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HNB GRAMEEN FINANCE LIMITED

FINANCIAL STATEMENTS

31 MARCH 2018

EY
Building a better working world

Ernst & Young
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HMAJ/BV/MFI

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF HNB GRAMEEN FINANCE LIMITED

Report on the audit of the financial statements

Opinion

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

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

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

(Contd...2/)

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal T P M Ruberu FCMA FCCA

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

26 June 2018
Colombo

HNB Grameen Finance Limited

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2018

HNB Finance Limited
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	Note	2018 LKR	2017 LKR
Gross Income	**4.**	**7,482,548,192**	**6,234,033,583**
Interest income		6,537,663,310	5,327,018,057
Interest expenses		(2,373,460,579)	(1,465,618,208)
Net Interest Income	**5.**	4,164,202,731	3,861,399,849
Fee and commission income		702,441,739	670,219,063
Fee and commission expenses		(110,385,743)	(98,395,049)
Net Fee and Commission Income	**6.**	592,055,996	571,824,014
Net Interest, Fee and Commission Income		**4,756,258,727**	**4,433,223,863**
Other operating income		242,443,143	236,796,463
Capital Loss from trading		-	-
Net mark to market valuation gain		1,103,040	81,840
Total Operating Income	**7.**	4,999,804,910	4,670,102,166
Impairment charges for loans and other losses	**8.**	(685,269,932)	(707,508,300)
Net Operating Income		4,314,534,978	3,962,593,866
Personnel expenses	**9.**	(1,108,124,495)	(943,611,008)
Other expenses	**10.**	(1,179,177,418)	(1,011,929,349)
Total Operating Expenses		(2,287,301,913)	(1,955,540,357)
Operating Profit before Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services		2,027,233,064	2,007,053,509
Value Added Tax (VAT) on financial services	**11.**	(392,263,488)	(331,394,045)
Nation Building Tax (NBT) on financial services	**12.**	(52,301,798)	(49,278,589)
Operating Profit after Value Added Tax (VAT) and Nation Building Tax (NBT) on Financial Services		1,582,667,778	1,626,380,875
Income tax expenses	**13.**	(570,884,458)	(567,546,689)
Profit for the Year		**1,011,783,320**	**1,058,834,186**
Basic earnings per share	**14.**	0.59	0.62

The Accounting Policies and Notes on pages 08 through 57 from an integral part of the Financial Statements.

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Chartered Accountants
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HNB Grameen Finance Limited

STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 March 2018

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	Note	2018 LKR	2017 LKR
Profit for the Year		**1,011,783,320**	**1,058,834,186**
Other Comprehensive Income for the Year, Net of Tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Actuarial gain/(losses) on defined benefit plans	32.	14,231,796	8,793,209
Deferred tax effect on actuarial gains/(losses) on defined benefit plans	26.	(3,984,903)	(2,462,099)
Revaluation Reserve of free hold Lands & Buildings	25	62,197,447	166,240,013
Deferred tax effect on revaluation on Buildings	26.	(17,415,285)	(44,069,830)
Other Comprehensive Income for the Year, Net of Tax		**55,029,055**	**128,501,293**
Total Comprehensive Income for the Year		**1,066,812,375**	**1,187,335,479**

The Accounting Policies and Notes on pages 08 through 57 from an integral part of the Financial Statements.

ERNST & YOUNG
Chartered Accountants
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STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Note	2018 LKR	2017 LKR
ASSETS			
Cash and cash equivalents	15.	905,159,755	1,204,483,946
Financial assets held for trading	16.	16,128,000	15,024,960
Loans and Advances to members	17.	18,465,081,481	13,260,731,825
Loans and Advances to others	18.	579,593,110	503,034,338
Financial investment - Loan & Receivable	19.	307,112,770	307,112,770
Financial investments - Available-For-Sale	20.	12,430,283	12,430,283
Financial investments - Held-To-Maturity	21.	2,215,317,581	1,743,275,943
Other assets	22.	242,603,911	210,611,575
Investment properties	23.	1,180,150,000	1,049,600,000
Intangible assets	24.	131,533,753	127,078,155
Property, plant & equipment	25.	1,158,835,158	1,119,409,029
Deferred tax Assets	26.	124,848,966	-
Total Assets		**25,338,794,768**	**19,552,792,824**
LIABILITIES			
Due to customers	27.	18,821,363,686	14,040,245,231
Debt issued and other borrowed funds	28.	1,178,231,116	1,333,380,268
Income Tax payable	29.	203,496,098	353,447,803
Value Added Tax payable	30.	(25,379,290)	(6,263,276)
Other liabilities	31.	849,770,227	268,153,945
Retiring benefit obligation	32.	181,016,637	157,508,878
Deferred tax liability	26.	-	16,115,738
Total Liabilities		21,208,498,474	16,162,588,587
SHAREHOLDERS' FUND			
Stated capital	33.	223,545,481	223,545,481
General reserve	34.	82,897,989	82,897,989
Statutory reserve fund	35.	840,876,301	638,519,637
Revaluation reserve		429,266,191	384,484,029
Retained earnings		2,553,710,332	2,060,757,101
Total Equity and Liabilities		**25,338,794,768**	**19,552,792,824**

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

Chief Operating Officer

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

Chairman

Managing Director/CEO

The Accounting Policies and Notes on pages 08 through 57 from an integral part of the Financial Statements.

ERNST & YOUNG
Chartered Accountants
COLOMBO
26 June 2018
Colombo

HNB Grameen Finance Limited

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

	Stated Capital LKR	General Reserves LKR	Statutory Reserve LKR	Investment Fund LKR	Revaluation Reserve LKR	Retained Earnings LKR	Total LKR
Balance as at 01 April 2016	**223,545,481**	**82,897,989**	**426,752,800**	-	**262,313,846**	**1,396,512,510**	**2,392,022,626**
Profit for the year	-	-	-	-	-	1,058,834,186	1,058,834,186
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						8,793,209	8,793,209
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-	-	(2,462,099)	(2,462,099)
Revaluation Reserve of free hold Lands & Buildings	-	-	-	-	166,240,013	-	166,240,013
Deferred tax effect on revaluation on Buildings	-	-	-	-	(44,069,830)	-	(44,069,830)
Total comprehensive income for the year	-	-	-	-	**122,170,183**	**1,065,165,296**	**1,187,335,479**
Transactions recorded directly in equity							
Transfer to statutory reserve fund	-	-	211,766,837	-	-	(211,766,837)	-
Dividend paid	-	-	-	-	-	(189,153,868)	(189,153,868)
Balance as at 31 March 2017	**223,545,481**	**82,897,989**	**638,519,637**	-	**384,484,029**	**2,060,757,101**	**3,390,204,237**
Profit for the year	-	-	-	-	-	1,011,783,320	1,011,783,320
Total comprehensive income for the year, net of tax							
Actuarial gain on defined benefit plans						14,231,796	14,231,796
Deferred tax effect on actuarial gain on defined benefit plans	-	-	-	-		(3,984,903)	(3,984,903)
Revaluation Reserve of free hold Lands & Buildings	-	-	-	-	62,197,447	-	62,197,447
Deferred tax effect on revaluation on Buildings	-	-	-	-	(17,415,285)	-	(17,415,285)
Total comprehensive income for the year	-	-	-	-	**44,782,162**	**1,022,030,213**	**1,066,812,375**
Transactions recorded directly in equity							
Transferred to statutory reserve fund	-	-	202,356,664	-	-	(202,356,664)	-
Dividend paid	-	-	-	-	-	(326,720,318)	(326,720,318)
Balance as at 31 March 2018	**223,545,481**	**82,897,989**	**840,876,301**	-	**429,266,191**	**2,553,710,332**	**4,130,296,294**

The Accounting Policies and Notes on pages 08 through 57 from an integral part of the Financial Statements.

ERNST & YOUNG Chartered Accountants COLOMBO

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STATEMENT OF CASH FLOWS

Year ended 31 March 2018

	Note	2018 LKR	2017 LKR
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before Tax		1,582,667,778	1,626,380,875
Adjustments			
Interest expenses on borrowings	5.2	60,979,110	24,503,761
Interest expenses on debentures	5.2	89,057,578	89,328,560
Interest income from financial investments held to maturity	5.1	(366,540,884)	(143,357,077)
Interest income on treasury bond	5.1	(1,600,000)	(1,600,000)
Dividend income	7.1	(200,000)	(65,000)
Profit/(loss) on disposal of property, plant & equipment	7.1	(325,359)	754,272
Fair value gain on investment property	7.1	(130,550,000)	(149,300,000)
Impairment charge/(reversal) for loans and other assets	8	685,269,932	712,008,300
Provision for value added tax	30	392,263,488	331,394,045
Crop insurance levy	10	10,480,000	11,601,542
Provision for nation building tax	12	52,301,798	49,278,589
Ammortization on intangible assests	24	37,783,276	23,738,355
Depreciation - on property, plant & equipment	25	126,830,182	110,572,370
Gratuity provision	9	41,780,547	35,619,133
(Gain)/loss on mark to market valuation of treasury bond	7	(1,103,040)	(81,840)
Provision for amount payable under sip saviya scheme	31.1	1,200,000	1,200,000
Staff loan fair value adjustment	18.1	-	(4,500,000)
Operating profit/(loss) before changes in operating assets and liabilities		2,580,294,407	2,717,475,885
(Increase)/decrease in operating assets			
Loans & advances to members	17	(5,804,588,669)	(4,688,005,502)
Loans & advances to others	18	(83,949,832)	(119,076,674)
Other assets	22	(31,992,336)	(13,944,921)
Increase/(decrease) in operating liabilities			
Due to customers	27	4,781,118,455	3,558,442,443
Other liabilities	30	581,616,282	117,293,001
Cash flow from operating activities		2,022,498,307	1,572,184,232
Gratuity paid	32	(4,040,992)	(3,700,400)
VAT paid	30	(411,379,502)	(378,963,036)
Income Tax paid	29	(806,451,351)	(530,294,140)
WHT paid	31	(21,249,698)	(11,090,158)
Notional Tax		(8,968,077)	(9,489,647)
NBT paid		(58,595,217)	(55,193,347)
Crop Insurance Levy paid		(8,939,266)	(13,037,934)
ESC paid		(38,976,427)	(22,880,212)
Dividend paid		(326,720,318)	(189,153,868)
Net Cash Flow from Operating Activities		**337,177,459**	**358,381,490**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment	25	(104,281,973)	(113,828,308)
Purchase of intangible asset	24	(42,238,874)	(83,009,468)
Investment properties purchased/disposal	23	-	4,200,000
Proceeds from sale of property, plant & equipment		522,815	824,939
Net of investment in government security	20.1	(994,021,638)	440,069,336
Net investment in fixed deposits	20	521,980,000	(290,000,000)
Fixed deposit interest received	20	213,564,250	40,242,123
Treasury bill interest received	20.1	46,682,993	47,888,930
Treasury bond Interest received	21	1,440,000	1,440,000
Dividend income	7.1	200,000	65,000
Debentures interest received		-	16,875,000
Net Cash Flow from Investing Activities		**(356,152,427)**	**64,767,552**
CASH FLOW FROM FINANCING ACTIVITIES			
Lease instalments paid	29	(1,785,454)	(5,363,379)
Interest payments on debentures	6	(82,997,333)	(88,771,246)
Interest payments on borrowings	29	(60,979,110)	(24,503,761)
Borrowings during the year	29	-	500,000,000
Loans repayments during the year	29	(134,587,326)	(51,250,000)
Net Cash Flow from Financing Activities		**(280,349,223)**	**330,111,614**
Net increase/(decrease) in cash and cash equivalents		(299,324,191)	753,260,656
Cash and cash equivalents at the beginning of the year	15	1,204,483,946	451,223,290
Cash and Cash Equivalents at the end of the year	15	**905,159,755**	**1,204,483,946**

The Accounting Policies and Notes on pages 08 through 57 from an integral part of the Financial Statements.

