RICHARD PIERIS FINANCE LIMITED

FINANCIAL STATEMENTS

31 MARCH 2018

EY
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Ernst & Young
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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF RICHARD PIERIS FINANCE LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Richard Pieris Finance Limited, which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

(Contd...2/)

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2097.

01 June 2018
Colombo

INCOME STATEMENT

Year ended 31 March 2018

	Notes	Company 2018 Rs.	Company 2017 Rs.
Interest Income		2,133,736,799	1,671,191,961
Interest Expenses		(1,211,243,242)	(935,493,264)
Net Interest Income	6	922,493,558	735,698,697
Fee and Commission Income	7	176,497,420	199,799,113
Net Fee and Commission Income		1,098,990,978	935,497,810
Other Operating Income	8	-	-
Total Operating Income		1,098,990,978	935,497,810
Impairment charges for loans and receivables and other losses	9	(102,108,135)	(176,583,200)
Net Operating Income		996,882,843	758,914,610
Operating Expenses			
Personnel Expenses	10	(171,267,826)	(138,645,362)
Depreciation of Property, Plant & Equipment	21.2	(21,762,045)	(14,805,395)
Other Operating Expenses	11	(179,292,164)	(143,110,672)
Total Operating Expenses		(372,322,035)	(296,561,429)
Operating Profit before Value Added Tax on Financial Services		624,560,807	462,353,181
Value Added Tax on Financial Services		(107,587,840)	(64,701,477)
Profit before Taxation from Operations		516,972,967	397,651,704
Income Tax Expense	12	(118,621,361)	(9,001,028)
Profit for the Year		398,351,606	388,650,676
Basic Earnings Per Share (Rs)	13	3.39	3.31

The accounting policies and notes on pages 08 through 44 form an integral part of the Financial Statements.

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STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2018

	Notes	Company 2018 Rs.	Company 2017 Rs.
Profit for the Year		398,351,606	388,650,676
Other Comprehensive Income			
Other Comprehensive income not to be reclassified to Income Statement			
Actuarial gains on defined benefit plans		(4,067,643)	(579,553)
Other Comprehensive income to be reclassified to Income Statement			
Gains/(losses) on re-measuring available-for-sale financial assets		620,644	(674,655)
Recycling to statement of Profit or Loss		-	(1,627,109)
Total Comprehensive Income for the Year, Net of Tax		394,904,607	385,769,359
Attributable to :			
Equity Holders of the Parent Company		-	-
Non-controlling interest		-	-
		-	-

The accounting policies and notes on pages 08 through 44 form an integral part of the Financial Statements.

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Richard Pieris Finance Limited

STATEMENT OF FINANCIAL POSITION

Year ended 31 March 2018

	Notes	Company 2018 Rs.	Company 2017 Rs.
Assets			
Cash and Bank Balances	14	348,984,979	272,493,312
Investments in Fixed Deposits	15	180,908,736	40,258,606
Lease Receivable	16	5,421,216,529	4,361,256,139
HP Receivable	17	130,752,583	245,127,687
Loans and Receivables	18	6,039,683,512	6,060,689,288
Other Debtors and Prepayments	19	742,425,925	204,435,309
Financial Investments - Available for Sale	20	328,220,078	262,898,213
Investments - Held for Trading	20.1	20,432,112	-
Investments in subsidiary	30	-	804,765,475
Goodwill	30.1	315,790,723	-
Income Taxation Receivable	25	-	4,558,564
Deferred Tax Assets	24	25,996,509	31,533,817
Intangible Assets	21.5	13,252,083	-
Investment Property	29	72,618,800	3,200,000
Property, Plant and Equipment	21	223,489,112	44,169,536
Total Assets		13,863,771,679	12,335,385,948
Liabilities			
Due to banks		1,070,095,959	3,416,898,568
Due to Customers		5,070,356,531	3,381,398,456
Debt Issued and Other Borrowed Funds	22	4,050,544,171	3,029,656,433
Other Payables	23	1,063,118,119	484,640,564
Income Taxation Payable	25	109,589,479	-
Retirement Benefit Obligations	26	15,416,972	3,161,036
Total Liabilities		11,379,121,232	10,315,755,057
Shareholders' Funds			
Stated Capital	27	1,175,830,690	1,175,830,690
Statutory Reserve Fund		60,326,279	40,408,698
Retained earnings		1,248,493,479	803,391,502
Revaluation Gain Reserve		-	-
Total Shareholders' Funds		2,484,650,448	2,019,630,891
Non-controlling interest	28	-	-
Total equity		2,484,650,448	2,019,630,891
Total Liabilities and Shareholders' Funds		13,863,771,679	12,335,385,948

Chief Financial Officer

Chief Executive Officer

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

Director

Director

The accounting policies and notes on pages 08 through 44 form an integral part of the Financial Statements.

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01 June 2018
Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

Company	Stated Capital	Retained Earnings	Statutory Reserve Fund	Investment Fund Reserve	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31 March 2016	1,175,830,690	437,054,677	20,976,165	-	1,633,861,532
Net profit for the year	-	388,650,676	-	-	388,650,676
Other comprehensive income net of tax	-	(2,881,317)	-	-	- 2,881,317
Transfer to Statutory Reserve Fund	-	(19,432,534)	19,432,534	-	-
Super Gain Tax	-	-	-	-	-
Balance as at 31 March 2017	1,175,830,690	803,391,502	40,408,698	-	2,019,630,891
	-	398,351,606	-	-	398,351,606
Other comprehensive income net of tax	-	(3,446,999)	-	-	(3,446,999)
Transfer from Chilaw Finance		70,114,950			70,114,950
Transfer to Statutory Reserve Fund	-	(19,917,580)	19,917,580	-	-
Super Gain Tax	-	-	-	-	-
Balances as at 31 March 2018	1,175,830,690	1,248,493,479	60,326,279	-	2,484,650,448

The accounting policies and notes on pages 08 through 44 form an integral part of the Financial Statements.

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Richard Pieris Finance Limited

