Trustees of Your Trust

Better Prospects

Associated Motor Finance Company PLC
Annual Report 2017/18

Better Prospects

Associated Motor Finance Company PLC is on an enhanced path to sustained, organic growth. A key contributing factor has been the diversification of portfolio achieved through strategic investment. The value proposition that the Company embodies has enhanced considerably, which is a desired outcome in meeting and exceeding stakeholder expectations.

The prospects that are unfolding for the Company and its stakeholders are exciting!

Company Profile

Associated Motor Finance (AMF) Company PLC is one of the oldest finance companies registered in Sri Lanka. Incorporated on 25th July 1962 under Companies Ordinance No. 51 of 1938, the Company was subsequently re-registered under the Companies Act No. 07 of 2007. AMF is a registered finance company with the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011 as well.

The principal activities of AMF include acceptance of public deposits, leasing and hire purchase, small and medium entrepreneurial loans, real estate trading, promissory loans, mortgage loans, import and trading of private and commercial vehicles.

In an era where Sri Lanka espoused a closed economy model, the great visionary business leaders of AMF established a firm foundation by leveraging on the indigenous business opportunities. This exemplary leadership continued to take AMF to greater heights by successfully circumventing challenges and constraints such as the 30-year civil war which had a negative impact on Sri Lanka's economy. AMF with long years of success and considerable strength in the specialised area of financing acquired Arpico Finance Co. PLC; the second oldest finance company in Sri Lanka, with a highly diversified asset portfolio double its size.

Vision

To be renowned among all our stakeholders as a pre-eminent financial institution and maximise and sustain a rate of return well above the industry level on all investments made by our stakeholders.

Mission

To be the premier provider of superior financial solutions and innovations in leasing solutions to all our customer segments, through committed and quality services, and provide assistance to allow them the ability to realise their financial needs.

Our Core Values

Customers

Our passion is to serve our niche markets to the best of our ability providing them with trusted and steadfast services that will allow them to fulfil their financial goals.

Shareholders

We are committed to manage all aspects of our business affairs prudently to ensure the highest, sustainable returns on investments and thereby building shareholders' value at a rate above the industry level, upholding shareholders' confidence towards our operations.

Deposit Holders

We are committed to provide our depositors the highest return for their investments, within the regulator's guidelines, whilst ensuring the security of their investments.

Employees

To build a culture that promotes teamwork and empowers employees at all levels to take prudent initiatives and to make positive changes for the continuous improvement of the quality of our business operations.

Contents

Financial Highlights

	Company			Group		
	2017/18	2016/17	Change %	2017/18	2016/17	Change %
Result on operation						
For the Year ended 31st March (Rs. Mn.)						
Interest income	1,487.91	1,154.72	29	4,638	3,005	54
Interest expense	900.31	596.97	51	2,576	1,452	77
Net interest income	587.60	557.74	5	2,062	1,553	33
Profit before income tax	108.77	186.36	-42	502	466	8
Income (tax)/Reversal on profits	13.10	34.47	-62	(60)	(47)	27
Profit after income tax	121.87	220.45	-45	443	419	6
Gross dividends	70.10	84.13	-17	–	–	–
Financial position						
At the Year end (Rs. Mn.)						
Total Assets	8,178.24	7,181.40	14	25,202	17,518	44
Lending portfolio	4,663.33	4,207.43	11	20,600	13,985	47
Deposits from public	5,366.61	4,278.08	25	13,501	9,892	36
Borrowings	1,160.31	1,326.00	-12	8,507	4,887	74
Shareholders' funds	1,266.13	1,212.37	4	2,212	1,870	18
Market capitalisation	2,243.45	2,579.41	-13	–	–	–
Information per ordinary share						
Earnings – Basic (Rs.)	21.73	39.37	-45	75.13	72.32	4
Dividends (Rs.)	12.50	15.00	-17	–	–	–
Net asset value (Rs.)	225.75	216.16	4	376.58	318.76	18
Market value at the end of the period (Rs.)	400.00	459.90	-13	–	–	–
Price earnings (times) – Ordinary shares	18.41	11.68	58	–	–	–
Ratios						
Return on average assets (%)	1.42	2.88	-51	2.35	3.09	-24
Return on average shareholders' funds (%)	8.78	16.29	-46	24.59	24.83	-1
Net interest margin (%)	7.65	8.61	-11	9.66	10.30	-6
Dividend pay out ratio (%)	57.52	38.16	51	–	–	–
Equity to assets (%)	15.48	16.88	-59	–	–	–
Compliance ratios						
Core capital to risk weighted assets (Tier I) (%)	22.18	23.38	-5	–	–	–
Total capital to risk weighted assets (Tier I and II) (%)	1.83	-0.72	356	–	–	–
Liquid assets to total assets (%)	8.87	12.42	-29	–	–	–
Liquid assets to deposits (%)	27.14	28.51	-5	–	–	–

ROA – Profit before tax as a percentage of average assets.
ROE – Profit before tax as a percentage of average equity.
NIM – The ratio of interest income less interest expenses to average assets.

Non-Financial Highlights

Deposit Customers

2,457

Senior Citizens Deposit Customers

1,757

Lending Customers

42,409

Deposit Renewal Ratio

89%

Shareholder Base

379

Total Employees

180

Chairman's Review

Dear Shareholders,

It is with pleasure that I present the Annual Report of Associated Motor Finance Company (AMF) for the financial year 2017/18.

I am pleased with the progress our Company has made across the business over the past 12 months achieving sustained growth through diversification of the portfolio supported by the strategic investment in Arpico Finance. This timely decision has enabled our Organisation to achieve a strong outlook and deliver enhanced value to all our stakeholders in the long term.

Operating Environment

Sri Lankan economy recorded a lower than projected growth during the year 2017, weakened by adverse weather conditions which negatively impacted the agriculture sector. Services and industry related activities recorded growth rates of below 4%. Whilst headline inflation remained above the desired mid-single level, core inflation remained in check as a result of Central Bank's tight monetary policy stance.

Interest rates which were high at the beginning of the year, decelerated gradually towards the latter part of the year due to decline of credit to the private sector, moderate inflation, higher liquidity levels and reduced borrowings by the Government on account of improved revenue collections. Sri Lanka's export sector improved with the restoration of GSP+ facility and factors including recovery in external demand, conducive external trade policies and the flexible exchange rate policy maintained by the Central Bank. Due to the spillover effects of adverse weather conditions and firming of international commodity prices, import expenditure increased substantially during the year as well.

The financial sector showed improved performance as the supportive prudential measures continued to preserve stability of the financial system. Whilst the banking sector continued to expand during the year, the performance of the Non-Bank Financial Institutions (NBFIs) moderated, with low credit growth, declining profitability and deceleration in asset quality. However, the sector remained strong with healthy capital levels along with adequate liquidity buffers well above the regulatory minimum levels.

Building a Sustainable Organisation

With an unfailing corporate legacy of over 55 years, AMF has earned a strong reputation as a stable financial institution in our nation's financial landscape. It is our insight forged by expertise, coupled with our unique business model that enabled us to build a financial institution of strong repute. Operating with the highest integrity and commitment to compliance, we continued to deliver consistent value for our stakeholders. Our committed and highly competent employees continued to dedicate themselves everyday to fulfilling our Company's mission.

The strategic investment in Arpico Finance Company (AFC) was a timely decision, which enables our Organisation to grow in a sustainable manner as a consolidated entity. Whilst we continued to be a key two-wheeler financier in the country, we successfully diversified our portfolio through our strategic investment to corporate loans, Islamic finance loans, microfinance loans, four-wheeler leasing and personal loans during the year. The benefits of this strategic investment continued to gain momentum by sharing resources, expertise, and innovation across the Group, applying our proven strategy right across the Group at pace. We also continued to leverage the opportunities of scale, as we created synergies to become more efficient and more effective during the year.

Performance

Against challenging economic milieu we forged ahead to deliver commendable results, recording a profit after tax (PAT) of Rs. 122 Mn. at Company level and a consolidated PAT of Rs. 443 Mn., up 6% from last year. Company's asset base swelled by 14% and by 44% at Group level. Group NPL of 4.9% was below the industry average. Additionally, the consolidated portfolio grew by 47% to Rs. 20.6 Bn. and by 11% at Company level.

We believe that prudent governance and risk management practices are crucial for the long-term financial stability of our Company. Hence, we are compliant with the Central Bank of Sri Lanka Regulations, CA Sri Lanka and SEC joint Code of Best Practice on Corporate Governance and the Continuing Listing Requirements of the Colombo Stock Exchange.

