LOLC FINANCE PLC

FINANCIAL STATEMENTS

31 MARCH 2017

Building a better working world

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF LOLC FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of LOLC Finance PLC ("the Company"), which comprise the statement of financial position as at 31 March 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

(Contd..2/)

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Report on Other Legal and Regulatory Requirements

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

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

- we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and

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

23 June 2017
Colombo

LOLC Finance PLC

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Note	2017 Rs.	2016 Rs.
ASSETS			
Cash and bank balances	29.1	4,924,111,973	3,497,994,396
Deposits with banks and other financial institutions		14,161,567,078	10,206,770,924
Investment in government securities & others	3	7,853,176,493	8,397,496,235
Derivative assets	4.1	23,840,338	98,163,191
Rentals receivable on leased assets	5	18,408,733,120	17,243,862,077
Hire purchases, loans and advances	6	55,484,081,124	53,335,175,248
Factoring receivable	6.4	16,524,638,067	13,598,600,891
Margin trading receivables	6.5	94,825,018	85,597,164
Other receivables	7	1,071,661,415	694,055,473
Investment securities	8	324,629,347	1,083,470,844
Amount due from related companies	9	224,505,824	3,271,183
Investment properties	10	906,300,000	930,200,000
Property plant and equipment	11	2,621,022,043	1,210,407,229
Total assets		122,623,091,840	110,385,064,855
LIABILITIES			
Bank overdraft	29.2	2,393,316,396	1,941,608,486
Interest bearing borrowings	12	24,456,313,665	35,070,151,714
Deposits from customers	13	80,607,114,794	60,197,200,894
Trade payables	14	677,878,426	637,849,803
Accruals and other payables	15	1,620,967,675	1,018,602,831
Derivative liabilities	4.2	18,978,063	17,859,000
Amount due to related companies	16	434,258,821	996,780,809
Current tax payable	27.1	268,931,782	309,887,595
Deferred tax liability	27.2	1,102,057,559	984,741,078
Employee benefits	17.2	17,018,130	12,248,571
Total liabilities		111,596,835,311	101,186,930,781
SHAREHOLDERS' FUNDS			
Stated capital	18	2,000,000,000	2,000,000,000
Statutory reserve	19.1	1,556,438,753	1,239,075,154
Revaluation Reserve	19.2	206,229,960	-
Cash flow hedge reserve	19.3	14,236,742	22,747,657
Available for sale investment reserve	19.4	(115,484,939)	(160,153,753)
Retained earnings	19.5	7,364,836,012	6,096,465,015
Total equity		11,026,256,529	9,198,134,074
Total liabilities and equity		122,623,091,840	110,385,064,855

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

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(Mrs.) S.S.Kotakadeniya

Chief Financial Officer-LOLC Group

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

....

I.C. Nanayakkara - Deputy Chairman A. Nissanka - Director / CEO

The annexed notes to the financial statements on pages 07 through 67 form an integral part of these financial statements.

ERNST & YOUNG Chartered Accountants COLOMBO

23 June 2017

Rajagiriya (Greater Colombo)

LOLC Finance PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2017

	Note	2017 Rs.	2016 Rs.
Interest income	20	18,489,740,700	13,137,597,016
Interest expense	21	(11,459,273,390)	(6,499,474,559)
Net interest income		7,030,467,310	6,638,122,457
Net other operating income	22	2,348,653,257	1,245,508,882
Direct expenses excluding interest cost	23	(1,311,408,171)	(911,716,942)
Allowance for impairment & write-offs	24	(1,329,042,113)	(1,568,576,077)
Personnel expenses	25.1	(1,424,495,490)	(1,100,549,812)
Depreciation	11	(148,246,007)	(32,717,251)
General & administration expenses		(2,624,516,677)	(1,974,524,385)
Profit from operations	25	2,541,412,108	2,295,546,872
Value added tax on financial service		(364,834,951)	(275,890,844)
Profit before tax		2,176,577,157	2,019,656,028
Income tax expense	27	(589,759,163)	(592,662,785)
Profit for the year		1,586,817,994	1,426,993,242
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability - gain / (loss)	17.2	(1,504,720)	1,372,202
Related tax	27.2	421,322	(384,217)
		(1,083,398)	987,985
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets :			
Net change in fair value	3.3	44,668,814	(246,190,536)
Gain / (loss) on cash flow hedges	19.3	(11,820,715)	34,156,257
Related tax	19.3	3,309,800	(11,408,600)
		(8,510,915)	22,747,657
Revaluation surplus		216,989,576	-
Related tax		(10,759,616)	
		206,229,960	-
Total other comprehensive income, net of tax		241,304,461	(222,454,893)
Total comprehensive income for the year		1,828,122,455	1,204,538,349
Basic earnings per share	28	0.57	0.51

The annexed notes to the financial statements on pages 07 through 67 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2017

	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 2015		2,000,000,000	953,676,506	-	-	86,036,783	4,953,882,436	7,993,595,724
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	1,426,993,242	1,426,993,242
Other comprehensive income, net of income tax								
Remeasurements of defined benefit liability - gain / (loss)	17.2 / 27.2	-	-	-	-	-	987,985	987,985
Net change in fair value of AFS investments	3.3	-	-	-	-	(246,190,536)	-	(246,190,536)
Net movement of cashflow hedges	19.3 / 27.2	-	-	-	22,747,657	-	-	22,747,657
		-	-	-	22,747,657	(246,190,536)	987,985	(222,454,893)
Total comprehensive income for the year		-	-	-	22,747,657	(246,190,536)	1,427,981,228	1,204,538,349
Transactions recorded directly in equity								
Transfer to Statutory Reserve Fund		-	285,398,648	-	-	-	(285,398,648)	-
Total transactions recorded directly in equity		**-**	**285,398,648**	**-**	**-**	**-**	**(285,398,648)**	**-**
Balance as at 31 March 2016		**2,000,000,000**	**1,239,075,154**	**-**	**22,747,657**	**(160,153,753)**	**6,096,465,015**	**9,198,134,074**
Balance as at 1 April 2016		2,000,000,000	1,239,075,154	-	22,747,657	(160,153,753)	6,096,465,015	9,198,134,074
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**	**11,026,256,529**

The annexed notes to the financial statements on pages 07 through 67 form an integral part of these financial statements.

CASH FLOW STATEMENT

Year ended 31 March 2017

	Note	2017 March Rs.	2016 March Rs.
Cash flows from operating activities			
Profit before income tax expense		2,176,577,157	2,019,656,028
Adjustments for:			
Depreciation	11	148,246,007	32,717,251
(Profit)/ loss on sales of investment property	22	(11,902,750)	32,315,560
Change in fair value of derivatives - forward contracts	22	28,698,717	(94,334,091)
Provision for fall / (increase) in value of investments	22	(31,951,930)	(8,502,569)
Impairment provision for the period	24	549,528,640	907,112,179
Provision for payables to clients	22	10,500,000	9,539,899
Change in fair value of investment property	22	(24,457,848)	(29,070,709)
Provision for defined benefit plans	17.2.a	5,141,592	3,651,323
Investment income		(1,456,265,411)	(593,897,130)
Finance costs	21	11,282,234,645	6,499,474,559
Operating profit before working capital changes		12,676,348,819	8,778,662,300
Change in other receivables		(340,001,143)	(37,911,218)
Change in trade and other payables		631,893,469	178,567,046
Change in amounts due to/ due from related parties		(783,756,629)	(1,456,704,880)
Change in factoring receivables		(3,330,707,223)	(8,134,078,179)
Change in lease receivables		(1,201,164,050)	(4,038,795,335)
Change in hire purchase, loans and advances		(2,295,076,262)	(16,930,762,363)
Change in margin trading advances		(9,227,854)	208,114,796
Change in fixed deposits from customers		19,085,134,624	17,776,408,584
Change in savings deposits from customers		755,576,666	307,446,704
Cash (used in) / generated from operations		25,189,020,417	(3,349,052,545)
Finance cost paid on deposits		(7,513,259,549)	(3,936,071,366)
Gratuity paid	17.2	(1,876,753)	(480,640)
Income tax paid	27.1	(520,426,989)	(505,672,232)
Net cash from / (used in) operating activities		17,153,457,127	(7,791,276,782)
Cash flows from investing activities			
Acquisition of property, plant & equipment & investment property		(749,011,621)	(428,734,621)
Net proceeds from investments in term deposits		(5,260,672,779)	(9,445,675,633)
Net proceeds from investments in government securities		1,894,865,178	(2,742,968,918)
Interest received		1,456,265,411	593,897,130
Proceeds from sale of investment property		74,257,750	209,715,250
Investments in companies		-	(66,125,000)
Net proceeds from investments in Unit trust		790,793,427	(1,000,000,000)
Net cash flows used in investing activities		(1,793,502,634)	(12,879,891,792)
Cash flows from financing activities			
Net proceeds from interest bearing loans & borrowings		(10,625,625,192)	23,292,962,000
Lease rentals paid		(632,792,253)	(111,557,233)
Finance cost paid on borrowings		(3,127,127,380)	(1,596,093,112)
Net cash flows from / (used in) financing activities		(14,385,544,825)	21,585,311,655
Net increase / (decrease) in cash and cash equivalents		974,409,667	914,143,080
Cash and cash equivalents at the beginning of the period		1,556,385,910	642,242,830
Cash and cash equivalents at the end of the period (note 29)		2,530,795,577	1,556,385,910

The annexed notes to the financial statements on pages 07 through 67 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, hire purchase, margin trading, loans, 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 2017 was 956 (2016– 771).