CASH FLOW STATEMENT

Year ended 31 March 2018

	Notes	Company 2018 Rs.	Company 2017 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		516,972,967	397,651,704
Adjustments for			
Depreciation of Property and Equipment	21.2	23,228,746	14,805,395
Impairment Provision	9	102,108,135	176,583,200
Increase /(decrease) in Market value of investment properties		-	-
Provision/(reversal) for Defined Benefit Plans	10	3,718,479	1,435,823
Dividend Received		(403,582)	(58,500)
Other Non- cash items included in profit before tax		-	(1,627,109)
Operating Profit before Working Capital Changes		645,624,746	588,790,513
(Increase)/Decrease in Lease Receivable		(537,525,189)	(659,184,281)
(Increase)/Decrease in HP Receivable		134,536,985	248,414,720
(Increase)/Decrease in Loans and Receivables		268,124,502	(2,167,232,739)
(Increase)/Decrease in Other Receivables		(529,865,707)	(127,241,743)
Increase/(Decrease) in Amounts Due to Customers		1,151,452,854	296,606,977
Increase/(Decrease) in Other Payables		558,087,086	136,681,329
Cash Generated from Operations		1,690,435,277	(1,683,165,225)
Retirement Benefit Liabilities Paid		(771,717)	-
Taxes Paid		(28,701,647)	(5,589,860)
Net Cash (Used in) Operating Activities		1,660,961,912	(1,688,755,085)
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property and Equipment	21.1	(55,238,590)	(31,695,652)
Investments in Fixed Deposits		(139,963,481)	221,724,718
Financial investments held -for- trading		(2,490,968)	-
Net investment in investment property		-	(3,200,000)
Sale/(Purchase) of financial investments- available- for- sale		(65,116,564)	(145,486,660)
Financial Assets - Held to Maturity		63,745,858	-
Dividend Received		403,582	58,500
Acquisition of Chilaw Finance		(76,192,583)	-
Net Cash Flows (Used in) Investing Activities		(274,852,746)	41,400,906
Cash Flows from / (Used in) Financing Activities			
Net Proceeds from Long Term Loans		-	-
Proceeds from Issuance of new shares		-	-
Net Cash Flow from Securitised Borrowings, Syndicated Loans and Other Bank Facilities		1,020,887,738	1,184,711,768
Dividends Paid		-	-
Net Cash Flows from Financing Activities		1,020,887,738	1,184,711,768
Net Increase in Cash and Cash Equivalents		2,406,996,905	(462,642,411)
Cash and Cash Equivalents at the beginning of the year		(3,128,107,885)	(2,681,762,844)
Cash and Cash Equivalents at the end of the year		(721,110,981)	(3,144,405,255)
Net cash generated from operating activities include followings			
Interest received		1,982,161,185	1,611,417,639
Interest paid		(1,095,598,178)	(786,238,029)
Net interest received / (paid)		886,563,007	825,179,610

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The accounting policies and notes on pages 08 through 44 form an integral part of the Financial Statements.

1. CORPORATE INFORMATION

1.1 General

Richard Pieris Finance Limited ("The Company"), formerly known as Richard Pieris Arpico Finance Limited was incorporated as a Public Limited Liability Company. The Company is incorporated and domiciled in Sri Lanka and the registered office and the principal place of business of the Company is located at No 69, Hyde Park Corner, Colombo 02.

It is a Licensed Finance Company under the Finance Business Act No.42 of 2011. The Company was registered under the Companies Act No.07 of 2007.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company and Subsidiary were acceptance of deposits, granting lease facilities, hire purchase, mortgage loans, Islamic finance facilities and other credit facilities. There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent and ultimate parent company is Richard Pieris & Company PLC.

1.4 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards (SLFRS/ LKAS).

1.5 Date of Authorization for Issue

The Financial Statements of Richard Pieris Finance Limited for the year ended 31 March 2018 was authorized for issue in accordance with a resolution of the Board of Directors on 01 June 2018.

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2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company (Statement of Financial Position, Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes) as at 31st March 2018 are prepared in accordance with Sri Lanka Accounting Standards comprising of SLFRSs and LKASs (hereafter referred as SLFRSs), as laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and amendments thereto.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for the following material items in the Statement of financial position, all of which are measured at fair value.

- Land and buildings are measured at re-valuation
- Investment properties at fair value.
- Financial assets and liabilities designated at fair value through profit or loss
- Liabilities for defined benefit obligations are recognised as the present value of the defined benefit obligation

2.3 Functional and presentation currency

The financial statements are presented in Sri Lanka Rupees, which is also the Company's functional and presentation currency (except otherwise indicated).

2.4 Presentation of financial statements

The Company presents its statement of financial position broadly grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 33.

2.5 Materiality & Aggregation

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, if they are material.

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

2.6 Comparative Information

The accounting policies have been consistently applied by the company with those of the previous financial year in accordance with LKAS 01 Presentation of Financial Statements, except those which had to be changed as a result of application of the new SLFRS. Further, comparative information is reclassified whether necessary to comply with the current presentation.

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3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the application of certain critical accounting and assumptions relative to the future. Further, it requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based these assumptions and estimates on parameters available at the time financial statements were prepared. Existing circumstances and assumptions about future developments, these may change due to market changes or circumstances arising beyond the control of the Company. Such changes are taken in to consideration in the assumptions when they occur

i. Useful life-time of the Property and equipment

The Company reviews the residual values, useful lives and methods of depreciation of assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

ii. Going Concern

The Directors have made an assessment of the company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, board is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the company. Therefore, the financial statements continue to be prepared on the going concern basis.

iii. Defined Benefit Plans

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

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

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iv. Deferred tax assets

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

v. Impairment losses on loans and advances

The Company reviews their individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. 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 impairment allowance.

Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, 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 in to account data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, interest rates, exchange rates).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of the same.

4.2 Property, Plant and equipment

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

Recognition and measurement

Cost Model

Property and equipment is stated at cost or valuation excluding the costs of day-to-day servicing, less accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent Cost

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

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Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The rates of depreciations based on the estimated useful lives are as follows.

Category of Asset	Period of Depreciation
Freehold Buildings	40 years
Motor Vehicles	4-5 years
Furniture & Fittings	4-20 years
Office Equipments	4-5 years
Computer Equipment	3-4 years
Machinery	4 years

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriated, at each financial year end.

Property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in "Other operating income" in the income statement in the year the asset is de-recognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

4.3 Financial Assets

4.3.1 Financial Assets – initial recognition and subsequent measurement

Financial assets within the scope of LKAS 39 are classified as, Loans and Advances, Lease Rental Receivables Financial investments held-to-maturity, financial investments available-for-sale, financial investments held for trading as appropriate. The Company determines the classification of its financial assets at initial recognition.

i. Date of recognition

All financial assets are initially recognized on the trade date, i.e., the date that the company becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': 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.

ii. Initial measurement of financial Assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial assets are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

iii. Financial assets held for trading

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net trading income'. Dividend income is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

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iv. Available for sale financial assets

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

Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established.

v. Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to- maturity when the company has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised as finance cost in the income statement

vi. Loans and advances to customers and Lease Rental Receivables from customers

Loans and advances to customers and Lease Rental Receivables from customers include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the company intends to sell immediately 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, amounts 'loans and advances to customers and Lease Rental Receivables from customers are subsequently measured at amortised cost using the 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 income statement. The losses arising from impairment are recognised in the income statement in "Impairment (Charges) / Reversal for loans and other losses"

4.3.2 'Day 1' difference

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'.

4.3.3 Reclassification of financial assets

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset 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 profit or loss over the remaining life of the investment 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. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

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The Company may reclassify a non–derivative trading asset out of the 'held for trading' category and into 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 increases 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 instrument into the fair value through profit or loss category after initial recognition.

4.3.4 Derecognition of financial assets

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

- The rights to receive cash flows from the 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:
    - o The company has transferred substantially all the risks and rewards of the asset.
      Or
    - o 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 bank 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.

4.3.5 Impairment of Financial Assets

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

i. Loans and advances to customers and Lease Rental Receivable from customers

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and for groups of loans, this is done collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

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Collectively assessed loans and advances customers and Lease Rental Receivable from customers

Impairment is assessed on a collective basis in two circumstances:

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

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the company has incurred as a result of events occurring before the balance sheet date, which the company is not able to identify on an individual loan basis, and that can be reliably estimated.

These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

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

Homogeneous groups of loans and advances

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

Following method is used to calculate historical loss experience on a collective basis:

Net flow Rate method

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

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

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

These additional macro and portfolio risk factors may include:

- Recent loan portfolio growth and product mix,
- Unemployment rates, Gross Domestic Production (GDP) growth, inflation
- Exchange rates, interest rates
- Changes in government laws and regulations

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Write-off of loans and advances

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

ii Available for sale financial investments

For available for sale financial investments, the company assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available for sale, the company assesses individually whether there is objective evidence of impairment.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based 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'.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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

iii Held-to-maturity financial assets

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

Renegotiated loans

Where possible, the company seeks 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 renegotiated, 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 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.

