net Financial Assets/(Liabilities)	**(842,049,213)**	**566,913,671**	**623,935,840**	**727,603,247**	**252,750**	**1,076,656,295**

43.3.2 Contractual maturities of Commitments & Contingencies

There are no significant contingencies and significant capital commitments as at 31 March 2017.

43.4 Operational Risk

Overview

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

After reviewing the audit reports the Intergraded 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.

43.5 market Risk

Overview

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

market Risk management

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

Upon recognizing various sources of risks, their characteristics and possible outcomes resulting from transactions undertaken by the company risk management process functions in compliance with the Investment Policy and Asset and Liability Policy . Investment Policy and Asset and Liability Policy alone with Intergraded 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).

Notes to the Financial Statements

43. RISK mANAGEmENT (CONTD).

ALCO is the core management committee that regularly monitors market risk exposures and initiates appropriate action to optimise 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 SDF
- Articulating interest rate review of the SDF

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.

43.5.1 Interest Rate Risk

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

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

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

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

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

43.5.2 Interest Rate Risk Exposure On Financial Assets & Liabilities

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

As at 31 march 2017	Up to 03 months Rs.	03-12 months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31.03.2017 Rs.
Assets							
Cash and Cash Equivalents	97,421,041	-	-	-	-	40,625,026	138,046,068
Loans and Receivables	752,084,364	1,064,284,998	1,299,583,006	360,951,112	136,587	-	3,477,040,068
Lease Rentals Receivables	10,084,896	44,021,175	134,062,298	95,390,416	-	-	283,558,784
Financial Investments	268,211,272	-	-	-	-	-	268,211,272
Other Financial Assets	282,577,503	-	-	-	-	-	282,577,503
Total Financial Assets	**1,410,379,075**	**1,108,306,173**	**1,433,645,304**	**456,341,528**	**136,587**	**40,625,026**	**4,449,433,694**
Financial Liabilities							
Due to Banks and Other Institutions	53,023,235	7,951,380	11,919,399	-	-	2,961,950	75,855,963
Due to Customers	1,985,593,271	946,952,431	318,723,138	162,143,701	150,287,259	-	3,563,699,800
Total Financial Liabilities	**2,038,616,506**	**954,903,811**	**330,642,537**	**162,143,701**	**150,287,259**	**2,961,950**	**3,639,555,764**
Interest Sensitivity Gap	**(628,237,430)**	**153,402,362**	**1,103,002,767**	**294,197,827**	**(150,150,672)**	**37,663,076**	**809,877,931**

43. RISK mANAGEmENT (CONTD).

As at 31 march 2016	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 31.03.2016 Rs.
Assets							
Cash and Cash Equivalents	264,142,742	-	-	-	-	42,623,363	306,766,105
Loans and Receivables	892,296,738	1,018,150,431	765,166,236	90,973,861	218,792	-	2,766,806,058
Financial Investments	243,177,150	-	-	-	-	-	243,177,150
Other Financial Assets	200,000,000	32,859,565	-	-	-	-	232,859,565
Total Financial Assets	**1,599,616,630**	**1,051,009,996**	**765,166,236**	**90,973,861**	**218,792**	**42,623,363**	**3,549,608,878**
Financial Liabilities							
Due to Banks and Other Institutions	2,666,161	11,159,397	13,374,218	4,025,679	-	-	31,225,455
Due to Customers	1,589,056,656	1,191,766,191	223,193,591	66,400,971	-	-	3,070,417,409
Total Financial Liabilities	**1,591,722,817**	**1,202,925,588**	**236,567,809**	**70,426,650**	**-**	**-**	**3,101,642,864**
Interest Sensitivity Gap	**7,893,813**	**(151,915,592)**	**528,598,427**	**20,547,211**	**218,792**	**42,623,363**	**447,966,014**

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.

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

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

Derecognition
An item of property, plant & equipment is derecognised 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 derecognised.