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 the listing rules of the Colombo Stock Exchange.

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 23 June 2017

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 2.2 & 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 2.2.1.c. 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 2.2.1.c

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 2.2.9.

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 2.2.9.

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 2.6.

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 2.7.3 and 17.2.c 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	Foreign currency
2.2	Financial assets and financial liabilities
2.3	Leases
2.4	Investment property
2.5	Property plant and equipment
2.6	Impairment - non-financial assets
2.7	Employee benefits
2.8	Provisions
2.9	Equity movements
2.10	Capital commitments and contingencies
2.11	Events occurring after the reporting date
2.12	Interest income and interest expense
2.13	Fees, commission and other income
2.14	Dividends
2.15	Expenditure recognition
2.16	Income tax expense
2.17	Earnings per share
2.18	Cash flow statements
2.19	Related party transactions
2.20	Operating segments
2.21	Fair value measurement
2.22	New accounting standards issued but not effective as the reporting date.

2.1 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

2.2 Financial assets and financial liabilities

2.2.1 Non-derivative financial assets

2.2.1.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.

2.2.1.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.

2.2.1.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.

2.2.2 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.

2.2.3 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.

2.2.3.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.

2.2.4 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.

2.2.5 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.

2.2.6 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

2.2.7 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.

2.2.8 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

2.2.9 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.

2.3 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.

2.3.1 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.

2.3.2 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.

2.4 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.

2.5 Property plant and equipment

2.5.1 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.

2.5.1.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.

2.5.1.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.

2.5.2 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.

2.5.3 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.

2.6 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.

2.7 Employee benefits

2.7.1 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.

2.7.2 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.

2.7.3 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.

2.8 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.

2.9 Equity movements
2.9.1 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.

2.9.2 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.

2.9.3 Share issue costs

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

2.10 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.

2.11 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

2.12 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.

2.12.1 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.

2.12.2 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.

2.13 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.

2.14 Dividends

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

2.15 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.

2.15.1 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.

2.15.2 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.

2.15.3 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.

2.16 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.

2.16.1 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.

2.16.2 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.

2.17 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

2.18 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

2.19 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.

2.20 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.

2.21 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.

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

Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 March 2017 reporting periods. None of those have been early adopted by the Company.

SLFRS 9 Financial Instruments

Summary of the Requirements

SLFRS 9, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale are removed.

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL.

The model uses a dual measurement approach, under which the loss allowance is measured as either:
- 12 month expected credit loss; or
- Lifetime expected credit losses.

The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition.

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. The new standard carries guidance on new general hedge accounting requirements.

SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 is for period beginning on or after January 01, 2018.

Possible Impact on Financial Statements

The company has completed the initial high level assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9.

As the next step the company will establish a business model test and cash flow characteristics test to identify the categories of financial assets.

For the purpose of determining impairment the company needs to build a model with appropriate methodologies and controls to ensure that proper judgment is exercised to assess recoverability of loans and make robust estimates of expected credit losses and point at which there is significant increase in credit risk. Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information.

Given the nature of the company's operations, this standard is expected to have a pervasive impact on the company's financial statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.

SLFRS 15 Revenue from Contracts with Customers

Summary of the Requirements

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

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

Possible Impact on Financial Statements

The Company does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15

SLFRS 16 – 'Leases'

Summary of the Requirements

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead there will be a single on-balance sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual Reporting periods beginning on or after January 01, 2019.

Possible Impact on Financial Statements

The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16

2.23 Financial risk management

2.23.1 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.

2.23.2 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.

2.23.3 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

2.23.3.1 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 2017 (2016: 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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Carrying amount	**18,409**	**17,243**	**-**	**17**	**988**	**799**	**54,496**	**52,520**	**95**	**86**	**16,525**	**13,599**	**90,512**	**84,263**
Assets at amortized cost														
Individually impaired - Gross amount	185	224	-	-	14	14	922	1,048	-	-	940	728	2,061	2,014
Less : Allowance for impairment	(157)	(210)	-	-	(14)	-	(584)	(547)	-	-	(940)	(500)	(1,695)	(1,257)
Carrying amount	**28**	**14**	**-**	**-**	**-**	**14**	**338**	**501**	**-**	**-**	**-**	**228**	**366**	**757**
Portfolio subject to collective impairment - Gross amount	18,522	17,281	-	19	1,063	831	55,050	52,844	95	86	16,884	13,766	91,614	84,826
Less : Allowance for impairment	(141)	(52)	-	(2)	(75)	(46)	(892)	(824)	-	-	(359)	(395)	(1,467)	(1,320)
Carrying amount	**18,381**	**17,229**	**-**	**17**	**988**	**785**	**54,158**	**52,019**	**95**	**86**	**16,525**	**13,371**	**90,146**	**83,507**

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)	**2017**	**2016**
Against individually impaired customers :		
Property	404	617
Vehicles	93	123

(In Rs'mn)	**2017**	**2016**
Against Collectively impaired customers :		
Vehicles	65,485	62,174
Others	62,800	75,530

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)	**2017**	**2016**
Property	-	-
Vehicles	93	123

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

(In Rs'mn)	**2017**	**2016**
Leases	5	12
Hire purchase	-	-
Mortgage Loan	-	-
Other loans & advances	81	92

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 31st 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**

Age analysis of facilities considered for collective impairment as at 31st March 2016 ***Rs' Mn***

Category	Leases	Hire Purchases	Mortgage Loans	Other Loans and Advances	Margin Trading	Factoring Receivables	Total
Not due / current	11,001	13	266	38,111	86	11,859	61,335
Overdue :							
Less than 30 days	4,325	2	316	6,496	-	792	11,931
31 - 60 days	1,118	1	19	5,838	-	277	7,253
61 - 90 days	359	-	-	628	-	299	1,286
91 - 120 days	184	-	1	253	-	108	546
121 - 150 days	68	1	1	152	-	107	329
151 - 180 days	56	-	-	58	-	72	186
above 180 days	170	2	228	1,308	-	252	1,960
Total	**17,281**	**19**	**831**	**52,844**	**86**	**13,766**	**84,826**

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

2.23.4 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.

2.23.4.1 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 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**
As at 31st March 2016							
Bank overdraft	1,942	1,942	1,942	-	-	-	-
Borrowings	35,070	40,150	7,852	13,588	9,001	7,649	2,060
Deposits from customers	60,197	65,428	26,310	21,188	12,678	5,252	-
Trade payables	638	638	-	-	-	-	-
Accruals and other payables	660	660	660	-	-	-	-
Derivative liabilities	18	374	374	-	-	-	-
Amount due to related companies	997	997	997	-	-	-	-
Total liabilities	**99,522**	**110,188**	**38,135**	**34,776**	**21,679**	**12,901**	**2,060**

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

As at 31st March 2017	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
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	-	-	-	-
Investment securities	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**
As at 31st March 2016							
Cash and cash equivalents	3,498	3,498	3,498	-	-	-	-
Deposits with banks and other financial institutions	10,207	10,465	1,914	8,551	-	-	-
Investment in government securities	8,397	10,739	6,290	151	1,382	368	2,549
Derivative assets	98	3,017	228	2,789	-	-	-
Rentals receivable on leased assets	17,244	22,975	2,069	5,454	10,872	4,199	381
Hire purchases, loans and advances	53,335	62,506	8,489	13,383	17,547	21,620	1,468
Factoring receivable	13,598	13,598	13,598	-	-	-	-
Margin trading receivables	86	86	86	-	-	-	-
Other receivables	252	373	43	47	122	107	54
Investments in shares	1,083	1083	-	1,017	66	-	0
Amount due from related companies	3	4	4	-	-	-	-
	107,802	**128,344**	**36,219**	**31,391**	**29,989**	**26,294**	**4,452**