Ernst & Young Chartered Accountants Colombo

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1. REPORTING ENTITY

1.1 Corporate Information

HNB Grameen Finance Limited ("the Company") is a public limited liability Company and domiciled in Sri Lanka. The registered office and the principal place of business of the Company is located at No. 168, Nawala Road, Nugegoda.

On 17 February 2010, the Company was registered as a Finance Company by the Monetary Board of the Central Bank of Sri Lanka in terms of section 2 of the Finance companies Act No. 78 of 1988 and is permitted in terms of section 7 (1) of the said Act to carry on finance business.

The Company has been registered as a registered Finance Leasing Company establishment under Section 5 of the Finance Leasing Act No. 56 of 2000 and is permitted to carry on Finance Leasing Business with effect from 31 March 2014.

The name of the Company was changed from Prime Grameen Micro Finance Limited to HNB Grameen Finance Limited on 28 July 2015.

1.2 Principal Activities and Nature of Operations

The principal activities of the Company are the provision of micro finance facilities, primarily focusing on the lower income segment of the Community and mobilization of public deposits.

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

1.3 Parent Enterprise & Ultimate Parent Enterprise

The Company's immediate and ultimate parent undertaking and controlling entity is Hatton National Bank PLC, which is incorporated in Sri Lanka. Hatton National Bank PLC which acquired a shareholding of 51% of the Company's voting ordinary shares on 07 November 2014.

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.

1.5 Date of Authorization of Issue

The financial statements were authorized for issue by the Board of Directors on 26 June 2018

ERNST & YOUNG
Chartered Accountants
COLOMBO

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2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

2.1.1 Statement of Compliance

The financial statements of the Company which comprise the Statement of Financial position, Income Statement, Statement of comprehensive income, Statement of changes in equity, Statement of Cash Flows and notes thereto have been prepared in accordance with Sri Lanka Accounting Standards prefixed both SLFRS and LKAS (here after known as "SLFRSs/LAKSs"), promulgated by the Institute of Chartered Accountants of Sri Lanka (CASL) and comply with the requirements of the Companies Act, No. 07 of 2007 and Finance Business Act No. 42 of 2011 and amendment thereto.

2.1.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the financial statements, except for the following items in the Statement of Financial Position.

Items	Measurement basis
Fair value through profit or loss financial assets	Fair value
Available-for-sale financial assets	Fair value
Freehold land and buildings	Measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation
Investment property	Fair value
Net defined benefit assets/ (liabilities)	Actuarially valued and recognized at the present value

2.1.3 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 42 to the financial statements.

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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Each material class of similar items is presented separately in the financial statements. Items of dissimilar mature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standards (LKAS 1) - Presentation of Financial Statements.

2.1.4 Functional and Presentation Currency

The financial Statement of the Company is presented in Sri Lankan Rupees (LKR), which is the currency of the primary economic environment in which Company operates (Company's functional currency). The financial statements are presented in Sri Lanka Rupees and all values are rounded to the nearest rupees, except where otherwise indicated.

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2.1.5 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.

2.1.6 Changes in Accounting Policies

There were no changes in accounting policies and the accounting policies adopted are consistent with those of the previous financial year.

2.1.7 Comparative Information

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation.

2.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the accounting policies, management has made various judgements. Those which management has assessed to have the most significant effect on the amounts recognised in the financial statements have been discussed in the individual notes of the related financial statement line items.

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

2.2.1 Going Concern

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

2.2.2 Fair value of financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The valuation of financial instruments is described in more detail in Note 43 to the financial statements.

ERNST & YOUNG
Chartered Accountants
COLOMBO

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2.2.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, and the performance of different individual groups).

2.2.4 Impairment of 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 judgement 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' requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.2.5 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 necessitate to do 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.

2.2.6 Fair Value of Property, Plant and Equipment

The land and buildings of the Company is reflected at fair value. The Company engaged independent valuers to determine fair value of land and buildings in terms of Sri Lanka Accounting Standard (SLFRS 13) - Fair Value Measurement. When current market prices of similar assets are available, such evidence is considered in estimating fair values of these assets.

2.2.7 Useful Life Time of Property, Plant and Equipment and Intangible Assets

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

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2.2.8 Classification of Investment Property

Management requires using its judgment to determine whether a property qualifies as an investment property. The Company had developed criteria so it can exercise its judgment consistently.

A property that is held to earn rentals or for capital appreciation or both, and which generates cash flows largely independently of the other assets held by the Company is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Company assess on an annual basis, the accounting classification of its properties taking into consideration the current use of such properties.

2.2.9 Taxation

The Company is subject to income tax and judgment was required to determine the total provision for current, deferred and other taxes due to the uncertainties that exists with respect to the interpretation of the applicability of tax laws, at the time of preparation of these financial statements.

Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense amounts that were initially recorded, and deferred tax amounts in the period in which the determination is made.

2.2.10 Deferred Tax Assets

Deferred tax assets are recognised in respect of loan impairment allowances which will be recovered in the foreseeable future and tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

2.2.11 Defined Benefit Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, 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.

All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases and pension increases are based on expected future inflation rates and expected future salary increment rate of the Company. Details of the key assumptions used in the estimates are contained in Note 32 to the financial statements.

2.2.12 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 respective legal jurisdictions. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies other than those stated above that have significant effects on the amounts recognized in the financial statements are described in Notes 38.

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2.3 Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements, unless otherwise indicated.

2.3.1 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated into the functional currency, which is Sri Lankan Rupees (LKR), using the middle rates of exchange prevailing at the dates on which the transactions were affected. Financial statements of the Company are presented in Sri Lankan Rupees, which is the functional and presentation currency of the Company. Transactions in foreign currencies are re-translated into Sri Lankan rupees at the spot rate of exchange prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial position date are re-translated into Sri Lanka rupees at the closing rate of exchange prevailing at the date. The foreign currency gain or loss on monetary items and all differences are taken to Other Operating Income in the income statement. Foreign currency differences arising on re-translation of available for sale financial instruments are recognised in Statement of Comprehensive Income. Non-monetary assets are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of the transaction. Non–monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

2.3.2 Financial Instruments – Initial Recognition and Subsequent Measurement

2.3.2.1 Non-Derivative Financial Assets

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) - 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'.

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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

Classification of financial assets

The Company classifies non-derivative financial assets into the following categories:

(a) financial assets at fair value through profit or loss;
(b) held-to-maturity financial assets;
(c) loans and receivables; and
(d) available-for-sale financial assets.

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 designated at fair value through profit or loss comprises of quoted equity instruments 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 the Statement of comprehensive income. The losses arising from impairment are recognized as impairment cost in the Statement of profit or loss and the Statement of comprehensive income.

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 REPOs, lease receivables, advances and other loans granted, and other receivables.

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(a) 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.

(b) 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.

(c) Advances and other loans to customers

Advances and other loans to customers comprised of revolving loans and loans with fixed instalment. Loans to customers are reflected in the Statement of financial position at amounts disbursed less repayments and provision for impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments, are recognized in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognized, the cumulative gain or loss in Statement of comprehensive income is transferred to the Statement of profit or loss.

2.3.2.2 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 and other payables:

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.

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2.3.2.3 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) - Financial Instruments: Recognition and Measurement. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category.

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

Reclassification is at the election of the Management and is determined on an instrument-by-instrument basis.

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

No reclassifications of financial instruments were done during the year

2.3.2.4 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;

(a) The consideration received (including any new asset obtained less any new liability assumed), and
(b) Any cumulative gain or loss that had been recognized in 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.

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

2.3.2.5 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

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2.3.2.6 Renegotiated Loans

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

2.3.2.7 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 principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

2.3.2.8 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability, or

(b) In the absence of a principal market, in the most advantageous market for the asset or liability the principal or the most advantageous market must be accessible by the Company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

(a) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
(b) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
(c) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for the purpose of fair value disclosures.

The Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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2.3.2.9 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

Reversal of Impairment

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

Write Off of Financial Assets Carried at Amortized Cost

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

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2.3.3 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

2.3.4 Leases

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

2.3.4.1 Finance Leases

Finance leases – Company as a lessee

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

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

Finance leases – Company as a lessor

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

2.3.4.2 Operating Leases

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

Operating leases – Company as a lessee

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

Operating leases – Company as a lessor

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

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2.3.5 Property and equipment

2.3.5.1 Basis of Recognition

Property, plant and equipment are recognised 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.

2.3.5.2 Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Carrying amount of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Cost Model

The Company applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Revaluation Model

The Company applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Freehold land and buildings of the Company is revalued at least once in every three years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the income statement. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the income statement or debited in the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

2.3.5.3 Subsequent Costs

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to the income statement as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.

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2.3.5.4 Depreciation

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Group of the different types of assets, except for which are disclosed separately. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active use unless the asset is fully depreciated.

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

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

(a)	Buildings	40 years
(b)	Motor Vehicles	05 years
(c)	Furniture & Fittings	05 years
(d)	Computer & Accessories	05 years
(e)	Machinery & Equipment	05 years
(f)	Fixtures & Fittings	05 years

2.3.5.5 De-recognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in the income statement when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

2.3.5.6 Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

2.3.6 Intangible assets

2.3.6.1 Basis of recognition

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the assets can be measured reliably.

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2.3.6.2 Measurement

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

Internally generated intangible assets, excluding capitalized development costs, are not capitalized, and expenditure is charged against income statement in the year in which the expenditure is incurred.

2.3.6.3 Amortization and impairment

The useful lives of intangible assets are assessed as either finite or infinite. Intangible assets, with finite lives, are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of the useful economic lives based on a pattern in which the asset's economic benefits are consumed by the Company, at 20% per annum, except for software licenses which is 6.67 % per annum. Those assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with infinite useful lives such as license are not amortised, but are assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

2.3.6.4 Subsequent expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

2.3.6.5 Derecognition

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement.

2.3.7 Investment Properties

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

Investment property is initially measured at cost 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.

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

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An item of investment Property is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized 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.

2.3.8 Impairment of 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.

2.3.9 Retirement benefits

2.3.9.1 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.

2.3.9.2 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.

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2.3.9.3 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 pension 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; that benefit is discounted to determine its present value. Any unrecognized past service costs are deducted.

The calculation is performed every three years by a qualified actuary using the projected unit credit method. For the purpose of determining the charge for any period before the next regular actuarial valuation falls due, an approximate estimate provided by the qualified actuary is used.

When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from the defined benefit plan in the Statement of comprehensive income (OCI) and all other expenses related to defined benefit plans are recognize as personnel expenses in Statement of comprehensive income. This retirement benefit obligation is not externally funded.

2.3.10 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.

2.3.11 Income Tax Expense

2.3.11.1 Current Tax Expense

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

Management has used its judgment on the application of tax laws in determining the current tax liability including transfer pricing regulation involving identification of associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanism.

