LOLC FINANCE PLC

FINANCIAL STATEMENTS

31 MARCH 2018

EY
Building a better working world

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF LOLC FINANCE PLC

Report on the audit of the consolidated financial statements

Opinion

We have audited the financial statements of LOLC Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 March 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 of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

(Contd..2/)

Key Audit Matter	How our audit addressed the key audit matter
Impairment of loans and receivables to customers As at 31 March 2018, rentals receivable on leased assets, loans and advances, factoring receivable and margin trading receivables (net of impairment) amounted to Rs.151,316,544,030. These collectively contributed 72% to the total assets. The allowance for impairment (both individual and collective) of these financial assets is estimated by management. The estimation involves a complex calculation. Assumptions used by management in this calculation are inherently judgmental. Note no 2.3.9 to the financial statements more fully describes the assumptions to which this estimate is most sensitive. We considered the estimation of allowance for impairment as a Key Audit Matter due to sensitivity of reported results (on financial performance) to this allowance and the inherent uncertainty involved in its estimation.	To assess the reasonableness of the allowance for impairment, we performed the following procedures, among others: - We understood and evaluated the key internal controls over estimation of the allowance for impairment including those over identifying occurrence of loss events; - We test - checked the underlying calculations and data used in such calculations; - In addition to the above, focused procedures were performed as follows: • *Individual allowance for impairment*: For a sample of loans and receivables, management's forecasts of cash flows were test - checked to historical patterns of customer repayment. Among other procedures, forecast cash flows arising from collateral (or other source(s) of expected recovery) were verified to source documents; • *Collective allowance for impairment:* For loss rates used by management, we assessed the appropriateness of the loss emergence period and the observation period including consistency with historical loss experience; assessed the reasonableness of the assumptions on effects arising from macro - economic factors; - We assessed the adequacy of the related financial statement disclosures as set out in note(s) 2.24.3,5 and 6

(Contd..3/)

Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and those charged with governance

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

(Contd..4/)

- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1697.

22 June 2018
Colombo

LOLC Finance PLC

STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Note	2018 Rs.	2017 Rs.
ASSETS			
Cash and bank balances	29.1	11,323,366,281	4,924,111,973
Deposits with banks and other financial institutions		26,346,551,552	14,161,567,078
Investment in government securities & others	3	10,871,768,339	7,853,176,493
Derivative assets	4.1	133,540,941	23,840,338
Rentals receivable on leased assets	5	43,605,123,812	18,408,733,121
Loans and advances	6	96,897,095,158	55,484,081,124
Factoring receivable	6.5	10,638,754,943	16,524,638,067
Margin trading receivables	6.6	175,570,117	94,825,018
Other receivables	7	1,122,496,378	1,071,661,415
Investment securities	8	1,965,298,691	324,629,347
Amount due from related companies	9	32,909,393	224,505,824
Inventories		9,077,910	-
Investment properties	10	6,278,187,226	906,300,000
Property plant and equipment	11	1,714,491,470	2,621,022,043
Total assets		211,114,232,211	122,623,091,840
LIABILITIES			
Bank overdraft	29.2	4,243,169,825	2,393,316,396
Interest bearing borrowings	12	70,490,432,360	24,456,313,666
Deposits from customers	13	110,027,420,099	80,607,114,794
Trade payables	14	1,593,495,580	677,878,426
Accruals and other payables	15	2,388,375,887	1,620,967,675
Derivative liabilities	4.2	482,464,342	18,978,063
Amount due to related companies	16	1,496,999,551	434,258,821
Current tax payable	27.1	813,718,267	268,931,782
Deferred tax liability	27.2	2,402,219,247	1,102,057,559
Employee benefits	17.2	70,303,298	17,018,130
Total liabilities		194,008,598,456	111,596,835,312
SHAREHOLDERS' FUNDS			
Stated capital	18	7,880,000,000	2,000,000,000
Statutory reserve	19.1	1,996,724,011	1,556,438,753
Revaluation Reserve	19.2	241,527,671	206,229,960
Cash flow hedge reserve	19.3	(6,333,137)	14,236,742
Available for sale investment reserve	19.4	(7,166,375)	(115,484,939)
Retained earnings	19.5	7,000,881,585	7,364,836,011
Total equity		17,105,633,755	11,026,256,528
Total liabilities and equity		211,114,232,211	122,623,091,840

These financial statements are prepared in compliance with the requirements of the Companies Act No.07 of 2007.

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(Mr.) Buddhika Weeratunga
Head of Finance

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

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(Mr.) Ravi Tissera - Executive Deputy Chairman

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(Mr.) A. Nissanka - Director / CEO

The annexed notes to the financial statements on pages 10 through 75 form an integral part of these financial statements.

ERNST & YOUNG Chartered Accountants COLOMBO

22 June 2018
Rajagiriya (Greater Colombo)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2018

		Group	Company	
		2018	2018	2017
	Note	Rs.	Rs.	Rs.
Interest income	20	24,848,471,285	21,899,345,941	18,489,740,700
Interest expense	21	(15,016,601,637)	(13,902,136,761)	(11,459,273,390)
Net interest income		9,831,869,649	7,997,209,180	7,030,467,310
Net other operating income	22	3,796,819,301	3,735,456,817	2,348,653,257
Direct expenses excluding interest cost	23	(1,273,314,008)	(1,047,933,016)	(1,311,408,171)
Allowance for impairment & write-offs	24	(4,449,051,661)	(3,709,287,962)	(1,329,042,113)
Personnel expenses	25.1	(1,630,407,100)	(1,370,492,906)	(1,424,495,490)
Depreciation	11	(173,284,039)	(173,816,520)	(148,246,007)
General & administration expenses		(3,558,187,220)	(2,997,554,048)	(2,624,516,677)
Profit from operations	25	2,544,444,921	2,433,581,545	2,541,412,108
Value added tax on financial service		(480,483,883)	(348,841,403)	(364,834,951)
Profit before tax		2,063,961,038	2,084,740,142	2,176,577,157
Income tax (expense) / reversal	27	127,213,104	116,686,147	(589,759,163)
Profit for the year		2,191,174,142	2,201,426,289	1,586,817,994
Other comprehensive income				
Items that will never be reclassified to profit or loss				
Remeasurements of defined benefit liability - gain / (loss)	17.2	(2,609,396)	(2,609,396)	(1,504,720)
Related tax	27.2	730,631	730,631	421,322
		(1,878,765)	(1,878,765)	(1,083,398)
Revaluation surplus		43,114,247	-	216,989,576
Related tax		(7,816,536)	-	(10,759,616)
		35,297,711	-	206,229,960
Total of items that will never be reclassified to profit or loss		33,418,946	(1,878,765)	205,146,562
Items that are or may be reclassified to profit or loss				
Available-for-sale financial assets :				
Net change in fair value	3.1.3	128,082,838	128,105,497	44,668,814
Net amount transferred to profit or loss	3.1.3	(16,745,534)	(16,745,534)	-
Related tax		(3,018,739)	(3,018,739)	-
		108,318,565	108,341,224	44,668,814
Gain / (loss) on cash flow hedges	19.3	(28,569,276)	(26,649,199)	(11,820,715)
Related tax	19.3	7,999,397	7,461,776	3,309,800
		(20,569,879)	(19,187,423)	(8,510,915)
Total of items that are or may be reclassified to profit or loss		87,748,686	89,153,801	36,157,899
Total other comprehensive income, net of tax		121,167,632	87,275,036	241,304,461
Total comprehensive income for the year		2,312,341,773	2,288,701,324	1,828,122,454
Profit for the year attributable to;				
Equity holders of the Company		2,191,174,142		
Non-controlling interests		-		
Profit for the period		2,191,174,142		
Total comprehensive income attributable to;				
Equity holders of the Company		2,312,341,773		
Non-controlling interests		-		
Total comprehensive income for the year		2,312,341,773		
Basic earnings per share	28	0.77	0.77	0.57

The annexed notes to the financial statements on pages 10 through 75 form an integral part of these financial statements.

LOLC Finance PLC

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

Company

	Note	Stated Capital Rs.	Statutory Reserve Rs.	Revaluation Reserve Rs.	Cash flow Hegde Reserve Rs.	Available for Sale Investment Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 1 April 2016		2,000,000,000	1,239,075,154	-	22,747,657	(160,153,753)	6,096,465,015	9,198,134,073
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	1,586,817,994	1,586,817,994
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	17.2 / 27.2	-	-	-	-	-	(1,083,398)	(1,083,398)
Net change in fair value of AFS investments	3.3	-	-	-	-	44,668,814	-	44,668,814
Net movement of cashflow hedges	19.3 / 27.2	-	-	-	(8,510,915)	-	-	(8,510,915)
Transfer to Revaluation Reserve		-	-	206,229,960	-	-	-	206,229,960
		-	-	206,229,960	(8,510,915)	44,668,814	(1,083,398)	241,304,461
Total comprehensive income for the year		-	-	206,229,960	(8,510,915)	44,668,814	1,585,734,596	1,828,122,455
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	317,363,599	-	-	-	(317,363,599)	-
Total transactions recorded directly in equity		-	**317,363,599**	-	-	-	**(317,363,599)**	-
Balance as at 31 March 2017		**2,000,000,000**	**1,556,438,753**	**206,229,960**	**14,236,742**	**(115,484,939)**	**7,364,836,012**	**11,026,256,528**
Balance as at 1 April 2017		2,000,000,000	1,556,438,753	206,229,960	14,236,742	(115,484,939)	7,364,836,012	11,026,256,528
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	2,201,426,289	2,201,426,289
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	17.2 / 27.2	-	-	-	-	-	(1,878,765)	(1,878,765)
Net change in fair value of AFS investments	3.3	-	-	-	-	108,341,224	-	108,341,224
Net movement of cashflow hedges	19.3 / 27.2	-	-	-	(19,187,423)	-	-	(19,187,423)
		-	-	-	(19,187,423)	108,341,224	(1,878,765)	87,275,036
Total comprehensive income for the year		-	-	-	(19,187,423)	108,341,224	2,199,547,523	2,288,701,324
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	440,285,258	-	-	-	(440,285,258)	-
Shares issued during the year		5,880,000,000	-	-	-	-	-	5,880,000,000
Excess of the investment and other adjustments on merger with subsidiary		-	-	35,297,711	(1,382,456)	(22,659)	(2,123,216,692)	(2,089,324,097)
Total transactions recorded directly in equity		**5,880,000,000**	**440,285,258**	**35,297,711**	**(1,382,456)**	**(22,659)**	**(2,563,501,950)**	**3,790,675,903**
Balance As at 31 March 2018		**7,880,000,000**	**1,996,724,011**	**241,527,671**	**(6,333,137)**	**(7,166,375)**	**7,000,881,585**	**17,105,633,755**

The annexed notes to the financial statements on pages 10 through 75 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

Group	Note	Stated Capital Rs.	Statutory Reserve Rs.	Revaluation Reserve Rs.	Cash flow Hegde Reserve Rs.	Available for Sale Investment Reserve Rs.	Retained Earnings Rs.	Total Equity Rs.
Balance as at 1 April 2017		2,000,000,000	1,556,438,753	206,229,960	14,236,742	(115,484,939)	7,364,836,012	11,026,256,528
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	2,191,174,142	2,191,174,142
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	17.2 / 27.2	-	-	-	-	-	(1,878,765)	(1,878,765)
Net change in fair value of AFS investments	3.3	-	-	-	-	108,318,565	-	108,318,565
Net movement of cashflow hedges	19.3 / 27.2	-	-	-	(20,569,879)	-	-	(20,569,879)
Transfer to Revaluation Reserve		-	-	35,297,711	-	-	-	35,297,711
		-	-	35,297,711	(20,569,879)	108,318,565	(1,878,765)	121,167,632
Total comprehensive income for the year		-	-	35,297,711	(20,569,879)	108,318,565	2,189,295,377	2,312,341,773
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	440,285,258	-	-	-	(440,285,258)	-
Shares issued during the year		5,880,000,000	-	-	-	-	-	5,880,000,000
Excess of the investment and other adjustments on merger with subsidiary		-	-	-	-	-	(2,112,964,545)	(2,112,964,545)
Total transactions recorded directly in equity		**5,880,000,000**	**440,285,258**	-	-	-	**(2,553,249,803)**	**3,767,035,455**
Balance As at 31 March 2018		**7,880,000,000**	**1,996,724,011**	**241,527,671**	**(6,333,137)**	**(7,166,375)**	**7,000,881,585**	**17,105,633,755**

The annexed notes to the financial statements on pages 10 through 75 form an integral part of these financial statements.

LOLC Finance PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2018

	Note	Group 2018 March Rs.	Company 2018 March Rs.	2017 March Rs.
Cash flows from opera				
Profit before income tax expense		2,063,961,038	2,084,740,142	2,176,577,157
Adjustments for:				
Depreciation	11	173,284,039	173,816,520	148,246,007
(Profit)/ loss on sales of investment property	22	(5,462,500)	(5,462,500)	(11,902,750)
Change in fair value of derivatives - forward contracts	22	36,451,677	36,451,677	28,698,717
Provision for fall / (increase) in value of investments	22	(518,658,941)	(518,658,941)	(31,951,930)
Impairment provision for the period	24	(453,227,551)	(704,593,708)	549,528,640
Provision for payables to clients	22	25,200,000	25,200,000	10,500,000
Change in fair value of investment property	22	(197,274,567)	(78,239,014)	(24,457,848)
Provision for defined benefit plans	17.2.a	5,986,781	5,986,781	5,141,592
Investment income		(2,093,701,667)	(1,935,901,532)	(1,456,265,411)
Finance costs	21	15,016,601,637	13,902,136,761	11,282,234,645
Operating profit before working capital changes		14,053,159,947	12,985,476,187	12,676,348,819
Change in other receivables		935,800,038	619,496,477	(340,001,143)
Change in inventories		(8,545,405)	(8,515,204)	-
Change in trade and other payables		(3,935,133,795)	597,374,890	631,893,469
Change in amounts due to/ due from related parties		(5,545,440,232)	(7,501,572,236)	(783,756,629)
Change in factoring receivables		6,124,105,866	6,020,393,797	(3,330,707,223)
Change in lease receivables		(5,112,998,411)	(7,154,674,237)	(1,201,164,050)
Change in hire purchase, loans and advances		(5,199,830,591)	(5,487,211,635)	(2,295,076,262)
Change in margin trading advances		(80,745,099)	(80,745,099)	(9,227,854)
Change in fixed deposits from customers		23,827,481,998	23,827,481,998	19,085,134,624
Change in savings deposits from customers		5,048,050,238	5,048,050,238	755,576,666
Cash (used in) / generated from operations		30,105,904,554	28,865,555,177	25,189,020,417
Finance cost paid on deposits		(11,444,752,742)	(11,444,752,742)	(7,513,259,549)
Gratuity paid	17.2	(1,932,231)	(1,932,231)	(1,876,753)
Income tax paid	27.1	(624,385,995)	(332,054,772)	(520,426,989)
Net cash from / (used in) operating activities		18,034,833,585	17,086,815,432	17,153,457,127
Cash flows from investing activities				
Acquisition of property, plant & equipment & investment property		(2,925,349,707)	(2,908,921,761)	(749,011,621)
Net proceeds from investments in term deposits		6,869,590,722	6,388,657,701	(5,260,672,779)
Net proceeds from investments in government securities		(2,641,713,650)	(2,041,284,168)	1,894,865,178
Interest received		2,093,701,667	1,935,901,532	1,456,265,411
Proceeds from sale of investment property		42,662,500	42,662,500	74,257,750
Acquisition of subsidiary - net of cash	36.1	(7,276,214,641)	(12,291,200,000)	-
Net proceeds from investments in Unit trust		(968,166,503)	(968,166,503)	790,793,427
Net cash flows used in investing activities		(4,805,489,613)	(9,842,350,699)	(1,793,502,634)
Cash flows from financing activities				
Net proceeds from interest bearing loans & borrowings		(11,158,653,152)	(7,355,500,136)	(10,625,625,192)
Proceeds from issuance of new shares (Right issue)		5,880,000,000	5,880,000,000	-
Lease rentals paid		(520,035,822)	(520,035,822)	(632,792,253)
Finance cost paid on borrowings		(2,881,254,120)	(1,938,990,970)	(3,127,127,380)
Net cash flows from / (used in) financing activities		(8,679,943,094)	(3,934,526,928)	(14,385,544,825)
Net increase / (decrease) in cash and cash equivalents		4,549,400,880	3,309,937,804	974,409,667
Addition on merger with subsidiary		-	1,239,463,076	-
Cash and cash equivalents at the beginning of the period		2,530,795,577	2,530,795,577	1,556,385,910
Cash and cash equivalents at the end of the period (note 29)		7,080,196,457	7,080,196,457	2,530,795,577

The annexed notes to the financial statements on pages 10 through 75 form an integral part of these financial statements.