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 31-3-2017 (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**

As at 31-3-2016 (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	671	-	-	-	-	671
Total	**671**	**-**	**-**	**-**	**-**	**671**
Commitments						
Unutilized loan facilities & letter of credit	9,088	134	-	-	-	9,221
Total	**9,088**	**134**	**-**	**-**	**-**	**9,221**

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 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)	-

Sensitivity analysis as at 31st March 2016 *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 31.03.16
Interest earning assets						
Deposits with banks and other financial institutions	1,910	8,297	-	-	-	10,207
Investment in government securities	6,210	-	892	71	1,224	8,397
Rentals receivable on leased assets	1,879	3,640	8,098	3,592	326	17,506
Hire purchases, loans and advances	7,404	11,028	14,199	20,898	1,226	54,755
Factoring receivable	14,493	-	-	-	-	14,493
Margin trading receivables	86	-	-	-	-	86
Total interest earning assets	**31,982**	**22,965**	**23,190**	**24,561**	**2,776**	**105,444**
Interest bearing liabilities						
Bank overdraft	1,942	-	-	-	-	1,942
Interest bearing borrowings	7,768	12,204	6,672	6,863	1,563	35,070
Deposits from customers	25,969	19,475	10,685	4,068	-	60,197
Total interest bearing liabilities	**35,679**	**31,679**	**17,356**	**10,931**	**1,563**	**97,209**
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	(3,727)	(8,714)	5,833	13,630	1,212	8,235
Effect on profitability by 1 percent increase in interest rates - increase / (decrease) in profits - annualized effect	(37)	(87)	58	136	12	-
Effect on profitability by 1 percent decrease in interest rates - increase / (decrease) in profits - annualized effect	37	87	(58)	(136)	(12)	-

2.23.6 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 31.03.2017**	**As at 31.03.2016**
Ordinary share capital	2,000	2,000
Statutory Reserve	1,556	1,239
Retained earnings	7,365	6,096
Other negative reserves	(115)	(160)
Tier I capital	**10,806**	**9,175**
Unsecured subordinated debentures	2,372	3,163
Tier II capital	**2,372**	**3,163**
Total capital	**13,178**	**12,338**

2.24 Financial assets and liabilities

2.24.1 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 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**	

In Rs' Mn

As at 31st March 2016	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	-	-	-	3,498	3,498	3,498	
Deposits with banks	-	-	-	10,207	10,207	10,207	
Investment in government securities							
- Measured at fair value	-	-	2,188		2,190	2,190	Level 1
- Measured at amortized cost	-	-		6,209	6,207	6,207	
Derivative assets	98	-	-	-	98	98	Level 2
Investment securities	-	1,017	-	66	1,083	1,083	Level 1
Rentals receivable on leased assets	-	-	-	17,244	17,244	17,325	Level 2
Hire purchases, loans and advances	-	-	-	53,335	53,335	53,271	Level 2
Factoring receivable	-	-	-	13,599	13,599	13,599	
Margin trading receivables	-	-	-	86	86	86	
Amount due from related companies	-	-	-	3	3	3	
Other financial assets	-	-	-	252	252	252	
Total financial assets	**98**	**1,017**	**2,188**	**104,498**	**107,802**	**107,819**	
Bank overdraft	-	-	-	1,942	1,942	1,942	
Interest bearing borrowings	-	-	-	35,070	35,070	34,938	Level 2
Deposits from customers	-	-	-	60,197	60,197	59,832	Level 2
Trade payables	-	-	-	638	638	638	
Accruals and other payables	-	-	-	660	660	660	
Derivative liabilities	18	-	-	-	18	18	Level 2
Amount due to related companies	-	-	-	997	997	997	
Total financial liabilities	**18**	**-**	**-**	**99,503**	**99,521**	**99,024**	

2.24.2 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

	2017 Rs.	2016 Rs.
Investment In Government Securities		
Financial instruments classified as loans and receivables (note 3.1.1)	5,420,173,981	6,209,704,562
Financial instruments classified as available for sale - carried at fair value (note 3.1.2)	1,127,125,889	2,187,791,673
	6,547,299,870	8,397,496,235
Other Investments		
Investments in commercial papers - carried at amortized cost (note 3.2)	1,305,876,623	-
	7,853,176,493	8,397,496,235

3.1 Investment in government securities

	2017		2016	
	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 (REPO's)	5,420,173,981	5,420,173,981	6,209,704,562	6,209,704,562
3.1.2 Financial instruments classified as available for sale - carried at fair value				
Investment in Treasury Bonds	1,127,125,889	1,127,125,889	2,187,791,673	2,187,791,673

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

	2017 (Rs.)	2016 (Rs.)
Investment in Treasury Bills	-	1,389,895
Investment in Treasury Bonds	44,668,814	(247,580,431)
	44,668,814	(246,190,536)

3.1.4 Fair value adjustments recognized in other comprehensive income - cumulative

	2017 (Rs.)	2016 (Rs.)
Investment in Treasury Bills	-	-
Investment in Treasury Bonds	(115,484,939)	(160,153,753)
	(115,484,939)	(160,153,753)

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

	2017		2016	
	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

	2017	2016
Net derivative assets / (liabilities)		
Derivative assets (note 4.1)	23,840,338	98,163,191
Derivative liabilities (note 4.2)	18,978,063	17,859,000
Net derivative assets / (liabilities)	4,862,275	80,304,191
4.1 Derivative assets		
Forward exchange contracts	23,840,338	98,163,191
4.2 Derivative liabilities		
Forward exchange contracts	18,978,063	17,859,000
4.3 Change in fair value during the period - gain/ (loss)		
Recognized in profit or loss	(28,698,717)	94,334,091
Recognized in OCI (note 19.3)	(46,743,199)	40,745,000
	(75,441,916)	135,079,091

5. RENTALS RECEIVABLE ON LEASED ASSETS

	2017	2016
Rentals receivable	26,258,301,547	24,778,917,217
Unearned income	(6,088,081,023)	(6,177,140,405)
Net rentals receivable (note 5.1)	20,170,220,524	18,601,776,812
Deposits received from lessees	(1,463,115,215)	(1,096,189,207)
Allowance for impairment (note 5.2)	(298,372,189)	(261,725,528)
	18,408,733,120	17,243,862,077

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

5.1 Net Rentals Receivable

	2017 Rs.	2016 Rs.
Receivable -more than one year		
Rentals receivable	16,625,916,413	16,792,953,235
Unearned income	(3,062,559,468)	(3,680,615,120)
	13,563,356,945	13,112,338,116
Receivable within one year		
Rentals receivable	8,920,895,997	7,470,916,461
Unearned income	(3,025,521,555)	(2,496,525,285)
	5,895,374,443	4,974,391,176
Overdue		
Rentals receivable	711,489,137	515,047,520
	711,489,137	515,047,520
	20,170,220,524	18,601,776,812

5.2 Allowance for impairment

	2017 Rs.	2016 Rs.
Balance as at 1st of April	261,725,528	316,416,427
Provision / (reversal) for the year	36,646,661	(54,690,899)
Balance as at 31st March	298,372,189	261,725,528

5.2.1 Individual impairment

	2017 Rs.	2016 Rs.
Balance as at 1st of April	209,731,787	249,181,536
Provision for the year	(53,081,211)	(39,449,749)
Balance as at 31st March	156,650,576	209,731,787

5.2.2 Collective impairment

	2017 Rs.	2016 Rs.
Balance as at 1st of April	51,993,741	67,234,891
Provision for the year	89,727,873	(15,241,150)
Balance as at 31st March	141,721,613	51,993,741

6. HIRE PURCHASES, LOANS AND ADVANCES

	2017 Rs.	2016 Rs.
Hire Purchases (note 6.1)	-	16,479,699
Mortgage Loans (note 6.2)	988,013,041	798,692,789
Sundry Loans (note 6.3)	54,496,068,083	52,520,002,760
	55,484,081,124	53,335,175,248

6.1 Hire Purchases

	2017 Rs.	2016 Rs.
Rentals receivable	-	18,766,649
Unearned income	-	(122,879)
Net rentals receivable (note 6.1.1)	-	18,643,770
Allowance for impairment (note 6.1.2)	-	(2,164,071)
	-	16,479,699