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2.3.11.2 Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognized for all temporary differences.

Deferred tax assets are recognized for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognize to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

2.3.11.3 Value Added Tax on Financial Services (VAT)

Company's total value addition is subjected to 15% as per section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

2.3.11.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (Amendment) Act No. 11 of 2012, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set-off against the income tax payable in the four subsequent years.

2.3.11.5 Crop Insurance Levy

In terms of Section 14 of the Finance Act No. 12 of 2013 all institutions under the purview of Finance Companies Act No. 78 of 1988 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund Board effective from 01 April 2013.

2.3.11.6 Nation Building Tax (NBT)

The business of banking and finance will be liable for NBT at 2% of the liable turnover from 01 January 2014 onwards. The liable turnover with reference to any person engaged in business and finance will be the value addition as computed for the purpose of VAT on financial services.

2.3.12 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

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2.3.12.1 Interest Income and Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.3.12.2 Fee and Commission Income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Such income is recognized as revenue when the services are provided.

2.3.12.3 Dividend Income

Dividend income is recognised when the Company's right to receive the payment is established.

2.3.12.4 Rent Income

Rent income is recognised on an accrual basis.

2.3.12.5 Other Income

Other income is recognised on an accrual basis.

3. SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

SLFRS 16- Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 (Leases) and related interpretations. SLFRS 16 introduces a single lessee accounting model for lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

The new standard requires a lessee to:

Recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.
SLFRS -16 substantially carries forward the lessor accounting requirement in LKAS – 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

SLFRS 16 will become effective on 1st January 2019. The impact on the implementation of the above Standard has not been quantified yet.

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3.1 SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM JANUARY 2018

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are effective from 01st January 2018. The Company intends to adopt these standards, if applicable, when they become effective.

SLFRS 15 -Revenue from Contracts with Customers

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

SLFRS 15 introduces a five step approach for revenue recognition from contracts with customers and replaces all other currently applicable revenue Standards and interpretations.

The Company carried out an initial impact analysis with the assistance of an external consultant during the year ended 31st March 2018. According to the above analysis, the Company does not have any material impact from the adoption of SLFRS 15 in the Financial Year 2017/2018.

SLFRS 9 –Financial Instruments

Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments" will replace Sri Lanka Accounting Standard - LKAS 39 "Financial Instruments - Recognition and Measurement" for annual periods beginning on or after 1st January 2018 with early adoption permitted.

The initial assessment and analysis stage was completed for impairment in 2017, and the classification and measurement phase is being finalized.

The Company performed the diagnostic phase (Preliminary Impact Assessment exercise) and implementation phase (solution development) on SLFRS 9 Financial Instruments.

The Company has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.

Classification & Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business Model Assessment

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

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

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

Contractual Cash flow Characteristic Test

As the second test of the classification process, the Company assesses the contractual terms of the financial assets to identify whether they meet Solely the Payment of Principle & Interest (SPPI).

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

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

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

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 will principally change the Company's loan loss provision method by replacing LKAS 39 Financial Instrument Recognition & Measurement's incurred loss approach with a forward looking ECL Approach.

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

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12months after the reporting date.

Stage 1: When loans are first recognized, the Company recognizes an allowance based on 12mECL.Stage 1 loans also includes the facilities where the credit risk has improved and the loans have been reclassified from Stage 2. Assessment of Stage 1 will be performed collectively.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 2. Assessment of stage 2 will be performed.

Stage 3: Loan considered to be credit Impaired/ contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed Individually/Collectively

Significant Increase in Credit Risk

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

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Individually Significant Assessment and Not Impaired Individually

Company will individually assess all significant customer exposures to identify whether there are any indicators of impairment. Individual assessment will be performed for all the customers with Objective evidence of incurred losses (under Stage 3). Loans which are individually significant but not impaired will be assessed collectively for impairment either under Stage 1 or Stage 2 based on the criteria whether there have been significant credit deterioration since origination.

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

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

Grouping financial assets measured on a collective basis

As explained above, the Company calculates ECL either on a collective or individual basis. Asset classes where Company calculates ECL on an Individual basis includes All Individually significant Assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for Impairment.

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

The Calculation of ECL

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

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

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

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

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- EAD: Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract to otherwise, expected draw downs on committed facilities.

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

When estimating the ECL, Company considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products Company considers the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

Forward Looking Information

In its ECL model Company relies on broad range qualitative/quantitative forward looking information as economic input such as:

Quantitative	Qualitative
GDP Growth	Government Policies
Inflation	Status of the Industry Business
Unemployment	Regulatory Impact
Interest Rates	
Exchange Rates	

Transition process of the Company

The Company is in the process of finalising the quantification of impairment performed as of 31st March 2017 based on the requirements of SLFRS 09.

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4. GROSS INCOME

	2018 LKR	2017 LKR
Interest Income	6,537,663,310	5,327,018,057
Fee and commission income	702,441,739	670,219,063
Other Income	242,443,143	236,796,463
Total Income	**7,482,548,192**	**6,234,033,583**

5. NET INTEREST INCOME

		2018 LKR	2017 LKR
Interest Income	5.1	6,537,663,310	5,327,018,057
Interest Expense	5.2	(2,373,460,579)	(1,465,618,208)
Net Interest Income		4,164,202,731	3,861,399,849

Notional Tax Credit for withholding Tax on Government Securities on Secondary Market Transactions.

Section 137 of the Inland Revenue Act No. 10 of 2006 provide that a company which derives interest income from the secondary market transactions in government securities be entitled to a notional tax credit (being one ninth of the net interest income), provided such interest income forms part of the statutory income of the company for that year of assessment.

Accordingly, net income earned from secondary market transactions in government securities for the year by the company has been grossed up in the financial statements and the resulting notional tax credit amounted to 8.97 Mn.

5.1 Interest Income

	2018 LKR	2017 LKR
Loans and advances given to members	5,449,581,653	4,917,689,948
Loans and advances given to non members	69,541,968	55,683,105
Financial Investments - Held to Maturity	366,540,884	143,357,077
Financial Investments - Held for Trading	1,600,000	1,600,000
Savings Deposits	73,725,905	71,869,994
Finance Leases	576,672,900	136,817,933
Net interest income	6,537,663,310	5,327,018,057

5.2 Interest Expense

Deposits from Customers	2,223,423,891	1,351,785,887
Debentures	89,057,578	89,328,560
Other Borrowings	60,979,110	24,503,761
	2,373,460,579	1,465,618,208

6. NET FEE AND COMMISION INCOME

	2018 LKR	2017 LKR
Trade related Documentation charges	702,441,739	670,219,063
Fee and Commission expenses	(110,385,743)	(98,395,049)
	592,055,996	571,824,014

7. OTHER INCOME

		2018 LKR	2017 LKR
Other Operating Income	7.1	242,443,143	236,796,463
Net Mark to Market Valuation Gain		1,103,040	81,840
		243,546,183	236,878,303

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7. OTHER INCOME (Contd...)

7.1 Other Operating Income

	2018 LKR	2017 LKR
Rent Income	45,975,462	45,044,775
Recovery of Loan Balance Written-off	13,564,008	17,440,711
Revaluation of Investment Properties	130,550,000	149,300,000
Sundry Income	51,828,314	25,700,249
Profit from Disposal of Property, Plant & Equipment	325,359	(754,272)
Dividend Income	200,000	65,000
	242,443,143	236,796,463

8. IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES

		2018 LKR	2017 LKR
Loans and Receivable from Members	8.1	592,067,772	245,704,462
Loans and Receivable from Lease	8.2	85,811,100	324,926
Other Assets	8.3	7,391,060	(4,500,000)
Impairment Losses from Financial Investments-Loans & receivables	8.4	-	465,978,912
		685,269,932	707,508,300

8.1 Loans and Advances to Members

Collective Impairment Losses	592,067,772	245,704,462
	592,067,772	245,704,462

8.2 Loans and Receivable from Lease

Collective Impairment Losses	85,811,100	324,926
	85,811,100	324,926

8.3 Other Assets

Other Impairment	7,391,060	(4,500,000)
	7,391,060	(4,500,000)

8.4 Financial Investments-Loans and Receivables

Impairment Losses from Financial Investments-Loans & receivables	-	465,978,912
	-	465,978,912

9. PERSONNEL COST

	2018 LKR	2017 LKR
Salaries and Bonus	898,233,149	765,801,913
Other Personnel Cost	59,086,519	54,535,719
Employer's Contribution to Employees' Provident Fund	87,215,608	70,123,394
Employer's Contribution to Employees' Trust Fund	21,808,672	17,530,849
Retirement Benefit Cost	41,780,547	35,619,133
Total	1,108,124,495	943,611,008

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10. OTHER EXPENSES

	2018 LKR	2017 LKR
Other Operating Expenses, among others Include the following:		
Depreciation on Property, Plant & Equipment	126,830,183	110,572,371
Advertising & Publications	44,207,143	45,687,622
Repairs & Maintenance	94,655,608	80,192,643
Crop Insurance levy	10,480,000	11,601,542
Amortisation of intangible assets	37,783,277	23,738,354
Directors remuneration	21,385,000	15,505,000
Auditors' Remuneration	4,205,000	4,175,000
Legal charges	13,719,131	10,082,325
Donation	134,874	3,288,237

11. PROVISION FOR VALUE ADDED TAX

	2018 LKR	2017 LKR
Value Added Tax for the year		
Financial Services	392,263,488	331,394,045
	392,263,488	331,394,045

Value Added Tax

Company's total value addition is subjected to Value added tax at 15% as per section 25A of the value added tax Act No. 14 of 2002 and amendments thereto.

12. PROVISION FOR NATION BUILDING TAX

	2018 LKR	2017 LKR
Nation building tax for the year		
Financial services	52,301,798	49,278,589
	52,301,798	49,278,589

13. INCOME TAX

	2018 LKR	2017 LKR
Current Income Tax		
Current income tax charge	681,369,313	665,720,164
Over/Under provision during previous year	5,348,108	(18,731,103)
Pre. Year adjustment		
Deferred Income Tax		
Deferred taxation charge / (reversal)	(115,832,963)	(79,442,372)
Income tax expense reported in the statement of profit or loss	570,884,458	567,546,689

13.1 Reconcilation Between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate

	2018	2017
Accounting profit before tax	**1,582,667,778**	**1,626,380,875**
At the statutory income tax rate of 28% (2016: 28%)	443,146,978	455,386,645
Tax Effect on;		
Income exempt from tax	-	(18,200)
Non deductible expenses	658,209,746	432,190,639
Deductible expenses	(419,987,411)	(221,838,920)
Current tax on profits for the year	681,369,313	665,720,164
Tax effect on utilized tax losses	-	-
Current income tax charge	681,369,313	665,720,164
Over/Under provision during previous year	5,348,108	(18,731,103)
Deferred taxation charge	(115,832,963)	(79,442,372)
Income tax expense at the effective income tax rate of 36.07% (2015: 34.9%)	570,884,458	567,546,689

Tax Losses Brought Forward and Utilised during the Year

	2018	2017
Balance at the beginning of the year	179,835,622	-
Tax losses utilised during the year	253,885,202	-
Tax losses not utilised and carried forward	433,720,824	-

