

TOGETHER AS ONE

Synergy and Teamwork



TOGETHER AS ONE

Synergy and Teamwork

கிரகென் டிசிபி ஸ்ட்ரூட்டம் சமூக வெளி
சுழலுள் சாறுபி சிந்திச சமூக டிசு
கருவெ கிமிசு சோசுசு சேரஃ ஈசு
மதுசு ருசுசு சிபிச ருசுசு சிபிசு

உம் வெற்றியில் நாம் பெருமிதம் அடைகின்றோம்
அருகில் இருந்து உம் உலகை உயர்த்திடுவோம்
உம் நலம் கண்டு ஆனந்தம் அடைவோம்
உம் கனவை நனவாய் மாற்றிடுவோம்!!

சீபிச சூசுசு ஈசுசுசு ருசுசு
சுசுசு சிசுசு சிசுசு சிசுசு
சுசுசு சிசுசு சிசுசு சிசுசு
சுசுசு சிசுசு சிசுசு சிசுசு

கிரகென் டிசிபி ஸ்ட்ரூட்டம் சமூக வெளி
சுழலுள் சாறுபி சிந்திச சமூக டிசு
கருவெ கிமிசு சோசுசு சேரஃ ஈசு
மதுசு ருசுசு சிபிச ருசுசு சிபிசு

PURPOSE

To build leaders who uplift the lives of people
by simple acts of love

VISION

To be the most liberated company admired for
its people, partnerships and performance

MISSION

To be a dynamic finance company which
develops and nurtures leaders at every level of
the organisation to serve society with passion

SHARED VALUES

LOVING AND CARING

Commercial Credit defines love as the silent sacrifices made or the extra miles traveled to make others happy and thereby help them uplift their lives. Those who love automatically feel happy and satisfied, and the feeling of love remains forever, cherished throughout life. Caring energizes everyone and benefits of true care and appreciation are immeasurable; sincere appreciation is one of the deepest needs of human existence, and making someone feel good, releases reservoirs of positive energy.

At Commercial Credit, love plays an immeasurable role in the day-to-day life of our team members. Those who embrace love, love themselves and love life. But more than that, they love others. Demonstrating a simple act of loving and caring, they would go out of their way to help out a team member or a customer. This radiates positivity and reinforces the feeling of love in the recipient who in turn would more often than not reciprocate the feeling with a caring gesture of his or her own. This creates a chain reaction of loving and caring and is one of the key elements of our corporate culture.

INTEGRITY AND TRUST

We believe that trust is the key to every relationship. It determines how relationships begin and grow; and swiftly establishes positivism. Integrity means, having the courage to do the right thing even when under pressure; it is about standing steadfast in one's beliefs, intents and principles. Being a person of integrity is of utmost importance to all team members at Commercial Credit. A trustworthy individual has the gift of lifting others and making them do great deeds, sometimes even impossible ones. Therefore, we place great emphasis on creating a culture of true integrity – where an individual does the right thing even when no one is watching.

LEARNING AND DEVELOPMENT

Learning at Commercial Credit is characterized as the process of renewing and enhancing the physical, emotional, mental and spiritual dimensions, which would facilitate personal growth. Learning and development is the single most powerful investment that one can make and is a continuous process in the achievement of effective, efficient and sustainable results. By encouraging an environment which strongly believes in learning and development, Commercial Credit strives to be the best in every single activity that it engages in.

THINK WIN-WIN

Win-Win is one paradigm of human interaction and we believe that it arises from a character of integrity, maturity and the abundance mentality¹. Life is a co-operative arena where human interactions are based on mutual benefits and supportive systems. Additionally, a culture of Think Win-Win is embodied in agreements that effectively clarify and manage expectations as well as accomplishments. We believe the intense focus on winning at all costs is not one that brings greater good to the individual, the Company, the society or the country. Our focus is always on creating a win-win situation, one where all parties concerned are pleased with the outcome and where no party is left feeling short-changed. It is an attitude that has been readily embraced by our team members and one that has created countless happy customers.

SYNERGY AND TEAM WORK

Commercial Credit believes that Synergy creates better alternatives that values and exploits the mental, emotional and psychological differences between people; recognising that strength lies not in similarities but in differences. A team combines individual strengths with a shared commitment to perform towards a common goal and strategic destination.

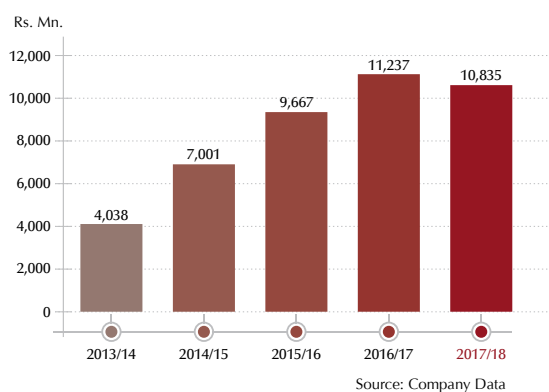
CONTENTS

Highlights	06	Financial Information	
		Independent Auditor's Report	104
Board of Directors and Executive Management		Statement of Financial Position	107
Chairman's Statement	10	Statement of Profit or Loss	108
Review of the Chief Executive Officer	14	Statement of Other Comprehensive Income	109
Profiles of Board of Directors	18	Statement of Changes in Equity	110
Executive Management Team	24	Cash Flow Statement	112
		Notes to the Financial Statements	113
Management Discussion and Analysis	27	Ten Year Summary	188
		Investor Information	190
Sustainability Report	47	Glossary of Financial Terms	194
Risk Management and Corporate Governance		Notice of Meeting	200
Risk Management	61	Form of Proxy	Enclosed
Corporate Governance	66		
Report of the Board of Directors on the Affairs of the Company	93		
Report of the Board Audit Committee	96		
Report of the Remuneration Committee	97		
Report of the Related Party Transactions Review Committee	98		
Report of the Board Integrated Risk Management Committee	99		
Statement of Directors' Responsibilities for Financial Reporting	100		
Directors Statement on Internal Control over Financial Reporting	101		

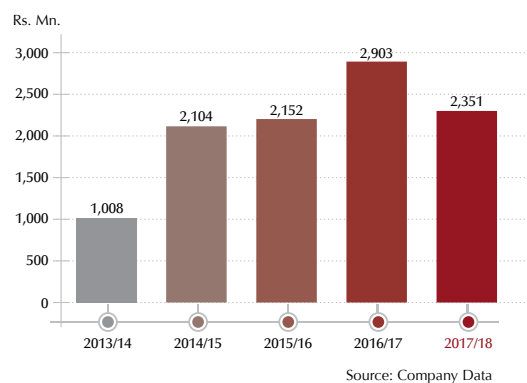
HIGHLIGHTS

	2017/18 LKR '000	2016/17 LKR '000	Percent Change
Financial Performance			
Gross Income	22,410,630	20,924,522	7.1%
Net Interest Income	10,834,606	11,237,208	-3.6%
Profit Before Taxation	3,479,819	3,910,562	-11.0%
Profit After Taxation	2,350,694	2,902,978	-19.0%
Financial Position			
Leases, Hire Purchases, Loans and Advances	66,905,445	68,242,214	-2.0%
Total Assets	83,792,948	82,854,513	1.1%
Total Deposit Base	54,224,085	53,737,081	0.9%
Borrowings	11,554,221	14,274,358	-19.1%
Shareholders' Funds	12,263,437	10,247,814	19.7%
Key Indicators per Ordinary Share			
Earnings per Share (LKR)	7.39	9.13	
Net Assets per Share (LKR)	38.56	32.22	
Year end Market Price per Share	43.10	39.60	
Key Performance Indicators			
Return on Average Assets (%)	4.18	5.09	
Interest Cover (times)	1.47	1.60	
Equity/Assets (%)	14.64	12.37	
Gross Non-Performing Accommodations (%)	6.97	4.38	
Net Non-Performing Accommodations (%)	1.54	0.57	
Return on Average Shareholders' Funds (%)	20.88	32.20	
PE Ratio	5.83	4.34	
Statutory Ratios			
Capital Funds to Deposits (%)	22.62	19.00	
Core Capital Ratio (%) (Minimum Required 5%)	16.13	12.45	
Total Risk Weighted Capital Ratio (%) (Minimum Required 10%)	16.42	13.73	

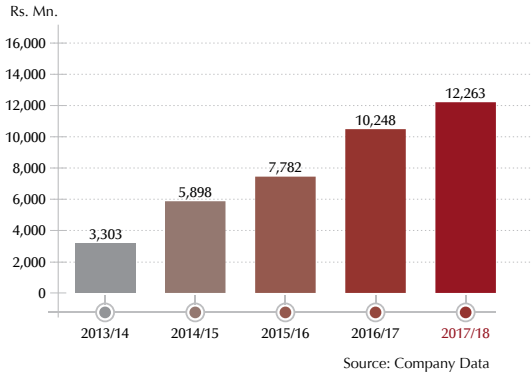
Net Interest Income



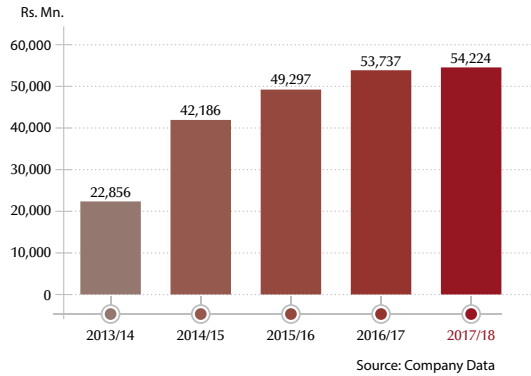
Profit After Taxation



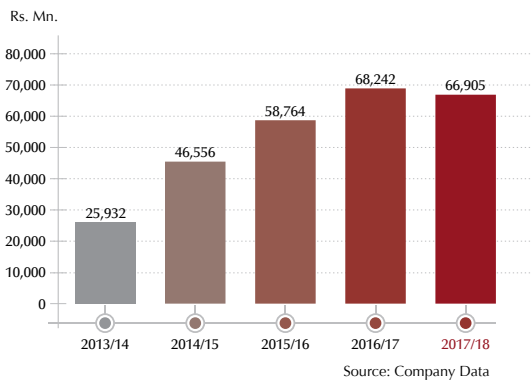
Shareholders' Funds



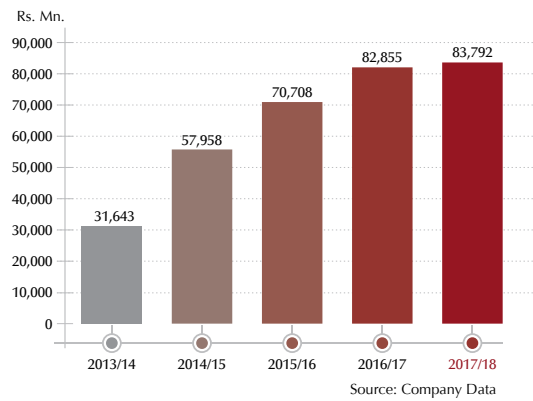
Total Deposit Base



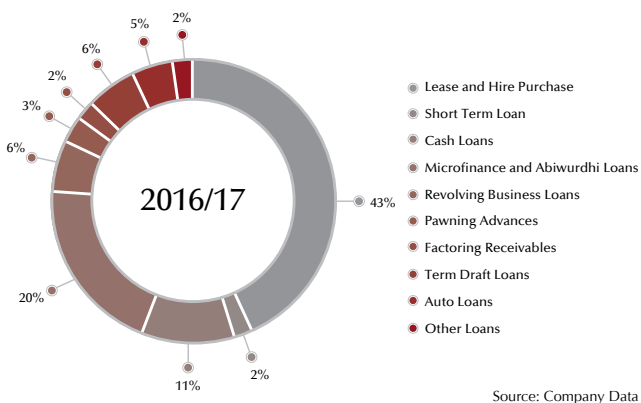
Lease, Hire Purchase, Loan and Advances



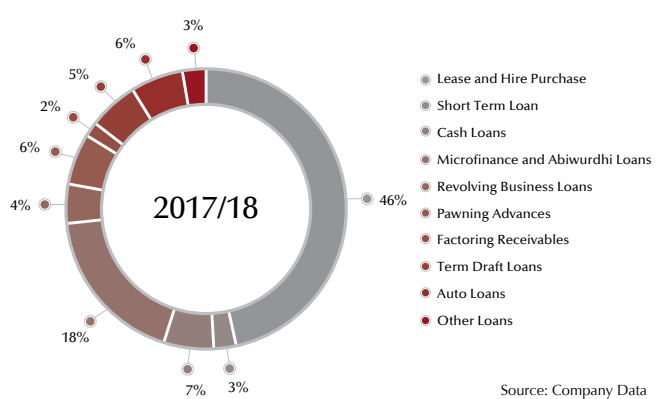
Total Assets



Lending Portfolio 2016/17



Lending Portfolio 2017/18



06 Highlights

09 Board of Directors and Executive Management

27 Management Discussion and Analysis

47 Sustainability Report

61 Risk Management and Corporate Governance

103 Financial Information

**BOARD OF DIRECTORS
AND EXECUTIVE
MANAGEMENT**

CHAIRMAN'S STATEMENT



On behalf of the Board of Directors, I warmly welcome you to the 35th Annual General Meeting of Commercial Credit and Finance PLC. I am pleased to present to you the Annual Report and Financial Statements of the Company for the financial year ended 31 March 2018.

I am happy to state that the Company made progress during the period under review, despite being faced with lackluster macroeconomic conditions domestically. I am optimistic that the Company will continue to grow into the foreseeable future as we have taken a well-balanced approach that comprised of meticulous planning and investments.

ECONOMIC PERFORMANCE

Sri Lanka's economy was faced with a difficult year and performed below par mainly due to adverse weather conditions and a tougher stance on fiscal policy. Having said that, it must be noted that progress was achieved on the policy front, namely, economic reforms aimed at fiscal consolidation, bringing in much-needed foreign direct investment and stabilizing macro-economic fundamentals, all of which should bear fruitful results over the medium to long term.

Despite being hampered by the negative impact of the Agriculture sector, Sri Lanka's economy managed to grow at a rate of 3.1% during 2017, boosted by moderate expansion of the services and industry sectors. The Agriculture sector was adversely affected by the unfavourable weather conditions resulting in lower crop yields and a 0.8% dip of the sector during the year.

However, the Industry sector showed an upward trend and grew by 3.9% during the year, driven by the sustained demand for construction, mining and quarry activities. The Services sector also followed a similar positive pattern, having expanded by 3.2%, boosted by financial services, wholesale and retail trade activities as well as transportation.

NON-BANK FINANCE INSTITUTIONS (NBFI) INDUSTRY PERFORMANCE

During the year under review according to the Central Bank Publications, the Licensed Finance Companies/Specialized Leasing Company (LFC/SLC) sectors demonstrated moderate performance with low credit growth, declining profitability and an increase in non-performing loans. Deposits were the key driver in funding the increase of assets while borrowings of the sector declined compared to the high growth registered in the previous year.

The total asset base of the sector showed a slight upturn by LKR 143 Bn. or 11.8% during the year, reaching a total of LKR 1,355 Bn. by end 2017, compared to the 21.7% growth reported during 2016. The asset base of the sector mainly consisted of loans and advances and accounted for 78% of the total assets, which contributed 66% of the overall asset growth.

The deposits growth of 29.4% to LKR 686.7 Bn. in 2017 was significantly higher than the 10.4% growth achieved in 2016. As a result of increased funding cost and higher loan loss provisions, Profit after Tax of the sector dipped to LKR 25.8 Bn. an 18% drop compared to the LKR 31.5 Bn. recorded in 2016. While the path of tighter monetary and fiscal policy chosen by the Government may affect growth over the short term, it is expected to lay a solid foundation for sustainable and long term economic development of the country.

The focus on broad-based reforms aimed at fiscal consolidation, development of a sound export strategy and a renewed drive to attract much-needed foreign investments has set up the economy for strong growth. Having said that, strong political will and commitment in the face of numerous challenges will be vital in implementing reforms and achieving the country's growth potential.

**IT DELIGHTS ME TO STATE
THAT DURING THE YEAR THE
COMPANY ENTERED INTO
THE BUSINESS TODAY TOP 30.
THIS IS THE FIRST TIME THE
COMPANY WAS RECOGNISED
BY AN AWARDS FUNCTION
OF THIS CALIBER FURTHER
ENSURING OUR BELIEF
IN THE CURRENT BUSINESS
MODEL.**

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

CHAIRMAN'S STATEMENT CONTD.

COMPANY PERFORMANCE

Surpassing a year of challenging macroeconomic conditions, the Company made progress in its road to consolidation with investments made in systems and procedures as well as the skills and competences of staff.

The interest income registered a growth of 5.7% during the year under review. The Company's Net Interest Margin (NIM) stood at 13.0% in the 2017/18 financial year, whereas the NIM of the LFC/SLC sector recorded 7.7% in 2017. Profit after Tax of the Company recorded a decline of 19.0% to LKR 2.35 Bn. in the financial year 2017/18. The Company's Profit after Tax in the financial year under review was impacted by the impairment charge of LKR 3.20 Bn. owing to the exposure to high-yielding non-asset backed products which have served the Company well during the recent past.

The Group profit in the financial year 2017/18 recorded a decline of 18.4% to LKR 2.54 Bn. despite yielding promising results from Trade Finance and Investments PLC. The deposit base of the Company grew by 0.9% to LKR 54.2 Bn. in the financial year 2017/18 on the back of below par asset growth. Commercial Credit's Return on Equity (ROE) ratio stood at 20.9% in the period under review which is higher than the ROE ratio recorded by the LFC/SLC sector (16.1%) in 2017. I am pleased to inform you that the Board of Directors have decided to pay a final dividend of LKR 0.75 per share for the financial year ended 31 March 2018.

I am proud to note that Trade Finance and Investments PLC (TFI), a subsidiary of Commercial Credit has improved its performance on many fronts during the financial year under review. In 2017/18 financial year, TFI's Profit after Tax increased by 28.7% to LKR 417.9 Mn. while its total lending portfolio increased by a notable 107.3%. TFI's total assets grew by a 100.5% in the financial year 2017/18 to LKR 7.47 Bn. I am fully confident that TFI is well set to realize its full potential and would deliver unparalleled results in the years ahead.

It delights me to state that during the year the Company entered into the Business Today Top 30. This is the first time the Company was recognised by an awards function of this caliber further ensuring our belief in the current business model.

For yet another year, the Company demonstrated its prowess in the field of sports with resounding success by both teams and individuals, a regular occurrence across numerous sporting events held throughout the year. Employees were given the fullest support and encouragement of the Company to excel in their respective sports. Given such a backdrop, it was not a surprise to witness a large number of outstanding performances and memorable victories by these sporting individuals.

**AT COMMERCIAL CREDIT,
WE ARE OF THE BELIEF
THAT A STRONG PRINCIPLE
VALUE-BASED CULTURE IS
A CRUCIAL ELEMENT OF
THE CONTINUED SUCCESS
OF OUR COMPANY AS IT
WOULD PROVIDE US WITH
A SOLID FOUNDATION TO
OPERATIONALIZE AN EFFECTIVE
CORPORATE GOVERNANCE
FRAMEWORK.**

CORPORATE GOVERNANCE

The Company has consistently maintained its commitment to complying with the highest ethical and governance standards thereby ensuring that long term value is delivered to its various stakeholders. Several positive steps in this regard have been taken at regular intervals to ensure that the Company is taking all possible measures to meet and exceed such standards. One of the significant measures that drives home this point is the fact that the Company's Code of Ethics and Internal Controls have undergone continuous improvements and revisions.

During the year under review, all Board Sub-Committees conducted meetings regularly to discuss pending matters in detail, carry out evaluations and recommend necessary actions required to be taken.

Such constructive steps are vital to ensure that the business processes of the Company continue effortlessly and the organisation is well-prepared to competently face possible challenges and seize any opportunities present in the market. Additionally, operational Sub-Committees also conducted meetings on a regular basis to discuss issues of importance to the Company's operational activities, identify existing issues, predict any potential issues and find appropriate, timely solutions to ensure effective business process execution.

At Commercial Credit, we are of the belief that a strong principle value-based culture is a crucial element of the continued success of our Company as it would provide us with a solid foundation to operationalize an effective corporate governance framework. This means that we are constantly aiming for higher standards in this effort as we strive to increase our footprint in today's fast-evolving financial services landscape of Sri Lanka. Our employees are provided regular training sessions to communicate the importance of carrying out day-to-day operations through these Shared Values.

FUTURE PROSPECTS

Our carefully-crafted consolidation strategy enabled us to identify the critical elements of the business that the Company should focus more on in order to deliver sustainable results to all our stakeholders. Resultantly, the Company is currently outlining several major activities that are expected to deliver the desired outcomes. There will be an increased focus on improving the asset quality in the new financial year. The Training and Development effort is well underway to further enhance the skills and talents of the human resource pool of the Company.

The Company will continue the significant investments to provide an effective learning infrastructure for the entire workforce to acquire further knowledge on the 7 Habits teachings, Company Shared Values and job-related activities. There will also be a concerted effort to finetune our product and channel development and search for innovative products that will help us to connect better with our existing and prospective customers.

APPRECIATION

My heartfelt gratitude goes out to our loyal customers who have demonstrated their confidence in the Company's products and services for yet another year. It is clear that without winning their trust, we would not be able to reach the lofty heights we have reached today.

I would also like to thank the highly-professional officials of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for their support and guidance throughout the year. I would like to take this opportunity to record my appreciation to each and every member of the Board of Directors.

This outstanding group of professionals have tapped into their wealth of knowledge and experience and steered our path to progress. I would also like to point out the vital role played by the Chief Executive Officer and Board Member Mr. Roshan Egodage for inspiring all of us to dream big and taking the Company to where it is today. Of course, no "thank you" statement is complete without a special word of thanks to the dynamic employees of the Company.

Through their drive, hard work, determination and discipline, we have been able to achieve so much and there is no doubt that we are well-positioned to reach greater heights together in the coming years.



K.J.C. Perera

Chairman

26 June 2018

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

REVIEW OF THE CHIEF EXECUTIVE OFFICER



As the financial year 2017/18 draws to a close, it is with great pleasure that I bring to you the performance review of Commercial Credit and Finance PLC during this period.

My review would bring to light some of the key highlights and achievements of the Company during this financial year. More detailed analysis and information of all relevant areas can be found in the Management Discussion and Analysis and other parts of this Annual Report.

IMPORTANCE OF SHARED VALUES

It has been a long, eventful journey which has brought about resounding success primarily due to the passion, dedication and drive of each and every member of our Commercial Credit team. I would confidently state that the main reason for our impressive haul of victories through these years is due to the Shared Values and the unparalleled principle-based culture that it has helped nurture within the organisation. It is abundantly clear to all that this is what makes Commercial Credit stand out from other organisations. It has transformed the Company into an innovative and formidable Sri Lankan corporate entity in the financial services sector.

This unique culture has instilled a confidence in all our employees and they have boldly surged ahead to spread their message of love, kindness and trust and thereby uplift the lives and realize the aspirations of hundreds of thousands of customers, colleagues, family members as well as the communities that they live in.

In order to further educate all employees on the Shared Values and the Principles on which the Company’s culture is built upon, we have created a number of comprehensive mechanisms which cover all employees and operational levels of the Company. This has been instrumental in helping convince members of the Commercial Credit family that meaningful progression towards the Company Purpose of *“building leaders who uplift the lives of people by simple acts of love”* is possible only through further internalisation of the unique corporate culture that we promote. This is carried out by consciously promoting various activities such as continuous training sessions, singing of the Theme Song prior to the commencement of each working day at all locations and at corporate events of the Company, wearing Value Badges, holding events such as Value Night and Value Day, all of which contribute towards this effort. Elements such as employee compensation and promotions are heavily influenced by the level achieved by the individual in terms of practicing the Shared Values both within and outside the office. The Company’s Enterprise Resource Planning system is

utilised to carry out a quarterly 360 Degree Evaluation which helps to measure these facets of their performance.

One of the key sources of inspiration within the Company is "The 7 Habits of Highly Effective People" authored by the late Dr. Stephen Covey, the brains behind the world-renowned personal development organisation Franklyn Covey. A significant effort was made in communicating the 7 Habits teachings firmly among the employees as we believe that this would enable them to have a holistic and integrated approach to achieve effectiveness in each role they play in their professional and personal lives. To boost these efforts, comprehensive residential workshops and training programmes were organised across the Company at all locations. These were well attended by all employees and they showed a lot of enthusiasm and positive energy when doing so. Undoubtedly, the progression we attain in this remarkably critical front will be mirrored in all facets of our business and certainly will influence all of our stakeholders positively, be it internal or external.

IT INFRASTRUCTURE

Keeping our IT infrastructure updated to cater to the demands made on it due to the increase in business volumes has always been a top priority at Commercial Credit. During the year, the IT infrastructure was enhanced regularly primarily through software-related updates. New modules were added to the Enterprise Resource Planning (ERP) system while the Company leveraged the use of Business Intelligence Tools to extract in-depth information for wide-ranging management decisions.

I WOULD CONFIDENTLY STATE THAT THE MAIN REASON FOR OUR IMPRESSIVE HAUL OF VICTORIES THROUGH THESE YEARS IS DUE TO THE SHARED VALUES AND THE UNPARALLELED PRINCIPLE-BASED CULTURE THAT IT HAS HELPED NURTURE WITHIN THE ORGANISATION.

06	Highlights
09	Board of Directors and Executive Management
27	Management Discussion and Analysis
47	Sustainability Report
61	Risk Management and Corporate Governance
103	Financial Information

REVIEW OF THE CHIEF EXECUTIVE OFFICER CONTD.

PERFORMANCE

On the back of a period of continuous aggressive growth, the Company has now entered into a stage of consolidation where the focus shifts on investing in systems & procedures and improving the asset quality of the portfolio while continuing to invest in the workforce. The Company was adversely affected by unfavourable weather condition which restrained asset growth during the year under review. This also contributed towards a contraction of the economy due to the inflationary pressure initiating a high interest rate regime.

During the financial year under review, total assets of the Company increased by 1.1% to LKR 83.8 Bn. from LKR 82.9 Bn. a year earlier. The Loan Portfolio declined by 2.0% from LKR 68.2 Bn. to LKR 66.9 Bn. net of impairment during this financial year. This is mainly due to the 7.5% drop in Loans & Advances which came as a result of the Company's continued efforts to promote asset-backed products such as Leasing & Hire Purchase products amidst the prevalent high interest rate regime. As a result, the Leasing and Hire Purchase portfolio showed an increase of 5.0%, ending the year at LKR 31.7 Bn. despite the high import duties on vehicles, depreciating local currency and lowering of the loan to value ratio. Deposits remained as the Company's primary source of funding increasing by 0.9% from LKR 53.7 Bn. to LKR 54.2 Bn. in the financial year under review, owing to the sluggish growth in the loan portfolio.

The interest income earned during the financial year increased from LKR 19.0 Bn. to LKR 20.1 Bn. resulting in a growth of 5.7%. Accordingly, the revenue increased by 7.1% from LKR 20.9 Bn. to LKR 22.4 Bn. The Company's Net Interest Margin stood at 13.0% in 2017/18, which is well above the ratio of the LFC/SLC sector (7.7%). The Profit after Tax of the Company for the financial year ended 31 March 2018 reduced by 19.0% to LKR 2.35 Bn. on the back of unfavourable market conditions which mainly affected the non-asset backed products. This is further evident through the LKR 3.20 Bn. impairment charge which was at LKR 2.87 Bn. the previous year.

The Gross Non-Performing Accommodation (NPA) of the Company was recorded at 7.0% in the financial year under review which is significantly higher than the ratio reported as at the last financial year (4.4%) and the Gross NPA of the sector reported at 5.9% in 2017. This is mainly due to the Company's exposure to non-asset backed products which result in high defaults during times of lackluster economic growth. With the impairment charge the Net Non-Performing Accommodation recorded at 1.5% compared to 1.2% in the previous financial year. The net NPA ratio of LFC/SLC sector was reported at 1.5%.

On the back of continuous growth over the years, the Company entered into the Business Today Top 30 ranked as No. 24 for the first time in its history. This provides further evidence of our service excellence and the trust the Sri Lankan public has in the Company.

Taking an active part in sports events is considered an important aspect of life at Commercial Credit. Resultantly, several sports teams regularly participated at both local and international events. Employees showing a keen interest and ability in any of the sports, such as basketball, athletics and badminton, were given the freedom, resources and support to nurture their talent and achieve their dreams. Given this strong supportive environment, it came as no surprise that several of the sportsmen and women delivered incredible results during the year.

**WE STRONGLY BELIEVE THAT
THE PEOPLE OF COMMERCIAL
CREDIT HOLD THE KEY
TO THE REALIZATION
OF THE COMPANY'S FUTURE
POTENTIAL AMIDST
THE OPPORTUNITIES
AND CHALLENGES THAT WE
WILL ENCOUNTER IN THE
MONTHS AND YEARS
TO COME.**

CORPORATE GOVERNANCE, COMPLIANCE AND RISK MANAGEMENT

At Commercial Credit, we strongly believe that the path to excellence in Corporate Governance is embedded within the Shared Values that we believe in as a company. This means that we are inherently proactive as we motivate ourselves to go beyond merely complying with the standard rules and regulations set out by the regulators. Given this backdrop, it is vital that the Company continues to invest heavily in taking the concept of Shared Values forward by constantly inculcating them in our employees. The strong foundation of the processes and structures that we have built within the Company, along with the passion and determination shown by all team members has always helped us to adhere to the high ethical standards.

Both Board-level Sub-Committees and Operational-level Risk Sub-Committees conducted meetings on a regular basis throughout the year thereby ensuring that the Company was always keeping abreast of both internal and external factors that may affect business operations.

During the year, the state-of-the-art Data Centre and Disaster Recovery (DR) Site of Commercial Credit was further upgraded with the latest technologies, enabling them to remain above the accepted industry standard. In terms of Risk Management, we have always ensured that we adhere to the highest levels of risk standards should it be required by regulators.

FUTURE FOCUS

On the back of the exceptional performances over the past few years, the Company can look towards the future with renewed confidence as one of the key players in the local financial services industry. The ongoing consolidation plan will continue with moderate asset growth coupled with increased asset quality. The Company also plans to widen its network during the year, reaching out to different customer segments of diverse walks of life.

We strongly believe that the people of Commercial Credit hold the key to the realization of the Company's future potential amidst the opportunities and challenges that we will encounter in the months and years to come. In order to have these individuals ready to face any challenge head on, we have taken necessary steps to create a talented human resource pool by developing them in terms of both Character and Competency. The Company will continue to invest heavily in providing an effective learning infrastructure for them to obtain further knowledge on the 7 Habits teachings, Company's Shared Values and required job-related technical trainings, irrespective of which part of the island each individual is based in.

The emphasis on finding possible areas for improvement via the Performance Management System to gain a better assessment of the performance of the workforce, probing for new avenues for product and channel development and development of IT systems to enable high levels of effectiveness and efficiency in providing an excellent customer service, are some of the key areas that we intend to continue focusing on. During the next financial year the Company will make the transition from LKAS 39 to SLFRS 09 on recognition and measurement of financial instruments as per the revised accounting standards issued by the Institute of Chartered Accountants of Sri Lanka.

APPRECIATION

I am proud to acknowledge the fact that Commercial Credit has had a successful run during the past several years where we have progressed to become one of the leading companies in the Non-Bank Financial Institutions (NBFI) sector of the country.

I want to thank our valued customers and shareholders for placing their trust in us. They have given us the strength to power through with our plans and take the Company to unprecedented heights. I am very grateful to the Chairman and the Board of Directors for their continued support and guidance throughout the year. A big "thank you" also goes out to the Governor and Officials of the Central Bank of Sri Lanka for always advising and assisting us throughout the year.

Last and certainly not least, I would like to pay tribute to the incredible team at Commercial Credit. They have continued to amaze me with their wonderful work ethic, professionalism and innovation, as they have repeatedly done over the past few years. Undoubtedly, it is their tenacity and hard work that have made Commercial Credit shine ever so brightly. With such amazing individuals driving us forward, I have no doubt that Commercial Credit will continue to make waves and lead from the front in the financial services sector in Sri Lanka and will remain a benchmark for others to follow well into the future.



R.S. Egodage
Chief Executive Officer

26 June 2018

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

PROFILES OF THE BOARD OF DIRECTORS



Mr. K.J.C. Perera

Chairman – Independent Non-Executive Director

During a career spanning almost 36 years as an Attorney-at-Law of the Supreme Court, Mr. K.J.C. Perera has gained a high degree of expertise in Corporate Banking, Leasing & Finance, Capital Market & Fund Management Services, Corporate Debt Financing Services and Intellectual Property Advisory Services. Mr. Perera joined the Board of Commercial Credit and Finance PLC in March 2011. A well-respected figure within corporate circles, Mr. Perera is currently a partner of Legal Inc., Attorneys-at-Law & Notaries Public. Prior to joining Legal Inc., he served as Head of the Legal Department at Merchant Bank of Sri Lanka PLC for a period of 10 years, as well as at LB Finance PLC and The Finance Company PLC as a Legal Officer. Presently he serves as a Director of Thilanka Hotels (Pvt) Ltd., Legallnc Secretarial & Management Services (Pvt) Ltd., Legallnc Trustee Services (Pvt) Ltd., Thilanka Resort & Spa (Pvt) Ltd. and 99X Technology Ltd.



Mr. R.S. Egodage

Chief Executive Officer – Executive Director

Mr. R.S. Egodage took over the reins of Commercial Credit in October 2009 following the takeover of the Company by BG Investments (Pvt) Ltd. and joined the Board of Commercial Credit in March 2011. As Chief Executive Officer, he has been the driving force behind the Company's stellar success, charting a visionary course of leadership and growth.

Prior to taking over the stewardship of Commercial Credit, Mr. Egodage held several senior management positions in the finance industry. He was appointed as the Deputy Chief Executive Director of The Finance Company PLC in 2006 with overall responsibility for its operations, while serving on the Boards of several group companies at the same time.

Mr. Egodage has previously been Deputy Manager – Corporate Finance of Merchant Bank of Sri Lanka, where he was instrumental in restructuring the plantations sector; General Manager – Finance, Planning and Administration at Kotagala Plantations PLC and General Manager – Projects and Planning at Agalawatte Plantations PLC. He also held key positions of responsibility in companies including Peoples Ventures and Ceylon Pencil Company and he currently serves on the Boards of BG Investments (Pvt) Ltd., BG Capital (Pvt) Ltd., BG International (Pvt) Ltd., Cross Border Ventures (Pvt) Ltd. and Trade Finance and Investments PLC. Having earned a BSc. Eng. degree from the University of Peradeniya and initially embarking on a career in engineering, he then set his sights on a career in business management, earning an MBA from the University of Colombo. He is a fellow member of the Chartered Institute of Management Accountants, UK (FCMA), an associate member of the Chartered Institute of Marketing, UK (ACIM) and an associate member of the Institute of Certified Management Accountants, Sri Lanka (ASCMA).



Mr. I.G.S.K. Gunaratne
Non-Executive Director

Mr. I.G.S.K. Gunaratne is an Independent Consultant in Energy Conservation and Management, and joined the Board of Commercial Credit and Finance PLC in August 2009. Mr. Gunaratne has functioned in senior engineering positions in leading companies such as MAS Holdings and Brandix, as well as in the sugar and plantation industries. With over 21 years of experience in the fields of engineering and energy management, he has participated in project teams and forums involved in the construction and commissioning of many mass scale manufacturing facilities for the Plywood and Textile Industries. He holds a National Diploma in Engineering Sciences specializing in Mechanical Engineering. Presently, he serves as a Director of Best Cars Lanka (Pvt) Ltd. and Trade Finance and Investments PLC.



Mrs. G.R. Egodage
Executive Director

Mrs. G.R. Egodage joined Commercial Credit as an Executive Director following the takeover of the management by BG Investments (Pvt) Ltd., in December 2009. Presently, she serves as a Director of BG Investments (Pvt) Ltd. and BG Capital (Pvt) Ltd.

Mrs. Egodage began her career as an Assistant Lecturer at the Department of Chemistry, University of Peradeniya. As her career advanced she collaborated in many research projects before joining Ansell Lanka, where she served for a period of 4 years as a Process Chemist. From 1996 to 2005 she held the post of Assistant Director for Quality Control and Quality Assurance at the Coconut Development Authority. Subsequently, Mrs. Egodage took up the position of Managing Director of R.D.S. Bakers (Pvt) Ltd. and she was instrumental in developing the popular brand Wonder B which R.D.S. Bakers is now synonymous with. She brings these same skills and dedication to her role as an Executive Director of Commercial Credit and is an integral component of the success story of the Company. She holds a BSc. (Hons.) Degree in Chemistry from the University of Peradeniya and a Postgraduate Diploma in Business Administration from the Open University of Sri Lanka.

PROFILES OF THE BOARD OF DIRECTORS CONTD.



Mr. M.S.D. Pinto

Independent Non-Executive Director

Mr. M.S.D. Pinto started his career as a Trainee Planter in 1986 with Balangoda Estate, which is the part of Sri Lanka State Plantation Corporation and later functioned as Assistant Superintendent and Superintendent in leading plantations. He then served at Solar Electric Light Company (SELCO), USA as the Director Operations, where he contributed in many ways towards the improvement of operations in finance and after sales services of Solar Photo Voltaic in Sri Lanka, India and Vietnam. He was their Chief Executive Officer/Director of Ceylinco Renewables (Pvt) Ltd. for a period of two years and is the Chairman of the Green Earth Group (Pvt) Ltd.

He serves as Group Chief Executive Officer at KDU Group which is the single largest orthodox black tea production company in the world. The Group has diversified into mini hydro power generation, hospitality and real estate sectors both in Sri Lanka and abroad. Mr Pinto serves as a Board member of S & H Holdings (Pvt) Ltd., Green Earth Management Services (Pvt) Ltd. and KDU Exports (Pvt) Ltd.

Mr. Pinto joined the Board of Commercial Credit and Finance PLC in May 2011. He holds a Diploma in Plantation Management (DIPM) and is a Consultant for ISO 9000 certification and Plantation Management. He also holds a Diploma offered by the Institute of Hospitality Management, UK and is currently reading for a PhD from the University Aldersgate, Singapore.



Mr. E.D.P. Soosaipillai

Independent Non-Executive Director

Mr. E.D.P. Soosaipillai is a fellow of both the Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka and is considered a pioneer in the leasing and financial services industry both in Sri Lanka and the Maldives. He has served on the boards of several leading specialised leasing companies in the capacity of Finance Director, Chief Executive Officer and Managing Director.

He was appointed a Director of Commercial Credit and Finance PLC in January 2014. He functions as Chairman of the Board Audit Committee and a member of the Board Integrated Risk Management Committee. He chaired the Board Audit Committee of Trade Finance and Investments PLC, the subsidiary of Commercial Credit and Finance PLC during January to October 2015.

He is an Independent Non-Executive Director on the Board of Hatton National Bank PLC and is a member of the Risk Committee as well as that of the Board Strategy & Investment Review Committee and the Board Procurement Committee of the Bank. He is an Independent Non-Executive Director on the Boards of Udapussellawa Plantations PLC and Hapugastenne Plantations PLC and chairs the Board Audit Committees of both these companies. He is also a member of the Related Party Transaction Review Committee and the Remuneration Committee of these two Plantation Companies.

Mr. Soosaipillai has over 30 years of experience in Financial Services and in Risk Management and Compliance, both at the operational and strategic levels. He was engaged by the World Bank as a Short Term Consultant on a Payables Assessment assignment in the Maldives as part of a wider Public Finance Management project in 2012. Mr. Soosaipillai also served as the Managing Director of the Maldives Finance Leasing Company (Pvt) Ltd. for more than 7 years and as the Chief Executive Officer of Ceylease Financial Services Ltd., a subsidiary of the Bank of Ceylon.



Mr. K.D. Vander Weele

Non-Executive Director

Mr. K.D. Vander Weele is a co-founder and partner in Creation Investments Capital Management, LLC, an impact investment fund manager and transaction advisory group. He is also the founder and managing partner of Creation Investments Sri Lanka, LLC, a Delaware Company. He joined the Board of Commercial Credit and Finance PLC in March 2014.

From 2000 until 2009, Mr. Vander Weele served as the President of the Investment Services Division at Opportunity International, a major microfinance network. Mr. Vander Weele was responsible for the development and oversight of all commercial microfinance institutions within the Opportunity Network, garnering over \$1 Bn. in assets during his tenure. During this period, Mr. Vander Weele was involved in forming three microfinance banks in Eastern Europe (Forus Bank-Russia, Opportunity Bank-Montenegro and Opportunity Bank-Serbia) and he served as the Board chair of each bank. Between 1991 and 2000, Mr. Vander Weele held various positions with the Opportunity International Network, including Global COO, Regional Vice President for Eastern Europe and Interim CEO. From 1975 to 1981, Mr. Vander Weele held various positions at Grant Thornton, CPAs, in their Madison, Boston, Chicago and US National Office. From 1981 to 1991, he was the Senior Vice President, CFO and a founding shareholder of Graphisphere Corporation, a graphic arts holding Company with private equity shareholders, until it was sold to a strategic buyer. Mr. Vander Weele was also a founder and the Board chair of the Microfinance Centre for Eastern Europe from 1998 until 2006 and the Balkan Financial Sector Equity Fund from 2005 to 2011. Mr. Vander Weele has a PhD in international economics from Oxford University and a BBA in Accounting from the University of Wisconsin. He is also a Certified Public Accountant (CPA, USA). He currently serves in the Boards of NOA Holdings NV – Holland, Sonata Finance (Pvt) Ltd. – India, Fusion Microfinance (Pvt) Ltd. – India, Creation Investments Social Venture Funds I, II, III and IV – USA, Sohan Lal Commodity Management – India and Muthoot Microfin – India.



Mr. P.S.R.C. Chitty

Executive Director

Mr. P.S.R.C. Chitty is a fellow of the Association of Chartered Certified Accountants (ACCA), UK and Associate Member of the Chartered Institute of Management Accountants (ACMA), UK and a Chartered Financial Analyst, USA. He obtained his Masters in Economics from the University of Colombo and won the Janashakthi Gold at the 2006 CIMA Pinnacle Awards. Mr. Casie Chitty is an Independent Non-Executive Director of ACL Cables PLC, Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC, Ceylon Printers PLC and Office Equipment PLC. He is the former President of the ACCA Sri Lanka panel. Mr. Casie Chitty has over 27 years experience in the private sector of which 16 years has been at senior management level.

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

PROFILES OF THE BOARD OF DIRECTORS CONTD.



Mr. R.R. Martin

Non-Executive Director

Mr. R.R. Martin is a Director of Group Lease Public Company Ltd. Group Lease is one of the leading finance companies in ASEAN providing leasing and microfinance services targeting the rural and unbanked population in emerging markets and is now one of the Unique Corporation in the region with a strong presence in most of the ASEAN markets such as Thailand, Cambodia, Laos, Indonesia and Myanmar. The company is listed on the Stock Exchange of Thailand. Group Lease acquired 29.99% stake of Commercial Credit and Finance PLC through its Singapore subsidiary.

Mr. Martin joined Group Lease in 2014 as Business Development Manager, and then was promoted as Senior VP for Finance and Business Development of Group Lease in 2015, acted as CFO in April 2016 and he has worked extensively on the expansion of Group Lease in all new ASEAN markets.

Mr. Martin has now been working in South East Asia for almost 10 years since he moved to Cambodia in 2008 as Senior Auditor for the audit firm Morrison Kak and Associates in Phnom Penh. He also worked as Investment Portfolio Manager for Devenco, a boutique Venture Capital company in Cambodia. In addition, Mr. Martin provides teaching of financial analysis to a class of Master students at the Royal University of Law and Economics in Phnom Penh for several years. Prior to moving to South East Asia, Mr. Martin worked as auditor for PriceWaterhouse Coopers in Paris, as Sales Forecast Controller for L’Oreal Paris and at the French Ministry of Economy of Finance.

Mr. Martin is a graduate of the Paris IX Dauphine where he received a Master of Art in International Business and Master of Science in Applied Economics.

Mr. Martin joined the Board of Commercial Credit and Finance PLC in December 2016.



Mr. P.T. Fisher

Non-Executive Director

Mr. P.T. Fisher is the founder and managing partner of Creation Investments Capital Management, LLC, an Impact Investment Fund Manager and transaction advisory group. With over \$450 Mn. in assets under management, Creation Investments focuses on private equity investments in financial services and microfinance, focused on the unbanked and underbanked.

He is also the Founder and Managing Partner of Creation Investments Sri Lanka, LLC, a Delaware Company. Mr. Fisher has led investments or provided advisory services on transactions in over 25 countries in financial services, health care, affordable housing, agriculture, clean energy and technology, as well as evaluating social ventures and impact investments in many markets.

Mr. Fisher joined the Board of Commercial Credit and Finance PLC in March 2014. In addition to Commercial Credit and Finance, Mr. Fisher serves on the Boards of NOA Holdings, NV – Netherlands, Capital Float (Pvt) Ltd. – India, Caja Rural Los Andes-Peru, Creation Investments Social Venture Fund I – USA, Creation Investments Social Venture Fund II – USA, Creation Investments Social Venture Fund III – USA, Creation Investments Social Venture Fund IV – USA, Promus Holdings, LLC – USA, KVPE, LLC – USA, Vitruvian Corporation – USA, Creation Investments Capital Management, LLC – USA, and Catholic Charities USA.

Prior to founding Creation Investments, Mr. Fisher spent the majority of his career working for JPMorgan Chase, primarily covering Asia and Latin America. Mr Fisher worked for the Bank in China, specifically in Hong Kong and Beijing. In addition,

Mr. Fisher is a graduate of the J.L. Kellogg School of Management at Northwestern University, where he received a Master of Business Administration degree. He earned his Bachelor of Arts, magna cum laude, at the University of Notre Dame. He is a member of Mensa and continues his studies in Spanish, Mandarin and Koine Greek.



Mr. B.B. Zschorsch

Non-Executive Director (Appointed with effect from 25 May 2018)

Mr. Boris Zschorsch is the Group Deputy CFO of Group Lease Public Company Limited, one of the leading finance companies in ASEAN providing leasing and microfinance services targeting rural and unbanked population in emerging markets. With a presence in Thailand, Cambodia, Laos, Myanmar and Indonesia, the Company is listed on the Stock Exchange of Thailand. Group Lease PCL acquired a 29.99% stake of Commercial Credit and Finance PLC through its holding subsidiary.

Mr. Zschorsch joined Group Lease PCL in 2015 as a Financial Analyst working on Due Diligence assignments as well as financial analysis on the multi-national group level. He was then promoted to Group Deputy CFO in charge of the Group Consolidation in Thailand as well as involved in the operations of the subsidiary holding company. He took part in the rapid expansion of cross-country operations in the last few years.

Mr. Zschorsch has been working in Southeast Asia since January 2015 when he joined PricewaterhouseCoopers Singapore after having worked for the Professional Service Company in Luxembourg as an Audit Senior for more than 4 years.

He is a graduate of J.W. Goethe Universität in Frankfurt, Germany where he received the title Diplom-Kaufmann as well as of Université Paris Dauphine IX, France where he received a Master in Finance and Accounting.

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

EXECUTIVE MANAGEMENT TEAM

Roshan Egodage



Geya Egodage



Rajiv Casie Chitty



K.L.A. Senevirathne



Janaka Deshapriya





Prasanna Wickramasinghe



Lawrence Fernando



D.G. Jayaratne



Anuradha Ranaweera



Shammi Jayathilake

Highlights	06
Board of Directors and Executive Management	09
Management Discussion and Analysis	27
Sustainability Report	47
Risk Management and Corporate Governance	61
Financial Information	103

EXECUTIVE MANAGEMENT TEAM CONTD.

Piyal Salwathura



Nirosh Madawala



Ayesh Pitigala



Lalith Karunarathna



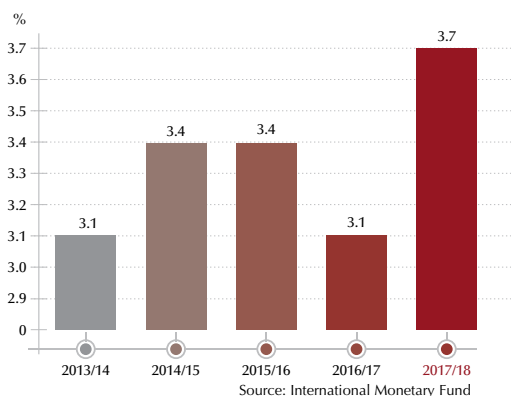
**MANAGEMENT
DISCUSSION AND
ANALYSIS**

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL ECONOMY

Economic activity across the globe showed an increase in 2017 with an expansion by 3.7% during the year. A positive outlook and investments in advanced economies coupled with increased manufacturing in Asia lead to an improvement of world trade in the third quarter of the year. Crude oil prices increased from around US\$ 54 per barrel at the start of the year to over US\$ 60 later in the year due to rising global demand and an OPEC agreement to limit production triggering a surge in inflation and overall commodity prices. Capital inflows to emerging economies remained resilient, driving overall growth.

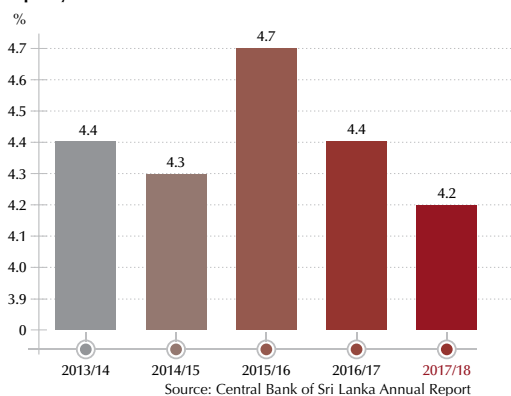
World Economic Growth



SRI LANKAN ECONOMY

Unpredictable, poor weather patterns and their continued negative impacts adversely affected the island’s real economic activity resulting in the economy recording a growth of 3.1% in real terms. Despite the low real GDP growth, the economy was able to generate sufficient employment opportunities that further drove the unemployment rate down to 4.2% during the year.

Unemployment

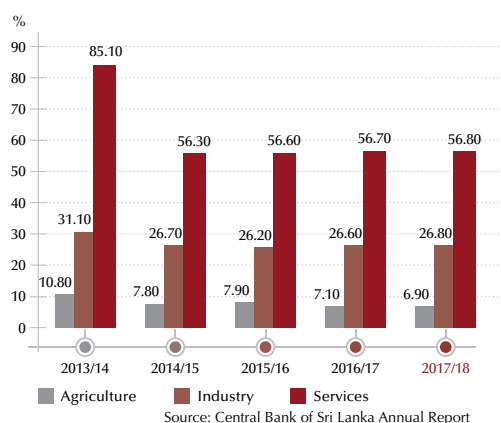


Services and industry related activities, both of which combined to make up 92.4% of gross value added, registered growth rates of below 3.2% and 3.9%. For the second straight year, agriculture related activities recorded a negative growth, although estimates for the 4th quarter of 2017 pointed towards a recovery in the sector.

Headline inflation portrayed two high points during the year, the first of which took place in March 2017 while the second occurred in October 2017. It remained above the desired mid-single digit levels for a majority of the months driven up by double digit food inflation. However, core inflation moderated gradually during the year, as monetary policy measures introduced by the government to control inflation took effect.

With the moderation of food inflation, headline inflation decelerated considerably by the first quarter of 2018 while the favourable inflation and inflation outlook as well as the weak real GDP growth encouraged the Central Bank to end the tightening cycle of monetary policy, by reducing the upper bound of the policy interest rate corridor by 25 basis points in April 2018.

Composition of the GDP



FINANCIAL SYSTEM

The country’s financial sector demonstrated an improved performance thanks to the relative stability brought about by the supportive prudential measures. This better showing was witnessed across the board and was spearheaded by the banks, deposit taking financial institutions as well as contractual savings institutions.

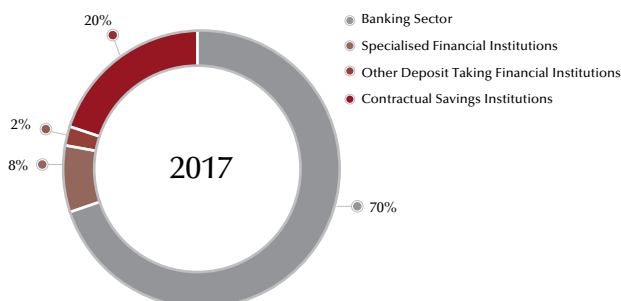
The banking sector continued to move forward by expanding through enhanced business operations, better risk management practices and the implementation of

timely and appropriate regulatory measures during the year. While the banking sector recorded increased asset growth, during the second half of the year it moderated as a result of the tight monetary policy stance and the subsequent high market interest rates. The drop in the Non-Performing Loans (NPL) ratios represented an improvement in the quality of the banking sector assets while capital adequacy ratios and liquidity ratios of the sector remained at healthy levels.

The resilience of the sector was boosted by the notable decline in borrowings during the year with deposits providing the necessary funds for the sector expansion.

The profitability of the sector also showed an upward trend as shown in both the Return on Assets (ROA) and the Return on Equity (ROE) ratios, indicating a timely build-up of resources to mitigate potential risks. In general, the banking sector continued to play a significant role in boosting economic growth and development courtesy of improved banking services and outreach, together with branch network expansion which has led to a better state of financial inclusion in the country.

Composition of Total Assets in the Financial System



LICENSED FINANCE COMPANIES AND SPECIALISED LEASING COMPANIES (LFC/SLC) SECTOR

The LFC/SLC sector registered a moderate performance during the year with low credit growth, declining profitability and increase in non-performing loans. The sector showed growth during the year with an asset growth of 11.8% which amounted to 7.9% of Sri Lanka’s financial system. The sector exhibited strength and resilience, maintaining capital at healthy levels along with sufficient liquidity buffers well above the required minimum regulatory levels.