6. HIRE PURCHASES, LOANS AND ADVANCES (Contd...)

6.1.1 Net rentals receivable - Hire Purchases

	2017 Rs.	2016 Rs.
Receivable -more than one year		
Rentals receivable	-	7,692,179
Unearned income	-	124,554
	-	7,816,733
Receivable within one year		
Rentals receivable	-	3,992,929
Unearned income	-	(247,433)
	-	3,745,495
Overdue		
Rentals receivable	-	7,081,541
	-	18,643,770

6.1.2 Allowance for impairment - Hire Purchases

	2017 Rs.	2016 Rs.
Balance as at 1st of April	2,164,071	2,424,986
Provision / (reversal) for the year	(2,164,071)	(260,916)
Balance as at 31st March	-	2,164,071

6.1.2.a Individual impairment

	2017 Rs.	2016 Rs.
Balance as at 1st of April	-	1,357,028
Provision / (reversal) for the year	-	(1,357,028)
Balance as at 31st March	-	-

6.1.2.b Collective impairment

	2017 Rs.	2016 Rs.
Balance as at 1st of April	2,164,071	1,067,958
Provision / (reversal) for the year	(2,164,071)	1,096,113
Balance as at 31st March	-	2,164,071

6.2 Mortgage Loans

	2017 Rs.	2016 Rs.
Rentals receivable	1,452,004,641	1,100,573,875
Unearned income	(374,109,327)	(255,516,707)
Net rentals receivable (note 6.2.1)	1,077,895,314	845,057,168
Allowance for impairment (note 6.2.2)	(89,882,272)	(46,364,379)
	988,013,041	798,692,789

6.2.1 Net rentals receivable - Mortgage Loans

	2017 Rs.	2016 Rs.
Receivable -more than one year		
Installments receivable	948,055,361	683,362,878
Unearned income	(239,814,740)	(171,909,530)
	708,240,620	511,453,348
Receivable within one year		
Installments receivable	299,225,836	214,740,160
Unearned income	(134,294,587)	(83,607,177)
	164,931,249	131,132,983
Overdue		
Installments receivable	204,723,444	202,470,837
	1,077,895,314	845,057,168

		2017	2016
6.	**HIRE PURCHASES, LOANS AND ADVANCES (Contd...)**	**Rs.**	**Rs.**
6.2.2	**Allowance for impairment - Mortgage Loans**		
	Balance as at 1st of April	46,364,379	81,571,621
	Provision / (reversal) for the year	43,517,893	(35,207,241)
	Balance as at 31st March	89,882,272	46,364,379
6.2.2.a	**Individual impairment**		
	Balance as at 1st of April	-	-
	Provision / (reversal) for the year	14,458,744	-
	Balance as at 31st March	14,458,744	-
6.2.2.b	**Collective impairment**		
	Balance as at 1st of April	46,364,379	81,571,621
	Provision / (reversal) for the year	29,059,149	(35,207,241)
	Balance as at 31st March	75,423,528	46,364,379
6.3	**Sundry Loans**		
	Total receivable	62,955,949,704	61,203,640,749
	Unearned income	(6,984,098,591)	(7,312,317,867)
	Net receivable (note 6.3.1)	55,971,851,113	53,891,322,882
	Allowance for impairment (note 6.3.2)	(1,475,783,030)	(1,371,320,123)
		54,496,068,083	52,520,002,760
6.3.1	**Net receivable - Sundry Loans**		
	Receivable -more than one year		
	Installments receivable	40,500,529,998	39,711,490,383
	Unearned income	(3,413,072,652)	(3,907,935,042)
		37,087,457,345	35,803,555,340
	Receivable within one year		
	Installments receivable	20,547,396,489	20,256,697,557
	Unearned income	(3,571,025,938)	(3,404,382,825)
		16,976,370,551	16,852,314,732
	Overdue		
	Installments receivable	1,908,023,217	1,235,452,810
		55,971,851,113	53,891,322,882
6.3.2	**Allowance for impairment - Sundry Loans**		
	Balance as at 1st of April	1,371,320,123	1,092,935,982
	Provision for the year	104,462,908	278,384,140
	Balance as at 31st March	1,475,783,030	1,371,320,123
6.3.2.a	**Individual impairment**		
	Balance as at 1st of April	546,676,766	414,363,854
	Provision / (reversal) for the year	37,321,575	132,312,912
	Balance as at 31st March	583,998,341	546,676,766
6.3.2.b	**Collective impairment**		
	Balance as at 1st of April	824,643,357	678,572,128
	Provision for the year	67,141,333	146,071,228
	Balance as at 31st March	891,784,689	824,643,357

6. HIRE PURCHASES, LOANS AND ADVANCES (Contd...)

		2017	2016
		Rs.	Rs.
6.4	**Factoring Receivables**		
	Gross receivable	17,823,865,341	14,493,158,118
	Allowance for impairment (note 6.4.1)	(1,299,227,274)	(894,557,226)
		16,524,638,067	13,598,600,891
6.4.1	**Allowance for impairment**		
	Balance as at 1st of April	894,557,226	158,878,197
	Provision for the year	404,670,048	735,679,029
	Balance as at 31st March	1,299,227,274	894,557,226
6.4.1.a	**Individual impairment**		
	Balance as at 1st of April	500,000,000	-
	Provision / (reversal) for the year	439,736,329	500,000,000
	Balance as at 31st March	939,736,329	500,000,000
6.4.1.b	**Collective impairment**		
	Balance as at 1st of April	394,557,226	158,878,197
	Provision for the year	(35,066,281)	235,679,029
	Balance as at 31st March	359,490,945	394,557,226

		2017	2016
6.5	**MARGIN TRADING RECEIVABLES**	Rs.	Rs.
	Gross amount outstanding at year end	94,825,018	85,597,164
	Allowance for impairment	-	-
	Net balance on margin trading	94,825,018	85,597,164

6.6 Portfolio Analysis

		2017	2016
6.6.1	**Sectorwise exposure of the lending portfolio - before impairment provision**	Rs.	Rs.
	Agriculture	6,372,360,281	6,279,146,181
	Manufacturing	7,706,594,972	7,904,558,795
	Economics And Social	1,409,104,525	1,410,104,727
	Trade	19,763,704,338	21,588,238,172
	Factoring	17,294,700,931	14,493,158,119
	Margin Trading	94,825,018	85,597,164
	Tourism	1,422,950,463	1,382,648,751
	Services	13,463,339,321	13,615,749,820
	Transportation	5,092,978,170	4,653,101,968
	Construction	4,493,623,152	4,217,704,574
	Mining and Quarrying	328,425,492	348,480,756
	Others	16,232,935,432	10,860,877,680
		93,675,542,095	86,839,366,707

		2017 Rs.	2016 Rs.
6.6.2	**Product wise analysis of portfolio**		
	Lease receivables	15,476,013,038	14,202,393,776
	Hire Purchase receivables	-	18,643,770
	Loans & Advances	49,239,625,594	47,138,267,302
	Factoring receivables	17,823,865,341	14,493,158,118
	Margin trading receivables	94,825,018	85,597,164
	Islamic business portfolio - Ijarah receivables	3,231,092,271	3,303,193,828
	Islamic business portfolio - Other receivables (Murabaha,	7,810,120,833	7,598,112,748
	Gross portfolio	93,675,542,095	86,839,366,707
	Less : Impairment provision	(3,163,264,766)	(2,576,131,327)
	Net portfolio (note 6.6.3)	90,512,277,329	84,263,235,380
6.6.3	**Net portfolio**		
	Rentals receivable on Leased Assets (note 5)	18,408,733,120	17,243,862,077
	Hire Purchases, Loans and Advances (note 6)	55,484,081,124	53,335,175,248
	Factoring receivable (note 6.4)	16,524,638,067	13,598,600,891
	Margin trading receivables (note 6.5)	94,825,018	85,597,164
		90,512,277,329	84,263,235,380

7. OTHER RECEIVABLES

	2017 Rs.	2016 Rs.
Financial Assets		
Staff loans	250,605,452	224,602,047
Other accomodations	590,802,130	628,406,930
Provision for other accomodations	(590,802,130)	(628,406,930)
Letter of credit charges	4,332,135	4,307,575
Insuarance premium receivables	74,180,882	22,597,474
	329,118,469	251,507,096
Non Financial Assets		
VAT receivable	381,448,855	158,765,387
Prepaid staff cost	102,826,327	71,147,704
Miscellaneous receivables	258,267,764	212,635,286
	742,542,946	442,548,377
Total Other receivables	1,071,661,415	694,055,473