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14. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2018 LKR	2017 LKR
Net profit for the period	1,011,783,320	1,058,834,186
Profit attributable to ordinary shareholders	1,011,783,320	1,058,834,186
	2018 Number	**2017 Number**
Weighted average number of ordinary shares in issue	1,719,580,624	1,719,580,624
	1,719,580,624	1,719,580,624
Basic earnings per ordinary share (LKR)	0.59	0.62

15. CASH AND CASH EQUIVALENTS

	2018 LKR	2017 LKR
Cash in hand	102,342,270	39,107,948
Balances with banks	802,817,485	1,165,375,998
Total	905,159,755	1,204,483,946

16. FINANCIAL ASSETS HELD FOR TRADING

	2018 LKR	2017 LKR
Cost of treasury bond investment	16,250,272	16,250,272
Interest receivable	480,000	480,000
	16,730,272	16,730,272
Less: Loss from mark to market valuation	(602,272)	(1,705,312)
	16,128,000	15,024,960

As at 31 March 2018	**Year of Maturity**	**Cost of Investment LKR**	**Face Value LKR**	**Carrying Value LKR**
Treasury bond	01.May.2021	16,250,272	16,000,000	16,128,000
		16,250,272	16,000,000	16,128,000

17. LOANS AND ADVANCES TO MEMBERS

	2018 LKR	2017 LKR
At amortised cost:		
Loans and advances to members	19,434,224,612	13,629,635,943
Less: Allowance for Impairment losses	(969,143,131)	(368,904,118)
	18,465,081,481	13,260,731,825

17.1 Product-Wise Analysis of Loans And Advances To Members

	Notes	2018	2017
Loans		14,398,193,066	11,486,285,715
Leases	17.1.1	4,541,443,899	1,703,990,476
Saving advance	17.1.2	50,399,155	209,717,224
Loan against deposits	17.1.3	444,188,492	229,642,528
		19,434,224,612	13,629,635,943

17.1.1 Lease Receivables

	2018	2017
Rentals receivable	6,256,047,684	2,421,338,589
Unearned lease income	(1,854,334,251)	(752,609,150)
Rental in Arrears - Lease	139,730,466	35,585,963
Gross lease rental receivable	4,541,443,899	1,704,315,402
Collective Impairment allowance for lease receivables	(86,136,026)	(324,926)
Net receivables	4,455,307,873	1,703,990,476
Net receivables within one year	1,129,850,617	402,127,483
Net receivables from one to five years	3,319,266,548	1,298,611,428
Net receivables after five years	6,190,708	3,251,565
	4,455,307,873	1,703,990,476

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17. LOANS AND ADVANCES TO MEMBERS (Contd...)

17.1.2 Saving Advance

	2018 LKR	2017 LKR
Saving advance	50,399,155	209,717,224
	50,399,155	209,717,224

17.1 Product-Wise Analysis of Loans And Advances To Members

17.1.3 Loan against Deposits

	2018 LKR	2017 LKR
Loan against deposits	435,748,349	225,547,198
Interest receivable on loan against deposits	8,440,143	4,095,330
	444,188,492	229,642,528

17.2 Allowance For Impairment Losses

	Notes	Impairment LKR	Total LKR
Balanceas at 01 April 2016		154,678,950	154,678,950
Charge for the year-Loans		246,029,388	246,029,388
Written off during the year		(31,479,294)	(31,479,294)
Balance as at 31 March 2017		369,229,044	369,229,044
Amount written off		(77,964,785)	(77,964,785)
Charge for the year	8.1	592,067,772	592,067,772
Charge for the year Lease	8.2	85,811,100	85,811,100
Balance as at 31 March 2018		**969,143,131**	**969,143,131**

18. LOANS AND ADVANCES TO OTHERS

		2018 LKR	2017 LKR
Staff loans	18.1	357,473,118	331,890,240
Mortgage loan		233,100,687	174,733,733
		590,573,805	506,623,973
Less: Allowance for impairment losses	18.2	(10,980,695)	(3,589,635)
		579,593,110	503,034,338

18.1 Staff Loans

	2018	2017
At the beginning of the year	331,890,240	261,184,797
Loan granted during the year	152,248,000	217,584,000
Recovered during the year	(126,665,122)	(146,878,557)
	357,473,118	331,890,240

18.2 Allowance for impairment losses

Balance as at 31 March 2017	Balance as at 01 April 2016	Provision made during the year	Written Off during the year	Balance as at 31 March 2017
Staff loan	34,052	-	(7,083)	26,969
Mortgage Loan	3,562,666	-	-	3,562,666
	3,596,718	-	(7,083)	3,589,635

Balance as at 31 March 2018	Balance as at 01 April 2017	Provision made during the year	Written Off during the year	Balance as at 31 March 2018
Staff loans	26,969	7,391,060	-	7,418,029
Loan mortgage	3,562,666	-	-	3,562,666
	3,589,635	7,391,060	-	10,980,695

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19. FINANCIAL INVESTMENT - LOANS & RECEIVABLES

	Notes	2018 LKR	2017 LKR
Other loan & Receivable		773,091,682	773,091,682
Impairment losses Financial Investments-Loans & Receivables		(465,978,912)	(465,978,912)
		307,112,770	307,112,770

20. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

	Notes	2018 LKR	2017 LKR
Unquoted equity securities	20.1	12,430,283	12,430,283
		12,430,283	12,430,283

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.

20.1 Investments In Non Quoted Shares

	2018		2017	
	Number of Shares	Cost Rs.	Number of Shares	Cost Rs.
Credit information bureau of sri lanka	100	234,000	100	234,000
Standard credit lanka Ltd	38,458,474	38,458,474	38,458,474	38,458,474
UB Finance Ltd	1,742,326	12,196,283	1,742,326	12,196,283
		50,888,757		50,888,757
Less: Allowance for impairment losses		(38,458,474)		(38,458,474)
		12,430,283		12,430,283

21. FINANCIAL INVESTMENTS - HELD-TO-MATURITY

	Notes	2018 LKR	2017 LKR
Fixed deposits		773,125,342	1,295,105,342
Debentures		166,875,000	150,000,000
Sri lanka government securities	21.1	1,275,317,239	298,170,601
		2,215,317,581	1,743,275,943

21.1 Sri Lanka Government Securities

	2018	2017
Treasury bills	1,275,317,239	285,140,500
	1,275,317,239	285,140,500
Interest receivable	-	13,030,101
	1,275,317,239	298,170,601

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22. OTHER ASSETS

		2018 LKR	2017 LKR
Other financial assets		90,934,128	94,051,090
Other non financial assets	22.1	151,669,783	116,560,485
		242,603,911	210,611,575

22.1 Other Non Financial Assets

	2018	2017
Other receivables	152,344,913	117,235,615
Less: Allowance for impairment losses	(675,130)	(675,130)
	151,669,783	116,560,485

23. INVESTMENTS PROPERTIES

	2018 LKR	2017 LKR
Land		
Balance at the beginning of the year	398,174,753	334,155,169
Additions / disposal during the year	-	(4,200,000)
Fair value adjustment for the period	68,635,884	68,219,584
Balance at the end of the year	466,810,637	398,174,753
Building		
Balance at the beginning of the year	651,425,247	570,344,831
fair value adjustment for the period	61,914,116	81,080,416
Balance at the end of the year	713,339,363	651,425,247
Net Book Value	**1,180,150,000**	**1,049,600,000**

The Company carries investment properties at fair value. valuations of the above investment properties were carried out as at 31st March 2018 by R. S. Wijesuriya, Professional independent valuer. Company earned LKR 38.92 Mn as rental income for the financial year.

24. INTANGIBLE ASSETS

	2018 LKR	2017 LKR
Cost		
Balance at the beginning of the year	175,537,394	92,527,926
Additions during the year	42,238,874	83,009,468
Balance at the end of the year	217,776,268	175,537,394
Amortization and Impairment		
Balance at the beginning of the year	48,459,239	24,720,884
Charge for the year	37,783,276	23,738,355
Balance at the end of the year	86,242,515	48,459,239
Net Book Value	**131,533,753**	**127,078,155**

24.1 Intangible Assets by Class

	Cost	Accumulated Amortization	Net Book Value
Balance as at 31 March 2017			
Software	119,321,847	41,474,342	77,847,505
License	56,215,547	6,984,897	49,230,651
	175,537,394	48,459,239	127,078,156
Balance as at 31 March 2018			
Software	122,021,847	62,083,678	59,938,169
License	95,754,421	24,158,837	71,595,584
	217,776,268	86,242,515	131,533,753

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25. PROPERTY, PLANT & EQUIPMENT

25.1 Carried at cost/Valuation

25.1.1 Cost/Fair Value	As at 01 April 2016	Additions during the year	Transfers during the year	Disposals during the year	As at 31 March 2017	Transfers during the year	Additions during the year	Transfer to Revaluation Reserve	Disposals during the year	As at 31 March 2018
Land	183,654,358	-	8,847,764	-	192,502,122	-	-	10,595,431	-	203,097,553
Building	500,945,642	-	122,952,237	-	623,897,879	-	-	36,004,570	-	659,902,449
Furniture & fittings - (free hold)	50,800,914	12,835,917	-	(2,890,968)	60,745,863	-	14,178,567	-	(2,695,062)	72,229,367
Office equipment - (free hold)	105,568,820	71,294,611	-	(348,439)	176,514,992	-	28,958,115	-	(215,384)	205,257,723
Computer - (free hold)	130,076,872	10,141,734	-	(10,363,917)	129,854,689	12,457,100	35,348,970	-	(2,539,893)	175,120,866
Computer - (lease hold)	12,642,000	-	-	(184,900)	12,457,100	(12,457,100)	-	-	-	-
Motor cycles - (free hold)	450,000	-	-	(450,000)	-		-	-	-	-
Motor vehicles	7,000,000	-	-	-	7,000,000	12,300,000	-	-	-	19,300,000
Motor vehicles - (lease)	12,300,000	-	-	-	12,300,000	(12,300,000)	-	-	-	-
Machinery & equipment	2,638,601	-	-	-	2,638,601	-	-	-	-	2,638,601
Fixtures & fittings	65,004,785	10,470,089	-	(526,900)	74,947,974	-	17,577,986	-	(5,368,205)	87,157,755
Network accessories	97,701,736	9,085,957	-	(970,564)	105,817,129	-	8,218,336	-	-	114,035,465
	1,168,783,728	113,828,308	131,800,001	(15,735,688)	1,398,676,349	-	104,281,973	46,600,001	(10,818,545)	1,538,739,779

25.1.2 Accumulated Depreciation and Impairment	As at 01 April 2016	Additions during the year	Transfers during the year	Disposals during the year	As at 31 March 2017	Transfers during the year	Additions during the year	Transfer to Revaluation Reserve	Disposals during the year	As at 31 March 2018
Building	25,047,282	13,292,093	(34,440,013)	-	3,899,362	-	15,822,475	(15,597,447)		4,124,390
Furniture & fittings - (free hold)	32,763,193	6,291,776	-	(2,877,851)	36,177,118	-	8,727,990	-	(2,604,489)	42,300,619
Office equipment - (free hold)	37,899,148	30,433,784	-	(326,388)	68,006,544	-	36,414,883	-	(215,380)	104,206,047
Computer - (free hold)	49,934,390	20,741,693	-	(10,344,006)	60,332,077	11,042,613	24,451,495	-	(2,423,797)	93,402,388
Computer - (lease hold)	7,710,868	2,522,545	-	(148,247)	10,085,166	(11,042,613)	957,448	-	-	-
Motor cycles - (free hold)	450,000	-	-	(450,000)	-	-	-	-	-	-
Motor vehicles	1,633,333	1,400,000	-	-	3,033,333	9,533,333	3,040,000	-	-	15,606,666
Motor vehicles - (lease)	6,253,333	2,460,000	-	-	8,713,333	(9,533,333)	820,000	-	-	-
Machinery & equipment	2,610,134	28,467	-	-	2,638,601	-	-	-	-	2,638,601
Fixtures & fittings	26,949,767	13,541,457	-	(375,557)	40,115,667	-	14,893,054	-	(5,351,769)	49,656,952
Network accessories	27,090,727	19,860,555	-	(685,163)	46,266,119	-	21,702,838	-	-	67,968,957
	218,342,175	110,572,370	(34,440,013)	(15,207,212)	279,267,320	-	126,830,182	(15,597,447)	(10,595,435)	379,904,621

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25. PROPERTY, PLANT & EQUIPMENT (Contd...)