Looking Forward to 2018 and Beyond

The coming year will be an important one for AMF Group. The strategic actions we have taken, with discipline and over time are the prerequisites of sustainable growth. Accordingly, the process of amalgamating AMF with AFC which commenced in August 2017 is expected to be completed with the legal merger by November 2019. Whilst the merger would improve the overall synergies, it would strengthen the business franchise and support business growth of the Group. The success of this strategic decision will be demonstrated in the sustained financial and operational performance, with strong revenue and profit growth in the years ahead. Our Organisation will continue to be underpinned by high standards of corporate governance and a strong risk management framework that provides stability, prudence and effective oversight.

Additionally, we remain well positioned for sustainable long-term growth with a prudent strategy, a unique business model and an extraordinary team with a relentless commitment to excellence to execute it.

Expressing Appreciation

I would like to express my sincere gratitude for the support and guidance extended to us by the Governor of the Central Bank of Sri Lanka and the Director and the officials of the Department of Supervision of Non-Bank Financial Institutions. My deep appreciation is extended to the Managing Director and Executive Directors for their inspired leadership and our talented and dynamic staff members for their continued dedication and relentless focus on driving business success.

I wish to thank my colleagues on the Board for their strong and consistent support and insightful guidance. My sincere appreciation is extended to our customers and depositors for their valued patronage and loyalty and our shareholders for the steadfast support extended to us at all times.

Dr. L. Rohan Karunaratne
Chairman
28th June 2018

Managing Director's/ Chief Executive Officer's Review

During the year 2017/18, our focus was on creating sustained growth and delivering enhanced value that exceed stakeholder expectations. We made significant progress on our strategic agenda by maximising efficiency through operational excellence and consolidating our business model. By leveraging our strengths, we remain geared to generate strong and sustainable returns in the future through our timely and prudent strategic decision.

Creating Stakeholder Value

Our customers are at the heart of everything we do. Therefore, building customer loyalty remained a key priority, because it is the key to sustainable growth. Accordingly, we delivered high levels of customer service and built trust in our brand. To our depositors we continued to meet our commitments and deployed our resources to deliver the highest possible returns over the long term, as evidenced by the 51% YoY increase in interest payment during the year. Our deposit base also swelled by a healthy 25% and the deposit renewal ratio stood at a commendable 89%.

Our employees remain one of our greatest competitive assets, crucial to executing our strategy and driving corporate success. We continuously strive to improve and make our Organisation a great place to work and an employer of choice by offering meaningful, challenging and rewarding careers. We also invested and supported employees' development, enabling them achieve their personal and professional potential.

Our aim is to build strong supplier relationships that enable us to grow together. The mutually beneficial relationships with our suppliers which extend beyond mere commercial association support the growth of our business. Therefore, whilst achieving a strong growth in the four-wheeler portfolio, the AMF Group recorded a healthy growth in the two-wheeler portfolio as well during the year. As a result, the consolidated asset base recorded a strong growth of 44% to Rs. 25 Bn.

We also make a significant contribution to our nation's development, by looking after the senior citizens and uplifting the quality of life of rural communities. The two wheelers we finance cater to masses, whilst majority of our clients are involved in micro and SME businesses. In addition to contributing to the development of transport facilities in rural communities, we continued to serve those who have no access to formal banking services.

Efficient Integration

Operational and technological strength is a key competitive advantage. Therefore, it is our intent to build a foundation of core operations and technology that enables us to generate efficiency from scale, while at the same time ensure that we deliver an exceptional customer experience which is key to driving loyalty and long-term growth. During the year, our Group invested in a state-of-the-art HR platform, which is top of the range in the industry and a customised call centre platform that is effective for the recovery process.

We leveraged the opportunities of scale in the Group, creating synergies to become more efficient and more effective during the year. To achieve operational integration, we have made human resources a shared service between AMF and AFC. Several events were organised as well to closely integrate the staff of the two companies during the year.

A Look Ahead

Going forward, we will continue to grow the two-wheeler market building on our expertise, diversify our portfolio, expand our geographical footprint and achieve greater operational efficiencies through the merged entity.

Appreciation

As we conclude our review, we wish to express our sincere gratitude to our management team and staff members for their hard work and ongoing dedication to excellence. We express our appreciation to the Chairman and Directors for their counsel and professionalism in helping to position our Organisation for its long-term success. We are thankful to the Governor of the Central Bank of Sri Lanka, Director and officials of the Department of Supervision of Non-Bank Financial Institutions for their continued support. Thank you to our loyal customers, depositors and shareholders for your continued loyalty and confidence in us.

We have a sustainable business model, a sound strategy that is working and creating value, an exceptional workforce and a deep commitment to integrity. In the years ahead, we will continue to create and grasp opportunities to create increased value to all our stakeholders.

J.P.I. Nalatha Dayawansa
Managing Director

T.M.A. Sallay
Chief Executive Officer

Board of Directors

01 Dr. Rohan Karunaratne

Chairman/Non-Executive Director

Ph.D. (USA), Ph.D. (Sussex), MBA (London), B.Eng. (India)

Dr. Karunaratne is a qualified Civil Engineer and a Ph.D. holder in Construction Management and Business Management. He possesses an MBA in Business Administration and also a Bachelor of Engineering. In addition to the aforementioned academic qualifications, he has the following professional qualifications in relation to his field of civil engineering: Diploma in Civil Engineering (India), T.Eng. (C.E.I.) MSE (London), Graduate of the Society of Engineers (London). Member of the Institute of Engineers and Technicians (London), Member of the Engineers Registration Board (London). Fellow of the International Institute of Management, Fellow of the Ceylon Institute of Builders.

He has been appointed as the Chairman of the Board of Associated Motor Finance Company PLC since May 2011. He has over 31 years of post-qualification experience in Civil Engineering, Building Construction, Engineering Consultancy, Construction Training, Lecturer in Civil Construction, Designing and Planning. He is currently the Chairman of Arpico Finance Company PLC and holds numerous key positions in the following institutions and professional bodies:

President	:	Ceylon Institute of Builders
Chairman	:	Human Resource Development (Pvt) Ltd.
Chairman	:	A.K.K. Engineers (Pvt) Ltd.
Deputy Chairman	:	International Institute of Management
Non-Executive Director	:	Hatton National Bank PLC
Chairman	:	Master Builders Int. (Pvt) Ltd.
Chairman	:	Hybrid Airports (Pvt) Ltd.
Chairman	:	Pinthaliya Resorts and Spa

02 Mr. L.C.W. Edirisooriya

Independent Non-Executive Director

B.Com, FCA, FCMA

Mr. L.C.W. Edirisooriya is a practicing Chartered Accountant under the name of Edirisooriya & Co. He is a Bachelor of Commerce Special Degree holder at the University of Sri Jayewardenepura, a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and a Fellow Member of Certified Management Accountants of Sri Lanka. He is having over 28 years professional working experience in auditing, financial management, fund management, consultancy work and company secretarial work at public listed companies, corporations, banks and various other institutions.

He functioned at the Paddy Marketing Board, State Plantations Corporation, Shipping Corporation and Sri Lanka Ports Authority in different senior executive positions handling and supervising accounting, auditing and management. He is a Senior Lecturer in Accountancy in various institutions including CA Sri Lanka. He is the Managing Director of Access Company (Pvt) Ltd., a registered company handling company secretarial work and management consultancy work.

03 Mr. K.D.U.S. Nanayakkara

Independent Non-Executive Director

Mr. Nanayakkara holds a Bachelor of Science Degree in Pure Mathematics and Physics from the University of Colombo and an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura. He is also a Fellow of the Chartered Institute of Management Accountants, UK.

Mr. Nanayakkara commenced his career at Linea Intimo, a fully-owned subsidiary of the MAS Holdings in 1999 and moved up the rank to become the CFO of MAS Active division in 2014, where he served in this capacity till end of 2017. He is currently the Director – Manufacturing and Planning of MAS Active, the sportswear division of MAS Holdings. He has been an active member in setting up a manufacturing partnership in China and manufacturing subsidiaries in India and Jordan. Under his leadership a feasibility study was conducted to set up a manufacturing facility in the Northern Province which became a reality in 2012. Currently holds responsibility in setting up MAS operations in the Western Hemisphere.