The sector also witnessed a shift in the funding mix, as increased assets were primarily driven through deposits whereas borrowings declined in comparison to the high growth recorded during 2016.

As always, the Central Bank continued to be watchful and took calculated measures to maintain the stability of the sector. Efforts were also made by the Central Bank to breathe new life into companies in weak financial positions.

ASSETS

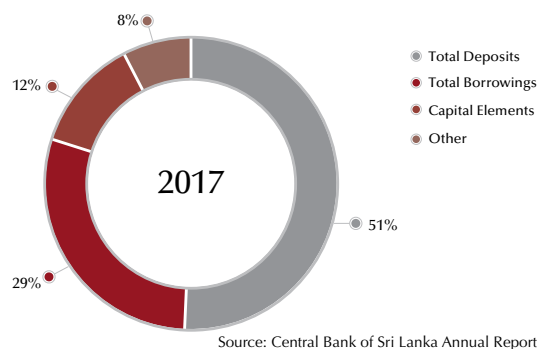
During the year, the total asset base of the sector grew moderately by LKR 143 Bn. to hit LKR 1,355 Bn. by December 2017. This was a reduced growth rate of 11.8% compared to the 21.7% growth achieved by the sector in 2016.

The assets base of the sector was primarily made up of loans and advances and accounted for 78% of the total assets which contributed to 66% of the assets growth. Finance leases made up 50% of the loans and advances while other secured loans accounted for 40%.

The overall credit expansion is a clear indication of the slowing down of the sector growth during the year. This reduced credit growth, when compared to 2016 is a result of the fiscal and macro prudential policy measures taken to limit the importation of motor vehicles and lending towards vehicles, the moderate economic growth of the country’s economy during the year and high interest rates that persisted in the market.

The sector’s credit growth declined to 9.8% (LKR 94 Bn.) amounting to LKR 1,057.1 Bn., compared to the 21.0% recorded in 2016. Approximately 62% of this growth was through finance leases, while 36% was through secured loans and advances. While the hire purchase portfolio contracted during the year by LKR 15 Bn. (35.6%), the growth of finance lease portfolio was 13% in comparison to the growth of 17% recorded in the year 2016.

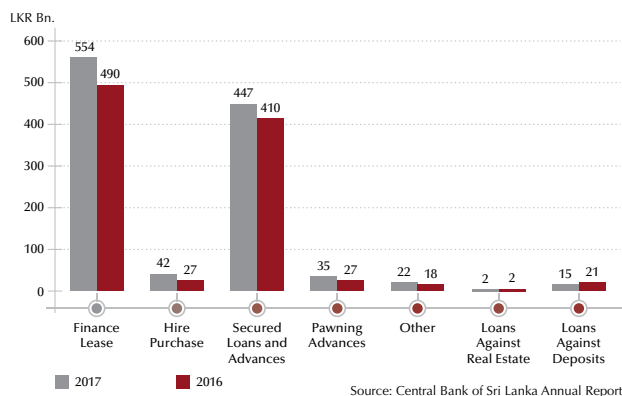
Composition of Total Assets in the LFC/SLC Sector



Highlights	06
Board of Directors and Executive Management	09
Management Discussion and Analysis	27
Sustainability Report	47
Risk Management and Corporate Governance	61
Financial Information	103

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Composition of Total Loans and Advances in the LFC/SLC Sector

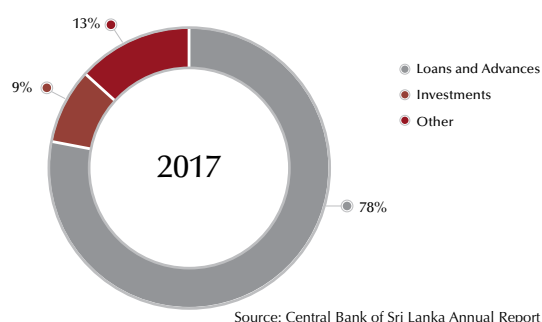


LIABILITIES

Customer deposits comprised a significant portion of liabilities in 2017, amounting for 50.7% of the total liabilities of the sector while sector borrowings and capital accounted for 29.2% and 12.5% respectively.

There was a distinct trend in the sector's funding mix as the growth was largely driven through customer deposit mobilisation. Deposits grew by 29.4% to LKR 686.7 Bn. during the year, compared to the growth of 10.4% in 2016. Time deposits increased by 29.2% compared to the growth of 11.1% in the year 2016 and accounted for a large majority of total deposits, representing 95.5%. Savings deposits grew by 35.3% in comparison to the negative growth of 1.7% registered during the same period. The sector borrowings declined by 9.7% to LKR 396.0 Bn. in 2017, in contrast to the high growth of borrowings of 39.6% recorded in 2016. The increasing reliance on deposits were mainly attributed to the declining trend of deposit interest rates.

Composition of Liabilities in the LFC/SLC Sector



PROFITABILITY

During the year, the net interest income of the sector grew at a lesser rate than in 2016, recording a growth of 11.5% to LKR 102.7 Bn., primarily due to the rise in interest expenses by 33.1% compared to the growth of interest income only by 22.6%. Resultantly, net interest margin of the sector dipped slightly to 7.7% in 2017 from the 7.9% registered in 2016.

Due to the increase in default charges and other service charges, non-interest income increased by 20.3%. However, non-interest expenses also increased by 21.9% caused mainly by an increase in staff costs, thereby negatively impacting sector profitability. Another factor that affected profitability in 2017 was the LKR 13.5 Bn. loan loss provisions made against NPLs, which increased by LKR 6 Bn. during 2017 from the provision of LKR 7.6 Bn. made in 2016.

Consequently, mainly due to increased funding cost and higher loan loss provisions, the sector registered a Profit after Tax of LKR 25.8 Bn., an 18.0% decline when compared to the profit of LKR 31.5 Bn. recorded in the year the previous year. ROA decreased by 80 basis points during the year, reporting a ratio of 3.2% and ROE declined nearly by 700 basis points, reporting a ratio of 16.1% demonstrating signs of stress towards the profitability of the sector.

Profitability of the LFC/SLC Sector	2016	2017
Income and Profitability		
Net Interest Income (Bn.)	92.1	102.7
Profit after Tax (Bn.)	31.5	25.8
Key Indicators		
Net Interest Margin	7.9%	7.7%
Gross NPA	5.3%	5.9%
ROA	4.0%	3.2%
ROE	23.1%	16.1%

ORGANISATIONAL PROFILE

About the Company

Commercial Credit and Finance PLC was established on 4 October 1982 when it was first incorporated under the Companies Act No. 17 of 1982 as a private limited liability company in Sri Lanka's hill capital Kandy as Commercial Credit (Pvt) Ltd. Subsequently, it was registered as a public limited liability company under the provisions of the above Act on 16 December 1989 as Commercial Credit Ltd.

The Company then was re-registered under the Companies Act No. 07 of 2007 on 8 April 2008 and the Finance Business Act No. 42 of 2011 on 6 August 2012. When the shares of the Company were listed on the Dirisavi Board of the Colombo Stock Exchange on 1 June 2011, Company's name underwent another change and became Commercial Credit PLC. In compliance with the provisions of the Finance Business Act No. 42 of 2011, the Company changed its name to Commercial Credit and Finance PLC with effect from 17 May 2012.

The Company was originally established with the prime focus on agricultural lending. Since its early days, the Company inculcated a strong process and system driven culture, leading to numerous benefits that are being reaped even today. It underwent a change in the majority shareholding in October 2009, resulting in the infusion of a new management team. This dynamic team brought with it a new philosophy where an organisation with a strong Value-driven culture would be in a position to achieve great success in the longer term as it would contribute meaningfully to the development of society.

PRODUCT PORTFOLIO

We strongly believe that the customer is the most important stakeholder who drives our business forward. The main interface with our customer base is carried out through our product portfolio. Accordingly, the products we offer and their various features and benefits are carefully thought out to ensure that they address the unique financial needs of our customer while uplifting their lives.

LEASING AND HIRE PURCHASE PRODUCTS

Overview

Commercial Credit offers a wide array of Leasing and Hire Purchase products that are tailored to meet the diverse needs of various types of customers seeking to acquire their dream vehicle. The Company has always ensured to introduce pioneering Auto products that have been well-received by the customer base and resulted in continued success for the

organisation. These products help uplift the lives of every market segment of the country by enabling customers from all parts of the island to acquire registered and unregistered vehicles through the Company's network.

The key features of the Leasing and Hire Purchase products are that they demonstrate the customer-oriented approach of the Company. Prospective customers are always provided a quick service through a friendly, professional agent who will come to the customer's doorstep, communicate clearly and openly, understand his or her needs and provide a flexible leasing or hire purchase solution that meets the customer's requirements.

Impact of the Company's Culture

The Leasing and Hire Purchase Division focuses on developing individuals who are honest, trustworthy and accountable. These are the key attributes a person should possess in order to win the confidence of the prospective customer. It also makes the day-to-day operations within the team faster and more effective.

Team members are trained and empowered to make quick decisions on their own so that once they go out into the field to meet their customers, they are able to give speedy, accurate and responsible feedback that provide the customer with necessary clarifications. Rapid feedback by the marketing agents makes the customers' decision-making process much easier and thereby helps the Company to create a positive impact in the lives of the customer.

Highlights of the Year

Company's Leasing and Hire Purchase portfolio increased to LKR 31.7 Bn. in 2017/18, a 5.0% increase from LKR 30.2 Bn. recorded in 2016/17. With continued focus on asset backed products, several changes were made in the Leasing and Hire Purchase category to facilitate growth during the coming years. An upgrade in the filtering and categorization of vehicles in the IT system allowed the team to better manage stocks of various types of vehicles in the Company's portfolio.

Extensive training for the marketing officers were conducted throughout the year so that each and every one of them are better equipped with practical field knowledge such as providing a valuation for a vehicle during their customer visits without having to report back to office. This move empowered the marketing officers into providing a faster and a superior service to the customers. With the purpose of catering to the urgent financial needs of customers Payaking Mudhal was promoted during the financial year.

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

The special feature in this product is that the customer can obtain the loan within an hour. In addition, new products were initiated during the year in the registered motor bike and registered three-wheeler category where the potential for growth is evident.

Looking Ahead

The Company intends to build on the key facets of their customer service delivery, namely, efficient service and attention to detail, thereby fulfilling the requirements of the customer. There will be greater emphasis placed on staff training, development and empowerment as these are vital areas that helps the Division to maintain the high standards of customer engagement and service delivery. In continuing our tradition of maintaining an open dialogue with the customer, the marketing agents will be encouraged to provide unbiased, honest opinions when communicating with customers so that they can make an informed decision. By communicating openly with customers and also by closely observing the needs of the market, the Company will build on efforts to create new, innovative products that cater to all segments of society providing them with the opportunity to pick from an array of products that will uplift their lives.

MICROFINANCE AND ABHIWURDHI SME LOANS

Overview

Microfinance is a financial assistance concept where small loans are given to individuals or communities who have no access to banking facilities, for the purpose of establishing or developing an enterprise of their own.

For several years, by leveraging the efficient client servicing process of the Company, Commercial Credit has been successful in providing Microfinance services to customers thereby paving the way for them to uplift their lives.

The Company accommodates various types of Microfinance products to cater to the changing requirements of today's customers.

1. Microfinance – This facility is granted to the low-income individuals and groups, who have no access to banking services, for fund borrowing purposes.
2. Abhiwurdhi (SME) – Abhiwurdhi financial facility is provided to SME-level customers to develop and improve their businesses.
3. Advance Loan – This facility is granted to existing customers possessing a good track record in order to fulfil their short term needs.

This product range is always offered with quick, efficient service, minimum documentation and convenient repayment methods and is backed by high technology usage.

Impact of the Company's Culture

The very nature of the Microfinance concept, eliminating poverty and uplifting the lives of the people especially those with little or no access to traditional financial services, makes it very close to the Purpose of the Company. As a result, the entire cadre of the division understands the significant responsibility that is placed on them and the importance that their job entails. Therefore, at every given opportunity, they go out of their way to ensure that the customer is well taken care of and their needs are attended to promptly.

The key to finding and grooming such caring individuals is carefully vetting them during the recruitment process. When new employees are recruited, irrespective of whether they are trainees or experienced individuals, there is a greater emphasis to verify whether they possess caring, compassionate qualities and whether they suit the unique culture of the Company. How they can contribute positively to the Purpose of the Company by leveraging these humane qualities is far more important than the need to see whether they possess the drive and the ability to meet financial targets.

Highlights of the Year

With the service network spread across 112 locations, the Company maintained a Microfinance lending portfolio of LKR 12.7 Bn. The number of customers served as at the end of the financial year under review stood at 262,739.

With challenging market conditions prevailing, the Company shifted its focus towards promoting products with shorter tenure which in return yield a higher interest income due to relatively higher rates. The microfinance team continues to maintain a faster turnaround time with the assistance of process improvements where greater autonomy is given to branch managers.

Technology has been widely used to streamline internal operations and provide a better service to the customer. On the field, the use of POS machines provided a faster, more accurate method of making collections, updating the ERP system and handing out receipts to customers. A new documentation process has been introduced in order to make the process more user-friendly. The Company has established several teams to review and upgrade internal processes and systems with the objective of providing a continuously improved customer service and a higher levels of service excellence.

Looking Ahead

The microfinance products are constantly reviewed to verify whether they meet the requirements of the customer. Plans are underway to introduce new products that cater to specific needs of the customers.

The Company has also laid out plans to tap into fast-evolving mobile technology and make better use of it for Microfinance products. The introduction of an E-Documentation System to streamline back end functions is also on the cards in the future.

TERM LOANS

Overview

The Term Loan product is a type of Cash Loan specifically designed to provide financial assistance to customers who can demonstrate repayment capacity via their existing earnings. Granted for a maximum period of 60 months, Term Loans have been a popular product amongst business people and a wide range of fixed income earners such as Professionals and Executives.

The Term Loans Division works towards understanding the customer's loan requests and provide them the best available service to fulfil their financial needs on time. This process is in line with the Company's Purpose of uplifting the lives of the customer by identifying the requirements accurately, providing sound, unbiased advice and a timely service. The Division has the ability to provide quick evaluation of a loan request, helping the customer get access to the loan and providing them peace of mind. With multiple security features and a hassle-free documentation process, customers are provided a comprehensive solution for their loan requirements.

Impact of the Company's Culture

The Shared Values of the Company play a significant role in the operations of the Term Loans Division. Trustworthiness is a vital attribute that is fostered within the Division as it is an important element when dealing with customers and when working together with fellow team members to provide the best solution. Each individual is empowered to be a leader who can make bold decisions and help uplift the lives of the customer through simple acts of love. The culture of the Division nurtures individuals and enhances their existing values so that they possess the ability to go out into the world, make a positive difference and be highly-respected human beings.

Highlights of the Year

During the year under review, the total portfolio of Term Loans declined to LKR 4.6 Bn., a drop of 37.7%. Due to adverse market conditions in the Term Loan segment resulting in increasing arrears and the Company shifting its focus towards secured products such as mortgage loans. Accordingly, the Company expanded its regional lawyer and valuation expert network. In addition, the credit evaluation and collection process were streamlined with the introduction of Regional Officers dedicated to the Term Loan product.

Looking Ahead

With the adversity in the economic conditions easing off resulting in favourable interest rates, the Company plans to re-strategise by understanding their current business needs. The product mix will continue to change with high focus rendered towards secured products. In addition, the Company intends to further strengthen the credit evaluation and collection process to improve collections in the future while maintaining high service standards that focus on uplifting the lives of the customer.

FACTORING

Overview

The factoring operations of Commercial Credit was commenced in September 2014 and since then the Company has been providing working capital solutions to businesses that operate on credit terms. This Division was commenced to provide a service to the SME sector by purchasing their debt at a discounted rate, giving them much-needed funds to sustain and expand their business. Factoring services are currently offered in Colombo and a few other locations around the country and is instrumental in providing the working capital requirements of the SME sector.

A typical profile of a Factoring client is an individual or a business that sells a product or service on credit, has a good debtor base and has the potential to grow. However, they lack the necessary working capital and are therefore unable to provide tangible security to obtain necessary funding for the business.

06	Highlights
09	Board of Directors and Executive Management
27	Management Discussion and Analysis
47	Sustainability Report
61	Risk Management and Corporate Governance
103	Financial Information

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Impact of the Company's Culture

The Company understands that weak cash flow hinders the growth of the SME sector and has therefore introduced various products to address this issue. By utilising these products, the businesses will benefit as with proper cash flows, the business will be able to run smoothly. For suppliers, the outstanding amounts will be settled on time while debtors will be able to enjoy better credit terms and employees of the business will benefit as a result of business expansion. All-in-all, utilising a Factoring product is a win-win situation for all parties concerned, and invariably leads to an uplifting of the lives of the people.

Highlights of the Year

With challenging market conditions prevailing for working capital facilities, Company's factoring portfolio was consolidated at LKR 1.3 Bn. at the end of the financial year, with greater focus rendered to less riskier products.

Looking Ahead

As more favourable market conditions are expected to occur in the coming year, the management is confident of a revival in the product. The Factoring Division intends to reduce the reliance on riskier products such as Cheque Discounting and promote Invoice Discounting and Factoring products. An expansion plan is put in place to recruit dedicated Factoring Officers to few locations in key cities where demand for such facilities are high.

The Factoring Division will continue to provide a speedy, flexible service owing to technical trainings provided to factoring staff members and the strong emphasis placed on the Purpose of the Company which helps uplift the lives of clients by growing their businesses.

GOLD LOANS

Overview

In line with the Company's Purpose, Commercial Credit plays a significant role in the lives of many customers who are in urgent need of cash. This is made possible by the various products made available under the Company's Gold Loan business. The Gold Loan business provides customers with a variety of products including Pawn Broking, Gold Loans, Gold Investments, and Ran Sahana Loans to meet the varied needs of the customer.

Impact of the Company's Culture

The Company's Gold Loan business has been built based on the Purpose of the Company - to uplift the lives of all people – and has grown from strength to strength in the process. The Gold Loan Division's approach involves enhancing the knowledge and skills of the employees while also empowering them so that they are able to make quick, calculated and informed decisions and thereby provide the customer with the best possible solution for their urgent financial needs.

For the employee, this is a confidence boosting approach, resulting in effective decision making in the long-term. From the Company's perspective, this approach helps groom them to become future leaders of the organisation. Whenever possible, the Gold Loan team attempts to provide a higher advance to the customer, within reasonable boundaries, so that the customer has a better chance of overcoming his or her difficulties. Similarly, the Company's approach to collections is in keeping with the product promise, where every possible action is taken to help the customer to recover the article. Auctioning the article is only taken as a last resort.

Highlights of the Year

The Gold Loan portfolio increased to LKR 4.1 Bn. during the year under review, a 95.4% increase from LKR 2.1 Bn.

The Company also expanded the Gold Loan network from almost 60 locations to 90 locations in total, driven by the commencement of Gold Loan services in existing service locations. The Gold Loan team has 118 members when consists of a team with a wealth of experience in the business. The Company was able to maintain high service standards which helped maintain the auction percentage during the year well below the industry standards as usual.

Looking Ahead

With stable gold prices resulting in favourable market conditions, the Company plans to expand its branch network with priority given to gold loans. This will ensure that the branch will be located in the most ideal location for gold loan operations to be effective. The expansion plan will be centred around the North and East region due to the high gold possession among the locals. In order to ensure success, the expansion plan will be facilitated by continuous technical training programs.

There will also be new customized gold loan products aligned with the very Purpose of the Company, such as gold loans for the Microfinance customer base which amounts to approximately 300,000. The Company expects to undertake several process developments such as streamlining the collection process through the use of POS machines.

EDUCATIONAL LOANS

Overview

The Educational Loan Scheme of Commercial Credit was launched as a product that is focused on providing a viable and sustainable loan scheme to meet the aspirations of a segment of society. It aims to provide financial support for students who intend to pursue higher education in Sri Lanka and abroad. The loan scheme is built upon the concept that a student, irrespective of financial standing, must be provided with an opportunity to pursue higher studies through a sound financial support package that consists of reasonable, affordable terms and conditions.

Over time, it has come to light that Educational Loans are one of the most important products offered by the Company as they provide the students with a vital resource in their journey to achieve knowledge and skill. This, in turn, will hold them in good stead as they prepare to face the challenges of the future. This loan product allows the employees of the Company to engage with young customers and their guardians and show them the loving and caring nature of the Company. As a result, the Company views these loans as the first step in a long-term relationship with the customer. All loans are provided in a speedy and flexible manner with minimum documentation and hassle.

Impact of the Company's Culture

The Company strongly believes that a sound education is the foundation for creating future leaders who can reach great heights and serve the nation with passion and commitment. By using a flexible approach in granting Educational Loans to students who do not possess sufficient financial means to achieve their dreams, the Company is playing its part in creating a brighter tomorrow for the individual and the country as a whole. Therefore, the team at Educational Loans works closely with the individual and, if required, his/her parents or guardians to ensure that the loan provided will benefit the student in a positive manner. In keeping with the Purpose of the Company, the education loan should help to uplift the lives of the individual and the family and allow them to look towards the future with renewed hope and confidence.

The Educational Loans Division team understands how the Company's culture has helped them to change for the better. Every aspect, from their appearance in office, the way they communicate with each other and even how they conduct themselves in their respective homes, have been enhanced. Embracing the Company's culture has enabled them to become better all-round human beings. They take pride in knowing that they play a crucial role in giving deserving talents a chance to shine in the future.

Highlights of the Year

The Educational Loans Division was able to maintain a portfolio of LKR 603.9 Mn. during the year under review. The Company played an active role in the Future Minds Expo 2017, the national higher educational and career fair that was held in Colombo, Kandy and Galle. During the year, the Educational Loans team was expanded to reach a wider audience within the existing branch network. The ERP System was expanded to include a new Educational Loans interface which is more informative resulting in improvements in the credit evaluation process.

Looking Ahead

The team will continue to participate in leading educational events and exhibitions that will be organised across the island so that they will be able to better connect with prospective customers and agents of foreign universities. Furthermore, there will be a continuous drive to build strong bonds with educational institutes in all the major cities. During the upcoming year, the Education Loan Division also plans to further expand within key cities in the existing branch network, by training existing Credit Officers to also function as an Education Loan Officer driving multi-tasking.

REVOLVING BUSINESS LOAN (RBL)

Overview

Commercial Credit's Revolving Business Loan (RBL) is a product that has been introduced to provide a boost to the Small and Medium-scale Enterprise (SME) sector of Sri Lanka by providing much-needed funds without any collateral.

During the past several years, there has been a significant growth in the SME sector of the country with key economic indicators portraying an upward trend. This vital sector continues to receive the support of the government as it is known to be the engine of growth in the country. This has resulted in a positive outlook for the Company as businesses have turned to innovative products such as RBL to find the necessary funding.

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

The RBL customer base includes a wide array of small and medium-sized businesses such as retail shops, small-scale supermarkets, hardware shops, pharmacies, retail garments stores and motor spare parts shops, among many others. Collections are done on a daily basis by a large team of agents who visit each and every customer and use their Point of Sale (POS) for collection.

Impact of the Company's Culture

These SME sector businesses employ thousands of individuals from all parts of the country and therefore any growth in their operations and income trickles down to create a positive impact in the lives of all those employed. This means that the very nature of the RBL product - granting of working capital loans to the SME sector – allows the RBL Division to live up to the Purpose of the Company of uplifting the lives of people and their families.

The culture of the Company helps every individual in the RBL Division to practice self-discipline. Such discipline in their day-to-day office life allows the whole team to focus all their energies on what is most important in their job – helping uplift the lives of the customer in line with the Company's Purpose. This invariably leads to a better performance, for both the Division and the Company, and greater job satisfaction for all.

Highlights of the Year

RBL portfolio stood at LKR 2.8 Bn. at the end of the financial year under review. Owing to challenging market conditions which have mainly affected working capital facilities, the RBL Division has shifted its focus towards expanding the customer base while providing loans that are smaller in value and medium term in tenor.

The Company introduced a special credit department to strengthen the approval process while improving the documentation process to facilitate the move. This has enabled the RBL officers to carry out a thorough evaluation on the status of the customer and the business. The staff were provided continuous training during the year to effectively sync with the process changes introduced during the year.

Looking Ahead

Despite having low barriers to entry, the Company expects low penetration from the NBFIs sector owing to challenging market conditions and the inherent high risk. Hence, the Company anticipates the coming year as a year to consolidate the portfolio and focus on credit quality while expanding the

customer base in a healthy manner. Staff trainings will be aligned to these objectives while system developments are in the pipeline to improve access to quality information which will further enhance the credit evaluation process.

DEPOSITS

Overview

Public Deposits was the main source of funding to carry out business operations at Commercial Credit with the Company's wide range of deposit products helping it to expand the customer base across the island. The product range includes Fixed Deposits, General Savings and Minor Savings, all of which provide numerous benefits to the customer. Fixed deposits are accepted for periods ranging from 1 month to 5 years with interest being paid either monthly or at maturity, while the Hari Minor Savings Account is accepted for longer periods.

In keeping with the culture of the Company, customers' deposits are handled with utmost care and managed by means of a framework of ethical fund management. All funds received are re-invested into the various lending products offered by the Company, thereby adding value to all stakeholders.

Impact of the Company's Culture

As they are in the business of accepting funds from the customer, the Deposits Division believes in providing a professional service at all times. The team is groomed to treat the customer with love, care and respect thereby winning their trust. All team members are advised to portray confidence, be transparent and communicate clearly to put the customers at ease. The team interacts in an open yet professional manner with both internal and external parties thereby creating an environment that is geared to provide an excellent service to the customer.

Highlights of the Year

With the Company undergoing a consolidation phase following a period of aggressive growth, the growth in the deposit base was subdued with a growth rate of 0.9% ending up at LKR 54.2 Bn. The new ERP system was introduced to the deposit products which is a more user-friendly interface driving efficiency. The Company continued to maintain high service standards as a result of continuous training and development.

Looking Ahead

The Company's focus will continue to remain on continuously educating and enhancing the skill levels of the existing staff in line with the Company's Shared Values so that they are better equipped to face the challenges of Sri Lanka's fast-changing financial landscape. In keeping with the dynamic nature of the industry, the deposit products will be regularly monitored and adjusted to highlight the flexibility and attractive features while a conscious effort will be made to build stronger bonds with the customer base by courtesy of more engagement programmes.

The Company expects customer deposits to continue to be the most important source of funding. Several factors will play a key role in attracting substantial customer deposits in the future. These include carefully planned marketing campaigns, and most importantly, a highly-skilled and customer-oriented sales team that focuses on uplifting the lives of the customer, in line with the Company's Purpose.

RECOVERIES

Overview

The Recoveries Department of Commercial Credit is instrumental in monitoring and maintaining the recovery process and procedures of the Company in order to achieve the Company goals. The department maintains numerous recovery KPIs such as debtors, bad debt provision and non-performing loans percentage. It takes all necessary ethical steps to enhance collections while always paying attention to the genuine grievances of customers. If a customer is in distress with the repayment, the department looks at alternative solutions to sort out the matter amicably without causing further distress. However, when it comes to wilful defaulters, the department is ready to take all necessary steps to ensure that the due amount is properly recovered.

The Recoveries Department spearheads collections for the main products offered by the Company via the Call Centre in Colombo and Recovery Officers at the field level, each of whom are allocated a set of service locations to follow up on. The officers have been trained to listen to the genuine grievances of the customer and handle such situations in a delicate, compassionate manner. Through careful relationship management coupled with open communication and fair negotiations, the team is successful in finding solutions where the customer is able to settle the payment in a manner that is comfortable to him/her.

Impact of the Company's Culture

Recoveries is a sensitive topic that requires the right balance of professionalism, communication and trust between the Recoveries Department staff and the customer especially when it comes to delayed loan repayments. When faced with difficult scenarios, the department believes in keeping with the Shared Values of the Company where the focus is on providing win-win solutions. In this way, both the customer and the Company are satisfied with the final outcome.

Highlights of the Year

During the year a new recovery plan was introduced where KPIs were set based on the default category of a particular contract. This triggered the establishment of a Critical Recovery Unit for non-performing advances and a dedicated Call Centre operation to back the plan.

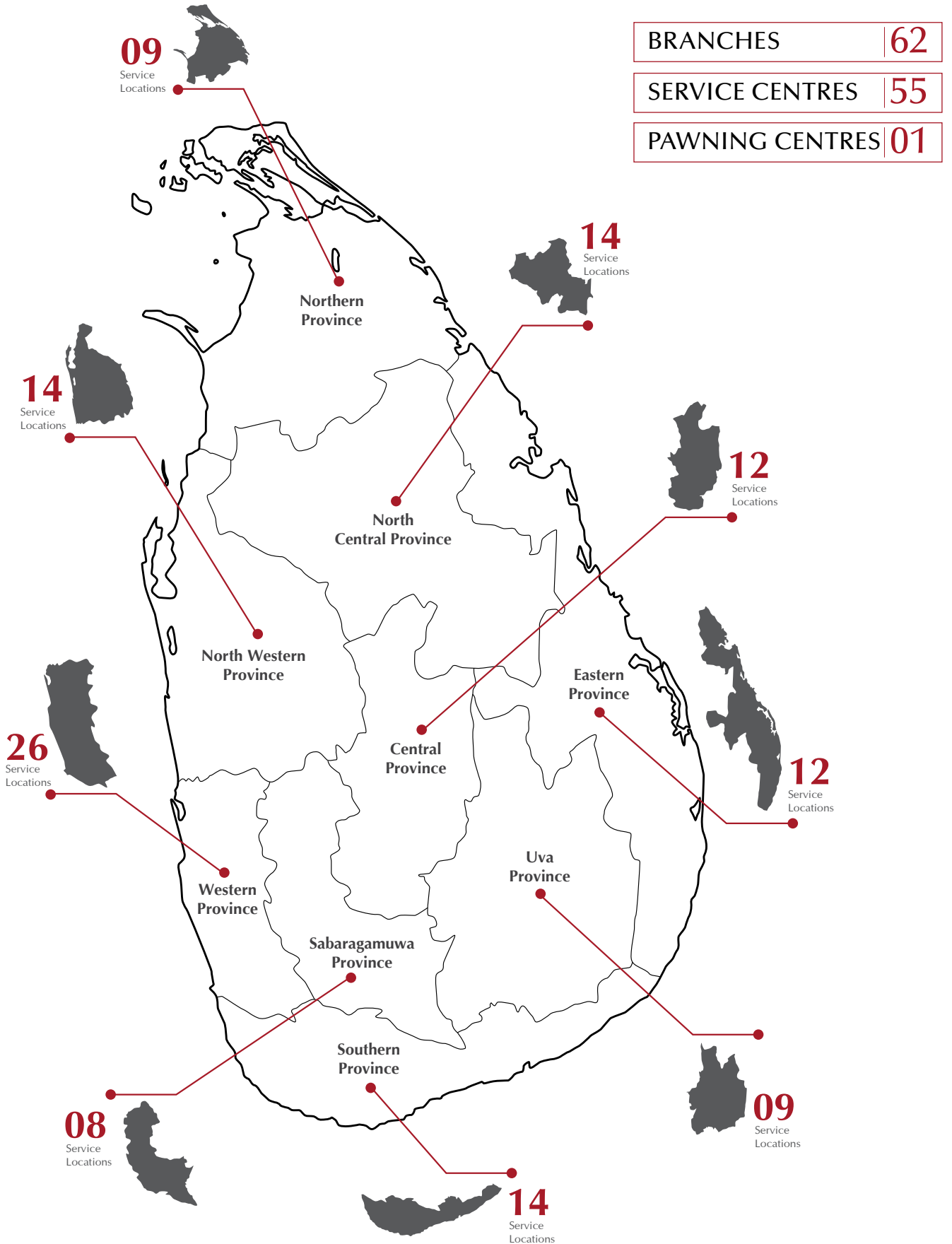
Training and development of the staff was carried out throughout the year to enhance their skills on how to successfully manage the different types of customers they encounter when performing their duties. Internal systems and controls were continuously reviewed and fine-tuned to increase efficiencies. The Recovery Officers' approach and results were closely monitored throughout the 12-month period of the financial year to ensure set targets were met. While repossessions were only carried out when all other recovery options had failed, public auctions were subsequently carried out to sell off repossessed assets.

Looking Ahead

While Recoveries KPIs in the industry tend to be about the financial numbers, at Commercial Credit, the approach is different. The Company intends to align the KPIs to the Shared Values by emphasizing more on the number of lives affected in a positive manner and less on the financial aspects. The customer portfolio will be carefully managed to minimise wilful defaulters and provide assistance to those who are in genuinely difficult circumstances. The Company is in the process of revamping the Business Intelligence Tool which will streamline the credit evaluation process and thereby help reduce the number of defaulters. This will be achieved by obtaining high-quality, relevant information about the customer and entering it into the system. The Call Centre will be further expanded to provide it with more resources to follow up on defaulters.

06	Highlights
09	Board of Directors and Executive Management
27	Management Discussion and Analysis
47	Sustainability Report
61	Risk Management and Corporate Governance
103	Financial Information

SERVICE NETWORK





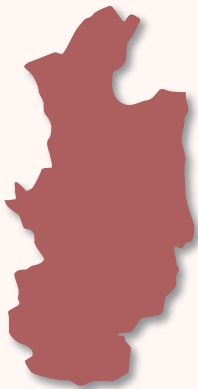
Northern Province

Branch		District
Jaffna	-	Jaffna
Mannar	-	Mannar
Nelliady	-	Jaffna
Vavuniya	-	Vavuniya
Chunnakam	-	Jaffna
Chavakachcheri	-	Jaffna
Velanai	-	Jaffna
Kilinochchi	-	Kilinochchi
Mullaitivu	-	Mullaitivu



North Western Province

Branch		District
Chilaw	-	Puttalam
Kuliyapitiya	-	Kurunegala
Kurunegala	-	Kurunegala
Nikaweratiya	-	Kurunegala
Puttalam	-	Puttalam
Wennappuwa	-	Puttalam
Kurunegala	-	Kurunegala
Anamaduwa	-	Puttalam
Giriulla	-	Kurunegala
Kalpitiya	-	Puttalam
Melsiripura	-	Kurunegala
Nattandiya	-	Puttalam
Polpithigama	-	Kurunegala
Wariyapola	-	Kurunegala



Central Province

Branch		District
Dambulla	-	Matale
Gampola	-	Kandy
Hatton	-	Nuwara Eliya
Kandy City Centre	-	Kandy
Kandy	-	Kandy
Matale	-	Matale
Nuwara Eliya	-	Nuwara Eliya
Nawalapitiya	-	Kandy
Pilimathalawa	-	Kandy
Pussellawa	-	Kandy
Rikillagaskada	-	Kandy
Theldeniya	-	Kandy

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

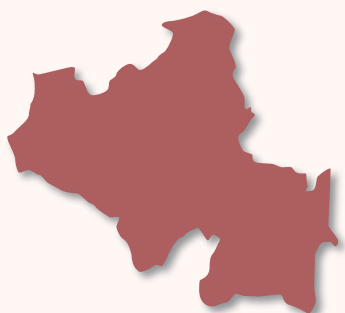
SERVICE NETWORK CONTD.

Western Province



Branch	District	Branch	District
Awissawella	- Colombo	Nugegoda	- Colombo
Battaramulla	- Colombo	Negombo	- Gampaha
City Office	- Colombo	Panadura	- Kalutara
Gampaha	- Gampaha	Piliyandala	- Colombo
Homagama	- Colombo	Wattala	- Gampaha
Horana	- Kalutara	Wellawatte	- Colombo
Ja-Ela	- Gampaha	Aluthgama	- Kalutara
Kalutara	- Kalutara	Beruwela	- Kalutara
Kotahena	- Colombo	Divulapitiya	- Gampaha
Kaduwela	- Colombo	Kiribathgoda	- Gampaha
Maharagama	- Colombo	Kirindiwela	- Gampaha
Mount Lavinia	- Colombo	Matugama	- Kalutara
Moratuwa	- Colombo	Nittambuwa	- Gampaha

North Central Province

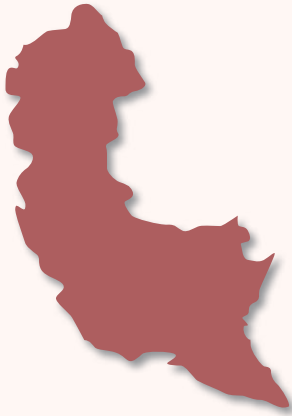


Branch	District
Anuradhapura	- Anuradhapura
Galnewa	- Anuradhapura
Galenbindunuwewa	- Anuradhapura
Hingurakgoda	- Polonnaruwa
Polonnaruwa	- Polonnaruwa
Thambutthegama	- Anuradhapura
Aralaganwila	- Polonnaruwa
Bakamuna	- Polonnaruwa
Horowpathana	- Anuradhapura
Kekirawa	- Anuradhapura
Medawachchiya	- Anuradhapura
Nochchiyagama	- Anuradhapura
Padaviya	- Anuradhapura
Welikanda	- Polonnaruwa

Uva Province



Branch	District
Badulla	- Badulla
Bandarawela	- Badulla
Mahiyanganaya	- Badulla
Monaragala	- Monaragala
Bibile	- Monaragala
Siyambalduwa	- Monaragala
Thanamalwila	- Monaragala
Wellawaya	- Monaragala
Welimada	- Badulla



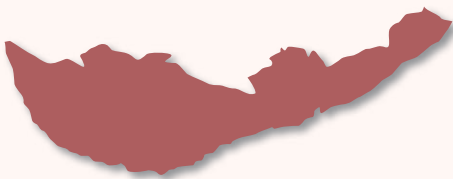
Sabaragamuwa Province

Branch		District
Balangoda	-	Balangoda
Embilipitiya	-	Embilipitiya
Kegalle	-	Kegalle
Ratnapura	-	Ratnapura
Warakapola	-	Warakapola
Deraniyagala	-	Deraniyagala
Godakawela	-	Godakawela
Kalawana	-	Kalawana



Eastern Province

Branch		District
Ampara	-	Ampara
Akkaraipattu	-	Ampara
Batticaloa	-	Batticaloa
Dehiattakandiya	-	Ampara
Kanthale	-	Trincomalee
Trincomalee	-	Trincomalee
Kalmunai	-	Ampara
Kalavanchikudy	-	Batticaloa
Muthur	-	Trincomalee
Mahaoya	-	Ampara
Pottuvil	-	Ampara
Valaichenai	-	Batticaloa



Southern Province

Branch		District
Ambalangoda	-	Galle
Akuressa	-	Matara
Ambalantota	-	Ambalantota
Galle	-	Galle
Matara	-	Matara
Tissamaharama	-	Hambantota
Angunakolapelessa	-	Hambantota
Baddegama	-	Galle
Deniyaya	-	Matara
Elpitiya	-	Galle
Neluwa	-	Galle
Tangalle	-	Hambantota
Udugama	-	Galle
Weligama	-	Matara

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

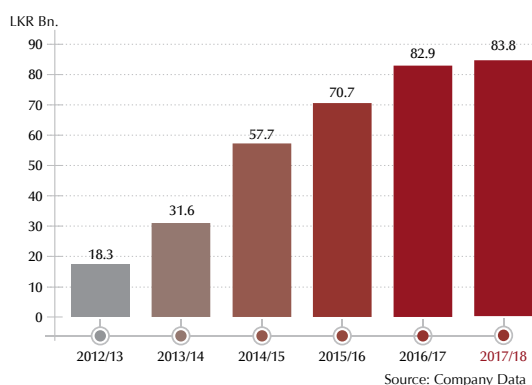
FINANCIAL REVIEW

Total Assets

Total Assets of the Company grew consistently with at a 5-year Compounded Average Growth Rate (CAGR) of 35.6% compared to that of the Licensed Finance Company/ Specialized Leasing Company (LFC/SLC) sector which stood at 17.8% due to the aggressive growth strategy adopted during the period. The growth in total assets during the period under review was 1.1% owing to the subdued performance in the lending front.

Greater focus on asset backed products saw the Leasing and Hire Purchase Portfolio grow by 5.0% despite being faced with industry headwinds. Challenging market conditions overlapping with the Company's consolidation strategy provided the opportunity to consolidate its Loans and Advances portfolio which is dominated by non-asset backed products.

This resulted in a drop in the Loans and Advances portfolio by 7.5% during the year finishing at LKR 35.2 Bn. During the year the Company was able to reduce the composition of the Loans and Advances portfolio down to 42.0% from 45.9% against the total asset base.



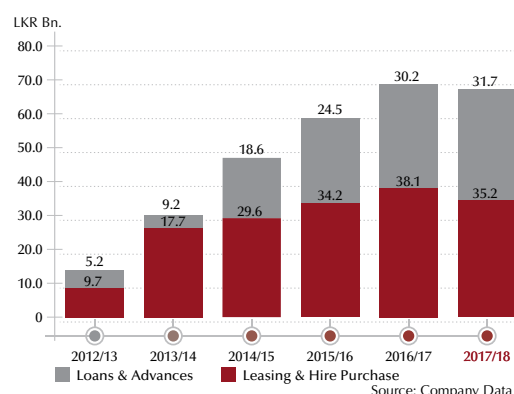
Lending Portfolio

The Company's Lending Portfolio recorded a 5-year CAGR of 35.0% compared to that of the LFC/SLC sector of 17.5% with substantial growth captured in both Leasing & Hire Purchase and Loans & Advances and with 5-year CAGRs of 43.3% and 29.5% respectively.

With continuous focus on asset backed products the Leasing & Hire Purchase portfolio grew by 5.0% during the year

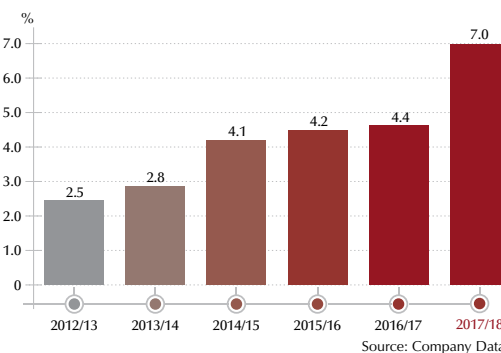
owing to strong results from Three Wheeler, Truck, Dual Purpose Vehicle and Bus segments especially from the hire Purchase products which grew at 13.7% gross of impairment. In addition, asset backed products such as Gold Loans, Auto Loans, Loans against Fixed Deposits and Education Loans grew by 95.4%, 29.6%, 26.3% and 15.1% respectively gross of impairment.

The most notable contribution came from the Gold Loan product which grew from LKR 2.1 Bn. to LKR 4.1 Bn. during the year under review. On the other hand non-asset backed, Microfinance and Revolving Business Loans products dropped by 8.5% and 31.3% respectively gross of impairment.



Asset Quality

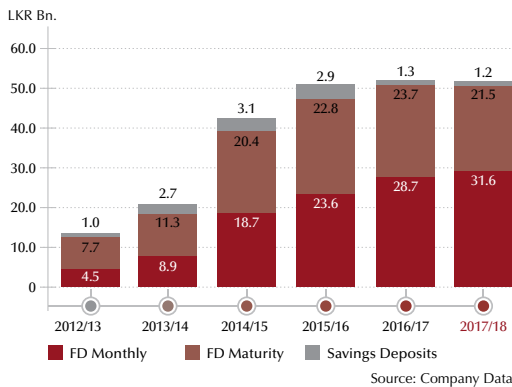
The Gross Non-Performing Accommodation (NPA) ratio stood at 7.0% in comparison to 4.4% of the previous year. This was comparatively higher compared with the LFC/SLC sector Gross NPA ratio of 5.9% due to the Company's high exposure to high risk non-asset backed products. The Net NPA ratio stood at 1.5% in comparison to 0.6% recorded in the previous year. This also covered well with the sector Net NPA ratio of 1.5% following the LKR 2.02 Bn. write off.



Deposits

The Company's growth has been mainly funded through public deposits. As a result the Company's deposit portfolio recorded a 5-year CAGR of 32.7%. This is well above that of the LFC/SLC sector 5-year CAGR of 22.0%. During the year the Company recorded a growth rate of 0.9% in its deposit base in line with its asset growth.

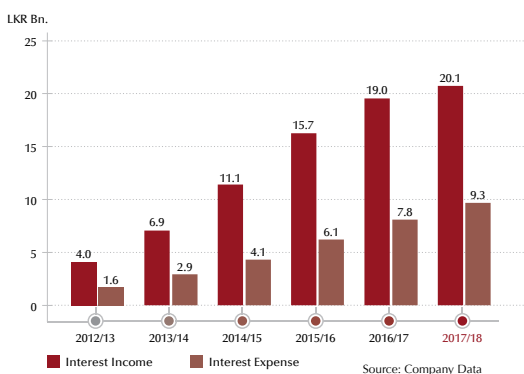
In addition to the Deposit Portfolio, the Company raised funds through Banks Borrowings, Debt Instruments & Other Borrowed Funds and other financial liabilities amounting to 12.0%, 4.2% and 3.4% respectively of total liabilities.



Net Interest Income

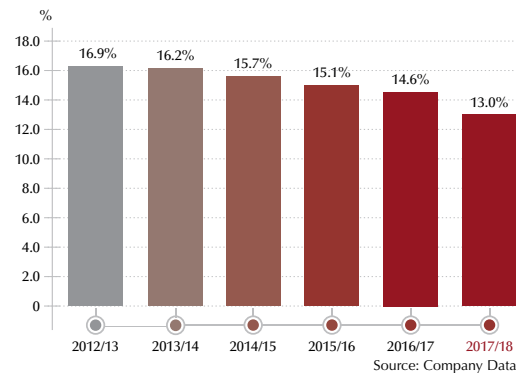
Company's interest income and interest expense have grown substantially in line with the respective portfolios recording a 5-year CAGR of 38.4% and 43.0% respectively in line with its growth of business.

The net interest income has declined by 3.6% year-on-year compared to that of the sector year-on-year growth of 11.4% due to the reduction in the high yielding non-asset backed products. The interest expense increased at a higher rate of 19.1% during the year due to the higher interest rate regime caused by tight monetary policy exercised by the CBSL to overcome inflationary pressure.



Net Interest Margin

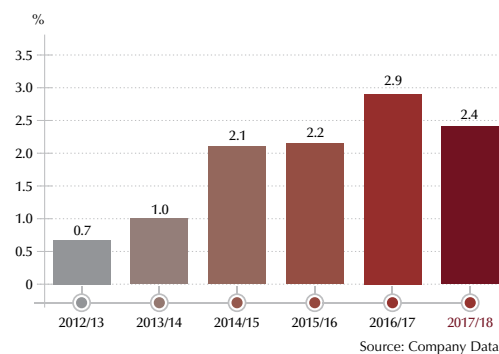
The Company recorded a Net Interest Income of LKR 10.8 Bn. in comparison to LKR 11.2 Bn. of the previous financial year. The net interest margin declined from 14.6% to 13.0% during the year due to the decline of the Microfinance and Revolving Business Loan portfolios and the high cost of funding effective in a high rate environment. However, the Company's net interest margin was substantially higher than that of the LFC/SLC sector of 7.7%.



Profitability

The Company recorded a net profit of LKR 2.35 Bn. compared to last year's LKR 2.90 Bn. Trade Finance and Investment PLC, its 99.65% owned subsidiary also reported its highest ever profit of LKR 417.9 Mn. enabling Commercial Credit to post a consolidated profit after minority interest of LKR 2.54 Bn. The decline in Net Interest Income of 3.6% was the main contributor to declining profits.

The operational expenditure was maintained under control with the cost to income ratio maintained at 49%. The Impairment charge was at LKR 3.20 Bn. against the charge of LKR 2.87 Bn. of last financial year, further impacting the bottom line for the year under review.



Highlights
06

Board of Directors and Executive Management
09

Management Discussion and Analysis
27

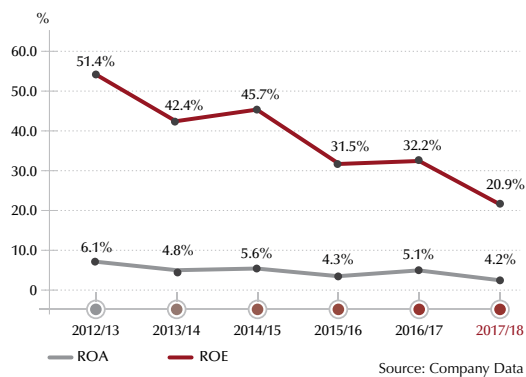
Sustainability Report
47

Risk Management and Corporate Governance
61

Financial Information
103

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

The Company recorded a Return on Assets (ROA) of 4.2% which is in line with the LFC/SLC sector ROA of 3.2%. The Company was able to maintain a ROE of 20.9% compared to that of the LFC/SLC sector of 16.1% ensuring sustained wealth maximisation to its shareholders. The core capital ratio increased from 12.5% to 16.1% despite being affected by below par profitability. However, this was well above the minimum regulatory requirement of 5%. The Tier 2 capital ratio was 16.4% comfortably above the minimum regulatory capital requirement of 10%.



SPORTS

Athletics

Commercial Credit athletics brought home a haul of 11 Gold, 7 Silver and 2 Bronze medals at the 34rd Annual Mercantile Athletic Meet. Meanwhile 2 Commercial Credit athletes took part in the Masters All Island Open Championship and secured a total tally of 2 Gold, 2 Silver and 2 Bronze medals.

Badminton

Commercial Credit shuttlers were able to bring the Championship home at the Novices Championship organised by the Mercantile Badminton Association.

Weightlifting

Commercial Credit weightlifter achieved impressive heights during the year with many national and international victories. He became the national champion for the 13th year and created 12 national records during 2017. He won 2 Gold medals at the Commonwealth Powerlifting Championship held in South Africa. He was placed 6th in the World Championship held in Belarus. He became the Most Outstanding Sportsman in the Presidential Awards held in November 2017.



Basketball

Both the men’s and women’s Basketball teams were placed Runners up in the “A Division” of the Mercantile Services Basketball Association League Tournament 2017.

In addition, there were several men’s and women’s Commercial Credit team members who represented Sri Lanka during the year in tournaments such as the 3rd South Asian Basketball Championship – Maldives, FIBA 3X3 World Cup – France, 2nd FIBA Asia 3X3 Cup – Mongolia, FIBA 3x3 National League Sri Lanka.



Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103



**SUSTAINABILITY
REPORT**

SUSTAINABILITY REPORT

STAKEHOLDER ENGAGEMENT

Commercial Credit and Finance PLC believes that genuine sustainability requires us to engage closely with stakeholders in mutually beneficial relationships. As a Value-driven organisation, the Company has formed valuable relationships with its stakeholders and maintains a routine of checks and balances to ensure these relationships are sustained. Much of our interaction takes place while conducting our daily operations, while also conducting structured activities to bring stakeholders closer. This association helps us gain vital feedback on our products and services in a bid to exceed the expectations of our stakeholders.

1. Investors

Mode of Engagement and Frequency

- The Company prepares its Annual Report for each financial year and circulates to its shareholders.
- The Annual General Meeting of the Company is held annually providing opportunities to shareholders to discuss matters on which they may have concerns.
- Investor feedback forms are sent to the shareholders along with the Annual Report in order to obtain their views.
- Extraordinary General Meetings are called as and when required.
- Interim Financial Statements are published quarterly through the CSE.
- Press Releases are published as and when required.
- Announcements are made to the CSE as and when required
- Regularly updated corporate website, www.cclk.lk, is used to communicate effectively with the shareholders.

Key Topics Discussed

- Interim and annual financial and operational results.
- Changes to the capital structure.
- Changes to Directorate (appointments, resignations and retirements).
- Business expansion plans.
- CSR activities and other donations.
- Level of compliance with the regulatory requirements.
- Dividends declared during the period.

Concerns Raised

- Maintenance of adequate level of profitability by the Company.
- Continuing stability of the Company.
- Asset quality of the Company.
- Liquidity levels maintained by the Company.

Methodologies Employed to Respond

- Addressing shareholder concerns is a primary motivator for all important decisions made by the Company.

2. Customers	
Mode of Engagement and Frequency	<ul style="list-style-type: none"> • Customer interactions on all working days through our widespread service network across all districts in the country. • A large number of staff of the Company are primarily responsible to meet the requirements of customers and engage with them on a continuing basis to consistently meet their requirements and to develop strong and long-lasting relationships with them. • Customer trainings and workshops are arranged for customers in order to improve the quality of their Lives and to create awareness of financial management. • Media advertising campaigns emphasizing principle based Values. • Leaflets, banners and hoardings are used to create awareness of the products and services. • Press releases and press conferences are held to launch and announce new products and services. • Company's website is used to communicate about the Company, its activities and features of products and services offered.
Key Topics Discussed	<ul style="list-style-type: none"> • New products and services introduced. • Products and services offered. • Importance of the culture aligned with Shared Values of the Company. • Access and reach. • Deposit rates and lending rates. • Economic indicators such as interest rate movements. • Type and quality of service provided. • Benefits, fees and charges. • Level of compliance with regulatory requirements.
Concerns Raised	<ul style="list-style-type: none"> • Customer service excellence. • Customer satisfaction. • Customer expectations and needs. • Effective resolution of customer complaints. • Extended working hours.
Methodologies Employed to Respond	<ul style="list-style-type: none"> • Expectations of customers are considered in formulating and implementing new strategies on Company procedures and product innovations. In all activities customer satisfaction is the main focus.

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

SUSTAINABILITY REPORT CONTD.