25.1 Carried at cost/Valuation

25.1.2 Written Down Value	As at 2018	As at 2017
Land	203,097,553	192,502,122
Building	655,778,059	619,998,517
Furniture & fittings - (free hold)	29,928,748	24,568,745
Office equipment - (free hold)	101,051,676	108,508,448
Computer - (free hold)	81,718,478	69,522,612
Computer - (lease hold)	-	2,371,934
Motor vehicles	3,693,334	3,966,667
Motor vehicles - (lease)	-	3,586,667
Fixtures & fittings	37,500,802	34,832,307
Network accessories	46,066,508	59,551,010
	1,158,835,158	1,119,409,029

26. DEFERRED TAX LIABILITY/(ASSET)

	2018 LKR	2017 LKR
Balance at the beginning of the period	16,115,738	49,026,181
Transfer from / (to) income statement	(115,832,963)	(79,442,372)
Transfer from / (to) other comprehensive income	(25,131,741)	46,531,929
Balance at the end of the year	(124,848,966)	16,115,738

Deferred tax assets, liabilities relates to the following

Deferred tax liabilities		
Accelerated depreciation for tax purposes	185,724,335	158,128,264
Revaluation gain on buildings Investment Property	78,358,000	22,702,516
Finance leases	122,505,065	54,210,433
Other Comprehensive Income		
Revaluation surplus on buildings	17,415,285	44,069,830
Deferred tax effect on actuarial gains/(loss) on defined benefit plans	3,984,903	2,462,099
Deferred tax assets		
Retirement benefit obligation	(50,684,658)	(44,102,486)
Unutilised tax losses	(117,086,279)	(50,420,518)
Impairment losses for loans & other losses	(365,065,617)	(170,934,400)
Net deferred tax liabilities	**(124,848,966)**	**16,115,738**

27. DUE TO CUSTOMERS

	2018 LKR	2017 LKR
Fixed deposits	15,681,956,464	11,515,325,320
Deferred transaction cost	(86,633,446)	(59,789,075)
Interest payable on fixed deposits	508,051,368	318,180,703
	16,103,374,386	11,773,716,948
Savings deposits	2,717,989,300	2,266,528,283
	18,821,363,686	14,040,245,231

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28. DEBT ISSUED AND OTHER BORROWED FUNDS

	Notes	2018 LKR	2017 LKR
Redeemable debentures	28.1	770,454,221	771,099,781
Borrowings		399,155,676	533,743,002
Finance leases		8,621,219	28,537,485
		1,178,231,116	1,333,380,268

28.1 Redeemable Debentures

	2018	2017
Balance at the beginning of the year	765,000,000	765,000,000
Interest payable to debenture holders	5,454,221	6,099,781
	770,454,221	771,099,781

28.1.1 Redeemable Debentures

Year of Issue	Description	Certificate Number	Type of Debenture	Outstanding as at 31 March 2018	Outstanding as at 31 March 2017
2010	Seylan bank PLC	001	Secured	125,000,000	125,000,000
2010	Seylan bank PLC	002	Secured	200,000,000	200,000,000
2010	Seylan bank PLC	003	Secured	200,000,000	200,000,000
2010	Seylan bank PLC	004	Secured	140,000,000	140,000,000
2013	Prime lands (private) limited	001	Unsecured	100,000,000	100,000,000
				765,000,000	765,000,000

The outstanding debentures amounting to LKR. 665,000,000 issued to Seylan bank is redeemable from 2020 to 2040 and with interest payments at annual average Treasury bill rate as per the rescheduling terms agreed with Seylan bank.

During the year 2013/2014, The loan balance due to Prime Land (Private) Limited amounting to LKR, 100,000,000 has been converted to unsecured subordinated non convertible debentures. This debenture is redeemable on 16.June.2018 with interest payments at the rate of 17% p.a as per the terms agreed with Prime land (private) limited.

29. PROVISION FOR INCOME TAX

	2018 LKR	2017 LKR
Balance at the beginning of the year	353,447,803	278,240,026
Provision for the year	681,369,313	665,720,164
Over/Under provision during previous year	5,348,108	(18,731,104)
	1,040,165,224	925,229,086
Payment made during the year	(806,451,351)	(530,294,140)
WHT paid	(21,249,698)	(11,090,158)
Notional tax	(8,968,077)	(9,489,646)
ESC receivables		(20,907,339)
Balance at the end of the year	203,496,098	353,447,803

30. VALUE ADDED TAX PAYABLE

	2018 LKR	2017 LKR
Balance at the beginning of the year	(6,263,276)	41,305,715
Provision made		
VAT on financial services	392,263,488	331,394,045
	386,000,212	372,699,760
Payment made during the year	(411,379,502)	(378,963,036)
	(25,379,290)	(6,263,276)

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31.	OTHER LIABILITIES	Notes	2018 LKR	2017 LKR
	Other financial liabilities	31.1	809,883,196	236,020,182
	Other non financial liabilities	31.2	39,887,031	32,133,763
			849,770,227	268,153,945

31.1 Other Finanacial Liabilities

	2018	2017
Other payables	809,883,196	236,020,182
	809,883,196	236,020,182

31.2 Other Non Financial Liabilities

	2018	2017
NBT payable	1,504,899	(739,435)
WHT payable	1,766,463	1,901,413
Other payables	36,615,669	30,971,785
	39,887,031	32,133,763

32. RETIRING BENEFIT OBLIGATION

Movements in present value of the the retirement benefit obligation are as follows.

	Notes	2018 LKR	2017 LKR
Balance at the beginning of the year		157,508,878	134,383,355
Add : Retiring gratuity expenses	32.1	27,548,751	26,825,923
		185,057,629	161,209,278
Less : Benefits paid during the year		(4,040,992)	(3,700,400)
Balance at the end of the year		181,016,637	157,508,878

32.1 Retiring Gratuity Expense

	2018	2017
Current service cost	23,667,026	21,508,880
Interest cost	18,113,521	14,110,252
	41,780,547	35,619,132
Actuarial (gain) / loss	(14,231,796)	(8,793,209)
	27,548,751	26,825,923

Gratuity liability is based on the actuarial valuation carried out by Smiles Global (Pvt) Limited, on 31st March 2018 using "Projected Unit Credit method" as recommended by Sri lanka accounting standards (LKAS 19) - Employee Benefits.

The principal assumptions used in the actuarial valuations are as follows:

	2018	2017
Long term interest rate	10.15%	11.5%
Retirement age	55 years	55 years
Future salary increase rate	9.0%	10.0%

Assumptions regarding future mortality is based on 1967-70 mortality table issued by the institute of actuaries, London. The define benefit obligation is not externally funded. actuarial gain on defined benefit plan is recognized in other comprehensive income.

In order to illustrate the significance of the salary escalation rate and discount rates assumed in this valuation, a sensitivity analysis for all employees assuming the above is as follows;

Discount rate	Present value of defined benefit obligation
1% Less	193,518,802
1% More	169,935,946

Salary escalation rate	Present value of defined benefit obligation
1% Less	170,284,273
1% More	192,909,991

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33. STATED CAPITAL

	Issued and Fully Paid Voting Ordinary Shares Number	Issued and Fully Paid Non Voting Ordinary Shares Number	Total Number
Balance on 01 April 2016	1,421,380,624	298,200,000	1,719,580,624
Share Issued during the year	-	-	-
Balance on 31 March 2017	1,421,380,624	298,200,000	1,719,580,624
Share issued during the year	-	-	-
Balance on 31 March 2018	1,421,380,624	298,200,000	1,719,580,624
	LKR	**LKR**	**LKR**
Balance on 01 April 2016	184,779,481	38,766,000	223,545,481
Share issued during the year	-	-	-
Balance on 31 March 2017	184,779,481	38,766,000	223,545,481
Share issued during the year	-	-	-
Balance on 31 March 2018	184,779,481	38,766,000	223,545,481

34. GENERAL RESERVE

	2018 LKR	2017 LKR
Balance at the beginning of the year	82,897,989	82,897,989
Balance at the end of the year	82,897,989	82,897,989

35. OTHER STATUTORY RESERVES

	Statutory Reserve Fund	Total
Balance on 01 April 2016	426,752,800	426,752,800
Transferred during the year	211,766,837	211,766,837
Balance on 31 March 2017	638,519,637	638,519,637
Transferred during the year	202,356,664	202,356,664
Balance on 31 March 2018	840,876,301	840,876,301

35.1 Statutory Reserve Fund

20% of the net profits for the year is transferred to the reserve fund as required by direction (No. 01 of 2003 capital fund) issued by the central bank of Sri lanka.

36. CAPITAL COMMITMENTS

36.1 At the year end, no capital expenditure approved by the board and contracted for which no provision has been made in these Financial Statements.

36.2 Operating Leases

Leases as lessee	2018 LKR	2017 LKR
Non-cancellable operating lease rentals payables as follows.		
Future Commitments on operating leases		
Less than one year	49,078,122	49,343,406
Between one and five years	100,183,157	119,950,841
More than five years	42,412,659	35,927,801
Total opearting lease commitments	191,673,938	205,222,047

The Company leases a number of offices under operating leases. These leases typically run for a three to seven years, with an option to renew the lease after that date.

37. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosure in these financial statements.

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38. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31st March 2018.

39. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business with parties who are defined as "Related Parties " in Sri Lanka Accounting Standards (LKAS 24) - Related Party Disclosures. The Terms and Conditions of such transactions are disclosed under 39.1 and 39.2

39.1 Transactions With Parent Company and Related Companies

During the year ended 31 March 2018 and March 2017, the Company has carried out transactions with it's related companies, the details of which are given below. The pricing applicable to such transactions was based on the assessment of risk and pricing model of the Company and was comparable with what was applied to transactions between the Company and its unrelated customers.

39..1 Transactions with the Parent Company

Hatton National Bank PLC is the parent and the ultimate controlling party of the company.