Additionally, the Finance Team of MAS Active won the prestigious CIMA Case Study Award in 2012 under his leadership. This case study was based on the successful transformation that took place after the implementation of the Lean Enterprise in a service function. He was appointed as a Board Director of MAS Legato (Pvt) Ltd., MAS's shared services operation with effect from 1st January 2017.

04 Mr. J.P.I. Nalatha Dayawansa

Managing Director

Mr. J.P.I. Nalatha Dayawansa is a holder of Diploma in Automobile Engineering in Stuttgart, Germany and has been an Apprentice of the Dimo, Mercedes Benz AG and Bosch GmbH. He has undergone extensive training locally and internationally in relation to automobile engineering. He possesses a vast knowledge and experience in this field, which prompted him to start his own business venture namely, Imperial Import & Export Company (Pvt) Ltd., in 1983 and pioneered the import of used high end cars. It also involves the importation of farm and earth moving equipment, prime movers from UK.

He is also the holder of a Diploma in Economic and Management from the London School of Economics and Management in UK. He was appointed as an Executive Director to the Board of Associated Motor Finance Company PLC in 1982 and after the demise of his father late Mr. J.P.I. Piyadasa in 1995: he succeeded as the Chairman and Managing Director of the Company. He has over 35 years of extensive experience in many industries such as Finance, Hospitality and Leisure, Garments, Exports and Imports. In addition to the above, he is currently the Chairman and Managing Director of Poltech (Ceylon) Ltd., a public company engaged in garment exports and also the Chairman and Managing Director of Imperial Import & Export Company (Pvt) Ltd., a private limited company engaged in importing and trading of used motor vehicles from UK. He has been appointed as an Executive Director of Arpico Finance Company PLC since December 2014.

05 Mr. Shanil Dayawansa

Executive Director

MA (Australia), (BA) Accounting and Management (London)

Mr. J.P.I. Shanil Dayawansa holds a Degree in Accounting and Management (BA) from the University of Essex (UK) and Master's Degree in International Business (MA) from the Monash University in Melbourne, Australia. Both these qualifications focus on finance and management of business. He was appointed as an Executive Director to the Board of Associated Motor Finance Company PLC in September 2009. He has been the recent inclusion to the Board to bring youthfulness to the Board of Associated Motor Finance Company PLC, with a view to strengthen it further, with the financial and accounting aspects and to improve the corporate governance of the Company.

He has been appointed as an Executive Director of Arpico Finance Company PLC, since December 2014, subsequently he was appointed as the Managing Director of Arpico Finance Company PLC since June 2015.

06 Mrs. A.S. Dayawansa

Executive Director

Mrs. A.S. Dayawansa was appointed as an Executive Director to the Board of Associated Motor Finance Company PLC in 1995. In addition to this, she has been holding directorships at Poltech (Ceylon) Ltd., a public company engaged in garment exports and also at Imperial Import & Export Company (Pvt) Ltd., a company engaged in importing and trading of used motor vehicles from UK. She is also the Managing Partner of Ayathi, a dress boutique, which caters exclusively to the high end market. She has over 19 years of experience in sectors such as Finance, Garments, Imports and Exports.

Management Team

Mr. T.M.A. Sallay
Chief Executive Officer

He is a holder of a Master's in Business Administration from the Asia University of Malaysia. He is a fully-qualified Member of the Institute of Certified Management Accountants of Australia and is currently reading for his strategic level in the Chartered Institute of Management Accountants of the UK.

Mr. Sallay is a financial professional with over 30 years of extensive and diverse work experience in the fields of Finance, Auditing, Marketing, Credit and Recoveries, Project Management and Event Management. He has held many positions, both strategic and operational, in many organisations and has wide exposures in diverse sectors such as Finance, Hospitality, Healthcare, International Event Organisation, Communications and Trading and Manufacturing.

Mr. Sallay joined Associated Motor Finance Company Ltd., in 1997 as the Group Accountant. He was promoted to the post of General Manager in 2003 and to the post of CEO/ General Manager in 2011. He performs as the Head of Finance of the Company. He has been appointed as an Executive Director of Arpico Finance Company PLC since December 2014. His past work experience has seen him focus on his core strengths in the realm of finance, through over 21 years of service with several established financial institutions.

Mr. K.I.S. Grero
Manager – Marketing (Vehicles)

Mr. Grero counts 22 years of experience in the field of Sales and Marketing in sectors such as Travel, Tourism and Finance, of which 14 years were spent in managerial positions.

Mr. G.S. Shantha Gunasekara
Senior Manager – Marketing (Leasing and Hire Purchase)

Mr. Gunasekara holds a Diploma in Marketing from the Faculty of Asia Lanka Vocational Education and a Higher Diploma in Practical Accountancy from the Institute of Professional Accountancy Training. He is also a part qualified member of the Association of Accounting Technicians of Sri Lanka and holds a Diploma in Public Management from the University of Sri Jayewardenepura. He holds a Diploma in Micro Finance from the Institute of Bankers of Sri Lanka. He has over 26 years of experience in the finance industry, 15 years of which have been spent in managerial positions.

Mr. P.A. Nilan Perera
Senior Manager – Operations and IT

Mr. Perera is a part qualified member of the Accounting Technicians of Sri Lanka and is a registered student of the Institute of Certified Management Accountants of Sri Lanka. He is also reading for his Bachelor's in Information Technology through an external degree course offered through the University of Colombo. He has over 25 years of experience in the field of accountancy of which, 11 years have been spent in managerial positions.

Mr. Vajira Panditharathne
Senior Manager – Recoveries

Mr. Panditharathne holds a Diploma in Writership and Communication from the University of Sri Jayewardenepura and also holds a Diploma in Psychology and Counselling. He has successfully completed the Certificate in Marketing from SLIM. He possesses over 15 years of experience in the finance industry and 9 years in the field of Mass Media Communications. Of this period, 8 years were spent in managerial positions.

Management Discussion and Analysis

Operating Environment

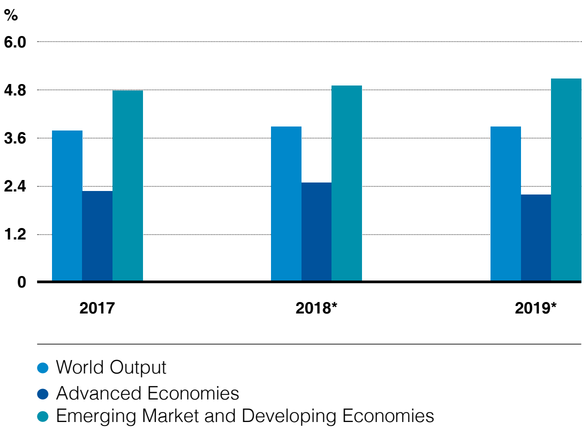
Global Economy

Global economic growth of 3.8% in 2017 was the strongest growth recorded since 2011. This is primarily attributed to the notable rebound in global trade, whilst the growth was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia coupled with a notable upswing in emerging Europe, and signs of recovery in several commodity exporters.

The economic growth in developed markets was favourable. This enabled major central banks in the world to initiate measures to remove the extraordinary monetary policy measures implemented post 2008 financial crisis. Accordingly, the US Federal Reserve spearheaded this initiative by implementing measures to shrink its balance sheet by increasing policy rates thrice during 2017 and once again in March 2018.

On account of acceleration in private consumption, emerging market and developing economies recorded a growth of 4.8% in 2017. The rebound in export growth was particularly strong in emerging Asia, especially China which was the fastest growing emerging economy.

Economic Growth



**Projections.*
Source: International Monetary Fund – April 2018 Update.

Future Outlook

Global growth is expected to increase to 3.9% in 2018 and 2019. Advanced economies are projected to grow at 2.5% in 2018 and slowdown to 2.2% in 2019. In particular, growth in United States is expected to rise from 2.3% in 2017 to 2.9% in 2018, before moderating slightly to 2.7% in 2019. Growth in emerging market and developing economies are projected to increase to 4.9% in 2018 and 5.1% in 2019. Emerging Asia remains the most important engine of global growth, expected to continue growing at 6.5% during 2018-19. However, growth in China is projected to soften slightly from 6.9% in 2017 to 6.6% in 2018 and to 6.4% in 2019.