3. Employees

Mode of Engagement and Frequency	<ul style="list-style-type: none"> • Satisfaction Surveys are carried out bi-annually. • Quarterly appraisals are conducted with 360 degree evaluation. • Social events such as Sports Day, Value Night, family get-togethers are organised annually for the staff and their families. • Regional Review Meetings are held to discuss operational results and matters related to the respective region. • Internal memos are circulated to communicate important matters related to operations. • Widely published open door policy for communication. • Code of Conduct and Whistle Blower Policy.
Key Topics Discussed	<ul style="list-style-type: none"> • Culture aligned with Shared Values of the Company. • Expectations of employees such as training needs, financial benefits, employee welfare etc. • Future plans of the Company. • Regulatory requirements. • Company policies and procedures. • Methods to improve efficiency and effectiveness. • Safety measures.
Concerns Raised	<ul style="list-style-type: none"> • Need for further guidance in living the Shared Values of the Company on a day-to-day basis. • Request for additional training and coaching related to operational aspects of the Company.
Methodologies Employed to Respond	<ul style="list-style-type: none"> • Training and familiarization and guidance programs are conducted on a continuous basis on the Shared Values of the Company • Regular external and internal training programs on operations and related systems and procedures.

4. Government Institutions

Mode of Engagement and Frequency	<ul style="list-style-type: none"> On-site surveillances conducted by the Department of Supervision of Non-Bank Financial Institution of Central Bank of Sri Lanka. Laws and regulations, and directives and circulars issued by the legislators and regulatory bodies. Filing of various tax returns and employee related returns as required by applicable regulations. Submission of routine information to Central Bank of Sri Lanka and further information as requested. Meetings with regulatory bodies as and when required. Official e-mails, media conferences and press releases.
Key Topics Discussed	<ul style="list-style-type: none"> Clarification and furnishing of information on compliance with regulatory requirements. Performance of the sector and that of the Company. Various issues faced by the sector and the Company. Maintenance of fair competition within the industry.
Concerns Raised	<ul style="list-style-type: none"> Progress on action points agreed based on findings during on-site examination.
Methodologies Employed to Respond	<ul style="list-style-type: none"> Regular follow up of action plan and completion of tasks agreed. Taken necessary action to fully comply with applicable regulatory requirements.

5. Society and Environment

Mode of Engagement and Frequency	<ul style="list-style-type: none"> Sponsorship of various social activities by the Company. Media advertising campaigns emphasizing principle based values. Company website. Public events and gatherings. Employee involvement in local community projects. Providing job opportunities for the community in rural areas.
Key Topics Discussed	<ul style="list-style-type: none"> Corporate social responsibility initiatives. Principle based values. Energy conservation. Areas where the Company and staff members could assist local communities.
Concerns Raised	<ul style="list-style-type: none"> Lack of infrastructure and facilities in certain rural areas. Lack of job opportunities. Lack of knowledge and skills to obtain suitable employment.
Methodologies Employed to Respond	<ul style="list-style-type: none"> Development of the Monaragala model farm. Training programs for school children in the Monaragala model farm and surrounding areas. Vocational and other training programs for small and medium scale entrepreneurs. Encourage staff on energy conservation. Reducing e-waste and its carbon footprint.

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

SUSTAINABILITY REPORT CONTD.

6. Suppliers

Mode of Engagement and Frequency	<ul style="list-style-type: none"> • Regular on-site visits and meetings. • Official e-mails and other written communications. • Review of performance by suppliers for quality of goods and services and value for money.
Key Topics Discussed	<ul style="list-style-type: none"> • Clearly defined expectations of the Company. • Responsible procurement opportunities. • Terms and conditions applicable for suppliers. • Support to become sustainable businesses. • Development of long term relationships with suppliers.
Concerns Raised	<ul style="list-style-type: none"> • Short lead time given for providing goods and services. • Need for improved communication with service locations.
Methodologies Employed to Respond	<ul style="list-style-type: none"> • Developing strong relationships with suppliers. • Involving suppliers at early stages of planning activities.

OUR APPROACH TO ECONOMIC SUSTAINABILITY

As one of the leading LFC/SLCs in Sri Lanka, Commercial Credit ensures that its strategic goals are interlinked with the Company’s impact on all its stakeholders which include employees, customers, investors, government institution and society.

The Marketing Department of Commercial Credit and Finance PLC primarily focusses on carrying out strategies to build the corporate image and create brand awareness while also promoting the Value-driven culture of the Company and assisting those associated with the Company to uplift their lives. The Company believes in taking all necessary measures to make the Commercial Credit brand the brand of “*humanity by the heart and action*” by giving a Purpose-driven message to society and thereby uplifting the lives of people.

SAFEGUARDING STAKEHOLDER INTEREST

The Company has introduced a number of methodologies to ensure its systems and procedures to be transparent and that accountability is upheld across all of its functions.

MARKETING AND BRANDING



The main focus of the Marketing & Branding campaigns of the Company is to showcase the inherently good qualities in all human beings by showing how they carry out acts of kindness. This invariably has an impact in the viewer as it shows how qualities such as kindness and compassion can go a long way

to uplift the lives of others. The Department is well aware that any message that is disseminated through mass media will be scrutinized and therefore there is a lot of careful planning and thought that goes into each piece of communication. Additionally, the Company makes sure that the message in question is in line with the Shared Values.



Impact of the Company's Culture

The innovative advertising put together by the Marketing Department revolves around portraying the Loving and Caring qualities of human beings and inspiring the customer to do the same in his or her own life. Along similar lines, when it comes to interactions within the Department and the Company, there is greater emphasis placed on creating individuals who can potentially be future leaders with the ability to perform simple acts of love. Every individual of the department, irrespective of their knowledge level or experience, is encouraged to have the same ownership and freedom and is equally committed to the Purpose of the Company. These qualities extend beyond the workplace and into their personal lives. When they mingle and interact with family, friends, relatives and society in general, they are brand ambassadors of Commercial Credit and therefore being a good role model who portrays a positive message is of utmost importance.

As a policy, the Company only supports events and activities that can help uplift the lives of people, even during circumstances that may be deemed difficult. A significant amount of research and planning goes into selecting an event to sponsor, even if it's something straightforward such as a musical concert.

Highlights of the Year

The department continued their marketing strategies to connect with a wider audience.

- Content Marketing – Attracting prospective customers through valuable content
- Affinity Marketing – Formed partnerships with different organisations.
- Event Marketing – Tied up with carefully-selected programmes or events that rely on social interaction to generate leads
- Digital Marketing – Enhanced use of digital marketing to reach new audiences

The Company's emphasis on ethics and integrity has been instrumental in making it a leading player in the financial services industry. In keeping with the Shared Values of the Company, transparency is supported and encouraged at every level of the organisation when dealing with all stakeholders. During the year, the Company stepped forward to support several events such as "Future Minds 2017", the prominent higher education and career exhibition held at the BMICH.

Looking Ahead

One of the primary challenges for the Department is to find ways and means of connecting meaningfully with all segments of society while also selecting the best promotional campaigns of media channels that align perfectly with the Shared Values of the Company. The Company will take necessary precautions at all times to ensure that it ties up with organisations to conduct promotional campaigns only if the nature of their business and their goals are in alignment with the Purpose of Commercial Credit.

As the Company has accumulated a considerable brand equity over the years owing to its humanity and Purpose-driven branding campaign, the Marketing Division plans to shift its focus towards promoting the Company's product offerings via more below-the-line marketing. As a result, more product-driven marketing campaigns which involve leaflets, handbills, stickers, promotions and brochures placed in branches, road-side banners, hoardings and public noticeboards are included in the marketing plan.

06	Highlights
09	Board of Directors and Executive Management
27	Management Discussion and Analysis
47	Sustainability Report
61	Risk Management and Corporate Governance
103	Financial Information

SUSTAINABILITY REPORT CONTD.

The Marketing Department will continue to make every possible effort to contribute towards the Purpose of the Company via steps such as:

- Increasing the social media penetration
- Digital marketing
- Online advertising
- Engaging in more CSR projects

DELIVERING TECHNOLOGY-BACKED PRODUCTS AND SERVICES

Overview

The Information & Communication Technology (ICT) Department of Commercial Credit has been formed to provide state-of-the-art, innovative IT solutions for the various departments within the Company. The main objective of the ICT Department is providing its large internal customer base modern ICT solutions together with a professional service so that they can carry out their day-to-day tasks and responsibilities efficiently and effectively at all times.

Impact of the Company's Culture

ICT plays an important role in many key perspectives of Commercial Credit when building leaders who have the ability to uplift the lives of people by simple acts of love. The five pillars the ICT Department is built on – Research & Development, Consolidation, Service Delivery, Governance & Risk and Connectivity & Collaboration. Numerous ICT solutions based on these objectives have enabled the organisation to groom both internal and external leaders who are well-informed, energetic, independent and empowered. The ICT Department always endeavours to empower staff through the responsible use of modern technology. The department also enables team members to act quickly and responsibly by providing accurate, timely information for improved decision-making and also providing insights to better react to industry and social changes.

Highlights of the Year

A large number of important ICT-related developments and enhancements were carried out during the year, in keeping with the strategy to continuously improve systems and processes, leading to an overall increase in the efficiency levels across the Company.

The concerted effort to further boost the Company's Disaster Recovery technology has seen the Recovery Time Objectives (RTO) and Recovery Point Objectives (RPO) improving drastically, allowing the business to continue smoothly even during times of unexpected disruptions.

With the deployment of state-of-the-art systems and the growth in the complexity of ICT solutions, it is crucial that the ICT staff is well-prepared to meet the growing demand for ICT services for years to come. With this in mind, training and development of ICT staff took place throughout the year allowing the team to update their knowledge and skills to successfully overcome any challenges that may arise.

In addition, the following process developments took place during the year:

- Streamlined software release management process by implementing a UAT process.
- Streamlined the change management process by conducting CR evaluation meetings.
- Streamlined the IT operation with the implementation of ISO certification
- Set up IS Steering Committee for Information Security Management of the Company and initiated the process for obtaining the ISO-27001 certification.

The key challenges faced by the ICT Department during the year included aligning ICT services to cater to the expanding business needs while keeping up with the dynamic global ICT-related developments and regulatory requirements. Hence, the department initiated investing in standardizing its processes which involved implementing the ISO 27001 certification for the ICT Operation unit. Several knowledge sharing sessions were also conducted periodically to maintain a sufficient resource pool.

Looking Ahead

As one of the key departments driving innovation and change, the ICT Department will undoubtedly face numerous challenges along the way. With the Company heavily investing in systems & procedures, the ICT Department has the following plans to keep up with the business needs of the Company.

- Completion of the new ERP system
- Completion of the Business Intelligence Tool revamping exercise
- Obtaining ISO-27001 certification for the ICT Department

EMPLOYEES

The human capital of Commercial Credit is its most prized asset. It is clear that the exceptional levels of talent, discipline, and passion of these individuals of the Company have taken it to new heights during the past several years. The Human Resources Department (HRD) is responsible for nurturing and developing the key attribute of the Company – its unique culture. The Company strongly believes that this culture plays a pivotal role in creating and grooming effective, fair-minded leaders who contribute to the progress of the Company and actively contribute to the betterment of society. Resultantly, the Company makes every possible attempt to continuously enhance the capabilities of the HR Department and fine-tune the HR practices in order to create a positive environment for all concerned.

Maintaining Compliance

The Company has put in place a range of policies and procedures related to employees, their rights and privileges as well as their duties and responsibilities. They are useful to make the employees aware about how to conduct themselves in day-to-day situations as well as when unexpected events occur. The Company adheres to the Shop and Office Employees Act No. 15 of 1954 in practicing its HR activities. Additionally, the Company has also introduced its own operating procedure manuals covering a wide array of key HR-related topics including handling of grievances, attendance and leave, disciplinary action, performance evaluation, recruitment, resignation, termination and retirement, staff facilities, staff planning, training & competencies, transfers and promotion and user registration. As a progressive organisation, the Company has also introduced its Anti-Sexual Harassment Policy and Ethical Working Framework in order to establish a conducive working environment through developing self-disciplined individuals.

Maintaining effective infrastructure for people

The health and well-being of the Company's employees are of utmost importance and numerous positive steps have been taken in this regard. Fitness Centre (Gymnasium) membership have been offered to employees at concessionary rates and they are encouraged to make use of these facilities regularly to improve their physical fitness. The Company also offers medical insurance schemes to all employees and their dependents.

The Company practices an “open door policy” across all levels of the organisation paving the way for any employee – even from the lowest levels of the Company – to meet directly with the Chief Executive Officer and Executive Directors at any time. This has been well-received by the employees and resulted in a consistently high level of employee satisfaction as shown in the bi-annual employee satisfaction surveys carried out by the Company. Such levels of employee satisfaction have translated into a high degree of commitment and motivation, which in turn has led to extraordinary results for the Company. Further, the removal of traditional hierarchical designations has had a positive impact on the development of the unique culture based on Shared Values.

The Human Resource Department has collaborated with the ICT Department to internally develop a HRIS which is one of the few instances where a NBFIs has engaged in such a development in-house. The Company expects the HRIS to go live during the coming financial year.

The Company goes to great lengths to maintain a harmonious working environment that sets the platform to provide equal opportunity to all. In line with this, the Company recognises the right of individuals to express their concerns about issues that may affect performance at work and has an official avenue to resolve employees' genuine grievances and complaints in a fair and timely manner. During the year the Human Resource Department included FAQs into the ERP in order to address general employee queries efficiently.

Dynamic leadership is one of the key ingredients in any organisation achieving continued success. The Company has carefully mapped out a clear plan to groom the future leaders of the Company. Individuals in major leadership positions such as Regional Managers, Branch Managers and Functional Heads have been earmarked to fill the future leadership positions of the Company.

This transparent succession plan has given each individual the benefit of having visibility on his/her long-term plan at the organisation based on the Shared Values while allowing the Company to plan ahead with them in mind, in order to lay the foundation for a future of consistent growth and positive results.

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

SUSTAINABILITY REPORT CONTD.

Managing and Assessing Employee Satisfaction

The Company has a clear understanding of the many advantages of having a satisfied workforce. A satisfied employee often equates to a happy and productive employee which in turn means that the greater output and improved results generated by him or her will reflect in a better end result for the Company. Keeping this in mind, the Company's Human Resources proactively works towards creating the best possible workplace environment for all employees. Employee satisfactory surveys are carried out periodically to extract views from the employees about their job satisfaction levels. This keeps the Company on the right track to appropriately respond to workplace concerns in a timely manner. This also helps the Company to get a better understanding of the varying motivations of the employees and enables it to identify future growth opportunities and plan accordingly.

Two satisfactory surveys – the On-Board Satisfactory Survey and the Employee Satisfactory Survey – are utilised to effectively measure employee satisfaction based on the relevant employee category. The On-Board Satisfaction Survey has been primarily created to obtain feedback from employees who are new to the Company and are yet to complete their probationary period. It is carried out at the end of the third month from the date of joining and consists of 20 questions covering employee working conditions, peer and supervisor conditions, Company culture and learning environment.

The General Employee Satisfaction Survey is conducted twice a year in the months of June and December and focuses on obtaining feedback from confirmed employees to get an understanding of their perception on employee conditions at the workplace. It consists of 15 key questions to employees in the form of a questionnaire. The duly-filled questionnaires are used as a source of primary survey data. The Company uses 360 Degree Appraisal system as its performance appraisal system which further enhances employee satisfaction since the employee gets the opportunity to rate his/her superior, peer and subordinate.

Rewarding Employees

Commercial Credit is a company that goes beyond the accepted standards to look into the welfare of its employees and therefore invests considerable resources to ensure that the employees are well looked after. As a result, various benefit schemes have been introduced to address the need for development of the personal lives of employees. Key benefits such as medical bill claims, retirement bonus, wedding gifts and staff loans are all made available while based on each employee's Value Badge (platinum, gold, silver or bronze), the benefits improve. Other benefits include performance rewards, insurance schemes, staff transportation for working late hours, appreciation of professional achievements, birthday gifts and new born baby gifts.

SHARED VALUES

The Launch of Our Shared Values

The Shared Values of Commercial Credit were launched during the Value Day held on 4 March 2012 at the BMICH with the participation of the entire staff. The highlight of the Value Day included the institution of a Value Policy together with the unveiling of the Company's Theme Song, Value Oath and the Value Badge. These initiatives were commenced to promote a Value-driven culture within the Company. Continuous efforts have been made through the years to ensure that the Company's unique culture is steeped in the Shared Values that we advocate.



Highlights	06
Board of Directors and Executive Management	09
Management Discussion and Analysis	27
Sustainability Report	47
Risk Management and Corporate Governance	61
Financial Information	103

SUSTAINABILITY REPORT CONTD.

Instilling Our Shared Values

With the intention of instilling our Shared Values among the Commercial Credit team, including the significant number of newcomers, various programmes were conducted during the year. While some of these programmes were continuations of earlier ones several new initiatives were also introduced broadening the scope of training.

The 360 Degree Value Appraisal System is such an initiative that has been in existence since the year 2015. As this system has been based on the Company's Shared Values, it is more compatible with the Company's Purpose "To build leaders who uplift the life of people by simple acts of love". Moreover, this system also plays a key role in nurturing the desired Value-based culture and to identify the various Value Champions of the Company who are instrumental in driving the desired culture.

The Commercial Credit ERP system is utilised to evaluate every member of the Company practicing the 360 Degree Value Appraisal on a quarterly basis. As a Value-driven Company, Commercial Credit has given a higher weightage for this appraisal in determining a particular individual's performance. The subjective appraisal evaluates the extent to which an individual possesses the key talents required by him or her in engaging with daily work processes.

Theme Song and Value Badges

The Theme Song is aired at all Company offices at 8.30 a.m. before the commencement of each working day and at all Commercial Credit events. Each employee is expected to wear a Value Badge with bronze being the entry level badge. Over time, the bronze Value Badge would be upgraded to silver, gold and subsequently platinum in recognition of the degree of commitment the employee demonstrates towards practicing Shared Values.

Value Day

It is the Company practice to hold a Value Day once every 2 years to recognise and reward the employees who have truly practiced the Company's Shared Values. This presents another opportunity for the organisation to highlight and appreciate the staff members who have truly lived the Company's Shared Values. It portrays them as role models and encourages others to follow suit. The mechanism for recognising such employees involves a detailed process where each staff member is given an opportunity to nominate colleagues to be considered for upgrading of Value Badges. Subsequently, based on the 360 Degree Value Appraisal results and number of votes received, selected staff members were recognised for excellence by upgrading their Value Badges from bronze to silver, gold and platinum. During the last Value Day held on 11 February 2017, which was the third value day in the Company's history, 379 silver badges, 36 gold badges and 3 platinum badges were awarded.

Value Policy

The commitment of Commercial Credit towards its Shared Values is captured in the Value Policy which provides guidelines and procedures on the development and implementation of a Value-based culture. The policy, which applies to all employees and all activities, contains a detailed framework and course of action to ensure the adherence of employees, by embedding the Values into the performance evaluation process.

Value Register

The Value Register is a record of good conduct and excellence in living the Shared Values by employees, be it work related or otherwise. When a noteworthy action of an individual is observed by a team member, the Value Register will be used as the platform to communicate and highlight this action throughout the Company. Employees post their comments of appreciation about their colleagues anonymously in the Value Register, which is effectively the internal social networking system of the Company. As each employee receives the comments of appreciation from colleagues, a Value profile is created.

Training and Development

A large number of training programmes and workshops were held on culture development throughout the year at all locations of the Company. The 7 Habits of Highly Effective People authored by the late Dr. Stephen Covey, the sole inspiration behind the world-renowned personal development organisation Franklin Covey, continues to be a major source of inspiration at the Company. The Company believes that the blend of fundamental principles and practical experience, and the wisdom and compassion contained in the 7 Habits teachings, are a powerful force enabling personal change. The employees were encouraged to practice the 7 Habits as this would enable them to have a holistic and integrated approach to achieve effectiveness in each role they play in both their professional and personal lives.

The Company is of the belief that the practice of the 7 Habits by employees will allow the internalization of the Shared Values. Value Mentors, working together with the location heads, are expected to conduct Value Hours in each location on a monthly basis. This will provide staff members to have regular opportunities to clarify matters regarding the issues they encounter in living the Shared Values on a day-to-day basis.

During the year under review, according to the Vision and direction of the top management, the Learning and Development Department was able to establish a Special Task Force. This consists of a troop of school leavers who have undergone comprehensive training on all product offering of the Company as well as its shared values. In an industry which has a high staff turnover rate, the management expects this move will improve employee loyalty while driving multitasking.

In addition to the multiple trainings on 7 Habits, the Company also provided many job-related technical trainings using external and internal facilitators. The Company's one day induction programme was restructured during the year into a comprehensive 4-day programme which gives the new recruits a holistic view about the Company.

In order to be able to effectively train the growing number of staff members located across the country, a programme was implemented to train a group of staff as trainers. These trainers would then be able to conduct training activities regularly in selected locations assigned to them.

INTERNAL AUDIT

Overview

The Internal Audit Department of Commercial Credit and Finance PLC functions as an independent and objective assurance and consulting activity guided by the philosophy of adding value to the Company as enumerated in its Charter. Over the years, the Department has initiated various strategic developments that have helped improve the quality of the service provided while also keeping with current trends in the discipline.

The Department carefully evaluates the performance of each branch taking into account the Internal Audit findings such as documentation completeness, statutory & regulatory compliance and the risk factors identified. It also grades the branches based on how well each branch practices the Company's Shared Values. Any abnormalities identified from the approved policies and procedures during these reviews are immediately communicated to the Board Audit Committee, selected members of the Executive Management, Regional Head and the Location Head.

Impact of the Company's Culture

The purpose of the Internal Audit Department is to continually add value to the Company by aligning with the Company's Shared Values and also to support the Company to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and governance processes.

In order to build an environment which leads to creating well-disciplined leaders, the Internal Audit Division guides and encourages employees to:

- Practice the Company's Shared Values while handling the business operations and processes efficiently and effectively
- Comply with statutory and regulatory requirements
- Implement controls to mitigate operational risks of the Company
- Continually improve the system controls and procedures

06	Highlights
09	Board of Directors and Executive Management
27	Management Discussion and Analysis
47	Sustainability Report
61	Risk Management and Corporate Governance
103	Financial Information

SUSTAINABILITY REPORT CONTD.

The unique Culture of the Company helps the Internal Audit Division in carrying out its duties efficiently and professionally. One of the five Shared Values of the Company – Integrity and Trust – means that an individual will always look to do the right thing, practice accountability and keep to commitments so that trust is built. This is coupled with Synergy and Teamwork, as an individual would demonstrate these attributes by communicating his/her ideas to the Internal Audit Division, supporting the Division's ideas and getting involved in providing a solution while demonstrating reliability throughout the whole exercise.

Highlights of the Year

The strategic priorities of the Department cover many areas including the expansion and maintenance of a knowledgeable, skilful audit team and providing training to be up-to-date with the industrial best practices. It also includes the continuous improvement of internal controls to be aligned with the Company's goals and Values, compliance with statutory & regulatory requirements and undertaking improvements in system controls and procedures to handle business processes in an effective and efficient manner.

During the financial year under review, the number of Internal Audit team visits to services locations increased in duration and frequency. The Department tabled significant audit findings to the Board Audit Committee and continuously measured and updated the audit programmes based on the feedback given by the Board Audit Committee. After each branch assessment, discussions were held on the key audit findings with the relevant Location Head as well as the Senior Management, after which necessary controls to be implemented were recommended. The Division introduced a new theme-based audit system where audits are carried out based on themes such as cash management and credit and deposits.

Looking Ahead

The department plans to further strengthen the audit process by obtaining assistance from the Business Intelligence Tool. This will help in numerous ways including identifying abnormalities and outliers in the current systems and procedures enabling the department to identify risk factors effectively.

**RISK MANAGEMENT
AND CORPORATE
GOVERNANCE**

RISK MANAGEMENT

Generally financial institutions operate in an intensely competitive and changing industry faster rate rather than other industries change market where the business and economic environment, and convergence, consolidation, globalization and a rapidly changing regulatory framework pose numerous challenges. This new norm requires Commercial Credit to enhance risk management capabilities and insights to facilitate more robust and better risk decision making processes, to ensure that the finance institution continues to create value to business partners. The ability to manage multiple risk factors arising out of this complexity across multiple locations, product categories, asset classes, customer segments and functional departments is one of the key factors that determines the degree of success and sustainability of each financial institution. Risk is inherent in the complex and ever changing Sri Lankan financial industry, in view of which Commercial Credit and Finance PLC has established a solid framework to diligently manage such risks. Risk Management involves identifying, assessing, avoiding or reducing the negative impacts arising from current or future hazards. The Risk Management process encompasses the identification, measurement, controlling and monitoring of each risk.

2017/2018 – KEY ACHIEVEMENTS

Introduction of Risk Appetite Limits

Risk appetite limits were set and implemented

Revision of ALCO Policy

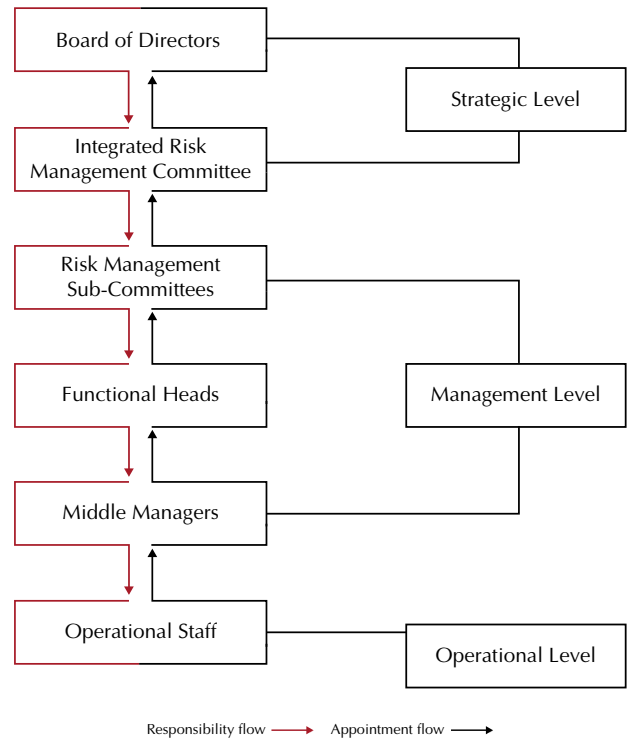
ALCO policy was reviewed and implemented

Revision of Investment Policy

Investment policy was reviewed and implemented

The Risk Management framework of Commercial Credit is designed to ensure to what extent the Company can take calculated business risks. It is recognised that managing risk is an essential part of profit making. Business decisions are made in a manner that the safeguarding of stakeholder's interest of the Company and profitability arising from various sources of risk contribute towards our strategic objectives. Underlying systems and processes permit the creation of risk awareness across the entire Company and to identify, measure, analyze and evaluate risks. Processes are also in place to develop and implement appropriate response strategies according to the set risk appetite in order to manage such identified risks. As in the case of all activities of the Company, it could be said that the efforts made to develop a culture based on the Shared Values of the Company form a very fundamental aspect of Risk Management at Commercial Credit.

The activities of Commercial Credit's Risk Management system take place at three broad levels as follows:



STRATEGIC LEVEL

At the strategic level, Risk Management functions are performed by the Board of Directors and the Integrated Risk Management Committee (IRMC). Tasks include defining risks, ascertaining risk appetite, formulating strategies and policies for managing risks and establishing adequate systems and controls to ensure that overall risk remains within the risk appetite.

MANAGEMENT LEVEL

At the management level, Risk Management within business areas or across business lines ensures that strategies, policies and directives approved at the strategic level are operationalized. Development and implementation of underlying procedures, processes and controls are ensured at the management level. Assuring the compliance with laid down policies, procedures and controls, and reviewing the outcome of operations, and measuring and analyzing risk related information are also performed at this level.

OPERATIONAL LEVEL

At the operational level Risk Management, activities are performed by individuals who take risks on Company's behalf, which includes front, middle and back office personnel. They are required to comply with approved policies, procedures and controls. Operational level personnel give valuable inputs to continuously improve risk related activities undertaken in day-to-day operations.

RISK MANAGEMENT PROCESS

A comprehensive Risk Management process has been developed and is continuously reviewed by the Integrated Risk Management Committee (IRMC) together with the Operational Management.

The Company has established four risk Sub-Committees in the areas of Fixed Deposits, Human Resources, Information Technology and Credit, Legal and Recoveries. In addition, the Assets and Liabilities Committee (ALCO) reviews market and liquidity risks. The effectiveness of these Sub-Committees are assessed by the IRMC. The Risk Management process of the Company can be elaborated as follows: The risk Sub-Committees comprise of selected representatives from the Operational Management, Middle Management and Operational Staff from respective disciplines.

These Sub-Committees meet regularly and are responsible for identifying and analyzing risks. The identified risks are taken up for discussion at risk Sub-Committee meetings where issues are discussed in detail. The minutes of the Sub-Committee meetings are submitted for approval of the IRMC. The decisions and directives of the IRMC are communicated to the Operational Management through Sub-Committees for operationalization of such decisions and directives. The IRMC meets on a regular basis to review and discuss various reports related to Risk Management presented to the Committee by the Management and the findings of the risk Sub-Committees.

Risks related to areas under each Sub-Committee have been identified and a Risk Grid is developed. Each identified risk has been categorized based on the probability of occurrence and expected impact. The impact has been categorized as critical, high, medium and low. The frequency has been categorized as certain, likely, possible and remote. Control activities will be developed for all risks and such control activities will be communicated to the IRMC. IRMC will initially consider the risks that have critical or high impact and certain or likely probability.

TYPES OF RISKS

In achieving the Company's desired objectives, Commercial Credit is exposed to several risks which have been categorized as follows.

CREDIT RISK

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. The Company's credit risk arises mainly from various accommodations granted and could be identified as the most significant risk faced by the Company. Credit risk management objective is to minimise credit risk while ensuring optimal risk rewards pay off for the finance institution and maximise the return and maintain the quality of the portfolio by minimising the non-performing loans and probable losses.

Mitigation

The Credit Policy plays a central role in managing daily business activities. The policy is reviewed at least once in 2 years and approved by the Board of Directors ensuring consistency with the Company's business strategy. Also Credit Risk Sub-Committee meetings drive policy decisions and implementation plans. Credit is required to be granted according to the approved policies and procedures of the Company. Special attention is given to Credit Risk Management in terms of analyzing customer credit worthiness through rigorous customer investigations before and after credit facilities are provided. Repayment of accommodations granted is closely monitored by those responsible for granting various facilities as well as those directly responsible for recovery activities. Indicators have been developed to measure risks associated with credit which are reviewed on a continuous basis for the entire organisation as well as for each product and operational location. Company manages credit risk by focusing on following stages.

Credit Origination and Risk Appraisal

The credit facility origination process comprises initial screening and credit appraisal. The evaluation focuses on the borrower's ability to meet his/her obligations in a timely manner. Efforts are made to ensure consistent standards are maintained in credit approval. Collateral and guarantees form an important part of the credit risk mitigation process. Furthermore, an internal customer rating model has been developed. The incorporation of the customer evaluation process into the ERP system has enabled the system itself to propose possible interest rates to be charged for customers within the guidelines.

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

RISK MANAGEMENT CONTD.

Credit Measurement and Monitoring

To safeguard the Company against possible losses problems in credit facilities need to be identified early. The Credit Risk Sub-Committee measures and tracks the status of the credit portfolio. Credit reports prepared monthly without failing to review high level credit portfolio concentration and assess performance of the facilities granted.

Recoveries

Default loans are managed by the Recoveries and Credit Division. This unit is responsible for all aspects of an overdue facility, restructuring of the credit, scrutiny of legal documents and liaising with the customer until all recovery matters are finalized. Regular meetings are held in order to ensure smooth functioning of recoveries function.

Microfinance loans form a substantial part of the loans and advances granted by the Company. As is the practice in general in the industry both in Sri Lanka and internationally, Microfinance loans are granted without obtaining any security from the borrower. As these accommodations are not covered by collateral they could lead to substantial credit risks to the Company. Credit risks associated with Microfinance portfolio is controlled by following measures such as limiting individual's first Microfinance loan to less than LKR 40,000 and these are granted as group-loans where loans granted to each member of the Group is guaranteed by the other members of the Group. Loans are granted after careful evaluation of the purpose for which they are taken and the repayment capacity. Microfinance Loans in higher amounts are granted based on past credit performance of applicants and with careful evaluation of the purpose for which they are taken and the repayment capacity. Further, a weekly and fortnight collection system, which is closely monitored for each loan granted is implemented.

The Company also has a substantial portfolio of loans and advances granted under pawn broking and related activities. These facilities are granted mainly based on gold articles obtained as security. In the event the price of gold in the local market reduce substantially, this would lead to a reduction in the value of the security obtained thereby exposing the Company to the risk that some customers may not redeem the articles retained by the Company. In such a situation in respect of the cases where the articles are not so redeemed, the difference between the realizable value of the article held and the total of the capital, interest and other charges due would result in a loss to the Company.

In order to manage this risk, Company has adopted practices such as frequent review of gold prices in the local and

international markets and adjusting the amount of the loans granted for each sovereign of gold contained in the article undertaken. Further, close follow up of the payment of capital and interest due on loans and advances granted and structuring of the loans and advances granted in a manner that recovery action is possible, are also undertaken.

MARKET RISK

Market risk is the risk arising from fluctuations in market variables such as interest rates, foreign currencies, equity prices and gold prices. This is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in the market variables. As the Company's operations involve granting accommodations, accepting deposits and obtaining funding facilities, the movements in interest rates constitute the most important market risk for the Company.

Mitigation

Movements in interest rates are closely monitored. Further, the Company maintains an adequate Net Interest Margin (NIM) so that increases in interest expenses can be absorbed. Although the mismatch in assets and liabilities in terms of maturity is widely prevalent in the industry, in view of the composition of the portfolio of the Company, this mismatch has been mitigated to a significant extent.

LIQUIDITY RISK

Liquidity risk is the risk of only being able to meet liquidity obligations at increased cost or, ultimately, being unable to meet obligations as they fall due. In the case of the Company, this relates mainly to the ability to meet refund of deposits obtained from the public as they fall due and settlement of installments on bank and other borrowings.

Mitigation

Special attention is given on the liquidity of the Company as it provides critical defense against this and several other risks such as reputation, compliance, and financial risks. A liquidity policy has been enveloped and integrated into risk policy to provide necessary guidelines. The Company's projected liquidity requirements are assessed on a continuous basis to ensure that they can be met as and when such requirements arise. The Company also strives to ensure that the liquidity ratios required to be maintained by the applicable Central Bank regulations are complied with. The Company has to maintain minimum liquid assets as per the requirements of Finance Companies (Liquid Assets) Direction No. 04 of 2013.

OPERATIONAL RISK

Operational risk is the probability of loss occurring from the internal inadequacies of a firm or a breakdown in its controls, operations, or procedures. For Commercial Credit it is the possible failure in the IT System and failure to fully comply with policies and procedures laid, mainly attributable to new recruits absorbed to facilitate rapid expansion.

Mitigation

Sound operational policies, processes and controls have been put in place to be followed by staff to mitigate operational risks and the effectiveness of the same is assessed on a continuous basis.

The degree of compliance of staff with such operational policies processes and controls is regularly reviewed. The Company maintains risk registers which include possible operational risks and appropriate controls. Awareness building and comprehensive training sessions are undertaken to educate staff on the significance of the compliance with operational policies, processes and controls. In this context the Value-driven culture, which is rigorously promoted across all levels of Commercial Credit in ensuring that employees are self-disciplined, plays a key role.

The Company is fully compliant with the regulatory requirements pertaining to IT system maintenance with special emphasis on Disaster Recovery Plans.

REPUTATIONAL RISK

Reputation risk, is a risk of loss resulting from damages to a firm's reputation, in loss revenue; increased operating, capital or regulatory costs; or destruction of shareholder value, consequent to an adverse or potentially criminal event even if the Company is not found guilty. For Commercial Credit, this relates to the borrowers' negative perception about the Company and a loss of confidence on the part of depositors. Further, with the emergence of the Company as a major player among NBFIs, it is critical that due attention is given to safeguard the high reputation the Company has earned among all stakeholders. In today's highly inter-connected world with instant communication capability, an excellent reputation carefully built over a long period could be at risk instantly.

Mitigation

Strong Corporate Governance and Risk Management practices are promoted across all levels of the Company while significant investments have been made in enhancing the Company's brand image through well-thought-out marketing strategies which are in keeping with the Company's Shared Values. Further, promotion of the Value-driven culture within the organisation and customer confidence building initiatives employed enhance the reputation of the Company. The Company pays close attention to ensure that there is no reputation-reality gap for any stakeholder group of Commercial Credit.

Risk Appetite

Risk Appetite is defined as the quantum of risk Commercial Credit is willing to assume in different areas of business in achieving its strategic objectives and ensuring maintenance of desired risk profile. The Risk Appetite framework and Risk Tolerance limits have been defined by the Board in consultation with the Senior Management of the Commercial Credit in-line with the Commercial Credit's overall business strategy, providing clear direction to the business units for ongoing operations and risk management. The Risk Appetite framework and Risk Tolerance limits are reviewed and adjusted by the Board when required, based on developments in the operating environment. In the event the risk appetite threshold has been breached, risk management and business controls are implemented to bring the exposure level back within the accepted range. Risk Appetite, therefore, translates into operational measures such as limits or qualitative checkpoints for the dimensions of capital, earnings volatility and concentration risk etc. In order to effectively implement Risk appetite, Commercial Credit has defined quantitative indicators (e.g., capital adequacy level and ROA) or qualitatively embedded same in the policies and procedures.

06	Highlights
09	Board of Directors and Executive Management
27	Management Discussion and Analysis
47	Sustainability Report
61	Risk Management and Corporate Governance
103	Financial Information

CORPORATE GOVERNANCE

Corporate Governance is about promoting transparency and accountability and it defines systems and structures in relation to decision making and their execution through which Commercial Credit and Finance PLC (Company) is managed in the best interest of our stakeholders. It has been designed and developed so that it will influence the behaviour of everyone assigned with the responsibility of managing the affairs of the Company ensuring that the interests of all stakeholders are effectively served on a consistent basis. Good Corporate Governance helps in moving the Company towards performance excellence while being in compliance with external and internal regulations, guidelines and ethical standards.

We recognise that controls and procedures play an integral part in maintaining high standards and that transparency, disclosure, financial controls and accountability are essential components of any good system of Corporate Governance. Company is committed to high standards of Corporate Governance and we are constantly seeking ways to making our Corporate Governance even more effective and reliable. We believe that the emphasis the Company consistently makes in instilling the Shared Values of the Company among all members of the Commercial Credit team will play a critical role in this regard.

The Company's Corporate Governance model has been built and enhanced based on the following requirements and guidelines.

1. The Companies Act No. 07 of 2007.
2. The Listing Rules of Colombo Stock Exchange (CSE).
3. Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities and Exchange Commission of Sri Lanka (SEC).
4. The Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka.

Board of Directors

The Board of Directors of the Company comprised of ten members as at the end of the financial year under review. The Company's Board of Directors consists of professionals in varied fields who collectively possess a vast wealth of knowledge and experience and are thus eminently suitable to provide the leadership and direction required.

One third of the Directors retire by rotation at each Annual General Meeting and those eligible are recommended for re-election. The Board meets approximately once a month or as and when the need arises to discuss any prevailing issues and to take appropriate action as required. There were total of twelve Board meetings during the financial year under review.

The Board of Directors jointly provides strategic leadership and direction to the Company. The Board ensures that strategies are formulated and implemented so that consistent progress is made by the Company towards its approved Purpose, Vision and Mission in keeping with our Shared Values. The Board issues directions and guidelines to the Chief Executive Officer (CEO) and the Executive Management of the Company as it deems necessary.

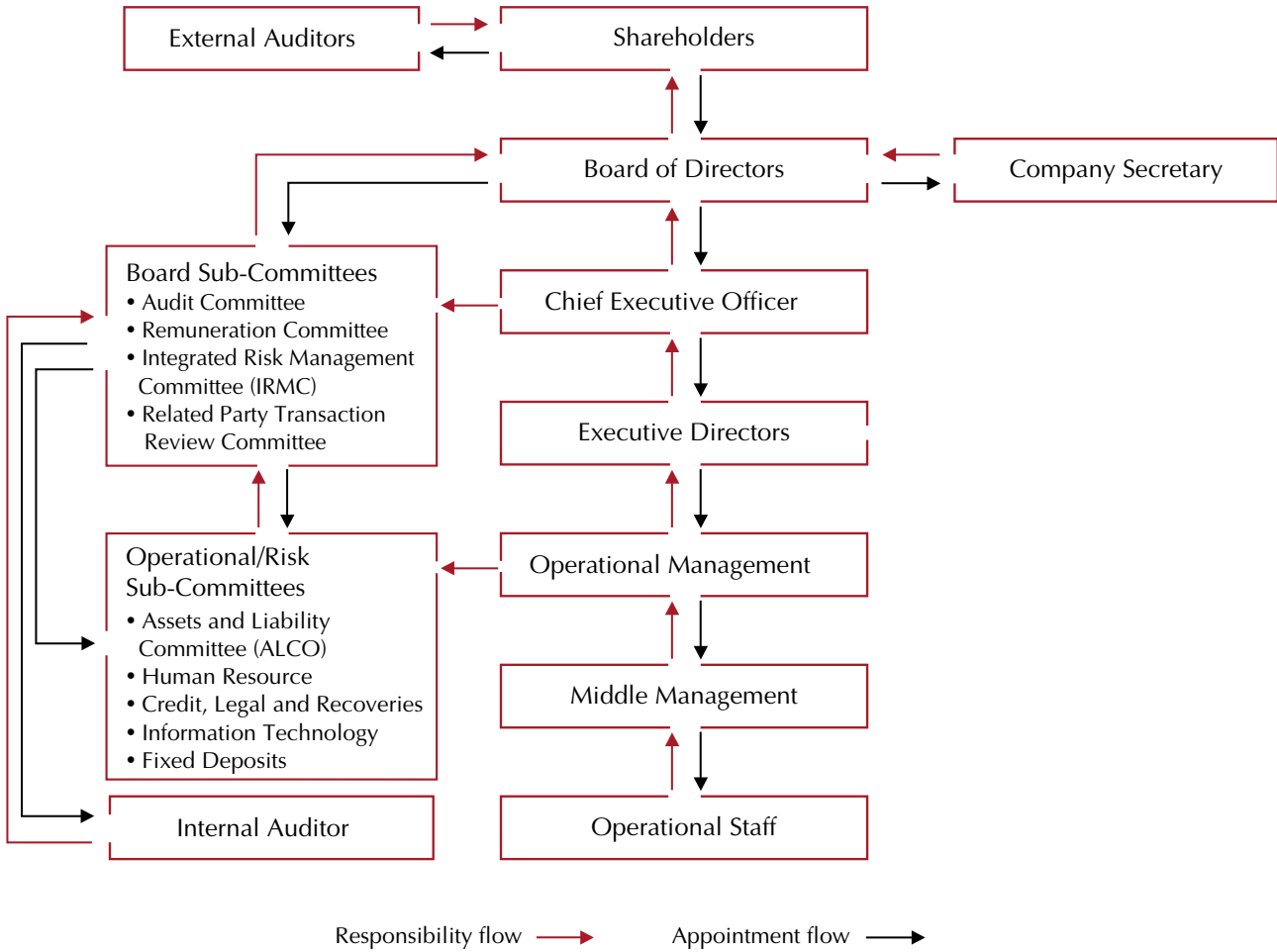
The Chairman has no financial or any other relationship with any other member of the Board. The CEO has a business relationship with a Non-Executive Director of the Company where such Non-Executive Director and CEO serve on the Board of "Trade Finance and Investments PLC" which is a subsidiary of the Company. Also, one Executive Director of the Company is the spouse of the CEO.

The policies and guidelines required are approved by the Board and periodically reviewed to ensure that they remain relevant and meet the requirements of the Company. Further, members of the Board have appointed to the Sub-Committees covering specified areas and its Terms of Reference have been approved by the Board of Directors.

The Board of Directors through their regular meetings and operation of Board Sub-Committees reviews the performance of the Company in the context of the interests of all stakeholders. The financial performance, compliance with rules and regulations and risk management receive close attention of the Board. The financial budget and other plans and indicators together with related resource requirements are reviewed and approved by the Board for the ensuing financial period. The Board's attention is also given to the proper functioning and effectiveness of the Company's System of Internal Controls, Management Information System (MIS) and corporate governance practices. In reviewing the performance of the Company, the Board meets the CEO and Executive Management.

A Statement of Directors' Responsibilities for Financial Reporting is set out in this Annual Report.

Governance Structure



Board Sub-Committees

In accordance with the requirements of the Listing Rules of the Colombo Stock Exchange (CSE) and the related Directives of the Central Bank of Sri Lanka the Board has constituted four Sub-Committees, namely, Board Audit Committee, Remuneration Committee, Related Party Transaction Review Committee and Integrated Risk Management Committee (IRMC). These Committees are made up of members of the Board and the Operational Management of the Company.

The Board Sub-Committees scrutinize and analyse the areas under their purview and assist and advise the Board of Directors. The Board Sub-Committees obtain information and explanations and any other assistance required from the Management and staff of the Company.

The composition of the Board during the period under review is set out in the table in this section together with a record of the attendance of every Director at Board and Sub-Committee meetings.

Highlights	06
Board of Directors and Executive Management	09
Management Discussion and Analysis	27
Sustainability Report	47
Risk Management and Corporate Governance	61
Financial Information	103

CORPORATE GOVERNANCE CONTD.

Name of the Director	Category	Board		Audit Committee		Remuneration Committee		Integrated Risk Management Committee		Related Party Transaction Review Committee	
		Eligible to Attend	Attend	Eligible to Attend	Attend	Eligible to Attend	Attend	Eligible to Attend	Attend	Eligible to Attend	Attend
Mr K.J.C. Perera	Independent Non-Executive	12	12	11	11	1	1	10	10	Not Applicable	
Mr. R.S. Egodage	Executive	12	11	Not Applicable		Not Applicable		10	9	Not Applicable	
Mrs. G.R. Egodage	Executive	12	12	Not Applicable		Not Applicable		Not Applicable		Not Applicable	
Mr. I.G.S.K. Gunarathne	Non-Executive	12	12	11	11	1	1	10	9	4	4
Mr. M.S.D. Pinto	Independent Non-Executive	12	12	Not Applicable		1	1	Not Applicable		4	4
Mr. E.D.P. Soosaipillai	Independent Non-Executive	12	12	11	11	Not Applicable		10	10	Not Applicable	
Mr. P.T. Fisher	Non-Executive	12	12	Not Applicable		Not Applicable		Not Applicable		Not Applicable	
Mr. K.D. Vander Weele	Non-Executive	12	11	Not Applicable		Not Applicable		Not Applicable		Not Applicable	
Mr. P.S.R.C. Chitty	Executive	12	12	Not Applicable		Not Applicable		10	9	4	4
Mr. M. Konoshita (Resigned w.e.f. 11.09.2017)	Non-Executive	6	6	Not Applicable		Not Applicable		Not Applicable		Not Applicable	
Mr. R.R. Martin	Non-Executive	12	10	Not Applicable		Not Applicable		Not Applicable		Not Applicable	

Company Secretaries

Jacey & Company provides corporate secretarial services to the Company. The Company Secretaries play a key role in compliance matters by ensuring that the Company complies with the requirements of the Companies Act No. 07 of 2007, the Rules of the Colombo Stock Exchange and other regulatory bodies. The Secretaries also ensure that Board procedures are followed and information is provided to shareholders on a timely basis. Jacey & Company has also been appointed by the Board to function as Secretaries for the Board Sub-Committees.

Operational and Risk Sub-Committees

In order to facilitate the implementation of the policies and various operational decisions made by the Board and the Executive Management, regular meetings are held with the Operational Management team, functional heads and heads of the various branches and service centers of the Company. These meetings focus on achievement of operational targets, resource requirements and, underlying processes and risks. Assets and Liabilities Committee (ALCO) and Risk Sub-Committees covering the areas of Fixed Deposits, Human Resources, Information Technology and Credit, Legal and Recoveries have been formed with the intention of identifying and reviewing the related risk aspects of the operations of the Company and actions required to deal with such risks. These Sub-Committees are represented by risk management and operational personnel and meet approximately once in three months. Matters discussed and decisions made are communicated to the Integrated Risk Management Committee (IRMC).

Operational Structure

In order to effectively execute the strategies and plans approved by the Board, Company has an operational structure which manages its product portfolio and the geographical locations at which it is present. Members of the Executive Management are assigned with responsibilities to manage the specific products and functions of the Company. The next level of management is responsible for delivering of results at regional and at the level of individual locations. Formal lines of communication and reporting flow from the CEO and Executive Director to the Executive Management and from them to the regional and branch management and then to the operational staff are

in place. However, in keeping with the open culture of the Company all employees have open lines of communication across the organisation where even the most junior staff have direct access to the CEO and the Executive Directors.

Compliance with Legal Requirements

All Directors have access to the advice and services of the Company Secretaries as well as to the financial information of the Company. The Directors make every endeavour to ensure that the Company complies with applicable laws and regulations.

HIGHLIGHTS FOR 2017/18

1. Directors' Retirement/Re-appointment at the Annual General Meeting

Mr. Regis Rodolphe Martin, a Non-Executive Director of the Company who was first appointed to the Board on 20 December 2016, was re-elected at the Annual General Meeting held on 30 June 2017.

Mr. Mitsuji Konoshita, a Non-Executive Director of the Company who was first appointed to the Board on 20 December 2016, was re-elected at the Annual General Meeting held on 30 June 2017.

Mr. Roshan Sanjaya Egodage, an Executive Director of the Company who was first appointed to the Board on 15 March 2011, was re-elected at the Annual General Meeting held on 30 June 2017.

Mrs. Geya Rasi Egodage, an Executive Director of the Company who was first appointed to the Board on 26 December 2009, was re-elected at the Annual General Meeting held on 30 June 2017.

Mr. Ihala Gamaralalage Samantha Kumara Gunaratne, a Non-Executive Director of the Company who was first appointed to the Board on 29 August 2009, was re-elected at the Annual General Meeting held on 30 June 2017.

Mr. Mihindu Kulasuriya Susantha Devapriya Pinto, an Independent Non-Executive Director of the Company who was first appointed to the Board on 21 March 2011, was re-elected at the Annual General Meeting held on 30 June 2017.

2. Re-appointment of Auditors

Messrs. Ernst & Young, Chartered Accountants were re-appointed as the Auditors of the Company at the AGM held on 30 June 2017.

3. Re-appointment of Messrs. Ernst & Young, Chartered Accountants for assessment of Corporate Governance and Compliance

The Company engaged the services of Messrs. Ernst & Young, Chartered Accountants to seek their assessment of the Company's compliance with the requirements of the Finance Business Act Direction No. 03 of 2008 on Corporate Governance for Licensed Finance Companies issued by the Central Bank of Sri Lanka and subsequent amendments thereto.

4. Re-appointment of Messrs. Ernst & Young, Chartered Accountants for certification on the process adapted by the Directors on the system of Internal Controls over Financial Reporting

The Company also engaged the services of Messrs. Ernst & Young, Chartered Accountants to seek an assurance on the process adopted by the Directors on the system of internal control over financial reporting.

Highlights
06

Board of Directors and
Executive Management
09

Management Discussion
and Analysis
27

Sustainability
Report
47

Risk Management and
Corporate Governance
61

Financial
Information
103

CORPORATE GOVERNANCE CONTD.

The following table indicate the status of compliance on the contents of Annual Report in terms of the listing rules of the CSE Rule No. 7.6.

Rule No.	Disclosure Requirement	Section/Reference
7.6 (i)	Names of the Directors who held duties during the financial year	Refer Report of the Board of Directors on the Affairs of the Company in this Annual Report.
7.6 (ii)	Principal activities of the Company and its subsidiaries during the year and any changes therein	Refer Report of the Board of Directors on the Affairs of the Company in this Annual Report.
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Refer Investor Information in this Annual Report
7.6 (iv)	The public holding percentage	Refer Investor Information in this Annual Report
7.6 (v)	Directors' and Chief Executive Officer's holding in shares of the Company at the beginning and end of the financial year	Refer Investor Information in this Annual Report
7.6 (vi)	Information pertaining to material foreseeable risk factors	Refer Risk Management section in this Annual Report
7.6 (vii)	Details of material issues pertaining to employees and industrial relations	There were no material issues pertaining to employees and industrial relations.
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Company's land holdings and investment properties	Refer Note 16 and 17 of the Audited Financial Statements in this Annual Report.
7.6 (ix)	Number of shares representing the stated capital	Refer Investor Information in this Annual Report
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Refer Investor Information in this Annual Report
7.6 (xi)	Ratios and market price information: <ul style="list-style-type: none"> • Equity <ol style="list-style-type: none"> 1. Dividend per share 2. Dividend pay out 3. Net asset value per share 4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year) • Debt (only if listed) <ol style="list-style-type: none"> 1. Interest rate of comparable government security 2. Debt/equity ratio 3. Interest cover 4. Quick asset ratio 5. The market prices and yield during the year 6. Any changes in credit rating 	Refer Investor Information in this Annual Report
7.6 (xii)	Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value	Not Applicable
7.6 (xiii)	Details of funds raised through a Initial Public issue, Rights Issue and private Placement	Not Applicable

Rule No.	Disclosure Requirement	Section/Reference
7.6 (xiv)	Information in respect of Employee Share Ownership or Stock Option Scheme <ul style="list-style-type: none"> Total number of shares allotted during the financial year Price at which shares were allotted Highest, lowest & closing price of the share recorded during the financial year Details of funding granted to employees (if any) 	Not Applicable
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules	Refer Report of the Board of Directors on the Affairs of the Company, Report of the Board Audit Committee, Report of the Remuneration Committee and Corporate Governance section in this Annual Report.
7.6 (xvi)	Related Party transactions exceeding 10 percent of the Equity or 5 per cent of the total assets of the Entity as per Audited Financial Statements, whichever is lower	Not applicable as it has not exceeded the stipulated limit.

Companies compliance with Direction No. 03 of 2008 on Corporate Governance issued by the Central Bank of Sri Lanka.