1. GENERAL

1.1 REPORTING ENTITY

1.1.1 Corporate Information

LOLC Finance PLC (“the Company”) is a quoted public company with limited liability incorporated on 13 December 2001 and domiciled in Sri Lanka. The registered office of the Company is at No.100/1, Sri Jayewardenepura Mawatha, Rajagiriya.

The Company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No. 42 of 2011. The Company has obtained registration from the Securities and Exchange Commission, as a Market Intermediary to perform the functions of a Margin Provider under section 19A of the Securities & Exchange Commission Act No.36 of 1987 as amended by Act Nos. 26 of 1991 & 18 of 2003.

1.1.2 Parent entity and Ultimate Parent Company

The Company’s immediate and ultimate parent undertaking and controlling entity is Lanka ORIX Leasing Company PLC, which is incorporated in Sri Lanka.

1.1.3 Principal Activities and Nature of Operations

The principal activities of the Company comprised of leasing, loans, hire purchase, margin trading, property development, mobilization of public deposits and Islamic financing.

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.1.4 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.

1.1.5 Number of Employees

The staff strength of the Company as at 31 March 2018 was 2397 (2016– 956).

1.2 BASIS OF PREPARATION

1.2.1 Statement of compliance

The Financial Statements of the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Companies Act, No. 7 of 2007, the Regulation of Finance Business Act No.42 of 2011 and amendments there to.

These Financial Statements include the following components:

- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company for the year under review;
- a Statement of Financial Position providing the information on the financial position of the Company as at the year-end;
- a Statement of Changes in Equity depicting all changes in shareholders of Changes in Equity and depicting all changes the Company;
- a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entity to utilize those cash flows; and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

Details of the company's accounting policies are included in Note 2

1.2.2 Date of authorization of issue

The Financial Statements were authorized for issue by the Board of Directors on 22 June 2018

1.2.3 Basis of measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.
Derivative financial instruments	Fair value	4
Non-derivative financial instruments at fair value through profit or loss	Fair value	8.1
Available for sale financial assets	Fair value	3.1.2
Investment property	Fair value	10
Land and buildings	Fair value	11
Net defined benefit assets / (liabilities)	Actuarially valued and recognized at the present value	17.2

No adjustments have been made for inflationary factors affecting the Financial Statements.

The Company presents its statement of financial position in order of liquidity.

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 settled the liability simultaneously.

1.2.4 Materiality and aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

1.2.5 Going concern

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

1.2.6 Comparative information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous period. Comparative information has not been reclassified or restated.

1.3 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates (the functional currency).

These financial statements are presented in Sri Lankan Rupees, the Company's functional and presentation currency.

There was no change in the company's presentation and functional currency during the year under review.

All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

1.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in conformity with SLFRSs/LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimate and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The respective carrying amounts of assets and liabilities are given in the related Notes to the financial statements.

Information about critical judgments, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements is included in the following notes:

Critical Accounting estimate / judgment	**Disclosure reference**
	Note
Fair value measurement of financial instruments / investment properties / land and buildings	1.4.1 / 10.1 / 11.1
Financial assets and liability classification	1.4.2
Impairment losses on loans and advances	1.4.3
Impairment losses on available for sale investments	1.4.4
Impairment losses on other assets	1.4.5
Defined benefit obligation	1.4.6
Provisions for liabilities and contingencies	1.4.7

1.4.1 Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Group CFO.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant judgements used in valuation and issues that arises are reported to the Company's Audit Committee.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values and the fair value measurement level is included in the following notes:

Note 10 – Investment property;
Note 11 – Property, plant and equipment; and
Note 2.3 & 2.24 – Financial instruments;

1.4.2 Financial assets and liability classification into categories

The Company's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets or liabilities into categories, the Company has determined that it meets the description of trading assets and liabilities set out in Note 2.3.1.b. In classifying financial assets as held to maturity, the Company has determined that it has both the positive intention and ability to hold the assets unit their maturity date as required by Note 2.3.1.b

1.4.3 Impairment losses on loans and advances

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

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, by categorizing them into groups of assets with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgment on the effect of concentrations of risks and economic data.

The policy on impairment loss on loans and advances is disclosed in more detail in Note 2.3.9.

1.4.4 Impairment losses on available for sale investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances. The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged decline' in fair value below their cost requires judgment. In making this judgment, the Company evaluates, among other factors, historical price movements and duration and extent to which the fair value of an investment is less than its cost.

The impairment loss on available for sale investments is disclosed in Note 2.3.9.

1.4.5 Impairment losses on other assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the circumstances that necessitate doing so. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

Specific Accounting Policies on impairment of Non-financial assets are discussed in Note 2.7.

1.4.6 Defined benefit obligation

The cost of the defined benefit plans is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Refer Note 2.8.3 for the accounting policy and assumptions used.

1.4.7 Provisions for liabilities and contingencies

The Company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

Index	Accounting policy
2.1	Basis of consolidation
2.2	Foreign currency
2.3	Financial assets and financial liabilities
2.4	Leases
2.5	Investment property
2.6	Property plant and equipment
2.7	Impairment - non-financial assets
2.8	Employee benefits
2.9	Provisions
2.10	Equity movements
2.11	Capital commitments and contingencies
2.12	Events occurring after the reporting date
2.13	Interest income and interest expense
2.14	Fees, commission and other income
2.15	Dividends
2.16	Expenditure recognition
2.17	Income tax expense
2.18	Earnings per share
2.19	Cash flow statements
2.20	Related party transactions
2.21	Operating segments
2.22	Fair value measurement
2.23	New accounting standards issued but not effective as the reporting date.

2.1 Basis of consolidation

2.1.1 Business combinations under common control

Business combinations under common control are accounted for using the book value method. The consideration transferred in the acquisition is generally measured at fair value, and the identifiable net assets acquired are measured at their carrying amounts reflected in the acquiree entity. Any excess or deficit that arises is recognized in equity and no goodwill is recognized as control is not transitory.

2.1.2 Subsidiaries

‘Subsidiaries’ are investees controlled by the Company. The Company ‘controls’ an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company reassesses whether it has control if there are changes to one or more of the elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

2.1.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.2 Foreign currency transactions

Sri Lankan rupee is the functional currency of the Company. Transactions in foreign currencies are translated into the functional currency of the Company at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognized in profit or loss. However, foreign currency differences arising from the retranslation of the available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss) are recognized in other comprehensive income.

SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF ASSETS AND LIABILITIES

2.3 Financial assets and financial liabilities

2.3.1 Non-derivative financial assets

2.3.1.a Initial recognition of financial assets

Date of recognition
The Company initially recognizes loans and receivables and deposits with other financial institutions on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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 instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets at fair value through profit or loss as per the Sri Lanka Accounting Standard – LKAS 39 on ‘Financial Instruments: Recognition and Measurement’.

Transaction cost in relation to financial assets at fair value through profit or loss are dealt with through the statement of profit or loss.

'Day 1' profit or loss on employee below market loans
When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Interest Income and Personnel Expenses'.

In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the profit or loss when the inputs become observable, or when the instrument is derecognised. The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

2.3.1.b Classification of financial assets

The Company classifies non-derivative financial assets into the following categories:
- financial assets at fair value through profit or loss;
- held-to-maturity financial assets;
- loans and receivables; and
- available- for-sale financial assets.

2.3.1.c Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification.

Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognized in statement of profit or loss as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of profit or loss

Financial assets at fair value through profit or loss comprises of quoted equity instruments and unit trusts unless otherwise have been classified as available-for-sale.

Held-to-maturity financial assets

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. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortization is included in interest income in the Statement of Profit or Loss and Other Comprehensive Income. The losses arising from impairment are recognized as impairment cost in the Statement of Profit or Loss and Other Comprehensive Income.

The Company has not classified any instrument as held to maturity.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, deposits with banks and other financial institutions, investments in Standing Deposit Facilities (REPO's), lease receivables, hire purchase receivables, advances and other loans granted, factoring receivables, amount due from related parties and other receivables.

- *Cash and cash equivalents*

  Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

- *Finance leases and hire purchase*

  When the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized. Amounts receivable under finance leases are included under "Rentals receivable on leased assets". Leasing balances are stated in the statement of financial position after deduction of initial rentals received, unearned lease income and the provision for impairment losses.

- *Advances and other loans to customers*

  Advances and other loans to customers comprised of revolving loans and loans with fixed installment

  Loans to customers are reflected in the Statement of Financial Position at amounts disbursed less repayments and provision for impairment losses.

- *Financial guarantees*

  Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The Company in its normal course of the business issues guarantees on behalf of the depositors, holding the deposit as collateral.

Available-for-sale financial assets

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Company becomes entitled to the dividend. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in OCI and presented in the AFS reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

2.3.2 Non-derivative financial liabilities

Classification and subsequent measurement of financial liabilities
The Company initially recognizes non-derivative financial liabilities on the date that they are originated.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, interest bearing borrowings, customer deposits, trade payables, accruals & other payables and amounts due to related parties:

Bank overdrafts
Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Deposits and bank borrowings - classified as other financial liabilities carried at amortized cost
Deposits and bank borrowings are the Company's sources of debt funding.

The Company classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Subsequent to initial recognition deposits and bank borrowings are measured at their amortized cost using the effective interest method.

2.3.3 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. Derivatives are recognized as assets when their fair value is positive and as liabilities when their fair value is negative.

The Company designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instrument(s) is(are) expected to be highly effective in offsetting the changes in the cash flows of the respective hedge item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%.

These hedging relationships are discussed below.

i. Fair value hedges
When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Company does not have any fair value hedges.

ii. Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

iii. Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign operation.

The Company does not have any net investment hedges.

2.3.3.a Other non-trading derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of other income.

2.3.4 Reclassification of financial assets and liabilities

The Company reclassifies non-derivative financial assets out of the ‘held-for-trading’ category and into the ‘available-for-sale’, ‘loans and receivables’, or ‘held-to-maturity’ categories as permitted by the Sri Lanka Accounting Standard – LKAS 39 on ‘Financial Instruments: Recognition and Measurement’. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the ‘available-for-sale’ category and into the ‘loans and receivables’ category.

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

Reclassification is at the election of the 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. Further, the company does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

No reclassifications of financial instruments were done during the year.

2.3.5 Derecognition of financial assets and financial liabilities

Financial assets

The Company derecognizes a financial asset when the rights to receive cash flows from the asset have expired or 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.

(a) The Company has transferred substantially all the risks and rewards of the asset, or

(b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

(i) The consideration received (including any new asset obtained less any new liability assumed) and

(ii) Any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

2.3.6 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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

2.3.7 Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

2.3.8 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Determination of fair value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models

2.3.9 Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an impairment allowance account against loans and receivables. Interest on the impaired asset continues to be recognized. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying losses accumulated in the AFS reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income, If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

2.4 Leases

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

2.4.1 Finance Leases

Finance leases – Company as a lessee

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance cost in the statement of profit or loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance leases – Company as a lessor

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in "Rentals receivable on leased assets". The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

2.4.2 Operating Leases

Leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased items to the lessee are operating leases

Operating leases – Company as a lessee

Operating lease payments are recognized as an expense in the statement of profit or loss on a straight line basis over the lease term. Contingent rent payable is recognized as an expense in the period in which they are incurred.

Operating leases – Company as a lessor

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Contingent rents are recognised as revenue in the period in which they are earned.

2.5 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

2.6 Property plant and equipment

2.6.1 Recognition and measurement

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

Items of property, plant and equipment are measured at cost/ revaluation less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site at which they are located and capitalized borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and is recognized in other income/other expenses in profit or loss.

2.6.1.a Cost model

The Company applies the cost model to all property, plant and equipment except freehold land and buildings; and is recorded at cost of purchase together with any incidental expenses thereon less any accumulated depreciation and accumulated impairment losses.

2.6.1.b Revaluation model

The Company revalues its land and buildings which are measured at its fair value at the date of revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

On revaluation of lands and buildings, any increase in the revaluation amount is credited to the revaluation reserve in shareholder's equity unless it off sets a previous decrease in value of the same asset that was recognized in the statement of profit or loss. A decrease in value is recognized in the statement of profit or loss where it exceeds the increase previously recognized in the revaluation reserve. Upon disposal, any related revaluation reserve is transferred from the revaluation reserve to retained earnings and is not taken into account in arriving at the gain or loss on disposal.

2.6.2 Subsequent costs

The cost of replacing a component of an item of property, plant or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

2.6.3 Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current year are as follows:

Motor vehicles	4-8 years
Buildings	40 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

2.7 Impairment - non-financial assets

The carrying amounts of the company's non-financial assets, other than, deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognized in the statement of profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), if any, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.8 Employee benefits

2.8.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.8.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), to which the Company contributes 12% and 3% of employee salaries respectively.

2.8.3 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The Company recognizes all actuarial gains and losses / remeasurement component arising from defined benefit plans immediately in other comprehensive income. The obligation is not externally funded.

2.9 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

2.10 Equity movements

2.10.1 Ordinary shares

The company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

2.10.2 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's Board of Directors in accordance with the Articles of Association. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

2.10.3 Share issue costs

Share issue related expenses are charged against the retained earnings in the statement of equity.

2.11 Capital commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position but are disclosed unless they are remote.

2.12 Events occurring after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES –RECOGNITION OF INCOME AND EXPENSES

2.13 Interest income and interest expense

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss includes the interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

2.13.1 Income from leases, hire purchases and term loans

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognized as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

2.13.2 Factoring

Revenue is derived from two sources, funding and providing sales ledger related services.

Funding - Discount income relating to factoring transactions is recognized at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the client's current account.

Sales Ledger Related Services - A service charge is levied as stipulated in the factoring agreement.

Income is accounted for on an accrual basis and deemed earned on disbursement of advances for invoices factored.

2.14 Fees, commission and other income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees are recognized as the related services are performed.

Collections on contracts written off and interest on overdue rentals are accounted for on cash basis.

2.15 Dividends

Dividend income is recognized when the right to receive income is established.

2.16 Expenditure recognition

Expenses are recognized in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

2.16.1 Value Added Tax (VAT) on financial services

The base for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on the prescribed rate.

The VAT on financial service is recognized as expense in the period it becomes due.

2.16.2 Nation Building Tax on financial services (NBT)

With effect from January 01, 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

2.16.3 Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2.17 Income tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Note 27 represent the major components of income tax expense to the financial statements.

2.17.1 Current tax expense

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

2.17.2 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The relevant disclosures are given in Note 27.2 to the financial statements.

2.18 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Specific disclosures are included in Note 28.1. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees. The relevant disclosures are given in 28.2 to the financial statements.

SIGNIFICANT ACCOUNTING POLICIES – STATEMENT OF CASH FLOWS

2.19 Cash flow statements

The cash flow statement has been prepared using the indirect method and direct method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, Cash Flow Statements.

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. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

SIGNIFICANT ACCOUNTING POLICIES – GENERAL

2.20 Related Party Transactions

Transactions with related parties are conducted in the normal course of business. The relevant disclosures are given in Note 32 to the Financial Statements.

2.21 Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company’s other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The Company has three reportable segments, Conventional financial services, Islamic financial services and Factoring, which are the Company’s strategic divisions. Those offer different products and services, and are managed separately based on the Company’s management and internal reporting structure. For each of the strategic divisions, the Company’s Board of Directors reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in Note 34. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

2.22 Fair value measurement

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

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

The principal or the most advantageous market must be accessible to the company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as investment properties.