8. INVESTMENT SECURITIES

		2017 Rs.	2016 Rs.
	Investments held for trading (note 8.1)	258,161,072	1,017,002,569
	Available for sale investments-carried at cost (note 8.2)	66,468,275	66,468,275
		324,629,347	1,083,470,844
8.1	**Investments held for trading**		
	Expo Lanka Holdings PLC		
	Original cost	18,000,000	18,000,000
	Carrying amount as at 1st April	7,000,000	8,500,000
	Adjustment for change in fair value - recognized in profits	(400,000)	(1,500,000)
	Carrying amount as at 31st March	6,600,000	7,000,000
	Investment in Unit Trusts		
	Original cost	250,000,000	1,000,000,000
	Carrying amount as at 1st April	1,010,002,569	-
	Investments during the year	250,000,000	1,000,000,000
	Disposal during the year	(1,040,793,428)	
	Adjustment for change in fair value - recognized in profits	32,351,930	10,002,569
	Carrying amount as at 31st March	251,561,072	1,010,002,569
	Total investments held for trading	258,161,072	1,017,002,569

8. INVESTMENT SECURITIES (Contd…)

8.2 Available for sale investments carried at cost

	2017 Rs.	2016 Rs.
Credit Information Bureau Ltd.	343,275	343,275
LOLC Myanmar Micro Finance Company Ltd	66,125,000	66,125,000
Total	66,468,275	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	2017 Rs.	2016 Rs.
Eden Hotel Lanka PLC	Fellow subsidiary	9,708,643	932,830
Commercial Leasing and Finance PLC	Fellow subsidiary	102,340	-
LOLC Insurance - General Ltd	Fellow subsidiary	1,909,490	419,339
LOLC Insurance - Life Ltd	Fellow subsidiary	3,971,487	1,449,190
LOLC Securities Ltd	Fellow subsidiary	683,964	90,041
BG Air services Ltd	Fellow subsidiary	-	3,468
Galoya Plantation	Fellow subsidiary	1,500,000	-
The Paradise Resort & Spa	Fellow subsidiary	1,983,274	-
Sun & Fun Resorts Ltd.	Fellow subsidiary	1,034,777	-
LOLC Factors Ltd	Fellow subsidiary	163,612,000	-
BRAC Lanka Finance PLC	Fellow subsidiary	32,884,957	3,468
Dickwella Resorts (pvt) Ltd	Fellow subsidiary	1,393,853	6,806
Lanka Orix Information Technology services Ltd	Fellow subsidiary	1,729,863	366,041
Browns Hotels and Resorts Ltd	Fellow subsidiary	1,931,950	-
Millenium Development (pvt) Ltd	Fellow subsidiary	1,330,125	-
Excel Restaurants (Pvt) Ltd	Fellow subsidiary	729,101	-
		224,505,824	3,271,183

10. INVESTMENT PROPERTIES

	2017 Rs.	2016 Rs.
Balance as at 1st April	930,200,000	1,142,800,000
Additions and improvements	13,997,152	360,101
Disposals	(62,355,000)	(242,030,810)
Change in fair value	24,457,848	29,070,709
Balance as at 31st March	906,300,000	930,200,000

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

- The company incurred expenses for the improvements of the investment properties and received rent income amounting to Rs.10,962,000 during the current financial year. (2015-2016 : 1,748,564).

- During the financial year company has incurred expenses amounting to Rs 6,579,374. for maintanance of the investment property. (2015-2016- Rs 1,713,781)

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

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 2017.

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.600,000 to Rs.4,500,000 in the Colombo area and Rs.138,889 to Rs.1,400,000 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

	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

	Land Rs.	Building Rs.	Leasehold Motor Vehicles Rs.	Total Rs.
Cost/Valuation				
Balance as at 01 April 2015	-	-	152,533,965	152,533,965
Additions	275,850,000	17,174,800	938,555,000	1,231,579,800
Disposals	(125,000,000)			(125,000,000)
Balance as at 31 March 2016	150,850,000	17,174,800	1,091,088,965	1,259,113,765
Accumulated Depreciation				
Balance as at 01 April 2015	-	-	15,989,284	15,989,284
Charge for the year	-	243,495	32,473,756	32,717,252
Balance as at 31 March 2016	-	243,495	48,463,040	48,706,536
Carrying Amount				
As at 31 March 2016	150,850,000	16,931,305	1,042,625,925	1,210,407,229

Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles amounting to Rs. 1,622,594,683 as at 31 March 2017 (2016 - Rs. 1,042,625,925) 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

	2017 Rs.	2016 Rs.
Receivable within one year	342,854,375	162,314,400
Receivable within 1-5 years	857,161,600	459,103,850
Receivable after 5 years	3,093,500	4,320,250
Total	1,203,109,475	625,738,500

Temporarily idle property, plant and equipment

There were no property, plant and equipment idle as at 31st March 2017 and 31st March 2016.

Fully depreciated property, plant and equipment

There were no property, plant and equipment fully depreciated as at 31st March 2017 and 31st March 2016.

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 2017.

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.600,000 to Rs.4,500,000 in the Colombo area and Rs.138,889 to Rs.1,400,000 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	2017 Rs.	2016 Rs.
Cost	782,748,045	168,024,800
Accumulated depreciation and impairment	(1,310,260)	(243,495)
Carrying value	781,437,784	167,781,305

12. INTEREST BEARING BORROWINGS

	2017 Rs.	2016 Rs.
Short-term loans	6,253,000,000	8,302,302,662
Long-term borrowings (note 12.1)	11,841,978,667	20,453,223,681
Finance leases (note 12.2)	1,068,481,984	1,094,417,463
Debentures (note 12.3)	4,950,000,000	4,950,000,000
Total borrowings	24,113,460,651	34,799,943,806
Interest payable	342,853,014	270,207,908
Liability recognized in statement of financial position	24,456,313,665	35,070,151,714

12.1 Long-term borrowings

	2017 Rs.	2016 Rs.
Balance at the beginning of the year	20,453,223,681	764,975,600
Loans obtained during the year	2,155,700,000	20,421,823,681
Repaid during the year	(10,766,945,014)	(733,575,600)
Balance at the end of the year	11,841,978,667	20,453,223,681
Long-term borrowings - current	4,796,703,943	11,052,982,201
Long-term borrowings - non-current (note 12.1.a)	7,045,274,723	9,400,241,481
	11,841,978,666	20,453,223,681

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

	2017 Rs.	2016 Rs.
Repayable within 1-3 years	4,578,707,695	6,148,697,091
Repayable after 3 years	2,466,567,027	3,251,544,390
	7,045,274,723	9,400,241,481

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.

12.2 Finance leases

	2017 Rs.	2016 Rs.
Gross lease rentals payable as at 1 April	1,281,759,996	665,812,229
Lease obtained during the year	593,542,233	727,505,000
Lease rentals paid during the year	(632,792,253)	(111,557,233)
Gross lease rentals payable as at 31 March	1,242,509,975	1,281,759,996
Less: Interest in suspense	(174,027,991)	(187,342,533)
Balance at the end of the year / present value of minimum lease payments	1,068,481,984	1,094,417,463

12.2.1 Analysis of finance leases

	2017 Rs.	2016 Rs.
Repayable within one year (note 12.2.1.a)	523,219,878	346,631,427
Repayable within 1-5 years (note 12.2.1.b)	545,262,106	747,786,036
	1,068,481,984	1,094,417,463

12.2.1.a Repayable within one year

	2017 Rs.	2016 Rs.
Gross lease rentals payable	616,914,159	439,381,431
Less: interest in suspense	(93,694,281)	(92,750,004)
	523,219,878	346,631,427

12.2.1.b Repayable within 1-5 years

	2017 Rs.	2016 Rs.
Gross lease rentals payable	625,595,816	842,378,565
Less: interest in suspense	(80,333,710)	(94,592,529)
	545,262,106	747,786,036

12.3 Debentures

	2017 Rs.	2016 Rs.
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

	2017 Rs.	2016 Rs.
Customer deposits	77,680,697,534	57,839,986,244
Interest / profit payable		
Interest payable on deposits	2,802,791,088	2,263,236,953
Profits payable to Islamic Business Unit deposit holders	123,626,172	93,977,697
	2,926,417,260	2,357,214,650
Deposit liability recognized in statement of financial position	80,607,114,794	60,197,200,894

13.1 Analysis of customer deposits based on nature

	2017 Rs.	2016 Rs.
Fixed deposits - conventional	67,236,994,188	48,494,192,006
Fixed deposits - Islamic - Mudharabah	4,081,857,830	4,230,559,233
Fixed deposits - Islamic - Wakala	1,991,207,909	1,569,100,000
Fixed deposits - foreign currency	1,651,310,478	1,561,953,342
Fixed deposit bonds	395,097,800	415,529,000
Savings deposits - conventional	1,747,264,748	1,000,844,109
Savings deposits - Islamic	484,831,430	466,058,778
Savings deposits - foreign currency	92,133,151	101,749,776
Total deposits	77,680,697,534	57,839,986,244