Rule Reference	Rule Description	Compliance Status
2. The Responsibilities of the Board of Directors		
2.1 (a)	Approving and overseeing the finance Company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance Company;	A three year strategic plan covering financial years 2019 – 2021 that encompasses the strategic objectives and corporate values of the Company prepared by the management will be approved by the Board and will be communicated through out the Company.
(b)	Approving the overall business strategy of the finance Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;	Company's three year strategic plan is based on the overall risk policy and risk management procedures and mechanism will be approved by the Board.
(c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	The Board has appointed an Integrated Risk Management Committee (IRMC) which met ten (10) times during the financial year 2017/2018. The IRMC has appointed Sub-Committees to identify the risks in the areas of Assets and Liabilities Management, Fixed Deposits, Information Technology, Human Resources.
(d)	Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	A Board approved detailed policy on communication with the relevant stakeholders is in place. The Company has assigned a designated person to handle communication with all stakeholders, including Depositors, Creditors, Shareholders and Borrowers.

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

CORPORATE GOVERNANCE CONTD.

Rule Reference	Rule Description	Compliance Status
(e)	Reviewing the adequacy and the integrity of the finance Company's internal control systems and management information systems;	The Board Audit Committee reviews the adequacy and the integrity of the Company's internal control systems. Minutes of such meetings circulated to the Board. Various reviews have been carried out in relation to the Management Information System (MIS) of the Company by internal and external parties which has been presented to the Board Audit Committee (BAC). Based on the BAC review and recommendation Board has reviewed the adequacy and integrity of MIS.
(f)	Identifying and designating Key Management Personnel, who are in a position to: <ul style="list-style-type: none"> (i) Significantly influence policy; (ii) Direct activities; and (iii) Exercise control over business activities, operations and risk management; 	Board of Directors (including Chief Executive Officer (CEO) and Chief Operating Officer) and selected Genius Operations have been designated by the Board as "Key Management Personnel".
(g)	Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel;	Board approved areas of key responsibilities of Board of Directors and Key Management Personnel are in place.
(h)	Ensuring that there is appropriate oversight of the affairs of the finance Company by Key Management Personnel, that is consistent with the finance Company's policy;	The affairs of the Company are reviewed and monitored by the Board of Directors through the CEO and it ensures that the Key Management Personnel and other members of the Executive Management exercise appropriate oversight on the activities of the Company.
(i)	Periodically assessing the effectiveness of its governance practices, including: <ul style="list-style-type: none"> (i) The selection, nomination and election of Directors and appointment of Key Management Personnel; (ii) The management of conflicts of interests; and (iii) The determination of weaknesses and implementation of changes where necessary; 	The Board ensures that it periodically assesses its own governance practices including selection, nomination and election of Directors and appointment of Key Management Personnel, management of conflicts of interests and the determination of weaknesses and implement changes where necessary.
(j)	Ensuring that the finance Company has an appropriate succession plan for Key Management Personnel;	Board approved succession plan for Key Management Personnel is in place.
(k)	Meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	Members of the Executive Management are invited to Board meetings where they are required to explain matters relating to their areas of responsibility and to assist the Board in reviewing related Policies.
(l)	Understanding the regulatory environment;	The Directors and Key Management Personnel are informed of all changes to the regulatory environment.
(m)	Exercising due diligence in the hiring and oversight of External Auditors.	The Board exercised due diligence in hiring and oversight of External Auditors with the assistance of the BAC. The External Auditors are appointed by the shareholders at the Annual General Meeting.
2.2	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with paragraph 7 of this Direction.	The Chairman and the CEO are appointed by the Board and their functions and responsibilities are separated and further defined and approved by the Board of Directors.

Rule Reference	Rule Description	Compliance Status
2.3	There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek Independent professional advice in appropriate circumstances, at the finance Company's expense. The Board shall resolve to provide separate Independent professional advice to Directors to assist the relevant Director(s) to discharge the duties to the finance Company.	A procedure approved by the Board of Directors to obtain independent professional advice, where necessary, at the Company's expense is in place.
2.4	A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	A procedure has been put in place to avoid conflicts of interest and Directors abstain from voting when matters in which he or any of his/her relatives or a concern in which he/she has substantial interest is discussed.
2.5	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance Company is firmly under its authority.	A formal schedule of matters specifically reserved for the Board is in place.
2.6	The Board shall, if it considers that the finance Company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance Company prior to taking any decision or action.	No such situation has arisen in the past or nor is one foreseen in the foreseeable future.
2.7	The Board shall include in the finance Company's Annual Report, an annual Corporate Governance report setting out the compliance with this Direction.	An annual Corporate Governance report setting out the compliance with this direction is included in this Annual Report.
2.8	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	A scheme of self-assessment of Directors is in place to be undertaken by each Director annually and the records of such assessments are maintained by the Company Secretary.
3. Meetings of the Board		
3.1	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Twelve (12) Board Meetings were held during the year 2017/18 at approximately monthly intervals and details of Directors' individual attendance are provided under "Corporate Governance Report" in this Annual Report. There were number of instances where the Board's consent has been obtained through circulation of resolutions/papers during this financial year under review, which were subsequently ratified by the Board at their meetings.
3.2	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance Company.	Agendas of regular meetings are included with matters and proposals from all Directors with regard to promotion of business and management of risk and other relevant areas of the business of the Company. Further, a Board-approved procedure is in place in this regard.

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

CORPORATE GOVERNANCE CONTD.

Rule Reference	Rule Description	Compliance Status
3.(3)	A notice of at least 7 days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Meaningful discussions are facilitated at both Board meetings and other meetings where adequate time and at least 7 days of notice is given to Directors prior to the Board Meeting. Further, sufficient time period is offered in studying the relevant papers and proposals.
3.4	A Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	No such situation has arisen in financial year 2017/2018. Details of Directors' individual attendance are provided under the "Corporate Governance" in this Annual Report.
3.5	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	For carrying out the secretarial functions and other functions required by the statutes, the Board has appointed a professional secretarial Company as the Board Secretary.
3.6	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Company Secretary prepares the agenda for the Board meeting and the Chairman approves the same.
3.7	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Such advice and services of Company Secretary are available to all Directors and a Board-approved process is in place in this regard.
3.8	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Board minutes are maintained by the Company Secretary and the same is available for Directors' Inspection.
3.9	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: (a) A summary of data and information used by the Board in its deliberations; (b) The matters considered by the Board; (c) The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) The explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) The Board's knowledge and understanding of the risks to which the finance Company is exposed and an overview of the risk management measures adopted; and (f) The decisions and Board resolutions.	Minutes of the Board meetings are recorded in sufficient details including the requirements mentioned in this section. This process will be further improved with the inclusion of detail of individual contributions and views of the board members along with their names.

Rule Reference	Rule Description	Compliance Status
4. Composition of the Board		
4.1	As per the direction No. 03 of 2008 on Corporate Governance issued by Central Bank of Sri Lanka, the number of Directors on the Board shall not be less than 5 and not more than 13.	The Board consists of ten (10) Directors as at 31 March 2018.
4.2	As per the direction No. 03 of 2008 on Corporate Governance issued by Central Bank of Sri Lanka and subject to paragraph 5(1) of this Direction the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years. The total period in office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this Direction.	None of the Non-Executive Directors have held office for over 9 years.
4.3	As per the direction No. 03 of 2008 on Corporate Governance issued by Central Bank of Sri Lanka, an employee of a finance Company may be appointed, elected or nominated as a Director of the finance Company (hereinafter referred to as an “Executive Director”) provided that the number of executive Directors shall not exceed one-half of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Company.	There are seven (7) Non-Executive Directors and three (3) Executive Directors (including CEO).
4.4	The number of Independent Non-Executive Directors of the Board shall be at least one fourth of the total number of Directors.	Three (3) out of a total of ten (10) Directors are Independent Non-Executive Directors.
4.5	In the event an alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	No such situation has arisen during the financial year 2017/18.
4.6	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	A brief profile of each Director is disclosed in this Annual Report.
4.7	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	Details of Directors’ individual attendance are provided in the “Corporate Governance” section in this Annual Report. The Board meeting attendance was prepared by the Company Secretary for the financial year 2017/18 evidence the required quorum has been complied with at all Board meetings.
4.8	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the finance Company. The finance Company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report which shall be an integral part of its Annual Report.	The Independent Non-Executive Directors have expressly identified in all corporate communications.

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

CORPORATE GOVERNANCE CONTD.

Rule Reference	Rule Description	Compliance Status
4.9	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	The required procedure for appointment of Directors is in place.
4.10	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	No such situation has arisen during the financial year 2017/18.
4.11	If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	During the year 2017/18, one Director tendered his resignation and such resignation was duly communicated to the shareholders through Colombo Stock Exchange after obtaining necessary approvals from the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
5. Criteria to Assess the Fitness and Propriety of Directors		
5.1	As per the direction No. 03 of 2008 on Corporate Governance issued by Central Bank of Sri Lanka, a person over the age of 70 years shall not serve as a Director of a finance Company.	No Director currently serving on the Board is above the age of seventy (70).
5.2	A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance Company.	No Director holds Directorship in more than 20 companies/societies/bodies/corporates including Associate Companies and Subsidiaries of the Finance Company.
6. Delegation of Functions		
6.1	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	The Board does not delegate matters to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.
6.2	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance Company.	The delegation process is periodically reviewed.
7. The Chairman and the Chief Executive Officer		
7.1	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the one and the same person after 3 years commencing from 1 January 2009.	The roles of Chairman and CEO are separated and held by two different individuals appointed by the Board.
7.2	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater Independent element. The designation of the Senior Director shall be disclosed in the Finance Company's Annual Report.	Chairman is an Independent Non-Executive Director.

Rule Reference	Rule Description	Compliance Status	
7.3	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	<p>The Chairman has no financial or any other relationship with any other member of the Board.</p> <p>The CEO has a business relationship with a Non-Executive Director of the Company where such Non-Executive Director and CEO serve on the Board of "Trade Finance and Investments PLC" which is a subsidiary of the Company.</p> <p>Also, one Executive Director of the Company is the Spouse of the CEO.</p> <p>The names of the Chairman and the CEO are given in this Annual Report.</p>	<p>06 Highlights</p> <p>09 Board of Directors and Executive Management</p>
7.4	The Chairman shall: <ul style="list-style-type: none"> (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner. 	The requirements specified are adhered to by the Chairman in discharging his duties. The self-evaluation process of the Company ensures that the said requirements are fulfilled.	27 Management Discussion and Analysis
7.5	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Company Secretary prepares the agenda for the Board meeting and the Chairman approves the same.	
7.6	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	The requirement specified are adhered to by the Chairman in discharging his duties.	
7.7	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance Company.	The requirement specified are adhered to by the Chairman in discharging his duties.	47 Sustainability Report
7.8	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	The requirement specified are adhered to by the Chairman in discharging his duties.	
7.9	As per the direction No. 03 of 2008 on Corporate Governance issued by Central Bank of Sri Lanka, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	As per the organisation chart approved by the Board, the Chairman does not directly get involved in the supervision of Key Management Personnel or to involve in any other executive duties.	61 Risk Management and Corporate Governance
7.10	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Shareholders are given the opportunity to express their views on matters of interest to them at Annual General Meetings.	
7.11	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the finance Company's operations and business.	CEO functions as the apex Executive of the Company supported by the Executive Management.	103 Financial Information

CORPORATE GOVERNANCE CONTD.

Rule Reference	Rule Description	Compliance Status
8. Board Appointed Committees		
1.	Every finance Company shall have at least the two Board committees set out in paragraphs 8.2 and 8.3 hereof. Each committee shall report directly to the Board. Each committee shall appoint a Secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the Annual General Meeting of the Company.	The BAC and IRMC have been established and are directly report to the Board. The Company Secretary has been appointed to arrange meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairmen of the said committees. The performance, duties and functions of each committee are included in this Annual Report.
8. Audit Committee		
2. (a)	The Chairman of the committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	The name, qualifications and experience of the Audit Committee Chairman who is an Independent Non-Executive Director, are given in the profiles of the Board of Directors in this Annual Report.
(b)	The Board members appointed to the committee shall be Non-Executive Directors.	The Board members appointed to the committee are Non-Executive Directors.
(c)	The Committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> (i) the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	<p>The Committee makes recommendations to the Board on:</p> <ul style="list-style-type: none"> • the appointment of the External Auditor for audit services provided in compliance with the relevant statutes; • the implementation of the Central Bank guidelines issued to Auditors from time to time; • the application of the relevant accounting standards; and • the service period, audit fee and any resignation or dismissal of the Auditor <p>The engagement of the Audit Partner has not exceeded five years.</p>
(d)	The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	The required functions are performed by the Committee. Refer "Report of the Board Audit Committee" in this Annual Report.

Rule Reference	Rule Description	Compliance Status
(e)	<p>The Committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider:</p> <p>(i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services;</p> <p>(ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the External Auditor; and</p> <p>(iii) Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the External Auditor.</p>	<p>A Board-approved policy on the engagement of an External Auditor to provide non-audit services is in place. The committee ensures that the External Auditors are able to maintain objectivity and independence and are suitable to perform the required non-audit services.</p>
(f)	<p>The committee shall, before the audit commences, discuss and finalize with the External Auditors the nature and scope of the audit, including:</p> <p>(i) an assessment of the finance Company's compliance with Directions issued under the Act and the management's internal controls over financial reporting;</p> <p>(ii) the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and</p> <p>(iii) The co-ordination between auditors where more than one auditor is involved.</p>	<p>The Committee has discussed the nature and scope of the External Audit with the External Auditor including the matters referred in point No. "f".</p>
(g)	<p>The Committee shall review the financial information of the Finance Company, in order to monitor the integrity of the Financial Statements of the Finance Company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance Company's Annual Report and accounts and periodical reports before submission to the Board, the Committee shall focus particularly on:</p> <p>(i) major judgmental areas;</p> <p>(ii) any changes in accounting policies and practices;</p> <p>(iii) significant adjustments arising from the audit;</p> <p>(iv) the going concern assumption; and</p> <p>(v) the compliance with relevant accounting standards and other legal requirements.</p>	<p>The Committee has process in this regard and reviews all financial information published by the Company with a focus on the areas required under the direction.</p>

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

CORPORATE GOVERNANCE CONTD.

Rule Reference	Rule Description	Compliance Status
(h)	The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.	The Committee met with External Auditors twice (2) in the financial year under review in the absence of Key Management Personnel.
(i)	The Committee shall review the External Auditor's management letter and the management's response thereto.	The management letter and the management's response is reviewed and oversight given to any corrective actions.
(j)	The Committee shall take the following steps with regard to the Internal Audit function of the finance Company: <ul style="list-style-type: none"> (i) review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) review the Internal Audit programme and results of the Internal Audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department; (iii) review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit department; (iv) recommend any appointment or termination of the head, senior staff members and outsourced service providers to the Internal Audit function; (v) ensure that the committee is apprised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) ensure that the Internal Audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. 	<p>The Committee reviews and appraises the performance and functions of the Internal Audit Department.</p> <p>The Internal Audit scope and the procedures are reviewed by the BAC.</p> <p>Internal Audit findings of audits carried out during the year were reviewed by the BAC.</p> <p>The appraisal of the head of the Internal Audit functions is reviewed and approved by the BAC.</p> <p>On the recommendation of the BAC, the Board of Directors approved the Senior Manager – Internal Audit, to be act as the head of Internal Audit function.</p> <p>Senior Manager – Internal Audit reports directly to the BAC and is independent and the audits are performed with impartiality and professional due care.</p>
(k)	The Committee shall consider the major findings of internal investigations and management's responses thereto;	The Committee considers the major findings of the Internal Audit Department and the management's responses thereto.
(l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the CEO may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the External Auditors without the Executive Directors being present.	The meetings of the Committee are held as required including meeting with the External Auditors without the Executive Directors two meetings were held as required with the External Auditors without the Executive Directors being present.

Rule Reference	Rule Description	Compliance Status
(m)	The Committee shall have: <ul style="list-style-type: none"> (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. 	As per the terms of reference of BAC, the required authority and resources are available to the committee.
(n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	There were eleven (11) meetings held by the committee during the financial year 2017/18 and comprehensive minutes recorded. Refer the “Report of the Board Audit Committee” in this Annual Report.
(o)	The Board shall, in the Annual Report, disclose in an informative way: <ul style="list-style-type: none"> (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings. 	Such information is discussed in the “Report of the Board Audit Committee” and “Corporate Governance report” in this Annual Report of the Company.
(p)	The Secretary to the committee (who may be the Company Secretary or the head of the Internal Audit function) shall record and keep detailed minutes of the committee meetings.	Detailed minutes of the meetings are maintained by the Company Secretary who is the Secretary to the committee.
(q)	The Committee shall review arrangements by which employees of the finance Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance Company’s relations with the External Auditor.	The Committee has in place a procedure by which employees of the Company may raise concerns. A Board-approved whistle blower policy and a Code of Ethics are in place.
8. Integrated Risk Management Committee		
3. (a)	The Committee shall consist of at least one Non-Executive Director, CEO and Key Management. Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	Refer the “Report of the Board Integrated Risk Management Committee” in this Annual Report.

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

CORPORATE GOVERNANCE CONTD.

Rule Reference	Rule Description	Compliance Status
(b)	The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Finance Company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, Risk Management shall be done, both on the Finance Company basis and group basis.	Risk Sub-Committees such as Assets and Liability Committee, Human Resource, Fixed Deposits and Information Technology have been formed under the purview of IRMC to assess the risks of the Company. Company will assess the subsidiary Company risk both on company and group basis.
(c)	The Committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	The Committee reviews the adequacy and effectiveness of all management level committees.
(d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Finance Company's policies and regulatory and supervisory requirements.	Risk appetite limits on Credit, Market and Liquidity are in place. The Committee will review the actual risk indicators which have gone beyond the said limits.
(e)	The Committee shall meet at least quarterly to assess all aspects of Risk Management including updated business continuity plans.	The Committee has met ten (10) times during the financial year 2017/18. Refer the "Report of the Integrated Risk Management Committee".
(f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Banking Financial Institutions of the Central Bank of Sri Lanka.	Specific risks are identified by relevant committees such as Assets and Liability, Human Resources, Fixed Deposits, Information Technology.
(g)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Minutes of the meetings or risk assessment reports have been tabled at the Board meetings.
(h)	The Committee shall establish a compliance function to assess the Finance Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically.	Company has appointed a Compliance Officer designated as a KMP approved by the CBSL to carry out the compliance function and report to the committee periodically. Quarterly Compliance reports has been presented to the BIRMC by the Compliance Officer on the compliance with laws, regulations, regulatory guidelines which has been noted by the committee. Compliance officer has obtained confirmations ensuring that the company has complied with approved policies on all areas of business operations.

Rule Reference	Rule Description	Compliance Status
9. Related Party Transactions		
2.	<p>The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Finance Company with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <p>(a) A subsidiary of the Finance Company;</p> <p>(b) Any associate Company of the Finance Company;</p> <p>(c) Director of the Finance Company;</p> <p>(d) A Key Management Personnel of the Finance Company;</p> <p>(e) A relative of a Director or a Key Management Personnel of the Finance Company;</p> <p>(f) A shareholder who owns shares exceeding 10% of the paid up capital of the Finance Company;</p> <p>(g) A concern in which a Director of the Finance Company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid up capital of the Finance Company, has substantial interest.</p>	A Board-approved policies and procedures in relation to Related Parties and Related Party Transactions are in place.
3.	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <p>(a) Granting accommodation,</p> <p>(b) Creating liabilities to the Finance Company in the form of deposits, borrowings and investments,</p> <p>(c) Providing financial or non-financial services to the Finance Company or obtaining those services from the Finance Company,</p> <p>(d) Creating or maintaining reporting lines and information flows between the Finance Company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.</p>	A Board-approved policies and procedures in relation to Related Parties and Related Party Transactions are in place.

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

CORPORATE GOVERNANCE CONTD.

Rule Reference	Rule Description	Compliance Status
4.	<p>The Board shall ensure that the Finance Company does not engage in transactions with a related party in a manner that would grant such party “more favorable treatment” than that is accorded to other similar constituents of the Finance Company. For the purpose of this paragraph, “more favorable treatment” shall mean:</p> <p>(a) Granting of “total net accommodation” to a related party, exceeding a prudent percentage of the Finance Company’s regulatory capital, as determined by the Board. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the Finance Company’s share capital and debt instruments with a remaining maturity of 5 years or more;</p> <p>(b) Charging of a lower rate of interest than the Finance Company’s best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counter party;</p> <p>(c) Providing preferential treatment, such as Favorable terms, covering trade losses and/or waiving fees/ commissions, that extends beyond the terms granted in the normal course of business with un related parties;</p> <p>(d) Providing or obtaining services to or from a related party without a proper evaluation procedure;</p> <p>(e) Maintaining reporting lines and information flows between the Finance Company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.</p>	<p>A detective monitoring system is in place at the Company where the Company extracts quarterly reports on all RPT transactions which has been verified by the compliance officer to ensure that the Company does not engage in transactions with Related Parties that are deemed as more favourable treatments. The monitoring mechanism will be further strengthened.</p>
10. Disclosures		
10.1	The Board shall ensure that:	The prescribed formats are used in the preparation and publication of Financial Statements.
(a)	Annual audited Financial Statements; and periodical Financial Statements are prepared; and published in accordance with the formats prescribed by the regulatory and supervisory; authorities and applicable accounting standards.	
(b)	Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English	Annual Audited Financial Statements and Semi-Annual Unaudited Financial Statements are published in the newspapers as required.
10. Disclosures made in the Annual Report		
2. (a)	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Refer the “Report of the Board of Directors on the Affairs of the Company” in this Annual Report.

Rule Reference	Rule Description	Compliance Status
(b)	A report by the Board on the Finance Company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements has been done in accordance with relevant accounting principles and regulatory requirements.	Refer the "Directors' Statement on Internal Controls over Financial Reporting" in this Annual Report.
(c)	The External Auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31 March 2010.	Refer the "Directors' Statement on Internal Controls over Financial Reporting" in this Annual Report.
(d)	Details of Directors, including names, transactions with the Finance Company.	Refer the "Report of the Board of Directors' on the Affairs of the Company".
(e)	Fees/remuneration paid by the Finance Company to the Directors in aggregate.	Non-Executive Directors' fee LKR 8.5 Mn. Executive Directors' Remuneration LKR 185 Mn.
(f)	Total net accommodation as defined in paragraph 9.4 outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Finance Company's capital funds.	Accommodations outstanding as a percentage of the Company's capital funds: Directors: NIL KMPs: LKR 26 Mn. (0.23%) Relative of Directors: NIL Relative of Other KMPs: NIL Subsidiaries and Associates: NIL
(g)	The aggregate values of remuneration paid by the Finance Company to its Key Management Personnel and the aggregate values of the transactions of the Finance Company with its Key Management Personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Finance Company.	Remuneration paid to Key Management Personnel (including Executive Directors: LKR 205 Mn.) Accommodations to Key Management Personnel (including Executive Directors: LKR 26 Mn.) Deposits made by Key Management (including Executive Directors: LKR 17 Mn.)
(h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.	Refer the "Report of the Board of Directors' on the affairs of the Company" and "Risk Management" in this Annual Report.
(i)	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the act, and rules and directions that have been communicated by the director of the department of supervision of non-banking financial institutions, if so directed by the monetary board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	In view of the non-compliances and violations with the directions issued under the Finance Business Act No. 42 of 2011, the Company has been requested to submit quarterly reports on the progress of rectification to the regulatory authority. The CBSL has not directed the Company to disclose any violations.
(j)	The External Auditor's certification of the compliance with the act and rules and directions issued by the Monetary Board in the annual corporate governance reports published after 01.01.2011.	The External Auditors have carried out an agreed upon procedure engagement on Corporate Governance and have issued the factual findings report in this regard.

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

CORPORATE GOVERNANCE CONTD.

Company's compliance with Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission (SEC).

Corporate Governance Principle	SEC	Extent of Adoption
Directors		
A.1 The Board		
<p>The Company should be headed by a Board, which should direct, lead and control the Company. The Board consists of professionals in Finance, Accounting, Management, Corporate Law, Marketing, Human Resources and Business Leadership. All Directors possess the skills and experience and knowledge complemented with a high sense of integrity and independent judgment. Their leadership skills, direction provided and controls put in place ensure the achievement of the objectives of the Company set out in the corporate plan and the budget which aims to satisfy the expectations of all stakeholders.</p>		
Board Meetings	A 1.1	12 Board Meetings were held during the year 2017/18 at approximately monthly intervals and details of meetings and individual attendance are provided under the Corporate Governance Section in this Annual Report.
Formulation and implementation of a sound strategy and effective systems	A.1.2	Refer description given in 2.1 (a) and 2.1 (b) of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section.
Competence of the CEO and Executive Management in implementing Business Strategies	A.1.2	The Executive Management consists of competent members who have skills, knowledge and experience to carry out their respective functions effectively. The CEO is responsible in effective implementation of the policies approved by the Board with the assistance of the Executive Management.
Effective Succession Planning for the CEO and Executive Management	A.1.2	Refer description given in 2.1 (j) of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section. Continuous training programmes are put in place to ensure that the staff is up to the required standard in filling a vacant position. The Company culture is designed in a way to identify and develop internal personnel to fill key positions whenever required. A Succession Plan is in place.
Effective Systems to secure Integrity of Information, Internal Controls, Business Continuity and Risk Management	A.1.2	Refer description given in 2.1 (c) and 2.1 (e) of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section and Reports of the Board Audit Committee and Integrated Risk Management Committee in this Annual Report.
Compliance with Laws, Regulations and Ethical standards	A.1.2	Refer description given in 2.1 (l) of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section.
Consideration of all Stakeholders' Interest in Corporate Decisions	A.1.2	Refer description given in 2.1 (d) and 7.10 of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section.
Recognising sustainable business development in Corporate Strategy, decisions and activities	A.1.2	Refer description given in 2.1 (a) and 2.1 (b) of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section.
Adoption of Appropriate Accounting Policies and Fostering Compliance with Financial Regulations	A.1.2	Refer description given in 10.1 of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section.
Fulfilling other Board functions as are vital, given the scale, nature and complexity of the business concerned	A.1.2	Refer description given in 2.1 (g), 2.1 (h) and 2.1 (i) of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section.

Corporate Governance Principle	SEC	Extent of Adoption
Compliance with laws and access to independent professional advice	A 1.3	Refer description given in 2.3 of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section.
Advice and Services of the Company Secretary	A 1.4	Refer description given in 3.7 of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section.
Independent judgment of Directors	A 1.5	Members of the Board bring independent judgment with regard to issues on performance, strategy, resources and standards of business conduct.
Dedication of adequate time and effort for matters of the Board	A 1.6	Members of the Board dedicate adequate time and effort in ensuring that the duties and responsibilities owed to the Company are satisfactorily discharged and in attending meetings of the Integrated Risk Management Committee, Audit Committee and Remuneration Committee.
Training for new and existing Directors	A 1.7	Sufficient knowledge-sharing opportunities are made available for both new and existing members of the Board, on Company and Industry-related matters on a regular basis and are kept informed with regard to industry-specific matters and regulatory updates.

A.2 Chairman and Chief Executive Officer (CEO)

There is a clear separation in the duties of the Chairman and Chief Executive Officer to ensure a balance of power and authority, in such a way that any individual has no unfettered powers in decision making. The provision of direction, leadership and managing the work of the Board are regarded as the responsibilities of the Chairman in ensuring that the Board functions effectively and performs both the intended regulatory and legal responsibilities. Execution of the business operations of the Company with the assistance of the Executive Management is regarded as the primary role of the Chief Executive Officer

Division of responsibilities of the Chairman and Chief Executive Officer	A 2.1	The role of the Chairman and the Chief Executive Officer is not combined. The Chairman functions as an Independent Non-Executive Director whereas the Chief Executive Officer serves as an Executive Director in ensuring balance of power and authority such that no one individual has unfettered power in decision making.
--	-------	---

A.3 Chairman's Role

The provision of leadership and managing the Board while preserving good Corporate Governance are prime elements of the role of the Chairman in ensuring that the Board does discharge both its legal and regulatory responsibilities in full. He preserves order and facilitates the effective discharge of the Board function.

Role of the Chairman	A 3.1	<p>The Chairman's role includes the responsibilities of ensuring; effective participation of both Executive and Non-Executive Directors are secured:</p> <ul style="list-style-type: none"> • That members of the Board of Directors are sufficiently encouraged to make effective contribution within their respective capabilities for the benefit of the Company • A balance of power between Executive and Non-Executive Directors is maintained • The views of Directors on issues under consideration are ascertained • The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders
----------------------	-------	---

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

CORPORATE GOVERNANCE CONTD.

Corporate Governance Principle	SEC	Extent of Adoption
A.4 Financial Acumen		
The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.		
Availability of sufficient financial acumen and knowledge	A.4	The profiles of the Directors are given in this Annual Report.
A.5 Balance of the Board		
It is recommended to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the decision making of the Board.		
Presence of Non-Executive Directors	A 5.1	Eight of the Eleven Directors of Commercial Credit and Finance PLC are Non-Executive Directors.
Independent Directors	A 5.2	Three of the Eight Non-Executive Directors are Independent.
Independence evaluation review	A 5.3	All Independent Directors are independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.
Signed declaration of Independence	A 5.4	Independent Non-Executive Directors have made written submission as to their independence.
Determination of independence of the Directors by the Board	A 5.5	The Board has determined that the submission of declarations by the Non-Executive Directors as to their independence is a fair representation and will continue to evaluate annually.
Alternate Director	A 5.6	Not applicable as no alternate director has been appointed.
Senior Independent Director	A 5.7	Not applicable as the roles of the Chairman and the Chief Executive Officer are separated.
Confidential discussion with the senior Independent Director	A 5.8	Not applicable as the roles of the Chairman and the Chief Executive Officer are separated.
Meeting of Non-Executive Directors	A 5.9	Chairman had met once with Non-Executive Directors without the presence of Executive Directors during the financial year under review.
Recording of concern in Board minutes	A 5.10	There were no matters of special concern raised by the Directors during the year that need to be recorded in the Board minutes.
A.6 Supply of Information		
The Board should be provided with timely information in a form and of a quality appropriate to enable it discharge its duties.		
Information to the Board by the Management	A 6.1	Management provides the Board with appropriate and timely information and additional information as requested by the Board. The Chairman ensures that all Directors are briefed on the issues arising at Board Meetings.
Providing minutes, agenda and papers to Board members with sufficient time for effective Board Meetings	A 6.2	Adequate time is provided to the Board of Directors to review minutes, agenda and papers pertaining to Board Meetings.
A.7 Appointments to the Board		
There should be a formal and transparent procedure for the appointment of new Director to the Board.		
Nomination of Director	A 7.1	A Nomination Committee is not appointed. The Board collectively finalizes decisions with regard to selection of new Directors where Directors could collectively evaluate any need for the appointment of a new Director.

Corporate Governance Principle	SEC	Extent of Adoption
Assessment of Board	A 7.2	The Board of Directors collectively assesses the Board composition in deciding the adequacy of the combined experience and knowledge in successfully addressing the strategic demands encountered by the Company where such findings are made use of in determining new Board appointments.
Disclosure of details of new Directors to shareholders	A 7.3	A brief resume of each new Director appointed is forwarded to the Central Bank of Sri Lanka in addition to such information being revealed in the Annual Report of the Company. Public announcements are made for the notice of interested parties through the Colombo Stock Exchange.
A.8 Re-election		
The Code requires all Directors to submit themselves for re-election at regular intervals and at least once in every three years.		
A.8 Appointment of Non-Executive Directors	A 8.1	The requirement is specified in the Articles of Association.
Re-election by the shareholders	A 8.2	The requirement is specified in the Articles of Association.
A.9 Appraisal of Board performance to ensure that the Board responsibilities are satisfactorily discharged		
Annual appraisal of Board performance and that of its Committees	A 9.1, 9.2 and 9.3	The Board evaluates its performance and that of its committees annually by obtaining the views of each member and discussing same.
A.10 Disclosure of Information in respect of Directors		
The Code requires that the details in respect of each Director to be disclosed in the Annual Report for the benefit of the shareholders.		
Details in respect of Directors	A 10.1	Details of the members of the Board of Directors are provided in this Annual Report.
A.11 Appraisal of CEO		
The Code requires the Board to assess the performance of the Chief Executive Officer (CEO) at least annually to ascertain degree to which the CEO met the pre-set financial and non-financial targets.		
Financial and non-financial targets for CEO	A 11.1	At the beginning of every fiscal year performance targets for the Chief Executive Officer are set which are aligned with the short, medium and long-term strategic objectives of the Company.
Annual evaluation of the performance of CEO	A 11.2	The performance of the Chief Executive Officer is evaluated by the Board.
Directors' Remuneration		
B.1 Remuneration Procedures		
The Code requires companies to have a formal and transparent procedure for developing policy on executive remuneration and fixing the remuneration packages of individual Directors and also recommends that no Director should be involved in deciding his/her remuneration in order to avoid the self review threat.		
Remuneration Committee	B 1.1	The Remuneration Committee is responsible for making recommendations to the Board, with regard to the remuneration of the Executive Directors.
Composition of the Remuneration Committee	B.1.2 and B. 1.3	Please refer Report of Remuneration Committee in this Annual Report.
Remuneration of Non-Executive Directors	B.1.4	The Board as a whole determines the remuneration of Non-Executive Directors and they are offered a fee for serving on the Board of the Company and an additional fee for either chairing or being a member of its Committees.
Consultation of the Chairman and access to professional advice	B.1.5	A related Board-approved policy is in place.

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

CORPORATE GOVERNANCE CONTD.

Corporate Governance Principle	SEC	Extent of Adoption
B.2 The Level and Make up of Remuneration		
Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. The proportion of remuneration of Executive Directors is linked to corporate and individual performance.		
Level and make up of remuneration of Executive Directors	B.2.1 to B.2.8	The Remuneration Committee takes into consideration the salary and the benefits paid to similar positions in other organisations, the contribution made for the overall progress of the Company when determining the level of remuneration to be paid to Executive Directors.
Remuneration of the Non-Executive Directors	B.2.9	The remuneration of Non-Executive Directors is decided based on their time commitment and responsibilities.
B.3 Disclosure of remuneration		
The Code requires the Company to disclose in its Annual Report the details of the remuneration paid and the remuneration policy.		
Disclosure of Directors' remuneration in the Annual Report	B.3.1	The policy of the Committee is given in the Report of Remuneration Committee and the remuneration paid to the Board of Directors is disclosed in this Annual Report under Report of the Board of Directors on the Affairs of the Company.
C. Relations with Shareholders		
C.1 Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings		
The Code requires the Board to use the Annual General Meeting to communicate with shareholders and encourage their active participation. In this regard all shareholders of the Company receive the Notice of Meeting within the statutory due dates.		
Use of Proxy Votes	C.1.1	Proxy Forms are circulated along with the Notice of Meeting.
Separate resolution for all separate issues	C.1.2	A separate resolution is proposed for each substantially separate issue.
Availability of all Board Sub-Committee Chairman	C.1.3	The Chairman of the Board, Audit Committee, Integrated Risk Management Committee and Remuneration Committee are present at the AGM to answer any questions raised by the shareholders.
Adequate notice of the AGM to shareholders together with the summary of the procedure	C.1.4 and C.1.5	The Notice of Meeting is sent along with the Proxy Form to shareholders 15 working days prior to the date of the AGM as required by statute. The summary of the voting procedure is mentioned in these documents.
C.2 Communication with Shareholders		
The Board should implement effective communication with shareholders.		
Communication with shareholders	C.2.1 to C.2.7	Refer description given in 2.1 (d) of compliance report on Finance Companies Direction No. 03 of 2008 on Corporate Governance of this section.
C.3 Major and Material Transaction		
Directors are required to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company.		
Major transactions	C.3.1	During the year there were no major transaction as defined by Section 185 of the Companies Act No. 07 of 2007.

Corporate Governance Principle	SEC	Extent of Adoption
D. Audit and Accountability		
D.1 Financial Reporting		
The Board is required to present a balanced and understandable assessment of the Company's financial position, performance and prospects.		
Reports to public and Regulatory & Statutory reporting	D.1.1	The Financial Statements are prepared and presented in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and Sri Lankan Accounting Standards. These Financial Statements also comply with a reporting requirements prescribed by the regulatory authorities such as Central Bank of Sri Lanka and Colombo Stock Exchange.
Directors' report in the Annual Report	D.1.2	The Report of the Board of Directors on the Affairs of the Company is given in this Annual Report.
Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	Refer the Statement of Directors' Responsibilities for Financial Reporting in this Annual Report.
Management Discussion and Analysis	D.1.4	The Management Discussion and Analysis is given in this Annual Report.
Declaration by the Board that the business is a Going Concern	D.1.5	Refer the Statement of Directors' Responsibilities for Financial Reporting in this Annual Report.
Summoning an EGM to notify serious loss of capital	D.1.6	Likelihood of such occurrence is remote. However, should the situation arise an EGM will be called for and shareholders will be notified.
Disclosure of Related Party Transactions	D.1.7	Related party transactions are disclosed in this Annual Report. A process is in place to obtain the required declaration and to maintain the relevant records.
D.2 Internal Control		
The Code requires the Board to have a sound system of internal controls to safeguard shareholders' investments and the Company's assets.		
Annual evaluation of the Internal Control System	D.2.1	The Board ensures that there is an effective Internal Control and a Financial Reporting System. The Audit Committee assists the Board in this process by reviewing the various related reports of the Internal and External Auditors of the Company.
Need for an Internal Audit	D.2.2, D.2.3 and D.2.4	The Internal Audit Department of the Company is adequately resourced. A plan of the activities of the Department will be reviewed and approved by the Audit Committee. The reports of the findings of the Internal Audit Department including reviews of the process and effectiveness of Risk Management and internal controls are reviewed by the Audit Committee.
D.3 Audit Committee		
The Code requires the Board to have formal and transparent arrangements in selecting and applying the accountings policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's External Auditor.		
Composition of the Audit Committee	D.3.1	The Audit Committee consists of three members, all of whom are Non-Executive Directors. The Committee operates within clearly defined terms of reference. Details of the Committee members, are mentioned in the Report of the Audit Committee given in this Annual Report.

Highlights
06Board of Directors and
Executive Management
09Management Discussion
and Analysis
27Sustainability
Report
47Risk Management and
Corporate Governance
61Financial
Information
103

CORPORATE GOVERNANCE CONTD.

Corporate Governance Principle	SEC	Extent of Adoption
Duties of the Audit Committee	D.3.2	The duties of the Audit Committee are mentioned in the Report of Board Audit Committee in this Annual Report.
Terms and reference of the Audit Committee	D.3.3	Audit Committee functions within its Terms of Reference.
Disclosure of the Audit Committee	D.3.4	The names of the members of the Audit Committee and its functions are disclosed in the Report of the Audit Committee given in this Annual Report.
D.4 Code of Business Conduct and Ethics		
Code of Business Conduct & Ethics	D.4.1	The Code of Business Conduct and Ethics of the Company has been approved by the Board.
Affirmation by the Chairman that there is no violation of the code of conduct and ethics	D.4.2	Refer Chairman's Statement made in this Annual Report.
D.5 Corporate Governance Disclosure		
The Company should disclose the extent of adoption of best practices in Corporate Governance.		
Disclosure of Corporate Governance	D.5.1	This requirement is met through the disclosures related to Corporate Governance made in this Annual Report.
E. Institutional Investors		
E.1 Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice		
Communication with shareholders	E.1.1	General Meetings are used to have an effective dialogue with the shareholders on matters which are relevant and of concern to the general membership.
E.2 Evaluation of Corporate Governance Disclosures		
Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition.		
Corporate Governance disclosures	E.2	Institutional investors have the opportunity to use General Meetings to raise relevant issues which have come to their attention.
F. Other Investors		
Individual shareholder	F.1	If the need arises, individual shareholders are encouraged to carry out adequate analysis or seek independent advice on investment and divestment decisions.
Individual shareholders voting	F.2	Individual shareholders are encouraged to participate at General Meetings and exercise their voting rights.
G. Sustainability Reporting		
Sustainability is a business approach that creates long-term stakeholder value by embracing opportunities and managing risks derived from economic, environmental and social developments and their potential implications and impacts on the business activities of the entity.		
Sustainability reporting is the practice of recognising, measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goals of sustainable development in the context of the overall business activities and strategy of the entity and be directed to the target stakeholders, usually, shareholders, employees, consumers, society and government.		
Sustainable Reporting and Disclosures	G.1.1 to G.1.7	Refer Sustainability Report in this Annual Report.

REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors have pleasure in presenting to the shareholders the Annual Report of the Board of Directors for the Year Ended 31 March 2018.

This Report contains information required by Section 168 of the Companies Act No. 07 of 2007 and other necessary information required by the Listing Rules of Colombo Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activities of the company were acceptance of deposits, granting lease facilities, hire purchase, personal loans, micro loans, pawning, other credit facilities and related services.

CHANGES TO THE NATURE OF BUSINESS

There were no significant changes to the principle activities of the Company during the financial year ended 31 March 2018.

FINANCIAL STATEMENTS

The Financial Statements for the year ended 31 March 2018 are set out in this Annual Report.

AUDITORS' REPORT

The Auditors of the company Messrs Ernst & Young, Chartered Accountants have carried out an audit on the Financial Statements prepared for the year ended 31 March 2018 which is set out in this Annual Report.

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for preparing and presenting the Financial Statements, which are set-out in this Annual Report. The Financial Statements have been prepared in conformity with the Sri Lanka Accounting Standards as laid down by the Institute of Chartered Accountants of Sri Lanka and the Companies Act No. 07 of 2007.

The Directors are satisfied that the Financial Statements give a true and fair view of the state of affairs of the company as well as the profit for the year then ended.

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Financial Statements are given in this Annual Report under Notes to the Financial Statements. The Directors consider that, in preparing these Financial Statements, suitable accounting policies have been used which are applied consistently and supported by reasonable and prudent judgment and that all applicable accounting standards have been followed. The Financial Statements are prepared on a Going Concern basis.

CORPORATE GOVERNANCE

A description of the Company's Corporate Governance practices is set out in this Annual Report.

DIRECTORATE

The names of the Directors as at 31 March 2018 and the changes to the Directorate during the year under review are indicated below:

Mr. Kalugamage John Cecil Perera
 Mr. Roshan Sanjaya Egodage
 Mr. Ihala Gamaralalage Samantha Kumara Gunaratne
 Mrs. Geya Rasi Egodage
 Mr. Mihindukulasooriya Susantha Devapriya Pinto
 Mr. Eugen Duliksha Pratharp Soosaipillai
 Mr. Kenneth Dan Vander Weele
 Mr. Patrick Thomas Fisher
 Mr. Prasanna Senani Rajiv Casie Chetty
 Mr. Regis Rodolphe Martin
 Mr. Mitsuji Konoshita (Resigned w.e.f. 11 September 2017)

In terms of Article 24 (6) of the Articles of Association of the Company Mr. Cecil Perera, retires by rotation and being eligible is recommended by the Board of Directors for re-election by the Members at the Annual General Meeting for the year 2018.

In terms of Article 24 (6) of the Articles of Association of the company Mr. Kenneth D. Vander Weele, Director, retires by rotation and being eligible is recommended by the Board of Directors for re-election by the Members at the Annual General Meeting for the year 2018.

REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY CONTD.

In terms of Article 24 (6) of the Articles of Association of the Company Mr. D. Soosaipillai, Director, retires by rotation and being eligible is recommended by the Board of Directors for re-election by the Members at the Annual General Meeting for the year 2018.

In terms of Article 24 (6) of the Articles of Association of the company Mr. Rajiv Casie Chitty, Director, retires by rotation and being eligible is recommended by the Board of Directors for re-election by the Members at the Annual General Meeting for the year 2018.

In terms of article 24 (2) of the articles of association of the Company Mr. Boris Blaise Zschorsch, Director, appointed during the financial year and being eligible is recommend by the Board of Directors to re-elect by the member at the Annual General Meeting for the year 2018.

BOARD SUB-COMMITTEES

The following Board Sub-Committees have been established by the Company:

Audit Committee

Mr. E.D.P. Soosaipillai – Chairman
Mr. K.J.C. Perera
Mr. I.G.S.K. Gunaratne

Remuneration Committee

Mr. I.G.S.K. Gunaratne – Chairman
Mr. K.J.C. Perera
Mr. Susantha Pinto

Integrated Risk Management Committee

Mr. K.J.C. Perera – Chairman
Mr. R.S. Egodage
Mr. I.G.S.K. Gunaratne
Mr. E.D.P. Soosaipillai
Mr. P.S.R.C. Chitty

Related Party Transaction Review Committee

Mr. M.S.D. Pinto – Chairman
Mr. I.G.S.K. Gunaratne
Mr. P.S.R.C. Chitty

The functions and responsibilities and Reports of the Board Audit Committee, Remuneration Committee, Integrated Risk Management Committee and Related Party Transaction Review Committee are set out in this Annual Report.

INTEREST REGISTER

An Interest Register is being maintained by the Company as required in terms of the Companies Act No. 07 of 2007.

Directors' interest in contracts or proposed contracts with the Company is as follows:

Name	Fixed Deposits Accepted During the Year LKR	Fixed Deposits Outstanding as at 31 March 2018 LKR	Interest Paid LKR
Mr. R.S. Egodage	-	194,625	10,020
Mrs. G.R. Egodage	-	6,161,913	621,272

DIRECTORS' SHAREHOLDING

The shares held by the Directors at the beginning and at the end of the financial year were as follows. (The Articles of Association of the Company do not stipulate a share qualification for Directors):

Directors	31.03.2018	31.03.2017
Mr. Kalugamage John Cecil Perera	-	-
Mr. Roshan Sanjaya Egodage	-	-
Mr. Ihala Gamaralalage Samantha Kumara Gunaratne	109,171	109,171
Mrs. Geya Rasi Egodage	-	-
Mr. Mihindukulasooriya Susantha Devapriya Pinto	42,000	42,000
Mr. Eugen Duliksha Pratharp Soosaipillai	-	-
Mr. Patrick Thomas Fisher	-	-
Mr. Ken Vander Weele	-	-
Mr. Rajiv Casie Chetty	429,808	429,808
Mr. Regis Martin	-	-

DIRECTORS' FEES AND EMOLUMENTS

Directors' fees and emoluments for the financial year ended 31 March 2018, is LKR 8,551,500/- (2017 – LKR 8,310,000/-).

DONATIONS

During the year the Company has made LKR 5,877,206/- as charitable contributions. (2017 – LKR 8,310,000/-).

PROPERTY, PLANT AND EQUIPMENT

The details of the Property, Plant and Equipment of the Company, additions during the year and the depreciation charges for the year are shown in Note No. 17 to the Financial Statements. The Directors consider the market value of the Property, Plant and Equipment as at 31 March 2018 not to be significantly different to the amounts disclosed.

STATED CAPITAL

The Stated Capital of the Company remains at LKR 2,150,640,315/- consisting of 318,074,365 Ordinary (Voting) Shares. The Shares of the Company are listed on the Colombo Stock Exchange.

SHAREHOLDERS

The total shareholder base of the Company as at 31 March 2018 was 1,607 (2017 – 1794). The distribution of the shareholding and a list of the 20 major shareholders are given under Investor Information in this Annual Report.

The Directors obtained a Report in terms of Section 56 (2) of the Companies Act No. 07 of 2007 from the Company's Auditors confirming that the Company will, immediately after the payment of the above Interim Dividend satisfy the Solvency Test.

The Directors recommend the payment of a Final Dividend of LKR 0.75 per Share for the financial year ended 31 March 2018.

The Directors have taken appropriate measures to obtain a Report in terms of Section 56 (2) of the Companies Act No. 07 of 2007 from the Company's Auditors confirming that the Company will, immediately after the payment of the above Final Dividend satisfy the Solvency Test.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government have been made up to date.

POST BALANCE SHEET EVENTS

The Directors recommend subject to the approval from shareholders at the Annual General Meeting, a final cash dividend of LKR 0.75 per share to be paid for the financial year ended 31 March 2018.

COMPLIANCE

We certify that the Company complies with the prudential requirements, regulations, laws and internal controls and are taking measures to rectify any non-compliance.

AUDITORS

The Financial Statements for the period under review have been audited by Messrs Ernst & Young, Chartered Accountants. LKR 5,080,000/- has been paid as Audit Fee and other Assurance Services for the year ended 31 March 2018. (2017 – LKR 4,792,000/-).

A resolution re-appointing Messrs Ernst & Young, Chartered Accountants as the Auditors of the Company and authorizing the Directors to determine their remuneration will be proposed at the Annual General Meeting.

AUDITORS' RELATIONSHIP WITH THE COMPANY

Messrs Ernst & Young, Chartered Accountants, also provided non-audit services, in relation to LKR 2,591,871/- during the year ended 31 March 2018. 2017 – LKR 1,787,873/-.

By Order of the Board,

(Sgd.)

Secretary
JACEY & COMPANY
Secretaries



K.J.C. Perera
Director



R.S. Egodage
Director

26 June 2018

REPORT OF THE BOARD AUDIT COMMITTEE

The Board Audit Committee comprising of two independent Non-Executive Directors and one Non-Executive Director assists the Board of Directors in fulfilling its responsibilities in relation to the oversight of the Company's Accounting and Financial Reporting, and in ensuring that the Company's processes related to Internal Control is adequate. The Committee also reviews the independence of External Auditors, and the scope, results and effectiveness of their activities. The Management is responsible for the preparation, presentation and integrity of the Financial Statements of the Company, the design and implementation of Internal Controls and procedures to assure compliance with accounting standards, applicable laws, regulations and best practice.

In discharging its responsibilities, the Audit Committee also:

- Makes recommendations on matters connected with the appointment of the External Auditors, implementation of Central Bank's guidelines issued to Auditors, application of relevant accounting standards and other matters connected with the Auditors of the Company such as audit fees, limitation on service period of the Audit Partner and resignation or dismissal of Auditors.
- Monitors the External Auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices. The Committee is also required to discuss and agree with the External Auditors on the nature and the scope of the audit before its commencement.
- Develops and implements a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services in accordance with the applicable regulations, guidelines and best practice.
- Reviews the financial information of the Company in order to monitor the integrity of the Financial Statements and other reports issued by the Company in terms of various disclosure requirements.
- Reviews the adequacy of the scope, functions, resources and authority of the Internal Audit function of the Company.

The Board Audit Committee is comprised of 3 members who are Non-Executive Directors of the Company, namely, Mr. E.D.P. Soosaipillai – Chairman, Mr. K.J.C. Perera and Mr. I.G.S.K. Gunaratne. The Chairman of the Audit Committee and Mr. K.J.C. Perera are Independent Directors.

The Company has an Internal Audit function that reports to the Audit Committee on matters of Internal Control compliance. The charter of the Internal Audit Department is approved by the Audit Committee. The Head of Internal Audit together with his senior staff are invited to participate at Audit Committee meetings together with the Company's External Auditors, Chief Operating Officer, Compliance Officer and the Chief Financial Officer. Members of the operational management are also invited to participate as deemed necessary by the Audit Committee.

The Internal Audit Department presents a summary of the findings of all Internal Audits and investigations carried out to the Audit Committee periodically. Internal Audit findings are reviewed by the Committee and where necessary corrective action is recommended, the implementation by the management of which is, monitored by the Committee.

The Audit Committee also discusses reports of internal and external audits carried out and the findings of such reviews and advice given to the Management where applicable to monitor and control such issues to prevent repeat findings. The Company's quarterly and annual Financial Statements are also reviewed and discussed at these Meetings with the Management and the External Auditors prior to publication thereof. The Committee reviewed the management letters issued by the External Auditor, the Management responses thereto and also attended to matters specifically addressed to them.

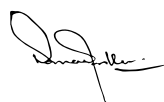
The Committee meets with the External Auditors and discusses issues arising from the audit and corrective action taken.

During the year, the Central Bank of Sri Lanka (CBSL) carried out its regular annual on-site examination of the Company. Findings of such on-site examination are yet to be released by the Central Bank of Sri Lanka.

Minutes of the Audit Committee Meetings are circulated to the Board and any matters arising there from are discussed at Board Meetings. Eleven (11) Meetings of the Committee were held during the period under review and attendance of these Meetings are given in this Annual Report.

The Audit Committee reviewed and discussed the audited Financial Statements of the Company for the year ended 31 March 2018, with the Management and the External Auditors to the Company, and has recommended the same to the Board for approval for inclusion in the Company's Annual Report.

The Committee reviews the other services provided by the External Auditor to the Company, to ensure their independence. The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young, Chartered Accountants be re-appointed as Auditors to the Company for the financial year ending 31 March 2019 subject to the approval of the Shareholders at the forthcoming Annual General Meeting.



E.D.P. Soosaipillai
Chairman – Audit Committee

26 June 2018

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee (“Committee”) appointed by the Board, comprises of three Non-Executive Directors, Mr. I.G.S.K. Gunaratne (Chairman of the Committee), Mr. M.S.D. Pinto and Mr. K.J.C. Perera and are responsible for reviewing the performance of the Executive Director and the Chief Executive Officer and to recommend appropriate remuneration benefits and other payments within the existing approved framework.

The primary objective of the Committee is to ensure that the remuneration policy attracts, retains and motivates the Executive Directors and links rewards to corporate performance. In setting remuneration levels, the Committee takes into consideration the market rates and practices of other quoted and industry peer companies of similar size and scope. The Committee considers that it is important that significant proportion of the Executive Directors’ total remuneration package is linked to corporate performance.

The minutes of the Committee meetings are circulated to members of the Board. The recommendations made by the Committee are discussed at Board meetings and the final determination based on such recommendations is made by the Board of Directors.

One (1) meeting of the Committee was held during the period under review.

The aggregate remuneration paid to the Directors during the period under review is set out as a note to the Financial Statements, contained in this Annual Report.



I.G.S.K. Gunaratne
Chairman – Remuneration Committee

26 June 2018

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Related Party Transactions Review Committee of the Company was established by the Board of Directors on 22 September 2015 in accordance with Section 9 of the listing rules of the Colombo Stock Exchange to ensure compliance with those rules thereby enhancing the Company's internal control mechanisms.