4.3.6 Other Financial Assets

Other Financial Assets includes the Other Receivables and Refundable Deposits. Refundable Deposits are initially record at Fair value and subsequently measured at amortized cost.

4.4 Other Non-Financial Assets

4.4.1 Impairment of non–financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates 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. Where the carrying amount of an asset or CGU 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.

4.5 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over 10 year period and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Amortization is calculated using the straight line method to write down the cost of Intangible Assets to their residual values over their estimated useful lives.

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4.6 Investment Property

Investment properties are initially recognised at cost and subsequently carried at fair value, determined annually by independent professional valuers on the highest-and best- use basis. Changes in fair values are recognised in profit or loss.

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

4.7 Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as Borrowings and Trade and Other Payables. The company determines the classification of its financial liabilities at initial recognition.

The Company classifies financial liabilities in to financial liabilities at other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

The Company recognizes financial liabilities in the Statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

Derecognisition of financial liabilities

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

4.8 Borrowings

Borrowings obtained by the Company that are not designated at fair value through profit or loss, are classified as liabilities under 'Borrowings', 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.

After initial measurement, borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

4.9 Other Financial Liabilities

Other Financial Liabilities includes the Trade and Other Payables and Sundry Creditors. Other Financial Liabilities are recorded at cost.

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4.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where 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. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

4.11 Retirement Benefit Obligations

a. Defined Benefit Plan – Gratuity

The Company measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit Method (PUC) as required by **LKAS No 19, Employee Benefits**

The item is stated under Defined Benefit Liability in the Statement of financial position.

Recognition of Actuarial Gains and Losses

Actuarial gains and losses are recognized as income or expenses in the year in which it arose itself.

4.12 Taxation

4.12.1 Current Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

4.12.2 Deferred Taxation

Deferred income tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability 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.

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Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets 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 assets and unused tax losses can be utilised except where the deferred income 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;

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income 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 reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in the equity and not in the income statement.

4.12.3 VAT on Financial Services

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto.

4.13 Recognition of income and expenses

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 following specific recognition criteria must also be met before revenue is recognised.

4.13.1 Interest Income and Interest expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the bank subsequently increases 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.

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

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4.14 Cash Flow Statement

The cash flow statement has been prepared by using 'Indirect Method', of preparing cash flows in accordance with the LKAS 7 – "Statement of Cash Flow". Cash and cash equivalents comprise short term, highly liquid investments, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

5. IMPENDING ACCOUNTING STANDARDS

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 March 2018 reporting periods. None of those have been early adopted by the Company.

SLFRS 9 Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Pending the completion of the detailed impact analysis, possible impact from SLFRS 9 and SLFRS 15 is not reasonably estimable as of the reporting date.

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6. INTEREST INCOME	Company 2018 Rs.	Company 2017 Rs.
Leasing Interest Income	854,820,389	640,511,755
HP Interest Income	29,584,054	65,872,280
Loans and Receivables Interest Income	1,188,808,201	920,782,126
Interest income - Fixed Deposits	21,086,965	19,493,524
Interest Income - Government Securities	33,439,061	18,426,086
Other	4,127,842	5,957,457
Interest Income on Saving Accounts	1,870,286	148,733
Total Interest Income	2,133,736,799	1,671,191,961

6.1 Interest Expenses

Interest on Public deposits	567,235,807	331,998,833
Overdrafts	191,231,095	295,935,647
Long Term Borrowings	452,776,340	307,558,784
Total Interest Expenses	1,211,243,242	935,493,264
Net Interest Income	922,493,558	735,698,697

7. FEE AND COMMISSION INCOME	Company 2018 Rs.	Company 2017 Rs.
Documentation Charges	40,415,957	40,671,348
Insurance Commission	18,446,826	13,797,937
Other fees recovered	109,242,793	125,992,528
Service Charges	4,722,555	10,198,916
Sundry Income	3,669,290	9,138,384
Total Fee and Commission Income	176,497,420	199,799,113

8. OTHER OPERATING INCOME	Company 2018 Rs.	Company 2017 Rs.
Profit on Disposal of Investments	-	-
Other sundry income	-	-
Total Other Operating Income	-	-

9. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES	Company 2018 Rs.	Company 2017 Rs.
Finance Leases	47,892,577	100,318,758
Hire Purchase	-	(17,123,912)
Other Loans	54,215,558	93,388,354
	102,108,135	176,583,200

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10. PERSONNEL EXPENSES

	Company 2018 Rs.	Company 2017 Rs.
Remuneration	154,048,510	126,764,649
Contribution to Defined Contribution Plan	13,937,817	10,444,890
Gratuity Charge for the Year	3,281,499	1,435,823
	171,267,826	138,645,362

11. OTHER OPERATING EXPENSES

	Company 2018 Rs.	Company 2017 Rs.
Directors' Emoluments	3,635,000	1,600,000
Auditors Remuneration	2,250,000	2,068,375
Legal fees	234,060	853,357
Professional fees	6,206,059	4,527,205
Office Administration & Establishment Expenses	96,152,261	72,044,744
Advertising & Business Promotional Expenses	21,141,792	23,457,388
Other Expenses	49,672,993	38,559,603
	179,292,164	143,110,672

12. TAXATION

12.1 The major components of income tax expense for the years ended 31st March are as follows.

Income Statement	Company 2018 Rs.	Company 2017 Rs.
Current Income Tax		
Income Tax for the year	131,102,270	17,867,677
Under/ (Over) Provision of Current Taxes in respect of Previous Years	3,943,349	-
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 24)	(16,424,258)	(8,866,649)
	118,621,361	9,001,028

12.2 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.

	Company 2018 Rs.	Company 2017 Rs.
Accounting Profit Before Income Taxation	624,560,807	462,353,181
Income Tax Expense at the statutory income tax rate of 28%	174,877,026	129,458,891
Tax effect of Non deductible Expenses	495,222,788	344,825,278
Tax effect of Other allowable Credits	(538,997,544)	(452,867,482)
Tax Effect of Exempt Income	-	-
	131,102,270	21,416,687

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The Company's income is taxed at the rate of 28% during the year of 2017/2018.

13. BASIC/DILUTED EARNINGS PER ORDINARY SHARE

13.1 Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

13.2 The following reflect the income & shares details used in the Basic/Diluted Earning per Share computation.

	Company	
	2018	2017
	Rs.	Rs.
Profit attributable to Ordinary shareholders	398,351,606	388,650,676
Weighted Average Number of Ordinary Shares during the year	117,583,069	117,583,069
Basic/Diluted Earnings per ordinary share (Rs.)	3.39	3.31

14. CASH AND BANK BALANCES

	Company	
	2018	2017
	Rs.	Rs.
Cash at Bank	295,052,469	269,659,609
Cash in Hand	53,932,510	2,833,703
	348,984,979	272,493,312

15. INVESTMENTS IN FIXED DEPOSITS

	Company	
	2018	2017
	Rs.	Rs.
Fixed Deposits	180,908,736	40,258,606
	180,908,736	40,258,606

16. LEASE RECEIVABLES

	Company	
	2018	2017
	Rs.	Rs.
Gross Lease Rentals Receivables	7,576,394,642	5,978,015,144
Less : Unearned Income	(1,886,313,790)	(1,384,938,806)
Less : Collective Impairment Charges	(268,864,323)	(231,820,199)
	5,421,216,529	4,361,256,139

Lease receivables include receivables amounting to Rs.2,177,186,295 that have been assigned under Term loan and Securitization agreement.