13.2 Deposits based on maturity

	2017 Rs.	2016 Rs.
Deposits maturing within one year	63,469,514,967	44,386,778,927
Deposits maturing after one year	14,211,182,567	13,453,207,317
	77,680,697,534	57,839,986,244

14. TRADE PAYABLES

	2017 Rs.	2016 Rs.
Creditors for lease equipment and approved facilities to be disbursed	677,878,426	637,849,803

15. ACCRUALS AND OTHER PAYABLES

	2017 Rs.	2016 Rs.
Excess payments received from clients	150,977,318	109,355,895
Insurance payable	50,473,780	48,382,723
VAT / other tax payable	2,555,388	8,971,300
Other miscellaneous creditors	1,076,401,622	620,162,118
Payable on matured deposits	325,966,263	212,002,623
Stamp duty payable	11,160,475	12,523,615
IBU charity fund	3,432,829	7,204,557
	1,620,967,675	1,018,602,831

16. AMOUNTS DUE TO RELATED COMPANIES

	Relationship	2017 Rs.	2016 Rs.
Lanka Orix Leasing Company PLC	Parent	371,173,624	203,769,488
Lanka Orix Leasing Company PLC-Refinance Loans	Parent	29,548,653	48,602,436
LOLC Micro Credit Ltd	Fellow subsidiary	27,756,038	136,016,886
LOLC Corporate services Ltd	Fellow subsidiary	1,682,156	-
LOLC Factors Ltd	Fellow subsidiary	-	605,271,399
LOLC Motors Ltd	Fellow subsidiary	4,098,350	3,120,600
		434,258,821	996,780,809

17. EMPLOYEE BENEFITS

17.1 Defined contribution plans

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

	2017 Rs.	2016 Rs.
Employees' Provident Fund		
Employers' contribution	31,303,816	21,844,675
Employees' contribution	21,069,210	14,563,117
Employees' Trust Fund	7,825,954	5,461,169

As at 31 March,

17.2 Defined benefit plan

Movement in the present value of the defined benefit obligation

	2017 Rs.	2016 Rs.
Defined benefit obligation as of 01 April	12,248,571	10,450,090
Expense included in Personnel Expenses	5,141,592	3,651,323
Remeasurement Component	1,504,720	(1,372,202)
	6,646,312	2,279,121
Benefits paid	(1,876,753)	(480,640)
Defined benefit obligation as at 31st March	**17,018,130**	**12,248,571**

17.2.a Expense included in Personnel Expenses

	2017	2016
Current Service Cost	3,474,194	2,658,565
Interest Cost	1,667,398	992,758
	5,141,592	**3,651,323**

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

	2017	2016
Cumulative loss as at 1st April	2,940,653	4,312,855
(Gain) / loss recognised during the period	1,504,720	(1,372,202)
Cumulative loss as at 31st March	**4,445,373**	**2,940,653**

Acturial valuation for defined benefit obligation was carried out as at 31 March 2017 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:

	2017	2,016
Discount Rate	12.00%	11.00%
Salary Increment Rate	9.00%	8.50%
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,	2017 Rs.	2016 Rs.
The defined benefit obligation under current assumptions	17,018,130	12,248,571
The defined benefit obligation if the discount rate increased by 100 basis points	15,555,653	11,167,201
The defined benefit obligation if the discount rate reduced by 100 basis points	18,718,105	13,503,799
The defined benefit obligation if the salary increment rate increased by 1%	18,720,579	13,669,609
The defined benefit obligation if the salary increment rate reduced by 1%	15,529,221	11,015,220
The change in the defined benefit obligation if the discount rate increased by 100 basis points	(1,462,477)	(1,081,370)
The change in the defined benefit obligation if the discount rate reduced by 100 basis points	1,699,975	1,255,228
The change in the defined benefit obligation if the salary increment rate increased by 1%	1,702,449	1,421,038
The change in the defined benefit obligation if the salary increment rate reduced by 1%	(1,488,909)	(1,233,351)

17.2.e Maturity analysis of the payments

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

	2017	2016
Within the next 12 months	2,449,327	2,071,821
Between 1 and 2 years	2,854,021	5,614,871
Between 2 and 5 years	14,503,778	12,267,855
Between 5 and 10 years	46,997,830	35,510,850
Total expected payments	**66,804,956**	**55,465,397**

18. STATED CAPITAL

	2017		2016	
	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
Balance at the end of the year	2,800,000,000	2,000,000,000	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

	2017 Rs.	2016 Rs.
Statutory reserve (note 19.1)	1,556,438,753	1,239,075,154
Revaluation reserve (note 19.2)	206,229,960	-
Cash flow hedge reserve (note 19.3)	14,236,742	22,747,657
Available for sale investment reserve (note 19.4)	(115,484,939)	(160,153,753)
Retained earnings (note 19.5)	7,364,836,012	6,096,465,015
	9,026,256,529	7,198,134,074

19.1 Statutory reserve

	2017	2016
Balance at the beginning of the year	1,239,075,154	953,676,506
Transferred during the year	317,363,599	285,398,648
Balance at the end of the year	1,556,438,753	1,239,075,154

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% (2015/16 - 20%) of its annual net profit after tax to this reserve in compliance with this direction.

19.2 Revaluation Reserve

	2017	2016
Balance at the beginning of the year	-	-
Transferred during the year	216,989,576	-
Related tax	(10,759,616)	-
Balance at the end of the year	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

	2017 Rs.	2016 Rs.
Balance at the beginning of the year	22,747,657	-
Gain / (loss) arising from cash flow hedge recognized in OCI	(11,820,715)	34,156,257
Related tax - current tax - expense / (reversal) - note 27	(9,778,295)	-
Related tax - deferred tax - expense / (reversal) - note 27	13,088,096	(11,408,600)
Balance at the end of the year	14,236,742	22,747,657

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 is a forward exchange contract and as at 31st March 2017 was a liability and had a fair value of Rs. 5,998,199

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

	2017 Rs.	2016 Rs.
Balance at the beginning of the year	(160,153,753)	86,036,783
Fair value changes during the year - increase / (decrease)	44,668,814	(246,190,536)
Balance at the end of the year	(115,484,939)	(160,153,753)

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

19.5 Retained Earnings

	2017 Rs.	2016 Rs.
Balance at the beginning of the year	6,096,465,015	4,953,882,436
Profit for the year	1,586,817,994	1,426,993,242
Remeasurements of defined benefit liability - gain / (loss)	(1,083,398)	987,985
Transfer to statutory reserve fund	(317,363,599)	(285,398,648)
Balance at the end of the year	7,364,836,012	6,096,465,015

20. INTEREST INCOME

	2017 Rs.	2016 Rs.
Interest on leases	3,256,904,896	2,827,065,239
Interest on hire purchases	136,361	7,320,164
Interest on loans	10,403,319,839	7,496,881,646
Income from factoring portfolio	3,386,062,003	1,649,596,359
Interest on margin trading	15,107,970	33,284,619
Income from operating lease and hire	216,962,699	50,836,841
Interest on overdue rentals and others	1,211,246,932	1,072,612,148
	18,489,740,700	13,137,597,016

21. INTEREST EXPENSE

	2017 Rs.	2016 Rs.
Interest on fixed deposits	7,386,960,410	4,148,247,834
Interest on savings deposits	67,558,918	45,818,046
Profit distributed to Islamic Business Unit deposit holders	558,485,895	480,400,473
Interest on foreign currency deposits	69,456,936	64,990,148
Interest on re-red refinancing	2,823,690	3,773,910
Finance lease interest	125,893,047	71,259,352
Interest on loans & bank overdraft	3,248,094,494	1,684,984,796
	11,459,273,390	6,499,474,559

22. NET OTHER OPERATING INCOME

	2017 Rs.	2016 Rs.
Sundry income	85,236,207	37,957,849
Service charges	354,932,248	241,789,835
Arrangement and documentation fees	193,263,194	207,007,494
Collections from contracts written off	218,548,341	159,584,229
Fair value change in investment properties (Note 10)	24,457,848	29,070,709
Interest income and capital gain on government securities	982,164,310	527,505,599
Interest income on term deposits	473,900,598	66,226,107
Change in fair value of derivatives - forward contracts (note 4.3)	(28,698,717)	94,334,091
Net exchange loss	(56,870,998)	(138,188,264)
Provision for payables to clients	(10,500,000)	(9,539,899)
Adjustment for increase / (decrease) in value of investments (note 8.1)	31,951,930	8,502,569
Dividend income	200,503	165,424
Interest income from staff loan	68,165,042	53,408,699
Disposal gain / (loss) on investment property	11,902,750	(32,315,560)
	2,348,653,257	1,245,508,882