Fair Value Hierarchy
The company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1
Inputs that are unadjusted quoted market prices in an active market for identical instruments
When available, the company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2
Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

(a) quoted market in active markets for similar instruments,
(b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
(c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3
Inputs that are unobservable
This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgment and estimation while reducing uncertainty associated in determining the fair values.

2.23 New accounting standards issued not yet effective as at reporting date

The following new accounting standards/amendments were issued by the Institute of Chartered Accountants in Sri Lanka, which are not yet effective as at 31 March 2018. Accordingly, these accounting standards have not been applied in the preparation of the financial statements for the year ended 31 March 2018.

Sri Lanka Accounting Standard - SLFRS 9 “Financial Instruments"

Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments" will replace Sri Lanka Accounting Standard - LKAS 39 "Financial Instruments - Recognition and Measurement" for annual periods beginning on or after 1 January 2018 with early adoption permitted. In 2017 the Company set up a multidisciplinary implementation team with members from credit Risk, Finance and recovery to prepare for SLFRS 9 implementation.

Classification and Measurement
From a classification and measurement perspective, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Company’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

(a) Business Model Assessment
Company determines it's business model at the level that best reflects how it manages the financial assets to achieve it's objectives. The Company's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

►How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity's key management personnel

► The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed

► How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flow collected)

► The expected frequency, value and timing of sales

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

(b) Contractual Cash Flow Characteristic Test
As the second test of the classification process the Company assesses the contractual terms of the financial asset to identify whether those meet "Solely the Payment of Principle and Interest" (SPPI) criteria.

Principle for the purpose of this test is defined as the fair value of the financial asset at initial recognition which may change over the life of the financial asset (for example, if there are repayments of principle or amortization of the premium/discount).

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

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

Impairment of Financial Assets
Overview of Expected Credit Loss Principle (ECL)
SLFRS 9 principally changes the Company's loan loss provision method by replacing the incurred loss approach as per LKAS 39 with a forward looking ECL Approach.

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

12mECL is the portion of LTECL that represents the ECL which results from default events of a financial instrument which may arise within 12months after the reporting date

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

► Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include the facilities which are reclassified from Stage 2 since the credit risk has improved. Assessment of Stage 1 is performed collectively.
► Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, which are reclassified from stage 2 since the credit risk has improved. Assessment of stage 2 is performed collectively
► Stage 3: When a loan is considered to be credit impaired/contain objective evidences of incurred loss, the Company records an allowance for the LTECL. Stage 3 assessment will be performed either individually or collectively.

Significant Increase in Credit Risk
The Company continuously monitors all assets subject to ECL, in order to determine whether there has been a significant increase in credit risk since initial recognition and whether the instrument or a portfolio of instruments is subject to 12mECL or LTECL. The Company considers an exposure to have a significant increase in credit risk when either the facility exceeds 30 days past due or at the point of reschedulement.

Individually Significant Impairment Assessment and Loans which are Not Impaired Individually
Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Loans with objective evidence of incurred losses are classified as Stage 3. Loans which are individually significant but not impaired will be assessed collectively for impairment under either Stage 1 or Stage 2, based on the above specified criteria to identify whether there have been a significant credit deterioration since origination.

While establishing significant credit deterioration, Company will consider the following criteria:

► Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated
►Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument
►Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument
►An actual/expected internal credit rating downgrade for the borrower or decrease in behavioural score used to assess credit risk internally
►Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet it's obligation
►An actual or expected significant change in the operating results of the borrower in relation to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing and liquidity management problems
►Significant increase in credit risk on other financial instruments of the same borrower
►An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that results in a significant change in the borrower's ability to meet the debt obligation

Grouping Financial Assets Measured on a Collective Basis
As explained above, Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an individual basis includes all individually significant assets which belong to stage 3. All assets which belong to stage 1 and 2 will be assessed collectively for Impairment.

Company groups smaller homogeneous exposures based on a combination of internal and external characteristics such as product type, customer type, days past due etc.

Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the Effective Interest Rate (EIR).

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

► Probability of Default (PD): PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
► Exposure at Default (EAD): EAD is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract or otherwise and expected draw downs on committed facilities.
► Loss Given Default (LGD): LGD is an estimate of the loss arising, where a default occurs at a given time calculated based on historical recovery data. It is usually expressed as a % of the EAD.

When estimating ECL, Company considers 3 scenarios (base case, best case and worst case). Each of these scenarios are associated with different loss rates. For all products, Company considers the maximum period over which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

Company relies on broad range of qualitative/quantitative forward looking information as economic inputs such as the following in its Eco model.

Quantitative inputs	Qualitative inputs
► GDP growth	► Government policies
► Inflation	► Status of the industry business
► Unemployment	► Regulatory impact
► Interest rates	
► Exchange rates	

Amendments to LKAS 28: Investments in Associates and Joint Ventures

The amendments address the conflict between SLFRS 10 and LKAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

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

SLFRS 15 is effective for periods beginning on or after 1st January 2018 with early adoption permitted. SLFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of SLFRS 15 and will be regulated by the other applicable standards (e.g., SLFRS 9 and SLFRS 16).

Revenue under SLFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing, as well as any uncertainty of revenue and corresponding cash flows with customers. The Company does not anticipate early adoption of SLFRS 15.

A preliminary evaluation of the existing contracts which falls mainly under fee and commission income of the Company has been performed in relation to the adoption of SLFRS 15. The Company's current assessment has not revealed a significant change to the revenue recognition pattern. However, the Company is currently in the process of evaluating and quantifying the accounting impact and the current systems and processes will be modified where necessary.

SLFRS 16 Sri Lanka Accounting Standard - "Leases"

SLFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor's accounting remains similar to current practice. This supersedes: Sri Lanka Accounting Standard LKAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement Contains a Lease", SIC 15 "Operating Leases - Incentives"; and SIC 27 "Evaluating the substance of Transactions Involving the Legal form of a Lease". Earlier application is permitted for entities that apply SLFRS 15 "Revenue from Contracts with Customers".

SLFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The impact on the implementation of the above standard has not been quantified yet by the Group.

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

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

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

IFRIC Interpretation 23: Uncertainty over Income Tax Treatment

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

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances an entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to existing accounting standards effective from 1st January 2017

Amendments to existing accounting standards effective from 1st January 2017 as published by the Institute of Chartered Accountants of Sri Lanka did not have any material impact on the financial statements of the Group.

2.24 Financial risk management

2.24.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

2.24.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Integrated Risk Management Committee (IRMC), which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. All the Company level risks are escalated to the parent company IRMC and the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committee oversees the reports submitted by the Enterprise Risk Management (ERM) and monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced. The Audit Committee is assisted in its oversight role by ERM. ERM undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2.24.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from Company's receivable from customers.

2.24.3.1 Management of credit risk

1. Facilities granted to customers

The Board of Directors has delegated responsibility for the oversight of credit risk to its Credit department. Credit department, reporting to the Credit Committee, is responsible for management of the Company's credit risk, including:

1. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

2. Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by the Chief Credit Officer, CEO and the Board of Directors as appropriate.

3. Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

4. Monitoring limiting concentrations of exposure to counterparties, geographies and industries

5. Developing and maintaining a risk grading for significant clients in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the associated risks.

6. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types.

7. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

2) Allowances for impairment

The Company establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of incurred losses in its lease and loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and, for assets measured at amortized cost, a collective loan loss allowance established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

3) Write-off policy

The Company writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Board of Directors determines that the loan or security is uncollectible. This determination is made after considering information such as occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status. The company generally writes off balances on its past due status reaching 12 months and if no collateral is available.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2018 (2017: no collateral held).

4) Credit quality by class of financial assets ***(In Rs'mn)***

	Leases		Hire Purchases		Mortgage Loans		Other Loans and Advances		Margin Trading		Factoring Receivables		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Carrying amount	**43,605**	**18,409**	**-**	**-**	**1,536**	**988**	**95,361**	**54,496**	**176**	**95**	**10,639**	**16,525**	**151,317**	**90,512**
Assets at amortized cost														
Individually impaired - Gross amount	764	185	-	-	14	14	2,270	922	-	-	481	940	3,529	2,061
Less : Allowance for impairment	(580)	(157)	-	-	-	(14)	(1,471)	(584)	-	-	(306)	(940)	(2,357)	(1,695)
Carrying amount	**184**	**28**	**-**	**-**	**14**	**-**	**799**	**338**	**-**	**-**	**175**	**-**	**1,172**	**366**
Portfolio subject to collective impairment - Gross amount	43,594	18,522	-	-	1,545	1,063	95,867	55,050	176	95	10,917	16,884	152,098	91,614
Less : Allowance for impairment	(173)	(141)	-	-	(23)	(75)	(1,305)	(892)	-	-	(453)	(359)	(1,954)	(1,467)
Carrying amount	**43,421**	**18,381**	**-**	**-**	**1,522**	**988**	**94,562**	**54,158**	**176**	**95**	**10,464**	**16,525**	**150,144**	**90,146**

An estimate made at the time of borrowing / at the time of impairment evaluation, of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below;

(In Rs'mn)	2018	2017
Against individually impaired customers :		
Property	649	404
Vehicles	463	93

(In Rs'mn)	2018	2017
Against Collectively impaired customers :		
Vehicles	83,113	65,485
Others	97,243	62,800

Details of non-financial assets obtained by the Company by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements during the period and held at the year ended 31 March are shown below;

(In Rs'mn)	2018	2017
Property	-	-
Vehicles	463	93

Income from individually impaired customers recognized in the statement of profit or loss;

(In Rs'mn)	2018	2017
Leases	1	5
Hire purchase	-	-
Mortgage Loan	-	-
Other loans & advances	122	81

The Company's policy is to pursue timely realization of the collateral in an orderly manner. Properties acquired by foreclosure has been considered as investment properties of the Company

Age analysis of facilities considered for collective impairment as at 31 March 2018 ***Rs' Mn***

Category	Leases	Hire Purchases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Not due / current	19,018	-	447	70,705	176	5,407	95,752
Overdue :							
Less than 30 days	11,639	-	434	11,194	-	556	23,823
31 - 60 days	7,013	-	186	5,898	-	1,240	14,337
61 - 90 days	3,303	-	39	2,309	-	717	6,368
91 - 120 days	1,020	-	76	1,256	-	418	2,770
121 - 150 days	540	-	13	1,442	-	959	2,954
151 - 180 days	398	-	54	755	-	368	1,575
above 180 days	663	-	327	2,277	-	1,252	4,519
Total	43,594	-	1,576	95,836	176	10,917	152,098

Age analysis of facilities considered for collective impairment as at 31 March 2017 ***Rs' Mn***

Category	**Leases**	**Hire Purchases**	**Mortgage Loans**	**Other Loans and Advances**	**Margin Trading**	**Factoring Receivables**	**Total**
Not due / current	10,494	-	466	38,228	95	12,310	61,593
Overdue :							
Less than 30 days	4,862	-	206	9,266	-	1,124	15,458
31 - 60 days	1,835	-	161	3,931	-	593	6,520
61 - 90 days	634	-	17	1,280	-	512	2,443
91 - 120 days	235	-	2	347	-	618	1,202
121 - 150 days	158	-	3	399	-	425	985
151 - 180 days	82	-	-	290	-	527	899
above 180 days	222	-	208	1,309	-	775	2,514
Total	**18,522**	**-**	**1,063**	**55,050**	**95**	**16,884**	**91,614**

Other than the lending portfolio reflected above no other financial assets shown in note 2.24 was subject to impairment.

5) Concentrations of credit risk

The Company monitors concentrations of credit risk by sector to which the lending was made. The analysis is provided in Note 6.6.1 to the financial statements

2.24.4 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

2.24.4.1 Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking the financial position of the Company while maintaining regulatory requirements and debt covenants agreed with the fund providers. The treasury manages the liquidity position as per the treasury policies and procedures and regulatory requirements.

The treasury receives information from the business regarding the liquidity profile of the financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, funding arrangements, to ensure that sufficient liquidity is maintained within the Company.

The liquidity requirements of business units are discussed at the ALCO meetings (Asset Liability Committee) and are arranged by the Treasury.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Company relies on deposits from customers and bank borrowings as its primary sources of funding. The deposits from customers and banks largely have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

The maturity analysis of financial liabilities based on undiscounted gross outflow is reflected below

In Rs'Mn

	Carrying amounts	Gross nominal outflow / (inflow)	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years
As at 31st March 2018							
Bank overdraft	4,243	4,243	4,243	-	-	-	-
Borrowings	70,490	74,357	51,072	10,446	11,073	1,766	-
Deposits from customers	110,027	122,838	38,996	57,736	15,031	11,076	-
Trade payables	1,593	1,593	1,593	-	-	-	-
Accruals and other payables	2,206	2,206	2,206	-	-	-	-
Derivative liabilities	482	20,285	9,692	10,594	-	-	-
Amount due to related companies	1,497	1,497	1,497	-	-	-	-
Total liabilities	190,540	222,165	107,522	76,231	25,672	12,740	-
As at 31st March 2017							
Bank overdraft	2,393	2,393	2,393	-	-	-	-
Borrowings	24,456	27,284	8,437	4,452	11,559	1,980	857
Deposits from customers	80,607	88,917	31,256	36,528	9,908	11,225	-
Trade payables	678	678	678	-	-	-	-
Accruals and other payables	1,594	1,594	1,594	-	-	-	-
Derivative liabilities	19	4,890	4,121	769	-	-	-
Amount due to related companies	434	434	434	-	-	-	-
Total liabilities	**110,182**	**126,191**	**48,913**	**41,749**	**21,467**	**13,205**	**857**

The maturity analysis of financial assets based on undiscounted gross inflows / (outflows) is reflected below

In Rs'mn

	Carrying amount	**Gross nominal inflow / (outflow)**	**Up to 3 Months**	**3 to 12 Months**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
As at 31st March 2018							
Cash and cash equivalents	11,323	11,323	11,323	-	-	-	-
Deposits with banks and other financial institutions	26,347	26,609	12,773	13,836	-	-	-
Investment in government securities	10,872	12,018	7,736	4,035	24	24	199
Derivative assets	134	6,749	2,416	4,333	-	-	-
Rentals receivable on leased assets	43,605	60,211	8,793	17,966	28,227	5,007	219
Hire purchases, loans and advances	96,897	113,631	17,565	34,238	41,670	19,257	900
Factoring receivable	10,639	10,639	10,639	-	-	-	-
Margin trading receivables	176	176	176	-	-	-	-
Other receivables	417	417	417	-	-	-	-
Investment securities	1,965	1,965	1,745	-	-	-	220
Amount due from related companies	33	33	33	-	-	-	-
	202,407	243,771	73,616	74,408	69,921	24,288	1,538
As at 31st March 2017							
Cash and cash equivalents	4,924	4,924	4,924	-	-	-	-
Deposits with banks and other financial institutions	14,162	14,542	12,870	388	1,044	239	-
Investment in government securities	7,853	9,666	6,807	68	337	272	2,182
Derivative assets	24	4,784	2,019	2,766	-	-	-
Rentals receivable on leased assets	18,409	24,497	3,056	6,403	11,932	2,846	259
Hire purchases, loans and advances	55,484	63,021	8,455	13,580	18,484	20,788	1,714
Factoring receivable	16,525	16,525	16,525	-	-	-	-
Margin trading receivables	95	95	95	-	-	-	-
Other receivables	329	329	329	-	-	-	-
Investments in shares	325	325	258	-	-	-	66
Amount due from related companies	225	225	225	-	-	-	-
	118,353	**138,933**	**55,561**	**23,206**	**31,798**	**24,146**	**4,222**

Contractual Maturities of Commitments & Contingencies

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

As at 31-3-2018 (In Rs'Mn)

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	767	-	-	-	-	767
Total	**767**	**-**	**-**	**-**	**-**	**767**
Commitments						
Unutilized loan facilities & letter of credit	10,992	-	-	-	-	10,992
Total	**10,499**	**-**	**-**	**-**	**-**	**10,499**

As at 31-3-2017 (In Rs'Mn)

Item	On demand	Within 3 months	3-12 months	1-5 years	over 5 years	Total
Contingent liabilities						
Guarantees issued to banks and other institutions - backed by deposits held with the company	898	-	-	-	-	898
Total	**898**	**-**	**-**	**-**	**-**	**898**
Commitments						
Unutilized loan facilities & letter of credit	10,499	-	-	-	-	10,499
Total	**10,499**	**-**	**-**	**-**	**-**	**10,499**

2.24.5 Market risk

The Company is exposed to the market risk due to changes in market, such as Foreign exchange rates, Interest rate, and equity prices.