17. HP RECEIVABLE

	Company	
	2018	2017
	Rs.	Rs.
Gross HP Rentals Receivables	201,666,144	309,716,811
Less : Unearned Income	(41,997,602)	(55,117,664)
Less : Collective Impairment Charges	(28,915,960)	(9,471,459)
	130,752,583	245,127,687

Hire Purchase receivables include receivables amounting to Rs.125,909,587 that have been assigned under Term loan and Securitization agreement.

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18. LOANS AND RECEIVABLES

	2018 Rs.	2017 Rs.
Gross Loans Rentals Receivables	8,316,569,687	7,661,431,651
Less : Unearned Income	(1,929,907,959)	(1,391,589,821)
Less : Individual Impairment Charges	-	-
Less : Collective Impairment Charges	(346,978,216)	(209,152,542)
	6,039,683,512	6,060,689,288

Loans and receivables include receivables amounting to Rs.3,864,332,658 that have been assigned under Term loan and Securitization agreement.

19. OTHER DEBTORS AND PREPAYMENTS

	Company 2018 Rs.	2017 Rs.
Other Debtors and Prepayments	742,425,925	204,435,309
	742,425,925	204,435,309

20. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	2018 Rs.	2017 Rs.
Investment in Credit Information Bureau Ordinary Shares	593,100	587,800
Investment in FHC Shares	200,000	-
Treasury Bills	309,541,944	253,711,672
Treasury Bonds	17,885,034	8,598,742
	328,220,078	262,898,213

The above Ordinary share investment has been made primarily for the regulatory purpose. Such investment are recorded at cost due to unavailability of information to value the fair value of such investment.

20.1 Investments - held for trading
Investment in quoted shares

	Company 2018 Rs.	2017 Rs.
Pirmal Glass Ceylon PLC	2,457,622	-
Sampath Bank PLC	17,585,100	-
Hatton National Bank PLC	389,390	-
	20,432,112	-

21. PROPERTY, PLANT AND EQUIPMENT

Company

21.1 Gross Carrying Amounts

	Balance As at 31.03.2017 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.
Land	-	12,689,549	130,687,500		143,377,049
Building	-	-	19,631,555		19,631,555
Motor Vehicles	8,646,761	-	4,991,622	-	13,638,383
Furniture & Fittings	31,778,838	21,788,429	11,398,944	-	64,966,211
Machinery	-	-	1,197,479	-	1,197,479
Office Equipments	18,467,118	10,283,062	8,791,892	-	37,542,073
Computer Equipment	21,087,427	1,052,550	11,034,090	-	33,174,067
Total Value of Depreciable Assets	79,980,144	45,813,590	187,733,082	-	313,526,817

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21. PROPERTY, PLANT AND EQUIPMENT (Contd...)

Company

21.2 Depreciation

	Balance As at 31.03.2017 Rs.	Charge for the year Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.
Land		-	-		-
Building		362,933	1,669,021		2,031,954
Motor Vehicles	6,598,673	1,729,352	4,762,940	-	13,090,966
Furniture & Fittings	12,919,534	10,120,968	5,417,946	-	28,458,447
Machinery	-	-	1,197,479		1,197,479
Office Equipments	4,634,493	5,148,780	7,875,051	-	17,658,324
Computer Equipment	11,657,908	4,400,013	11,542,614	-	27,600,535
	35,810,608	21,762,045	32,465,052	-	90,037,705

21.3 Net book Values

	Balance As at 31.03.2017 Rs.	Additions Rs.	Transfers Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.
Land	-	12,689,549	130,687,500		143,377,049
Building	-	(362,933)	17,962,534		17,599,601
Motor Vehicles	2,048,087	(1,729,352)	228,682	-	547,417
Furniture & Fittings	18,859,304	11,667,461	5,980,999	-	36,507,764
Machinery	-	-	-		-
Office Equipments	13,832,626	5,134,282	916,841	-	19,883,749
Computer Equipment	9,429,519	(3,347,463)	(508,524)	-	5,573,532
Total Carrying Amount of Property, Plant & Equipment	44,169,536	24,051,544	155,268,031	-	223,489,112

21.4 The useful life of the assets is estimated as follows.

Building	40 years
Motor Vehicles	5 years
Furniture & Fittings	4 years
Machinery	4 years
Office Equipments	5 years
Computer Equipment	3 years

21.5 Intangible Assets

	Company 2018 Rs.	2017 Rs.
Computer Software		
Cost		
At the beginning of the year	-	-
Additions	9,425,000	-
Transfers	573,929	
Transfer From Chilaw Finance	10,555,079	
At the end of the year	20,554,008	-
Amortization		
At the beginning of the year	-	-
Additions	1,466,701	-
Transfer From Chilaw Finance	5,835,224	
At the end of the year	7,301,925	-
Carrying Value		
At the beginning of the year	-	-
At the end of the year	13,252,083	-

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22. DEBT ISSUED AND OTHER BORROWED FUNDS

	Company 2018 Rs.	Company 2017 Rs.
Long Term Loans	4,050,544,171	3,029,656,433
	4,050,544,171	3,029,656,433
Payable within one year	1,366,710,021	1,248,005,505
Payable after one year	2,683,834,150	1,781,650,928
	4,050,544,171	3,029,656,433

23. OTHER PAYABLES

	Company 2018 Rs.	Company 2017 Rs.
Payable to Parent Company	87,905,962	123,168,540
Payable to Suppliers	530,980,773	183,726,049
Other Payables	439,443,179	177,175,169
Vat Payables	4,788,205	570,806
	1,063,118,119	484,640,564

24. DEFERRED TAXATION

Deferred Tax Assets, Liabilities and Income Tax relates to the following

	Statement of Financial Position Company 2018 Rs.	Statement of Financial Position Company 2017 Rs.
Deferred Tax Liability		
Capital Allowances for tax purposes	239,491,301	174,945,622
	239,491,301	174,945,622
Deferred Tax Assets		
Defined Benefit Plans	4,316,752	885,090
Tax Losses	261,171,058	205,594,349
	265,487,810	206,479,440
Net Deferred Tax Liability/ (Asset)	(25,996,509)	(31,533,817)
Deferred Income Tax Charge/(Reversal)	(16,424,258)	(8,866,648)

25. INCOME TAX PAYABLES/(RECEIVABLES)

	Company 2018 Rs.	Company 2017 Rs.
As at beginning of the year	(4,558,564)	(16,836,381)
Tax Paid	(1,836,374)	-
Tax Paid-Chilaw Finance	(3,395,464)	-
Adjustment (WHT etc.)	(23,469,809)	(5,589,860)
Transfer From Chilaw Finance	7,804,072	-
Provision for the year	135,045,618	17,867,677
As at end of the year	109,589,479	(4,558,564)

26. RETIREMENT BENEFIT OBLIGATIONS	Company 2018 Rs.	Company 2017 Rs.
Benefit Expenses for the Year	7,786,122	2,015,376
Balance at the beginning of the year	3,161,036	1,145,660
Transfer From Chilaw Finance	5,241,531	-
Gratuity Paid during the Period	(771,717)	-
Balance at the end of the year	15,416,972	3,161,036