23. DIRECT EXPENSES EXCLUDING INTEREST COST

	2017 Rs.	2016 Rs.
Factored insurance	323,419,958	251,794,016
VAT on general expenses	309,002,010	194,393,911
Portfolio handling fee	669,342,613	465,529,015
Others	9,643,590	-
	1,311,408,171	911,716,942

24. ALLOWANCE FOR IMPAIRMENT & WRITE OFFS

	2017 Rs.	2016 Rs.
Impairment provision / (reversal) for lease rentals receivable (Note 5.2)	36,646,661	(54,690,899)
Impairment provision / (reversal) for receivables from hire purchases (Note 6.1.2)	(2,164,071)	(260,916)
Impairment provision / (reversal) for mortgage loan (Note 6.2.2)	43,517,893	(35,207,241)
Impairment provision / (reversal) for receivables from sundry loans (Note 6.3.2)	104,462,908	278,384,140
Impairment provision / (reversal) for factoring receivables (Note 6.4.1)	404,670,048	735,679,029
Impairment provision / (reversal) for other receivables	(37,604,799)	(57,649,925)
Impairment provision / (reversal) for insurance receivable	-	40,857,990
Written-off during the year	779,513,473	661,463,899
	1,329,042,113	1,568,576,077

25. PROFIT FROM OPERATIONS

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

	2017 Rs.	2016 Rs.
Directors' emoluments	7,235,438	57,103,370
Audit fees and expenses - Audit Services	2,215,150	2,013,000
- Audit Related Services	949,300	904,050
- Non Audit Services	Nil	Nil
Depreciation on property, plant and equipment	148,246,007	32,717,251

25.1 Personnel expenses

	2017 Rs.	2016 Rs.
- Salaries, wages & other related cost	1,380,224,129	1,069,592,645
- Defined contribution plans - EPF & ETF	39,129,770	27,305,844
- Defined benefit plan cost	5,141,592	3,651,323
	1,424,495,490	1,100,549,812

25.2 Penalties paid to Central Bank of Sri Lanka

	2017 Rs.	2016 Rs.
Penalties paid to Central Bank of Sri Lanka	100,000	-

A penalty was paid to CBSL for delay of one day in submitting a weekly return

27. INCOME TAX EXPENSE

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

	2017 Rs.	2016 Rs.
Current tax - recognized in OCI		
Current tax charge	459,741,544	379,870,141
Under provision of current taxes in respect of prior years	9,951,337	1,264,007
	469,692,881	381,134,148
Deferred Tax		
Deferred tax charge (27.2)	120,066,282	211,528,638
Income tax expense reported in statement of profit or loss	**589,759,163**	**592,662,785**
Current tax - expense / (reversal) - recognized in OCI		
Relating to exchange gain recognized in OCI (in hedge reserve)	9,778,295	-
Deferred tax charge / (reversal) recognized in OCI		
Defined benefit plans	(421,322)	384,217
Fair value change in derivatives recognized in hedge reserve	(13,088,096)	11,408,600
Property plant and equipment	10,759,616	-
	(2,749,801)	11,792,817
Total income tax expense recognized in OCI	**7,028,494**	**11,792,817**

27.1 Current tax payable

	2017 Rs.	2016 Rs.
Tax payable as at 1st April	309,887,595	434,425,679
Current tax expense for the year	479,471,176	381,134,148
Tax paid during the year	(520,426,989)	(505,672,232)
Tax payable as at 31st March	**268,931,782**	**309,887,595**

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

	2017 %	2017 Rs.	2016 %	2016 Rs.
Accounting profit before income tax		2,176,577,157		2,019,656,028
Tax effect at the statutory income tax rate of 28%	28%	609,441,604	28%	565,503,688
Tax effect of other allowable credits	-7%	(161,642,578)	-7%	(138,683,364)
Tax effect of non deductible expenses	6%	132,008,800	8%	164,578,455
Under / (over) provision in the previous years	0%	9,951,337	0%	1,264,007
Income tax expense	27%	589,759,163	29%	592,662,785

27.2 Deferred Taxation

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

	Statement of Financial Position		Statement of Profit or loss and Other Comprehensive Income	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Deferred tax liability - recognized in profit or loss - expense / (reversal)				
Lease receivables	1,118,395,601	1,011,144,217	107,251,384	167,847,496
Net forward exchange contracts	3,040,933	11,076,573	(8,035,641)	11,076,573
Property plant and equipment	2,885,288	760,358	2,124,930	760,358
	1,124,321,822	1,022,981,148	101,340,674	179,684,428
Deferred tax assets - recognized in profit or loss - expense / (reversal)				
Defined benefit plans	3,520,372	2,606,217	(914,155)	(887,791)
Net forward exchange contracts	-	-	-	15,336,972
Finance lease liability	26,579,307	46,219,070	19,639,763	17,395,029
	30,099,679	48,825,287	18,725,608	31,844,210
Deferred tax assets - recognized in OCI - expense / (reversal)				
Defined benefit plans	1,244,704	823,383	(421,322)	384,217
Fair value change in derivatives recognized in hedge reserve	1,679,496	-	(1,679,496)	-
	2,924,200	823,383	(2,100,817)	384,217
Deferred tax liability - recognized in OCI - expense / (reversal)				
Fair value change in derivatives recognized in hedge reserve	-	11,408,600	(11,408,600)	11,408,600
Property plant and equipment	10,759,616	-	10,759,616	-
	10,759,616	11,408,600	(648,984)	11,408,600
Deferred tax expense / (reversal) for the current year - recognized in profit or loss			**120,066,282**	**211,528,638**
Deferred tax expense / (reversal) for the current year - recognized in OCI			**(2,749,801)**	**11,792,817**
Net deferred tax liability	**1,102,057,559**	**984,741,078**		

27.2.a Movement in temporary differences

	2017	2016
Taxable temporary differences	**Rs.**	**Rs.**
Lease receivables	3,994,270,004	3,611,229,345
Forward exchange contracts (net) - recognized in P&L	10,860,474	39,559,191
Forward exchange contracts (net) - recognized in OCI	-	40,745,000
Property plant and equipment - recognized in P&L	10,304,601	2,715,565
Property plant and equipment - revaluation - recognized in OCI	38,427,200	-
	4,053,862,278	3,694,249,101
Deductible temporary differences		
Defined benefit plans - recognized in profit or loss	12,572,757	9,307,918
Defined benefit plans - recognized in OCI	4,445,373	2,940,453
Forward exchange contracts (net) - recognized in OCI	5,998,199	-
Finance lease liability	94,926,097	165,068,107
	117,942,426	177,316,478
Net taxable temporary differences	**3,935,919,853**	**3,516,932,623**

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	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.17	Total as at 31.03.16
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	4,924,111,973	-	-	-	-	4,924,111,973	3,497,994,396
Deposits with banks and other financial institutions	12,757,943,827	272,084,474	925,318,179	206,220,598	-	14,161,567,078	10,206,770,924
Investment in government securities	6,726,050,604	-	72,954,075	17,225,370	1,036,946,444	7,853,176,493	8,397,496,235
Derivative assets	12,219,869	11,620,468	-	-	-	23,840,338	98,163,191
Rentals receivable on leased assets	2,277,049,246	4,329,814,335	9,317,998,856	2,543,945,512	238,297,362	18,707,105,309	17,505,587,605
Allowance for impairment	-	-	-	-	-	(298,372,189)	(261,725,528)
Hire purchases, loans and advances	7,998,040,700	11,256,007,761	15,889,670,088	20,329,830,062	1,576,197,815	57,049,746,427	54,755,023,819
Allowance for impairment	-	-	-	-	-	(1,565,665,303)	(1,419,848,573)
Factoring receivable	17,823,865,341	-	-	-	-	17,823,865,341	14,493,158,118
Allowance for impairment	-	-	-	-	-	(1,299,227,274)	(894,557,226)
Margin trading receivables	94,825,018	-	-	-	-	94,825,018	85,597,164
Allowance for impairment	-	-	-	-	-	-	-
Other receivables	594,765,055	200,109,181	112,463,182	111,829,437	52,494,560	1,071,661,415	694,055,473
Investments securities	258,161,072	-	-	-	66,468,275	324,629,347	1,083,470,844
Amount due from related companies	224,505,824	-	-	-	-	224,505,824	3,271,183
Investment properties	-	-	906,300,000	-	-	906,300,000	930,200,000
Property plant and equipment	-	-	-	-	2,621,022,043	2,621,022,043	1,210,407,229
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**	
Total Assets as at 31st March 2016	**36,892,483,426**	**23,087,099,734**	**24,220,214,270**	**24,656,583,345**	**4,104,815,407**	**110,385,064,854**	**110,385,064,854**