Company is exposed to foreign currency risk mainly due to the foreign currency borrowings. The Company manages its exposure to the foreign exchange rates by entering in to forward rate contracts with the banks and placing deposit / maintaining financial assets in the same currency. In this way the Company eliminates substantial exposure on foreign currency risk.

The Company ensures the mix of variable and fixed rate borrowings to manage any exposure due to interest rate movement in the market. These are monitored by the treasury division.

An analysis of the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows.

Sensitivity analysis as at 31st March 2018 ***In Rs'Mn***

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.17
Interest earning assets						
Deposits with banks and other financial institutions	12,700	13,647	-	-	-	26,347
Investment in government securities & others	6,787	3,966	-	-	119	10,872
Rentals receivable on leased assets	6,099	11,876	21,059	4,387	185	43,605
Hire purchases, loans and advances	14,291	27,441	36,071	18,320	774	96,897
Factoring receivable	10,639	-	-	-	-	10,639
Margin trading receivables	176	-	-	-	-	176
Total interest earning assets	**50,691**	**56,930**	**57,130**	**22,706**	**1,079**	**188,536**
Interest bearing liabilities						
Bank overdraft	4,243	-	-	-	-	4,243
Interest bearing borrowings	49,895	9,684	9,284	1,627	-	70,490
Deposits from customers	37,709	51,997	10,763	9,558	-	110,027
Total interest bearing liabilities	**91,847**	**61,681**	**20,048**	**11,186**	**-**	**184,761**
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(41,156)	(4,750)	37,082	11,521	1,709	3,775
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualized effect	(412)	(48)	371	115	11	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualized effect	412	48	(371)	(115)	(11)	-

Sensitivity analysis as at 31st March 2017 *In Rs'Mn*

Item	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.17
Interest earning assets						
Deposits with banks and other financial institutions	12,758	272	925	206	-	14,162
Investment in government securities & others	6,726	-	73	17	1,037	7,853
Rentals receivable on leased assets	2,183	4,251	9,259	2,481	235	18,409
Hire purchases, loans and advances	7,278	11,052	15,574	20,095	1,486	55,484
Factoring receivable	16,525	-	-	-	-	16,525
Margin trading receivables	95	-	-	-	-	95
Total interest earning assets	**45,565**	**15,574**	**25,831**	**22,799**	**2,758**	**112,527**
Interest bearing liabilities						
Bank overdraft	2,392	-	-	-	-	2,393
Interest bearing borrowings	8,247	3,669	9,964	1,757	820	24,456
Deposits from customers	31,599	34,157	8,844	6,006	-	80,607
Total interest bearing liabilities	**42,516**	**37,549**	**18,808**	**7,763**	**820**	**107,456**
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	3,747	(22,673)	7,023	15,036	1,937	5,070
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualized effect	37	(227)	70	150	19	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualized effect	(37)	227	(70)	(150)	(19)	-

2.24.6 Capital Management

The Company's capital management is performed primarily considering regulatory capital.

The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

The Company is required to comply with the provisions of the Finance Companies (Capital Funds) Direction No.01 of 2003, Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No.02 of 2006 and Finance Companies (Minimum Core Capital) Direction No.01 of 2011 in respect of regulatory capital.

The Company's regulatory capital consists of tier 1 capital, which includes ordinary share capital, retained earnings and statutory reserves. Other negative reserves are included under prudence basis. Tier II capital includes unsecured subordinated debentures, which is included in the capital base consequent to obtaining the approval of CBSL.

The Company's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Company recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company's regulatory capital under the CBSL guidelines is as follows;

In Rs'mn

Capital element	**As at 31.03.2018**	**As at 31.03.2017**
Ordinary share capital	7,880	2,000
Statutory Reserve	1,997	1,556
Retained earnings	7,001	7,365
Other negative reserves	(13)	(115)
Tier I capital	**16,864**	**10,806**
Subordinated debt	1,582	2,372
Tier II capital	**1,582**	**2,372**
Total capital	**18,446**	**13,178**

2.25 Financial assets and liabilities

2.25.1 Accounting classifications and fair values

The table below sets out the carrying amounts of the Company's financial assets and financial liabilities.

In Rs' Mn

As at 31st March 2018	**Fair value – derivatives**	**Fair value - held for trading**	**Fair value through other comprehensive income – available for sale**	**Amortized cost / Not measured at fair value**	**Total Carrying amount**	**Fair value**	**Fair value measurement level**
Cash and cash equivalents	-	-	-	11,323	11,323	11,323	
Deposits with banks & other financial institutions	-	-	-	26,347	26,347	26,347	
Investment in government securities & others							
- Measured at fair value	-	-	4,381	-	4,381	4,381	Level 1
- Measured at amortized cost	-	-		6,491	6,491	6,491	
Derivative assets	134	-	-	-	134	134	Level 2
Investment securities	-	1,745	-	220	1,965	1,965	Level 1
Rentals receivable on leased assets	-	-	-	43,605	43,605	45,323	Level 2
Hire purchases, loans and advances	-	-	-	96,922	96,922	96,003	Level 2
Factoring receivable	-	-	-	10,639	10,639	10,639	
Margin trading receivables	-	-	-	176	176	176	
Amount due from related companies	-	-	-	33	33	33	
Other financial assets	-	-	-	507	507	507	
Total financial assets	**134**	**1,745**	**4,381**	**196,262**	**202,521**	**203,320**	
Bank overdraft	-	-	-	4,243	4,243	4,243	
Interest bearing borrowings	-	-	-	70,490	70,490	69,755	Level 2
Deposits from customers	-	-	-	110,027	110,027	110,205	Level 2
Trade payables	-	-	-	1,593	1,593	1,593	
Accruals and other payables	-	-	-	2,206	2,206	2,206	
Derivative liabilities	482	-	-	-	482	482	Level 2
Amount due to related companies	-	-	-	1,497	1,497	1,497	
Total financial liabilities	**482**	**-**	**-**	**190,540**	**190,540**	**189,982**	

As at 31st March 2017	Fair value – derivatives	Fair value - held for trading	Fair value through other comprehensive income – available for sale	Amortized cost / Not measured at fair value	Total Carrying amount	Fair value	Fair value measurement level
Cash and cash equivalents	-	-	-	4,924	4,924	4,924	
Deposits with banks & other financial institutions	-	-	-	14,162	14,162	14,162	
Investment in government securities & others							
- Measured at fair value	-	-	1,127	-	1,127	1,127	Level 1
- Measured at amortized cost	-	-		6,726	6,726	6,726	
Derivative assets	24	-	-	-	24	24	Level 2
Investment securities	-	258	-	66	324	324	Level 1
Rentals receivable on leased assets	-	-	-	18,409	18,409	18,280	Level 2
Hire purchases, loans and advances	-	-	-	55,484	55,484	54,310	Level 2
Factoring receivable	-	-	-	16,525	16,525	16,525	
Margin trading receivables	-	-	-	95	95	95	
Amount due from related companies	-	-	-	225	225	225	
Other financial assets	-	-	-	329	329	329	
Total financial assets	**24**	**258**	**1,127**	**116,944**	**118,353**	**117,050**	
Bank overdraft	-	-	-	2,393	2,393	2,393	
Interest bearing borrowings	-	-	-	24,456	24,456	23,976	Level 2
Deposits from customers	-	-	-	80,607	80,607	80,403	Level 2
Trade payables	-	-	-	678	678	678	
Accruals and other payables	-	-	-	1,594	1,594	1,594	
Derivative liabilities	19	-	-	-	19	19	Level 2
Amount due to related companies	-	-	-	434	434	434	
Total financial liabilities	**19**	**-**	**-**	**110,163**	**110,182**	**109,497**	

2.25.2 Valuation technique

Level 2 fair value – market comparison technique

- Derivative assets and liabilities / Forward exchange contracts – fair value is based on broker quotes of similar contracts and the quotes reflect the actual transaction in similar instrument

Level 2 fair value – discounted cash flows

Financial instruments not measured at fair value

For the purpose of disclosing fair value of the financial instruments not measured at fair value (carried at amortized cost) discounted cash flows have been used to derive the fair value.

3. INVESTMENT IN GOVERNMENT SECURITIES & OTHERS

	2018 Rs.	2017 Rs.
Investment In Government Securities		
Financial instruments classified as loans and receivables (note 3.1.1)	6,490,719,545	5,420,173,981
Financial instruments classified as available for sale - carried at fair value (note 3.1.2)	4,381,048,794	1,127,125,889
	10,871,768,339	6,547,299,870
Other Investments		
Investments in commercial papers - carried at amortized cost (note 3.2)	-	1,305,876,623
	10,871,768,339	7,853,176,493

3.1 Investment in government securities

	2018		2017	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
3.1.1 Financial instruments classified as loans and receivables				
Investment in Government Standing Deposit Facilities	6,490,719,545	6,490,719,545	5,420,173,981	5,420,173,981
3.1.2 Financial instruments classified as available for sale - carried at fair value				
Investment in Treasury Bills	2,256,525,000	2,256,525,000	-	-
Investment in Treasury Bonds	2,124,523,794	2,124,523,794	1,127,125,889	1,127,125,889
	4,381,048,794	4,381,048,794	1,127,125,889	1,127,125,889

3.1.3 Fair value adjustments recognized in other comprehensive income - current period (net of transfers to P&L)

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Investment in Treasury Bills	(22,078,550)	(22,078,550)	-
Investment in Treasury Bonds	150,161,388	150,184,047	44,668,814
Net Change in Fair Value	128,082,838	128,105,497	44,668,814
Amount transferred to P&L on disposal	(16,745,534)	(16,745,534)	-
Total recognized in OCI	111,337,303	111,359,963	44,668,814

3.1.4 Fair value adjustments recognized in other comprehensive income - cumulative

	2018	2017
Investment in Treasury Bills	(22,078,550)	-
Investment in Treasury Bonds	17,953,574	(115,484,939)
Adjustment on merger with subsidiary	(22,659)	
Related Tax	(3,018,739)	
	(7,166,374)	(115,484,939)

3.2 Investments classified as loans and receivables - carried at amortized cost

	2018		2017	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Investment in commercial papers	-	-	1,305,876,623	1,305,876,623

4. DERIVATIVES HELD FOR RISK MANAGEMENT

	2018 Rs.	2017 Rs.
Net derivative assets / (liabilities)		
Derivative assets (note 4.1)	133,540,941	23,840,338
Derivative liabilities (note 4.2)	482,464,342	18,978,063
Net derivative assets / (liabilities)	(348,923,401)	4,862,275
4.1 Derivative assets		
Forward exchange contracts	133,540,941	23,840,338
4.2 Derivative liabilities		
Forward exchange contracts	482,464,342	18,978,063
4.3 Change in fair value during the period - gain/ (loss)		
Recognized in profit or loss	(36,451,676)	(28,698,717)
Recognized in OCI	(210,492,330)	(46,743,199)
	(246,944,006)	(75,441,916)

5. RENTALS RECEIVABLE ON LEASED ASSETS

	2018	2017
Rentals receivable	68,576,766,529	26,258,301,548
Unearned income	(16,959,900,923)	(6,088,081,023)
Net rentals receivable (note 5.1)	51,616,865,606	20,170,220,525
Deposits received from lessees	(7,257,165,110)	(1,463,115,215)
Allowance for impairment (note 5.2)	(754,576,684)	(298,372,189)
	43,605,123,812	18,408,733,121

5. RENTALS RECEIVABLE ON LEASED ASSETS (Contd...)

5.1 Net Rentals Receivable

	2018 Rs.	2017 Rs.
Receivable -more than one year		
Rentals receivable	41,767,492,715	16,625,916,413
Unearned income	(7,805,859,151)	(3,062,559,468)
	33,961,633,564	13,563,356,945
Receivable within one year		
Rentals receivable	24,525,835,454	8,920,895,997
Unearned income	(9,154,041,772)	(3,025,521,555)
	15,371,793,682	5,895,374,443
Overdue		
Rentals receivable	2,283,438,360	711,489,137
	2,283,438,360	711,489,137
	51,616,865,606	20,170,220,524

		Group	Company	
		2018 Rs.	2018 Rs.	2017 Rs.
5.2	**Allowance for impairment**			
	Balance as at 1st of April	298,372,189	298,372,189	261,725,528
	Provision / (reversal) for the year	34,290,504	6,419,203	36,646,661
	Addition on acquisition of subsidiary	421,913,991	-	
	Addition on merger with subsidiary	-	449,785,292	-
	Balance as at 31st March	754,576,684	754,576,684	298,372,189
5.2.1	**Individual impairment**			
	Balance as at 1st of April	156,650,576	156,650,576	209,731,787
	Provision for the year	93,152,920	65,598,948	(53,081,211)
	Addition on acquisition of subsidiary	331,018,016	-	-
	Addition on merger with subsidiary	-	358,571,987	-
	Balance as at 31st March	580,821,511	580,821,511	156,650,576
5.2.2	**Collective impairment**			
	Balance as at 1st of April	141,721,613	141,721,613	51,993,741
	Provision for the year	(58,862,415)	(59,179,745)	89,727,873
	Addition on acquisition of subsidiary	90,895,975	-	-
	Addition on merger with subsidiary	-	91,213,305	-
	Balance as at 31st March	173,755,173	173,755,173	141,721,613

6. LOANS AND ADVANCES

	2018 Rs.	2017 Rs.
Hire Purchases (note 6.1)	-	-
Mortgage Loans (note 6.2)	1,535,952,494	988,013,041
Sundry Loans (note 6.3)	93,375,113,806	54,496,068,083
Gold Loan (note 6.4)	1,986,028,858	-
	96,897,095,158	55,484,081,124

6.1 Hire Purchases

Rentals receivable	-	-
Unearned income	-	-
Net rentals receivable (note 6.1.1)	-	-
Allowance for impairment (note 6.1.2)	-	-
	-	-

6. LOANS AND ADVANCES (Contd...)

6.1.1 Net rentals receivable - Hire Purchases

	2018 Rs.	2017 Rs.
Receivable -more than one year		
Rentals receivable	-	-
Unearned income	-	-
	-	-
Receivable within one year		
Rentals receivable	-	-
Unearned income	-	-
	-	-
Overdue		
Rentals receivable	-	-
	-	-

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
6.1.2 Allowance for impairment - Hire Purchases			
Balance as at 1st of April	-	-	2,164,071
Provision / (reversal) for the year	-	-	(2,164,071)
Addition on acquisition of subsidiary	-	-	
Addition on merger with subsidiary	-	-	
Balance as at 31st March	-	-	-
6.1.2.a Individual impairment			
Balance as at 1st of April	-	-	-
Provision / (reversal) for the year	-	-	-
Balance as at 31st March	-	-	-
6.1.2.b Collective impairment			
Balance as at 1st of April	-	-	2,164,071
Provision / (reversal) for the year	-	-	(2,164,071)
Addition on acquisition of subsidiary	-	-	
Addition on merger with subsidiary	-	-	-
Balance as at 31st March	-	-	-

	2018 Rs.	2017 Rs.
6.2 Mortgage Loans		
Rentals receivable	2,156,395,499	1,452,004,641
Unearned income	(597,039,874)	(374,109,327)
Net rentals receivable (note 6.2.1)	1,559,355,625	1,077,895,314
Allowance for impairment (note 6.2.2)	(23,403,131)	(89,882,272)
	1,535,952,494	988,013,041
6.2.1 Net rentals receivable - Mortgage Loans		
Receivable -more than one year		
Installments receivable	1,355,776,854	948,055,361
Unearned income	(368,454,676)	(239,814,740)
	987,322,178	708,240,620
Receivable within one year		
Installments receivable	538,600,063	299,225,836
Unearned income	(228,585,198)	(134,294,587)
	310,014,865	164,931,249
Overdue		
Installments receivable	262,018,582	204,723,444
	1,559,355,625	1,077,895,314