Sri Lankan Economy

Sri Lanka's real GDP growth declined to 3.1% in 2017 from 4.5% in 2016 with agriculture contracting for the second year running owing to bad weather. Services activities, which accounted for 56.8% of real GDP, recorded a growth of 3.2% in 2017, driven by the expansion in financial service activities, wholesale and retail trade and other personal service activities. Industry-related activities, expanded by 3.9% in 2017, although there was a notable decline in the growth of construction activities during the year under review that supported overall economic growth throughout the post conflict period, with the exception of 2015.

Headline inflation (CCPI, 2013=100) as measured by the Colombo Consumer Price Index (CCPI) remained elevated throughout 2017, on account of supply side pressures stemming from adverse weather conditions and revision of tax policies. However, headline inflation reduced substantially, from 5.8% in January 2018 to 4.5% in February 2018 respectively due to lower food inflation in the Maha harvesting season and the base effects of higher inflation during the same period last year. Core inflation also declined to 3.5% and 2.0% on CCPI and NCPI respectively by February 2018.

There was a gradual improvement in the external sector during 2017, with higher foreign exchange inflows to the financial account. Earnings from exports increased by 10.2% in 2017, largely supported by the restoration of the European Union's GSP+ facility, recovery in external demand, expansion in investment in export-related industries, increased commodity prices in the international market, conducive external trade policies together with strong institutional support and the favourable impact of the flexible exchange rate policy maintained by the Central Bank. The balance of payment (BOP) recorded an overall surplus in 2017, after recording overall deficits for two consecutive years. Sri Lanka's total foreign assets increased to US dollars 10.4 Bn. by end 2017, equivalent to 6 months of imports, from US dollars 8.4 Bn. at end of 2016. The external value of the Sri Lankan rupee remained relatively stable in 2017 with an overall depreciation of 2.0% against the US dollar during the year.

A fiscal consolidation programme was implemented by the Government with the aim of reducing the budget deficit and lowering Government's debt burden. Whilst Government revenue from non-tax revenue sources as a percentage of GDP declined Year on Year, tax revenue increased in nominal terms and also as a percentage of GDP, primarily due to amendments to Value Added Tax Act, including the increase of VAT to 15% during the latter part of 2016 and other reforms introduced to the Economic Service Charge (ESC) and NBT in 2017.

The Central Bank continued to maintain a tight monetary policy stance to curtail heightened credit demand and inflation. The Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank stood at 7.25% and 8.75%, respectively following the increase in policy interest rates by 25 basis points in March 2017. In response, the growth of credit extended to the private sector decelerated to the desired level by end 2017.

Future Outlook

The annual real GDP growth of Sri Lanka is expected to gradually improve to around 6.0% to surpass US dollar 6,000 by 2022. With appropriate policy measures and positive developments on the external front, the external sector is projected to improve over the medium term which is expected to result in the narrowing of the trade deficit as a percentage of GDP from 11.0% in 2017 to 8.7% by 2022. Budget deficit is estimated to decline to 3.5% of GDP by 2020, with the Government's continued focus on the revenue-based fiscal consolidation process in the medium term.

Comprehensive amendments will be introduced to the Monetary Law Act (MLA) to strengthen Central Bank's independence and facilitate the adoption of Flexible Inflation Targeting (FIT) as the monetary policy framework. Further amendments will be introduced to improve governance of the Central Bank, strengthen financial sector oversight and boost fiscal-monetary coordination. The IMF will continue to push towards reforming State Owned Enterprises (SOEs) while advocating a market pricing mechanism for fuel and electricity prices.

The high level of debt repayment due from the second half of 2018 is a major concern which could affect the country's interest rates. The continuation of a more market determined exchange rate policy would result in the currency being influenced by external factors such as foreign fund flows as well our nation's capacity to fund its debt obligations. Discussions on bilateral trade agreements with India, China, Bangladesh and Indonesia, the Free Trade Agreement signed with Singapore, trade liberalisation and Foreign Direct Investment into the country are the other areas of focus in the ensuing year.

Financial Sector

The performance of the financial sector improved as the supportive prudential measures continued to preserve stability of the financial system in 2017. Banks, other deposit taking financial institutions and contractual savings institutions contributed to the improved performance of the sector.

The regulatory framework governing the financial system was further strengthened during the year by introducing prudential measures focused on enhancing transparency, capital requirements, access to finance, liquidity and risk management frameworks. These measures were aimed at enhancing the safety and resilience of the financial sector.

Non-Bank Financial Institutions Sector (NBFI)

The performance of licensed financial companies (LFC) and specialised leasing companies (SLC) sectors which represented 7.8% of assets of Sri Lanka's financial system as at 31st December 2017, moderated during the year with low credit growth, declining profitability and increase in non-performing loans. The slowdown in the sector is attributed to the curtailing of motor vehicle imports, moderate economic growth, natural disasters and high interest rates that prevailed in 2017.

Assets and Liabilities

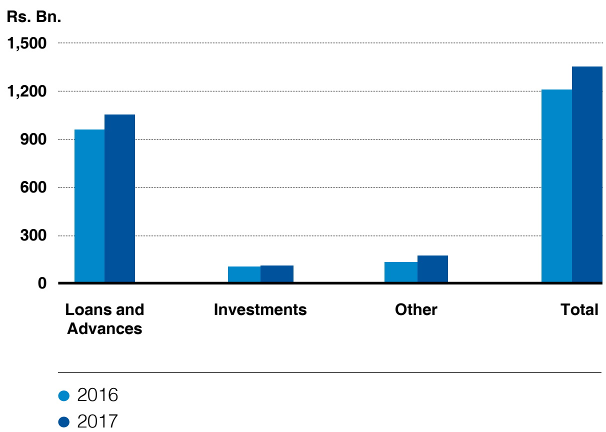
Total assets of the NBFI sector increased at a slower rate of 11.8% YoY in 2017 compared to a high 22% growth in 2016. Accordingly, total assets reached Rs.1,355 Bn. at end 2017 and Rs.1,379 Bn. at 31st March 2018.

The largest share of the assets base comprised loans and advances accounting for 78% of total assets and contributing to 66% of asset growth. Credit growth of the sector decelerated to 9.8% (Rs. 94 Bn.) amounting to Rs.1,057 Bn., compared to 21% the previous year.

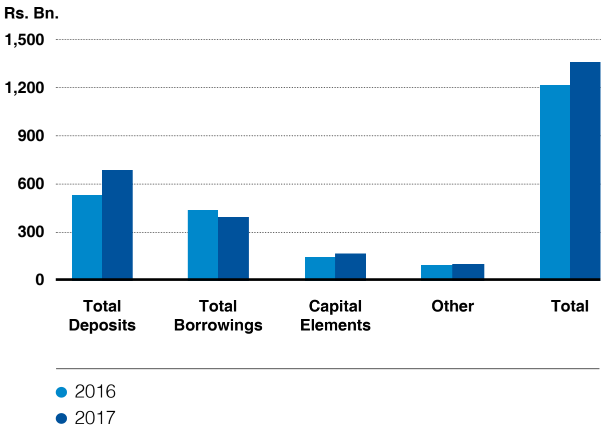
Exhibiting the shift in the funding mix, the expansion was largely funded through customer deposits which accounted for 51% of total liabilities and recorded a growth of 29% in 2017, compared to the10% growth in 2016.

As a result of the floods in the first half of 2017 and slowing down of the economy, the asset quality deteriorated as reflected in the increase in gross non-performing loans (NPLs) portfolio by 24% to Rs. 65.9 Bn. in 2017. Consequently, the gross NPL ratio increased to 5.9% in 2017 from 5.3% in 2016 due to the increase in gross NPLs and decline in the growth of the loan portfolio. As a result the total loan loss provisions increased by Rs. 7.4 Bn. to Rs. 42.2 Bn. and the provision coverage ratio declined to 64.0 % in 2017, compared to 65.7% in 2016. By adopting appropriate risk mitigation techniques, credit risk of the sector remained at manageable levels.