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	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total as at 31.03.17	Total as at 31.03.16
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Bank overdraft	2,393,316,396	-	-	-	-	2,393,316,396	1,941,608,486
Interest bearing borrowings	8,247,249,469	3,668,527,367	9,963,799,577	1,756,595,660	820,141,593	24,456,313,665	35,070,151,714
Deposits from customers	31,177,396,178	34,578,877,874	8,844,437,683	6,006,403,060	-	80,607,114,794	60,197,200,894
Trade payables	677,878,426	-	-	-	-	677,878,426	637,849,803
Accruals and other payables	718,423,063	135,198,108	381,231,331	311,947,840	74,167,333	1,620,967,675	1,018,602,831
Derivative liabilities	16,548,027	2,430,035	-	-	-	18,978,063	17,859,000
Amount due to related companies	434,258,821	-	-	-	-	434,258,821	996,780,809
Current tax payable	-	268,931,782	-	-	-	268,931,782	309,887,595
Deferred tax liability	-	-	1,102,057,559	-	-	1,102,057,559	984,741,078
Employee benefits	-	-	-	17,018,130	-	17,018,130	12,248,571
Stated capital	-	-	-	-	2,000,000,000	2,000,000,000	2,000,000,000
Statutory reserve	-	-	-	-	1,556,438,753	1,556,438,753	1,239,075,154
Revaluation Reserve	-	-	-	-	206,229,960	206,229,960	
Cash flow hedge reserve	-	-	-	-	14,236,742	14,236,742	22,747,657
Available for sale investment reserve	-	-	-	-	(115,484,939)	(115,484,939)	(160,153,753)
Retained earnings	-	-	-	-	7,364,836,012	7,364,836,012	6,096,465,015
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**	
Total Liabilities & Equity as at 31st March 2016	**38,187,097,856**	**32,012,153,916**	**18,443,854,793**	**10,980,337,079**	**10,761,621,210**	**110,385,064,854**	**110,385,064,854**

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.

	2017 Rs.	2016 Rs.
Amounts used as the numerator:		
Profit attributable to ordinary shareholders for basic earnings per share	1,586,817,994	1,426,993,242

	2017 No.	2016 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
Weighted average number of ordinary shares in issue applicable to basic earnings per share	2,800,000,000	2,800,000,000
Basic earnings per share (Rs.)	**0.57**	**0.51**

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

	2017 Rs.	2016 Rs.
29.1 Favourable cash & cash equivalents balance		
Cash in hand and at bank	4,924,111,973	3,497,994,396
29.2 Unfavourable cash & cash equivalent balances		
Bank overdraft	(2,393,316,396)	(1,941,608,486)
Total cash and cash equivalents for the purpose of cash flow statement	**2,530,795,577**	**1,556,385,910**

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 2017 Rs.	Carrying Amount Pledged 2016 Rs.
Lease portfolio	Short term borrowing	9,967,186,000	6,934,283,508

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

	2017 Rs.	2016 Rs.
Short term employment benefits	37,235,629	68,341,180
Total	37,235,629	68,341,180

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 :

	2017 Rs.	2016 Rs.
Deposits held with the Company	1,025,178,236	793,236,470
Interest paid / charged	117,702,686	101,490,974
Interest payable	6,015,324	34,918,747
Loans granted (excluding Directors)	19,379,021	14,659,498
Capital outstanding on facilities granted to KMPs (excluding Directors)	29,072,480	22,293,019
Accommodation outstanding as a percentage of the Company's Capital Funds	0.22%	0.18%

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).

Relationship	**Nature of Transactions**	**Transaction value 2017 Rs.**	**Transaction value 2016 Rs.**
Parent Company	Net funds granted by the Parent during the year (excluding opening balance)	505,389,376	118,841,696
	Shared expenses (including vat)	2,471,743,537	1,461,164,236
	Asset hire charges	125,816,038	121,534,520
	Interest on re-red refinancing	2,823,690	3,773,910
	Treasury management fee	288,873,157	481,000,000
	Fund transfer interest	191,287,040	172,801,102
	Franchise Fee	29,797,257	-
Fellow Subsidiaries & Associates	Deposits & other borrowings by the company	2,034,783,749	2,388,847,172
	Investments held by the company	855,186,164	-
	Interest paid/charge	35,648,392	46,747,799
	Interest payable	226,745	5,808,869
	IT service fee	111,589,960	120,000,000
	Portfolio handling fee	669,342,613	465,529,015
	Supply of leased vehicles	302,327,128	697,047,184
	Yard fee	17,900,350	12,679,192
	Loan/ lease granted	371,012,682	228,986,025
	Rental collections	755,102,377	314,057,143
	Interest income	268,410,873	181,424,350
	Interest income from Investment	20,288,904	-
	Capital outstanding on facilities granted	1,271,770,205	1,071,267,248
Other Related Companies/Affiliates	Supply of leased vehicles	113,600,000	169,763,578
	Debentures issued	-	-
	Interest paid/charge	253,902,325	235,825,582
	Rental collections	-	130,993,610
	Interest income	1,079,263	8,274,211
	Capital outstanding on facilities granted	7,543,036	6,548,235
			-
Other Related Organizations	Deposits held with the company	254,396,722	233,545,815
	Interest paid/charge	9,784,287	1,803,564
	Interest payable	128,411	6,267,987
Accommodation outstanding as a percentage of the Company's Capital Funds		9.61%	8.78%

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	Islamic Financial Services	Factoring Business	Others/ Adjustments	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
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)	(199,703,013)	-	(364,834,951)
Results from operating activities	**923,806,923**	**550,533,468**	**702,236,767**	**-**	**2,176,577,157**
For the year ended 31st March 2016					
Total revenue	10,869,523,436	1,636,308,151	1,877,274,311	-	14,383,105,898
External revenue	10,869,523,436	1,636,308,151	1,877,274,311	-	14,383,105,898
Net interest cost	(4,885,942,079)	(612,957,203)	(1,000,575,276)	-	(6,499,474,559)
Profit before operating expenses	**5,983,581,356**	**1,023,350,948**	**876,699,035**	**-**	**7,883,631,339**
Operating expenses	(3,177,194,693)	(376,784,682)	(465,529,015)	-	(4,019,508,390)
Allowance for impairment & write-offs	(757,041,447)	(75,855,601)	(735,679,029)	-	(1,568,576,077)
Value added tax on financial services	(220,325,401)	(55,565,443)	-	-	(275,890,844)
Results from operating activities	**1,829,019,815**	**515,145,222**	**(324,509,010)**	**-**	**2,019,656,028**
Depreciation					
For the year ended 31st March 2017	148,246,007	-	-	-	148,246,007
For the year ended 31st March 2016	32,717,251	-	-	-	32,717,251
Capital expenditure - Property Plant and equipment					
For the year ended 31st March 2017	1,341,871,245	-	-	-	1,341,871,245
For the year ended 31st March 2016	1,231,579,800	-	-	-	1,231,579,800
As at 31-03-2017					
Total assets	96,714,161,498	11,434,801,552	16,524,638,068	(2,050,509,279)	122,623,091,840
Total liabilities	87,462,908,873	9,659,797,649	16,524,638,068	(2,050,509,279)	111,596,835,311
As at 31-03-2016					
Total assets	88,717,036,225	11,043,205,173	13,598,600,891	(2,973,777,435)	110,385,064,854
Total liabilities	80,834,236,663	9,727,870,662	13,598,600,891	(2,973,777,435)	101,186,930,781

35. COMMITMENTS AND CONTINGENCIES

	2017	2016
	Rs.	Rs.
35.1 Contingent liabilities		
Guarantees issued to banks and other institutions - backed by deposits	897,802,735	671,001,727
35.2 Commitments		
Forward exchange contracts- (commitment to purchase)	9,674,127,329	3,390,826,026
Unutilised loan facilities	10,498,570,369	9,087,623,362
Letter of credit	-	133,501,296

On the commitment to purchase the foreign currencies the company will receive USD 15,350,000, EUR 1,500,000, GBP 1,700,000, AUD 4,274,001