COMPOSITION OF THE COMMITTEE

The Related Party Transactions Review Committee was appointed by the Board of Directors of the Company. As at 31 March 2018 it comprised the following Directors:

- Mr. M.S.D. Pinto – Independent Non-Executive Director – Chairman
- Mr. I.G.S.K. Gunaratne – Non-Executive Director
- Mr. Rajiv Chitty – Executive Director/Chief Operating Officer

PURPOSE OF THE COMMITTEE

The purpose of the Committee is to provide independent review, approval and oversight of all proposed Related Party Transactions.

Scope of the Committee includes:

- To manage relationships with related parties to uphold good governance and the best interests of the Company.
- To provide an independent review, approval and oversight of Related Party Transactions (except those expressly exempted by the Charter) on terms set forth in greater detail in the Policy.
- To review the charter and policy at least annually and recommend amendments to the charter and the policy to the Board of Directors as and when determined to be appropriate by the Committee.
- Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board of Directors or Shareholders of the Company.
- Ensuring that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a Related Party, unless such Director is requested to do so by the Committee for the purpose of providing information concerning the Related Party Transaction to the Committee.
- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulations are made in a timely and detailed manner.

POLICIES AND PROCEDURES

The Company has in place a Related Party Transaction (RPT) Policy whereby the categories of persons/entities who shall be considered as 'Related Parties' has been identified. In accordance with the RPT Policy, self-declarations are obtained from each Key Management Personnel for the purpose of identifying parties related to them.

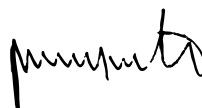
Based on the information furnished in these declarations, the Company has developed a system that enable to retrieve data on Related Party Transactions throughout the Company's network and committee is working with the management to continuously improve such system to identify and report Related Party Transactions.

RELATED PARTY TRANSACTIONS DURING THE PERIOD

During the financial year, the Committee reviewed possible Related Party Transactions and communicated its comments/observations to the Board of Directors. There were no non-recurrent Related Party Transactions that required to communicate to Colombo Stock Exchange. All the recurrent Related Party Transactions that exceeded respective thresholds were disclosed under Note No. 49 "Related Party Transactions" in the Audited Financial Statements of this Annual Report.

Meetings

During the financial year, the Committee met four (4) times.



M.S.D. Pinto
Chairman – Related Party Transaction Review Committee

26 June 2018
Colombo

REPORT OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Board's Integrated Risk Management Committee (IRMC) is responsible for determining the Company's Risk Management policy and overall strategies and ensuring that procedures at Board and Management Level are in place to identify, monitor and mitigate risks to safeguard the Company's assets and interests by clearly communicating that policy and those strategies to the Management. The Corporate Management is responsible for identifying relevant risks and notifying the IRMC who will in turn make decisions on behalf of the Board within the framework of the authority and responsibility assigned by the Board. The IRMC is made up of three Non-Executive Directors, Executive Directors, Chief Executive Officer and Members of the Corporate Management supervising broad risk categories. During the year under review the IRMC was made up of the following:

Mr. K.J.C. Perera – Chairman

Mr. R.S. Egodage

Mr. I.G.S.K. Gunaratne

Mr. E.D.P. Soosaipillai

Mr. P.S.R.C. Chitty

- Review the adequacy and effectiveness of all Management Level Committees in addressing specific risks and the management of those risks within qualitative and quantitative risk limits as required by the IRMC.
- Take prompt corrective action to mitigate the effects of specific risks in case such risks are at a level beyond the prudent levels as viewed by the Committee.
- Assess all aspects of Risk Management including business continuity plans on a timely basis.
- Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions.
- The Board is briefed on matters discussed at the IRMC seeking the Board's views, concurrence and specific Directions.
- Assess the compliance function to ascertain the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business Operations.



K.J.C. Perera
Chairman – Integrated Risk Management Committee

26 June 2018

Ten (10) Meetings of the IRMC were held during the period under review and attendance of the Directors at these Meetings is given in this Annual Report. The IRMC mainly discusses matters related to Risk Management of the Company and matters arising from minutes of the Meetings of Subcommittees formed under its purview (i.e Asset and Liability, Fixed Deposits, Human Resources, IT and Credit, Legal and Recoveries). The Board is briefed on matters discussed at IRMC Meetings. The role of the IRMC covers the following areas:

- Assess all risks, i.e, credit, market, liquidity, operational and reputational on a continuous basis through risk indicators and management information.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

This Statement of Directors' Responsibilities is to be read in conjunction with the Auditors' Report and is made to distinguish the respective responsibilities of the Directors and of the Auditors in relation to the Financial Statements contained in this Annual Report.

The Directors of your Company are required by the Companies Act No. 07 of 2007 to prepare Financial Statements which give a true and fair view of the state of affairs of the Company as at the end of the Financial Year, and of the Profit and Loss and of the Cashflows of the Company for the Financial Year.

The Directors confirm that the Financial Statements of the Company for the year ended 31 March 2018 presented in the Report have been prepared in accordance with the Sri Lanka Accounting Standards and the Companies Act No. 07 of 2007. In preparing the Financial Statements, the Directors have selected the appropriate accounting policies and have applied them consistently. Reasonable and prudent judgments and estimates have been made and applicable accounting standards have been followed and the Financial Statements have been prepared on a going concern basis.

The Directors are of the view that adequate funds and other resources are available within the Company for the Company to continue in operation for the foreseeable future.

The Directors have taken all reasonable steps expected of them to safeguard the assets of the Company and to establish appropriate systems of internal controls in order to prevent, deter and detect any fraud, misappropriation or other irregularities. The Directors have also taken all reasonable steps to ensure that the Company maintains adequate and accurate accounting books of record which reflect the transparency of transactions and provide an accurate disclosure of the Company's financial position.

The Directors are required to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspection they consider appropriate for the purpose of enabling them to give their Audit Report. The Directors are of the view that they have discharged their responsibilities in this regard.

COMPLIANCE REPORT

The Directors confirm that, to the best of their knowledge, all taxes and levies payable by the Company and all contributions, levies and taxes payable on behalf of the employees of the Company, and all other known statutory obligations as at the balance sheet date have been paid or provided for in the Financial Statements.

By Order of the Board,

(Sgd.)
JACEY & COMPANY
Secretaries
26 June 2018

DIRECTORS STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In compliance with the Finance Companies Direction No. 03 of 2008, Section 10.2 (b), the Board of Directors present this report on Internal Control over financial reporting.

The Board of Directors (“Board”) is responsible for the adequacy and effectiveness of all aspects of Internal Control at the Commercial Credit and Finance PLC. (“Company”).

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over financial reporting. The process is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over financial reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The Management assists the Board in the implementation of the Board’s policies and procedures pertaining to Internal Control over financial reporting. The Management has documented the system of Internal Control over financial reporting. In assessing the Internal Control system over financial reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company.

In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS, progressive improvements in processes to comply with requirements of recognition, measurement, classification and disclosure were made whilst further strengthening of processes namely, review of disclosures with regard to financial risk management and Related Party Transactions which are being progressively improved.

CONFIRMATION

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The External Auditors have submitted a certification of the process adopted by the Directors on the system of Internal Control over financial reporting. Matters highlighted by the External Auditors in this respect, are being addressed by the Company.

By order of the Board,



K.J.C. Perera
Chairman



R.S. Egodage
Director/Chief Executive Officer



E.D.P. Soosaipillai
Director/Chairman Audit Committee

26 June 2018

**FINANCIAL
INFORMATION**

INDEPENDENT AUDITORS' REPORT



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

To the Shareholders of Commercial Credit and Finance PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Commercial Credit and Finance PLC (“the Company”) and the consolidated financial statements of the Company and its subsidiaries (“the Group”), which comprise the statement of financial position as at 31 March 2018, statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

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

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 Jayasinghe 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

A member firm of Ernst & Young Global Limited

Key audit matters common to both Group and Company

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p>Allowance for impairment of loans, leases and hire purchase</p> <p>As at 31 March 2018, loans & advances and receivables from lease & hire purchase (net of impairment) amounted to LKR 35,720,435,557/- and LKR 38,310,314,585/- respectively. These collectively contributed 82% to the Group's total assets.</p> <p>The allowance for impairment (both individual and collective) of these financial assets is estimated by management. The estimation involves a complex calculation. Assumptions used by management in this calculation are inherently judgmental.</p> <p>Individually significant exposures are evaluated for risk of being impaired based on the existence of objective evidence of incurred loss and assessed based on historical payment patterns and collateral. Note 9.2 and 10.4 to the financial statements more fully describes the assumptions to which the collective impairment estimate is most sensitive.</p> <p>We considered the estimation of allowance for impairment as a Key Audit Matter due to sensitivity of reported results (on financial performance) to this allowance and the inherent uncertainty involved in its estimation.</p>	<p>To assess the reasonableness of the allowance for impairment, our audit procedures (among others) included the following:</p> <ul style="list-style-type: none"> - We understood and evaluated the key internal controls over estimation of the allowance for impairment including those over identifying occurrence of loss events and non-performing loans; - We test - checked the underlying calculations and data used in such calculations on a sample basis; - In addition to the above, focused procedures were performed as follows: <ul style="list-style-type: none"> • Specific allowance for impairment: For a sample of non-performing loans & leases and hire purchase, management's forecasts of cash flows were test – checked to historical patterns of customer repayment. Among other procedures, forecast cash flows arising from collateral (or other source(s) of expected recovery) were verified to source documents; • Collective allowance for impairment: For loss rates used by management, we assessed the appropriateness by comparing those with historical loss experience - We assessed the adequacy of the related financial statement disclosures as set out in note(s) 3, 5.4.9.(i), 9, 10, 35 and 45.2.

Other Information included in The 2018 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management and those charged with governance

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

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

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

INDEPENDENT AUDITORS' REPORT CONTD.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional 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 internal controls of the Company and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

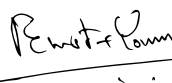
We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and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

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

Report on other legal and regulatory requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2440.



26 June 2018

Colombo

STATEMENT OF FINANCIAL POSITION

As at 31 March

	Notes	Company		Group	
		2018 LKR	2017 LKR	2018 LKR	2017 LKR
Assets					
Cash and bank balances	6	1,695,964,449	1,851,852,880	1,746,910,928	1,947,456,919
Reverse repurchase agreements		2,210,648,881	2,061,144,916	2,302,257,521	2,061,144,916
Placements with financial institutions	7	2,284,987,693	1,507,448,249	2,014,315,126	1,518,067,107
Financial investments – Held for trading	8	2,646,859,663	2,225,869,939	2,646,859,663	2,225,869,939
Loans and receivables	9	35,198,129,656	38,058,297,680	35,720,435,557	38,198,687,882
Lease Rentals Receivable and Stocks out on hire	10	31,707,315,784	30,183,916,298	38,310,314,585	33,481,539,491
Financial investments – Available for sale	11	182,510,479	309,504,682	245,706,559	406,336,986
Other financial assets	12	712,714,972	762,642,327	712,714,972	762,642,327
Inventories	13	128,327,562	173,987,309	128,327,562	173,987,309
Other assets	14	242,503,478	230,831,551	299,480,930	253,807,280
Investments in subsidiary	15	1,599,288,321	1,599,788,796	-	-
Investment property	16	1,983,431,494	1,461,413,125	1,983,431,494	1,461,413,125
Property, plant and equipment	17	1,765,510,672	1,538,296,861	1,812,095,231	1,574,347,455
Intangible assets and goodwill	18	166,427,661	136,510,053	923,466,906	894,864,980
Prepaid rent	19	8,187,907	8,310,712	8,187,907	8,310,712
Deferred tax asset	26	1,260,138,949	744,697,789	1,264,497,849	752,893,602
Total assets		83,792,947,621	82,854,513,167	90,119,002,790	85,721,370,031
Liabilities					
Due to banks	20	8,581,999,107	10,792,365,766	11,874,786,015	11,956,248,752
Due to customers	21	54,224,084,983	53,737,080,785	55,858,727,085	54,637,126,334
Debt instruments issued	22	2,972,221,709	3,481,991,842	2,972,221,709	3,481,991,842
Other financial liabilities	23	2,399,558,467	2,298,361,860	3,039,833,657	2,593,753,131
Other liabilities	24	520,322,162	443,910,349	533,896,429	461,104,753
Current tax liabilities		2,675,490,550	1,754,124,717	2,769,337,136	1,785,229,566
Post employment benefit obligations	25	155,833,660	98,863,353	166,395,524	110,022,141
Total liabilities		71,529,510,638	72,606,698,672	77,215,197,555	75,025,476,519
Shareholders' Funds					
Stated capital	27	2,150,640,315	2,150,640,315	2,150,640,315	2,150,640,315
Retained earnings	28	7,284,658,283	5,749,765,773	7,859,293,595	6,154,648,604
Reserves	29	2,828,138,385	2,347,408,407	2,888,463,815	2,386,424,298
Total equity attributable to equity holders of the company		12,263,436,983	10,247,814,495	12,898,397,725	10,691,713,217
Non-controlling interests		-	-	5,407,510	4,180,295
Total equity		12,263,436,983	10,247,814,495	12,903,805,236	10,695,893,512
Total liabilities and shareholders' funds		83,792,947,621	82,854,513,167	90,119,002,790	85,721,370,031
Commitments and Contingencies	47	1,561,499,590	1,542,650,853	1,561,499,590	1,542,650,853

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



Chief Financial Officer

The Board of Directors is responsible for these Financial Statements.



Chairman



Director/Chief Executive Officer

Accounting policies and notes from pages 113 to 187 form an integral part of these Financial Statements.

26 June 2018

Colombo

STATEMENT OF PROFIT OR LOSS

Year Ended 31 March

	Notes	Company		Group	
		2018 LKR	2017 LKR	2018 LKR	2017 LKR
Gross Income	30	22,410,629,644	20,924,522,112	23,872,880,610	21,758,539,464
Interest income	30.1	20,141,562,070	19,048,827,751	21,724,831,839	19,927,371,419
Interest expenses	30.2	(9,306,955,840)	(7,811,619,440)	(9,773,137,444)	(7,996,668,474)
Net interest income		10,834,606,230	11,237,208,311	11,951,694,395	11,930,702,945
Fee and commission income	31	1,133,700,659	809,052,723	1,209,328,198	860,220,186
Net income from real estate sales	32	25,971,410	58,362,612	25,971,410	58,362,612
Net gain from trading	33	64,676,565	65,181,220	64,676,565	65,181,220
Other operating income	34	798,366,289	699,707,680	601,719,947	604,013,900
Change in fair value of investment property	16	246,352,651	243,390,125	246,352,651	243,390,125
Total operating income		13,103,673,804	13,112,902,671	14,099,743,166	13,761,870,988
Impairment charges of loans and advances, lease, hire purchase and other financial assets	35	(3,198,672,986)	(2,873,575,818)	(3,271,060,494)	(2,897,660,265)
Pawning auction losses		(84,062)	(34,887,364)	(84,062)	(34,887,364)
Losses from disposal of repossessed vehicles		-	-	(17,851,562)	(7,504,063)
Net operating income		9,904,916,756	10,204,439,489	10,810,747,048	10,821,819,296
Operating expenses					
Personnel expenses	36	(3,148,087,712)	(3,289,111,028)	(3,296,213,032)	(3,388,023,818)
Depreciation of property, plant and equipment	17,18,19	(298,600,411)	(222,117,407)	(320,611,266)	(239,763,754)
Other operating expenses	37	(2,090,464,231)	(2,018,434,052)	(2,313,640,283)	(2,128,393,143)
Operating profit before value added tax on financial services		4,367,764,402	4,674,777,002	4,880,282,467	5,065,638,581
Value added tax on financial services		(887,945,671)	(764,214,576)	(1,010,997,042)	(831,330,977)
Operating profit after value added tax on financial services		3,479,818,731	3,910,562,426	3,869,285,425	4,234,307,604
Share of loss of associates	38	-	-	-	(231,794)
Profit before taxation		3,479,818,731	3,910,562,426	3,869,285,425	4,234,075,810
Income taxation	39	(1,129,125,218)	(1,007,584,456)	(1,327,227,317)	(1,117,562,829)
Profit for the year		2,350,693,513	2,902,977,970	2,542,058,108	3,116,512,981
Profit attributable to:					
Equity holders of the company		2,350,693,513	2,902,977,970	2,540,571,760	3,115,473,964
Non-controlling interests		-	-	1,486,348	1,039,017
		2,350,693,513	2,902,977,970	2,542,058,108	3,116,512,981
Basic earnings per share	40.1	7.39	9.13	7.99	9.79
Diluted earnings per share	40.2	7.39	9.13	7.99	9.79
Dividend per share	41	1.00	1.5		

Accounting policies and notes from pages 113 to 187 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 March

	Notes	Company		Group	
		2018 LKR	2017 LKR	2018 LKR	2017 LKR
Profit for the year		2,350,693,513	2,902,977,970	2,542,058,108	3,116,512,981
Net gains on remeasuring available for sale financial assets		21,166,200	8,731,787	21,223,028	10,073,137
Deferred tax charge relating to available for sale financial assets	26	-	-	(10,901)	-
Net gains on available for sale financial assets reclassified to profit or loss		-	13,272,625	-	13,487,850
Total other comprehensive income to be reclassified to statement of profit or loss		21,166,200	22,004,412	21,212,127	23,560,987
Revaluation gain on land and buildings	17	10,284,000	10,100,000	10,284,000	10,100,000
Deferred tax charge relating to revaluation gain on buildings	26	(20,858,925)	-	(20,858,925)	-
		(10,574,925)	10,100,000	(10,574,925)	10,100,000
Actuarial gains/(losses) on defined benefit plans	25	(38,316,577)	11,065,207	(36,860,171)	11,992,345
Deferred tax (charge)/reversal relating to actuarial gain on defined benefit plans	26	10,728,642	(3,098,258)	10,320,848	(3,357,857)
		(27,587,935)	7,966,949	(26,539,323)	8,634,488
Total other comprehensive income not to be reclassified to statement of profit or loss		(38,162,860)	18,066,949	(37,114,248)	18,734,488
Other comprehensive income for the year, net of taxes		(16,996,660)	40,071,361	(15,902,121)	42,295,475
Total comprehensive income for the year		2,333,696,853	2,943,049,331	2,526,155,987	3,158,808,456
Total comprehensive income attributable to:					
Equity holders of the company		2,333,696,853	2,943,049,331	2,524,665,776	3,157,762,323
Non-controlling interests		-	-	1,490,211	1,046,133
Total comprehensive income for the year		2,333,696,853	2,943,049,331	2,526,155,987	3,158,808,456

Accounting policies and notes from pages 113 to 187 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 March

Company	Notes	Stated Capital LKR	Revaluation Reserve LKR	General Reserve LKR	Retained Earnings LKR	Statutory Reserve LKR	Available for Sale Reserve LKR	Total LKR
Balance as at 1 April 2016		2,150,640,315	182,447,399	58,751,125	3,896,527,996	1,523,340,660	(29,830,783)	7,781,876,712
Net profit for the year	28	-	-	-	2,902,977,970	-	-	2,902,977,970
Other comprehensive income net of tax	28/29	-	10,100,000	-	7,966,949	-	22,004,412	40,071,361
Total comprehensive income			10,100,000		2,910,944,919		22,004,412	2,943,049,331
Transferred to statutory reserve	28/29	-	-	-	(580,595,594)	580,595,594	-	-
Dividend paid	41	-	-	-	(477,111,548)	-	-	(477,111,548)
Balance as at 31 March 2017		2,150,640,315	192,547,399	58,751,125	5,749,765,773	2,103,936,254	(7,826,371)	10,247,814,495
Balance as at 1 April 2017		2,150,640,315	192,547,399	58,751,125	5,749,765,773	2,103,936,254	(7,826,371)	10,247,814,495
Net profit for the year	28	-	-	-	2,350,693,513	-	-	2,350,693,513
Other comprehensive income net of tax	28/29	-	(10,574,925)	-	(27,587,935)	-	21,166,200	(16,996,660)
Total comprehensive income			(10,574,925)		2,323,105,578		21,166,200	2,333,696,853
Transferred to statutory reserve	28/29	-	-	-	(470,138,703)	470,138,703	-	-
Dividend paid	41	-	-	-	(318,074,365)	-	-	(318,074,365)
Balance as at 31 March 2018		2,150,640,315	181,972,474	58,751,125	7,284,658,283	2,574,074,957	13,339,829	12,263,436,983

Accounting policies and notes from pages 113 to 187 form an integral part of these Financial Statements.

Group	Notes	Stated Capital LKR	Revaluation Reserve LKR	General Reserve LKR	Retained Earnings LKR	Statutory Reserve LKR	Available for Sale Reserve LKR	Non-Controlling Interest LKR	Total LKR
Balance as at 1 April 2016		2,150,640,315	182,447,399	58,751,125	4,087,708,290	1,547,002,277	(32,262,148)	19,909,347	8,014,196,604
Net profit for the year	28	-	-	-	3,115,473,964	-	-	1,039,017	3,116,512,981
Other comprehensive income net of tax	28/29	-	10,100,000	-	8,632,352	-	23,556,006	7,116	42,295,475
Total comprehensive income		-	10,100,000	-	3,124,106,316	-	23,556,006	1,046,133	3,158,808,456
Transferred to statutory reserve		-	-	-	(596,829,639)	596,829,639	-	-	-
Effect of change in equity interest in subsidiary	28/29				16,775,185			(16,775,185)	-
Dividend paid	41	-	-	-	(477,111,548)	-	-	-	(477,111,548)
Balance as at 31 March 2017		2,150,640,315	192,547,399	58,751,125	6,154,648,604	2,143,831,916	(8,706,142)	4,180,295	10,695,893,512
Balance as at 1 April 2017		2,150,640,315	192,547,399	58,751,125	6,154,648,604	2,143,831,916	(8,706,142)	4,180,295	10,695,893,512
Net profit for the year	28	-	-	-	2,540,571,760	-	-	1,486,348	2,542,058,108
Other comprehensive income net of tax	28/29	-	(10,574,925)	-	(26,542,988)	-	21,211,928	3,863	(15,902,121)
Total comprehensive income		-	(10,574,925)	-	2,514,028,772	-	21,211,928	1,490,211	2,526,155,987
Transferred to statutory reserve	28/29	-	-	-	(491,402,513)	491,402,513	-	-	-
Effect of change in equity interest in subsidiary	28/29				93,097			407,378	500,475
Dividend paid	41	-	-	-	(318,074,365)	-	-	(670,374)	(318,744,739)
Balance as at 31 March 2018		2,150,640,315	181,972,474	58,751,125	7,859,293,595	2,635,234,429	12,505,786	5,407,510	12,903,805,235

Accounting policies and notes from pages 113 to 187 form an integral part of these Financial Statements.

CASH FLOW STATEMENT

Year Ended 31 March

Notes	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Cash flows from/(used in) operating activities				
Profit before Income Tax Expense	3,479,818,731	3,910,562,426	3,869,285,425	4,234,075,810
Adjustments for:				
Depreciation and amortisation	17/18 298,600,411	221,994,602	320,611,265	239,640,949
Amortisation of Leasehold property	19 122,805	122,805	122,805	122,805
Profit on disposal of property, plant & equipments	34 (2,516,868)	-	(2,862,543)	(1,509,561)
Share of loss of associate	38 -	-	-	231,794
Disposal gain of Subsidiary/Associate	(361,486)	(272,443,494)	(361,486)	(265,499,009)
Impairment charge of loans and advances, lease,hire purchase	35 3,198,672,986	2,842,030,050	3,271,060,494	2,875,457,530
Impairment charge of available for sale financial assets and associates	35 -	31,545,768	-	22,202,735
Losses from disposal of repossessed vehicles	-	-	17,851,562	7,504,063
Pawning auction losses	84,062	34,887,364	84,062	34,887,364
Net fair value adjustment of Investment property	16 (246,352,651)	(243,390,125)	(246,352,651)	(243,390,125)
Disposal gain on Investment property	34 (81,032,650)	-	(81,032,650)	-
Fair value gain on compensation receivable	(23,428,441)	(1,544,893)	(23,428,441)	(1,544,893)
Net foreign exchange (gain)/loss	(7,986,199)	-	(7,986,199)	-
Amortisation of prepaid debenture issue cost	42,297,557	42,388,088	42,297,557	42,388,088
Provision for defined benefit plans	25 36,069,386	33,784,456	39,497,618	36,685,253
Operating profit before working capital changes	6,693,987,643	6,599,937,047	7,198,786,819	6,981,252,803
Decrease in Inventories	45,659,747	153,381,894	45,659,747	153,381,894
Increase/(Decrease) in Loans and Advances	195,494,178	(6,073,840,767)	(191,933,320)	(6,189,297,491)
Increase in Lease Rentals Receivable & Stock out on hire	(2,057,482,508)	(5,374,400,069)	(5,447,585,566)	(6,481,235,281)
Decrease/(Increase) in Other Financial Assets	73,355,795	(323,424,594)	73,355,795	(323,424,594)
(Increase)/Decrease in Other Assets	(11,671,928)	(25,657,284)	(45,673,649)	(10,160,988)
Decrease/(Increase) in Placements and Reverse repurchase agreements	(1,080,159,988)	(355,489,122)	(1,083,163,100)	(184,754,708)
Increase in Amounts Due to Customers	487,004,198	4,439,781,875	1,221,600,752	4,255,776,812
(Decrease)/Increase in Other Financial Liabilities	253,793,597	127,809,538	598,838,233	381,640,544
(Decrease)/Increase in Other Liabilities	76,411,634	230,052,241	72,791,664	247,246,645
Cash generated from Operations	4,676,392,369	(601,849,242)	2,442,667,376	(1,169,553,263)
Retirement Benefit Liabilities paid	25 (17,415,656)	(8,420,875)	(19,984,406)	(8,508,375)
Taxes paid	(733,330,828)	(603,206,336)	(865,272,962)	(764,093,401)
Net cash flows from/(used in) Operating activities	3,925,645,885	(1,213,476,453)	1,557,420,008	(1,942,155,039)
Cash flows from/(used in) Investing activities				
Proceeds from divestment of associate	-	325,367,470	-	367,034,140
Proceeds from shares disposal of Investments in subsidiaries	861,961	-	861,961	-
Acquisition of Investment Property	16 (425,615,717)	(89,714,000)	(425,615,717)	(89,714,000)
Disposal Proceeds of Investment Property	244,032,649	-	244,032,649	-
Acquisition of Property, plant and equipments	17 (504,252,836)	(500,577,630)	(531,685,127)	(524,524,565)
Acquisition of Intangible assets	18 (54,368,203)	(30,784,300)	(58,448,387)	(40,566,270)
Net investment in financial instruments – held for trading	(420,989,722)	(413,712,327)	(420,989,722)	(413,712,329)
Proceed from sale of property, plant & equipments	2,640,078	1,295,157	3,269,093	5,003,457
Net investment in financial instruments – available for sale	148,160,403	366,135,695	181,853,455	343,027,559
Net cash flows used in Investing activities	(1,009,531,388)	(341,989,935)	(1,006,721,796)	(353,452,008)
Cash flows from/(used in) Financing activities				
Net cash flow from/(used in) Debt Instruments issued and Other borrowings	(552,067,690)	(156,416,011)	(552,067,690)	(156,416,011)
Proceeds from Loans obtained	20.1 7,125,891,896	12,879,344,675	10,168,054,090	13,829,393,847
Repayment of Bank Loans	20.1 (9,138,852,544)	(9,279,988,748)	(10,189,419,358)	(9,397,520,387)
Dividend paid	41 (470,671,355)	(321,993,455)	(471,502,445)	(321,993,455)
Net cash flows from Used in Financing activities	(3,035,699,693)	3,120,946,461	(1,044,935,404)	3,953,463,995
Net increase in Cash and Cash equivalents	(119,585,194)	1,565,480,080	(494,237,192)	1,657,856,956
Net foreign exchange difference	7,986,199	-	7,986,199	-
Cash and Cash equivalents at the beginning of the year	4,061,611,856	2,496,131,776	4,043,993,334	2,386,136,378
Cash and Cash equivalents at the end of the year	3,950,012,861	4,061,611,856	3,557,742,340	4,043,993,334
Cash and Cash Equivalents For the Purpose of Cash Flow Statement				
Cash in Hand	6 1,695,964,449	1,851,852,880	1,746,910,928	1,947,456,919
Reverse repurchase agreements (less than three months)	824,241,355	2,061,144,916	915,849,995	2,061,144,916
Placements with Bank (less than three months)	1,803,679,360	719,892,377	1,519,384,822	719,892,377
Bank Overdrafts	20 (373,872,303)	(571,278,317)	(624,403,405)	(684,500,878)
Total Cash and Cash Equivalents For the Purpose of Cash Flow Statement	3,950,012,861	4,061,611,856	3,557,742,340	4,043,993,334

Accounting policies and notes from pages 113 to 187 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended 31 March

1. CORPORATE INFORMATION

1.1 General

Commercial Credit and Finance PLC ("Company") is a Limited Liability Company incorporated and domiciled in Sri Lanka whose shares are listed in the Colombo Stock Exchange. The registered office of the Company and the principal place of business is located at No.106, Yatinuwara Veediya, Kandy.

1.2 Principal Activities and Nature of Operations

Company

During the year, the principal activities of the Company were acceptance of deposits, granting lease facilities, hire purchase, personal loans, micro loans, pawning and other credit facilities, real estate development and related services.

Subsidiary

Trade Finance and Investments PLC

During the year, the principal activities of the Trade Finance and Investment PLC were providing finance leases, hire purchase assets financing, granting of loans, mobilisation of deposits, pawning & other financial services. Company holds 99.65% (2017 – 99.68%) of the equity of Trade Finance and Investment PLC.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's immediate parent is BG Investment (Private) Limited. In the opinion of the directors, the Company's ultimate parent entity is BG Capital (Private) Limited, which is incorporated in Sri Lanka while Mr. R.S. Egodage is the Company's ultimate controlling party.

1.4 Date of the Authorization for Issue

The Financial Statements of Commercial Credit and Finance PLC for the year ended 31 March 2018 was authorized for issue by the Board of Directors on 28 June 2018.

1.5 Responsibility for Financial Statements

The Board of Directors is responsible for these Financial Statements of the Company and the Group as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and separate Financial Statements of the Company, as at 31 March 2018 and for the year then ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011.

These Financial Statements include the following components:

- A Statement of Profit or Loss and Statement of Comprehensive Income providing the information of the financial performance of the Company and the Group for the year under review.
- A Statement of Financial Position providing the information on the financial position of the Company and the Group as at the year end.
- A Statement of Changes in Equity depicting all changes in shareholder's equity during the year under review of the Company and the Group.
- A Statement of Cash Flows providing the information to the users, on the ability of the Company and Group to generate cash and cash equivalents and the needs of entity to utilise those cash flows.
- Notes to the Financial Statements comprising accounting policies and other explanatory information.

2.2 Basis of Measurement

The Financial Statements of the Company and the Group have been prepared on a historical cost basis, except for the following items stated in the Statement of Financial Position which have been measured at fair value:

- Financial Investments – Held for trading
- Financial Investments – Available for Sale
- Investment Property
- Freehold Land and Buildings classified as Property, Plant and Equipment

2.3 Functional and Presentation Currency

The Financial Statements of the Company and the Group have been prepared in Sri Lanka Rupees (LKR), except when otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

2.4 Comparative Information

The accounting policies have been consistently applied by the Company and the Group with those of the previous financial year in accordance with Sri Lanka Accounting Standard – LKAS 01 “Presentation of Financial Statements”.

2.5 Presentation of Financial Statements

The assets and liabilities of the Company and the Group in the Statement of Financial Position are grouped by nature and listed in order that reflects their relative liquidity. An analysis regarding recovery within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 46 (Current and Non-Current analysis of Assets & Liabilities). No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position of the Company and Group 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 Statement of Profit or Loss of the Company and Group unless required or permitted by any accounting standard or interpretation thereon.

2.6 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standards – LKAS 01 on “Presentation of Financial Statements”, each material class of similar items are presented separately in these Financial Statements. Items of dissimilar nature or functions are presented separately unless they are immaterial.

3. SIGNIFICANT ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements of the Company and the Group in conformity with Sri Lanka Accounting Standards requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Further, Management is also required to consider key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

Accounting Judgements, estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The key significant accounting judgements, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in respective notes.

Going Concern

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

Impairment Losses on Lease Receivable, Hire Purchase Receivable and Loans and Advances to Customers

The Company and the Group reviews its individually significant Leases, Hire Purchase, Loans and Advances at each reporting date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, management judgement is required in the estimation of the amount and timing of future cash flow when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ from the estimate, resulting in future changes to the allowance.

Leases, Hire Purchase, Loans and Advances that have been assessed individually and found not to be impaired and all insignificant Leases, Hire Purchase, Loans and Advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment take account of data from the Leases, Hire Purchase, Loans and Advances portfolio (such as level of arrears, characteristics of assets, etc.) and judgements on the effect of concentration of risk and economic data (including levels of unemployment, inflation and interest rate). (Refer Note 5.4.9 (i), 9, 10 and 35)

Impairment of Available for Sale Investments

The Company and Group reviews its financial assets classified as Available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and advances.

The Company and Group also recorded an impairment charge 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 judgment. In making this judgment, the Company and group 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. (Refer Note 5.4.9 (ii), 11 and 35).

Impairment of Investments in Subsidiary and Other Financial Assets

The Company and Group follow the guidance of Sri Lanka Accounting Standard (LKAS 36) – "Impairment of Assets" and Sri Lanka Accounting Standard (LKAS 39) – "Financial instruments Recognition and Measurement" in determining whether an investment or a financial asset is impaired. This determination requires significant judgment.

The Company and Group evaluate, among other factors, the duration and extent to which the fair value of an investment or a financial asset is less than its cost and the financial health of the near-term business outlook for the investment or a financial asset, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. (Refer Note 5.1, 5.4.9, 12 and 15).

Impairment of Goodwill

The Group estimates the value in use of the Cash-Generating Units (CGU) to which goodwill has been allocated in order to determine whether goodwill is impaired. The value-in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. (Refer Note 18).

Taxation including Deferred Tax Assets

The Group/Company is subject to Income taxes and other taxes including VAT on financial services. Uncertainty exists, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements.

Accordingly, the Group/Company has exercised judgment in determining the deferred tax effect due to unclaimed bad debts provision and investment in Trade Finance and Investment PLC and a deferred tax asset has been recognised thereon. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such difference will impact the income and deferred tax amounts in the period in which the determination is made (Refer Note 26 and 39).

Defined Benefit Plans

The cost of the post-employment benefit obligation 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.

Further information on assumptions used are given in Note 25.2 to these Financial Statements.

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 are based on expected future inflation rates and expected future salary increment rate of the Company and the Group. (Refer Note 25).

Classification of Investment Properties

Management requires using its judgment to determine whether a property qualifies as an investment property. The Company and Group has 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 and Group are 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 and Group assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties. (Refer Note 16).

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Fair Value of Investment Properties

The Company and Group carries its Investment Properties at fair value, with changes in fair values being recognised in the Statement of Profit or Loss. The Company and Group engaged an independent valuer to determine the fair value as at 31 March 2018.

The best evidence of fair value is usually the current price in an active market for similar lease and other contracts. In the absence of such information, the Company determines the amount within a range of reasonable fair value estimates. In making such estimates, the Company considers information from a variety of sources including:

- Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using capitalization rates that reflect current market assessments of the returns and yields, an uncertainty in the amount and timing of the cash flows.

Principal Assumptions for Management's Estimation of Fair Value

If information on current or recent prices of assumptions underlying the discounted cash flow approach of Investment Properties is not available, the fair values of Investment Properties are determined using discounted cash flow valuation techniques. The Company uses assumptions that are mainly based on market conditions existing at each reporting date.

The principal assumptions underlying management's estimation of fair value are those related to: the future rentals, maintenance requirements, and appropriate capitalization rates/yields and voids. These valuations are regularly compared to actual market yield data and actual transactions by the Company and those reported by the market.

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 of these models are derived from observable market data where possible, but if this is not available, judgements such as discount rates, default rate assumptions, etc. is required to establish fair values. The valuation of financial instruments is described in more in Note 44 to these Financial Statements.

Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Unless the probability of occurrence is remote, contingent liabilities are recognised in the Statement of Financial Position but are disclosed in the Statement of Financial Position. (Refer Note 47).

4. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the group are consistent with those of the previous financial year.

Previous year's figures and phrases have been re-arranged whenever necessary to conform to current presentation.

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in these Financial Statements of the Company and Group, unless otherwise indicated. The accounting policies have been consistently applied by the Group and the Company where applicable.

5.1 Basis of Consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Company, its subsidiary in terms of the Sri Lanka Accounting Standard (SLFRS 10) "Consolidated Financial Statements" and its associate accounted under "Equity method of accounting" In terms of Sri Lanka Accounting Standard (LKAS 28) "Investments in Associates & Joint Ventures".

Business Combination and Goodwill

Business combinations are accounted for using the Acquisition method as per the requirements of Sri Lanka Accounting Standard (SLFRS 3) – "Business Combinations". When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Acquisition related costs are expensed as incurred and included in other expenses. Goodwill is initially recorded at cost and subsequently at cost less any accumulated impairment losses in accordance with the Sri Lanka Accounting Standard (SLFRS 3) – "Business Combinations".

Goodwill has to be reviewed for impairment annually or more frequently if events or circumstances indicate that the carrying value may be impaired.

The Group elects on a transaction by transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.

Subsidiaries

Subsidiaries are entities that are controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee
- Exposure or rights to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the above.

The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of Group are eliminated in full on consolidation.

Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries not owned directly or indirectly by the Company. The non-controlling interest is presented in the consolidated Statement of Financial Position within equity, separately from the equity attributable to the equity holders of the Company. Non-controlling interest in the profit or loss of the Group is disclosed separately in the consolidated statement of comprehensive income.

Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction. Upon the loss of control, the Group derecognises the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the statement of changes in equity.

There are no significant restrictions on the ability of the subsidiary to transfer funds to the Company in the form of cash dividends or repayment of loans and advances. The subsidiary of the Company as at the reporting date have been incorporated in Sri Lanka.

Associates

An associate is an entity in which the Group has significant influence, but no control over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not have the control or joint control over those policies.

The Group determines significant influence by taking into account similar considerations necessary to determine control over subsidiaries.

The Group's investments in associates are accounted for using the equity method and are recognised initially at cost. The carrying amounts of the investments are adjusted to recognised changes in the Group's share of net assets of the associates since the acquisition date.

The statement of profit or loss reflects the Group's share of the results of operations of the associates. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The aggregate of the Group's share of profit or loss of associates is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and no controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the Group. At each reporting date, the Group determines whether there is objective evidence that the investments in associates are impaired.

If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value, and then recognises the loss as 'Share of profit of associates' in the statement of profit or loss.

When the Group's share of losses exceeds its interest in the associate, the carrying amount of that interest, including any long term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognised.

The Group discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for the investment in accordance with the Group's accounting policy for financial instruments. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Transactions Eliminated on Consolidation

Intra-group balances, transactions and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, except that they are only eliminated to the extent that there is no evidence of impairment.

5.2 Foreign Currency Transactions and Balances

All foreign currency transactions are translated into the functional currency which is Sri Lankan Rupees (LKR) at the spot exchange rate at the date of the transactions were affected. In this regard, the Group's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot rate of exchange at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the reporting date.

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 recognition. 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.

5.3 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and investments with short maturities i.e. three months or less from the date of acquisition.

For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand, deposits in banks net of outstanding bank overdrafts and reverse repurchase agreements. Investments with short maturities i.e. those having original maturities of three months or less from the date of acquisition are also treated as cash equivalents.

5.4 Financial Instruments – Initial Recognition and Subsequent Measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or as available-for-sale financial assets. The Company and Group classify its financial assets as financial investments – held for trading, Loans and advances, lease rental receivable and stock out on hire, financial instruments-Available-for-Sale and other financial assets.

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss or as loans and borrowings. The Company and group classifies its financial liabilities as due to banks, due to customers, debt instrument issued and other financial liabilities.

5.4.1 Date of Recognition

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

5.4.2 Recognition Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial

assets instruments are recognised initially at fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss according to Sri Lanka Accounting Standard (LKAS 39) – "Financial Instruments: Recognition and measurement".

Transaction costs in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through Statement of Profit or Loss.

In respect of financial assets and liabilities held at fair value through profit or loss, any changes in fair value from the trade date to settlement date are accounted in the Statement of Profit or Loss, while for available-for-sale financial assets, any changes in fair value from the trade date to settlement date are accounted in the other comprehensive income.

5.4.3 Classification and Subsequent Measurement of Financial Assets

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

- Financial investments at fair value through profit or loss
 - Financials investments held for trading
 - Financials investments designated at fair value through profit or loss
- Loans and receivables
- Held to maturity financial assets
- Available-for-sale financial assets

The subsequent measurement of financial assets depends on their classification.

(a) Financial Investments at Fair Value Through Profit or Loss

A financial investment is classified as fair value through profit or loss if it is held for trading or is designated at fair value through profit or loss.

Financial Assets Held for Trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short term profit or position taking.

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'net gain/ (loss) from trading'.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets.

Financial assets held for trading include instruments such as government securities, equity instruments etc. that have been acquired principally for the purpose of selling or repurchasing in the near term.

Financial Assets Designated at Fair Value through Profit or Loss

The Group designates financial assets as fair value through profit or loss when;

- The designation eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring the assets on a different basis.
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The asset contains one or more embedded derivatives which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'net gain/(loss) on financial investments held for trading' in the Statement of Profit or Loss. Interest earned or incurred is accrued in 'interest income' using the Effective Interest Rate (EIR), while dividend income is recorded in other operating income when the right to the payment has been established.

The Group has not designated any financial assets upon initial recognition at fair value through profit or loss as at the reporting date.

(b) Loans and Receivables

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company and Group intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss.

- Those that the Company, upon initial recognition, designates as available-for-sale.
- Those for which the Company may not recover substantially all of its initial investment, other than due to credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognised in 'impairment charge for loans and advances, lease, hire purchase and financial assets' in the Statement of Profit or Loss. Loans and advances, lease rentals receivables & stock out on hire and other financial assets are classified as loans and receivables.

(c) Available for Sale Financial Investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. The company has not designated any loans or receivable as Available-for-Sale.

After initial measurement, Available-for-Sale financial investments are subsequently measured at fair value.

Unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the Statement of Profit or Loss in Impairment losses on financial investments and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognised in profit or loss. Dividends earned whilst holding Available-for-Sale financial investments are recognised in the Statement of Profit or Loss as 'other operating income' when the right to payment has been established.

5.4.4 Classification and Subsequent Measurement of Financial Liabilities

At inception, a financial liability is classified in one of the following categories:

- Financial liabilities at fair value through profit or loss
 - Financial liabilities held for trading
 - Financial liabilities designated at fair value through profit or loss
- At amortised cost

The subsequent measurement of financial liabilities depends on their classification.

Financial Liabilities at Amortised Cost

Financial liabilities issued by the Group that are not designated as fair value through profit or loss are classified as liabilities under 'due to banks', 'due to customers', 'debt instruments issued', 'other financial liabilities' and 'other liabilities' as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity, under conditions that are potentially unfavorable to the entity or settling the obligation by delivering variable number of entity's own equity instruments.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised.

5.4.5 Reclassification of Financial Instruments

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

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Statement of Profit or Loss.

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

Reclassification is at the discretion of management, and is determined on an instrument by instrument basis.

5.4.6 Derecognition of Financial Assets and Financial Liabilities

(i) Financial Assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

(ii) Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition 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.

5.4.7 Reverse Repurchase Agreements

Securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'reverse repurchase agreements', reflecting the transaction's economic substance as a loan by Company. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

5.4.8 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their average quoted market price or average dealer price quotations without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist and other relevant valuation models.

5.4.9 Impairment of Financial Assets

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

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

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

(i) Financial assets carried at amortised cost – Lease Receivable, Hire purchase receivable & Loans and Advances to customers

- Individually assessed Lease Receivable, Hire purchase receivable & Loans and Advances to customers

For financial assets carried at amortised cost (such as Lease Receivable, Hire purchase receivable & Loans and Advances to customers), the Group first assess individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

- Known cash flow difficulties experienced by the borrower
- Past due contractual payments of either principal or interest
- Breach of loan covenants or conditions
- The probability that the borrower will enter bankruptcy or other financial realisations, and
- A significant downgrading in credit rating by an external credit rating agency.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of the estimated future cash flows (excluding future

expected credit losses that have not yet been incurred). The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Profit or Loss.

Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

- Collectively assessed loans and advances

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

Impairment is assessed on a collective basis in two circumstances:

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

(ii) Available for Sale Financial Investments

For Available-for-Sale financial investments, the Company and Group assess at each reporting date whether there is objective evidence that an investment is impaired.

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

(iii) Rescheduled Loans

Where possible, the Company and Group 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 Effective Interest Rate (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.

5.4.10 Collateral Valuation

The Company and Group seeks to use collateral, where possible, to mitigate its risks of losses on financial assets. The collateral comes in various forms such as cash, securities, real estate, gold and other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and subsequently as and when required.

5.4.11 Collateral Repossessed or Where Properties Have Devolved to the Group

The Group’s policy is to determine whether a repossessed or devolved asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Group’s policy. The assets held by Company for temporary periods pending unexecuted auctions or any suitable recovery methods are not shown as investment properties.

5.4.12 Written-off of Loans and Advances

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

5.4.13 Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the Statement of Profit or Loss.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

5.4.14 Offsetting Financial Assets and Liabilities

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 current enforceable legal right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5.5 Finance and Operating Leases

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement 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.

5.5.1 Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease rental receivable & stock out on hire'. The finance income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Company is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' and the corresponding liability to the lessor is included in 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net interest income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

5.5.2 Operating Lease

Operating leases are those leasing arrangements that do not transfer to the Company and Group, substantially all the risks and rewards incidental to ownership of the leased items. When the Company or the Group is the lessee, leased assets are not recognised on the Statement of Financial Position, Rentals payable under operating leases are accounted for on a straight line basis over the periods of the leases and are included in 'other operating expenses'.

5.6 Pre-paid Rentals

Pre-paid rentals paid to acquire rights to use property are amortised over the remaining lease period.

5.7 Investment Property

Investment properties are measured initially at cost, including transaction costs. The carrying amounts includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and exclude the costs of day to day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the Statement of Profit or Loss in the year in which they arise.

5.8 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's (Cash Generating Unit) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

5.9 Retirement Benefit Obligations

- Defined Benefit Plans – Gratuity

The Group measures the present value of the defined retirement benefits of gratuity which is a defined benefit plan using the projected unit credit actuarial valuation method. The actuarial valuation involves making assumptions about discount rate, expected rates of return on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 March 2018, carried out by Messers Piyal S Goonetilleke and Associates, a firm of professional actuaries.

All the employees of the Group are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983.

Employees those who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

Funding Arrangements

The Gratuity liability is not externally funded.

- Defined Contribution Plans – Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with respective Statutes and Regulations. The Group contributes 12% and 3% of salaries and other entitled allowances of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

5.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

5.11 Taxation

5.11.1 Current Taxes

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Profit or Loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

5.11.2 VAT on Financial Services

VAT on financial services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendments thereto.

5.12 Recognition of Income and Expense

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

(i) Interest Income and Interest Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as Available-for-Sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate exactly discounts estimated future cash payment or receipt through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets and financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial assets and liability is adjusted if the Company revises its estimates of payment and receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for the financial assets and 'Interest and similar expense' for financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

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 continue to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and etc.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the purchase or sale of business is recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(c) Dividend Income

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

(d) Real Estate Sales

Revenue from the real estate sale is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

5.13 Dividend on Ordinary Shares

Dividend on ordinary shares are recognised as a liability and deducted from equity and when they are approved by the Company's shareholders. Interim dividends are deducted when they are declared and no longer at the discretion of the Company.

5.14 Statement of Cash Flows

The Cash flow statement is prepared using the indirect method, as stipulated in LKAS 7 – "Statement of Cash Flows". Cash and cash equivalents comprise cash in hand, cash at bank, bank overdraft, placement with banks (with original maturity of three months or less) and investment in reverse repurchase agreements.

5.15 Events after the Reporting Date

All material events after the reporting date events have been considered where appropriate judgement or disclosures are made in respective notes to the Financial Statements.

5.16 Effect of Sri Lanka Accounting Standards issued but not yet Effective

SLFRS 9 Financial Instruments

SLFRS 9 Financial Instruments will replace LKAS 39 for annual periods on or after 1 January 2018 with early adoption permitted. In 2016 the Company set up a multidisciplinary implementation team ('the Team') with members from its Risk, Finance and Operations teams to prepare for SLFRS 9 implementation ('the Project'). Project is sponsored by the Chief Operating and Financial officers.

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 and 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 it's business model at the level that best reflects how it manages the financial assets to achieve it's objectives. The Company 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 personal.
- 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.

The business model assessment is based on reasonably expected scenarios without taking 'Worst case' or 'Stress Case' scenarios into account. If cash flows after initial recognition are realised 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 asset to identify whether they meet Solely the Payment of Principle and 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 amortisation 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 de minimis 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.

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

- Stage 1: When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been re-classified 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 collectively.
- 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 significantly increased in credit risk when the either of the following criteria are met:

- Facilities exceeding 30 days past due
- Re-structured facilities
- Qualitative indicators triggering a significant increase in credit risk for an asset such as elevated risk industries.

Individually Significant Assessment and Not Impaired Individually.

Company will individually assess all customer exposures exceeding individual significant loan threshold. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Grouping Financial Assets Measured on a Collective Basis

As explained above, company calculates ECL either on a collective or individual basis. Asset classes where company calculates ECL on an Individual basis includes All Individually significant Assets which 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 characteristics of the loan as described below:

- Product Type
- Type of Collateral
- Days Past Due

Forward Looking Information

In it's 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	

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 derecognised and is still in the portfolio
- 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 realisation 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.

The Company and its subsidiary, with the support of external consultants carried out a preliminary impact assessment of SLFRS 9 and the impact to the impairment has been assessed at 50% – 60% increase over current impairment as at 31 March 2018 primarily based on the assumptions that Financial instruments to be defaulted (Stage 3 – Credit impaired) for ECL calculations when the borrower becomes 90 days past due and Credit Risk is deemed to have increased significantly and instrument is subject to LTECL, if the contract are more than 30 days past due.

SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes principles for recognizing revenue and will be applicable for all contracts with customers except interest and fee income related to financial instruments and leases which will continue to fall outside the scope of SLFRS 15 and be regulated by other applicable standards. SLFRS 15 replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Revenue under SLFRS 15 will need to be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

SLFRS 16 – Leases

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

The new standard requires a Lessee to:

- Recognise 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, interests on lease liabilities in the income statement

SLFRS 16 substantially carries forward the Lessor accounting requirement in LKAS 17.

SLFRS 16 will become effective on 1 January 2019. The impact on the implementation of the above standard will be quantified in the year ahead. The following improvement to the existing standards has been published and the interpretation is effective for annual reporting periods beginning on or after 1 January 2019.

IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment”

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

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Group may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

6. CASH AND BANK BALANCES

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Cash in hand	52,107,308	35,477,415	63,076,275	44,753,210
Balances with banks	1,643,857,141	1,816,375,465	1,683,834,653	1,902,703,709
Total	1,695,964,449	1,851,852,880	1,746,910,928	1,947,456,919

7. PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Time deposits	2,262,523,090	1,488,897,349	1,991,850,523	1,499,516,207
Savings deposits	22,464,603	18,550,900	22,464,603	18,550,900
Total	2,284,987,693	1,507,448,249	2,014,315,126	1,518,067,107

8. FINANCIAL INVESTMENTS – HELD FOR TRADING

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Government of Sri Lanka Treasury Bills	2,489,999,998	1,805,036,512	2,489,999,998	1,805,036,511
Quoted Equity Investments (Note 8.1)	132,065,766	201,357,323	132,065,766	201,357,323
Investments in Unit Trusts (Note 8.2)	24,793,899	219,476,105	24,793,899	219,476,105
Total	2,646,859,663	2,225,869,939	2,646,859,663	2,225,869,939

8.1 Quoted Equity Investments

	Company/Group 2018		Company/Group 2017	
	No. of Shares	Market Value LKR	No. of Shares	Market Value LKR
Access Engineering PLC	300,000	6,150,000	374,440	8,911,672
ACL Cables PLC	36,000	1,476,000	36,000	1,962,000
Browns Beach Hotels PLC	9,000	131,400	15,000	319,500
Colombo City Holding PLC	-	-	2,672	1,870,400
Central Finance PLC	25,000	2,497,500	24,669	2,126,468
Chevron Lubricants Lanka PLC	93,068	9,725,606	30,000	5,100,000
Commercial Bank of Ceylon PLC	110,000	14,938,000	-	-
Dipped Products PLC	5,926	503,710	5,926	450,376

	Company/Group 2018		Company/Group 2017	
	No. of Shares	Market Value LKR	No. of Shares	Market Value LKR
Dunamis Capital PLC	-	-	30,000	615,000
Entrust Securities PLC	10,000	240,000	-	-
First Capital Holdings PLC	-	-	75,000	1,507,500
Hatton National Bank PLC – Voting	10,000	2,450,000	-	-
Hayleys Fabric PLC	4,549	56,863	35,900	488,240
Hemas Holdings PLC	1,000	124,900	-	-
Janashakthi Insurance Company PLC – Voting	220,000	5,896,000	-	-
John Keels Holdings PLC	72,667	11,597,653	470,043	64,818,930
John Keels Hotels PLC	-	-	6,361	6,361
Kelani Tyres PLC	-	-	10,000	550,000
Lanka IOC PLC	-	-	19,245	558,105
Lanka Walltile PLC	30,000	2,952,000	30,000	2,790,000
LB Finance PLC	161,297	19,178,213	161,297	19,097,565
Lanka ORIX Leasing Company PLC	12,659	49,370	-	-
MTD Walkers PLC	132,000	2,706,000	132,000	4,620,000
Nations Trust Bank PLC	8,000	645,600	8,000	592,000
NDB Bank PLC	60,762	8,087,422	20,762	2,898,375
Orient Finance PLC	330,000	6,237,000	330,000	3,036,000
People's Leasing & Finance PLC	260,000	4,108,000	60,000	936,000
Richard Peiris Exports PLC	57,500	9,665,750	7,500	1,567,500
Royal Ceramics Lanka PLC	86,000	9,064,400	-	-
Serandib Hotels PLC	20,602	360,184	20,602	412,040
Sampath Bank PLC	10,932	3,279,904	173,538	44,946,342
Softlogic Finance PLC	-	-	130,000	4,030,000
Swisstek (Ceylon) PLC	25,000	1,482,500	44,696	2,931,950
Textured Jusey Lanka PLC	158,890	5,068,591	330,000	12,210,000
Tokyo Cement Company (Lanka) PLC – Voting	49,800	2,689,200	184,000	11,224,000
Union Bank of Colombo PLC	55,000	704,000	55,000	781,000
Total		132,065,766		201,357,323

8.2 Investments in Unit Trusts

	Company/ Group 2018		Company/ Group 2017	
	No. of Units	Market Value LKR	No. of Units	Market Value LKR
Guardian Aquity Equity Fund	1,374,004	24,793,899	-	-
Ceylon Financial Sector Fund	-	-	1,813,237	15,702,629
Ceylon Money Market Fund	-	-	9,004,337	105,350,746
Investrust Money Fund	-	-	7,780,453	98,422,730
Total		24,793,899		219,476,105

NOTES TO THE FINANCIAL STATEMENTS CONTD.