	2018 LKR	2017 LKR
Statement of Profit or Loss		
Interest income - Financial investments - Held to Maturity	16,875,000	16,875,000
Interest income - Savings deposits	34,912,611	43,023,335
Interest income - Fixed deposits	95,942,181	34,760,274
Interest expense - Other borrowings	60,982,257	24,020,871
Other expenses - Bank Charges	4,469,863	1,164,216
Statement OF Financial Position		
Cash And Cash Equivalents - Balances with banks	498,993,961	600,548,285
Financial Investments - Held-To-Maturity - Fixed Deposits	300,000,000	750,000,000
Financial Investments - Held-To-Maturity - Debentures	150,000,000	150,000,000
Debt Issued And Other Borrowed Funds - Borrowings	399,155,676	533,743,002
Debt Issued And Other Borrowed Funds - Finance leases	-	-

39.1.2 Transactions with Related Companies

Transactions with Prime Lands (Pvt) Ltd

	2018 LKR	2017 LKR
Statement OF Profit or Loss		
Other Operating Income - Rent income	547,500	-
Interest expense - Debentures	17,000,000	17,000,000
Fixed Deposit interest expenses	420,307	2,244,510
Other expenses - Vehicle rent	2,100,000	2,358,790
Statement OF Financial Position		
Debt Issued and other borrowed funds - Redeemable debentures	100,000,000	100,000,000
Due to customers - Fixed deposits	3,360,986	3,360,986
Debt issued and other borrowed funds - Other borrowings	-	-

39.1.3 Transactions with HNB Assurance

	2018 LKR	2017 LKR
Statement OF Profit or Loss		
Commission Income	2,126,302	8,278,958
Interest Expense-Fixed Deposits	6,863,014	
Claim Received	67,478,881	
HNB Assurance Premium	7,424,998	
Statement OF Financial Position		
Commission Receivable	-	2,089,631
Claim Receivable	-	12,310,082
HNB Assurance Premium	-	7,039,058
Due to Customers -Fixed Deposits	50,000,000	-

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39. RELATED PARTY TRANSACTIONS (Contd...)

39.1.4 Transactions with Government of Sri Lanka

Statement OF Profit or Loss		
Balance with Central Bank of Sri lanka	89,680,772	94,896,474
Statement OF Financial Position		
Balance with Central Bank of Sri lanka	1,291,445,239	313,195,561
Reverse Repurchase Agreements	401,627,212	386,545,841

39.2 Transactions With The Key Management Personnel of The Company or Their Close Family Members

According to Sri Lanka Accounting Standards (LKAS 24) - Related Party Disclosures, Key Management Personnel are those having authority and responsibility for planning, directing, and controlling the activities of the entity. Accordingly, the Key Management personnel of the Company are the members of its Board of Directors and that of its Parent.

39.2.1 Compensation Paid To Key Management Personnel of the Company

The following represents the compensation paid to Key Management Personnel of the company

	2018 LKR	2017 LKR
Short-term Benefits	21,385,000	17,915,000
	21,385,000	17,915,000

39.2.2 Transactions With The Key Management Personnel of The Company or Their Close Family Members

The Company enters in to transactions, arrangements and agreements with Key Management Personnel and the close family Members of Key Management Personnel in the the ordinary course of business. The Transactions listed below were made in the ordinary course of business and on substantially the same terms, including interest/Commission rates and security, as for for comparable transactions with persons of a similar standing or, where applicable, with other employees. The Transactions didn't involve more than the normal risk of repayment or present other unfavorable features.

	2018 LKR	2017 LKR
Statement OF Profit or Loss		
Interest expense - Deposits from customers	28,729,038	18,407,200
Statement OF Financial Position		
Due to customers - Saving & Fixed deposits	205,384,579	259,696,440
Due to customers - Interest payable	13,314,937	8,594,485

40. PLEDGED ASSETS

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2018 LKR	2017 LKR	Included under
Immovable Properties	First mortgage for loans and borrowings	886,300,000	886,300,000	Investment Properties
Leased Assets	Charged over leased assets on finance lease liabilities	-	5,958,602	Property, Plant & Equipment

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41. FINANCIAL RISK MANAGEMENT

41.1 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. Further quantitative disclosures are included throughout these financial statements.

41.2 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. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

41.3 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 and investment in debt securities.

a) Allowances for Impairment

Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of customer receivables. The Company policy on impairment consists of allowance for individual impairment that identified based on specific loss event and a collective impairment established for similar receivables in term of their Credit risk on product basis where the loss event have incurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

b) 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 as the last resort after considering the legal recoveries. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status.

Micro Finance Concept works with the Group Peer Pressure where members being pressurized by the other members to pay installments without any defaults. Some loans advance requires guarantees from third parties. There are two types of guarantees obtained by the company. Immovable assets are taken as securities for high valued loan disbursements such as Abhilasha. Other Securities such as personal guarantees are taken for Diriya and Swashakthi Loan facilities. In this context group members will be cross-guarantors each other by which they are pressurized to maintain the non-default of the particular group. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2018 (2017: no collaterals held).

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41. FINANCIAL RISK MANAGEMENT (Contd...)

c) Management of Credit Risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Company Internal Credit Committee. Internal Credit Committee, reporting to the Board 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 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 Head Office Credit Committee which consists of two directors.

3 Reviewing and assessing credit risk. Company credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned.

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

41.3.1 Credit Quality by Class of Financial Assets

As at 31 March 2018	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	905,159,755	-	-	905,159,755
Financial Assets Held for Trading	16,128,000	-	-	16,128,000
Loans and advances to members	14,921,671,857	4,512,552,758	(969,143,131)	18,465,081,484
Loans and advances to others	573,994,765	16,579,040	(10,980,695)	579,593,110
Financial investment - Loan & Receivable	773,091,682	-	(465,978,912)	307,112,770
Financial investments - Available-For-Sale	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	2,215,317,581	-	-	2,215,317,581
Other financial assets	90,934,128	-	-	90,934,128
Total financial assets	19,508,728,051	4,529,131,798	(1,446,102,738)	22,591,757,111

As at 31 March 2018	Overdue				Total
	Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
Loans and advances to members	1,365,186,196	1,097,496,187	437,516,071	1,612,354,303	4,512,552,758
Loans and advances to others	-	2,911,137	2,137,819	11,530,082	16,579,040
	1,365,186,196	1,100,407,324	439,653,890	1,623,884,386	4,529,131,798

As at 31 March 2017	Current LKR	Overdue LKR	Impaired LKR	Total LKR
Cash and cash equivalents	1,204,483,946	-	-	1,204,483,946
Financial Assets Held for Trading	15,024,960	-	-	15,024,960
Loans and advances to members	13,002,226,475	627,734,394	(369,229,044)	13,260,731,825
Loans and advances to others	502,900,627	3,723,346	(3,589,635)	503,034,338
Financial investment - Loan & Receivable	773,091,682	-	(465,978,912)	307,112,770
Financial investments - Available-For-Sale	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	1,743,275,943	-	-	1,743,275,943
Other financial assets	94,051,089	-	-	94,051,089
Total financial assets	17,347,485,005	631,457,740	(838,797,591)	17,140,145,154

As at 31 March 2017	Overdue				Total
	Less than 30 Days	30 to 60 Days	60 to 90 Days	More than 90 Days	
Loans and advances to members	353,516,352	56,101,985	37,865,032	180,251,025	627,734,394
Loans and advances to others	124,320	137,676	2,893,555	567,794	3,723,346
	353,640,672	56,239,661	40,758,587	180,818,819	631,457,740

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41. FINANCIAL RISK MANAGEMENT (Contd...)

41.3.2 Maximum Exposure Disclosure of Financial Assets

As at 31 March 2018	Gross carrying amount (Net of provision)	Net exposure
Cash and cash equivalents	905,159,755	905,159,755
Financial Assets Held for Trading	16,128,000	-
Loans and advances to members	18,465,081,484	12,923,058,652
Loans and advances to others	579,593,110	357,794,094
Financial investment - Loans & Receivables	307,112,770	307,112,770
Financial Investments - Available-For-Sale	12,430,283	-
Financial Investments - Held-To-Maturity	2,215,317,581	-
Other financial assets	90,934,128	90,934,128
Total financial assets	22,591,757,111	14,584,059,399

As at 31 March 2017	Gross carrying amount (Net of provision)	Net exposure
Cash and cash equivalents	1,204,483,946	1,204,483,946
Financial Assets Held for Trading	15,024,960	-
Loans and advances to members	13,260,731,825	12,730,379,415
Loans and advances to others	503,034,338	310,921,094
Financial investment - Loans & Receivables	307,112,770	307,112,770
Financial Investments - Available-For-Sale	12,430,283	-
Financial Investments - Held-To-Maturity	1,743,275,943	-
Other financial assets	94,051,089	94,051,089
Total financial assets	17,140,145,154	14,646,948,314

41.4 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.

The Company uses the maturity analysis of all the financial instruments to manage the liquidity risk.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always 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. The treasury manages the liquidity position as per the treasury policies and procedures.

The treasury receives information from other business units regarding the liquidity profile of their 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 Company 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 Monthly ALCO meetings.

The Company relies on Fixed Deposits, savings and debt facility by banks were main primary sources of funding. Company actively manages this risk through maintaining competitive pricing and constant

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41. FINANCIAL RISK MANAGEMENT (Contd...)

41.4.1 The maturity analysis of financial assets and liabilities based on undiscounted gross inflow and outflow is reflected below,

As at 31st March 2018	Carrying amounts	Gross nominal outflow/(inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year
Cash and cash equivalents	905,159,755	905,159,755	905,159,755	-	-
Financial assets held for trading	16,128,000	16,128,000	-	-	16,128,000
Loans and advances to members	18,465,081,484	23,007,700,137	7,651,261,364	9,327,319,219	6,029,119,554
Loans and advances to others	579,593,110	737,848,137	32,338,615	126,607,670	578,901,852
Financial investment - Loans & Receivables	307,112,770	401,627,212	-	66,937,869	334,689,343
Financial investments - Available-For-Sale	12,430,283	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	2,215,317,581	2,413,725,701	934,681,991	1,244,668,710	234,375,000
Other financial assets	90,934,126	90,934,126	31,429,381	29,429,059	30,075,686
	22,591,757,109	27,585,553,350	9,554,871,105	10,794,962,527	7,235,719,718
Due to customers	18,821,363,686	23,023,876,846	3,570,572,140	7,520,606,160	11,932,698,547
Debt issued and other borrowed funds	1,178,231,116	2,864,398,390	169,422,897	142,404,718	2,552,570,776
Other Financial Liabilities	809,883,195	809,883,195	776,527,489	13,827,103	19,528,603
	20,809,477,997	26,698,158,431	4,516,522,526	7,676,837,980	14,504,797,926
Liquidity gap related period	-	887,394,919	5,038,348,580	3,118,124,546	(7,269,078,207)
Liquidity gap cumulative	-	-	5,038,348,580	8,156,473,126	887,394,919

As at 31st March 2017	Carrying amounts	Gross nominal outflow/(inflow)	Up to 3 Months	3 to 12 Months	More than 1 Year
Cash and cash equivalents	1,204,483,946	1,204,483,946	1,204,483,946	-	-
Financial assets held for trading	15,024,960	16,250,272	-	-	16,250,272
Loans and advances to members	13,260,731,825	16,204,210,818	5,854,997,336	7,865,431,530	2,483,781,952
Loans and advances to others	503,034,338	637,552,840	31,141,644	96,314,551	510,096,645
Financial investment - Loans & Receivables	307,112,770	401,627,212	-	66,937,869	334,689,343
Financial investments - Available-For-Sale	12,430,283	12,430,283	-	-	12,430,283
Financial investments - Held-To-Maturity	1,743,275,943	1,841,046,613	964,906,849	659,379,490	216,760,274
Other financial assets	94,051,089	94,051,089	35,654,899	30,476,983	27,919,207
	17,140,145,154	20,411,653,073	8,091,184,675	8,718,540,423	3,601,927,976
Due to customers	14,040,245,231	16,477,704,512	4,556,206,198	3,852,125,900	8,069,372,415
Debt issued and other borrowed funds	1,333,380,268	2,850,570,752	12,876,279	32,425,016	2,805,269,457
Other Financial Liabilities	236,020,182	236,020,182	202,866,863	15,767,987	17,385,332
	15,609,645,681	19,564,295,446	4,771,949,340	3,900,318,902	10,892,027,203
Liquidity gap related period	-	847,357,627	3,319,235,334	4,818,221,520	(7,290,099,228)
Liquidity gap cumulative	-	-	3,319,235,334	8,137,456,855	847,357,627

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41. FINANCIAL RISK MANAGEMENT (Contd...)