26.1 Expenses on Defined Benefit Plan	Company 2018 Rs.	Company 2017 Rs.
Current Service Cost for the year	2,668,158	1,309,801
Interest cost for the year	1,050,321	126,023
(Gain)/Loss arising from changes in the assumptions of the previous year	4,067,643	579,553
	7,786,122	2,015,377

26.2 Assumptions	Company 2018	Company 2017
Discount Rate	11.00%	12.50%
Salary Increment	8%	8%
Retirement Age	55 Years	55 Years

27. STATED CAPITAL

27.1 Issued and Fully Paid-Ordinary shares	2018 No of Shares	2018 Rs.	2017 No of Shares	2017 Rs.
At the beginning of the year	117,583,069	1,175,830,690	117,583,069	1,175,830,690
Issued during the year	-	-	-	-
At the end of the year	117,583,069	1,175,830,690	117,583,069	1,175,830,690

28. NON CONTROLLING INTEREST	2018 Rs.	2017 Rs.
Opening balance	63,030,210	57,496,006
Profit applicable for the year	-	5,534,204
Surplus Value of Investment Property	-	-
Further acquisition	(63,030,210)	-
Closing balance at 31st March	-	63,030,210

29. INVESTMENT PROPERTY	Company 2018 Rs.	Company 2017 Rs.
At the beginning of the year	3,200,000	-
Acquisition from Subsidiary	-	-
Net Additions/(Disposals)	69,418,800	3,200,000
Increase in Market Value of existing properties		-
At the end of the year	72,618,800	3,200,000

30. INVESTMENT IN SUBSIDIARY	Holding %	2018 Rs.	Holding %	2017 Rs.
Company				
Chillaw Finance PLC	100.00%	-	90.01%	804,765,475
		-		804,765,475

30.1	
Total Net Assets as at Acquisition Date	524,329,151
% of Holding	86.95%
Share of Net Assets	462,773,482
Cost of Purchase of Share	778,564,205
Goodwill	315,790,723

31. FAIR VALUE

Financial Instruments Recorded at Fair Value

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

Financial Investments - Held for Trading

Financial investments measured at fair value are quoted equities. For quoted equities Company uses quoted market price in active markets as at the reporting date.

Financial Investments - Available for Sale

Financial Investments - Available for Sale, primarily consist of equity securities and Government debt securities are valued using valuation techniques or pricing models. These assets are valued using models that use observable data. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka and quoted equities are valued using quoted market prices in the active markets as at the reporting date.

31.1 Determination of Fair Value and Fair Value Hierarchy

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

Level 1 : quoted (unadjusted) prices in active markets for identical assets or liabilities.

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

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

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

Company

As at 31 March 2018	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Investments - Available for Sale				
Government Securities	327,426,978	-	-	327,426,978
Unquoted equities	-	-	587,800	587,800
Total Financial Assets	327,426,978	-	587,800	328,014,778

As at 31 March 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Investments - Available for Sale				
Government Securities	262,310,414	-	-	262,310,414
Unquoted equities	-	-	587,800	587,800
Total Financial Assets	262,310,414	-	587,800	262,898,214

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32. FAIR VALUE OF FINANCIAL INSTRUMENTS

32.1 Determination of Fair Value and Fair Value Hierarchy

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.

Company	Level	2018 Carrying Amount Rs.	2018 Fair Value Rs.	2017 Carrying Amount Rs.	2017 Fair Value Rs.
Financial Assets					
Lease Receivable	Level 2	5,421,216,529	5,691,421,826	4,361,256,139	4,456,727,264
HP Receivable	Level 2	130,752,583	151,209,034	245,127,688	251,624,682
Loans and Receivables	Level 2	6,039,683,512	6,139,544,560	6,060,689,288	6,143,358,852
		11,591,652,623	11,982,175,419	10,667,073,115	10,851,710,798
Financial Liabilities					
Debt Issued and Other Borrowed Funds	Level 2	4,050,544,171	4,124,512,108	3,029,656,433	3,030,429,998
Due to Customers	Level 2	5,070,356,531	5,045,103,625	3,381,398,456	3,320,955,655
		9,120,900,702	9,169,615,733	6,411,054,888	6,351,385,652

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.

Assets & Liabilities for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values.(Cash and Bank Balance,Invesment in Fixed Deposits and Other Payables)

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.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. All credit facilities with fixed interest rates were fair valued using market rates at which fresh credit facilities were granted during the last month of the reporting year. Conversely, fixed deposits with remaining tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the last month of the reporting year.

Reclassification of Financial Assets

There were no reclassifications during 2017 & 2018.

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33. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES

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

Company
As at 31 March 2018

	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total as at 31/03/2018
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and Bank Balances	348,984,979	-	-	-	-	348,984,979
Investments in Fixed Deposits	178,798,271	2,110,465	-	-	-	180,908,736
Lease Receivable	485,412,421	1,287,200,104	2,640,704,041	970,703,760	37,196,202	5,421,216,528
HP Receivable	11,538,020	42,994,368	50,473,753	25,746,443	-	130,752,583
Loans and Receivables	1,075,120,344	1,659,603,732	2,335,838,454	960,089,721	9,031,261	6,039,683,512
Other Debtors & Prepayments	826,877,311	-	-	-	-	826,877,311
Financial Investments - Held for Trading	20,432,112	-	-	-	-	20,432,112
Financial Investments - Available for Sale	145,621,783	165,128,605	-	17,264,390	-	328,014,778
Goodwill	-	-	-	-	322,678,050	322,678,050
Deferred Tax Assets	-	-	-	-	25,996,509	25,996,509
Intangible Assets	431,779	1,295,338	3,310,309	3,310,309	4,904,347	13,252,083
Investment Property	-	-	72,618,800	-	-	72,618,800
Investments in subsidiaries	-	-	-	-	-	-
Income Taxation Receivables	-	-	-	-	-	-
Property, Plant and Equipment	8,158,970	16,567,517	30,923,187	9,316,732	158,522,705	223,489,112
Total Assets	3,101,375,989	3,174,900,130	5,133,868,544	1,986,431,356	558,329,074	13,954,905,092
Liabilities						
Due to banks	1,070,095,959	-	-	-	-	1,070,095,959
Due to Customers	1,854,038,397	2,079,283,354	1,015,326,142	121,708,639	-	5,070,356,531
Debt Issued and Other Borrowed Funds	650,822,288	1,090,887,733	2,009,689,327	299,144,823	-	4,050,544,171
Other Payables	1,063,118,119	-	-	-	-	1,063,118,119
Deferred Taxation Liabilities	-	-	-	-	-	-
Income Taxation Payable	-	112,146,130	-	-	-	112,146,130
Retirement Benefit Obligations	-	-	15,416,972	-	-	15,416,972
Total Liabilities	4,638,074,763	3,282,317,216	3,040,432,441	420,853,462	-	11,381,677,882
Net Assets/(Liability)	(1,536,698,774)	(107,417,087)	2,093,436,103	1,565,577,894	558,329,074	2,573,227,209

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33. CURRENT AND NON CURRENT ANALYSIS OF ASSETS AND LIABILITIES (Contd..)