Assets – NBFI Sector



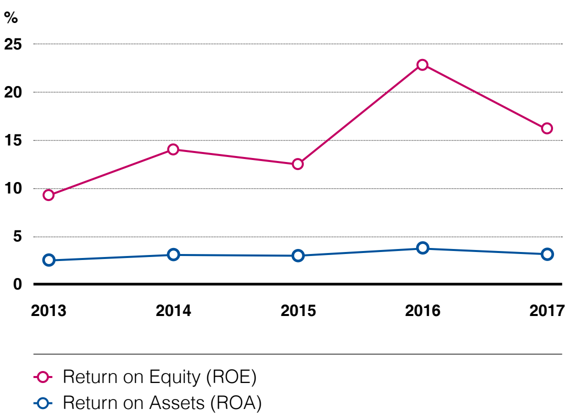
Liabilities – NBFI Sector



Profitability

Sector's profit after tax declined by 18% to Rs. 25.8 Bn. in 2017, compared to the profit of Rs. 31.5 Bn. recorded in the year 2016. This was largely attributed to increased funding cost and higher loan loss provisions. Net interest margin also declined marginally to 7.7% in 2017 from 7.9% the previous year due to the higher increase in interest expense (33%) compared to the increase in interest income (23%). Reflecting the sign of stress towards the profitability of the sector, ROA declined to 3.2% and ROE to 16.1% in 2017 from a high of 23.1% in 2016.

Profitability Indicators – NBFI Sector



Capital

Overall capital level of the sector was maintained well above the minimum requirement. The total regulatory capital improved by 25% to Rs. 145.3 Bn., largely due to the efforts to enhance the minimum capital requirement up to Rs. 1 Bn. by 1st January 2018 and due to the increase in retained profits.

The core capital and total capital ratios increased to 12.4% and 13.1%. respectively, compared to 11.3% and 11.7% recorded in year 2016.

Developments in the Sector

With the aim of enhancing the stability and soundness of the sector and increasing the customer confidence, the NBFI sector came under stringent regulatory scrutiny by the Central Bank of Sri Lanka (CBSL). Accordingly, several prudential policy measures were implemented by CBSL to strengthen the supervisory and regulatory framework of LFCs and SLCs. The minimum core capital requirement of LFCs and SLCs was increased from Rs. 400 Mn. to Rs. 1 Bn. from 1st January 2018, and requirements of Rs. 1.5 Bn., Rs. 2.0 Bn. and Rs. 2.5 Bn. by 1st January 2019, 1st January 2020 and 1st January 2021 respectively. In addition, a cap on deposits and borrowings was imposed on all LFCs and SLCs, which did not comply with the minimum core capital requirement and penalties were also imposed on non-compliances.

In order to combat unethical and fraudulent behaviour that impacts the credibility of the entire NBFI sector, CBSL will put in place a Financial Customer Protection Framework which will come into effect from April 2018. This includes an improved litigation mechanism for fraudulent activities and legal provisions against errant Senior Management.

Future Outlook

Despite the slowdown in credit growth in the NBFI sector, it is envisaged that the macroprudential measures adopted by the Central Bank to curtail excessive lending growth is likely to remain. CBSL will continue to strengthen the institutional framework for macroprudential surveillance through analysing liquidity and interest rate gaps and multicurrency foreign exchange risks, monitoring leverage of financial institutions and enhancing credit risk assessments of the financial sector.

The new regulations issued by CBSL to increase the minimum core capital levels for all licensed finance companies is likely to spur small companies to improve their capital buffers and propel them towards mergers and acquisitions. Whilst strengthening the capital position, it will also improve the resilience of existing institutions and encourage only the more financially efficient and effective companies to remain in the sector. With the view of ensuring a stable and stronger non-bank financial sector and minimise unstable small scale finance companies in the sector, market driven acquisitions and mergers will be encouraged among LFCs/SLCs to sustain strong financial institutions.

Discussions are also being held to encourage LFCs and SLCs to obtain credit ratings and be listed on the Colombo Stock Exchange (CSE). This will ensure financial stability and operational excellence while creating healthy competition.

Financial Review

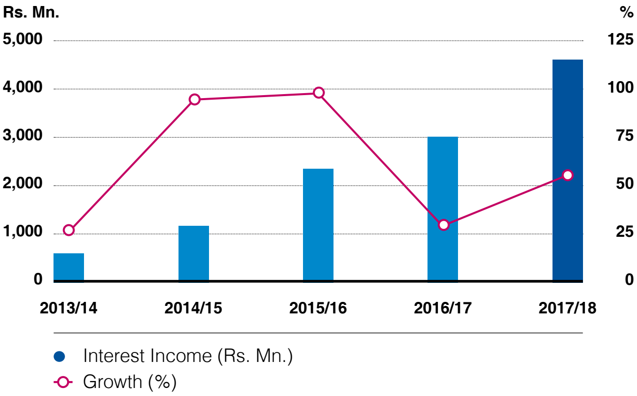
Interest Income

Leasing continued to be AMF Group's primary source of revenue. Accordingly, the consolidated lease portfolio, recorded a growth of 47% YoY to Rs. 20.6 Bn. Consolidated interest income reported a stellar performance, with a remarkable 54% YoY growth to Rs. 4.6 Bn., in FY 2017/18 compared to Rs. 3.0 Bn., recorded in the previous financial year.

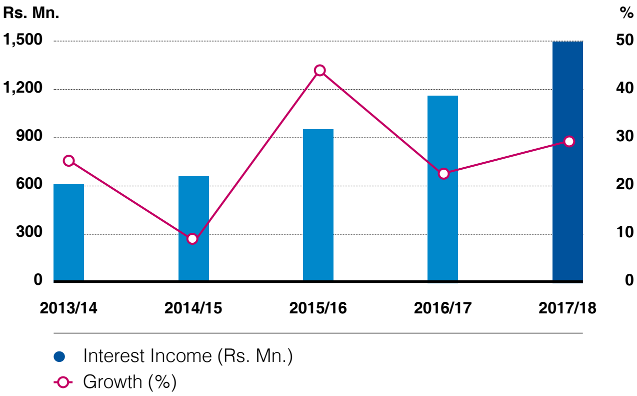
The increase is attributed to the effective strategic decisions made during the year to expand the leasing portfolio, which made a significant contribution to the consolidated interest income.

At Company level, interest income increased by a commendable 29% to Rs. 1,488 Mn., compared to Rs. 1,155 Mn., recorded in FY 2016/17.

Interest Income – Group



Interest Income – Company

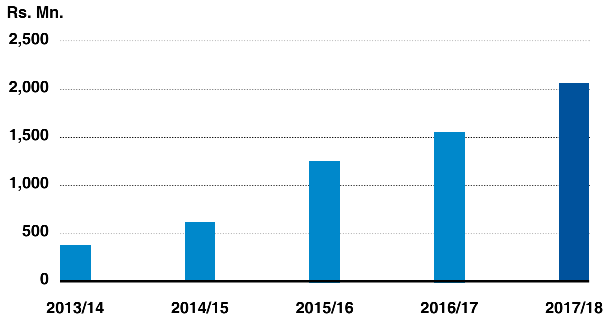


Net Interest Income (NII)

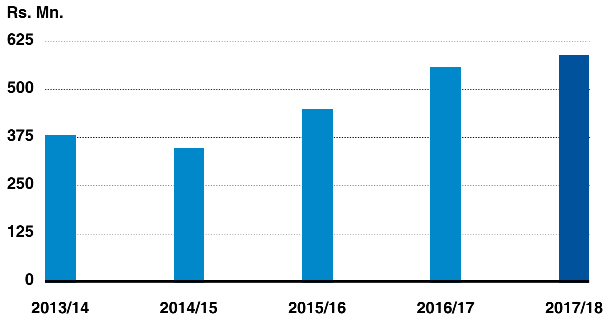
Consolidated net interest income increased by 33% YoY to Rs. 2,062 Mn., in FY 2017/18 compared to Rs.1,553 Mn., in FY 2016/17. Company's Net Interest Income which stood at Rs. 588 Mn., as at FY 2017/18 reflected a marginal increase of 5% compared to Rs. 558 Mn., in the previous financial year.

The effective management policies adopted by the Group enabled to maintain a healthy balance between the lending and borrowing rates which resulted in a high interest income and a commendable Net Interest Margin (NIM) of 9.6%. On account of funding the aggressive expansion of the consolidated lease portfolio, interest expenses increased by 77% YoY. This reflects the increased level of borrowing and the high interest rates that prevailed in the market.

Growth in Net Interest Income – Group



Growth in Net Interest Income – Company



Other Operating Income

Other operating income encompasses the profit on sale of motor vehicles, fees received from insurance, fair value gains on investment property and dividend income. During the year under review, other operating income of the Company increased by a marginal 2% to Rs. 109 Mn.

Operating Expenses

Consolidated total operating expenses of the Group increased by 19% YoY in 2017/18. This was largely due to the Company's expansion and promotional activities which resulted in an escalation in personnel costs and expenses related to office premises.