41.5 Market Risk

The Company is exposed to market risk due to changes in interest rates.

The Company ensures the mix of variable and fixed rate borrowings to manage the exposure due to interest rate movement in the market. These are monitored by the treasury division which get advises from the ALCO meetings.

41.5.1 Sensitivity Analysis

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;

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2018
Interest earning assets					
Cash and cash equivalents	905,159,755	-	-	-	905,159,755
Financial assets held for trading	16,128,000	-	-	-	16,128,000
Financial investments - Held-To-Maturity	906,427,210	1,142,015,371	166,875,000	-	2,215,317,581
Loans and advances to members (gross)	6,637,463,440	8,041,426,897	4,733,439,108	21,895,170	19,434,224,615
Loans and advances to others (gross)	28,721,111	86,317,295	399,743,615	76,882,226	591,664,247
Financial Investments - Loans & Receivables	-	257,697,227	515,394,455	-	773,091,681
Total interest earning assets	8,493,899,516	9,527,456,791	5,815,452,178	98,777,396	23,935,585,879
Interest bearing liabilities					
Due to customers	3,571,939,302	6,968,577,048	8,057,748,200	223,023,140	18,821,287,690
Debt issued and other borrowed funds	154,063,377	114,074,114	245,093,606	665,000,000	1,178,231,097
Total interest bearing liabilities	3,726,002,679	7,082,651,162	8,302,841,806	888,023,140	19,999,518,787
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	4,767,896,837	2,444,805,630	(2,487,389,629)	(789,245,743)	3,936,067,093
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualized effect	47,678,968	24,448,056	(24,873,896)	(7,892,457)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualized effect	(47,678,968)	(24,448,056)	24,873,896	7,892,457	-

	Up to 3 Months	4 to 12 Months	1 to 5 Years	More than 5 Years	Total as at 31 March 2017
Interest earning assets					
Cash and cash equivalents	1,204,483,946	-	-	-	1,204,483,946
Financial assets held for trading	15,024,960	-	-	-	15,024,960
Financial investments - Held-To-Maturity	942,858,918	650,417,025	150,000,000	-	1,743,275,943
Loans and advances to members (gross)	4,967,622,864	6,738,024,795	1,920,726,034	3,358,454	13,629,732,147
Loans and advances to others (gross)	22,246,782	62,580,093	352,526,618	69,499,204	506,852,697
Financial Investments - Loans & Receivables	-	128,848,614	515,394,455	128,848,613	773,091,681
Total interest earning assets	7,152,237,470	7,579,870,527	2,938,647,107	201,706,271	17,872,461,374
Interest bearing liabilities					
Due to customers	4,328,376,113	3,561,433,334	5,975,125,470	175,115,869	14,040,050,786
Debt issued and other borrowed funds	48,550,088	121,983,413	497,846,736	665,000,000	1,333,380,237
Total interest bearing liabilities	4,376,926,202	3,683,416,747	6,472,972,206	840,115,869	15,373,431,024
Gap in interest earning assets and interest bearing liabilities - net assets/(liabilities)	2,775,311,268	3,896,453,780	(3,534,325,098)	(638,409,599)	2,499,030,350
Effect on profitability by 1% increase in interest rates - increase/(decrease) in profits - annualized effect	27,753,113	38,964,534	(35,343,251)	(6,384,096)	-
Effect on profitability by 1% decrease in interest rates - increase/(decrease) in profits - annualized effect	(27,753,113)	(38,964,534)	35,343,251	6,384,096	-

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42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

As at 31 March 2018	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets								
Cash and cash equivalents	905,159,755	-	-	-	-	-	-	905,159,755
Financial assets held for trading	16,128,000	-	-	-	-	-	-	16,128,000
Loans and advances to members	6,240,232,701	3,574,814,196	3,988,640,624	3,058,795,212	1,581,735,334	20,863,415	-	18,465,081,482
Loans and advances to others	16,649,975	26,420,846	59,896,449	248,027,162	151,716,451	76,882,226	-	579,593,109
Financial investment - Loan & Receivable	-	51,185,462	51,185,462	102,370,923	102,370,923	-	-	307,112,770
Financial investments - Available-For-Sale	-	-	-	-	-	-	12,430,283	12,430,283
Financial investments - Held-To-Maturity	906,427,210	550,693,650	591,321,721	-	166,875,000	-	-	2,215,317,581
Other assets	74,336,758	40,402,363	35,361,235	15,922,598	7,155,007	8,246,131	61,179,819	242,603,911
Investment properties	-	-	-	-	-	-	1,180,150,000	1,180,150,000
Intangible assets	-	-	-	-	-	-	131,533,753	131,533,753
Property, plant & equipment	-	-	-	-	-	-	1,158,835,158	1,158,835,158
Deferred tax Assets							124,848,966	124,848,966
	8,158,934,399	4,243,516,517	4,726,405,490	3,425,115,896	2,009,852,716	105,991,772	2,668,977,979	25,338,794,768
Liabilities								
Due to customers	3,572,015,298	2,732,528,821	4,236,048,227	3,437,308,443	4,620,439,757	223,023,140	-	18,821,363,686
Debt issued and other borrowed funds	154,063,386	38,024,708	76,049,416	245,093,606	-	665,000,000	-	1,178,231,116
Income Tax payable	203,496,098	-	-	-	-	-	-	203,496,098
Value Added Tax payable	(25,379,290)	-	-	-	-	-	-	(25,379,290)
Other liabilities	816,414,520	12,451,637	1,375,466	5,035,379	847,999	2,542,023	11,103,203	849,770,227
Retiring benefit obligation	-	-	-	-			181,016,637	181,016,637
Shareholder's Fund	-	-	-	-	-	-	4,130,296,294	4,130,296,294
	4,720,610,012	2,783,005,166	4,313,473,109	3,687,437,428	4,621,287,756	890,565,163	4,322,416,134	25,338,794,768

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42. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd...)

As at 31 March 2017	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
Assets								
Cash and cash equivalents	1,204,483,946	-	-	-	-	-	-	1,204,483,946
Financial assets held for trading	15,024,960	-	-	-	-	-	-	15,024,960
Loans and advances to members	4,692,417,770	3,396,649,715	3,255,843,978	1,328,133,541	584,329,793	3,357,028	-	13,260,731,825
Loans and advances to others	18,428,423	19,520,162	43,059,931	225,679,204	126,847,415	69,499,204	-	503,034,338
Financial investment - Loan & Receivable	-	-	51,185,462	102,370,923	102,370,923	51,185,462	-	307,112,770
Financial investments - Available-For-Sale	-	-	-	-		-	12,430,283	12,430,283
Financial investments - Held-To-Maturity	1,287,937,076	205,811,382	99,527,485	-	150,000,000	-		1,743,275,943
Other assets	121,858,703	36,021,779	20,442,235	27,454,658	2,532,049	2,302,150	-	210,611,574
Investment properties	-	-	-	-	-	-	1,049,600,000	1,049,600,000
Intangible assets	-	-	-	-	-	-	127,078,155	127,078,155
Property, plant & equipment	-	-	-	-	-	-	1,119,409,029	1,119,409,029
	7,340,150,878	3,658,003,039	3,470,059,091	1,683,638,326	966,080,180	126,343,843	2,308,517,467	19,552,792,824
Liabilities								
Due to customers	4,328,570,558	1,069,776,415	2,491,656,919	4,504,692,330	1,470,433,140	175,115,869	-	14,040,245,231
Debt issued and other borrowed funds	48,550,119	41,697,699	80,285,713	399,115,742	98,730,994	665,000,000	-	1,333,380,268
Income Tax payable	90,162,428	263,285,375	-	-	-	-	-	353,447,803
Value Added Tax payable	(6,263,276)	-	-	-	-	-	-	(6,263,276)
Other liabilities	226,545,070	11,655,556	12,567,987	4,472,827	1,667,185	11,245,320	-	268,153,945
Retiring benefit obligation	-	-	-	-	-	-	157,508,878	157,508,878
Shareholder's Fund	-	-	-	-	-	-	3,390,204,237	3,390,204,237
Deferred tax liability	-	-	-	-	-	-	16,115,738	16,115,738
	4,687,564,899	1,386,415,045	2,584,510,619	4,908,280,899	1,570,831,319	851,361,189	3,563,828,853	19,552,792,824

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43. FAIR VALUE OF ASSETS AND LIABILITIES

43.1 Assets and Liabilities Measured at Fair Value

A description of how fair values are determined for assets and liabilities that are recorded at fair value using valuation techniques is summarised below which incorporates the Company's estimate of assumptions that a market participant would make when valuing the instruments.

43.1.1 Financial Investments – Available-For-Sale

Available-For-Sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted investment securities.

43.1.2 Financial Assets at Fair Value through Profit or Loss - Held for Trading

Financial assets held for trading consist of government debt securities. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka as at the reporting date.

43.1.3 Property, Plant and Equipment

The methods used to determine the fair value of freehold land and buildings are explained in Note 43.3.1. The independent valuers provide the fair value of the company's freehold land and buildings at least once in every three years.

43.1.4 Investment Properties

The independent valuers provide the fair value of the company's investment properties annually as per Sri Lanka Accounting Standards (LKAS 40) - Investment Properties. Details of the valuations are disclosed in Note 43.4.1 and 43.4.2.

43.2 Fair Value of Financial Assets and Liabilities not Measured at Fair Value

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below.

43.2.1 Loans and Receivables to Customers

The estimated fair value of loans and receivables with a residual maturity of more than one year is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables.

43.2.2 Financial Investments Held to Maturity

Financial assets held to maturity consist of government debt securities. Government debt securities are valued using yield curves published by the Central Bank of Sri Lanka as at the reporting date.

43.2.3 Due to customers

The fair value of customer deposits which are repayable on demand or have a remaining contractual maturity of less than one year approximates to the carrying value of such deposits.

The fair value of customer deposits with a contractual maturity of more than one year is estimated as the present value of future cash flows expected from such deposits calculated based on interest rates at the reporting date for similar types of deposits.

43.2.4 Debt securities issued

The fair value of debt securities issued has been determined by discounting the future cash flows by the interest rates prevailing as at the reporting date for similar instruments.

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43. FAIR VALUATION (Contd...)

43.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument.