Company

As at 31 March 2017	**Up to 03 Months**	**03-12 Months**	**01-03 Years**	**03-05 Years**	**Over 05 Years**	**Total as at 31/03/2017**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Assets						
Cash and Bank Balances	272,493,312	-	-	-	-	272,493,312
Investments in Fixed Deposits	38,440,231	1,818,375	-	-	-	40,258,606
Lease Receivable	321,647,012	1,009,093,594	2,255,355,902	774,700,906	458,726	4,361,256,139
HP Receivable	46,924,443	81,512,922	97,856,618	18,833,705	-	245,127,688
Loans and Receivables	1,562,792,861	2,087,835,770	1,774,875,656	634,292,067	892,934	6,060,689,288
Other Debtors & Prepayments	204,435,306	-	-	-	-	204,435,306
Financial Investments - Held for Trading	-	-	-	-	-	-
Financial Investments - Available for Sale	109,255,748	144,477,227	-	2,639,135	6,526,102	262,898,213
Deferred Tax Assets	-	-	-	-	31,533,817	31,533,817
Investments in subsidiaries	804,765,475	-	-	-	-	804,765,475
Income Taxation Receivables	4,558,564	-	-	-	-	4,558,564
Property, Plant and Equipment	-	-	-	-	44,169,536	44,169,536
Total Assets	3,365,312,952	3,324,737,889	4,128,088,176	1,430,465,813	83,581,116	12,332,185,945
Liabilities						
Due to banks	3,416,898,568	-	-	-	-	3,416,898,568
Due to Customers	1,262,263,737	1,054,092,461	709,106,287	355,935,971	-	3,381,398,456
Debt Issued and Other Borrowed Funds	298,205,193	949,800,312	1,467,795,502	313,855,426	-	3,029,656,433
Other Payables	484,640,564	-	-	-	-	484,640,564
Deferred Taxation Liabilities	-	-	-	-	-	-
Retirement Benefit Obligations	-	-	3,161,036	-	-	3,161,036
Total Liabilities	5,462,008,061	2,003,892,773	2,180,062,825	669,791,397	-	10,315,755,056
Net Assets/(Liability)	(2,096,695,109)	1,320,845,116	1,948,025,351	760,674,416	83,581,116	2,016,430,889

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34. RISK MANAGEMENT

34.1 Introduction

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for managing the risk exposures relating to his / her functional areas.

The Company identifies the following key financial risks in its business operations.

- Credit Risk
- Liquidity Risk
- Market Risk

RISK MANAGEMENT STRUCTURE

The board is primarily responsible for risk management initiatives. Integrated Risk Management committee, which is a sub-committee of the board has been established and delegated risk management responsibilities. This committee plays a vital role in establishing best practices in relation to risk policies and practices in relation to risk policies and practices within the company.

The quantum and level of risks that the company is willing to accept is decided at the Board Risk Committee level, and the decisions made by this committee is communicated to the Board of Directors. The Board ratifies the risk policies and risk tolerance levels agreed at the integrated Risk Management Committee meetings.

The committee fulfils the requirement set out in the Finance Leasing Direction No.4 of 2009 on Corporate Governance for Finance Leasing Establishments issued by Central Bank of Sri Lanka (CBSL) under Finance Leasing Act, No.56 of 2000.

The Committee consists of such number of members, as the board may determine from time to time. The committee currently consists of membership of 2 Directors. Chief Executive Officer and Key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

34.2 Credit Risk

Credit risk is the risk of financial loss to the Company if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers/other Companies and investments in debt securities. Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorized into three types; default, concentration and settlement risk.

Default risk as the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the company's loans and advances to customers.

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

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

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, any surplus collateral (the extent to which the fair value of collateral held is greater than the exposure to which it relates), and the net exposure to credit risk.

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34. RISK MANAGEMENT (Contd...)

34.2.1 Net Exposure to credit Risk

Company **As at 31 March 2018**	**Maximum Exposure to Credit Risk** **Rs.**	**Net Exposure** **Rs.**
Cash and Bank Balances	348,984,979	295,052,469
Investments in Fixed Deposits	180,908,736	180,908,736
Lease Receivable	5,421,216,529	-
HP Receivable	130,752,583	-
Loans and Receivables	6,039,683,512	1,771,507,343
Financial Investments - Available for Sale	328,220,078	328,220,078
Total Financial Assets	12,449,766,416	2,575,688,625

As at 31 March 2017	**Maximum Exposure to Credit Risk** **Rs.**	**Net Exposure** **Rs.**
Cash and Bank Balances	272,493,312	269,659,609
Investments in Fixed Deposits	40,258,606	40,258,606
Lease Receivable	4,361,256,139	-
HP Receivable	245,127,688	-
Loans and Receivables	6,060,689,288	4,529,809,365
Financial Investments - Available for Sale	262,898,214	262,898,214
Total Financial Assets	11,242,723,246	5,102,625,793

34.2.2 Credit Quality by Class of Financial Assets

Company

As at 31 March 2018	**Neither Past Due Nor Impaired** **Rs.**	**Past Due But Not Impaired** **Rs.**	**Individually Impaired** **Rs.**	**Total** **Rs.**
Assets				
Cash and Bank Balances	348,984,979	-	-	348,984,979
Investments in Fixed Deposits	180,908,736	-	-	180,908,736
Lease Receivable	5,358,959,836	293,520,178	-	5,652,480,014
HP Receivable	135,600,225	23,269,423	-	158,869,648
Loans and Receivables	5,673,067,279	515,211,920	-	6,188,279,199
Financial Investments - Available for Sale	328,220,078	-	-	328,220,078
Collective impairment Provision	-	-	-	(644,758,499)
Total Financial Assets	12,025,741,132	832,001,521	-	12,212,984,154

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34. RISK MANAGEMENT (Contd...)

34.2.2 Credit Quality by Class of Financial Assets (Contd...)

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

	Past Due But Not Impaired				
	Less than 31 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Lease Receivable	21,308,430	47,454,767	53,678,050	171,078,931	293,520,178
HP Receivable	1,115,716	819,930	2,519,340	18,814,437	23,269,423
Loans and Receivables	15,165,877	33,225,872	41,060,803	425,759,367	515,211,920
	37,590,023	81,500,569	97,258,193	615,652,736	832,001,521

Company

As at 31 March 2017	Neither Past Due Nor Impaired	Past Due But Not Impaired	Individually Impaired	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and Bank Balances	272,493,312	-	-	272,493,312
Investments in Fixed Deposits	40,258,606	-	-	40,258,606
Lease Receivable	4,403,096,846	189,979,491	-	4,593,076,338
HP Receivable	232,818,836	21,780,310	-	254,599,147
Loans and Receivables	6,064,884,689	204,957,141	-	6,269,841,830
Financial Investments - Available for Sale	262,898,214	-	-	262,898,214
Collective impairment Provision	-	-	-	(450,444,201)
Total Financial Assets	11,276,450,503	416,716,943	-	11,242,723,245

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

	Past Due But Not Impaired				
	Less than 31 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Lease Receivable	16,288,136	43,286,918	46,932,825	83,471,612	189,979,491
HP Receivable	1,810,400	3,846,279	5,060,097	11,063,534	21,780,310
Loans and Receivables	19,315,831	28,464,670	31,993,732	125,182,908	204,957,141
	37,414,366	75,597,867	83,986,655	219,718,054	416,716,943

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34. RISK MANAGEMENT (Contd...)