Personnel expenses continued to account for the largest share of overhead expenses during the year under review, amounting to 74% of the total operating expenses. During the year, total operating expenses increased by 14% from Rs. 393 Mn., in 2016/17 to Rs. 346 Mn., in the year under review. The increase is primarily attributed to increments, bonus payments and increase in staff numbers.

Company's operating expenses reduced by 6% to Rs. 305 Mn., in 2017/18 from Rs. 321 Mn., in 2017/16.

Profitability

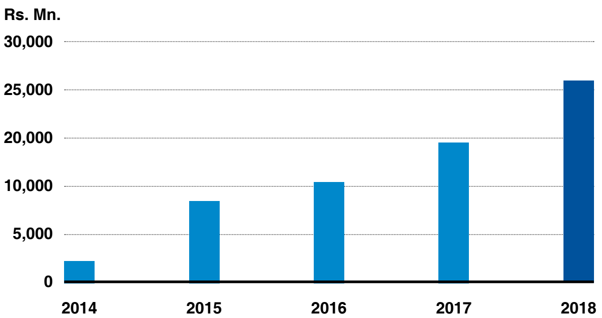
Consolidated profit after tax for the year increased by 6% to Rs. 443 Mn., compared to Rs. 419 Mn., the previous financial year.

Compared to Rs. 220 Mn., recorded in 2016/17, Company's net profit for the year decreased to Rs. 121 Mn., in 2017/18.

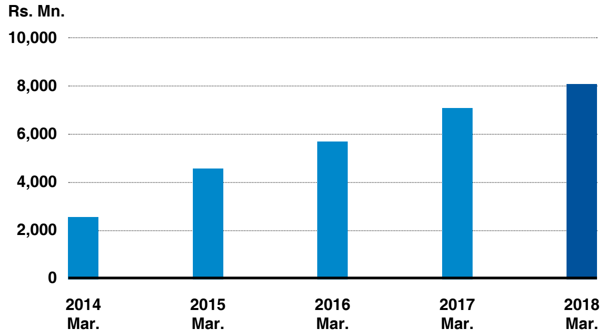
Total Assets

Company's balance sheet swelled by 14% to Rs. 8.178 Bn., and by 44% to Rs. 25 Bn., at Group level as at the end of the FY 2017/18. This increase was largely due to business expansion during the year.

Total Assets – Group



Total Assets – Company

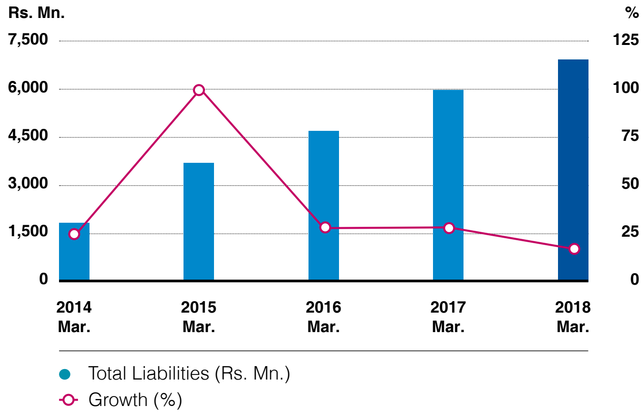


Funding

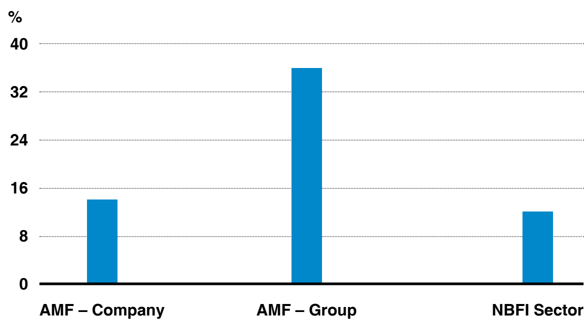
Public deposits accounted for the largest share of Group funding. Accordingly, the deposit base increased by 36% YoY to Rs. 13.5 Bn., as at end March 2018. Other borrowings increased by a whopping 74% at Group level to Rs. 8.5 Bn., compared to Rs. 4.8 Bn., in the previous financial year.

At Company level, deposits increased by 25% to Rs. 5.3 Bn. from Rs. 4.2 Bn. in 2016/17. On the other hand, borrowing decreased by 12% to Rs. 1.1 Bn., in 2017/18 from Rs. 1.3 Bn., in the previous financial year.

Total Liabilities



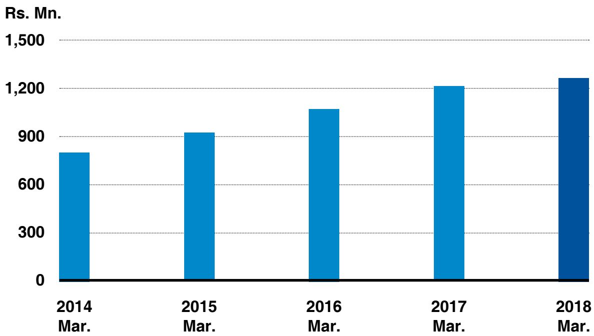
Deposits Growth (YoY) – 2017/18



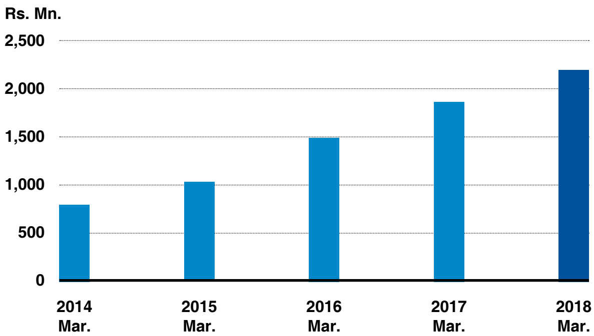
Shareholders' Funds

Delivering increased value to shareholders, the Group recorded an 18% increase in shareholders' funds to Rs. 2.2 Bn., in the year under review. At Company level, equity amounted to Rs. 1,266 Mn., after a Rs. 70 Mn., dividend payment to shareholders. Company's equity reflected a growth of 4% compared to Rs. 1,212 Mn., in the previous financial year.

Equity – Company



Equity – Group



Business Partner Capital

Our business partners facilitate the smooth operations of our business and the execution of our strategy. Therefore, it is imperative to develop mutually beneficial relationships that enable us to grow together. Our supplier relationships extend beyond mere commercial association to include aspects such as helping dealers to develop their businesses operations and promoting ethical and sustainable business practices. Our suppliers support our value creation process by bringing in new business, collecting instalments and assisting in the recovery process, which helps to serve our customers effectively and efficiently. We maintain close engagement with our business partners through one-on-one meetings and visits to their business premises.