As at 31 March 2018	Fair Value through Profit and Loss	Available For Sale	Amortized cost	Total carrying amount	Fair Value	Increase/ (Decrease) in Fair Value	Fair Value Hierarchy
Cash & Cash Equivalents	-	-	905,159,755	905,159,755	905,159,755	-	-
Investment Securities	-	-	-	-	-	-	-
- Measured at Fair Value	16,128,000	-	-	16,128,000	16,128,000	-	-
- Measured at Amortized Cost	-	-	1,275,317,239	1,275,317,239	1,275,317,239	-	-
Investment in Shares	-	12,430,283	-	12,430,283	12,430,283	-	-
Investment Fixed deposits	-	-	773,125,342	773,125,342	773,125,342	-	-
Finance Lease Receivables	-	-	4,541,443,900	4,541,443,900	3,266,992,580	(1,274,451,320)	Level II
Advances & Other Loans	-	-	14,923,432,234	14,923,432,234	16,160,505,315	1,237,073,081	Level II
Financial investment - Loan & Receivable	-	-	307,112,770	307,112,770	307,112,770	-	-
Other Financial Assets	-	-	90,934,128	90,934,128	90,934,128	-	-
Due To Customers - Fixed deposits	-	-	16,103,374,386	16,103,374,386	16,167,925,674	64,551,288	Level II
Debt issued & Other borrowed Funds	-	-	1,172,776,895	1,172,776,895	1,173,076,473	299,578	Level II
Trade & Other Payables	-	-	809,883,196	809,883,196	809,883,196	-	-

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43. FAIR VALUATION (Contd...)

43.3 Fair value of Financial Assets and Liabilities

The following table summarises the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented in the statement of financial position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument.

As at 31 March 2017	Fair Value through Profit and Loss	Available For Sale	Amortized cost	Total carrying amount	Fair Value	Increase/ (Decrease) in Fair Value	Fair Value Hierarchy
Cash & Cash Equivalents	-	-	1,204,483,946	1,204,483,946	1,204,483,946	-	-
Investment Securities	-	-	-	-	-	-	-
- Measured at Fair Value	15,024,960	-	-	15,024,960	15,024,960	-	-
- Measured at Amortized Cost	-	-	298,170,601	298,170,601	298,170,601	-	-
Investment in Shares	-	12,430,283	-	12,430,283	12,430,283	-	-
Investment Fixed deposits	-	-	1,295,105,342	1,295,105,342	1,295,105,342	-	-
Finance Lease Receivables	-	-	1,704,446,462	1,704,446,462	1,717,595,462	13,149,000	Level II
Advances & Other Loans	-	-	12,621,462,914	12,621,462,914	12,704,570,044	83,107,131	Level II
Financial investment - Loan & Receivable	-	-	307,112,770	307,112,770	307,112,770	-	-
Other Financial Assets	-	-	94,021,922	94,021,922	94,021,922	-	-
Due To Customers - Fixed deposits	-	-	11,773,716,948	11,773,716,948	11,900,599,594	126,882,646	Level II
Debt issued & Other borrowed Funds	-	-	1,327,326,382	1,327,326,382	1,329,333,700	2,007,318	Level II
Trade & Other Payables	-	-	236,020,182	236,020,182	236,020,182	-	-

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43. FAIR VALUATION (Contd...)

43.4 Valuation of Non-Financial Assets

43.4.1 Changes in Value of Non-Financial Assets

As at 31 March 2018

	Building	Extent	Cost/Carring Amount			Fair Value		
	Sq.ft	Perches	Land	Building	Total	Land	Building	Total
Property, Plant & Equipment								
No. 94 96/1, Kandy Rd, Kurunegala.	5755	7.05	20,350,515	66,449,485	86,800,000	21,100,765	68,899,235	90,000,000
No. 46/A, Thangalle Rd, Hambanthota.	2113	9.26	6,605,752	11,394,248	18,000,000	6,605,752	11,394,248	18,000,000
No. 677, William Gopallawa Mw, Kandy.	5400	9.26	22,062,259	55,937,741	78,000,000	22,147,114	56,152,886	78,300,000
No. 168, Nawala Rd , Nugegoda.	30887	25.9	143,483,594	490,116,406	633,600,000	153,243,921	523,456,079	676,700,000
			192,502,121	623,897,879	816,400,000	203,097,552	659,902,448	863,000,000
Investment Properties								
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24952	39.6	205,133,851	482,366,149	687,500,000	271,522,624	547,477,376	819,000,000
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000	-	9,000,000	9,750,000	-	9,750,000
No. 44/1, Service Road, Puttalam.	Land	25.6	15,400,000	-	15,400,000	16,000,000	-	16,000,000
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20494	182.59	56,755,335	72,844,665	129,600,000	52,152,445	69,647,555	121,800,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5786	8	33,785,567	96,214,433	130,000,000	33,785,567	96,214,433	130,000,000
No. 06, Abaya Place, 7 th Lane, Anuradapura.	Land	13.52	25,000,000	-	25,000,000	25,700,000	-	25,700,000
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	36,800,000	-	36,800,000	41,400,000	-	41,400,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	16,300,000	-	16,300,000	16,500,000	-	16,500,000
			398,174,753	651,425,247	1,049,600,000	466,810,637	713,339,363	1,180,150,000

As at 31 March 2017

	Building	Extent	Cost/Carring Amount			Fair Value		
Property, Plant & Equipment	Sq.ft	Perches	Land	Building	Total	Land	Building	Total
No. 94 96/1, Kandy Rd, Kurunegala.	5755	7.05	19,600,266	63,999,734	83,600,000	20,350,515	66,449,485	86,800,000
No. 46/A, Thangalle Rd, Hambanthota.	2113	9.26	6,605,752	11,394,248	18,000,000	6,605,752	11,394,248	18,000,000
No. 677, William Gopallawa Mw, Kandy.	5400	9.26	18,642,581	54,357,419	73,000,000	22,062,259	55,937,741	78,000,000
No. 168, Nawala Rd , Nugegoda.	30887	25.9	138,805,759	371,194,241	510,000,000	143,483,594	490,116,406	633,600,000
			183,654,358	500,945,642	684,600,000	192,502,121	623,897,879	816,400,000
Investment Properties								
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	24952	39.6	156,474,658	407,525,342	564,000,000	205,133,851	482,366,149	687,500,000
Vihara Road, Rankewatte, Matale.	Land	15	9,000,000	-	9,000,000	9,000,000	-	9,000,000
No. 44/1, Service Road, Puttalam.	Land	25.6	12,800,000	-	12,800,000	15,400,000	-	15,400,000
No. 465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	20494	182.59	54,740,871	70,259,129	125,000,000	56,755,335	72,844,665	129,600,000
No. 67/1, Mahinda Place, Kirulapone, Colombo 05.	5786	8	28,439,640	92,560,360	121,000,000	33,785,567	96,214,433	130,000,000
No. 06, Abaya Place, 7 th Lane, Anuradapura.	Land	13.52	20,000,000	-	20,000,000	25,000,000	-	25,000,000
No. 10/11, Galle Road Katubedda, Moratuwa.	Land	23	34,500,000	-	34,500,000	36,800,000	-	36,800,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee.	Land	724	14,000,000	-	14,000,000	16,300,000	-	16,300,000
			329,955,169	570,344,831	900,300,000	398,174,753	651,425,247	1,049,600,000

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43. FAIR VALUATION (Contd...)

43.4.2 Valuation Details of Non-Financial Assets

	Valuation Method	Range of estimates for unobservable inputs				
		Value per Perch (Land)	**Value per sq. ft. (Building)**	**Estimated rent per month**	**Discount Rate**	**Rate per perch for land**
Property, Plant & Equipment						
No. 94 96/1, Kandy Rd, Kurunegala.	Cost approach	2,500,000	10000	335,000	-	-
No. 46/A, Thangalle Rd, Hambanthota.	Cost approach	350,000	4000	73,000	-	-
No. 677, William Gopallawa Mw, Kandy.	Cost approach	2,300,000	10000	300,000	-	-
No. 168, Nawala Rd , Nugegoda.	Income approach	4,750,000	12000	2,000,000	20%	-
Investment Properties						
No.67/1 , Mahinda Place , Kirulapone, Colombo-05.	Income Approach			450,000	20%	
No.249 , Stanly Thilakarathna Mw , Nugegogda.	Income Approach			2,496,787	20%	
No.465/1 , Old Police Station Road , Kahathuduwa , Polgasovita.	Income Approach			452,540	20%	
No.64 , Abaya Place , Anuradapura.	Market Comparable method					1,900,000
No. 37 , Vihara Mw , Matale.	Market Comparable method					650,000
No. 340 , Galle Road , Katubedda , Moratuwa.	Market Comparable method					1,800,000
No.56 ,Sewa Mw , Puttalam .	Market Comparable method					625,000
Adampodaivayal, Adampodaimalaikadu, Trincomalee	Market Comparable method					22,700

44. SEGMENT REPORTING

An operating segment is a component of the company that engages in business activities from which it may earn revenue 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 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.

HNB Grameen has three main segments, namely Finance, Leasing and Others, based on the business activities that each unit is engaged in for purpose of reviewing the operating results of the company as well as to make decisions about resource allocation.

Management monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the financial statements.

There are no inter-segment transactions occurred during the year.

Income taxes are allocated to specific segments. Other expenses which cannot be directly identified against a particular business segment have been treated as consolidated adjustments.

No revenue from transactions with a single external customer or counter party amounted to 10% or more of HNB Grameen Finance Limited's total revenue in 2016/17 and 2017/18 financial years.

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44. SEGMENT REPORTING (Contd...)

	Financial		Leasing		Others		Consolidated	
	2018	2017	2018	2017	2018	2017	2018	2017
Net Interest Income	3,145,663,042	3,685,455,325	576,672,900	72,949,776	441,866,789	102,994,750	4,164,202,731	3,861,399,851
Net Fee and Commision Income	613,456,327	577,254,372	(21,400,331)	(5,430,358)	-	-	592,055,996	571,824,014
Net Gain /(Loss) from Trading	-	-	-	-	1,103,040	81,840	1,103,040	81,840
Net Gain /(Loss) from Financial Investments	-	-	-	-	-	-	-	-
Other operating income	17,781,785	61,731,214	47,935,897	-	176,725,462	175,065,249	242,443,144	236,796,463
Total Operating Income	3,776,901,154	4,324,440,911	603,208,466	67,519,418	619,695,291	278,141,839	4,999,804,911	4,670,102,168
Impairment charges for Loan & Other Losses	(599,458,832)	(241,204,462)	(85,811,100)	(324,926)	-	(465,978,912)	(685,269,932)	(707,508,300)
Net Operatig Income	3,177,442,322	4,083,236,449	517,397,366	67,194,492	619,695,291	(187,837,073)	4,314,534,979	3,962,593,868
Operating Profit/(Loss)	923,892,027	1,802,971,491	39,080,460	11,246,456	619,695,291	(187,837,073)	1,582,667,778	1,626,380,875
Income Tax Expenses	(422,972,592)	(563,753,094)	(14,096,322)	(3,793,595)	(133,815,544)	-	(570,884,458)	(567,546,689)
Profit/(Loss) for the Year	500,919,435	1,239,218,397	24,984,138	7,452,861	485,879,747	(187,837,073)	1,011,783,320	1,058,834,186
Total Assets	18,274,091,223	15,743,297,427	4,526,145,193	1,744,081,723	2,538,558,352	2,065,413,674	25,338,794,768	19,552,792,824
Total Liabilities	16,060,648,514	13,066,746,966	4,477,395,739	1,734,412,729	670,454,221	1,361,428,892	21,208,498,474	16,162,588,587

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