34.2.3 Analysis of Risk Concentration

INDUSTRY ANALYSIS

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

Company
As at 31 March 2018

Sector wise Breakdown	Leases Rs.	Hire Purchase Rs.	Loans and Advances Rs.	Total Rs.
Agriculture	447,212,633	20,232,398	543,030,891	1,010,475,921
Manufacturing	272,652,645	3,296,454	398,658,762	674,607,860
Construction	447,408,792	890,742	494,081,922	942,381,456
Financial Services	84,221,523	8,662,990	176,430,556	269,315,069
Trading	543,904,610	14,919,370	1,027,257,963	1,586,081,944
Telecommunication	18,544,895	2,776,117	20,023,970	41,344,982
Transportation	1,292,284,665	22,355,781	1,142,894,132	2,457,534,578
Services	1,407,034,399	10,543,492	1,270,240,321	2,687,818,213
Other	1,139,215,852	75,192,304	1,115,660,682	2,330,068,838
Total	5,652,480,014	158,869,648	6,188,279,199	11,999,628,861

Company
As at 31 March 2017

Sector wise Breakdown	Leases Rs.	Hire Purchase Rs.	Loans and Advances Rs.	Total Rs.
Agriculture	458,858,802	23,291,443	499,516,880	981,667,125
Manufacturing	234,569,168	6,535,813	483,002,684	724,107,666
Construction	397,386,329	3,231,820	492,388,763	893,006,911
Financial Services	12,516,351	5,877,912	112,757,408	131,151,671
Trading	564,636,644	13,159,997	1,848,454,068	2,426,250,709
Telecommunication	15,776,801	-	35,256,917	51,033,718
Transportation	504,563,267	6,760,315	251,613,364	762,936,947
Services	562,521,005	31,924,450	899,534,239	1,493,979,694
Other	1,842,247,972	163,817,397	1,647,317,506	3,653,382,875
Total	4,593,076,339	254,599,147	6,269,841,830	11,117,517,315

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34. RISK MANAGEMENT (Contd...)

34.3 Liquidity Risk & Funding Management

In the context of a financial institution liquidity risk arises primarily due to mismatches in the maturity profile of assets and liabilities. Liquidity risk for or a financial institution can take two forms: transactions liquidity, a property of assets or markets, and funding liquidity, which is more closely related to creditworthiness.

Transaction liquidity risk is the risk of moving the price of an asset adversely in the act of buying or selling it. Company's transaction liquidity risk is low if assets can be liquidated without moving the price too much.

Funding liquidity risk means the Company's inability to finance assets continuously at an acceptable borrowing rate. Funding liquidity risk generally arises when creditors either withdraw credit or change the terms on which it is granted in such a way they are no longer profitable. Funding liquidity risk would increase if the Company's credit quality is, or at least perceived to be, deteriorating, but also because financial conditions as a whole are deteriorating.

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

34.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Company
The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2018

As at 31 March 2018	On Demand Rs.	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31/03/2018 Rs.
Financial Assets							
Cash and Bank Balances	348,984,979	-	-	-	-	-	348,984,979
Investments in Fixed Deposits	-	167,113,112	15,149,864	-	-	-	182,262,976
Lease Receivable	331,274,159	666,149,576	1,898,495,630	3,494,447,012	1,151,623,570	34,404,694	7,576,394,642
HP Receivable	24,069,463	22,214,717	56,342,984	68,523,062	30,515,919	-	201,666,145
Loans and Receivables	557,336,672	1,013,859,643	2,305,818,022	3,261,695,699	1,167,834,785	10,024,867	8,316,569,687
Financial Investments - Available for Sale	-	16,146,273	311,493,443	-	18,181,960	587,800	346,409,476
Total Financial Assets	1,261,665,273	1,885,483,321	4,587,299,943	6,824,665,773	2,368,156,234	45,017,361	16,972,287,904
Financial Liabilities							
Due to banks	1,070,095,959	-	-	-	-	-	1,070,095,959
Due to Customers	58,616,765	1,884,351,227	2,339,122,982	1,255,951,424	129,713,863	-	5,667,756,260
Debt Issued and Other Borrowed Funds	-	781,024,069	1,356,445,856	2,318,136,120	310,964,183	-	4,766,570,227
Other Payables	-	1,063,118,119	-	-	-	-	1,063,118,119
Total Financial Liabilities	1,128,712,724	3,728,493,414	3,695,568,838	3,574,087,544	440,678,046	-	12,567,540,566
Total Net Financial Assets/(Liabilities)	132,952,549	(1,843,010,093)	891,731,105	3,250,578,229	1,927,478,187	45,017,361	4,404,747,339

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34. RISK MANAGEMENT (Contd...)

34.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Company

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.

As at 31 March 2017	On Demand	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total as at 31/03/2017
Financial Assets	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Bank Balances	272,493,312	-	-	-	-	-	272,493,312
Investments in Fixed Deposits	-	39,296,895	1,910,552	-	-	-	41,207,447
Lease Receivable	189,979,491	542,647,731	1,468,367,844	2,896,671,517	879,853,903	494,658	5,978,015,144
HP Receivable	21,780,310	44,905,800	104,526,505	117,314,931	21,189,265	-	309,716,811
Loans and Receivables	204,957,141	1,834,819,942	2,579,409,057	2,303,388,569	737,733,185	1,123,757	7,661,431,652
Financial Investments - Available for Sale	-	109,826,632	153,593,609	-	4,081,960	5,100,000	272,602,201
Total Financial Assets	689,210,254	2,571,497,000	4,307,807,566	5,317,375,017	1,642,858,313	6,718,415	14,535,466,566
Financial Liabilities							
Due to banks	3,416,898,568	-	-	-	-	-	3,416,898,568
Due to Customers	1,692,949	1,319,298,101	1,180,346,252	812,456,999	519,042,830	-	3,832,837,131
Debt Issued and Other Borrowed Funds	389,084,213.05	1,175,695,874	1,730,817,919	332,794,409	-	-	3,628,392,415
Other Payables	-	484,608,022	-	-	-	-	484,608,022
Total Financial Liabilities	3,807,675,730	2,979,601,996	2,911,164,171	1,145,251,408	519,042,830	-	11,362,736,135
Total Net Financial Assets/(Liabilities)	(3,118,465,476)	(408,104,996)	1,396,643,395	4,172,123,609	1,123,815,483	6,718,415	3,172,730,430

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34. RISK MANAGEMENT (Contd...)

34.4 Market Risk

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, and equity prices. Among them, interest rate risk has been identified as the most critical risk given Company's business profile.

34.4.1 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; 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; 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. 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.

INTEREST RATE SENSITIVITY

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the company's Net Interest Income.

Net Interest Income (NII) Sensitivity by Interest Rate Change

Company

	2018		2017	
Parallel Increase / Decrease of Basis Points (bps)*	**+/ - 100 bps**	**+/ - 200 bps**	**+/ - 100 bps**	**+/ - 200 bps**
Impact on NII (Rs)	19097847 (19097847)	38195695 (38195695)	4436622 (4436622)	8873245 (8873244)

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34. RISK MANAGEMENT (Contd...)