9. LOANS AND ADVANCES

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Short Term Loans	1,831,370,637	1,450,188,164	1,839,736,074	1,455,767,984
Cash Loans	4,575,959,208	7,373,096,717	4,575,959,208	7,373,096,717
Microfinance Loans	10,788,002,940	11,739,215,650	11,195,710,404	11,847,027,028
Abhivurdhi SME Loans	1,955,992,292	2,195,055,254	1,955,992,292	2,195,055,254
Business Loans	2,828,949,342	4,119,294,037	2,886,697,944	4,135,493,893
Gold loans/Pawning advances	4,076,818,599	2,086,578,608	4,122,280,569	2,087,406,507
Factoring Receivables	1,291,125,930	1,486,605,688	1,291,125,930	1,486,605,688
Term Draft Loans	3,862,561,107	4,041,602,149	3,869,620,195	4,041,602,149
Auto Loans	4,219,718,072	3,255,437,164	4,222,208,084	3,255,437,164
Other Loan	1,930,922,409	1,731,387,115	1,932,636,871	1,744,087,879
	37,361,420,536	39,478,460,547	37,891,967,572	39,621,580,264
Less: Allowance for impairment losses (Note 9.1)	(2,163,290,880)	(1,420,162,867)	(2,171,532,015)	(1,422,892,382)
Net loans and advances	35,198,129,656	38,058,297,680	35,720,435,557	38,198,687,882

9.1 Allowance for Impairment Losses

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
As at 1 April	1,420,162,867	1,233,730,963	1,422,892,382	1,238,300,836
Charge for the year	2,664,589,784	2,553,035,927	2,670,101,404	2,553,494,585
Amounts written off	(1,921,461,951)	(2,366,604,023)	(1,921,461,951)	(2,368,903,039)
As at 31 March	2,163,290,880	1,420,162,867	2,171,532,015	1,422,892,382

The Company's allowance for impairment losses consists of collective impairment amounting to LKR 1,659,814,194/- (2017 – LKR 1,129,479,083/-) and individual impairment amounting to LKR 503,476,686/- (2017 – LKR 290,683,784/-).

The Group's allowance for impairment losses consists of collective impairment amounting LKR 1,668,055,329/- (2017 – LKR 1,132,208,598/-) and individual impairment amounting to LKR 503,476,686/- (2017 – LKR 290,683,784/-).

9.2 The table below presents the sensitivity of the allowance for impairment losses (collective impairment) to changes in the most significant assumptions underlying the estimate of the year ended 31 March 2018.

The sensitivity of the impairment estimate is the effect of the 5% increase over the currently applicable probability of default and loss given default on the profit or loss for the year and carrying value of loans and advances as at 31 March 2018.

	Increase/(Decrease)	Company	Group
		Impact to P & L LKR	Impact to P & L LKR
Probability of Default Rate (PD)	Loss Given Default (LGD)		
5%		(29,915,256)	(29,915,256)
-5%		29,915,256	29,915,256
	5%	(68,767,202)	(68,767,202)
	-5%	68,767,202	68,767,202

10. LEASE RENTALS RECEIVABLE AND STOCKS OUT ON HIRE

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Gross rentals receivable				
– Lease rentals	35,367,605,468	33,669,617,529	44,130,164,760	38,092,275,903
– Amounts receivable from hirers	9,068,688,158	7,970,612,547	9,079,228,284	7,983,191,350
	44,436,293,626	41,640,230,076	53,209,393,044	46,075,467,253
Less: Unearned income	(11,020,596,969)	(10,185,788,321)	(13,074,420,568)	(11,265,804,615)
Net rentals receivable	33,415,696,657	31,454,441,755	40,134,972,476	34,809,662,638
Less: Allowance for impairment losses (Note 10.1)	(1,708,380,873)	(1,270,525,457)	(1,824,657,891)	(1,328,123,147)
Total net rentals receivable (Note 10.2 and 10.3)	31,707,315,784	30,183,916,298	38,310,314,585	33,481,539,491

10.1 Allowance for Impairment Losses

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
As at 1 April	1,270,525,457	1,398,827,112	1,328,123,147	1,462,265,878
Charge for the year	534,083,022	288,994,123	600,958,909	321,962,945
Amounts written off	(96,227,606)	(417,295,778)	(104,424,165)	(456,105,676)
As at 31 March	1,708,380,873	1,270,525,457	1,824,657,891	1,328,123,147

The Company's allowance for impairment losses consists of collective impairment amounting to LKR 1,695,786,113/- (2017 collective impairment – LKR 1,255,306,579/-) and individual impairment amounting LKR 12,594,760/- (2017 – LKR 15,218,878/-).

The Group's allowance for impairment losses consists of collective impairment amounting LKR 1,742,148,683/- (2017 – LKR 1,277,701,876/-) and individual impairment amounting to LKR 82,509,208/- (2017 – LKR 50,421,271/-).

10.2 Company

As at 31 March 2018	Within 1 Year LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
Gross rentals receivable				
– Lease rentals	17,702,250,292	17,655,609,245	9,745,931	35,367,605,468
– Amounts receivable from hirers	4,246,564,760	4,822,105,612	17,786	9,068,688,158
	21,948,815,052	22,477,714,857	9,763,717	44,436,293,626
Less: Unearned income	(5,938,663,402)	(5,081,164,016)	(769,551)	(11,020,596,969)
Net rentals receivable	16,010,151,650	17,396,550,841	8,994,167	33,415,696,657
Less: Allowance for impairment losses				(1,708,380,873)
Total net rentals receivable				31,707,315,784

NOTES TO THE FINANCIAL STATEMENTS CONTD.

As at 31 March 2017	Within 1 Year LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
Gross rentals receivable				
– Lease rentals	14,771,432,671	18,897,201,392	983,467	33,669,617,530
– Amounts receivable from hirers	2,954,051,147	5,016,561,400	-	7,970,612,547
	17,725,483,818	23,919,762,792	983,467	41,640,230,077
Less: Unearned income	(3,413,478,723)	(6,772,123,634)	(185,964)	(10,185,788,321)
Net rentals receivable	14,312,005,095	17,141,639,158	797,503	31,454,441,755
Less: Allowance for impairment Losses				(1,270,525,457)
Total net rentals receivable				30,183,916,298

10.3 Group

As at 31 March 2018	Within 1 Year LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
Gross rentals receivable				
– Lease rentals	18,793,137,348	25,335,229,795	9,745,931	44,130,164,760
– Amounts receivable from hirers	4,247,657,290	4,823,604,895	17,786	9,079,288,284
	23,040,794,638	30,158,834,689	9,763,717	53,209,393,044
Less: Unearned income	(6,022,543,085)	(7,051,107,932)	(769,551)	(13,074,420,568)
Net rentals receivable	17,018,251,553	23,107,726,757	8,994,167	40,134,972,476
Less: Allowance for impairment losses				(1,824,657,891)
Total net rentals receivable				38,310,314,585

As at 31 March 2017	Within 1 Year LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
Gross rentals receivable				
– Lease rentals	16,866,329,338	21,224,963,098	983,467	38,092,275,903
– Amounts receivable from hirers	2,960,009,395	5,023,181,955	-	7,983,191,350
	19,826,338,733	26,248,145,053	983,467	46,075,467,253
Less: Unearned income	(3,925,053,967)	(7,340,564,685)	(185,964)	(11,265,804,615)
Net rentals receivable	15,901,284,766	18,907,580,368	797,503	34,809,662,638
Less: Allowance for impairment losses				(1,328,123,147)
Total net rentals receivable				33,481,539,491

10.4 The table below presents the sensitivity of the allowance for impairment losses (collective impairment) to changes in the most significant assumptions underlying the estimate of the year ended 31 March 2018.

The sensitivity of the impairment estimate is the effect of the 5% increase over the currently applicable probability of default and loss given default on the profit or loss for the year and carrying value of lease and hire purchase as at 31 March 2018.

Increase/(Decrease)		Company	Group
Probability of Default Rate (PD)	Loss Given Default (LGD)	Impact to P & L LKR	Impact to P & L LKR
5%		(26,121,866)	(27,277,220)
-5%		26,121,866	27,277,220
	5%	(84,359,114)	(85,223,097)
	-5%	84,359,114	85,223,097

11. FINANCIAL INVESTMENTS – AVAILABLE FOR SALE

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Government of Sri Lanka Treasury Bonds	-	49,144,859	-	49,144,859
Government of Sri Lanka Treasury Bills	-	-	56,641,074	87,278,862
Quoted Equity Investments (Note 11.1)	178,200,000	157,033,800	182,304,139	161,054,853
Unquoted Equity Investments (Note 11.2)	4,310,479	103,326,023	4,838,346	106,948,446
Unit Trusts (Note 11.3)	-	-	1,923,000	1,909,967
Total	182,510,479	309,504,682	245,706,559	406,336,986

11.1 Quoted Equity Investments

Company	2018		2017	
	No. of Shares	Market Value LKR	No. of Shares	Market Value LKR
Ceylinco Insurance PLC	99,000	178,200,000	99,000	157,033,800
Total	99,000	178,200,000	99,000	157,033,800

Group	2018		2017	
	No. of Shares	Market Value LKR	No. of Shares	Market Value LKR
Ceylinco Insurance PLC	99,000	178,200,000	99,000	157,033,800
Seylan Bank PLC	47,174	4,104,139	46,219	4,021,053
Total		182,304,139		161,054,853

NOTES TO THE FINANCIAL STATEMENTS CONTD.

11.2 Unquoted Equity Investments

Company	2018		2017	
	No. of Shares	Fair Value LKR	No. of Shares	Fair Value LKR
Credit Information Bureau	100	372,637	100	372,637
Finance House Consortium (Pvt) Ltd.	20,000	200,000	20,000	200,000
Ceylon Asset Management Company Limited	555,556	3,737,842	555,556	3,737,842
Capitalife Assurance Limited	-	-	12,083,333	99,015,544
Total		4,310,479		103,326,023

Group	2018		2017	
	No. of Shares	Fair Value LKR	No. of Shares	Fair Value LKR
Credit Information Bureau	200	700,504	200	700,504
Finance House Consortium (Pvt) Ltd.	40,000	400,000	40,000	400,000
Ceylon Asset Management Company Limited	555,556	3,737,842	555,556	3,737,842
Capitalife Assurance Limited	-	-	12,416,666	102,110,100
Total		4,838,346		106,948,446

11.3 UNIT TRUST

Group	2018		2017	
	No. of Shares	Fair Value LKR	No. of Shares	Fair Value LKR
National Equity Fund	60,000	1,923,000	60,000	1,909,967
Total	60,000	1,923,000	60,000	1,909,967

12. OTHER FINANCIAL ASSETS

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Refundable deposits	31,623,360	31,150,760	31,623,360	31,150,760
Other receivables	103,370,208	75,708,371	103,370,208	75,708,371
Compensation receivable from government over acquisition of investment property (Note 16.2)	214,654,240	191,225,799	214,654,240	191,225,799
Investment in commercial papers	-	101,165,642	-	101,165,642
Investment in debentures	363,067,165	363,391,755	363,067,165	363,391,755
Total	712,714,972	762,642,327	712,714,972	762,642,327

13. INVENTORIES

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Real estate stocks	128,327,562	173,987,309	128,327,562	173,987,309
	128,327,562	173,987,309	128,327,562	173,987,309

As of 31.3.2018, provision for inventories amounting to LKR 30,770,518/- (2017 – LKR 30,770,518/-) was recognised and the inventory balances are carried at net realisable value.

ACCOUNTING POLICY

Inventories are valued at the lower of cost and net realizable value. Company evaluates the net realizable value considering the current market prices at which such stocks can be sold in the ordinary course of business.

14. OTHER ASSETS

Group	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Pre-paid expenses	179,074,938	193,239,732	203,925,144	211,271,920
Tax receivable	18,042,942	20,267,953	18,042,942	20,267,953
Sundry assets	45,385,598	17,323,866	77,512,843	22,267,407
Total	242,503,478	230,831,551	299,480,930	253,807,280

15. INVESTMENT IN SUBSIDIARY

	Effective Holding %		Company	
	2018	2017	2018 LKR	2017 LKR
Trade Finance and Investments PLC	99.65%	99.85%	1,599,288,321	1,599,788,796
Total			1,599,288,321	1,599,788,796

16. INVESTMENT PROPERTY

	Company/Group	
	2018 LKR	2017 LKR
Balance at 1 April	1,461,413,125	815,024,000
Property acquired during the year	425,615,717	259,999,000
Transferred from property, plant and equipments (Note 16.1)	80,700,000	143,000,000
Transferred to property, plant and equipments (Note 16.1)	(67,650,000)	-
Disposal during the year	(162,999,999)	-
Net fair value adjustment	246,352,651	243,390,125
Balance at 31 March	1,983,431,494	1,461,413,125

NOTES TO THE FINANCIAL STATEMENTS CONTD.

	Company/Group	
	2018 LKR	2017 LKR
Rental income derived from investment properties	37,476,007	34,842,368
Direct operating expenses	(732,391)	(1,395,216)
Profit arising from investment properties carried at fair value	36,743,616	33,447,152

16.1 During the financial year, the management decided to transfer the land located at Lot No. 1, 2 and 3 in Plan No. 9327/2014 at Main Street, Negombo amounting LKR 80,700,000/- to investment property owing to change in the purpose of holding the land. Accordingly the land will be held by the Company for capital appreciation purpose.

(2017 – Management decided to transfer the land located in Ingiriya amounting to LKR 143,000,000/- to investment properties owing to change in the purpose of holding the land)

During the financial year the management decide to transfer Lot No. C1B in Plan No. 3256 at Yaggapitiya, Kurunegala land amounting LKR 67,650,000/- to Property, Plant and Equipment owing to the change in the purpose of holding the land.

16.2 During the financial year 2014/15, The Government of Sri Lanka, under the provisions of Section 38 of the land acquisition Act No. 28 of 1964, has acquired the Lot Numbers 1 to 77 in Plan No. 87/2010 dated 14/07/2010 of the investment property located at Rassandeniya, Matara. Such land extent acquired was 955 perches out of the total of 1,511 perches.

By a letter dated 18 May 2018 by “Divisional Secretariat of Matara Four Gravets”, it has been informed that the initiatives are in progress to pay the compensation after completion of the preliminary activities pertaining to such acquisition. Further on 25 May 2016, the Government of Sri Lanka, under the provisions of Section 7 of the land acquisition Act No. 28 of 1964, has issued the gazette notice detailing lands that is intended to be acquired and has requested the persons interested to claim for compensations through acquiring officer. Accordingly, management has claimed the compensation and decisions are in progress.

Such compensation receivable was recorded under “other financial assets”. Value of such compensation was decided based on the valuation performed by M/S. Sunil Fernando Associates (Pvt) Ltd., a firm of chartered valuation surveyors based on the residual method of valuation as at 31 March 2018 valuation. (Note 12)

Property	Method of Valuation	Effective Date of Valuation	Significant Unobservable Inputs (Level 3)	Sensitivity of Fair Value to Unobservable Inputs	Value (LKR)
Lot Numbers 1 to 77 in Plan No. 87/2010 dated 14/07/2010, Rassandeniya, Matara	Residual Method of valuation	31 March 18	Estimated price per perch LKR 280,000/- (Land Extent – 955 perches)	Positively correlated sensitivity	227,288,890

16.3 Fair value of the investment property is ascertained by independent valuations carried out by Chartered valuation surveyors, who have recent experience in valuing properties of similar location and category. Investment property is appraised in accordance with SLFRS 13, International Valuation Standards published by the International Valuation Standards Committee (IVSC) and Sri Lanka valuation Standard by the Independent Valuers.

In determining the fair value, the current condition of the properties, future usability and associated redevelopment requirements have been considered. Also, the valuers have made reference to market evidence of transaction prices for similar properties, with appropriate adjustments for size and location. The appraised fair values are rounded within the range of values.

16.4 Investment properties are stated at fair value, which have been determined based on valuations performed by Ms. Sunil Fernando & Associates (Pvt) Ltd., and Mr. A.B.M. Gunadasa independent chartered valuation surveyors, as at 31 March 2018.

Description of valuation techniques used and key inputs to valuation on investment properties:

Property	Method of Valuation	Effective Date of Valuation	Significant Unobservable Inputs (Level 3)	Sensitivity of Fair Value to Unobservable Inputs	Value 2018 (LKR)	Value 2017 (LKR)
No. 165, Kynsey Road, Colombo 08	Comparison Method of valuation	31.03.18	Estimated price per perch LKR 14,500,000/- (Land Extent – 66 perches) Estimated current cost of construction per square foot LKR 9,750/- (28,942 square feet)	Positively correlated sensitivity	1,100,000,000	924,000,000
Lot No. 5A,5B & 6A in plan No. 88/2010 at Rassandeniya, Matara	Residual Method of valuation	31.03.18	Estimated price per perch LKR 210,000/- (Land Extent – 556 perches)	Positively correlated sensitivity	47,788,650	45,513,000
No. 28, Thurstan Road, Colombo 03	Comparison Method of Valuation	31.03.18	Estimated price per perch LKR 15,000,000/- (Land Extent – 22.5 perches)	Positively correlated sensitivity	337,500,000	281,250,000
Lot No. 1, 2 and 3 in Plan No. 9327/2014 at Main Street, Negombo	Comparison Method of valuation	31.03.18	Estimated price per perch LKR 2,750,000/- (Land Extent – 29.34 perches)	Positively correlated sensitivity	80,700,000	-
Lot No. 01 in Plan No. 0082 at Magamma, Dehiowita	Comparison Method of valuation	31.03.18	Estimated price per perch LKR 200,000/- – LKR 350,000/- (Land Extent – 43 perches) Estimated current cost of construction per square foot LKR 2,000/- – LKR 4,000/- (7,588 square feet)	Positively correlated sensitivity	36,746,000	-
Lot No. 5A in Plan No. 2046 at Batapola	Comparison Method of valuation	31.03.18	Estimated price per perch LKR 200,000/- (Land Extent – 59 perches)	Positively correlated sensitivity	11,800,000	-
No. 86, Kandy Road, Nuwaraeliya	Comparison Method of valuation	31.03.18	Estimated price per perch LKR 5,000,000/- (Land Extent – 18.5 perches) Estimated current cost of construction per square foot LKR 6,500/- (12,267 square feet)	Positively correlated sensitivity	172,000,000	-
Lot No. 03 in Plan No. 1143 at Kuda-Payagala, Payagala	Comparison Method of valuation	31.03.18	Estimated price per perch LKR 700,000/- (Land Extent – 13.5 perches) Estimated current cost of construction per square foot LKR 3,500/- (2,832 square feet)	Positively correlated sensitivity	18,989,000	-
Lot No. 01 in Plan No. 2017/155 at Kurunegala	Comparison Method of valuation	31.03.18	Estimated price per perch LKR 35,000/- (Land Extent – 206.93 perches)	Positively correlated sensitivity	7,500,000	-
Lot No. 41 in Plan No. 520001 in Homagama	Comparison Method of valuation	31.03.18	Estimated price per perch LKR 611,099/- (Land Extent – 271.8 perches)	Positively correlated sensitivity	155,160,000	-
Lot No. 3896 in Plan No. 195 in Buddhagaya Mawatha, Anuradhapura	Comparison Method of valuation	31.03.18	Estimated price per perch LKR 400,000/- (Land Extent – 24.94 perches) Estimated current cost of construction per square foot LKR 3,000/- (3,986 square feet)	Positively correlated sensitivity	20,000,000	-
Lot No. A1 and A2 in Plan No. 1280A/2008 at Meegahawatta, Biyagama	Comparison Method of valuation	31.03.18	Estimated price per perch LKR 250,000/- (Land Extent – 33.10 perches) Estimated current cost of construction per square foot LKR 900/- (2,850 square feet)	Positively correlated sensitivity	8,050,000	-

No. 165, Kynsey Road, Colombo 08 is an ideal assets as of 31 March 2018

NOTES TO THE FINANCIAL STATEMENTS CONTD.

16.5 The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of investment property of the year ended 31 March 2018.

The sensitivity of the investment property valuation is the effect of the assumed changes in land price per perch and cost of construction per square feet (while other variables are held constant) on the profit or loss for the year and carrying value of investment property as at 31 March 2018.

Increase/(Decrease)

Value of the Land	Cost of Construction per Square Feet	Fair Value Gain/(Loss) on Investment Property LKR
5%	5%	87,970,347
-5%	-5%	(87,970,347)

17. PROPERTY, PLANT AND EQUIPMENT

17.1 Gross Carrying Amounts

Company	Balance as at 01.04.2017 LKR	Additions LKR	Transfers LKR	Disposals LKR	Revaluation LKR	Balance as at 31.03.2018 LKR
At Cost						
Freehold assets						
Furniture and fittings	298,709,315	13,682,170	-	(270,268)	-	312,121,217
Leasehold improvements	222,355,081	44,950,907	-	-	-	267,305,988
Office equipment	168,835,801	23,259,961	-	-	-	192,095,762
Motor vehicles	40,627,067	-	-	(3,385,397)	-	37,241,670
Computer equipments	787,558,705	142,846,819	-	-	-	930,405,524
Air conditioning system	90,495,303	9,208,000	-	-	-	99,703,303
Generators	7,004,817	2,552,925	-	-	-	9,557,742
	1,615,586,089	236,500,782	-	(3,655,665)	-	1,848,431,206
At valuation						
Freehold land	492,973,800	256,426,185	(13,500,000)	-	10,284,000	746,183,985
Building and building integrals	84,793,260	11,325,869	-	-	-	96,119,129
	577,767,060	267,752,054	(13,500,000)	-	10,284,000	842,753,114
Total value of depreciable assets	2,193,353,149	504,252,836	(13,500,000)	(3,655,665)	10,284,000	2,690,184,320

17.2 Depreciation

Company	Balance as at 01.04.2017 LKR	Additions LKR	Transfers LKR	Disposals LKR	Revaluation LKR	Balance as at 31.03.2018 LKR
At Cost						
Freehold assets						
Furniture and fittings	125,693,949	37,317,072	-	(147,057)	-	162,863,964
Leasehold improvements	81,960,351	48,291,035	-	-	-	130,251,386
Office equipments	49,239,929	14,369,994	-	-	-	63,609,923
Motor vehicles	18,590,461	3,189,427	-	(3,385,398)	-	18,394,490
Computer equipments	341,988,899	156,951,576	-	-	-	498,940,475
Air conditioning system	31,567,377	11,335,005	-	-	-	42,902,382
Generators	4,381,460	745,759	-	-	-	5,127,219
	653,422,426	272,199,867	-	(3,532,455)	-	922,089,838
At valuation						
Building and building integrals	1,633,862	1,949,947	-	-	-	3,583,809
	1,633,862	1,949,947	-	-	-	3,583,809
Total depreciation	655,056,288	274,149,815	-	(3,532,455)	-	925,673,648

17.3 Gross Carrying Amounts

Group	Balance as at 01.04.2017 LKR	Additions LKR	Transfers LKR	Disposals LKR	Revaluation LKR	Balance as at 31.03.2018 LKR
At Cost						
Freehold assets						
Furniture and fittings	309,654,059	14,699,184	-	(270,268)	-	324,082,975
Leasehold improvements	222,355,081	44,950,907	-	-	-	267,305,988
Office equipment	187,856,640	28,375,738	-	-	-	266,232,378
Motor vehicles	70,048,167	13,140,650	-	(4,255,397)	-	78,933,420
Computer equipments	803,863,079	151,005,669	-	-	-	954,868,748
Air conditioning system	90,495,303	9,208,000	-	-	-	99,703,303
Generators	7,004,817	2,552,925	-	-	-	9,557,742
	1,691,277,146	263,933,073	-	(4,525,665)	-	1,950,684,554
At valuation						
Freehold Land	492,973,800	256,426,185	(13,050,000)	-	10,284,000	746,633,985
Building and building integrals	84,793,260	11,325,869	-	-	-	96,119,129
	577,767,060	267,752,054	(13,050,000)	-	10,284,000	842,753,114
Total value of depreciable assets	2,269,044,206	531,685,127	(13,050,000)	(4,525,665)	10,284,000	2,793,437,668

NOTES TO THE FINANCIAL STATEMENTS CONTD.

17.4 Depreciation

Group	Balance as at 01.04.2017 LKR	Additions LKR	Transfers LKR	Disposals LKR	Revaluation LKR	Balance as at 31.03.2018 LKR
Depreciation						
Freehold assets						
Furniture and fittings	133,432,542	38,926,430	-	(147,057)	-	172,211,915
Leasehold improvements	81,960,351	48,291,035	-	-	-	130,251,386
Office equipment	60,116,368	18,199,121	-	-	-	78,315,489
Motor vehicles	29,941,012	11,363,181	-	(3,972,058)	-	37,332,135
Computer equipments	351,663,779	159,954,323	-	-	-	511,618,102
Air conditioning system	31,567,377	11,335,005	-	-	-	42,902,382
Generators	4,381,460	745,759	-	-	-	5,127,219
	693,062,889	288,814,853	-	(4,119,115)	-	977,758,628
At valuation						
Building and building integrals	1,633,862	1,949,947	-	-	-	3,583,809
	1,633,862	1,949,947	-	-	-	3,583,809
Total depreciation	694,696,751	290,764,800	-	(4,119,115)	-	981,342,437

17.5 Net book values

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
At Cost				
Furniture and fittings	149,257,253	173,015,366	151,871,060	176,221,517
Leasehold improvements	137,054,602	140,394,730	137,054,602	140,394,730
Office equipment	128,485,839	119,595,872	137,916,889	127,740,272
Motor vehicles	18,847,180	22,036,606	41,601,285	40,107,155
Computer equipments	431,465,049	445,569,806	443,250,646	452,199,300
Air conditioning system	56,800,921	58,927,926	56,800,921	58,927,926
Generators	4,430,523	2,623,357	4,430,523	2,623,357
Freehold land	746,633,985	492,973,800	746,633,985	492,973,800
Building and building integrals	92,535,320	83,159,398	92,535,320	83,159,398
Total net book value of property, plant and equipment	1,765,510,672	1,538,296,861	1,812,095,231	1,574,347,455

17.6 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of LKR 504,252,836/- (2017 – LKR 500,577,630/-). Cash payments amounting to LKR 504,252,836/- (2017 – LKR 500,577,630 /-) was paid during the year for purchases of Property, Plant and Equipment.

During the financial year, the Group acquired Property, Plant and Equipment to the aggregate value of LKR 531,685,127/- (2017 – LKR 524,524,565/-). Cash payments amounting to LKR 531,685,127/- (2017 – LKR 524,524,565/-) was paid during the year for purchases of Property, Plant and Equipment.

17.7 The Company uses the revaluation model of measurement of land and buildings. The company engaged Sunil Fernando & Associates (Private) Limited and A.B.M. Gunadasa, an independent chartered valuation surveyor, to determine the fair value of its land and buildings as at 31 March 2016 and 31 March 2018. The fair value was determined by Comparison Method using current market value of land, residual method of valuation and the depreciated replacement cost of buildings. Valuations are based on market prices, adjusted for any difference in the nature, location or condition of the specific property.

Commercial Credit and Finance PLC

Fair Value of Lands

Location	Extent	Valuer	Valuation Date	Valuation Details	Significant Unobservable Input: Price per Perch/Acre/Range	Fair Value	Sensitivity of Fair Value to Unobservable Inputs
Mount Lavinia	P 7.18	Sunil Fernando & Associates (Private) Limited	31/03/2016	Comparison Method	LKR 900,000/- per perch	6,462,000	
Plan 548, Lot 1, Maithripala Senanayake Mawatha, New Town, Anuradhapura	P 12.2	Sunil Fernando & Associates (Private) Limited	31/03/2016	Comparison Method	LKR 2,500,000/- per perch	30,500,000	
No. 106, Yatnuwara Veediya, Kandy	P 13.4	Sunil Fernando & Associates (Private) Limited	31/03/2016	Comparison Method	LKR 7,500,000/- per perch	100,500,000	
Plan 3256, Lot CIA, Yaggapitiya, Kurunegala	P 738.7	Sunil Fernando & Associates (Private) Limited	31/03/2016	Residual Method of valuation	LKR 215,000/- to LKR 500,000/- per perch	112,750,000	
No. 136, Kurunegala Road, Puttalam	P 13.75	Sunil Fernando & Associates (Private) Limited	31/03/2016	Comparison Method	LKR 650,000/- per perch	8,937,500	Positively correlated sensitivity
Lot 1,2 Plan 390, Kumbukkanna, Monaragala	A 23, R 2, P 28.95	Sunil Fernando & Associates (Private) Limited	31/03/2016	Comparison Method	LKR 900,000/- per acre	21,312,900	
Lot No. 1, 2, 3, 4, 5 and 6 in Plan No. 1259 Bolgoda	A 3, R 1, P 32	A.B.M. Gunadasa	31/03/2018	Comparison Method	LKR 276,697/- per acre	216,737,885	
Lot No. 275, 277, 283, 285, 287 and 289, Highlevel Road, Nugegoda	P 29.85	A.B.M. Gunadasa	31/03/2018	Comparison Method	LKR 6,700,000/- per perch	202,799,700	
113/11, Green Road, Negombo	P 26.5	A.B.M. Gunadasa	31/03/2018	Comparison Method	LKR 1,700,000/- per perch	45,050,000	
						745,049,985	
Fair Value of Buildings							
Mount Lavinia	2,732 square feet	Sunil Fernando & Associates (Private) Limited	31/03/2016	Depreciated Replacement Cost	LKR 5,000/- per square feet	10,178,000	
Plan 806, Lot 2, Assessment No. 136, Kurunegala Road, Puttalam	1,630 square feet	Sunil Fernando & Associates (Private) Limited	31/03/2016	Depreciated Replacement Cost	LKR 2,750/- per square feet	4,482,500	
Plan 548, Lot 1, Maithripala Senanayake Mawatha, New Town, Anuradhapura	4,034 square feet	Sunil Fernando & Associates (Private) Limited	31/03/2016	Depreciated Replacement Cost	LKR 4,500/- per square feet	13,614,750	Positively correlated sensitivity
No. 106, Yatnuwara Veediya, Kandy	12,845 square feet	Sunil Fernando & Associates (Private) Limited	31/03/2016	Depreciated Replacement Cost	LKR 6,000/- per square feet	55,875,750	
113/11, Green Road, Negombo	2,700 square feet	A.B.M. Gunadasa	09/05/2018	Depreciated Replacement Cost	LKR 2,500/- – LKR 2,750/- per square feet	3,225,975	
						87,376,975	

NOTES TO THE FINANCIAL STATEMENTS CONTD.

17.8 If land and buildings were measured using the cost model, the carrying amounts would be as follows:

	Company			
	2018		2017	
	Land LKR	Building and Building Integrals LKR	Land LKR	Building and Building Integrals LKR
Cost	621,113,151	58,855,541	400,627,493	47,529,672
Less: Accumulated depreciation	-	(13,596,820)	-	(12,419,709)
Net carrying amount	621,113,151	45,258,721	400,627,493	35,109,964

17.9 Property, Plant and Equipment included fully depreciated assets having a gross amount of LKR 214,992,572/- (2017 – LKR 143,953,500/-) and Group fully depreciated assets amounted to LKR 241,057,616/- (2017 – LKR 170,018,544).

ACCOUNTING POLICY

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

SUBSEQUENT MEASUREMENT

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

The Group has elected to use the revaluation model for land and buildings, while other classes of Property, Plant and Equipment are measured using the cost model.

COST MODEL

These are the amount of cash or cash equivalent paid or the fair value of other consideration given to acquire the asset at the time of its acquisition or construction, if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured.

REVALUATION MODEL

Land and buildings are measured at fair value, less accumulated depreciation on buildings, and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

DEPRECIATION

The provision for depreciation is calculated by using a straight line method on the cost or valuation of all Property, Plant and Equipment other than freehold land, in order to write off such amounts over the estimated useful lives.

The estimated useful lives used are as follows:

Components Included in Buildings and Building Integrals	Useful Life
Buildings	20-50 years
Cladding	10 years
Furniture and fittings	8 years
Leasehold improvements	Over the lease period
Office equipment	5-10 years
Motor vehicles	4 years
Computer hardware	5 years
Air conditioning system	10 years

Derecognition

An item of Property, Plant and Equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other Operating Income' in the Statement of Profit or Loss in the year the asset is derecognised.

18. INTANGIBLE ASSETS AND GOODWILL

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Goodwill	-	-	741,712,566	741,712,566
Computer software (18.1)	166,427,661	136,510,053	181,754,339	153,152,414
	166,427,661	136,510,053	923,466,905	894,864,980

Goodwill

Goodwill amounting to LKR 741,712,566/- has been recognised in respect of acquisition of Trade Finance and Investments PLC.

The Group performed its annual impairment test on Goodwill based on earnings growth model. The assumptions applied in the computations are reviewed each year. The key assumptions used to determine the recoverable amount of the Subsidiary are as follows:

Business growth rate

The volume growth has been budgeted on a reasonable and realistic basis by taking in to account historical growth rate and business plan of the Trade Finance and Investments PLC.

Discount rate

The discount rate used is the risk free rate, adjusted by the addition of an appropriate risk premium.

Inflation rate

The basis to used to determine the value assigned to the budgeted cost inflation, is the inflation rate, based on projected economic conditions.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

18.1 Computer Software

Company				
	Balance as at 01.04.2017 LKR	Additions/ Incurred LKR	Transfers LKR	Balance as at 31.03.2018 LKR
Cost				
Computer software	-	-	177,516,778	177,516,778
Capital work in progress – Computer software	136,510,053	54,368,564	(177,516,778)	13,361,839
Written down value	136,510,053	54,368,564	-	190,878,617

	Balance as at 01.04.2017 LKR	Charged LKR	Transfers LKR	Balance as at 31.03.2018 LKR
Amortisation				
Computer software	-	24,450,956	-	24,450,956
	-	24,450,956	-	24,450,956
Net Book value	136,510,053	-	-	166,427,661

18.2 Computer Software

Group				
	Balance as at 01.04.2017 LKR	Additions/ Incurred LKR	Transfers LKR	Balance as at 31.03.2018 LKR
Cost				
Computer software	27,551,066	4,080,186	177,516,778	209,148,030
Capital work in progress – Computer software	136,510,053	54,368,564	(177,516,778)	13,361,839
	164,061,119	58,448,750	-	222,509,869

	Balance as at 01.04.2017 LKR	Charged LKR	Transfers LKR	Balance as at 31.03.2018 LKR
Amortisation				
Computer software	10,908,705	29,846,825	-	40,755,530
	10,908,705	29,846,825	-	40,755,530
Net Book value	153,152,414	-	-	181,754,339

19. PREPAID RENT

Company/Group		
	2018 LKR	2017 LKR
As at 1 April	8,310,712	8,433,517
Amortisation for the year	(122,805)	(122,805)
As at 31 March	8,187,907	8,310,712

19.1 The Company entered into an agreement with Urban Development Authority of Sri Lanka on 4 September 2007 for a period of 78 years to acquire the right to use the property located at Hingurakgoda. The pre-paid rentals are amortised over the remaining lease period of 67 years.

20. DUE TO BANKS

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Bank overdrafts	373,872,303	571,278,317	624,403,450	684,500,878
Securitised borrowings, Syndicated Loans and Other Bank Facilities (Note 20.1)	8,208,126,804	10,221,087,449	11,250,382,610	11,271,747,874
Total	8,581,999,107	10,792,365,766	11,874,786,015	11,956,248,752

20.1 Securitised Borrowings and Direct Bank Borrowings

Commercial Credit and Finance PLC	Company/Group						
	As at 01.04.2017 LKR	Loans Obtained LKR	Interest Recognised LKR	Repayments LKR	As at 31.03.2018 LKR	Period	Security
Securitised Borrowings							
Hatton National Bank PLC – Securitisation Loan 10	130,208,410	-	13,574,910	76,074,870	67,708,450	48 Months	Lease and HP Receivables
Hatton National Bank PLC – Securitisation Loan 11	131,637,206	-	13,059,573	76,988,329	67,708,450	48 Months	HP Receivables
Hatton National Bank PLC – Securitisation Loan 12	708,340,001	-	83,199,768	333,159,768	458,380,001	36 Months	Micro Finance, HP and Lease Receivables
Hatton National Bank PLC – Securitisation Loan 13	500,000,000	-	31,526,712	531,526,712	-	3 Months	Lease and HP Receivables
Hatton National Bank PLC – Securitisation Loan 14	-	450,000,000	37,982,780	125,482,780	362,500,000	36 Months	HP and Lease Receivables
Hatton National Bank PLC – Securitisation Loan 15	-	300,000,000	23,868,905	82,128,719	241,740,186	36 Months	HP and Lease Receivables
Bank of Ceylon – Securitization Loan 9	38,225,015	-	1,238,524	39,463,539	-	36 Months	Lease and HP Receivables
Bank of Ceylon – Securitization Loan 11-2	138,488,454	-	10,928,449	149,416,903	-	36 Months	Lease and HP Receivables
Bank of Ceylon – Securitization Loan 12	23,765,090	-	744,499	24,509,589	-	24 Months	Lease and HP Receivables
Deutsche Bank – Securitization Loan 8	153,017,923	-	10,605,601	78,384,774	85,238,750	48 Months	Lease and HP Receivables
Deutsche Bank – Securitization Loan 9	295,759,582	-	34,806,548	78,249,326	252,316,805	48 Months	Lease and HP Receivables
Deutsche Bank – Securitization Loan 9-2	480,746,199	-	46,954,667	343,978,141	183,722,724	36 Months	Lease and HP Receivables
Bank of Ceylon – Trust 13-1	371,298,893	-	23,018,289	394,317,182	-	20 Months	Microfinance Receivables
Bank of Ceylon – Trust 13-2	83,589,776	-	10,072,131	59,081,060	34,580,847	20 Months	Microfinance Receivables
Bank of Ceylon – Trust 14	316,202,164	-	15,535,633	331,737,797	-	24 Months	Microfinance Receivables
Bank of Ceylon – Trust 15	121,096,231	-	15,669,985	136,313,749	452,467	18 Months	Lease and HP Receivables
National Saving Bank – Securitization Loan	502,102,055	-	63,827,382	190,929,437	375,000,000	24 Months	Lease and HP Receivables
Cargills Bank – Securitization Loan	208,333,248	-	25,524,826	88,024,954	145,833,120	48 Months	Lease and HP Receivables

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Commercial Credit and Finance PLC	Company/Group					As at 31.03.2018 LKR	Period	Security
	As at 01.04.2017 LKR	Loans Obtained LKR	Interest Recognised LKR	Repayments LKR				
Peoples Bank Trust Loan – 1	-	500,000,000	57,233,578	104,549,761	452,683,817	24 Months	Microfinance Receivables	
Peoples Bank Trust Loan – 2-1	-	360,394,669	23,919,536	117,111,164	267,203,041	24 Months	Microfinance Receivables	
Peoples Bank Trust Loan – 2-2	-	149,500,000	8,983,239	5,279,247	153,203,992	24 Months	Microfinance Receivables	
Peoples Bank Trust Loan – 2-3	-	313,808,602	14,786,562	-	328,595,164	24 Months	Microfinance Receivables	
Peoples Bank Trust Loan – 2-4	-	166,738,944	5,865,924	-	172,604,868	22 Months	Microfinance Receivables	
People's Bank – Securitization Loan 11	400,031,000	-	40,226,086	148,507,086	291,750,000	60 Months	Lease and HP Receivables	
Hatton National Bank PLC – Trust 1	-	300,873,561	34,918,857	-	335,792,418	13 Months	Microfinance Receivables	
Hatton National Bank PLC – Trust 2	-	394,576,122	32,889,008	21,460,535	406,004,596	24 Months	HP and Lease Receivables	
	4,602,841,246	2,935,891,896	680,961,973	3,536,675,421	4,683,019,697			

Direct Bank Borrowings							
Merchant Bank of Sri Lanka – Term Loan	195,425,000	200,000,000	28,831,398	224,256,398	200,000,000	6 Months	Lease and HP Receivables
National Development Bank PLC – Term Loan	300,000,000	250,000,000	38,695,190	332,549,357	256,145,833	3 Months	-
National Development Bank PLC – Term Loan	150,474,658	100,000,000	4,943,836	255,418,493	-	12 Months	Lease and HP Receivables
National Development Bank PLC – Term Loan	200,000,000	400,000,000	25,056,807	420,934,890	204,121,918	3 Months	-
Seylan Bank PLC – Term Loan 3	33,333,419	-	2,507,930	35,841,349	-	36 Months	Lease and HP Receivables
Seylan Bank PLC – Term Loan 4	425,000,000	-	59,460,347	159,460,347	325,000,000	60 Months	Lease and HP Receivables
Seylan Bank PLC – Term Loan 5	190,416,578	-	19,487,788	209,904,366	-	12 Months	Lease and HP Receivables
Seylan Bank PLC – Term Loan 6	-	500,000,000	47,202,637	140,952,637	406,250,000		Lease and HP Receivables
Seylan Bank PLC – Term Loan 7	-	250,000,000	6,291,559	256,291,559	-		
Seylan Bank PLC – Short Term Loan	262,916,667	-	4,317,922	267,234,589	-	6 Months	Lien over deposits totaling to LKR 287,458,910
Pan Asia Bank PLC – Term Loan	131,250,000	-	15,829,973	90,829,973	56,250,000	48 Months	Lease and HP Receivables
Pan Asia Bank PLC – Term Loan 3	256,262,786	-	30,629,081	159,077,913	127,813,954	48 Months	Lease and HP Receivables
Pan Asia Bank PLC – Term Loan 4	202,541,667	-	11,249,149	213,790,816	-	3 Months	Lease and HP Receivables
Sampath Bank PLC – Short Term Loan	324,986,000	-	39,086,479	139,094,479	224,978,000	60 Months	Lease and HP Receivables
Sampath Bank PLC – Short Term Loan	300,000,000	300,000,000	44,753,966	344,753,966	300,000,000	6 Months	Lease and HP Receivables

Commercial Credit and Finance PLC	Company/Group					As at 31.03.2018 LKR	Period	Security
	As at 01.04.2017 LKR	Loans Obtained LKR	Interest Recognised LKR	Repayments LKR				
Sampath Bank PLC – Short Term Loan	200,000,000	-	2,147,945	202,147,945	-	6 Months	Lease and HP Receivables	
Sampath Bank PLC – Short Term Loan	292,252,466	-	5,143,185	297,395,651	-	12 Months	Lien over balanced held at “Overseas Investment Account”	
Sampath Bank PLC – Short Term Loan	300,509,589	1,000,000,000	30,583,294	831,092,883	500,000,000	3 Months	-	
Hatton National Bank – Short Term Loan		150,000,000	17,786,922	52,161,922	115,625,000	48 Months	Fixed deposit	
Pan Asia Bank PLC – Short Term Loan 4	200,000,000	-	10,874,847	210,874,847	-	90 Days	Lease and HP Receivables	
Bank of Ceylon – Term Loan	-	490,000,000	58,474,292	170,801,892	377,672,400	90 Days	Lease and HP Receivables	
DFCC Bank – Term Loan		450,000,000	10,461,676	29,211,676	431,250,000	48 Months	Promissory Note	
	3,965,368,828	4,090,000,000	513,816,223	5,044,077,946	3,525,107,105			
Direct Borrowings from Other Financial Institutions								
First Capital Treasuries Ltd. – Short Term Loan	107,169,408	-	2,029,204	109,198,612	-	7 Days		
First Capital Treasuries Ltd. – Short Term Loan	50,059,396	-	1,670,878	51,730,274	-	1 Months		
Acuity Securities Ltd. – Short Term Loan	32,652,985	-	1,292,602	33,945,587	-	1 Months		
B G Investments (Pvt) Ltd.	275,935,582	-	5,693,819	281,629,401	-	3 Months		
B G Capital (Pvt) Ltd.	225,577,781	-	5,456,308	231,034,088	-	3 Months		
B G International (Pvt) Ltd.	225,577,781	-	7,200,516	232,778,297	-	3 Months		
Nat Wealth – Short Term Loan	70,000,000	-	-	70,000,000	-	16 Days		
Siyapatha Finance Limited – Loan	286,517,151	-	10,033,017	296,550,168	-	3 Months		
First Capital Limited – Short Term Loan	379,387,290	100,000,000	7,396,983	486,784,273	-	16 Days		
	1,652,877,373	100,000,000	40,773,327	1,793,650,700	-			
Total for Company	10,221,087,448	7,125,891,896	1,235,551,552	10,374,404,067	8,208,126,804			
Trade Finance and Investments PLC								
Securitised Borrowings								
Sampath Bank PLC	650,660,426	948,746,742	280,798,310	1,331,365,123	548,840,355	48 months	Lease & HP receivables	
Bank of Ceylon	400,000,000	119,111,009	-	-	519,111,009	24 months	Lease & HP receivables	
Hatton National Bank PLC – Trust 1	-	247,939,599	-	-	247,939,599			
Hatton National Bank PLC – Trust 2	-	405,272,050	-	-	405,272,050			
Hatton National Bank PLC – Trust 3	-	265,598,132	-	-	265,598,132	36 months	Lease & HP receivables	
Hatton National Bank PLC – Trust 4	-	796,961,972	-	-	796,961,972			
Central Finance Company PLC	-	29,103,812	-	-	29,103,812	24 months		
Seylan Bank PLC	-	229,069,058	-	-	229,069,058	48 months	Lease & HP receivables	
	1,050,660,426	3,042,162,194	280,798,310	1,331,365,123	3,042,255,807			
Total for Group	11,271,747,874	10,168,054,090	1,516,349,832	11,705,769,190	11,250,382,610			

NOTES TO THE FINANCIAL STATEMENTS CONTD.

20.2 Changes in liabilities arising from financing activities (Securitised Borrowings, Syndicated Loans and Other Bank Facilities)

	Cash Flow			Non Cash Flows	
	Opening 1/4/2017 LKR	Loans Obtained LKR	Capital Repaid and Interest Net Movement LKR	Prepaid Expense Amortisation LKR	Closing 31/3/2018 LKR
Company					
Securitised Borrowings, Syndicated Loans and Other Bank Facilities	10,221,087,449	7,125,891,896	(9,138,852,541)	-	8,208,126,804
Group					
Securitised Borrowings, Syndicated Loans and Other Bank Facilities	11,271,747,874	10,168,054,090	(10,189,419,354)	-	11,250,382,610

21. DUE TO CUSTOMERS

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Time Deposits – Monthly	31,617,790,920	28,716,354,936	31,617,790,920	29,616,400,485
Time Deposits – Maturity	21,420,116,664	23,695,825,726	23,054,758,766	23,695,825,726
Savings Deposits	1,186,177,399	1,324,900,123	1,186,177,399	1,324,900,123
	54,224,084,983	53,737,080,785	55,858,727,085	54,637,126,334

22. DEBT INSTRUMENTS ISSUED

	Company/Group	
	2018 LKR	2017 LKR
Debentures (Note 22.1)	2,972,221,709	3,481,991,842
	2,972,221,709	3,481,991,842

22.1 Debentures

Type of Debenture	Face Value (LKR)	Frequency of Interest Payment	Issued Date	Maturity Date	2018	2017	
					Amortised Cost LKR	Amortised Cost LKR	
Unsecured Redeemable Subordinate Debentures	500,000,000	20%	Quarterly	19 February 2013	18 February 2018	-	525,000,000
Rated, Subordinated, Guaranteed, Redeemable Debentures	1,000,000,000	10.5%	Quarterly	1 June 2015	30 May 2020	1,001,933,470	990,710,457
Rated, Guaranteed, Subordinated, Redeemable Debentures (Type A)	2,000,000,000	10.40%	Semi Annually	10 December 2015	9 December 2020	1,970,288,239	1,966,281,385
Rated, Guaranteed, Subordinated, Redeemable Debentures (Type B)		6 months gross treasury bill rate + 1.50%					
						2,972,221,709	3,481,991,842

22.2 Changes in liabilities arising from financing activities (Debentures)

	Cash Flow		Non Cash Flows		Closing 31/3/2018 LKR
	Opening 1/4/2017 LKR	Debentures Capital Repaid LKR	Debenture Interest Net Movement LKR	Prepaid Expense Amortisation LKR	
Debts Instruments Issued	3,481,991,842	(500,000,000)	(52,067,690)	42,297,557	2,972,221,709

23. OTHER FINANCIAL LIABILITIES

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Trade payables	2,384,977,198	2,129,672,583	2,915,074,455	2,362,305,725
Dividend payable	2,521,102	155,118,092	3,936,137	156,693,843
Other	12,060,166	13,571,184	120,823,064	74,753,562
	2,399,558,467	2,298,361,860	3,039,833,657	2,593,753,131

24. OTHER LIABILITIES

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
VAT payables	491,285,243	401,717,142	504,927,663	418,911,545
Advances received against real estate stock	10,659,274	13,250,522	10,659,274	13,250,522
Deferred revenue on land sale income	18,377,646	28,942,686	18,309,493	28,942,686
	520,322,162	443,910,349	533,896,429	461,104,753

25. POST EMPLOYMENT BENEFIT OBLIGATIONS

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
As at the 1 April	98,863,353	84,564,979	110,022,141	93,837,608
Amount charged for the year (Note 25.1)	36,069,386	33,784,456	39,497,618	36,685,253
Payments made during the year	(17,415,656)	(8,420,875)	(19,984,406)	(8,508,375)
Actuarial gains/(losses) for the year	38,316,577	(11,065,207)	36,860,171	(11,992,345)
As at 31 March	155,833,660	98,863,353	166,395,524	110,022,141

25.1 Expenses on Defined Benefit Plan

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Current service cost for the year	23,513,740	23,636,542	25,602,918	25,563,713
Interest cost for the year	12,555,646	10,147,914	13,894,700	11,121,540
	36,069,386	33,784,456	39,497,618	36,685,253

NOTES TO THE FINANCIAL STATEMENTS CONTD.

25.2 Assumptions

	Company		Subsidiary (Trade Finance and Investment PLC)	
	2018 %	2017 %	2018 %	2017 %
Discount rate	10.30%	12.7 %	11.00 %	12.0 %
Salary scale	9.00 %	9.00 %	10 %	10 %
Staff turnover				
20-30 years	10.00 %	10.00 %	15.00 %	15.00 %
35 years	7.50 %	7.50 %		
40 years	5.00 %	5.00 %		
45 years	2.50 %	2.50 %		
50 years	1.00 %	1.00 %		
Mortality	GA 1983 Mortality Table		GA 1983 Mortality Table	
Retirement age	55 years		55 years	

An actuarial valuation of the gratuity of the Company and its Subsidiary was carried out as at 31 March 2018 by Piyal S. Goonetilleke and Associates, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method".

25.3 The following table demonstrates the sensitivity to a reasonable possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement, in respect of the year ended 31 March 2018.