6. LOANS AND ADVANCES (Contd...)

		Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
6.2.2	**Allowance for impairment - Mortgage Loans**			
	Balance as at 1st of April	89,882,272	89,882,272	46,364,379
	Provision / (reversal) for the year	(66,479,141)	(66,479,141)	43,517,893
	Addition on acquisition of subsidiary	-	-	-
	Addition on merger with subsidiary	-	-	-
	Balance as at 31st March	23,403,131	23,403,131	89,882,272
6.2.2.a	**Individual impairment**			
	Balance as at 1st of April	14,458,744	14,458,744	-
	Provision / (reversal) for the year	(14,458,744)	(14,458,744)	14,458,744
	Balance as at 31st March	-	-	14,458,744
6.2.2.b	**Collective impairment**			
	Balance as at 1st of April	75,423,528	75,423,528	46,364,379
	Provision / (reversal) for the year	(52,020,397)	(52,020,397)	29,059,149
	Addition on acquisition of subsidiary	-	-	
	Addition on merger with subsidiary	-	-	
	Balance as at 31st March	23,403,131	23,403,131	75,423,528

		2018 Rs.	2017 Rs.
6.3	**Sundry Loans**		
	Total receivable	111,523,096,117	62,955,949,704
	Unearned income	(15,394,224,894)	(6,984,098,591)
	Net receivable (note 6.3.1)	96,128,871,223	55,971,851,113
	Allowance for impairment (note 6.3.2)	(2,753,757,417)	(1,475,783,030)
		93,375,113,806	54,496,068,083
6.3.1	**Net receivable - Sundry Loans**		
	Receivable -more than one year		
	Installments receivable	60,960,466,513	40,500,529,998
	Unearned income	(5,921,256,642)	(3,413,072,652)
		55,039,209,871	37,087,457,345
	Receivable within one year		
	Installments receivable	46,890,586,780	20,547,396,489
	Unearned income	(9,472,968,252)	(3,571,025,938)
		37,417,618,529	16,976,370,551
	Overdue		
	Installments receivable	3,672,042,823	1,908,023,217
		96,128,871,223	55,971,851,113

		Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
6.3.2	**Allowance for impairment - Sundry Loans**			
	Balance as at 1st of April	1,475,783,030	1,475,783,030	1,371,320,123
	Provision for the year	332,016,636	184,491,104	104,462,908
	Addition on acquisition of subsidiary	945,957,751	-	-
	Addition on merger with subsidiary	-	1,093,483,283	-
	Balance as at 31st March	2,753,757,417	2,753,757,417	1,475,783,030
6.3.2.a	**Individual impairment**			
	Balance as at 1st of April	583,998,341	583,998,341	546,676,766
	Provision / (reversal) for the year	663,453,001	375,267,781	37,321,575
	Addition on acquisition of subsidiary	217,895,272	-	-
	Addition on merger with subsidiary	-	506,080,492	-
	Balance as at 31st March	1,465,346,615	1,465,346,615	583,998,341
6.3.2.b	**Collective impairment**			
	Balance as at 1st of April	891,784,689	891,784,689	824,643,357
	Provision for the year	(331,436,366)	(190,776,678)	67,141,333
	Addition on acquisition of subsidiary	728,062,478	-	-
	Addition on merger with subsidiary	-	587,402,790	-
	Balance as at 31st March	1,288,410,802	1,288,410,802	891,784,689

6. LOANS AND ADVANCES (Contd...)

6.4 Gold loans

	2018 Rs.	2017 Rs.
Gross amount outstanding at year end	2,008,687,323	-
Allowance for impairment(note 6.4.1)	(22,658,465)	-
Balance as at 31st March	1,986,028,858	-

6.4.1 Allowance for impairment

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Balance as at 1st of April	-	-	-
Provision for the year	(14,030,824)	-	-
Addition on acquisition of subsidiary	36,689,289	-	-
Addition on merger with subsidiary	-	22,658,465	
Balance as at 31st March	22,658,465	22,658,465	-

6.4.1.a Individual impairment

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Balance as at 1st of April	-	-	-
Provision / (reversal) for the year	30,688	-	-
Addition on acquisition of subsidiary	5,253,414	-	-
Addition on merger with subsidiary	-	5,284,102	
Balance as at 31st March	5,284,102	5,284,102	-

6.4.1.b Collective impairment

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Balance as at 1st of April	-	-	-
Provision for the year	(14,061,512)	-	-
Addition on acquisition of subsidiary	31,435,875	-	-
Addition on merger with subsidiary	-	17,374,363	
Balance as at 31st March	17,374,363	17,374,363	-

6.5 Factoring Receivables

	2018 Rs.	2017 Rs.
Gross receivable	11,397,986,284	17,823,865,341
Allowance for impairment (note 6.5.1)	(759,231,341)	(1,299,227,274)
	10,638,754,943	16,524,638,067

6.5.1 Allowance for impairment

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Balance as at 1st of April	1,299,227,274	1,299,227,274	894,557,226
Provision for the year	(539,995,933)	(539,995,933)	404,670,048
Addition on acquisition of subsidiary	-	-	-
Addition on merger with subsidiary	-	-	-
Balance as at 31st March	759,231,341	759,231,341	1,299,227,274

6.5.1.a Individual impairment

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Balance as at 1st of April	939,736,329	939,736,329	500,000,000
Provision / (reversal) for the year	(633,668,556)	(633,668,556)	439,736,329
Balance as at 31st March	306,067,774	306,067,774	939,736,329

6.5.1.b Collective impairment

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Balance as at 1st of April	359,490,945	359,490,945	394,557,226
Provision for the year	93,672,622	93,672,622	(35,066,281)
Balance as at 31st March	453,163,567	453,163,567	359,490,945

6.6 MARGIN TRADING RECEIVABLES

	2018 Rs.	2017 Rs.
Gross amount outstanding at year end	175,570,117	94,825,018
Allowance for impairment	-	-
Net balance on margin trading	175,570,117	94,825,018

6.7 Portfolio Analysis

6.7.1 Sectorwise exposure of the lending portfolio - before impairment provision

	2018 Rs.	2017 Rs.
Agriculture	23,462,058,315	6,372,360,281
Manufacturing	10,503,340,695	7,706,594,972
Economics And Social	1,471,492,544	1,409,104,525
Trade	24,330,862,923	19,763,704,338
Factoring	11,397,986,284	17,294,700,931
Margin Trading	175,327,776	94,825,018
Tourism	13,642,442,095	1,422,950,463
Services	24,703,022,721	13,463,339,321
Transportation	11,434,468,001	5,092,978,170
Construction	7,986,587,895	4,493,623,152
Mining and Quarrying	335,123,972	328,425,492
Others	26,187,457,849	16,232,935,432
	155,630,171,068	93,675,542,095

6. LOANS AND ADVANCES (Contd...)

6.7.2 Product wise analysis of portfolio

	2018 Rs.	2017 Rs.
Lease receivables	41,224,887,788	15,476,013,040
Loans & Advances	91,772,162,342	49,239,625,594
Factoring receivables	11,397,986,284	17,823,865,341
Margin trading receivables	175,570,117	94,825,018
Islamic business portfolio - Ijarah receivables	3,134,812,708	3,231,092,270
Islamic business portfolio - Other receivables (Murabaha, Musharakah etc.)	7,924,751,829	7,810,120,833
Gross portfolio	155,630,171,068	93,675,542,096
Less : Impairment provision	(4,313,627,038)	(3,163,264,766)
Net portfolio (note 6.7.3)	151,316,544,030	90,512,277,330

6.7.3 Net portfolio

	2018 Rs.	2017 Rs.
Rentals receivable on Leased Assets (note 5)	43,605,123,812	18,408,733,121
Hire Purchases, Loans and Advances (note 6)	96,897,095,158	55,484,081,124
Factoring receivable (note 6.5)	10,638,754,943	16,524,638,067
Margin trading receivables (note 6.5)	175,570,117	94,825,018
	151,316,544,030	90,512,277,330

7. OTHER RECEIVABLES

	2018 Rs.	2017 Rs.
Financial Assets		
Staff loans	303,862,169	250,605,452
Other accommodations	-	590,802,130
Provision for other accommodations	-	(590,802,130)
Other Receivables	92,668,586	78,513,017
Provision on other receivables	(90,000,144)	-
	306,530,611	329,118,469
Non Financial Assets		
VAT receivable	350,973,408	381,448,855
WHT recoverable	22,834,850	-
Prepaid staff cost	113,415,906	102,826,327
Miscellaneous receivables	328,741,604	258,267,764
	815,965,768	742,542,946
Total Other receivables	1,122,496,378	1,071,661,415

8. INVESTMENT SECURITIES

	2018 Rs.	2017 Rs.
Investments held for trading (note 8.1)	1,744,986,516	258,161,072
Available for sale investments-carried at cost (note 8.2)	220,312,175	66,468,275
	1,965,298,691	324,629,347

8.1 Investments held for trading

	2018 Rs.	2017 Rs.
Expo Lanka Holdings PLC		
Original cost	18,000,000	18,000,000
Carrying amount as at 1st April	6,600,000	7,000,000
Adjustment for change in fair value - recognized in profits	(1,700,000)	(400,000)
Carrying amount as at 31st March	4,900,000	6,600,000
Investment in Unit Trusts		
Original cost	1,575,000,000	250,000,000
Carrying amount as at 1st April	251,561,072	1,010,002,569
Investments during the year	10,340,000,000	250,000,000
Disposal during the year	(9,371,833,497)	(1,040,793,428)
Adjustment for change in fair value - recognized in profits	520,358,941	32,351,930
Carrying amount as at 31st March	1,740,086,516	251,561,072
Total investments held for trading	1,744,986,516	258,161,072

8. INVESTMENT SECURITIES (Contd…)

8.2 Available for sale investments carried at cost	2018 Rs.	2017 Rs.
Credit Information Bureau Ltd	537,175	343,275
LOLC Myanmar Micro Finance Company Ltd	66,125,000	66,125,000
LOLC Asia (Pvt) Ltd	153,650,000	-
Total	220,312,175	66,468,275

These investments are unquoted and has no active market from which a reliable fair value could be obtained. The different valuation methods used did not provide a reasonable range of values. As a result these investments are carried at cost since the fair value cannot be determined reliably.

9. AMOUNTS DUE FROM RELATED COMPANIES

	Relationship	2018 Rs.	2017 Rs.
LOLC Asset Holding Co/ LOLC Life Assurance Co.	Fellow subsidiary	5,254,840	-
LOLC Insurance - General Ltd	Fellow subsidiary	20,897,301	1,909,490
Commercial Leasing and Finance PLC	Fellow subsidiary	762,755	102,340
LOLC Securities Ltd	Fellow subsidiary	3,339	683,964
Dickwella Resorts (pvt) Ltd	Fellow subsidiary	5,005	1,393,853
Browns Investments Co Ltd	Fellow subsidiary	60,459	-
Eden Hotel Lanka PLC	Fellow subsidiary	69,726	9,708,643
Brown & Co. Ltd	Fellow subsidiary	141,237	-
Sports Club AC	Fellow subsidiary	856,440	-
Green Paradise	Fellow subsidiary	13,362	-
Sun & Fun Resorts Ltd.	Fellow subsidiary	21,843	1,034,777
BRAC Lanka Finance PLC	Fellow subsidiary	1,657,095	32,884,957
Excel Restaurants (Pvt) Ltd	Fellow subsidiary	24,931	729,101
LOLC Insurance - Life Ltd	Fellow subsidiary	2,930,986	3,971,487
The Paradise Resort & Spa	Fellow subsidiary	-	1,983,274
LOLC Factors Ltd	Fellow subsidiary	-	163,612,000
Lanka Orix Information Technology services Ltd	Fellow subsidiary	-	1,729,863
Browns Hotels and Resorts Ltd	Fellow subsidiary	-	1,931,950
Millenium Development (pvt) Ltd	Fellow subsidiary	-	1,330,125
LOLC Micro Investment Ltd	Fellow subsidiary	210,073	-
		32,909,393	224,505,824

10. INVESTMENT PROPERTIES

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Balance as at 1st April	906,300,000	906,300,000	930,200,000
Additions to Investment Properties from foreclosure of contracts	752,966,448	752,966,448	-
Additions and improvements	-		
- Improvements	49,776,809	49,776,809	13,997,152
- Additions	2,765,417,980	2,765,417,980	-
- Transfers from property, plant and equipment	1,643,651,422	1,643,651,422	-
Disposals	(37,200,000)	(37,200,000)	(62,355,000)
Change in fair value	197,274,567	197,274,567	24,457,848
Balance as at 31st March	6,278,187,226	6,278,187,226	906,300,000

- Investment Properties includes bare lands and land and buildings acquired by the company from clients who defaulted on accommodations granted and purchased properties. These properties are held by the Company for capital appreciation and rental purposes.

- The company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs 27,720,285 during the current financial year. (2016-2017 - Rs 10,962,000) from these properties.

- During the financial year company has incurred expenses amounting to Rs 310,685 for maintenance of the investment property. (2016-2017- Rs 6,579,374)

- Changes in fair values are recognised as gains in profit or loss and included in 'Net other operating income'.

10. INVESTMENT PROPERTIES (Contd…)

10.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio every year and the latest valuation was done on 31 March 2018.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

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

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio ranges from Rs.700,000 to Rs.5,600,000 in the Colombo area and Rs.140,000 to Rs.1,800,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: - Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for period used.	The estimated fair value would increase (decrease) if: - Depreciation rate was lesser / (higher) - Square feet value was higher / (lesser)

11. PROPERTY, PLANT AND EQUIPMENT

Group	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Total Rs.
Cost/Valuation				
Balance as at 01 April 2017	899,400,000	99,151,245	1,818,236,965	2,816,788,210
Additions	60,719,000	36,685,918	25,500,000	122,904,918
Addition arising from merger of subsidiary	690,856,700	56,083,800	-	746,940,500
Revaluation	14,804,800	27,916,200	-	42,721,000
Transfers to investment properties	(1,524,061,500)	(120,837,162)	-	(1,644,898,662)
Balance as at 31 March 2018	141,719,000	99,000,000	1,843,736,965	2,084,455,965
Accumulated Depreciation				
Balance as at 01 April 2017	-	123,884	195,642,283	195,766,167
Charge for the year	-	220,396	173,063,643	173,284,039
Addition arising from merger of subsidiary	-	2,554,776	-	2,554,776
Revaluation	-	(393,247)	-	(393,247)
Transfers to investment properties	-	(1,247,240)	-	(1,247,240)
Balance as at 31 March 2018	-	1,258,569	368,705,926	369,964,495
Carrying Amount				
As at 31 March 2018	141,719,000	97,741,431	1,475,031,039	1,714,491,470

Company	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Total Rs.
Cost/Valuation				
Balance as at 01 April 2017	899,400,000	99,151,245	1,818,236,965	2,816,788,210
Additions	60,719,000	36,685,918	25,500,000	122,904,918
Addition arising from merger of subsidiary	690,856,700	56,083,800	-	746,940,500
Revaluation	14,804,800	27,916,200	-	42,721,000
Transfers to investment properties	(1,524,061,500)	(120,837,162)	-	(1,644,898,662)
Balance as at 31 March 2018	141,719,000	99,000,000	1,843,736,965	2,084,455,965
Accumulated Depreciation				
Balance as at 01 April 2017	-	123,884	195,642,283	195,766,167
Charge for the year	-	752,877	173,063,643	173,816,520
Addition arising from merger of subsidiary	-	2,022,296	-	2,022,296
Revaluation	-	(393,247)	-	(393,247)
Transfers to investment properties	-	(1,247,240)	-	(1,247,240)
Balance as at 31 March 2018	-	1,258,570	368,705,925	369,964,495
Carrying Amount				
As at 31 March 2018	141,719,000	97,741,430	1,475,031,040	1,714,491,470

11. PROPERTY, PLANT AND EQUIPMENT (Contd…)

Company	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Total Rs.
Cost/Valuation				
Balance as at 01 April 2016	150,850,000	17,174,800	1,091,088,965	1,259,113,765
Additions	571,174,000	43,549,245	727,148,000	1,341,871,245
Revaluation	177,376,000	38,427,200	-	215,803,200
Balance As at 31 March 2017	899,400,000	99,151,245	1,818,236,965	2,816,788,210
Accumulated Depreciation				
Balance as at 01 April 2016	-	243,495	48,463,040	48,706,535
Charge for the year	-	1,066,765	147,179,242	148,246,007
Revaluation	-	(1,186,376)	-	(1,186,376)
Balance As at 31 March 2017	-	123,884	195,642,282	195,766,167
Carrying Amount				
As at 31 March 2017	899,400,000	99,027,360	1,622,594,683	2,621,022,043

Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amounting to Rs. 1,475,031,040 As at 31 March 2018 (2017 - Rs. 1,622,594,683) are purchased under finance leases and have been pledged as security for the related finance lease liabilities, details of which are disclosed in Note 12.2

Assets given under operating leases

The motor vehicles of the company represents assets given under operating leases under short term and long term basis.
An analysis of the rentals to be received on such operating leases are as follows.