34.4 Market Risk (Contd...)

34.4.2 Interest Rate Risk Exposure on Financial Assets & Liabilities

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

Company

As at 31st March 2018	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non Interest Bearing Rs.	Total as at 31/03/2018 Rs.
Assets							
Cash and Bank Balances	-	-	-	-	-	348,984,979	348,984,979
Investments in Fixed Deposits	178,798,271	2,110,465	-	-	-	-	180,908,736
Lease Receivable	485,412,421	1,287,200,104	2,640,704,041	970,703,760	37,196,202	-	5,421,216,528
HP Receivable	11,538,020	42,994,368	50,473,753	25,746,443	-	-	130,752,583
Loans and Receivables	1,075,120,344	1,659,603,732	2,335,838,454	960,089,721	9,031,261	-	6,039,683,512
Financial Investments - Available for Sale	145,621,783	165,128,605	-	17,264,390	-	-	328,014,778
Total Financial Assets	1,896,490,838	3,157,037,274	5,027,016,248	1,973,804,314	46,227,463	348,984,979	12,449,561,115
Financial Liabilities							
Due to banks	1,070,095,959	-	-	-	-	-	1,070,095,959
Due to Customers	1,854,038,397	2,079,283,354	1,015,326,142	121,708,639	-	-	5,070,356,531
Debt Issued and Other Borrowed Funds	650,822,288	1,091,030,588	2,009,546,472	299,144,823	-	-	4,050,544,171
Other Payables	1,063,118,119	-	-	-	-	-	1,063,118,119
Total Financial Liabilities	4,638,074,763	3,170,313,941	3,024,872,614	420,853,462	-	-	11,254,114,780
INTEREST SENSITIVITY GAP	(2,741,583,925)	(13,276,667)	2,002,143,633	1,552,950,852	46,227,463	348,984,979	1,195,446,335

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34. **RISK MANAGEMENT (Contd...)**

34.4 **Market Risk (Contd...)**

34.4.2 **Interest Rate Risk Exposure on Financial Assets & Liabilities**

Company

As at 31st 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 Bank Balances	-	-	-	-	-	272,493,312	272,493,312
Investments in Fixed Deposits	38,440,231	1,818,375	-	-	-	-	40,258,606
Lease Receivable	321,647,012	1,009,093,594	2,255,355,902	774,700,906	458,726	-	4,361,256,139
HP Receivable	46,924,442	81,512,922	97,856,618	18,833,706	-	-	245,127,688
Loans and Receivables	1,562,792,861	2,087,835,770	1,774,875,656	634,292,067	892,934	-	6,060,689,288
Financial Investments - Available for Sale	109,255,748	144,477,227	-	2,639,135	6,526,103	-	262,898,214
Total Financial Assets	2,079,060,294	3,324,737,889	4,128,088,176	1,430,465,814	7,877,763	272,493,312	11,242,723,247
Financial Liabilities							
Due to banks	3,416,898,568	-	-	-	-	-	3,416,898,568
Due to Customers	1,262,263,737	1,054,092,461	709,106,287	355,935,971	-	-	3,381,398,456
Debt Issued and Other Borrowed Funds	298,205,193	949,800,312	1,467,795,502	313,855,426	-	-	3,029,656,433
Other Payables	484,640,564	-	-	-	-	-	484,640,564
Total Financial Liabilities	5,462,008,061	2,003,892,773	2,176,901,789	669,791,397	-	-	10,312,594,020
INTEREST SENSITIVITY GAP	(3,382,947,767)	1,320,845,116	1,951,186,387	760,674,417	7,877,763	272,493,312	930,129,227

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35. RELATED PARTY TRANSACTIONS

The Company carried out transactions with parties who are defined as Related Parties as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures'.

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

35.1 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. Such KPMs include the Board of Directors of the Company and Parent Company and Chief Executive Officer of the Company.

35.1.1 Key Management Personnel Compensation

	2018 Rs.	2017 Rs.
Short Term Employment Benefits	20,460,000	34,800,000
Directors Emoluments	3,635,000	1,600,000
	24,095,000	36,400,000

In addition to the above, the Company has also paid non cash benefits such as vehicles and fuel to key management personnel in line with the approved employment benefits of the Company.

35.1.2 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.

Statement of Financial Position	Reported Under	2018 Rs.	2017 Rs.
Liabilities			
Fixed Deposits	Due to Customers	-	4,100,000
Assets			
Loans	Loans and Receivables	-	18,186,908
Statement of Comprehensive Income			
Interest Expense on Fixed Deposits	Interest Expenses	-	174,122
Interest Income on Loans	Interest Income	-	1,957,670
Other Transactions			
Deposits Accepted During the Year		-	4,100,000
Loans Granted During the Year		-	11,699,649
		-	15,799,649

35.1.3 Transactions with Group Entities

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

Transactions with Parent Company

Statement of Financial Position		2018 Rs.	2017 Rs.
Liabilities			
Head Office Current Accounts		72,498,275	123,168,540
Income Statement			
Interest Expense on current account	Interest Expenses	233,576,580	266,327,371

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35. RELATED PARTY TRANSACTIONS (Contd...)

35.1.4 Transactions with Group Entities

Transactions with Fellow Subsidiaries and the Subsidiary of the Company

Statement of Financial Position	Reported Under	2018 Rs.	2017 Rs.
Assets			
Leases	Lease Receivable	8,415,567	10,566,799
Loans	Loans and Receivables	2,077,212	4,713,845
Fixed Deposits	Investments in Fixed Deposits	-	16,112,240
Salaries Receivable	Other Debtors and Prepayments	-	5,095,844
		10,492,780	36,488,728
Liabilities			
Building rent & electricity	Other Payables	13,343,498	27,795,371
Fixed Asset Purchase Payable	Other Payables	2,064,189	2,898,198
Securities Payable	Other Payables	-	-
Constructions Payable	Other Payables	-	1,273,000
Fixed Deposits	Due to Customers	20,000,000	169,414,551
		35,407,686	201,381,119
Income Statement			
Interest income - Fixed Deposits	Interest Income	-	9,092,760
Interest income - Lease/loan	Interest Income	2,222,176	2,403,526
Building rent & electricity	Other Operating Expenses	22,445,204	12,539,633
Interest Expense on Fixed Deposits	Interest Expenses	14,082,523	14,285,707
Salaries Expenses	Personnel Expenses	-	-
Other Transactions			
Fixed Assets Purchases During the Year		-	-

35.1.5 Terms and Conditions

Outstanding balances with related parties are unsecured other than where there are leasing and similar arrangements and bear interest as applicable to relevant products.

36. 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.

36.1 Capital Management

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

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37. EVENTS OCCURING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustments or disclosures in the Financial Statements. Up to the reporting date.

38. MERGER WITH CHILAW FINANCE LIMITED

In September 2014, the Company received approval from the Central Bank of Sri Lanka (CBSL) to acquire 86.95% shares of Chilaw Finance PLC (CFL) and to merge Richard RPFL with CFL in line with the financial sector consolidation plans.

On 10th October 2014 the Company acquired 86.95% shares of Chilaw Finance PLC (CFL) at a price of Rs.26.50 per share totalling to Rs. 778,564,205. Subsequently Company acquired 100% shares of Chilaw Finance PLC (CFL) as at April 2017 totalling to Rs. 880,958,058.

The merger was completed on 17 April 2017 and post-merger, the Directors expect significant growth in assets as the synergies of the combined entity will unlock new market opportunities.

Post-merger, Richard Pieris Finance Limited is the remaining entity

The company adopted the prospective basis accounting concept to account the effect of the transfer of the assets and liabilities of CFL on April 2017 in the financial statements of the company

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