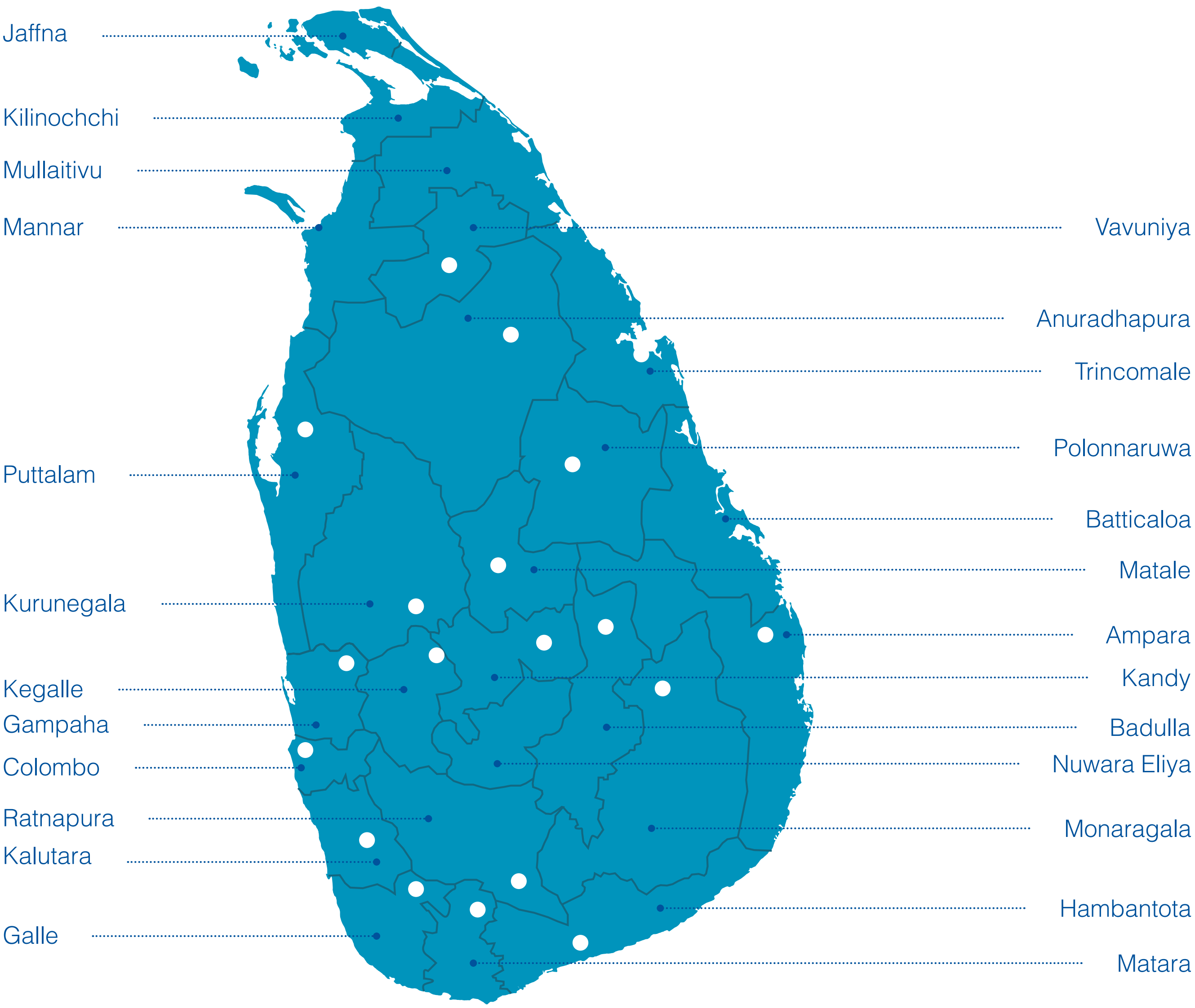
Social and Relationship Capital

Uplifting Rural Communities

We largely serve the lowest income earners in society and segments that are unreached by other financial institutions. Majority of our clients are located outside the Western Province and are engaged in self-employment. We continued to expand our operations to serve the low income segments in society through our sales strategies and customer relationships. By offering optimal financial solutions, we contribute to uplift the standard of living of our customers spread across the nation. We have also made a significant contribution to develop the transport sector of the rural communities by offering financial services to purchase two-wheelers.

We have expanded our coverage of providing Financial Services outside the Western Province.

Our Island-wide Reach – Operational Areas

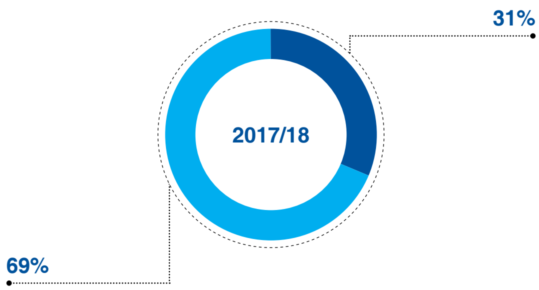


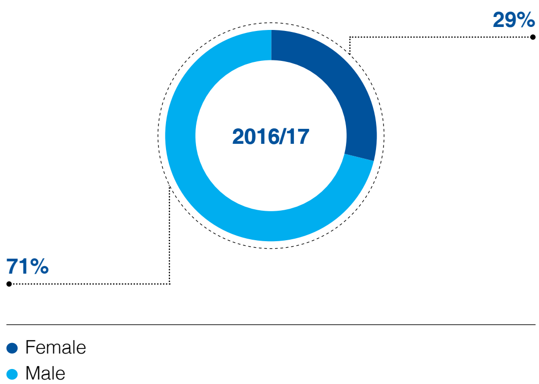
Women Empowerment

Women play a significant role in the well-being of their families. The two-wheelers we have financed have become immensely beneficial to carry out their daily activities such as transporting their family members and for engaging in self-employment activities. In particular, women in the Anuradhapura and Galle Districts use these two-wheelers to travel to distant areas, several times a day, to collect their daily requirement of water. It has been an enriching experience to witness the numerous occasions where the living standards of families have been elevated through the financial support extended by us.

69% of our customers are men whilst 31% are women. The highest number of female customers was from the Kurunegala District numbering 2,426.

Gender Analysis of Customers

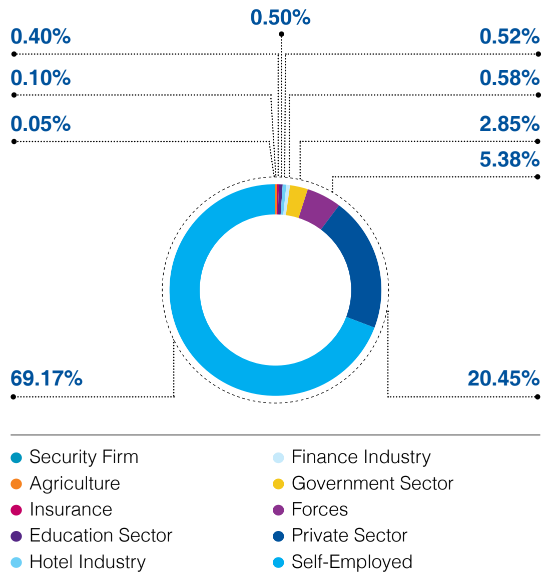




Supporting Self-Employment

We continued to uplift and support the self-employed sector. The following graph indicates that self-employed customers remains the largest segment and has increased by 6,113 customers YoY in the year under review. Accordingly, the percentage engaged in self-employment has increased to 69% in 2017/18 from 64% in the previous year.

Occupational Analysis as at 31st March 2018



Customer Capital

Our customers remain at the heart of our business and are an integral stakeholder of the Organisation. We continually work hard to earn our customer's loyalty and deliver increased value to them. Therefore, our focus is on extending a great customer experience, building strong customer relationships, investing in service enhancements and offering attractive products and services to cater to their diverse needs.

Through these efforts, we successfully increased the number of customer contracts by 1,579 during the year; thus increasing the total count to 42,409 at the end of the financial year under review. By offering a range of products including finance leases, hire purchase facilities, fixed deposits and secured loans against fixed deposits, we support our customers to progress in life.

We also enable customers to make informed decisions by providing adequate information and clear explanations about our products and services. Upholding customers' right to privacy and securing their personal data also remains important priorities for us.

The highest number of customer contracts was generated from the Kurunegala District, followed by the Gampaha District.

Lending

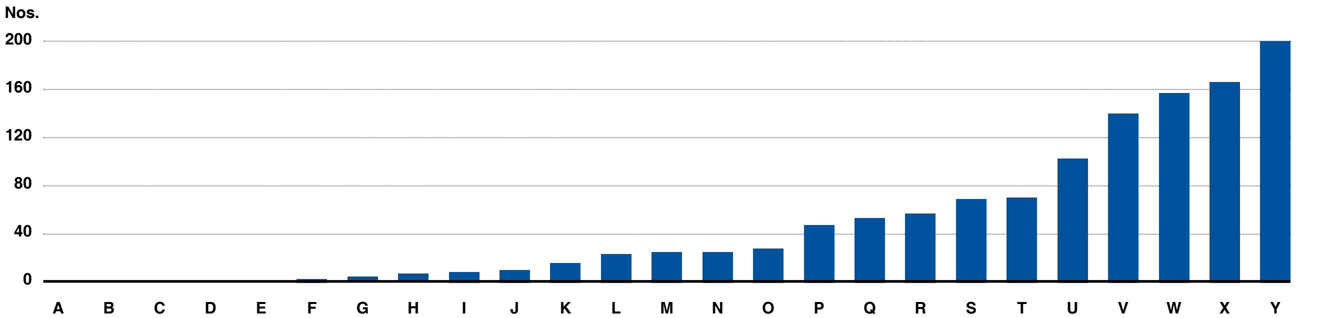
Company's lending base swelled by 11% YoY to Rs. 4.7 Bn., from Rs. 4.2 Bn., the previous financial year. At Group level, the lending portfolio increased by a staggering 47% to Rs. 20.6 Bn., in the year under review. Leasing has been the main product of AMF and its lending portfolio with accounted for 82% of Company's total assets.