	2018 Rs.	2017 Rs.
Receivable within one year	315,536,900	342,854,375
Receivable within 1-5 years	636,972,325	857,161,600
Receivable after 5 years	-	3,093,500
Total	952,509,225	1,203,109,475

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31st March 2018 and 31st March 2017.

Fully depreciated property, plant and equipment

There were no property, plant and equipment fully depreciated as at 31st March 2018 and 31st March 2017.

11.1 Measurement of fair values

1.) Fair value hierarchy

The fair value of land and buildings was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's land and buildings once in every 3 years and the latest valuation was done on 31 March 2018.

The fair value measurement for all of the land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation techniques used.

2.) Valuation technique

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

Valuation Technique	Significant unobservable inputs	Interrelationship between key unobservable input and fair value measurement
Market comparison method - value derived based on recent transactions of similar properties	Per perch value was derived based on similar property values. The value of a perch in the property portfolio ranges from Rs.700,000 to Rs.5,600,000 in the Colombo area and Rs.140,000 to Rs.1,800,000 outside the Colombo area.	The estimated fair value would increase (decrease) if: - Per perch value was higher / (lesser)
Depreciated replacement cost method	Value per square feet determined based on similar properties value and depreciated for period used.	The estimated fair value would increase (decrease) if: - Depreciation rate was lesser / (higher) - Square feet value was higher / (lesser)

11.2 The carrying amount of revalued land and buildings if they were carried at cost less depreciation and impairment, would be as follows;

As at 31 March	2018 Rs.	2017 Rs.
Cost	197,998,000	782,748,045
Accumulated depreciation and impairment	(1,651,816)	(1,310,260)
Carrying value	196,346,184	781,437,784

12. INTEREST BEARING BORROWINGS

	2018 Rs.	2017 Rs.
Short-term loans	19,266,537,000	6,253,000,000
Long-term borrowings (note 12.1)	44,804,489,476	11,841,978,667
Finance leases (note 12.2)	561,196,164	1,068,481,984
Debentures (note 12.3)	4,950,000,000	4,950,000,000
Total borrowings	69,582,222,640	24,113,460,651
Interest payable	908,209,720	342,853,014
Liability recognized in statement of financial position	70,490,432,360	24,456,313,666

12.1 Long-term borrowings

Balance at the beginning of the year	11,841,978,667	20,453,223,681
Loans obtained during the year	1,549,626,302	2,155,700,000
Loans transferred on merger with Subsidiary	36,059,933,392	-
Repaid during the year	(4,647,048,885)	(10,766,945,014)
Balance at the end of the year	44,804,489,476	11,841,978,667
Long-term borrowings - current	39,132,421,898	4,796,703,943
Long-term borrowings - non-current (note 12.1.a)	5,672,067,578	7,045,274,724
	44,804,489,476	11,841,978,667

12.1.a Analysis of non-current portion of long-term borrowings

Repayable within 1-3 years	4,068,180,359	4,578,707,696
Repayable after 3 years	1,603,887,219	2,466,567,028
	5,672,067,578	7,045,274,724

The borrowings includes long term and short term loans which carry interest rates which are variable and are reset on a monthly / quarterly / semi-annually / annual basis. Consequent to the merger with the subsidiary certain debt covenants are being renegotiated with the lenders to suit the merged entity. As a result loans amounting to Rs.34,901,470,774 has been classified as current even though the contractual maturity is long term. Of this amount Rs.21,574,760,136 has a contractual maturity within 1-3 years and Rs.4,981,270,920 has a maturity after 3 years.

12.2 Finance leases

Gross lease rentals payable as at 1 April	1,242,509,975	1,281,759,996
Lease obtained during the year	15,403,013	593,542,233
Lease rentals paid during the year	(614,745,905)	(632,792,253)
Gross lease rentals payable as at 31 March	643,167,083	1,242,509,975
Less: Interest in suspense	(81,970,920)	(174,027,991)
Balance at the end of the year / present value of minimum lease payments	561,196,164	1,068,481,984

12.2.1 Analysis of finance leases

Repayable within one year (note 12.2.1.a)	271,487,490	523,219,878
Repayable within 1-5 years (note 12.2.1.b)	289,708,674	545,262,106
	561,196,164	1,068,481,984

12.2.1.a Repayable within one year

Gross lease rentals payable	320,152,101	616,914,159
Less: interest in suspense	(48,664,611)	(93,694,281)
	271,487,490	523,219,878

12.2.1.b Repayable within 1-5 years

Gross lease rentals payable	323,014,983	625,595,816
Less: interest in suspense	(33,306,309)	(80,333,710)
	289,708,674	545,262,106

12.3 Debentures

Balance at the beginning of the year	4,950,000,000	4,950,000,000
Debenture issued during the year (net of transaction cost)	-	-
Balance at the end of the year	4,950,000,000	4,950,000,000

The company issued fifty million (50,000,000) rated unsecured subordinated redeemable debentures at a value of Rs.100 each, totalling to Rs. 5Bn, with a 5 year maturity during the financial year 2014-2015. These debentures are listed in the Colombo Stock Exchange. A transaction cost of Rs. 50Mn was incurred on the issue of these debentures. The amortization of the transaction cost is included in the interest payable amount.

13. DEPOSITS FROM CUSTOMERS

	2018 Rs.	2017 Rs.
Customer deposits	106,556,229,770	77,680,697,534
Interest / profit payable		
Interest payable on deposits	3,299,313,250	2,802,791,088
Profits payable to Islamic Business Unit deposit holders	171,877,079	123,626,172
	3,471,190,329	2,926,417,260
Deposit liability recognized in statement of financial position	110,027,420,099	80,607,114,794

13.1 Analysis of customer deposits based on nature

	2018 Rs.	2017 Rs.
Fixed deposits - conventional	87,057,854,894	67,236,994,188
Fixed deposits - Islamic - Mudharabah	3,870,609,137	4,081,857,830
Fixed deposits - Islamic - Wakala	5,373,530,266	1,991,207,909
Fixed deposits - foreign currency	2,688,605,506	1,651,310,478
Fixed deposit bonds	193,350,400	395,097,800
Savings deposits - conventional	1,867,641,169	1,747,264,748
Savings deposits - Islamic	860,562,263	484,831,430
Savings deposits - foreign currency	4,644,076,135	92,133,151
Total deposits	106,556,229,770	77,680,697,534

13.2 Deposits based on maturity

	2018 Rs.	2017 Rs.
Deposits maturing within one year	86,736,355,447	63,469,514,967
Deposits maturing after one year	19,819,874,323	14,211,182,567
	106,556,229,770	77,680,697,534

14. TRADE PAYABLES

	2018 Rs.	2017 Rs.
Creditors for lease equipment and approved facilities to be disbursed	1,593,495,581	677,878,426

15. ACCRUALS AND OTHER PAYABLES

	2018 Rs.	2017 Rs.
Excess payments received from clients	66,737,816	150,977,318
Insurance payable	41,619,532	50,473,780
VAT / other tax payable	105,302,325	2,555,388
Other miscellaneous creditors	1,811,998,961	1,076,401,622
Payable on matured deposits	340,374,030	325,966,263
Stamp duty payable	20,652,737	11,160,475
IBU charity fund	1,690,486	3,432,829
	2,388,375,887	1,620,967,675

16. AMOUNTS DUE TO RELATED COMPANIES

	Relationship	2018 Rs.	2017 Rs.
Lanka Orix Leasing Company PLC	Parent	952,626,317	371,173,624
Lanka Orix Leasing Company PLC-Refinance Loans	Parent	10,494,870	29,548,653
LOLC Micro Credit Ltd	Subsidiary / Fellow subsidiary	-	27,756,038
LOLC Corporate services Ltd	Fellow subsidiary	981,255.35	1,682,156
LOLC Factors Ltd	Fellow subsidiary	507,035,755	-
LOLC Motors Ltd	Fellow subsidiary	5,980,455	4,098,350
LOLC Information Technology Services Limited	Fellow subsidiary	19,880,898	-
		1,496,999,551	434,258,821

17. EMPLOYEE BENEFITS

17.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

	2018 Rs.	2017 Rs.
Employees' Provident Fund		
Employers' contribution	44,204,734	31,303,816
Employees' contribution	29,469,822	21,069,210
Employees' Trust Fund	11,051,183	7,825,954

As at 31 March,

17.2 Defined benefit plan

Movement in the present value of the defined benefit obligation

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Defined benefit obligation as of 01 April	17,018,130	17,018,130	12,248,571
Transferred on merger with Subsidiary	46,621,222	46,621,222	-
Expense included in Personnel Expenses	5,986,781	5,986,781	5,141,592
Remeasurement Component	2,609,396	2,609,396	1,504,720
	55,217,399	55,217,399	6,646,312
Benefits paid	(1,932,231)	(1,932,231)	(1,876,753)
Defined benefit obligation as at 31st March	**70,303,298**	**70,303,298**	**17,018,130**

17.2.a Expense included in Personnel Expenses

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Current Service Cost	3,944,606	3,944,606	3,474,194
Interest Cost	2,042,175	2,042,175	1,667,398
	5,986,781	**5,986,781**	**5,141,592**

17.2.b Actuarial gains and losses recognised in other comprehensive income

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Cumulative loss as at 1st April	4,445,373	4,445,373	2,940,653
(Gain) / loss recognised during the period	2,609,396	2,609,396	1,504,720
Cumulative loss as at 31st March	**7,054,769**	**7,054,769**	**4,445,373**

Acturial valuation for defined benefit obligation was carried out As at 31 March 2018 by Mr. P.S. Goonatilleke, a Fellow of the Society of Actuaries (USA). The valuation method used by the actuaries to value the obligation is the "Projected Unit Credit Method", a method recommended by the Sri Lanka Accounting Standard - LKAS 19 on "Employee Benefits".

17.2.c Key assumptions used in the above valuation are as follows:

	2018	2017
Discount Rate	11.00%	12.00%
Salary Increment Rate	9.00%	9.00%
Retirement Age	55	55
Staff Turnover	2.5% - 15%	2.5% - 15%

The Defined Benefit Plan entitles a retired employee to receive a payment equal to half of the last drawn monthly salary multiplied by the number of completed years of service. However, as per the Statute, the company is liable to pay gratuity only upon the completion of continuous 5 Years of service.

Assumptions regarding future mortality are based on published statistics and mortality tables.
The plan is not externally funded.

17.2.d Sensitivity analysis of the defined benefit obligation

The effect on the defined benefit obligation at the year end, as a result of changes in the actuarial assumptions used, is shown below.

As at 31 March,	2018 Rs.	2017 Rs.
The defined benefit obligation under current assumptions	70,303,298	17,018,130
The defined benefit obligation if the discount rate increased by 100 basis points	63,795,919	15,555,653
The defined benefit obligation if the discount rate reduced by 100 basis points	77,856,221	18,718,105
The defined benefit obligation if the salary increment rate increased by 1%	78,186,716	18,720,579
The defined benefit obligation if the salary increment rate reduced by 1%	63,428,522	15,529,221
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(6,507,379)	(1,462,477)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	7,552,923	1,699,975
The change in the defined benefit obligation if the salary increment rate increased by 1%	7,883,418	1,702,449
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(6,874,776)	(1,488,909)

17.2.e Maturity analysis of the payments

The following payments are expected on employee benefit liabilities in future years.

	2018	2017
Within the next 12 months	8,922,809	2,449,327
Between 1 and 2 years	10,555,975	2,854,021
Between 2 and 5 years	50,889,833	14,503,778
Between 5 and 10 years	149,766,472	46,997,830
Total expected payments	**220,135,089**	**66,804,956**

18. STATED CAPITAL

	2018		2017	
	Number of shares	Rs.	Number of shares	Rs.
Balance at the beginning of the year	2,800,000,000	2,000,000,000	2,800,000,000	2,000,000,000
Issue of shares for cash	1,400,000,000	5,880,000,000	-	-
Balance at the end of the year	4,200,000,000	7,880,000,000	2,800,000,000	2,000,000,000

Rights, preference and restrictions of classes of capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to have one vote per individual present at meetings of the shareholders or one vote per share in case of a poll. They are entitled to participate in any surplus assets of the Company in winding up. There are no preferences or restrictions on Ordinary Shares.

19. RESERVES

	2018 Rs.	2017 Rs.
Statutory reserve (note 19.1)	1,996,724,011	1,556,438,753
Revaluation reserve (note 19.2)	241,527,671	206,229,960
Cash flow hedge reserve (note 19.3)	(6,333,137)	14,236,742
Available for sale investment reserve (note 19.4)	(7,166,375)	(115,484,939)
Retained earnings (note 19.5)	7,000,881,585	7,364,836,012
	9,225,633,756	9,026,256,529

19.1 Statutory reserve

Balance at the beginning of the year	1,556,438,753	1,239,075,154
Transferred during the year	440,285,258	317,363,599
Balance at the end of the year	1,996,724,011	1,556,438,753

The reserve is created according to Direction No.1 of 2003 issued under the Finance Business Act No.42 of 2011. The Company transferred 20% (2016/17 - 20%) of its annual net profit after tax to this reserve in compliance with this direction.

19.2 Revaluation Reserve

Balance at the beginning of the year	206,229,960	-
Transferred during the year	-	216,989,576
Adjustments on merger	43,114,247	-
Related tax	(7,816,536)	(10,759,616)
Balance at the end of the year	241,527,671	206,229,960

This reserve is created from the excess arising from the revaluation of land and buildings of the company.

19.3 Cash flow hedge reserve

	2018 Rs.	2017 Rs.
Balance at the beginning of the year	14,236,742	22,747,657
Gain / (loss) arising from cash flow hedge recognized in OCI	(26,649,199)	(11,820,715)
Related tax - current tax - expense / (reversal) - note 27	(18,101,637)	(9,778,295)
Related tax - deferred tax - expense / (reversal) - note 27	26,101,034	13,088,096
Adjustments on merger	(1,920,077)	-
Balance at the end of the year	(6,333,137)	14,236,742

The cash flow hedge reserve is maintained to recognise the change in the fair value of, the derivative (forward exchange contract) designated under the hedge relationship and the hedge item (portion of a foreign currency borrowing). The objective of the hedge is to mitigate the risk arising on the movement in foreign exchange rates and the resulting cash flows.

The hedging instrument are forward exchange contracts and as at 31st March 2018, there were assets with fair value of Rs. 133,540,941 and liabilities with fair value of Rs. 482,464,342.

The portion of the foreign currency loan that is subject to hedge accounting is to be settled during the financial years 2017/18 - 2022/23 and the derivative will be rolled over until that date.

The hedge is considered to be effective and is in effect at the reporting date and therefore no reclassification to profit or loss was made.

19. RESERVES (Contd...)

19.4 Available for Sale Investment Reserve	2018 Rs.	2017 Rs.
Balance at the beginning of the year	(115,484,939)	(160,153,753)
Fair value changes during the year - increase / (decrease)	128,082,838	44,668,814
Transfers of (gains) / losses to profits on disposal of investments	(16,745,534)	-
Related Tax	(3,018,739)	-
Balance at the end of the year	(7,166,375)	(115,484,939)

This reserve is maintained to recognize the fair value changes of Available for Sale Financial Assets.