Increase/(Decrease) in Salary Scale	Increase/(Decrease) in Discount Rate	Company		Group	
		Increase/(Decrease) in PVDBO			
		2018 LKR	2017 LKR	2018 LKR	2017 LKR
	(-1%)	17,680,452	10,045,951	18,536,109	10,378,972
	1%	(14,980,560)	(8,602,315)	(15,703,225)	(8,907,218)
(-1%)		(14,985,701)	(8,775,391)	(15,698,507)	(9,135,594)
1%		17,358,451	10,091,643	18,187,314	10,477,243

25.4 Expected Benefit Payout in the Future Years for Retirement Gratuity

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Within next 12 months	18,033,826	8,645,326	18,533,546	12,674,418
Between 1 to 5 years	110,374,021	100,138,623	117,292,273	102,385,323
Beyond 5 years	224,509,516	207,970,741	242,824,705	212,853,738

26. DEFERRED TAXATION

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

Company	Statement of Financial Position		Statement of Profit or Loss		Statement of Other Comprehensive Income	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Deferred tax liabilities						
Capital allowances for tax purposes	821,763,474	651,751,264	170,012,210	(155,507,957)	-	-
Revaluation of land and building	32,574,669	11,715,745	-	-	20,858,925	-
Revaluation of investment property	8,577,648	-	8,577,648	-	-	-
	862,915,791	663,467,009	178,589,858	(155,507,957)	20,858,925	-
Deferred tax assets						
Post employment benefit obligations	(43,656,175)	(27,681,739)	(5,245,794)	(7,101,523)	(10,728,642)	3,098,258
Temporary difference on provisions	(2,079,398,565)	(1,380,483,058)	(698,915,507)	(623,768,915)	-	-
Temporary difference on investment tax credit	-	-	-	279,940,863	-	-
Tax losses	-	-	-	72,097,520	-	-
	(2,123,054,740)	(1,408,164,797)	(704,161,301)	(278,832,055)	(10,728,642)	3,098,258
Deferred income tax charge/(reversal)						
Statement of profit or loss	-	-	(525,571,443)	(434,340,012)	-	-
Statement of other comprehensive income	-	-	-	-	10,130,283	3,098,258
Net deferred tax asset	(1,260,138,949)	(744,697,789)				

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

Group	Statement of Financial Position		Statement of Profit or Loss		Statement of Other Comprehensive Income	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Deferred tax liabilities						
Capital allowances for tax purposes	819,963,293	646,292,208	173,671,085	(154,850,997)	-	-
Available for sale financial assets	398,603	387,703	-	89,698	10,901	-
Revaluation of land and building	32,574,669	11,715,745	-	-	20,858,924	-
Revaluation of investment property	8,577,648	-	8,577,648	-	-	-
	861,514,213	658,395,656	182,248,733	(154,761,299)	20,869,826	-

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Group	Statement of Financial Position		Statement of Profit or Loss		Statement of Other Comprehensive Income	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Deferred tax assets						
Post employment benefit obligations	(46,613,497)	(30,806,200)	(5,486,449)	(7,889,247)	(10,320,848)	3,357,857
Temporary difference on provisions	(2,079,398,565)	(1,380,483,058)	(698,915,507)	(631,509,732)	-	-
Temporary difference on investment tax credit	-	-	-	279,940,863	-	-
Tax losses	-	-	-	72,097,520	-	-
Temporary difference on fair value reserve	-	-	-	-	-	-
	(2,126,012,062)	(1,411,289,258)	(704,401,956)	(287,360,596)	(10,320,848)	3,357,857
Deferred income tax charge/(reversal)						
Statement of profit or loss	-	-	(522,153,223)	(442,121,895)	-	-
Statement of other comprehensive income	-	-	-	-	10,548,978	3,357,857
Net deferred tax (asset)/liability	(1,264,497,849)	(752,893,603)	-	-	-	-

ACCOUNTING POLICY

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

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and liabilities are off set if legally enforceable right exists to set off current tax assets against current income tax liabilities and deferred tax relates to the same taxable entity and the same taxation authority.

27. STATED CAPITAL

27.1 Issued and Fully Paid-Ordinary Shares

	Company/Group 2018		Company/Group 2017	
	No. of Shares	LKR	No. of Shares	LKR
At the beginning of the year	318,074,365	2,150,640,315	318,074,365	2,150,640,315
At the end of the year	318,074,365	2,150,640,315	318,074,365	2,150,640,315

27.2 Rights of Shareholders

The holders of ordinary shares confer right to receive dividends as declared from time to time and are entitled to one vote per share at meeting.

All shares rank equally with regard to the Company's residual assets.

28. RETAINED EARNINGS

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
As at 1 April	5,749,765,773	3,896,527,996	6,154,648,604	4,087,708,290
Profit for the year	2,350,693,513	2,902,977,970	2,540,571,760	3,115,473,964
Other comprehensive income net of tax	(27,587,935)	7,966,949	(26,542,988)	8,632,352
Dividend paid (Note 41)	(318,074,365)	(477,111,548)	(318,074,365)	(477,111,548)
Effect of change in the equity interest in subsidiary	-	-	93,097	16,775,185
Transfers to statutory reserve fund (Note 29)	(470,138,703)	(580,595,594)	(491,402,513)	(596,829,639)
As at 31 March	7,284,658,283	5,749,765,773	7,859,293,595	6,154,648,604

29. RESERVES

	Company				Total LKR
	Revaluation Reserve LKR	General Reserve (Note 29.1) LKR	Statutory Reserve (Note 29.2) LKR	Available for Sale Reserve LKR	
As at 1 April 2017	192,547,399	58,751,125	2,103,936,254	(7,826,371)	2,347,408,407
Other comprehensive income for the year net of tax	(10,574,925)	-	-	21,166,200	10,591,275
Transfers to/(from) during the year	-	-	470,138,703	-	470,138,703
As at 31 March 2018	181,972,474	58,751,125	2,574,074,957	13,339,829	2,828,138,385

NOTES TO THE FINANCIAL STATEMENTS CONTD.

	Group					Total LKR
	Revaluation Reserve LKR	General Reserve (Note 29.1) LKR	Statutory Reserve (Note 29.2) LKR	Available for Sale Reserve LKR		
As at 1 April 2017	192,547,399	58,751,125	2,143,831,916	(8,706,142)		2,386,424,298
Other comprehensive income for the year net of tax	(10,574,925)	-	-	21,211,928		10,637,003
Transfers to/(from) during the year	-	-	491,402,513	-		491,402,513
As at 31 March 2018	181,972,475	58,751,125	2,635,234,429	12,505,786		2,888,463,815

29.1 General reserve represents amounts set aside by the Board of Directors from time to time which is available for general application at the discretion of the Board.

29.2 Statutory Reserve Fund is a capital reserve which contains profits transferred as required by Section 3 (b) (ii) of Central Bank Direction No. 01 of 2003.

30. GROSS INCOME

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Interest income (Note 30.1)	20,141,562,070	19,048,827,751	21,724,831,839	19,927,371,419
Fee and commission income (Note 31)	1,133,700,659	809,052,723	1,209,328,198	860,220,186
Net income from real estate sales (Note 32)	25,971,410	58,362,612	25,971,410	58,362,612
Net gain from trading (Note 33)	64,676,565	65,181,220	64,676,565	65,181,220
Other operating income (Note 34)	798,366,289	699,707,680	601,719,947	604,013,900
Change in fair value of investment property (Note 16)	246,352,651	243,390,125	246,352,651	243,390,125
	22,410,629,644	20,924,522,112	23,872,880,610	21,758,539,464

30.1 Interest Income

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Financial Assets at Amortised Cost				
Reverse repurchase agreements	188,968,363	174,050,694	192,209,012	174,050,694
Placement with financial institutions	389,370,088	182,197,908	392,069,815	186,821,012
Loans and advances	11,596,060,394	11,827,080,829	11,741,082,447	11,843,638,914
Lease rentals receivable and stock out on hire	7,681,173,954	6,663,730,266	9,098,729,671	7,499,702,836
Financial Assets at Fair value				
Financial instruments – Available for sale	-	5,700,193	-	27,090,102
Financial instruments – Held for trading	285,989,271	196,067,861	300,740,894	196,067,861
Total interest income	20,141,562,070	19,048,827,751	21,724,831,839	19,927,371,419

30.2 Interest Expenses

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Due to banks	1,330,663,085	1,193,380,345	1,606,716,070	1,251,382,429
Due to customers	7,571,626,082	6,212,170,555	7,761,754,702	6,339,217,506
Debt instruments issued	404,666,671	406,068,539	404,666,671	406,068,539
Total interest expenses	9,306,955,840	7,811,619,440	9,773,137,444	7,996,668,474
Net interest income	10,834,606,230	11,237,208,310	11,951,694,395	11,930,702,945

31. FEE AND COMMISSION INCOME/EXPENSE

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Fee and commission income				
Credit related fees and commissions	169,575,044	89,830,250	245,202,583	104,098,326
Service charges	964,125,615	719,222,473	964,125,615	756,121,860
Total fee and commission income	1,133,700,659	809,052,723	1,209,328,198	860,220,186

32. NET INCOME FROM REAL ESTATE

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Proceeds from real estate sales	63,371,726	259,970,413	63,371,726	259,970,413
Cost of sales	(37,400,316)	(201,607,799)	(37,400,316)	(201,607,799)
	25,971,410	58,362,612	25,971,410	58,362,612

33. NET GAIN FROM TRADING

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Net gain from financial investments – Held for trading	64,676,565	65,181,220	64,676,565	65,181,220
	64,676,565	65,181,220	64,676,565	65,181,220

NOTES TO THE FINANCIAL STATEMENTS CONTD.

34. OTHER OPERATING INCOME

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Profit on disposal of property and equipment	2,516,868	-	2,862,543	1,509,561
Sundry income from real estate	2,889,521	4,150,465	2,889,521	4,150,465
Bad debt recoveries	371,754,274	207,226,799	377,856,969	214,126,739
Rent income	36,743,616	34,842,369	36,743,616	34,842,368
Dividend income	213,420,918	113,434,508	9,931,354	13,350,365
Income from associate disposal	-	272,443,495	-	265,999,009
Other sundry income	90,008,441	67,610,045	90,403,294	70,535,394
Investment property disposal gain	81,032,650	-	81,032,650	-
Total other operating income	798,366,289	699,707,680	601,719,947	604,013,900

35. IMPAIRMENT CHARGES OF LOANS AND LEASES, HIRE PURCHASE AND FINANCIAL ASSETS

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Loans and advances	2,664,505,902	2,553,035,927	2,670,101,585	2,553,494,585
Lease rentals receivable and stock out on hire	534,083,022	288,994,123	600,958,909	321,962,945
Available for sale – Financial assets	-	9,727,982	-	9,727,982
Investment in associate	-	21,817,786	-	12,474,753
	3,198,672,986	2,873,575,818	3,271,060,494	2,897,660,265

36. PERSONNEL COSTS

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Salaries and bonus	1,870,285,387	1,932,671,674	1,984,059,058	2,019,325,671
Contribution to defined contribution plan				
Contribution to Employees Provident Fund (EPF)	174,553,023	176,061,210	174,553,023	183,547,608
Contribution to Employees Trust Fund (ETF)	43,637,253	43,993,135	56,692,201	45,864,734
Contribution to defined benefit plan (Note 25)	36,069,386	33,785,456	39,497,618	36,686,254
Traveling and subsistence	739,153,996	770,557,032	739,153,996	770,557,032
Other allowances and staff related expenses	284,388,667	332,042,521	302,257,139	332,042,521
	3,148,087,712	3,289,111,028	3,296,213,032	3,388,023,818

37. OTHER OPERATING EXPENSES

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Directors' emoluments	8,551,500	8,310,000	10,986,500	8,845,000
Auditors' remuneration – Audit	5,080,000	4,792,000	6,015,000	5,642,000
– Non-audit	2,591,871	1,787,873	3,707,240	2,616,200
Professional and legal expenses	154,331,003	122,353,610	154,331,003	122,353,610
Office administration and establishment expenses	1,622,344,339	1,589,884,966	1,828,414,318	1,697,636,731
Advertising and business promotion expenses	297,565,518	291,305,603	310,186,221	291,305,602
	2,090,464,231	2,018,434,052	2,313,640,283	2,128,393,143

38. SHARE OF LOSS OF ASSOCIATES

	Group 2018 LKR	Group 2017 LKR
Share of loss of associates before income tax	-	(231,794)
Income tax on share of operating results of associates	-	-
Share of loss of associates net of income tax	-	(231,794)

39. TAXATION

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

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Statement of Profit or Loss				
Current income tax				
Income tax for the year	1,698,146,958	1,372,559,627	1,858,604,757	1,481,907,842
Over provision of current taxes in respect of previous years	(43,450,297)	69,364,841	(31,877,340)	64,852,593
Dividend tax	-	-	22,653,124	12,924,288
Deferred tax				
Deferred taxation charge/(reversal) (Note 26)	(525,571,443)	(434,340,012)	(522,153,223)	(442,121,894)
	1,129,125,218	1,007,584,456	1,327,227,317	1,117,562,822
Statement of Other Comprehensive Income				
Deferred tax related to other comprehensive income (Note 26)	10,130,283	3,098,258	10,548,978	3,357,857
Income tax charged directly statement of other comprehensive income	10,130,283	3,098,258	10,548,978	3,357,857

NOTES TO THE FINANCIAL STATEMENTS CONTD.

39.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the years ended 31 March 2018 and 2017 is as follows:

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Accounting profit before tax	3,479,818,729	3,910,562,426	3,869,285,425	4,234,075,810
Non-deductible expenses and capital portion of lease rentals	11,400,733,394	11,648,067,800	13,010,292,912	13,286,193,904
Exempt Income	(668,571,242)	(755,847,519)	(464,693,142)	(655,239,167)
Allowable expenses including depreciation allowances on lease hold assets	(8,147,170,317)	(8,900,995,251)	(9,777,011,063)	(10,572,713,751)
Total profit from businesses (leasing and non-leasing)	6,064,810,564	5,901,787,455	6,637,874,132	6,292,316,796
Loss on leasing business	-	-	-	-
Total statutory income	6,064,810,564	5,901,787,455	6,637,874,132	6,292,316,796
Qualifying payments – Deductions under section 34	-	(999,788,796)	-	(999,788,796)
Taxable income	6,064,810,564	4,901,998,659	6,637,874,132	5,292,528,000
Income tax expense	1,698,146,958	1,372,559,627	1,858,604,757	1,481,907,842
Effective tax rate	33.70%	23.99%	34.54%	24.56%

40. EARNINGS PER ORDINARY SHARE

40.1 BASIC EARNINGS PER ORDINARY SHARE

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

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
For the year ended 31 March				
Amounts used as the numerators				
Profit attributable to ordinary shareholders for basic earnings per share	2,350,693,513	2,902,977,970	2,540,571,760	3,115,473,964
Number of ordinary shares used as denominators for basic earnings per share				
Weighted average number of ordinary shares	318,074,365	318,074,365	318,074,365	318,074,365
Basic earnings per ordinary share (LKR)	7.39	9.13	7.99	9.79

40.2 DILUTED EARNINGS PER ORDINARY SHARE

Diluted EPS is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares in to ordinary shares.

Number of Ordinary Shares Used as Denominators for Diluted Earnings per share

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
For the year ended 31 March				
Amounts Used as the Numerators:				
Profit attributable to Ordinary Shareholders for Basic Earnings Per Share	2,350,693,513	2,902,977,970	2,540,571,760	3,115,473,964
Weighted Average Number of Ordinary Shares	318,074,365	318,074,365	318,074,365	318,074,365
Diluted Earnings per ordinary share (LKR)	7.39	9.13	7.99	9.79

41. DIVIDEND PAID

41.1 Declared and Paid During the Year

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Dividends on ordinary shares				
Final Dividend for 2016/17 – LKR 1/- per share (2017 – Interim dividend for 2016/17 LKR 0.5/- per share and 2015/16 final LKR 1/- per share.)	318,078,365	477,111,548	318,078,365	477,111,548
	318,078,365	477,111,548	318,078,365	477,111,548

42. OPERATING SEGMENTS

For management purposes, the Group is organised into seven operating segments based on services offered to customers as follows. The following table presents income and profit and certain asset and liability information regarding the Group's operating segments.

42.1

Group – 2018	Finance Lease LKR	Hire Purchase LKR	Microfinance and SME Loans LKR	Pawning LKR	Term Loan LKR	Revolving Loans LKR	Investments LKR	Unallocated LKR	Total LKR
Interest income	7,575,071,620	1,523,658,051	5,202,190,865	746,836,162	4,163,128,592	1,628,926,828	885,019,721		21,724,831,839
Fee based income	506,193,831	111,040,400	162,415,392	7,568,068	303,398,432	118,712,126			1,209,328,198
Net income from real estate sales								25,971,410	25,971,410
Net gain from trading							64,676,565		64,676,565
Other operating income	161,817,016	32,548,049	111,128,059	15,953,750	88,931,839	34,796,777	9,931,354	146,613,104	601,719,947
Change in fair value of investment property								246,352,651	246,352,651
Total revenue	8,243,082,468	1,667,246,500	5,475,734,316	770,357,980	4,555,458,862	1,782,435,681	959,627,640	418,937,165	23,872,880,610
Segmental result before depreciation and amortisation	1,795,819,979	363,222,688	1,192,931,542	167,828,510	992,442,338	388,317,552	209,062,386	91,268,738	5,200,893,733
Depreciation and amortisation									(320,611,266)
Segments results									4,880,282,467
VAT on financial services									(1,010,997,042)
Profits from operations									3,869,285,425
Income tax expenses									(1,327,227,317)
Net profit for the year									(2,542,058,108)

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Group – 2018	Finance Lease LKR	Hire Purchase LKR	Microfinance and SME Loans LKR	Pawning LKR	Term Loan LKR	Revolving Loans LKR	Investments LKR	Unallocated LKR	Total LKR
Segment asset	31,736,375,151	6,573,939,434	12,280,484,740	4,070,736,414	16,567,949,614	2,801,264,789	7,572,206,035	8,516,046,613	90,119,002,790
Total assets									90,119,002,790
Segment liabilities	27,192,161,488	5,632,641,468	10,522,087,750	3,487,862,789	14,195,646,456	2,400,162,090	6,487,969,981	7,296,665,532	77,215,197,555
Total liabilities									77,215,197,555

42.1

Group – 2017	Finance Lease LKR	Hire Purchase LKR	Microfinance and SME Loans LKR	Pawning LKR	Term Loan LKR	Revolving Loans LKR	Investments LKR	Unallocated LKR	Total LKR
Interest income	6,366,957,427	1,132,745,409	6,045,060,200	365,499,775	3,011,992,062	2,421,086,878	584,029,668	-	19,927,371,419
Fee based income and others	342,633,013	92,770,320	313,961,501	6,016,346	60,503,429	44,335,578	-	-	860,220,187
Net income from real estate sales	-	-	-	-	-	-	-	58,362,612	58,362,612
Net gain from trading	-	-	-	-	-	-	65,181,220	-	65,181,220
Other operating income	27,097,111	4,121,405	202,520,653	4,706,146	-	-	283,390,692	82,177,894	604,013,900
Change in fair value of investment property	-	-	-	-	-	-	-	243,390,125	243,390,125
Total revenue	6,736,687,552	1,229,637,134	6,561,542,353	376,222,266	3,072,495,491	2,465,422,456	932,601,581	383,930,632	21,758,539,464
Segmental result before depreciation and amortisation	1,660,148,478	282,253,984	1,599,879,057	91,733,025	749,156,361	601,135,761	227,393,143	93,612,530	5,305,312,335
Depreciation and amortisation									(239,673,754)
Segments results									5,065,638,581
VAT on financial services									(831,330,977)
Profits from operations									4,234,307,604
Share of loss of associates									(231,794)
Profit before taxation									4,234,075,810
Income tax expenses									(1,117,562,829)
Net profit for the year									3,116,512,981
Segment asset	27,665,136,520	5,816,402,971	14,933,086,813	1,990,350,012	17,316,655,355	3,958,595,703	6,675,976,346	7,365,166,314	85,721,370,031
Total assets									85,721,370,031
Segment liabilities	24,213,216,022	5,090,660,641	13,069,809,239	1,742,003,867	15,155,967,749	3,464,661,483	5,842,980,652	6,446,176,865	75,025,476,519
Total liabilities									75,025,476,519

43. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

43.1

Company	At Fair Value		At Amortised Cost	
	HFT LKR	AFS LKR	L&R LKR	Total LKR
As at 31 March 2018				
Assets				
Cash and bank balances	-	-	1,695,964,449	1,695,964,449
Reverse repurchase agreements	-	-	2,210,648,881	2,210,648,881
Placements with financial institution	-	-	2,284,987,693	2,284,987,693

Company	At Fair Value		At Amortised Cost	
	HFT LKR	AFS LKR	L&R LKR	Total LKR
As at 31 March 2018				
Financial instruments – Held for trading	2,646,859,663	-	-	2,646,859,663
Loans and receivables	-	-	35,198,129,656	35,198,129,656
Lease rentals receivable and stock out on hire	-	-	31,707,315,784	31,707,315,784
Financial Instruments – Available for sale	-	182,510,479	-	182,510,479
Other financial assets	-	-	712,714,972	712,714,972
Total financial assets	2,646,859,663	182,510,479	73,809,761,435	76,693,131,577

Company	At Amortised Cost	
	Other Financial Liabilities LKR	Total LKR
As at 31 March 2018		
Liabilities		
Due to banks	8,581,999,107	8,581,999,107
Due to customers	54,224,084,983	54,224,084,983
Debt instruments issued and other borrowed funds	2,972,221,709	2,972,221,709
Other financial liabilities	2,399,558,467	2,399,558,467
Total financial liabilities	68,177,864,266	68,177,864,266

Group	At Fair Value		At Amortised Cost	
	HFT LKR	AFS LKR	L&R LKR	Total LKR
As at 31 March 2018				
Assets				
Cash and bank balances	-	-	1,746,910,928	1,746,910,928
Reverse repurchase agreements	-	-	2,302,257,521	2,302,257,521
Placement with financial institutions	-	-	2,014,315,126	2,014,315,126
Financial investments – Held for trading	2,646,859,663	-	-	2,646,859,663
Loans and receivables	-	-	35,720,435,557	35,720,435,557
Lease rentals receivable and stock out on hire	-	-	38,310,314,585	38,310,314,585
Financial instruments – Available for sale	-	245,706,559	-	245,706,559
Other financial assets	-	-	712,714,972	712,714,972
Total financial assets	2,646,859,663	245,706,559	80,806,948,689	83,699,514,911

HFT – Held for Trading	HTM – Held to Maturity	L&R – Loans and Receivables	AFS – Available for Sale
------------------------	------------------------	-----------------------------	--------------------------

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Group	At Amortised Cost	
As at 31 March 2018	Other Financial Liabilities LKR	Total LKR
Liabilities		
Due to banks	11,874,786,015	11,874,786,015
Due to customers	55,858,727,085	55,858,727,085
Debt instruments issued and other borrowed funds	2,972,221,709	2,972,221,709
Other financial liabilities	3,039,833,657	3,039,833,657
Total financial liabilities	73,745,568,466	73,745,568,466

43.2

Company	At Fair Value		At Amortised Cost	
As at 31 March 2017	HFT LKR	AFS LKR	L&R LKR	Total LKR
Assets				
Cash and bank balances	-	-	1,851,852,880	1,851,852,880
Reverse repurchase agreements	-	-	2,061,144,916	2,061,144,916
Placements with financial institution	-	-	1,507,448,249	1,507,448,249
Financial instruments – Held for trading	2,225,869,939	-	-	2,225,869,939
Loans and advances	-	-	38,058,297,680	38,058,297,680
Lease rentals receivable and stocks out on hire	-	-	30,183,916,298	30,183,916,298
Financial Investments – Available for sale	-	309,504,682	-	309,504,682
Other financial assets	-	-	762,642,327	762,642,327
Total financial assets	2,225,869,939	309,504,682	74,425,302,350	76,960,676,971

Company	At Amortised Cost	
As at 31 March 2017	Other Financial Liabilities LKR	Total LKR
Liabilities		
Due to banks	10,792,365,766	10,792,365,766
Due to customers	53,737,080,785	53,737,080,785
Debt instruments issued and other borrowed funds	3,481,991,842	3,481,991,842
Other financial liabilities	2,298,361,861	2,298,361,861
Total financial liabilities	70,309,800,253	70,309,800,253

Group	At Fair Value		At Amortised Cost	
	HFT LKR	AFS LKR	L&R LKR	Total LKR
As at 31 March 2017				
Assets				
Cash and bank balances	-	-	1,947,456,919	1,947,456,919
Reverse repurchase agreements	-	-	2,061,144,916	2,061,144,916
Placement with financial institution	-	-	1,518,067,107	1,518,067,107
Financial investments – Held for trading	2,225,869,939	-	-	2,225,869,939
Loans and advances	-	-	38,198,687,882	38,198,687,882
Lease rentals receivable and stocks out on hire	-	-	33,481,539,491	33,481,539,491
Financial Investments – Available for sale	-	406,336,986	-	406,336,986
Other financial assets	-	-	762,642,327	762,642,327
Total financial assets	2,225,869,939	406,336,986	77,969,538,642	80,601,745,567

Group	At Amortised Cost	
	Other Financial Liabilities LKR	Total LKR
As at 31 March 2017		
Liabilities		
Due to banks	11,956,248,752	11,956,248,752
Due to customers	54,637,126,334	54,637,126,334
Debt instruments issued and other borrowed funds	3,481,991,842	3,481,991,842
Other financial liabilities	2,593,753,131	2,593,753,131
Total financial liabilities	72,669,120,059	72,669,120,059

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Recorded at Fair Value

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

Financial Instruments Held for Trading

Financial instruments Held for Trading are valued using a valuation technique and consists of government debt securities, investments in unit trust and listed equity securities.

The Company values the government securities using discounted cash flow valuation models which incorporate observable data. Observable inputs include assumptions regarding current rates of interest published by Central Bank of Sri Lanka, daily unit traded prices, broker statements and market data published by Colombo Stock Exchange with regard to quoted share price.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Financial Instruments – Available for Sale

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

44.1 Determination of Fair Value and Fair Value Hierarchy

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

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

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

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

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

As at 31 March 2018	Company				Group			
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
Financial assets								
Financial investments – Held for trading								
Government of Sri Lanka Treasury Bills	2,489,999,998	-	-	2,489,999,998	2,489,999,998	-	-	2,489,999,998
Quoted equities	132,065,766	-	-	132,065,766	132,065,766	-	-	132,065,766
Investments in Unit Trusts	24,793,899	-	-	24,793,899	24,793,899	-	-	24,793,899
Financial investments – Available for sale								
Government of Sri Lanka Treasury Bonds	-	-	-	-	-	-	-	-
Government of Sri Lanka Treasury Bills	-	-	-	-	56,641,074	-	-	56,641,074
Quoted equities	178,200,000	-	-	178,200,000	182,304,139	-	-	182,304,139
Unquoted equities	-	-	4,310,479	4,310,479	-	-	4,838,346	4,838,346
Unit Trusts	-	-	-	-	1,923,000	-	-	1,923,000
Total financial assets	2,825,059,663	-	4,310,479	2,829,370,142	2,887,727,875	-	4,838,346	2,892,566,221
Non-financial assets measured at fair value								
Freehold land	-	-	746,633,985	746,633,985	-	-	746,633,985	746,633,985
Building and Building integrals	-	-	92,535,320	92,535,320	-	-	92,535,320	92,535,320
Investment property	-	-	1,983,431,494	1,983,431,494	-	-	1,983,431,494	1,983,431,494
	-	-	2,822,600,798	2,822,600,798	-	-	2,822,600,798	2,822,600,798

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

As at 31 March 2017	Company				Group			
	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR	Level 1 LKR	Level 2 LKR	Level 3 LKR	Total LKR
Financial Assets								
Financial investments – Held for trading								
Government of Sri Lanka Treasury Bills	1,805,036,512	-	-	1,805,036,512	1,805,036,512	-	-	1,805,036,512
Quoted equities	201,357,323	-	-	201,357,323	201,357,323	-	-	201,357,323
Investments in Unit Trusts	219,476,105	-	-	219,476,105	219,476,105	-	-	219,476,105
Financial Investments – Available for sale								
Government of Sri Lanka Treasury Bonds	49,144,859	-	-	49,144,859	49,144,859	-	-	49,144,859
Government of Sri Lanka Treasury Bills	-	-	-	-	87,278,862	-	-	87,278,862
Quoted equities	157,033,800	-	-	157,033,800	161,054,853	-	-	161,054,853
Unquoted equities	-	-	103,326,023	103,326,023	-	-	106,948,446	106,948,446
Investments in Unit Trusts	-	-	-	-	1,909,967	-	-	1,909,967
Total financial assets	2,432,048,599	-	103,326,023	2,535,374,622	2,525,258,481	-	106,948,446	2,632,206,927
Non-financial assets measured at fair value								
Freehold land	-	-	492,973,800	492,973,800	-	-	492,973,800	492,973,800
Building and building integrals	-	-	83,159,398	83,159,398	-	-	83,159,398	83,159,398
Investment property	-	-	1,461,413,125	1,461,413,125	-	-	1,461,413,125	1,461,413,125
	-	-	2,037,546,323	2,037,546,323	-	-	2,037,546,323	2,037,546,323

There were no financial liabilities recorded at fair value as at 31 March 2018 and 31 March 2017.

44.2 Movements in Level 3 Financial Instruments Measured at Fair Value

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Equity Securities				
As at 1 April	103,326,023	4,310,479	106,948,446	4,838,346
Available for sale financial assets	(99,015,544)	-	(102,110,100)	-
Reclassified from Investments in Associates	-	99,015,544	-	102,110,100
As at 31 March	4,310,479	103,326,023	4,838,346	106,948,446

NOTES TO THE FINANCIAL STATEMENTS CONTD.

44.3 Movements in Level 3 Non-Financial Assets Measured at Fair Value

	Company/Group		
	Freehold Land LKR	Building and Building Integrals LKR	Investment Property LKR
Balance as at 1 April 2016	417,712,400	84,151,000	815,024,000
Net deposit/Transfers	(143,000,000)	-	143,000,000
Acquired during the year	208,161,400	642,260	259,999,000
Fair value recognised during the year	10,100,000	-	243,390,125
Depreciation	-	(1,633,862)	-
Balance as at 31 March 2017	492,973,800	83,159,398	1,461,413,125
Net deposit/Transfers	(13,050,000)	-	13,050,000
Acquired during the year	256,426,185	11,325,869	425,615,717
Fair value recognised during the year	10,284,000	-	246,352,651
Disposals	-	-	(162,999,999)
Depreciation	-	(1,949,947)	-
Balance as at 31 March 2018	746,633,985	92,535,320	1,983,431,494

44.4 Estimated Fair Value of financial assets and liabilities carried at other than fair value

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

Company		2018		2017	
	Level	Carrying Amount LKR	Fair Value LKR	Carrying Amount LKR	Fair Value LKR
Financial assets					
Cash and bank balances		1,695,964,449	1,695,964,449	1,851,852,880	1,851,852,880
Reverse repurchase agreements		2,210,648,881	2,210,648,881	2,061,144,916	2,061,144,916
Placement with financial institution		2,284,987,693	2,284,987,693	1,507,448,249	1,507,448,249
Loans and receivables		35,198,129,656	34,886,808,193	38,058,297,680	38,707,257,939
Lease rentals receivable and stock out on hire	Level 2	31,707,315,784	30,400,566,120	30,183,916,298	28,762,426,813
Other financial assets	Level 2	712,714,972	712,714,972	762,642,327	762,642,327
Total financial assets		73,809,761,435	72,191,690,308	74,425,302,351	73,652,773,124
Financial liabilities					
Due to banks	Level 2	8,581,999,107	8,609,176,658	10,792,365,765	10,750,284,250
Due to customers	Level 2	54,224,084,983	54,172,613,416	53,737,080,785	53,526,122,107
Debt instruments issued	Level 2	2,972,221,709	2,982,566,261	3,481,991,842	3,224,800,398
Other financial liabilities		2,399,558,467	2,399,558,467	2,298,361,860	2,298,361,860
Total financial liabilities		68,177,864,265	68,163,914,802	70,309,800,252	69,799,568,614

Group		2018		2017	
	Level	Carrying Amount LKR	Fair Value LKR	Carrying Amount LKR	Fair Value LKR
Financial assets					
Cash and bank balances		1,746,910,928	1,746,910,928	1,947,456,919	1,947,456,919
Reverse repurchase agreements		2,302,257,521	2,302,257,521	2,061,144,916	2,061,144,916
Placement with financial institution		2,014,315,126	2,014,315,126	1,518,067,107	1,518,067,107
Loans and receivables	Level 2	35,720,435,557	35,400,228,885	38,198,687,882	38,847,648,136
Lease rentals receivable and stock out on hire	Level 2	38,310,314,585	36,887,931,976	33,481,539,491	32,060,050,006
Other financial assets		712,714,972	712,714,972	762,642,327	762,642,327
Total financial assets		80,806,948,689	79,064,359,408	77,969,538,642	77,197,009,410
Financial liabilities					
Due to banks	Level 2	11,874,786,012	11,901,963,567	11,956,248,752	11,914,167,237
Due to customers	Level 2	55,858,727,085	55,807,185,565	54,637,126,334	54,426,167,656
Debt instruments issued and other borrowed funds	Level 2	2,972,221,709	2,982,566,261	3,481,991,842	3,224,800,398
Other financial liabilities		3,039,833,657	3,039,833,657	2,593,753,131	2,593,753,131
Total financial liabilities		73,745,568,463	73,731,549,050	72,669,120,059	72,158,888,421

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

Assets for which Fair Value Approximates Carrying Value

“For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to fixed deposits, certificate of deposits and savings deposits without a specific maturity.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

Fixed Rate Financial Instruments

“Carrying amounts are considered as fair values for short term credit facilities. Loans and Advances with fixed interest rates were fair valued using market rates at which fresh loans were granted during the fourth quarter of the reporting year. Conversely, fixed deposits with original tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the fourth quarter of the reporting year. Interest rates based on Treasury Bond rates with similar tenors have been used to arrive at the fair value of debentures issued.

45. RISK MANAGEMENT

45.1 Introduction

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

NOTES TO THE FINANCIAL STATEMENTS CONTD.

The Company is primarily exposed to credit risk, interest rate risk, operational risk and liquidity risk the management of which is explained below.

45.1.1 Risk Management Structure

The Board of Directors is responsible for establishing the overall risk management framework within the Company. Integrated Risk Management Committee (IRMC), which is a sub-committee of the board has been established with delegated risk management responsibilities. The IRMC plays a vital role in establishing best practices in relation to risk policies and practices within the Company.

The activities of the Company's risk management system take place at three broad levels of hierarchy, as follows:

Strategic Level

Overall financial risks are monitored at the IRMC level, and the decisions made by the IRMC are communicated to the Board of Directors. The Board ratifies the risk policies and directions issued to the management by the IRMC.

Management Level

Development and implementation of underlying procedures, processes and controls are carried out at the Management Level. Assuring the compliance with laid down policies, procedures and controls and reviewing the outcomes of operations, and measuring and analysing risk related information is also performed at this level.

Operational Level

The individuals accountable for the risk exposures relating to his or her responsibilities are required to comply with approved policies, procedures and controls.

45.1.2 Risk Measurement and Reporting System

A risk management process has been developed and is continuously reviewed by the IRMC together with the operational management. The Company has established four risk sub committees, namely Credit, Legal and Recoveries sub-committee, Fixed Deposits sub-committee, Human Resources sub-committee and Information Technology sub-committee to review operational risks related to each area. In addition the Assets and Liabilities Committee (ALCO) reviews market and liquidity risks. The effectiveness of these committees is assessed by the IRMC.

The risk sub committees comprise of selected members of the operational management, middle management and operational staff of each relevant department. These sub committees meet on a regular basis and are responsible for identifying and analysing risks. The identified risks are taken up for discussion at risk subcommittee meetings and the minutes of the subcommittee meetings are circulated among the members of the IRMC. The decisions and directives of the IRMC are communicated to the operational management through the sub committees for operationalization of such decisions and directives.

45.2 Credit Risk

Credit risk is the potential loss incurred in the event that a borrower fails to fulfil agreed obligations. The Company's credit risk arises mainly from various accommodations granted and could be identified as the most significant risk faced by the Company.

Mitigation

Credit is required to be granted according to the approved policies and procedures of the Company. Special attention is given to credit risk management in terms of analysing customer credit worthiness through rigorous customer investigation before and after credit facilities are provided. Repayment of accommodations granted is closely monitored by those responsible for granting various facilities as well as those directly responsible for recovery activities. Indicators have been developed to measure risks associated with credit which are reviewed on a continuous basis for the entire organisation as well as for each product and operational location.

Microfinance Loans and Abhiwurdhi SME Loans

Microfinance loans and Abhiwurdhi Loans form a substantial part of the loans and advances granted by the Company. As is the practice in general in the industry both in Sri Lanka and Internationally, Microfinance loans are granted without obtaining any security from the borrower. Abhiwurdhi Loans are granted mainly to Microfinance customers who have obtained Microfinance loans in the past and settled them satisfactorily. As these accommodations are not covered by collateral they could lead to substantial credit risks to the Company. Credit risks associated with Microfinance and Abhiwurdhi portfolios are controlled by the following measures:

- Limiting individual's first Microfinance loan to less than LKR 40,000 and these are granted as group-loans where loans granted to each member of the group is guaranteed by the other members of the group. Loans are granted after careful evaluation of the purpose for which they are taken and the repayment capacity.
- Microfinance Loans in higher amounts and Abhiwurdhi SME Loans are granted based on past credit performance of applicants and with careful evaluation of the purpose for which they are taken and the repayment capacity.
- Weekly and fortnightly collection system which is closely monitors for each loan granted.
- Careful monitoring of various ratios such as Portfolio-at-Risk (PAR).

Pawning

The Company also has a substantial portfolio of loans and advances granted under pawn brokering and related activities. These facilities are granted mainly based on gold articles obtained as security. In the event the price of gold in the local market reduce substantially, this would lead to a reduction in the value of the security obtained thereby exposing the Company to the risk that some customers may not redeem the articles retained by the Company. In such a situation in the cases where the articles are not so redeemed, the difference between the realisable value of the article held and the total of the capital, interest and other charges due would result in a loss to the Company. In order to manage this risk the Company has adopted the following practices:

- Frequent review of gold prices in the local and international markets and adjusting the amount of the loans granted for each sovereign of gold contained in the article.
- Close follow up of the payment of capital and interest due on loans and advances granted.
- Structuring of the loans and advances granted in a manner that recovery action is possible.

45.2.1 Credit Quality by Class of Financial Assets

Company				
As at 31 March 2018	Neither Past Due Nor Impaired Individually LKR	Past Due But Not Impaired Individually LKR	Individually Impaired LKR	Total LKR
Assets				
Cash and bank balances	1,695,964,449	-	-	1,695,964,449
Reverse repurchase agreements	2,210,648,881	-	-	2,210,648,881
Placements with financial institution	2,284,987,693	-	-	2,284,987,693
Financial Investments – Held for trading	2,646,859,663	-	-	2,646,859,663
Loans and receivables	20,232,551,730	16,020,343,770	1,108,525,036	37,361,420,536
Lease rentals receivable and stock out on hire	13,249,866,492	20,062,589,503	103,240,663	33,415,696,657
Financial investments – Available for sale	178,200,000	-	4,310,479	182,510,479
Other financial assets	712,714,972	-	-	712,714,972
Total financial assets	43,211,793,878	36,082,933,273	1,216,076,177	80,510,803,329

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Company				
As at 31 March 2017	Neither Past Due Nor Impaired Individually LKR	Past Due But Not Impaired Individually LKR	Individually Impaired LKR	Total LKR
Assets				
Cash and bank balances	1,851,852,880	-	-	1,851,852,880
Reverse repurchase agreements	2,061,144,916	-	-	2,061,144,916
Placements with financial institution	1,507,448,249	-	-	1,507,448,249
Financial investments – Held for trading	2,225,869,939	-	-	2,225,869,939
Loans and receivables	26,061,892,364	12,695,012,785	721,555,399	39,478,460,548
Lease rentals receivable and stock out on hire	15,154,868,914	16,091,636,623	207,936,218	31,454,441,755
Financial investments – Available for sale	206,751,296	-	102,753,386	309,504,682
Other financial assets	762,642,327	-	-	762,642,327
Total financial assets	49,832,470,884	28,786,649,408	1,032,245,003	79,651,365,296

Group				
As at 31 March 2018	Neither Past Due Nor Impaired Individually LKR	Past Due But Not Impaired Individually LKR	Individually Impaired LKR	Total LKR
Assets				
Cash and bank balances	1,746,910,928	-	-	1,746,910,928
Reverse repurchase agreements	2,302,257,521	-	-	2,302,257,521
Placements with financial institution	2,014,315,126	-	-	2,014,315,126
Financial investments – Held for trading	2,646,859,663	-	-	2,646,859,663
Loans and receivables	20,232,551,730	16,550,890,806	1,108,525,036	37,891,967,572
Lease rentals receivable and stock out on hire	13,249,866,492	26,645,772,165	239,333,821	40,134,972,477
Financial investments – Available for sale	241,396,080	-	4,310,479	245,706,559
Other financial assets	712,714,972	-	-	712,714,972
Total financial assets	43,146,872,511	43,196,662,971	1,352,169,136	87,695,704,818

Group				
As at 31 March 2017	Neither Past Due Nor Impaired Individually LKR	Past Due But Not Impaired Individually LKR	Individually Impaired LKR	Total LKR
Assets				
Cash and bank balances	1,947,456,919	-	-	1,947,456,919
Reverse repurchase agreements	2,061,144,916	-	-	2,061,144,916
Placements with financial institution	1,518,067,107	-	-	1,518,067,107
Financial investments – Held for trading	2,225,869,939	-	-	2,225,869,939
Loans and receivables	26,061,892,364	12,838,132,502	721,555,399	39,621,580,265
Lease rentals receivable and stock out on hire	15,154,868,714	19,372,913,479	281,880,445	34,809,662,638
Financial investments – Available for sale	300,489,045	-	105,847,942	406,336,987
Other financial assets	762,642,327	-	-	762,642,327
Total financial assets	50,032,431,331	32,211,045,981	1,109,283,786	83,352,761,098

45.2.1.1 Aging analysis of past due (i.e facilities in arrears of one day and above but not individually impaired loans by class of financial assets.

Company	Past Due but Not Individually Impaired					Total
As at 31 March 2018	Less than 30 days LKR	31 to 60 days LKR	61 to 90 days LKR	More than 91 days LKR	LKR	
Loans and advances	7,255,877,156	2,975,925,675	1,588,065,553	4,200,475,386	16,020,343,770	
Lease rentals receivable and stock out on hire	7,187,133,633	5,091,296,407	2,687,604,106	5,096,555,357	20,062,589,503	
	14,443,010,789	8,067,222,081	4,275,669,659	9,297,030,743	36,082,933,273	

Company	Past Due but Not Individually Impaired					Total
As at 31 March 2017	Less than 30 days LKR	31 to 60 days LKR	61 to 90 days LKR	More than 91 days LKR	LKR	
Loans and advances	3,204,357,355	5,668,759,420	1,665,642,711	2,156,253,299	12,695,012,785	
Lease rentals receivable and stock out on hire	6,268,079,798	4,810,484,492	2,272,781,025	2,740,291,308	16,091,636,623	
	9,472,437,153	10,479,243,912	3,938,423,735	4,896,544,608	28,786,649,408	

Group	Past Due but Not Individually Impaired					Total
As at 31 March 2018	Less than 30 days LKR	31 to 60 days LKR	61 to 90 days LKR	More than 91 days LKR	LKR	
Loans and advances	7,255,877,156	2,975,925,675	2,048,683,393	4,270,404,582	16,550,890,806	
Lease rentals receivable and stock out on hire	7,187,133,633	5,091,296,407	8,521,155,267	5,846,186,858	26,645,772,165	
	14,443,010,789	8,067,222,081	10,569,838,661	10,116,591,438	43,196,662,971	

Group	Past Due but Not Individually Impaired					Total
As at 31 March 2017	Less than 30 days LKR	31 to 60 days LKR	61 to 90 days LKR	More than 91 days LKR	LKR	
Loans and advances	3,204,357,355	5,732,180,026	1,729,063,317	2,172,531,803	12,838,132,501	
Lease rentals receivable and stock out on hire	6,268,079,798	6,297,282,734	3,759,579,267	3,047,971,680	19,372,913,479	
	9,472,437,153	12,029,462,760	5,488,642,584	5,220,503,483	32,211,045,980	

NOTES TO THE FINANCIAL STATEMENTS CONTD.

45.2.2 Analysis of maximum exposure to credit risk and collateral

The following table shows the maximum exposure to credit risk by class of financial asset.

Company	As at 31 March 2018		As at 31 March 2017	
	Maximum Exposure to Credit Risk LKR	Net Exposure LKR	Maximum Exposure to Credit Risk LKR	Net Exposure LKR
Assets				
Cash and bank balances	1,695,964,449	1,695,964,449	1,851,852,880	1,851,852,880
Reverse repurchase agreements	2,210,648,881	-	2,061,144,916	-
Placements with financial institutions	2,284,987,693	2,284,987,693	1,507,448,249	1,507,448,249
Financial investments – Held for trading	2,646,859,662	2,646,859,662	2,225,869,939	2,225,869,939
Loans and receivables	37,361,420,536	22,431,777,531	39,478,460,547	35,820,890,904
Lease rentals receivable and stock out on hire	33,415,696,657	2,107,645,165	31,454,441,755	2,295,803,787
Financial investments – Available for sale	182,510,479	182,510,479	309,504,682	309,504,682
Other financial assets	712,714,972	712,714,972	762,642,327	762,642,327
Total financial assets	80,510,803,330	32,062,459,950	79,651,365,295	44,774,012,769

Group	As at 31 March 2018		As at 31 March 2017	
	Maximum Exposure to Credit Risk LKR	Net Exposure LKR	Maximum Exposure to Credit Risk LKR	Net Exposure LKR
Assets				
Cash and bank balances	1,746,910,928	1,746,910,928	1,947,456,919	1,947,456,919
Reverse repurchase agreements	2,302,257,521	-	2,061,144,916	-
Placements with financial institutions	2,014,315,126	2,014,315,126	1,518,067,107	1,518,067,107
Financial investments – Held for trading	2,646,859,662	2,646,859,662	2,225,869,939	2,225,869,939
Loans and advances	37,891,967,572	22,953,959,129	39,621,580,264	35,820,890,904
Lease rentals receivable and stock out on hire	40,134,972,476	2,107,645,165	34,809,662,638	2,419,815,021
Financial investments – Available for sale	245,706,559	245,706,559	406,336,986	406,336,986
Other financial assets	712,714,972	712,714,972	762,642,327	762,642,327
Total financial assets	87,695,704,817	32,428,111,542	83,352,761,097	45,101,079,203

45.3 Liquidity Risk and Funding Management

Liquidity risk is the risk of only being able to meet liquidity obligations at increased cost or, ultimately, being unable to meet obligations as they fall due. In the case of the Company this relates mainly to the ability to meet refund of deposits obtained from the public as they fall due and settlement of instalments and Group on bank and other borrowings.

Mitigation

Special attention is focused on the liquidity of the Company as it provides critical defence against this and several other risks such as reputational, compliance, and financial risks. A liquidity policy has been developed and integrated in to risk policy to provide necessary guidelines. The Company's projected liquidity requirements are assessed on a continuous basis to ensure that they can be met as and when such requirements arise. The Company also strives to ensure that the liquidity ratios required to be maintained by the applicable Central Bank regulations are complied with.

45.3.1 As per the requirements of Finance Companies (Liquid Assets) Direction No. 01 of 2009, Company has to maintain minimum liquid assets as follows:

- (a) 10% of the outstanding value of time deposits received by the company and accrued interest payable at close of business on such day; and
- (b) 15% of the outstanding value of savings deposits accepted by the company and accrued interest payable at close of business on such day: and
- (c) 10% of total outstanding borrowings and any other payable that may be determined by the CBSL excluding the borrowings that are included in the capital funds of the company and borrowings which are secured by the mortgage of any assets of the company.

45.3.2 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

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

Company	On Demand LKR	Less than 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
Financial assets						
Cash and bank balances	1,695,964,449	-	-	-	-	1,695,964,449
Reverse repurchase agreements	-	838,323,426	1,433,899,897	-	-	2,272,223,322
Placement with financial institutions	22,464,603	1,833,851,900	490,216,627	-	-	2,346,533,129
Financial Investments – Held for trading	156,859,665	1,562,246,020	1,006,688,970	-	-	2,725,794,655
Loans and advances	2,788,902,714	14,098,762,790	17,754,786,733	8,833,940,332	133,802,390	43,610,194,960
Lease rentals receivable and stock out on hire	1,784,991,737	5,179,064,240	13,781,256,145	22,832,919,232	1,145,149,036	44,723,380,389
Financial investments – Available for sale	-	-	-	-	182,510,479	182,510,479
Other financial assets	103,370,208	12,150,936	24,450,936	420,804,559	246,277,600	807,054,239
Total financial assets	6,552,553,375	23,524,399,311	34,491,299,307	32,087,664,122	1,707,739,505	98,363,655,621
Financial Liabilities						
Due to banks	373,872,303	2,470,456,953	3,420,067,288	3,125,834,728	-	9,390,231,273
Due to customers	1,186,177,399	16,166,882,956	23,429,149,884	21,488,027,009	2,227,749	62,272,464,997
Debt instruments issued	-	130,737,520	183,237,520	3,549,200,078	-	3,863,175,117
Other financial liabilities	-	2,384,977,198	2,521,102	12,060,166	-	2,399,558,466
Total financial liabilities	1,560,049,702	21,153,054,626	27,034,975,794	28,175,121,981	2,227,749	77,925,429,853
Total net financial assets/(liabilities)	4,992,503,672	2,371,344,686	7,456,323,514	3,912,542,141	1,705,511,756	20,438,225,768

NOTES TO THE FINANCIAL STATEMENTS CONTD.

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2017.

Company	On Demand LKR	Less than 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
Financial assets						
Cash and bank balances	1,851,852,880	-	-	-	-	1,851,852,880
Reverse repurchase agreements	-	1,959,485,294	117,274,261	-	-	2,076,759,555
Placement with financial institutions	18,550,900	724,942,228	780,406,941	-	-	1,523,900,069
Financial investments – Held for trading	420,833,428	1,006,939,769	845,405,109	-	-	2,273,178,306
Loans and advances	3,327,374,622	12,100,760,442	21,811,885,817	8,895,652,019	129,061,468	46,264,734,368
Lease rentals receivable and stock out on hire	3,091,603,155	4,361,895,258	11,855,841,495	22,520,824,653	16,238,125	41,846,402,686
Financial investments – Available for sale	-	-	104,615,544	19,600,000	211,344,279	335,559,823
Other financial assets	75,708,371	102,552,204	36,176,983	458,181,708	222,376,559	894,995,825
Total financial assets	8,785,923,355	20,256,575,195	35,551,606,150	31,894,258,379	579,020,431	97,067,383,511
Financial Liabilities						
Due to banks	1,656,012,223	4,365,771,808	2,625,745,058	2,940,422,289	-	11,587,951,378
Due to customers	-	17,869,073,372	23,961,446,737	19,248,666,051	275,400,399	61,354,586,559
Debt instruments issued	-	155,737,520	746,662,177	3,863,175,117	-	4,765,574,814
Other financial liabilities	-	2,284,790,676	-	13,571,184	-	2,298,361,860
Total financial liabilities	1,656,012,223	24,675,373,376	27,333,853,972	26,065,834,641	275,400,399	80,006,474,611
Total net financial assets/(liabilities)	7,129,911,133	(4,418,798,181)	8,217,752,178	5,828,423,739	303,620,032	17,060,908,900

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

Group	On Demand LKR	Less than 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
Financial assets						
Cash and bank balances	1,746,910,928	-	-	-	-	1,746,910,928
Reverse repurchase agreements	-	929,932,066	1,433,899,897	-	-	2,363,831,962
Placement with financial institutions	22,464,603	1,549,487,409	503,838,597	-	-	2,075,790,608
Financial investments – Held for trading	156,859,665	1,562,246,020	1,006,688,970	-	-	2,725,794,655
Loans and advances	2,788,902,714	14,114,371,749	17,839,383,818	9,256,040,189	133,802,390	44,132,500,860
Lease rentals receivable and stock out on hire	1,784,991,737	5,376,412,165	14,850,838,047	28,169,632,278	1,145,149,036	51,327,023,263
Financial investments – Available for sale	-	-	56,896,515	6,027,139	183,038,346	245,962,000
Other financial assets	103,370,208	12,150,936	24,450,936	420,804,559	246,277,600	807,054,239
Total financial assets	6,603,499,854	23,544,600,344	35,715,996,780	37,852,504,165	1,708,267,372	105,424,868,514
Financial liabilities						
Due to banks	373,872,303	3,481,091,568	4,553,430,941	4,024,092,267	-	12,432,486,080
Due to customers	1,186,177,399	16,808,686,144	24,000,255,951	21,909,689,902	2,227,749	63,907,037,145
Debt instruments issued	-	130,737,520	183,237,520	3,549,200,078	-	3,863,175,117

Group	On Demand LKR	Less than 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
Other financial liabilities	-	3,025,252,389	2,521,102	12,060,166	-	3,039,833,657
Total financial liabilities	1,560,049,702	23,445,767,621	28,739,444,513	29,495,042,414	2,227,749	83,242,532,001
Total net financial assets/(liabilities)	5,043,450,151	98,832,723	6,976,552,266	8,357,461,750	1,706,039,623	22,182,336,514

The table below summarises the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 March 2017.

Group	On Demand LKR	Less than 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
Financial assets						
Cash and bank balances	1,948,456,919	-	-	-	-	1,948,456,919
Reverse repurchase agreements	-	1,959,485,294	117,274,261	-	-	2,076,759,555
Placement with financial institutions	18,550,900	724,942,228	791,025,799	-	-	1,534,518,927
Financial investments – Held for trading	420,833,428	1,006,939,769	845,405,109	-	-	2,273,178,306
Loans and advances	3,327,374,622	12,118,069,411	21,862,368,885	8,970,979,699	129,061,468	46,407,854,085
Lease rentals receivable and stock out on hire	3,091,603,155	4,767,677,325	13,039,339,099	24,286,765,864	16,238,125	45,201,623,568
Financial investments – Available for sale	-	-	194,988,962	29,081,017	208,577,590	432,647,569
Other financial assets	75,708,371	102,552,204	36,176,983	458,181,708	222,376,559	894,995,825
Total financial assets	8,882,527,394	20,679,666,231	36,886,579,098	33,745,008,288	576,253,742	100,770,034,754
Financial liabilities						
Due to banks	1,656,012,223	4,646,221,858	3,132,748,293	3,316,852,991	-	12,751,834,366
Due to customers	-	18,051,201,136	24,419,450,856	19,508,579,716	275,400,399	62,254,632,108
Debt instruments issued	-	155,737,520	746,662,177	3,863,175,117	-	4,765,574,814
Other financial liabilities	-	2,580,181,946	-	13,571,184	-	2,593,753,130
Total financial liabilities	1,656,012,223	25,433,342,460	28,298,861,326	26,702,179,008	275,400,399	82,365,794,418
Total net financial assets/(liabilities)	7,226,515,171	(4,753,676,229)	8,587,717,771	7,042,829,280	300,853,343	18,404,240,336

45.3.3 Contractual Maturities of Financial Commitments

The table below shows the contractual expiry by maturity of the customers' undrawn loan commitments. These are included in the time band containing the earliest date such can be drawn down by the Customers.