19.5 Retained Earnings

Balance at the beginning of the year	7,364,836,011	6,096,465,015
Profit for the year	2,201,426,289	1,586,817,994
Remeasurements of defined benefit liability - gain / (loss)	(1,878,765)	(1,083,398)
Transfer to statutory reserve fund	(440,285,258)	(317,363,599)
Excess of investment on merger with susbidiary	(2,123,216,692)	-
Balance at the end of the year	7,000,881,585	7,364,836,011

20. INTEREST INCOME	Group	Company	
	2018 Rs.	2018 Rs.	2017 Rs.
Interest on leases	5,651,758,197	4,760,680,135	3,256,904,896
Interest on hire purchases	-	-	136,361
Interest on loans	13,217,623,188	11,387,494,159	10,403,319,839
Income from factoring portfolio	3,839,176,110	3,839,176,110	3,386,062,003
Interest on margin trading	34,370,009	34,370,009	15,107,970
Income from operating lease and hire	347,231,202	347,231,202	216,962,699
Interest on overdue rentals and others	1,758,312,579	1,530,394,326	1,211,246,932
	24,848,471,285	21,899,345,941	18,489,740,700

21. INTEREST EXPENSE	Group	Company	
	2018 Rs.	2018 Rs.	2017 Rs.
Interest on fixed deposits	10,785,836,438	10,785,836,438	7,386,960,410
Interest on savings deposits	103,637,952	103,637,952	67,558,918
Profit distributed to Islamic Business Unit deposit holders	1,014,111,005	1,014,111,005	558,485,895
Interest on foreign currency deposits	85,940,416	85,940,416	69,456,936
Interest on re-red refinancing	2,056,302	2,056,302	2,823,690
Finance lease interest	94,710,085	94,710,085	125,893,047
Interest on loans & bank overdraft	2,930,309,438	1,815,844,563	3,248,094,494
	15,016,601,637	13,902,136,761	11,459,273,390

22. NET OTHER OPERATING INCOME

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Sundry income	224,775,792	179,253,587	85,236,207
Service charges	198,066,846	198,066,846	354,932,248
Arrangement and documentation fees	232,803,310	204,247,912	193,263,194
Collections from contracts written off	252,499,173	196,892,015	218,548,341
Fair value change in investment properties (Note 10)	197,274,567	78,239,014	24,457,848
Reclassification from AFS reserve on disposals	16,745,534	16,745,534	-
Interest income and capital gain on government securities	1,297,309,848	1,281,546,653	982,164,310
Interest income on term deposits	779,327,763	637,290,823	473,900,598
Change in fair value of derivatives - forward contracts (note 4.3)	(36,451,676)	(36,451,676)	(28,698,717)
Net exchange loss	50,851,754	52,059,498	(56,870,998)
Portfolio handling fee	-	295,520,180	-
Bad debt portfolio handling fee	-	48,430,041	-
Provision for payables to clients	(25,200,000)	(25,200,000)	(10,500,000)
Adjustment for increase / (decrease) in value of investments (note 8.1)	518,658,941	518,658,941	31,951,930
Dividend income	318,522	318,522	200,503
Interest income from staff loan	84,376,427	84,376,427	68,165,042
Disposal gain / (loss) on investment property	5,462,500	5,462,500	11,902,750
	3,796,819,301	3,735,456,817	2,348,653,257

23. DIRECT EXPENSES EXCLUDING INTEREST COST

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Insurance expenses factored to accommodations	706,225,830	606,280,963	323,419,958
VAT on general expenses	563,868,588	438,457,903	309,002,010
Portfolio handling fee	-	-	669,342,613
Others	3,219,590	3,194,150	9,643,590
	1,273,314,008	1,047,933,016	1,311,408,171

24. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Impairment provision / (reversal) for lease rentals receivable (Note 5.2)	34,290,510	6,419,203	36,646,661
Impairment provision / (reversal) for receivables from hire purchases (Note 6.1.2)	-	-	(2,164,071)
Impairment provision / (reversal) for mortgage loan (Note 6.2.2)	(66,479,141)	(66,479,141)	43,517,893
Impairment provision / (reversal) for receivables from sundry loans (Note 6.3.2)	317,985,812	184,491,104	104,462,908
Impairment provision / (reversal) for factoring receivables (Note 6.4.1)	(238,222,742)	(238,222,742)	404,670,048
Impairment provision / (reversal) for other receivables	(590,802,130)	(590,802,130)	(37,604,799)
Impairment provision / (reversal) for insurance receivable	90,000,144	-	-
Written-off during the year	4,902,279,209	4,413,881,669	779,513,473
	4,449,051,661	3,709,287,962	1,329,042,113

25. PROFIT FROM OPERATIONS

Profit from operations is stated after charging all expenses including the following,

		Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Directors’ emoluments		27,334,750	12,256,000	7,235,438
Audit fees and expenses	- Audit Services	3,655,000	2,530,000	2,215,150
	- Audit Related Services	1,440,000	960,000	949,300
	- Non Audit Services	Nil	Nil	Nil
Depreciation on property, plant and equipment		173,284,039	173,816,520	148,246,007

25.1 Personnel expenses

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
- Salaries, wages & other related cost	1,569,164,402	1,309,250,208	1,380,224,129
- Defined contribution plans - EPF & ETF	55,255,917	55,255,917	39,129,770
- Defined benefit plan cost	5,986,781	5,986,781	5,141,592
	1,630,407,100	1,370,492,906	1,424,495,490

26. MATURITY OF ASSETS AND LIABLITIES

26.1 An analysis of the total assets of the Company as at the year end based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.18 Rs.	Total as at 31.03.17 Rs.
Cash and cash equivalents	11,323,366,281	-	-	-	-	11,323,366,281	4,924,111,973
Deposits with banks and other financial institutions	12,699,178,080	13,647,373,473	-	-	-	26,346,551,552	14,161,567,078
Investment in government securities	6,786,699,545	3,966,243,311	-	-	118,825,483	10,871,768,339	7,853,176,493
Derivative assets	54,240,915	79,300,026	-	-	-	133,540,941	23,840,338
Rentals receivable on leased assets	6,057,125,803	11,598,106,177	21,836,150,024	4,682,927,211	185,391,280	44,359,700,495	18,707,105,309
Allowance for impairment	-	-	-	-	-	(754,576,684)	(298,372,189)
Hire purchases, loans and advances	15,468,659,514	28,178,301,065	36,635,484,917	18,621,701,657	792,767,018	99,696,914,172	57,049,746,427
Allowance for impairment	-	-	-	-	-	(2,799,819,013)	(1,565,665,303)
Factoring receivable	11,397,986,284	-	-	-	-	11,397,986,284	17,823,865,341
Allowance for impairment	-	-	-	-	-	(759,231,341)	(1,299,227,274)
Margin trading receivables	175,570,117	-	-	-	-	175,570,117	94,825,018
Allowance for impairment	-	-	-	-	-	-	-
Other receivables	600,273,827	214,866,135	133,287,305	119,522,719	54,546,392	1,122,496,378	1,071,661,415
Investments securities	1,744,986,516	-	-	-	220,312,175	1,965,298,691	324,629,347
Amount due from related companies	32,909,393	-	-	-	-	32,909,393	224,505,824
Inventories	-	9,077,910	-	-	-	9,077,910	-
Investment properties	-	-	6,278,187,226	-	-	6,278,187,226	906,300,000
Property plant and equipment	-	-	-	-	1,714,491,470	1,714,491,470	2,621,022,043
Total Assets as at 31st March 2018	**66,340,996,274**	**57,693,268,097**	**64,883,109,472**	**23,424,151,587**	**3,086,333,819**	**211,114,232,211**	
Total Assets as at 31st March 2017	**53,691,538,530**	**16,069,636,219**	**27,224,704,379**	**23,209,050,980**	**5,591,426,499**	**122,623,091,840**	**122,623,091,840**

26.2 An analysis of the total liabilities of the Company as at the year end based on the remaining period at the reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total as at 31.03.18 Rs.	Total as at 31.03.17 Rs.
Bank overdraft	4,243,169,825	-	-	-	-	4,243,169,825	2,393,316,396
Interest bearing borrowings	49,894,862,268	9,683,793,840	9,284,429,724	1,627,346,527	-	70,490,432,360	24,456,313,665
Deposits from customers	37,708,942,912	51,996,757,547	10,763,443,889	9,558,275,752	-	110,027,420,099	80,607,114,794
Trade payables	1,593,495,580	-	-	-	-	1,593,495,580	677,878,426
Accruals and other payables	1,213,135,553	420,596,502	532,984,950	157,225,052	64,433,830	2,388,375,887	1,620,967,675
Derivative liabilities	282,005,249	200,459,093	-	-	-	482,464,342	18,978,063
Amount due to related companies	1,496,999,551	-	-	-	-	1,496,999,551	434,258,821
Current tax payable	-	813,718,266	-	-	-	813,718,266	268,931,782
Deferred tax liability	-	-	2,402,219,247	-	-	2,402,219,247	1,102,057,559
Employee benefits	-	-	-	70,303,298	-	70,303,298	17,018,130
Stated capital	-	-	-	-	7,880,000,000	7,880,000,000	2,000,000,000
Statutory reserve	-	-	-	-	1,996,724,011	1,996,724,011	1,556,438,753
Revaluation Reserve	-	-	-	-	241,527,671	241,527,671	206,229,960
Cash flow hedge reserve	-	-	-	-	(6,333,137)	(6,333,137)	14,236,742
Available for sale investment reserve	-	-	-	-	(7,166,375)	(7,166,375)	(115,484,939)
Retained earnings	-	-	-	-	7,000,881,585	7,000,881,585	7,364,836,012
Total Liabilities & Equity as at 31st March 2018	**96,432,610,938**	**63,115,325,248**	**22,983,077,810**	**11,413,150,629**	**17,170,067,586**	**211,114,232,211**	
Total Liabilities & Equity as at 31st March 2017	**43,665,070,381**	**38,653,965,166**	**20,291,526,149**	**8,091,964,689**	**11,920,565,454**	**122,623,091,840**	**122,623,091,840**

27. INCOME TAX EXPENSE

The major components of income tax expense for the year ended 31 March are as follows:

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Current tax - recognized in P&L			
Current tax charge	226,684,684	124,029,652	459,741,544
Under / (over) provision of current taxes in respect of prior years	(81,779,566)	(81,779,566)	9,951,337
	144,905,119	42,250,087	469,692,881
Deferred Tax			
Deferred tax expense / (reversal) (27.2)	(272,118,222)	(158,936,233)	120,066,282
Income tax expense reported in statement of profit or loss	**(127,213,104)**	**(116,686,147)**	**589,759,163**
Current tax - expense / (reversal) - recognized in OCI			
Relating to exchange gain recognized in OCI (in hedge reserve)	18,101,637	18,101,637	9,778,295
Deferred tax charge / (reversal) recognized in OCI			
Defined benefit plans	(730,631)	(730,631)	(421,322)
Available for sale financial assets	3,018,739	1,878,765	-
Fair value change in derivatives recognized in hedge reserve	(26,101,034)	(25,563,412)	(13,088,096)
Property plant and equipment	7,816,536	-	10,759,616
	(15,996,390)	(24,415,278)	(2,749,801)
Total income tax expense / (reversal) recognized in OCI	**2,105,247**	**(6,313,642)**	**7,028,494**

27.1 Current tax payable

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Tax payable as at 1st April	268,931,782	268,931,782	309,887,595
Current tax expense for the year - recognized in P&L	144,905,119	42,250,087	469,692,881
Current tax expense for the year - recognized in OCI	18,101,637	18,101,637	9,778,295
Balance on acquisition of subsidiary	1,006,165,725	-	-
Addition on merger with subsidiary	-	816,489,534	-
Tax paid during the year	(624,385,995)	(332,054,773)	(520,426,989)
Tax payable as at 31st March	**813,718,266**	**813,718,266**	**268,931,782**

A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

	Group 2018		Company 2018		Company 2017	
	%	Rs.	%	Rs.	%	Rs.
Accounting profit before income tax		2,063,961,038		2,084,740,142		2,176,577,157
Tax effect at the statutory income tax rate of 28%	28%	577,909,091	28%	583,727,240	28%	609,441,604
Tax effect of other allowable credits	-5%	(109,016,800)	-5%	(107,491,038)	-7%	(161,642,578)
Tax effect of non deductible expenses	11%	221,064,910	11%	224,247,956	6%	132,008,800
Tax benefit on acquisition of subsidiary	-36%	(735,390,739)	-35%	(735,390,739)	0%	-
Under / (over) provision in the previous years	-4%	(81,779,566)	-4%	(81,779,566)	0%	9,951,337
Income tax expense	**-6%**	**(127,213,104)**	**-6%**	**(116,686,147)**	**27%**	**589,759,163**

27.2 Deferred Taxation

	Group 2018 Rs.	Company 2018 Rs.	Company 2017 Rs.
Balance as at 1st April	1,102,057,559	1,102,057,559	984,741,078
Deferred tax expense / (reversal) - recognized in P&L	(272,118,222)	(158,936,233)	120,066,282
Deferred tax expense / (reversal) - recognized in OCI	(15,996,390)	(23,275,304)	(2,749,801)
Deferred tax liability / (asset) on acquisition of subsidiary	1,588,276,300	-	-
Deferred tax liability / (asset) on merger with subsidiary	-	1,482,373,226	-
Balance as at 31st March	**2,402,219,247**	**2,402,219,247**	**1,102,057,559**

27. INCOME TAX EXPENSE (Contd…)

Recognized deferred tax assets and liabilities are attributable to the following.

Deferred tax is measured using a tax rate of 28% (2016/17 -28%) on temporary differences

Deferred tax expense / (reversal) - Group

Deferred tax liability / (asset)	Balance as 1st April 2017 Rs.	Addition on acquisition of subsidiary Rs.	Recognized in P&L - expense / (reversal) Rs.	Recognized in OCI - expense / (reversal) Rs.	Balance as 31st March 2018 Rs.
Recognized in P&L					
Lease receivables	1,118,395,601	1,716,103,451	348,674,897	-	3,183,173,949
Finance lease liability	(26,579,307)	-	186,976,250	-	160,396,942
Property plant and equipment	2,885,288	11,860,690	(7,407,230)	-	7,338,748
Tax losses	-	(65,459,730)	(136,051,393)	-	(201,511,124)
Cost of acquisition of subsidiary (note 27.2.b)	-	-	(651,390,739)	-	(651,390,739)
Defined benefit plans	(3,520,372)	(10,288,932)	(2,713,593)	-	(16,522,896)
Forward exchange contracts (net)	3,040,933	-	(10,206,414)	-	(7,165,481)
Recognized in OCI					
Available for sale financial assets	-	-	-	3,018,739	3,018,739
Property plant and equipment	10,759,616	-	-	7,816,536	18,576,152
Defined benefit plans	(1,244,704)	(1,186,692)	-	(730,631)	(3,162,027)
Forward exchange contracts (net)	(1,679,496)	(62,752,486)	-	(26,101,034)	(90,533,016)
Net deferred tax liability / (asset)	**1,102,057,559**	**1,588,276,300**	**(272,118,222)**	**(15,996,390)**	**2,402,219,247**

Deferred tax expense / (reversal) - Company

Deferred tax liability / (asset)	Balance as 1st April 2017 Rs.	Recognized in P&L - expense / (reversal) Rs.	Recognized in OCI - expense / (reversal) Rs.	Addition on merger with subsidiary Rs.	Balance as 31st March 2018 Rs.
Recognized in P&L					
Lease receivables	1,118,395,601	527,901,295	-	1,536,877,054	3,183,173,949
Finance lease liability	(26,579,307)	186,976,250	-		160,396,942
Property plant and equipment	2,885,288	(9,570,227)	-	14,023,686	7,338,748
Tax losses	-	(201,511,124)	-		(201,511,124)
Cost of acquisition of subsidiary (note 27.2.b)	-	(651,390,739)	-		(651,390,739)
Defined benefit plans	(3,520,372)	(1,135,274)	-	(11,867,250)	(16,522,896)
Forward exchange contracts (net)	3,040,933	(10,206,414)	-		(7,165,481)
					-
Recognized in OCI					-
Available for sale financial assets	-	-	3,018,739		3,018,739
Property plant and equipment	10,759,616	-	-	7,816,536	18,576,152
Defined benefit plans	(1,244,704)	-	(730,631)	(1,186,692)	(3,162,027)
Forward exchange contracts (net)	(1,679,496)	-	(25,563,412)	(63,290,108)	(90,533,016)
Net deferred tax liability / (asset)	**1,102,057,559**	**(158,936,233)**	**(23,275,304)**	**1,482,373,226**	**2,402,219,247**

Deferred tax expense / (reversal) - Company

Deferred tax liability / (asset)	Balance as 1st April 2016 Rs.	Recognized in P&L - expense / (reversal) Rs.	Recognized in OCI - expense / (reversal) Rs.	Addition on merger with subsidiary Rs.	Balance as 31st March 2017 Rs.
Recognized in P&L					
Lease receivables	1,011,144,217	107,251,384	-	-	1,118,395,601
Finance lease liability	(46,219,070)	19,639,763	-	-	(26,579,307)
Property plant and equipment	760,358	2,124,930	-	-	2,885,288
Tax losses	-	-	-	-	-
Cost of acquisition of subsidiary (note 27.2.b)	-	-	-	-	-
Defined benefit plans	(2,606,217)	(914,155)	-	-	(3,520,372)
Forward exchange contracts (net)	11,076,573	(8,035,641)	-	-	3,040,933
					-
Recognized in OCI					-
Available for sale financial assets	-	-	-	-	-
Property plant and equipment	-	-	10,759,616	-	10,759,616
Defined benefit plans	(823,383)	-	(421,321)	-	(1,244,704)
Forward exchange contracts (net)	11,408,600	-	(13,088,096)	-	(1,679,496)
Net deferred tax liability / (asset)	**984,741,078**	**120,066,282**	**(2,749,801)**	**-**	**1,102,057,559**

27. INCOME TAX EXPENSE (Contd…)

27.2.a Temporary differences

Temporary differences - taxable / (deductible)	As 31st March 2018 Rs.	As at 31st March 2017 Rs.
Recognized in P&L		
Lease receivables	11,368,478,390	3,994,270,004
Finance lease liability	572,846,223	(94,926,097)
Property plant and equipment	26,209,813	10,304,601
Tax losses	(719,682,585)	-
Cost of acquisition of subsidiary (note 27.2.b)	(2,326,395,495)	-
Defined benefit plans	(59,010,344)	(12,572,757)
Forward exchange contracts (net)	(25,591,005)	10,860,474
Recognized in OCI		
Available for sale financial assets	10,781,210	-
Property plant and equipment	66,343,400	38,427,200
Defined benefit plans	(11,292,954)	(4,445,373)
Forward exchange contracts (net)	(323,332,199)	(5,998,199)
Net taxable / (deductible) temporary difference	**8,579,354,453**	**3,935,919,853**

27.2.b Cost of acquisition of subsidiary and unrecognized deferred tax assets

During the year the company paid Rs.12,291,200,000 to acquire 100% of LOLC Micro Credit Limited. Refer note 36 for details relating to acquisition.

Since this was inline with the Central Bank of Sri Lanka's consolidation program, the Company is able to claim the purchase consideration as a qualifying payment in calculating the income tax liability.

During the year Rs.300,000,000 was claimed keeping inline with the requirements of the Inland Revenue Act. The Company expects to claim the remaining amount over the future period based on the profitability of the Company.

On a prudent basis the management has decided to evaluate the recoverability of this claim based on the projected taxable profits for the next 2 years and expects to recover Rs.2,326,395,495 over such period and a deferred tax asset of Rs.651,390,739 was recognized during the year.

The management will annually re-evaluate the recoverability of this claim and adjust the deferred tax asset accordingly.

Unrecognized deferred tax asset	2018 Rs.	2017 Rs.
Consideration paid to acquire subsidiary	12,291,200,000	-
Amount claimed during the year	(300,000,000)	-
Remaining amount to be claimed in future years	11,991,200,000	-
Tax rate	28%	-
Deferred tax asset on remaining amount	3,357,536,000	-
Recognized deferred tax asset	(651,390,739)	-
Unrecognized deferred tax asset	**2,706,145,261**	-

28. EARNINGS PER SHARE

28.1 Basic earnings per share

Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the Basic Earnings Per Share computation.

	2018 Rs.	2017 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	2,201,426,289	1,586,817,994

	2018 No.	2017 No.
Number of ordinary shares used as the denominator:		
Ordinary shares in issue at the beginning of the year	2,800,000,000	2,800,000,000
Effects of new shares issued during the period	61,369,863	-
Weighted average number of ordinary shares in issue applicable to basic earnings per share	2,861,369,863	2,800,000,000
Basic earnings per share (Rs.)	**0.77**	**0.57**

28.2 Diluted earnings per share

There were no potential dilution at the year end. Therefore, diluted earnings/ (loss) per share is the same as basic earnings/ (loss) per share shown above.

29. CASH AND CASH EQUIVALENTS	2018 Rs.	2017 Rs.
29.1 Favourable cash & cash equivalents balance		
Cash in hand and at bank	11,323,366,281	4,924,111,973
29.2 Unfavourable cash & cash equivalent balances		
Bank overdraft	(4,243,169,825)	(2,393,316,396)
Total cash and cash equivalents for the purpose of cash flow statement	**7,080,196,456**	**2,530,795,577**

30. COMPARATIVE FIGURES

Comparative information has not been reclassified or restated

31. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2018 Rs.	Carrying Amount Pledged 2017 Rs.
Lease portfolio	Short term borrowing	2,906,340,000	9,967,186,000

These financial assets are pledged against the borrowings made. The lender has the right over the lease receivables in the event of non payment.

32. RELATED PARTY DISCLOSURES

32.1 Parent and Ultimate Controlling Party

The Company's immediate and ultimate controlling party is Lanka ORIX Leasing Company PLC.

32.2 Transactions with Key Management Personnel (KMPs)

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly the KMP include members of the Board of Directors and identified senior management personnel of the Company and its ultimate Parent Company Lanka ORIX Leasing Co. PLC . Close Family Members (CFM) of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the Company.

32.2.1 Compensation of KMPs

	2018 Rs.	2017 Rs.
Short term employment benefits	40,085,345	37,235,629
Total	40,085,345	37,235,629

The short term employement benefits include only the directors fees and emoluments paid to Directors & KMPs.

32.2.2 Transactions, arrangements and agreements involving KMPs, and their close family members (CFMs)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner. The transactions are carried out on an arms length basis. The details of the transactions are as follows :

	2018 Rs.	2017 Rs.
Deposits held with the Company	1,222,574,976	1,025,178,236
Interest paid / charged	112,847,259	117,702,686
Interest payable	41,053,696	6,015,324
Loans granted (excluding Directors)	22,344,501	19,379,021
Capital outstanding on facilities granted to KMPs (excluding Directors)	52,267,222	29,072,480
Accommodation outstanding as a percentage of the Company's Capital Funds	0.28%	0.22%

No impairment losses have been recorded against balances outstanding with KMP and CFM.

32. RELATED PARTY DISCLOSURES (Contd...)

32.3 Transactions with related parties

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures, on an arms length basis. Details of related party transactions are reported below. (For information regarding outstanding balances (receivables / payables) at 31 March 2017 and 2016, refer notes no.9 and 16 accordingly).

		Group	Company	
Relationship	**Nature of Transactions**	**Transaction value 2018 Rs.**	**Transaction value 2018 Rs.**	**Transaction value 2017 Rs.**
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	1,751,985,594	581,452,693	505,389,376
	Shared expenses (including vat)	2,733,487,540	2,250,728,657	2,471,743,537
	Asset hire charges	136,767,302	127,501,244	125,816,038
	Interest on re-red refinancing	2,056,302	2,056,302	2,823,690
	Treasury management fee	302,180,525	160,508,868	210,729,737
	Royalty	383,740,297	337,312,420	288,873,157
	Fund transfer interest	185,147,786	33,099,000	191,287,040
	Franchise Fee	172,236,149	150,867,289	29,797,257
	Consideration paid to acquire subsidiary	9,832,960,000	9,832,960,000	-
Subsidiary	Portfolio handling fee	-	295,520,180	-
	Bad debt portfolio handling fee	-	48,430,041	-
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	298,583,518	298,583,518	2,034,783,749
	Interest paid/charge	47,468,251	47,468,251	35,648,392
	Interest payable	7,986,501	7,986,501	226,745
	Investments held by the company	2,033,340,685	2,033,340,685	855,186,164
	Interest income from investment	123,592,124	102,416,781	20,288,904
	IT service fee	176,309,392	153,648,684	111,589,960
	Yard fee	6,500,000	7,800,000	7,800,000
	Portfolio handling fee	-	-	669,342,613
	Supply of leased vehicles	471,514,753	471,514,753	302,327,128
	Loan/ lease granted	569,506,183	569,506,183	371,012,682
	Rental collections	401,701,670	401,701,670	755,102,377
	Interest income	287,860,407	287,860,407	268,410,873
	Capital outstanding on facilities granted	1,552,192,413	1,552,192,413	1,271,770,205
Other Related Companies/Affiliates	Supply of leased vehicles	474,764,753	474,764,753	113,600,000
	Interest paid/charge	253,902,325	253,902,325	253,902,325
	Rental collections	70,356,316	70,356,316	-
	Interest income	11,330,881	11,330,881	1,079,263
	Capital outstanding on facilities granted	46,393,734	46,393,734	7,543,036
				-
Other Related Organizations	Deposits held with the company	257,929,563	257,929,563	254,396,722
	Interest paid/charge	33,942,379	33,942,379	9,784,287
	Interest payable	21,906,724	21,906,724	128,411
Accommodation outstanding as a percentage of the Company's Capital Funds		8.66%	8.66%	9.61%

All of the above transactions (including borrowing / lending / investing transactions) with related parties are on arm's length basis and are on terms that are generic to non-related parties.

33. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustment to or disclosure in the financial statements.

34. OPERATING SEGMENTS

	Operating Segment				
	Conventional Financial Services Rs.	**Islamic Financial Services Rs.**	**Factoring Business Rs.**	**Others/ Adjustments Rs.**	**Total Rs.**
For the year ended 31st March 2018					
Total revenue - Interest income & other income	22,039,998,968	2,573,402,618	4,031,889,000	-	28,645,290,586
External revenue	22,039,998,968	2,573,402,618	4,031,889,000	-	28,645,290,586
Net interest cost	(11,561,536,426)	(1,271,782,960)	(2,183,282,250)	-	(15,016,601,637)
Profit before operating expenses	**10,478,462,542**	**1,301,619,658**	**1,848,606,750**	**-**	**13,628,688,949**
Operating expenses	(6,110,658,594)	(524,533,773)	-	-	(6,635,192,367)
Allowance for impairment & write-offs	(2,043,553,514)	(161,112,999)	(2,244,385,149)	-	(4,449,051,661)
Value added tax on financial services	(400,763,834)	(79,720,049)	-	-	(480,483,883)
Results from operating activities	**1,923,486,601**	**536,252,838**	**(395,778,399)**	**-**	**2,063,961,038**
For the year ended 31st March 2017					
Total revenue - Interest income & other income	14,998,719,120	2,104,660,708	3,735,014,128	-	20,838,393,957
External revenue	14,998,719,120	2,104,660,708	3,735,014,128	-	20,838,393,957
Net interest cost	(8,850,887,610)	(874,067,683)	(1,734,318,097)	-	(11,459,273,390)
Profit before operating expenses	**6,147,831,511**	**1,230,593,025**	**2,000,696,031**	**-**	**9,379,120,567**
Operating expenses	(4,301,854,473)	(537,469,259)	(669,342,613)	-	(5,508,666,345)
Allowance for impairment & write-offs	(854,151,921)	(45,476,554)	(429,413,638)	-	(1,329,042,113)
Value added tax on financial services	(68,018,194)	(97,113,745)	(153,329,763)	-	(364,834,951)
Results from operating activities	**923,806,923**	**550,533,467**	**748,610,017**	**-**	**2,176,577,157**
Depreciation					
For the year ended 31st March 2018	173,284,039	-	-	-	173,284,039
For the year ended 31st March 2017	148,246,007	-	-	-	148,246,007
Capital expenditure - Property Plant and equipment					
For the year ended 31st March 2018	122,904,918	-	-	-	122,904,918
For the year ended 31st March 2017	1,341,871,245	-	-	-	1,341,871,245
As at 31-03-2018					
Total assets	185,843,967,968	14,631,611,839	10,638,754,943	(102,538)	211,114,232,211
Total liabilities	170,762,196,555	12,607,749,496	10,638,754,943	(102,538)	194,008,598,456
As at 31-03-2017					
Total assets	96,714,161,498	11,435,701,552	16,524,638,068	(2,050,509,279)	122,623,091,840
Total liabilities	87,462,908,873	9,767,356,717	16,524,638,068	(2,050,509,279)	111,596,835,312

35. COMMITMENTS AND CONTINGENCIES

	2018 Rs.	**2017 Rs.**
35.1 Contingent liabilities		
Guarantees issued to banks and other institutions - backed by deposits	767,098,046	897,802,735
35.2 Commitments		
Forward exchange contracts- (commitment to purchase)	8,588,995,500	9,674,127,329
Unutilised loan facilities	10,992,926,927	10,498,570,369

On the commitment to purchase the foreign currencies the company will receive USD 46,600,000, EUR 300,000, GBP 2,700,000, AUD 5,750,000

36. ACQUISITION OF LOLC MICRO CREDIT LIMITED AND SUBSEQUENT MERGER WITH LOLC FINANCE PLC (LOFC / "THE COMPANY")

On 29th January 2018 the Company acquired 100% shares of LOLC Micro Credit Ltd (LOMC) at a price of Rs.156.18 per share totalling to Rs.12,291,200,000.

In December 2017, the Company received approval from the Central Bank of Sri Lanka (CBSL) to acquire 100% shares of LOMC and to merge LOMC with LOFC in line with the financial sector consolidation plans. Post merger LOFC is the remaining entity. LOMC was 80% owned by Lanka Orix Leasing Company PLC (LOLC) and 20% by Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO). LOLC is the controlling shareholder of LOFC.

The merger was completed on 29th March 2018 and post merger, the Directors expect significant growth in assets as the synergies of the combined entity will unlock new market opportunities.

The carrying amounts of the identifiable assets and liabilities of the acquiree as at 31-January-2018 which is the acquisition date and on 29-March-2018 which is the merger date is as follows;

	31-Jan-18	29-Mar-18
Assets	**Rs.**	**Rs**
Cash and cash equivalents	5,316,836,153	1,371,172,875
Investment securities	19,473,959,989	19,593,456,450
Advances and other loans	57,335,339,353	54,741,204,398
Trade and other receivables	849,632,255	442,127,430
Property, plant and equipment	744,385,723	923,495,951
	83,720,153,473	**77,071,457,105**
Liabilities		
Bank overdrafts	301,850,794	131,709,799
Interest bearing loans & borrowings	57,744,158,413	54,113,207,124
Provision for taxation	965,766,174	911,093,573
Trade and other payables	12,854,845,565	10,184,576,255
Deferred taxation	1,628,675,851	1,482,373,228
Retirement benefit obligations	46,621,222	46,621,222
	73,541,918,018	**66,869,581,201**
Carrying amount of identifiable net assets acquired	**10,178,235,455**	**10,201,875,904**
Results of the acquisitions of above entity are as follows;		
Fair value of consideration paid / Investment	12,291,200,000	12,291,200,000
Carrying amount of identifiable net assets acquired / merged	(10,178,235,455)	(10,201,875,904)
Resulting excess	**2,112,964,545**	**2,089,324,096**

Since this business combination is within entities under the common control of the ultimate parent LOLC, no goodwill is recognized and upon the merger, the excess of Rs.2,112,964,545 and 2,089,324,096 was recognized in equity of the Group and Company respectively.

36.1 Net cash paid on acquisition of subsidiary

Consideration paid (Rs' 000)	12,291,200,000
Net cash acquired (Rs' 000)	(5,014,985,359)
Net cash paid (Rs' 000)	**7,276,214,641**

36.2 Consolidated financial statements

The consolidated statement of profit or loss and other comprehensive income includes the results of the company for the full year and the results of the subsidiary for 2 months after eliminating inter company expenses and income and other consolidation adjustments.
As at the year end, since the subsidiary is merged with the parent a separate consolidated statement of financial position is not presented as the parent's statement of financial position includes the financial position of the subsidiary as at 31-Mar-2018.