Company/Group	On Demand LKR	Less than 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
As at 31 March 2018						
Commitments						
Commitment for unutilised facilities	1,513,599,590	-	-	-	-	1,513,599,590
Total commitments	1,513,599,590	-	-	-	-	1,513,599,590

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Company/Group						
As at 31 March 2017	On Demand LKR	Less than 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Total LKR
Commitments						
Commitment for unutilised facilities	1,430,300,853	-	-	-	-	1,430,300,853
Total commitments	1,430,300,853	-	-	-	-	1,430,300,853

45.4 Market Risk

Market risk is the risk arising from fluctuations in market variables such as interest rates, foreign currencies, equity prices and gold prices. This is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in the market variables. As the Company's operations involve granting accommodations, accepting deposits and obtaining funding facilities, the movements in interest rates constitute the most important market risk for the Company.

Mitigation

Movements in interest rates are closely monitored. Further the Company maintains an adequate Net Interest Margin (NIM) so that increases in interest expenses can be absorbed. The assets and liabilities maturity mismatch is also closely monitored so that the possible adverse effects arising due to interest rate movements could be minimised. Although the mismatch in assets and liabilities in terms of maturity is widely prevalent in the industry, in view of the composition of the portfolio of the Company, this mismatch has been mitigated to a significant extent.

45.4.1 Equity Price Risk

Equity price risk is the risk that the fair value of equities decreasing as a result of changes in the level of equity indices and individual stocks. The market value of the Company's equity portfolio as of 31 March 2018 is LKR 132,065,766/- (2017 – LKR 201,357,323/-).

The table below shows the impact on the profit or loss due to a reasonably possible change in the price of the Company's investment in trading securities with all other variables held constant:

	Impact on Profit/Loss Company/Group	
	2018 LKR	2017 LKR
+10%	13,206,577	20,135,732
-10%	(13,206,577)	(20,135,732)

45.4.2 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

45.4.3 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Profit or Loss Statements and equity, arising from interest bearing loans and borrowings.

Company

Financial Instrument	Increase/(Decrease) in Basis Points	Sensitivity of Profit/(Loss)		Sensitivity of Equity	
		2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.
Long Term Loans linked to AWPLR*	+100/ (-100)	(44.23)/44.23	(20.67)/20.67	44.23)/44.23	(20.67)/20.67

Group

Financial Instrument	Increase/(Decrease) in Basis Points	Sensitivity of Profit/(Loss)		Sensitivity of Equity	
		2018 LKR Mn.	2017 LKR Mn.	2018 LKR Mn.	2017 LKR Mn.
Long Term Loans linked to AWPLR*	+100/ (-100)	(74.36)/74.36	(32.3)/32.3	(74.36)/74.36	(32.3)/32.3

*AWPLR – Average Weighted Prime Lending Rate

45.4.4 Interest Rate Risk Exposure On Financial Assets & Liabilities

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

Company						
As at 31 March 2018	Up to 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Non-Interest Bearing LKR	Total as at 31 March 2018 LKR
Financial assets						
Cash and bank balances	839,675,584	-	-	-	856,288,865	1,695,964,449
Reverse repurchase agreements	810,110,962	1,374,472,827	-	-	26,065,092	2,210,648,881
Placement with financial institutions	1,783,403,902	452,117,611	-	-	49,466,180	2,284,987,693
Financial investments – Held for trading	1,435,393,857	942,487,931	-	-	268,977,875	2,646,859,663
Loans and advances	13,983,510,578	14,476,541,769	6,617,910,086	120,167,223	-	35,198,129,656
Lease rentals receivable and stock out on hire	4,940,538,573	9,129,219,450	17,202,329,187	435,228,573	-	31,707,315,784
Financial Investments – Available for sale	-	-	-	-	182,510,479	182,510,479
Other financial assets	-	-	360,276,750	-	352,438,222	712,714,972
Total financial assets	23,792,633,456	26,374,839,589	24,180,516,023	555,395,796	1,735,746,713	76,639,131,577
Financial liabilities						
Due to banks	6,650,323,898	1,194,211,427	452,784,475	-	284,679,307	8,581,999,107
Due to customers	15,602,179,740	19,626,677,769	17,476,282,312	1,259,250	1,517,685,912	54,224,084,982
Debt instruments issued	-	-	3,000,000,000	-	(27,778,291)	2,972,221,709
Other financial liabilities	-	-	-	-	2,399,558,467	2,399,558,467
Total financial liabilities	22,252,503,638	20,820,889,195	20,929,066,787	1,259,250	4,174,145,395	68,177,864,266
INTEREST SENSITIVITY GAP	1,540,129,818	5,553,950,393	3,251,449,236	554,136,546	(2,438,398,683)	8,461,267,311

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Company						
As at 31 March 2017	Up to 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Non-Interest Bearing LKR	Total as at 31 March 2018 LKR
Financial assets						
Cash and bank balances	430,622,100	-	-	-	1,421,230,780	1,851,852,880
Reverse repurchase agreements	1,932,286,652	110,407,338	-	-	18,450,926	2,061,144,916
Placement with financial institutions	722,576,993	752,398,899	-	-	32,472,357	1,507,448,249
Financial investments – Held for trading	944,199,509	796,255,172	-	-	485,415,258	2,225,869,939
Loans and advances	13,326,809,962	18,808,468,794	7,225,368,613	117,813,178	-	39,478,460,547
Lease rentals receivable and stock out on hire	5,838,818,317	7,899,726,908	17,700,935,237	15,087,568	-	31,454,568,030
Financial Investments – Available for sale	-	-	-	49,144,859	260,359,823	309,504,682
Other financial assets	100,000,000	-	364,557,397	-	298,084,930	762,642,327
Total financial assets	23,295,313,533	28,367,257,111	25,290,861,247	182,045,605	2,516,014,074	79,651,491,570
Financial liabilities						
Due to banks	9,097,107,711	783,876,591	669,322,038	-	242,059,425	10,792,365,765
Due to customers	16,445,656,729	20,345,999,417	15,460,009,602	-	1,485,415,036	53,737,080,785
Debt instruments issued	245,795,005	500,000,000	2,609,459,085	-	126,737,753	3,481,991,843
Other financial liabilities	-	-	-	-	2,298,361,860	2,298,361,860
Total financial liabilities	25,788,559,445	21,629,876,008	18,738,790,725	-	4,152,574,073	70,309,800,252
INTEREST SENSITIVITY GAP	(2,493,245,912)	6,737,381,103	6,552,070,521	182,045,605	(1,636,560,000)	9,341,691,318
Group						
As at 31 March 2018	Up to 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Non-Interest Bearing LKR	Total as at 31 March 2018 LKR
Financial assets						
Cash and bank balances	890,622,062	-	-	-	856,288,864	1,746,910,926
Reverse repurchase agreements	901,719,602	1,374,472,827	-	-	26,065,092	2,302,257,521
Placement with financial institutions	1,499,109,365	465,739,581	-	-	49,466,180	2,014,315,126
Financial investments – Held for trading	1,435,393,857	942,487,931	-	-	268,977,875	2,646,859,663
Loans and advances	13,999,119,537	14,561,138,854	7,040,009,943	120,167,223	-	35,720,435,556
Lease rentals receivable and stock out on hire	5,137,886,498	10,198,157,280	22,539,042,234	435,228,573	-	38,310,314,585
Financial investments – Available for sale	-	56,641,074	-	-	189,065,485	245,706,559
Other financial assets	-	-	360,276,750	-	352,438,222	712,714,972
Total financial assets	23,863,850,921	27,598,637,547	29,939,328,926	555,395,796	1,742,301,719	83,699,514,908
Financial liabilities						
Due to banks	7,911,489,615	2,327,575,079	1,351,042,014	-	284,679,307	11,874,786,016
Due to customers	16,244,052,882	20,197,783,836	17,897,945,205	1,259,250	1,517,685,912	55,858,727,084
Debt instruments issued	-	-	3,000,000,000	-	(27,778,291)	2,972,221,709
Other financial liabilities	-	-	-	-	3,039,833,657	3,039,833,657
Total financial liabilities	24,155,542,497	22,525,358,915	22,248,987,219	1,259,250	4,814,420,585	73,745,568,467
INTEREST SENSITIVITY GAP	(291,691,576)	5,073,278,632	7,690,341,707	554,136,546	(3,072,118,867)	9,953,946,441

Group						
As at 31 March 2017	Up to 3 Months LKR	3-12 Months LKR	1-5 Years LKR	Over 5 Years LKR	Non-Interest Bearing LKR	Total as at 31 March 2018 LKR
Financial assets						
Cash and bank balances	430,622,100	-	-	-	1,516,834,819	1,947,456,919
Reverse repurchase agreements	1,932,286,652	110,407,338	-	-	18,450,926	2,061,144,916
Placement with financial institutions	722,576,993	763,017,757	-	-	32,472,357	1,518,067,107
Financial investments – Held for trading	944,199,509	796,255,172	-	-	485,415,258	2,225,869,940
Loans and advances	13,344,067,686	18,858,951,862	7,300,696,293	117,864,423	-	39,621,580,264
Lease rentals receivable and stock out on hire	6,244,474,109	9,083,224,513	19,466,876,448	15,087,568	-	34,809,662,638
Financial investments – Available for sale	-	87,278,862	9,481,017	49,472,726	260,104,381	406,336,986
Other financial assets	100,000,000	-	364,557,397	-	298,084,930	762,642,327
Total financial assets	23,718,227,049	29,699,135,504	27,141,611,155	182,424,717	2,611,362,671	83,352,761,097
Financial liabilities						
Due to banks	9,374,423,150	1,290,878,826	1,045,752,740	-	245,194,037	11,956,248,753
Due to customers	16,627,784,493	20,804,003,536	15,719,923,268	-	1,485,415,036	54,637,126,333
Debt instruments issued and other borrowed funds	245,795,005	500,000,000	2,609,459,085	-	126,737,753	3,481,991,843
Other financial liabilities	295,391,271	-	-	-	2,298,361,860	2,593,753,131
Total financial liabilities	26,543,393,919	22,594,882,362	19,375,135,092	-	4,155,708,686	72,669,120,059
INTEREST SENSITIVITY GAP	(2,825,166,870)	7,104,253,142	7,766,476,063	182,424,717	(1,544,346,014)	10,683,641,038

46. CURRENT AND NON-CURRENT ANALYSIS OF ASSETS AND LIABILITIES

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

Company	2018			2017		
	With in 12 Months LKR	After 12 Months LKR	Total as at 31 March 2018 LKR	With in 12 Months LKR	After 12 Months LKR	Total as at 31 March 2017 LKR
Assets						
Cash and bank balances	1,695,964,449	-	1,695,964,449	1,851,852,880	-	1,851,852,880
Reverse repurchase agreements	2,210,648,881	-	2,210,648,881	2,061,144,916	-	2,061,144,916
Placement with financial institutions	2,284,987,693	-	2,284,987,693	1,507,448,249	-	1,507,448,249
Financial investments – Held for trading	2,646,859,663	-	2,646,859,663	2,225,869,939	-	2,225,869,939
Loans and receivables	28,460,052,348	6,738,077,308	35,198,129,656	30,853,429,863	7,204,867,818	38,058,297,681
Lease rentals receivable and stock out on hire	14,069,758,023	17,637,557,761	31,707,315,784	12,382,287,710	17,801,628,588	30,183,916,298
Financial investments – Available for sale	-	182,510,479	182,510,479	99,015,544	210,489,138	309,504,682
Other financial assets	106,437,372	606,277,600	712,714,972	177,989,018	584,653,309	762,642,327

NOTES TO THE FINANCIAL STATEMENTS CONTD.

Company	2018			2017		
	With in 12 Months LKR	After 12 Months LKR	Total as at 31 March 2018 LKR	With in 12 Months LKR	After 12 Months LKR	Total as at 31 March 2017 LKR
Inventories	128,327,562	-	128,327,562	173,987,309	-	173,987,309
Other assets	147,518,126	94,985,352	242,503,478	59,001,174	171,830,377	230,831,551
Investments in subsidiaries	-	1,599,288,321	1,599,288,321	-	1,599,788,796	1,599,788,796
Investment property	-	1,983,431,494	1,983,431,494	-	1,461,413,125	1,461,413,125
Property, plant and equipment	-	1,765,510,672	1,765,510,672	-	1,538,296,861	1,538,296,861
Intangible assets and goodwill	-	166,427,661	166,427,661	-	136,510,053	136,510,053
Prepaid rent	122,805	8,065,102	8,187,907	122,805	8,187,907	8,310,712
Deferred tax assets	-	1,260,138,949	1,260,138,949	-	744,697,788	744,697,788
Total assets	51,750,676,922	32,042,270,698	83,792,947,621	51,392,149,407	31,462,363,760	82,854,513,168
Liabilities						
Due to banks	5,787,669,052	2,794,330,055	8,581,999,107	8,238,104,178	2,554,261,588	10,792,365,765
Due to customers	36,559,981,366	17,664,103,617	54,224,084,983	37,845,675,953	15,891,404,832	53,737,080,785
Debt instruments issued	34,223,419	2,937,998,291	2,972,221,709	626,737,752	2,855,254,090	3,481,991,844
Other financial liabilities	2,399,558,467	-	2,399,558,467	2,284,790,676	13,571,184	2,298,361,860
Other liabilities	520,322,161	-	520,322,161	1,754,124,717	-	1,754,124,717
Current tax liabilities	2,675,490,550	-	2,675,490,550	443,910,349	-	443,910,349
Post employment benefit obligations	-	155,833,660	155,833,660	-	98,863,353	98,863,353
Total liabilities	47,977,245,015	23,552,265,622	71,529,510,637	51,193,343,625	21,413,355,047	72,606,698,672

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

Group	2018			2017		
	With in 12 Months LKR	After 12 Months LKR	Total as at 31 March 2018 LKR	With in 12 Months LKR	After 12 Months LKR	Total as at 31 March 2017 LKR
Assets						
Cash and bank balances	1,746,910,927	-	1,746,910,928	1,947,456,919	-	1,947,456,919
Reverse repurchase agreements	2,302,257,521	-	2,302,257,521	2,061,144,916	-	2,061,144,916
Placement with financial institutions	2,014,315,126	-	2,014,315,126	1,518,067,107	-	1,518,067,107
Financial investments – Held for trading	2,646,859,663	-	2,646,859,663	2,225,869,939	-	2,225,869,939
Loans and advances	28,559,290,469	7,161,145,087	35,720,435,557	30,919,929,000	7,278,758,883	38,198,687,883
Lease rentals receivable and stock out on hire	15,324,327,796	22,985,986,789	38,310,314,585	13,944,284,874	19,537,254,617	33,481,539,491
Financial investments – Available for sale	-	245,706,559	245,706,559	189,388,962	216,948,025	406,336,987
Other financial assets	106,437,372	606,277,600	712,714,972	177,989,018	584,653,309	762,642,327
Inventories	128,327,562	-	128,327,562	173,987,309	-	173,987,309
Other assets	204,495,578	94,958,352	299,480,930	81,976,903	171,830,377	253,807,280
Investment property	-	1,983,431,494	1,983,431,494	-	1,461,413,125	1,461,413,125
Property, plant and equipment	-	1,812,095,231	1,812,095,231	-	1,574,347,455	1,574,347,455

Group	2018			2017		
	With in 12 Months LKR	After 12 Months LKR	Total as at 31 March 2018 LKR	With in 12 Months LKR	After 12 Months LKR	Total as at 31 March 2017 LKR
Intangible assets and goodwill	-	923,466,904	923,466,904	-	894,864,980	894,864,980
Prepaid rent	122,805	8,065,102	8,187,907	122,805	8,187,907	8,310,712
Deferred tax assets	-	1,264,497,450	1,264,497,849	-	752,893,603	752,893,603
Total assets	53,033,344,818	37,085,657,568	90,119,002,788	53,240,217,752	32,481,152,281	85,721,370,033
Liabilities						
Due to banks	8,182,198,421	3,692,587,594	11,874,786,015	9,025,556,463	2,930,692,290	11,956,248,753
Due to customers	37,772,960,574	18,085,766,510	55,858,727,085	38,485,807,836	16,151,318,498	54,637,126,334
Debt instruments issued	34,223,419	2,937,998,291	2,972,221,709	626,737,752	2,855,254,090	3,481,991,842
Other financial liabilities	3,039,833,657	-	3,039,833,657	2,580,181,947	13,571,184	2,593,753,131
Other liabilities	533,966,381	-	533,996,381	461,104,753	-	461,104,753
Current tax liabilities	2,769,337,135	-	2,769,337,135	1,785,229,566	-	1,785,229,566
Post employment benefit obligations	-	166,395,524	166,395,524	-	110,022,141	110,022,141
Total liabilities	52,332,519,588	24,882,747,918	77,215,267,506	52,964,618,317	22,060,858,203	75,025,476,519

47. COMMITMENTS AND CONTINGENCIES

There were no material contingent liabilities outstanding as at the reporting date.

Legal Claims

The Company has controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end the Company had seven unresolved legal claims amounting to LKR 40,300,000/- (2017 – LKR 21,300,000/-) against the Company.

Although there can be no assurance, the Directors believe, based on the information currently available, that the ultimate resolution of such legal procedures would not likely to have a material adverse effect of the results of operations, financial position of liquidity. Accordingly, no provision for any liabilities has been made in these Financial Statements.

47.1 Commitments

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Commitment for unutilised facilities	1,513,599,590	1,430,300,853	1,513,599,590	1,430,300,853
Bank guarantees issued	47,900,000	112,350,000	47,900,000	112,350,000
Total commitments and contingencies	1,561,499,590	1,542,650,853	1,561,499,590	1,542,650,853

NOTES TO THE FINANCIAL STATEMENTS CONTD.

48. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Company/Group Nature of Assets	Nature of Liability	Carrying Amount Pledged				Included Under
		Company		Group		
		2018 LKR	2017 LKR	2018 LKR	2017 LKR	
Lease rentals receivable and stock out on hire	Loans	6,000,419,039	7,618,616,899	8,935,419,039	8,518,616,899	Lease Rentals Receivable and Stock out on Hire
Microfinance loans	Loans	1,049,916,649	1,333,849,041	1,049,916,649	1,333,849,041	Loans and Receivables
Real estate stock	Loans	-	84,185,000	-	84,185,000	Other Non-Financial Assets
Land and building	Overdraft	156,300,000	156,300,000	156,300,000	156,300,000	Property, Plant and Equipment
Balance held in foreign currency account	Loans	-	323,692,918	-	323,692,918	Cash and Bank Balances
Placement with banks	Loans	359,868,653	795,522,816	359,868,653	795,522,816	Placement with banks
Total		7,566,504,341	10,312,166,674	10,501,504,341	11,212,166,674	

49. RELATED PARTY TRANSACTIONS

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

Details of significant related party transactions which the Company had during the year are as follows:

49.1 Transactions with Key Managerial Personnel (KMPs)

Related party includes KMPs defined as those persons having authority and responsibility for planning directing and controlling the activities for the Company and “Key Management Personnel” has been defined to be the Board of Directors of the Company fall under such definition.

49.1.1 Key Management Personnel Compensation

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Short term employment benefits	158,248,150	205,043,950	158,783,150	205,578,950
Post employment benefits	17,893,550	14,595,650	17,893,550	14,595,650
Directors fees and expenses	8,551,500	8,310,000	9,086,500	8,845,000
Total	184,693,200	227,949,600	185,763,200	229,019,600

49.1.2 Transactions, Arrangements and Agreements Involving KMPs, and Their Close Members of Family (CFMs)

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

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Fixed deposits held at the end of the year	15,096,343	18,535,862	38,096,343	18,535,862
Interest on fixed deposits	975,069	805,916	975,069	805,916
Loans granted	-	4,000,000	-	4,000,000
Dividend paid	580,979	3,039,331	580,979	3,039,331

49.2 Transactions with Related Entities

49.2.1 Transactions with Ultimate Controlling Party

Amounts paid for being a member of the Key Management Personnel as included in 49.1.1 above.

49.2.2 Transactions with Ultimate Parent Entity – BG Capital (Pvt) Ltd.

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
- Short term loans obtained by Commercial Credit and Finance PLC	-	224,900,000	-	224,900,000
- Short term loan repayment by Commercial Credit and Finance PLC including interest expenses	231,034,088	-	231,034,088	-
- Short term loans balance Commercial Credit and Finance PLC as at 31 March 2017 including accrued interest	-	225,577,781	-	225,577,781
- Consultancy fee received for management of BG Myanmar Microfinance Limited	-	25,000,000	-	25,000,000

49.2.3 Transactions with Immediate Parent Entity – BG Investments (Pvt) Ltd.

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
- Dividends paid (Gross)	159,432,592	261,328,640	159,432,592	261,328,640
- Investment in fixed deposit at Commercial Credit and Finance PLC as at 31 March 2017	-	622,034,708	-	622,034,708
- Investment in fixed deposit at Trade Finance and Investments PLC as at 31 March 2018	-	-	280,850,000	-
- Short term loans obtained by Commercial Credit and Finance PLC	-	309,900,000	-	309,900,000
- Short term loans repayments by Commercial Credit and Finance PLC	281,629,401	35,000,000	281,629,401	35,000,000
- Short term loans balance Commercial Credit and Finance PLC as at 31 March 2017 including accrued interest	-	275,935,582	-	275,935,582

NOTES TO THE FINANCIAL STATEMENTS CONTD.

49.2.4 Transactions with Significant Investor – Group Lease Holdings Pte Ltd.

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Dividend paid (Gross)	95,390,500	47,695,250	95,390,500	47,695,250
Proceed received from Group Lease Holding (Pte) Ltd on disposal of BG Microfinance Limited Myanmar	-	325,267,470	-	325,267,470

In 2016/17 Group Lease Holding (Pte) Ltd has purchase 95,390,500 shares of the Commercial Credit and Finance PLC at LKR 111/- per share amounting to 29.99% shares of the Company.

49.2.5 Transactions with Subsidiary

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Trade Finance and Investments PLC				
Dividend received (Gross)	226,531,226	113,764,433	-	-
Investment in fixed deposits at Trade Finance and Investments PLC as at 31 March 2018	284,294,537	-	-	-
Interest earned on fixed deposit at Trade Finance and Investment PLC	9,294,537	-	-	-

49.2.6 Transactions with Associates

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
BG Microfinance Myanmar Company Limited				
Disposal of share	-	52,923,646	-	62,853,147
Capitalife Assurance Limited				
Disposal of share	-	-	-	41,875,000

49.2.7 Transactions with Entities Under Common Control – BG International (Pvt) Ltd.

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
- Short term loans obtained by Commercial Credit and Finance PLC		224,900,000		224,900,000
- Short term loan repayment by Commercial Credit and Finance PLC including interest expenses	232,778,297	-	232,778,297	-
- Short term loans balance Commercial Credit and Finance PLC as at 31 March 2017 including accrued interest		225,577,780		225,577,781

49.2.8 Transactions with Other Group Entities

(a) Capitalife Assurance Ltd.

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Investment in fixed deposit at Commercial Credit and Finance PLC	-	501,060,312	-	501,060,312
Proceed from winding up Capitalife Assurance Ltd.	96,450,000	-	96,450,000	-
Maturity refund of fixed deposits	540,225,246	-	540,225,246	-

(b) K Seeds Investments (Pvt) Ltd.

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Investment in fixed deposits at Commercial Credit and Finance PLC	836,783	-	836,783	-
Professional fees paid	2,205,000	-	2,205,000	-

(c) Creation Investments Lanka LLC

	Company		Group	
	2018 LKR	2017 LKR	2018 LKR	2017 LKR
Dividend paid	20,347,220	101,343,367	20,347,220	101,343,367

50. EVENTS AFTER THE REPORTING DATE

There are no events occurring after the reporting date which require adjustments to or disclosure in the Financial Statements, other than those disclosed below:

The directors recommend, subject to the approval from share holders at the annual general meeting, a final cash dividend of LKR 0.75/- per share to be paid for the financial year ended 31 March 2018.

51. CAPITAL

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

TEN YEAR SUMMARY

Operating Results	2008/09 LKR '000	2009/10 LKR '000	2010/11 LKR '000	2011/12 LKR '000
Interest income	314,266	377,101	1,112,597	2,442,086
Net interest income	126,667	170,400	702,488	1,741,800
Interest expenses	187,600	206,701	410,109	700,285
Operating expenses	122,671	203,774	497,323	881,341
Profit/(Loss) before tax	(1,280)	(25,942)	244,366	960,421
Income tax and VAT on financial services	8,378	71,132	184,272	(388,139)
Net profit/(loss)	7,098	45,190	60,094	655,609
Dividend paid	7,346	-	-	-
ASSETS				
Cash and bank balance	12,578	51,924	203,708	140,961
Treasury Bills and Bonds	96,560	116,251	66,969	83,558
Placements with banks and other finance companies	11,170	9,707	112,056	378,394
Investment in dealing securities	55	55	30,165	45,320
Lease, hire purchase, loans and advances	817,964	1,690,317	4,323,467	8,413,092
Property, plant and equipment	143,996	160,488	238,532	290,505
Total assets	1,388,813	2,270,642	5,238,595	10,244,294
LIABILITIES				
Deposits	854,331	1,732,958	3,958,394	6,925,890
Borrowings	81,591	73,576	594,986	1,517,721
Total liabilities	1,164,765	2,043,717	4,909,633	9,259,724
SHAREHOLDERS' FUNDS				
Stated capital	73,718	73,718	170,640	170,640
Reserves	150,330	153,206	158,322	813,931
Total Shareholders' funds	224,048	226,925	328,962	984,571
RATIOS				
Growth of income (%)	40.68	21.40	194.83	113.76
Growth of net profit (%)	(75.8)	536.66	32.98	990.97
Interest cover (times)	0.99	0.87	1.69	2.49
Net assets growth (%)	(12.22)	1.28	44.97	199.30
Equity assets ratio (%)	16.13	9.99	6.28	9.61
Growth of leases, hire purchases, loans and advances (%)	2.66	106.65	155.78	94.59
Return on assets (%)	(0.10)	(1.42)	4.66	9.38
Return on equity (%)	2.96	20.04	18.27	66.59
Total assets to shareholders' funds (times)	6.20	10.01	15.92	10.40
Fixed assets to shareholders' funds (times)	0.64	0.71	0.73	0.30
Net asset per share	46.23	46.83	1.51	4.51
Earning per share	1.46	9.33	0.28	3.01
Dividend per share	1.52	-	-	-

2012/13 LKR '000	2013/14 LKR '000	2014/15 LKR '000	2015/16 LKR '000	2016/17 LKR '000	2017/18 LKR '000
3,963,168	6,913,772	11,901,148	15,729,164	19,048,828	20,142,562
2,408,012	4,037,642	7,000,942	9,667,331	11,237,208	10,834,606
1,555,156	2,876,129	4,145,627	6,061,833	7,811,619	9,306,956
1,620,520	2,555,196	3,770,097	4,920,180	5,529,662	5,537,152
865,704	1,194,504	2,500,686	2,769,691	3,910,562	3,479,819
(288,670)	(353,109)	761,441	1,085,927	1,771,799	2,017,071
679,401	1,007,836	2,103,953	2,151,694	2,902,978	2,350,694
238,074	119,037	143,037	318,074	477,112	318,074
395,655	1,123,108	2,470,271	1,142,136	1,851,853	1,695,964
257,673	811,343	857,039	1,679,596	1,854,181	2,490,000
572,721	624,132	798,534	1,119,606	1,507,448	2,284,988
46,705	144,356	279,846	474,212	358,391	310,266
14,485,926	25,931,647	46,555,625	58,764,061	68,242,214	66,905,445
557,661	607,580	1,197,329	1,393,909	1,548,296	1,744,459
18,285,191	31,643,210	57,706,278	70,707,765	82,854,513	83,792,948
13,155,609	22,855,779	42,185,524	49,297,299	53,737,081	54,224,085
2,796,157	4,251,989	6,386,357	10,399,324	14,274,358	11,554,221
16,831,846	28,340,201	51,807,928	62,925,888	72,606,699	71,529,511
470,640	1,478,640	2,150,640	2,150,640	2,150,640	2,150,640
982,705	1,824,369	3,747,710	5,631,236	8,097,173	10,112,797
1,453,345	3,303,009	5,898,351	7,781,877	10,247,814	12,263,437
60.07	71.76	61.44	43.88	22.20	7.10
3.63	48.34	108.76	2.27	34.92	-19.0
1.62	1.47	1.6	1.53	1.60	1.47
47.61	127.27	78.58	31.93	31.69	19.67
7.95	10.44	10.22	11.00	12.37	14.64
72.18	79.01	79.53	26.22	16.13	-1.96
6.07	4.78	5.6	4.31	5.09	4.18
55.74	42.38	45.73	31.46	32.20	20.88
12.58	9.58	9.78	9.09	8.09	6.83
0.38	0.18	0.2	0.18	0.15	0.14
6.10	11.55	18.54	24.46	32.22	38.56
2.85	4.20	7.15	6.76	9.13	7.39
1.00	0.50	0.50	1.00	1.50	1.00

INVESTOR INFORMATION

1. Stock Exchange Listing

The ordinary shares of the Company are listed on the Colombo Stock Exchange since 1 June 2011 and the stock exchange ticker symbol for Commercial Credit and Finance PLC is “COCR”.

The Audited Statement of Profit or Loss for the year ended 31 March 2018 and the Audited Statement of Financial Position of the Company will be submitted to the Colombo Stock Exchange before 30 June 2018.

2. Shareholder Base

The total number of (ordinary voting) shareholders as at 31 March 2018 were 1,607 compared to 1,794 shareholders as at 31 March 2017.

3. Distribution of Shareholders

Range of Shares	As at 31 March 2018			As at 31 March 2017		
	No. of Shareholders	No. of Shares	Percent of Shareholdings	No. of Shareholders	No. of Shares	Percent of Shareholdings
1 - 1,000	998	243,760	0.08	1,039	273,876	0.09
1,001 - 5,000	361	923,296	0.29	422	1,090,169	0.34
5,001 - 10,000	107	837,149	0.26	145	1,156,544	0.36
10,001 - 50,000	105	2,254,090	0.71	138	2,805,957	0.88
50,001 - 100,000	11	817,104	0.26	21	1,569,163	0.49
100,001 - 500,000	10	2,283,978	0.72	16	3,594,251	1.13
500,001 & 1,000,000	15	310,714,988	97.69	13	307,584,405	96.70
Total	1607	318,074,365	100.00	1,794	318,074,365	100

4. Composition of Shareholders

Shareholders	As at 31 March 2018			As at 31 March 2017		
	No. of Shareholders	No. of Shares	Percent of Shareholdings	No. of Shareholders	No. of Shares	Percent of Shareholdings
Resident	1595	196,839,323	61.88	1,780	116,339,953	36.58
Non-Resident	12	121,235,042	38.12	14	201,734,412	63.42
Total	1607	318,074,365	100.00	1,794	318,074,365	100.00
Individual	1491	25,592,139	8.05	1,666	30,423,292	9.56
Institution	116	292,482,226	92.95	128	287,651,073	90.44
Total	1607	318,074,365	100.00	1,794	318,074,365	100.00

As per Rule No. 7.6 (iv) of the Colombo Stock Exchange, percentage of public holding as at March 31 March 2018 was 13.18 percent and the public shareholders as at 31 March 2018 was 1,536.

5. Top Twenty Shareholders

Ordinary Voting Shares

No.	Name	As at 31 March 2018	
		No. of Shares	%
1.	BG Investments (Pvt) Limited	132,530,096	41.67
2.	Group Lease Holdings Pte Ltd.	95,390,500	29.99
3.	Lanka Orix Finance PLC/ BG Investments (Pvt) Ltd.	26,700,000	8.39
4.	Creation Investments Sri Lanka LLC	20,347,220	6.40
5.	Mrs. E. Fernando	8,000,000	2.52
6.	Mr. G.G. Hemachandra	7,184,282	2.26
7.	Creation Investments SL1 LLC	5,369,406	1.69
8.	People's Leasing & Finance PLC/MS. S.N. Egodage	4,264,380	1.34
9.	Ceylinco Life Insurance Limited	4,014,843	1.26
10.	Mrs. H.H.J. Hewage	1,851,024	0.58
11.	Mr. T.K. Hemachandra	1,555,689	0.49
12.	Commercial Bank of Ceylon PLC/Dunamis Capital PLC	1,492,682	0.47
13.	Mr. S.K. Semage	737,049	0.23
14.	Mr. M.E. Wickremesinghe	675,738	0.21
15.	People's Leasing & Finance PLC/B.G. Investments (Pvt) Ltd.	602,079	0.19
16.	DFCC Bank PLC/P.S.R. Casie Chitty	429,808	0.14
17.	Mrs. L.S. Semage	425,929	0.13
18.	Code-Gen International (Pvt) Ltd.	405,000	0.07
19.	Mr. N.A. Peiris	220,000	0.06
20.	Mr. D.K. Gunaratne	180,132	0.05
	Sub Total	312,375,857	98.14
	Others	5,698,508	2.49
	Total	318,074,365	100.00

No.	Name	As at 31 March 2017	
		No. of Shares	%
1.	M/S BG Investments (Pvt) Ltd.	132,480,096	41.65
2.	Group Lease Holdings Pte Ltd.	95,390,500	29.99
3.	Lanka Orix Finance PLC/BG Investments (Pvt) Ltd.	26,700,000	8.39
4.	Creation Investments Sri Lanka, LLC	20,347,220	6.40
5.	Mrs. E. Fernando	10,922,324	3.43
6.	Mr. G.G. Hemachandra	7,184,282	2.26
7.	People's Leasing & Finance PLC/Ms. S.N. Egodage	4,264,380	1.34
8.	Ceylinco Life Insurance Limited Account No. 01	4,014,843	1.26
9.	Mrs. H.H.J. Hewage	1,851,024	0.58
10.	Mr. T.K. Hemachandra	1,555,689	0.49
11.	Commercial Bank of Ceylon PLC/Dunamis Capital PLC	1,492,682	0.47
12.	Mr. S.K. Semage	773,944	0.24
13.	Mr. M.E. Wickremesinghe	675,738	0.21
14.	Waldock Mackenzie Limited/Mr. P.S.R. Casie Chitty	429,808	0.14
15.	Mrs. L.S. Semage	427,929	0.13

INVESTOR INFORMATION CONTD.

No.	Name	As at 31 March 2017	
		No. of Shares	%
16.	Mellon Bank N a-Acadian Frontier Markets Equity Fund	424,156	0.13
17.	Code-Gen International (Pvt) Ltd.	405,000	0.13
18.	D.H. Fernando	320,437	0.1
19.	Mrs. K.M. Gunawardena	271,532	0.09
20.	People's Leasing & Finance PLC/BG Investments (Pvt) Ltd.	252,496	0.08
	Sub Total	310,184,080	97.51
	Others	7,890,285	2.49
	Total	318,074,365	100.00

6. Director's Shareholding

Name	As at 31 March 2018		As at 31 March 2017	
	No. of Shares	Percent of Shareholdings	No. of Shares	Percent of Shareholdings
Mr. Kalugamage John Cecil Perera	Nil	Nil	Nil	Nil
Mr. Roshan Sanjaya Egodage	Nil	Nil	Nil	Nil
Mr. Ihala Gamaralalage Samantha Kumara Gunaratne	109,171	0.03	109,171	0.03
Mrs. Geya Rasi Egodage	Nil	Nil	Nil	Nil
Mr. Mihindukulasooriya Susantha Devapriya Pinto	42,000	0.01	42,000	0.01
Mr. Eugen Duliksha Pratharp Soosaipillai	Nil	Nil	Nil	Nil
Mr. Kenneth Dan Vander Weele	Nil	Nil	Nil	Nil
Mr. Patrick Thomas Fisher	Nil	Nil	Nil	Nil
Mr. Prasanna Senani Rajiv Casie Chitty	429,808	0.14	429,808	0.14
Mr. Mitsuji Konoshita	N/A	Nil	N/A	Nil
Mr. Regis Rodolphe Martin	N/A	Nil	N/A	Nil

7. Share Information

	As at 31 March 2018	As at 31 March 2017
Net Asset per Share (LKR)	38.56	32.22
Share Price		
Highest (LKR)	45.70	57.80
Lowest (LKR)	37.00	39.00
Last Traded (LKR)	43.10	39.60
Earnings		
Basic Earnings per Share (LKR)	7.54	9.13
Price Earnings Ratio (Times)	5.83	4.34
Dividend per Share (LKR)	1.00	1.50
Dividend Payout Ratio	0.14	0.16
Number of Transactions	5,955	
Market Capitalisation (LKR Mn.)	13,709.00	12,595.74

8. Debenture Information

	As at 31 March 2018	As at 31 March 2017
Debt/Equity ratio	5.84	6.64
Quick asset ratio	0.64	1.08
Interest cover	1.47	1.60

Company issued LKR 1,000,000,000 rated subordinated guaranteed redeemable Debentures for five years in June 2015. These Debentures are listed on the Colombo Stock Exchange.

	As at 31 March 2018	As at 31 March 2017
Yield as at date of last trade	11.00	10.71
The market prices during the year		
Highest price (LKR)	99.00	98.00
Lowest price (LKR)	99.00	98.00
Last traded price (LKR)	99.0	98.00
Credit rating (Instrument)	AA	AA
Comparable Government Security Coupon rate	10.68%	12.19%

Company issued LKR 2,000,000,000 rated subordinated guaranteed redeemable Debentures for five years in December 2015. These Debentures are listed on the Colombo Stock Exchange.

	As at 31 March 2018	As at 31 March 2017
Yield as at date of last trade	Not Traded	Not Traded
The market prices during the year		
Highest price (LKR)	Not Traded	Not Traded
Lowest price (LKR)	Not Traded	Not Traded
Last traded price (LKR)	Not Traded	Not Traded
Credit rating (Instrument)	A+	A+
Comparable Government Security Coupon rate	10.68%	12.20%

GLOSSARY

Accounting Policies

Principles, bases, conventions, rules and practices that are applied in recording transactions and in preparing and presenting Financial Statements.

Accrual Basis

Recognising the effects of transaction and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its expected useful life.

Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Associate Company

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Available for Sale (AFS)

A debt or equity security that is purchased with the intent of selling before it reaches maturity or selling prior to a lengthy time period in the event the security does not have a maturity.

Capital Adequacy Ratio

The relationship between capital and risk weighted assets as defined by directives issued by Central Bank of Sri Lanka.

Cash Equivalents

Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Flows

Inflows and outflows of cash and cash equivalents collectively Assessed Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

Collectively Assessed Impairment

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

Commercial Paper

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities.

Commitments

Credit facilities approved but not yet disbursed to the customers as at the date of the Statement of Financial Position.

Consolidated Financial Statements

Financial statements of a holding Company and its subsidiaries based on their combined assets, liabilities and operating results.

Contingencies

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others stakeholders.

Cost/Income Ratio

Operating expenses as a percentage of net income.

Credit Risk

Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

Credit Ratings

An evaluation of a corporate's ability to repay its obligation or the likelihood of non-defaulting, carried out by an independent rating agency.

Currency Swaps

The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement.

Currency Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Customer Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

Dealing Securities

These are marketable securities acquired and held with the intention to resale over a short period of time.

Deferred Taxation

Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

Depreciation

The systematic allocation of the depreciable amount of a tangible capital asset or fixed asset over its useful life.

Derecognition

Is the removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

Derivatives

A financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

Dividend per Share

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issues; this indicates the proportion of current year's dividend attributable to an ordinary share in issue.

Dividend Yield

Dividend earned per share as a percentage of its market value.

Discount Rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value

Earnings per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

Economic Value Added

A measure of productivity that takes into consideration cost of total invested equity.

Effective Interest Method

Is a method of calculating the amortised cost of financial asset or a financial liability (or group of financial asset or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

Effective Tax Rate

Provision for taxation including deferred tax divided by the profit before taxation.

GLOSSARY CONTD.

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

Equity Method

A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Equity

Total of shareholders' funds: share capital + statutory reserves + other reserves.

Fair Value

The amount for which an asset could be exchanged between knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Finance Lease

A lease in which the lessee acquires all the financial benefits and risks attaching to ownership of whatever is being leased.

Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Instrument

Is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Liability

A contractual obligation to deliver cash or another financial asset to an other entity.

Gearing

Long-term borrowings divided by the total funds available for shareholders.

Gross Dividend

The portion of profits distributed to the shareholders including the tax with held.

Guarantees

A promise made by a third party (Guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual Obligations.

Hedging

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavorable price movements (interest rate, foreign exchange rates, commodity prices, etc).

Held-to-Maturity

Investments and debt securities that a Company has the ability and intent to hold until maturity.

Hire Purchase

A system by which a buyer pays for an asset in regular installments while enjoying the use of such asset. During the repayment period, ownership(title) of the asset does not pass to the buyer.

Impairment

The value of an asset when the recoverable amount is less than its carrying amount.

Impaired Loans

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment Allowance for Loans and Receivables

Amount set aside against possible losses on loans, lease rentals and advances as a result of such facilities becoming partly or wholly uncollectible.

Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts that do not qualify for collective assessment.

Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest Cover

Earnings before interest and taxes for the year divided by total interest expenses.

Interest in Suspense

Interest suspended on non-performing accommodations. (Leases, hire purchases, loans and other advances)

Interest Margin

Net interest income expressed as a percentage of average total assets.

Interest Rate Risk

The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship.

Interest Spread

The difference between the average yield a financial institution receives from loans and other interest-accruing activities and the average rate it pays on deposits and Borrowings.

Investment Properties

Property (land or a building – or part of a building – or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Investment Securities

Securities acquired and held for yield and capital growth purposes which are usually held to maturity.

Key Management Personnel

People having authority and responsibility for planning, directing and controlling the activities of an entity, either directly or indirectly. (The Board of Directors and Corporate Management).

Liquid Assets

Assets that are held in cash or can be converted to cash in readily, such as deposits with other banks, Bills of Exchange, Treasury Bills and Bonds.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans Payable

Loan payable are financial liabilities, other than short-term trade payable on normal credit terms.

Loans and Receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

Loss Given Default (LGD)

The estimated ratio (percentage) of the loss of an exposure to the amount outstanding at default upon default of counter party.

Market Capitalization

Number of ordinary shares in issue multiplied by the market value of a share as at date.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Net Asset Value per Ordinary Share

Total net asset value of a Company divided by the total number of ordinary shares in issue.

Net Interest Income

Difference between revenue generated from interest bearing assets and interest incurred on interest bearing liabilities.

Net Interest Margin

Net interest income as a percentage of average assets.

Non-Performing Accommodations

A sum of borrowed money upon which the debtor has not made scheduled payments for at least 180 days.

Non-Controlling Interest

Portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

GLOSSARY CONTD.

Non-Performing Advances

Loans and advances of which rentals are in arrears for six months or more.

NPA Ratio

Total Non-Performing Accommodations (net of interest in suspense and other adjustments) divided by total accommodations (net of interest in suspense and other adjustments).

Operational Risk

The losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

Operating Lease

A contract that allows for the use of an asset, but does not convey rights of ownership of the asset. An operating lease is not capitalized; it is accounted for as a rental expense in what is known as “off balance sheet financing.” For the lessor, the asset being leased is accounted for as an asset and is depreciated as such. Operating leases have tax incentives and do not result in assets or liabilities being recorded on the lessee’s balance sheet, which can improve the lessee’s financial ratios.

Parent

An entity that controls one or more subsidiaries.

Price Earnings Ratio

Market price of a share divided by earnings per share.

Provision

The amount of an expense that an entity elects to recognise now, before it has precise information about the exact amount of the expense.

Provision Cover

Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on non-performing loans, leases and advances.

Related Parties

Parties where one party has the ability to control the other party exercise a significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related Party Transactions

Is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged or not.

Repurchase Agreements

Contracts to sell and subsequently repurchase securities at a specified price at a specified future date.

Return on Average Assets (ROA)

Profit before tax divided by total average assets.

Return on Equity

Profit after tax divided by total average equity.

Reverse Repurchase Agreements

The purchased of securities with the agreement to sell them at a specified price at a specified future date.

Risk Weighted Assets

On balance sheet assets and the credit equivalent of off balance sheet assets multiplied by relevant factors weighted by risk.

Segmental Analysis

Separately reported results of individual business activities that are required for publicly-held companies.

Shareholders’ Funds

This consists of issued and fully paid up ordinary shares and reserves.

Statutory Reserve Fund

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 01 of 2003.

Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Company

Subsidiary Company

An entity, including an unincorporated entity such as partnership, which is controlled by another entity, known as Parent.

Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transaction and the events are governed by their financial reality and not merely by its legal form.

Tier I Capital – Core Capital

Representing permanent shareholders' equity (paid-up shares) and reserves created or increased by appropriations of retained earnings or other surplus, i.e., retained profits and other reserves.

Tier II Capital

Supplementary finance institution capital that includes items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt.

Value Added

Value of wealth created by providing financial and other related services less the cost of providing such services.

Yield

Rate or return on an investment in percentage terms taking into account annual income.

NOTICE OF MEETING

NOTICE is hereby given that the Thirty Fifth Annual General Meeting of Commercial Credit and Finance PLC will be held at No. 106, Yatinuwara Veediya, Kandy on Monday, 13th August 2018 at 10.30 am for the following purposes:

1. To receive and consider the Audited Financial Statements for the Year Ended 31 March 2018 together with the Reports of the Directors' and Auditors' thereon.
2. To declare a Final Dividend of LKR 0.75/- per Share for the Year Ended 31 March 2018, as recommended by the Directors.
3. (i) To re-elect Mr. Kalugamage John Cecil Perera, Director, who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company.
(ii) To re-elect Mr. Kenneth D. Vander Weele, Director, who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company.
(iii) To re-elect Mr. Eugen Duliksha Pratharp Soosaipillai, Director, who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company.
(iv) To re-elect Mr. Prasanna Senani Rajiv Casie Chitty, Director, who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company.
(v) To elect Mr. Boris Blaise Zschorsch, Director in terms of Article 24 (2) of the Articles of Association of the Company.
4. Ratification of Donations amounting to LKR 877,206 made during the financial year ended 31 March 2018 and to approve donations for the financial year ending 31 March 2019.
5. To re-appoint the Auditors Messrs Ernst & Young, Chartered Accountants, to hold office until the conclusion of the next Annual General Meeting and to authorize the Directors to determine their remuneration.

(Sgd.)

By Order of the Board,
Jacey & Company
Secretaries

Colombo
17 July 2018

FORM OF PROXY

I/We the undersigned of being a member/members of Commercial Credit and Finance PLC do hereby appoint of whom failing MR. K.J.C. PERERA whom failing MR. R.S. EGODAGE whom failing MR. I.G.S.K. GUNARATNE whom failing MRS. G.R. EGODAGE whom failing MR. M.S.D. PINTO whom failing MR. E.D.P. SOOSAIPILLAI whom failing, MR. K.D. VANDER WEELE, whom failing MR. P.T. FISHER, whom failing, Mr. P.S.R.C. CHITTY, whom failing, MR. REGIS MARTIN as my/our Proxy to represent me/us and *..... to vote on my/our behalf at the THIRTY FIFTH ANNUAL GENERAL MEETING of the Company to be held on 13 August 2018 and at any adjournment thereof, and at every poll which may be taken in consequence thereof. I/We the undersigned hereby authorise my/our proxy to vote on my/our behalf in accordance with the preference indicated below:

	For	Against
1. To receive and consider the Audited Financial Statements for the Year Ended 31 March 2018 and the Reports of the Auditors' and of the Directors' thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a Final Dividend of LKR 0.75/- per share for the year ended 31 March 2018, as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. Directors		
(i) To re-elect Mr. Kalugamage John Cecil Perera, Director who retires by rotation in terms of Article 24 (6) of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To re-elect Mr. Kenneth D. Vander weele, Director who retires by rotation in Terms of Article 24 (6) of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect Mr. Eugen Duliksha Pratharp Soosaipillai, Director who retires by rotation in Terms of Article 24 (6) of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect Mr. Prasanna Senani Rajiv Casie Chitty, Director who retires by rotation in Terms of Article 24 (6) of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
(v) To elect Mr. Boris Blaise Zschorsch, Director in terms of Article 24 (2) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. Ratification of Donations amounting to LKR 877,206 made during the financial year ended 31 March 2018 and to approve donations for the financial year ending 31 March 2019.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint the Auditors Messrs Ernst & Young, Chartered Accountants, to hold office until the conclusion of the next Annual General Meeting and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our hand this day ofTwo Thousand and Eighteen.

Signature of Shareholder

Notes:

* If you wish your Proxy to speak at the Meeting you should insert the words "to speak and" in the place indicated with an asterisk and initial such insertion.

Please indicate with an "x" in the space provided how your Proxy is to vote. If there is in the view of the Proxyholder doubt (by reason of the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxyholder should vote, the Proxy holder shall vote as he thinks fit.

A Proxy holder need not be a member of the Company Instructions as to completion appear on the reverse hereof.

FORM OF PROXY CONTD.

INSTRUCTIONS AS TO COMPLETION

1. To be valid this Form of Proxy must be deposited at the Registered Office of the Company at No. 106, Yatinuwara Veediya, Kandy not less than 48 hours before the time appointed for the holding of the Meeting.
2. The instrument appointing a Proxy shall in the case of an individual be signed by the appointor or by his Attorney and in the case of a Company/Corporation, the Proxy Form must be executed under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association or other constitutional documents.
3. If the Proxy Form is signed by an Attorney, the relevant Power of Attorney or a notarially certified copy thereof, should also accompany the completed Form of Proxy if it has not already been registered with the Company.
4. The full name and address of the Proxyholder and of the Shareholder appointing the Proxyholder should be entered legibly in the Form of Proxy.

INVESTOR FEEDBACK FORM

To request information or submit a comment/query to the Company, please complete the following and return this page to,

Chief Financial Officer
Commercial Credit & Finance PLC
No. 45, Dharmapala Mawatha,
Colombo 07,
Sri Lanka.
E-mail: janaka@cclk.lk

Name :

Permanent Mailing Address :

Contact Numbers :

E-mail :

Name of the Company :
(If Applicable)

Designation :
(If Applicable)

Company Address :
(If Applicable)

Comments/Queries :

.....

.....

.....

.....

.....

.....



CORPORATE INFORMATION

COMPANY NAME

Commercial Credit and Finance PLC

LEGAL FORM

Incorporated as a Private Limited Liability Company under the Companies Act No. 17 of 1982 on 4 October 1982 and converted to a Public Company on 16 December 1989 and re-registered under the Companies Act No. 07 of 2007 on 8 April 2008.

A Registered Finance Company under the Finance Companies Act No. 78 of 1988 and re-registered under the Finance Business Act No. 42 of 2011.

A Registered Finance Leasing establishment under the Finance Leasing Act No. 56 of 2000 (as amended).

The Shares of the Company were listed on *Dirisavi* Board of the Colombo Stock Exchange on 1 June 2011. The Stock Exchange code for the Company share is "COCR".

REGISTRATION NUMBER

PB 269 PQ

PLACE OF INCORPORATION

Kandy, Sri Lanka

REGISTERED OFFICE

No. 106, Yatinuwara Veediya, Kandy

TELEPHONE

+94 (0) 81 2 000 000

FAX

+94 (0) 81 2 234 977

E-MAIL

ccl@ccl.lk

WEBSITE

www.ccl.lk

BOARD OF DIRECTORS OF THE COMPANY

Mr. K.J.C. Perera – Independent Non-Executive Director (Chairman)
Mr. R.S. Egodage – Executive Director (Chief Executive Officer)
Mr. I.G.S.K. Gunaratne – Non-Executive Director
Mrs. G.R. Egodage – Executive Director
Mr. M.S.D. Pinto – Independent Non-Executive Director
Mr. E.D.P. Soosaipillai – Independent Non-Executive Director
Mr. P.T. Fisher – Non-Executive Director
Mr. K.D. Vander Weele – Non-Executive Director
Mr. P.S.R.C. Chitty – Executive Director
Mr. R.R. Martin – Non-Executive Director
Mr. B.B. Zschorsch – Non-Executive Director

COMPANY SECRETARY

Jacey & Company
No. 9/5, Thambiah Avenue, Colombo 07

LAWYERS OF THE COMPANY

Julius & Creasy, Attorneys-at-Law
No. 41, Janadhipathi Mawatha, Colombo 01

COMPANY AUDITORS

Ernst & Young, Chartered Accountants
No. 201, De Saram Place, Colombo 10

BANKERS OF THE COMPANY

Bank of Ceylon
Cargills Bank Limited
Commercial Bank of Ceylon PLC
Deutsche Bank
DFCC Bank
Hatton National Bank PLC
Indian Overseas Bank
National Development Bank PLC
Nations Trust Bank PLC
Pan Asia Banking Corporation PLC
People's Bank
Sampath Bank PLC
Seylan Bank PLC
Union Bank of Colombo

BOARD AUDIT COMMITTEE

Mr. E.D.P. Soosaipillai (Chairman)
Mr. K.J.C. Perera
Mr. I.G.S.K. Gunaratne

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Mr. M.S.D. Pinto (Chairman)
Mr. I.G.S.K. Gunaratne
Mr. P.S.R.C. Chitty

INTEGRATED RISK MANAGEMENT COMMITTEE

Mr. K.J.C. Perera (Chairman)
Mr. R.S. Egodage
Mr. I.G.S.K. Gunaratne
Mr. E.D.P. Soosaipillai
Mr. P.S.R.C. Chitty

REMUNERATION COMMITTEE

Mr. I.G.S.K. Gunaratne (Chairman)
Mr. K.J.C. Perera
Mr. M.S.D. Pinto

Designed & Produced by : **mediawize**[®]
Annual Reports

Printed by : Star Printing & Advertising (Pvt) Ltd.