Majority share of the portfolio comprised two wheelers accounting for approximately 98%, of the total.

Deposits

Deposits are our primary source of funding and accounted for 79% of total liabilities as at the end of financial year under review. Valuing the loyalty and trust of our depositors, we strive to offer the highest return for their investments within the regulatory guidelines.

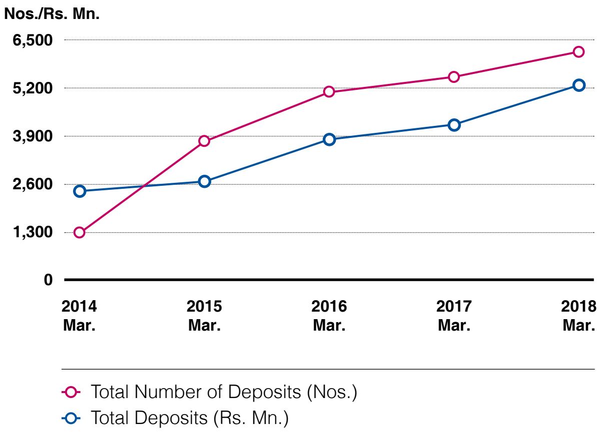
District-wise Analysis as at 31st March 2018



A Kilinochchi **B** Batticaloa **C** Mullaitivu **D** Jaffna **E** Mannar **F** Trincomalee **G** Nuwara Eliya **H** Vavuniya **I** Matara **J** Ampara **K** Kandy **L** Badulla **M** Hambantota **N** Matale **O** Monaragala **P** Galle **Q** Ratnapura **R** Kegalle **S** Polonnaruwa **T** Puttalam **U** Kalutara **V** Colombo **W** Anuradhapura **X** Gampaha **Y** Kurunegala

We have consistently maintained a high renewal ratio, reflecting the strong customer loyalty in our Organisation and the customer satisfaction in the premium service standards extended by us. The average renewal ratio based on number of deposits was maintained at 89% in 2017/18, as in the previous financial year.

Deposit Base



Renewal Ratio

Marketing Communication

Our strong brand is one of our most important business assets. We continually strive to strengthen our brand through marketing communications. Our primary mode of marketing communication is through paper advertisements and we do not use the electronic media such as television and the radio to advertise our products and services. We communicate in all three languages – Sinhala, Tamil and English, and the main language of communication remains Sinhala. We also ensure all relevant information is disseminated clearly, accurately and in timely manner to all our customers.

Customer Reach

All our operations are carried out through our head office in Colombo and through the Kurunegala office.

Investor Capital

The required capital for expansion and growth of our business is provided by investors. Therefore, we continually strive to achieve sustainable growth and deliver increased returns to our investors. As at the end of the financial year 2018, our total shareholder base amounted to 379 of which 95% were individuals and 5% were institutions.

Shareholders' Funds

At Company level, shareholders' funds increased by 4% YoY to Rs. 1,266 Mn., as at 31st March 2018 compared to the 13% YoY growth recorded in the previous financial year. At Group level, shareholders' funds swelled by 18% to Rs. 2,212 Mn., in the year under review.

The return on average shareholders' funds for the year under review declined by 46% YoY to 8.78 in 2017/18, whilst at Group level the ratio declined by 1% to 24.59.

Dividends

The dividend per share of our Company dropped to Rs. 12.50 compared to Rs.15.00 the previous financial year. This is largely on account of the decrease in profit after tax for the financial year under review. The Company will not be paying a dividend for the year ended 31st March 2018.

Market Capitalisation and Share Price Movement

At the end of the current financial year, market capitalisation of AMF decreased by 13% YoY to Rs. 2.2 Bn., compared to Rs. 2.6 Bn., in 2016/17. The share price of AMF recorded a high of Rs. 480.00 and a low of Rs. 390.00 during the FY 2017/18. The year-end share price was Rs. 400.00.

Return on Assets (ROA) and Return on Equity (ROE)

For the year ended 31st March 2018, the ROA and ROE of our Company stood at 1.42% and 8.78% respectively. At consolidated level ROA and ROE were 2.35% and 24.59% respectively. The industry average for ROA as at 31st March 2018 was 3.0%.

Earnings per Share (EPS) and Price Earnings Ratio

Company's earnings attributable to ordinary shareholders dipped to Rs. 21.7 compared to Rs. 39.37 as at end March 2017.
At Group level, EPS increased by 4% YoY to Rs. 75.13 in 2017/18 from Rs. 72.32 the previous financial year. The Price Earnings Ratio increased from 11.68 times to 18.41 times in the year under review, reflecting a growth of 58% at Company level.

Net Asset Value (NAV)

The NAV per share of the Company increased from Rs. 216.16 at the beginning of the financial year to Rs. 225.75 as at the end of the FY in review, reflecting an YoY increase of 4%.

Employee Capital

Our employees are critical to our service delivery. Our agility and our ability to rise to any challenge and come up with solutions has been due to our competent, passionate and committed workforce. Our success over the years is therefore underpinned by the way we lead and engage with our people, the way we work, and the way we are organised.

Therefore, we always strive to nurture a winning team, who are passionate for excellence and make a noteworthy contribution to the progress of our Organisation. By creating a conductive work environment we enable every employee to realise their personal as well as professional goals. Further, we invest in training and development to hone the skills and competencies of our employees to progressively reach a higher level of performance and attain their fullest potential. This also helps to continually improve the quality of our service delivery.

Our values are embedded in the standards, policies and guidance which we set out to help employees perform. These values are reinforced through regular internal communications. Further, as an equal opportunity employer, we do not discriminate employees based on gender, race, religion or caste. We pay a uniform remuneration for work of equal value irrespective of gender.

We also promote a healthy work-life balance through a range of initiatives to help support our employees. During the year, we have been fully compliant with all relevant national regulations concerning our employees and their interests.

Recruitment and Retention

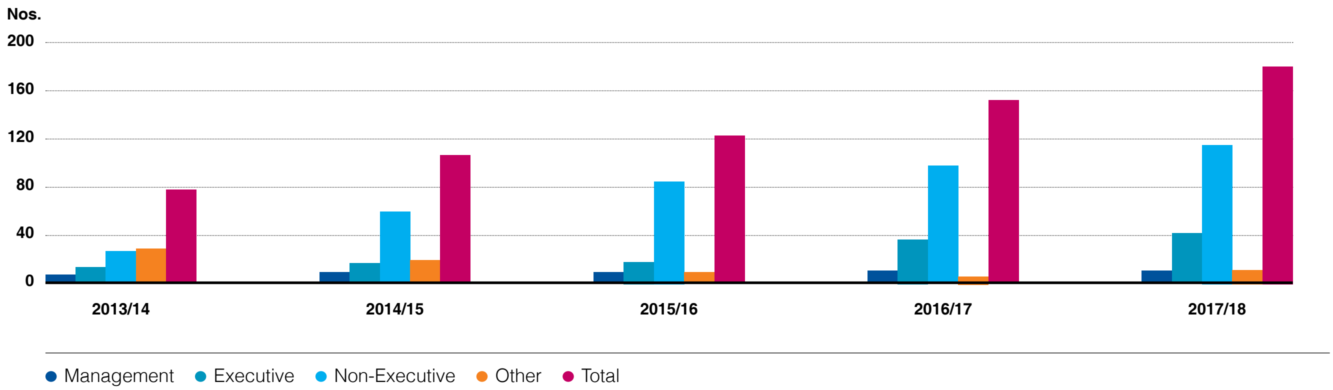
The success of our business depends on our ability to attract and retain talented and motivated individuals who make a significant contribution to the success of our Organisation. Guided by our recruitment policy, competent professionals are recruited who meet the high performance standards of our Organisation. We give priority to internal candidates to fill vacancies which open up in the Company. External recruitments are made if the vacancies cannot be filled by internal candidates or if specialised skills which are not available in-house are needed. Every new recruit undergo a comprehensive induction and orientation programme to absorb the AMF culture, values, policies and procedures.

Over the years, our Organisation has progressed steadily driven by well-informed and target-oriented employees who are responsive to the needs of their colleagues, customers and the changes of the environment.

During the year, we recruited 34 employees of whom 32% were females. The total staff strength of the Organisation increased to 180 employees as at the end of the financial year 2017/18 reflecting a 18% increase compared to 152 employees in the previous comparable period.

Given below is the analysis of staff members based on hierarchy.

Employees based on Hierarchy



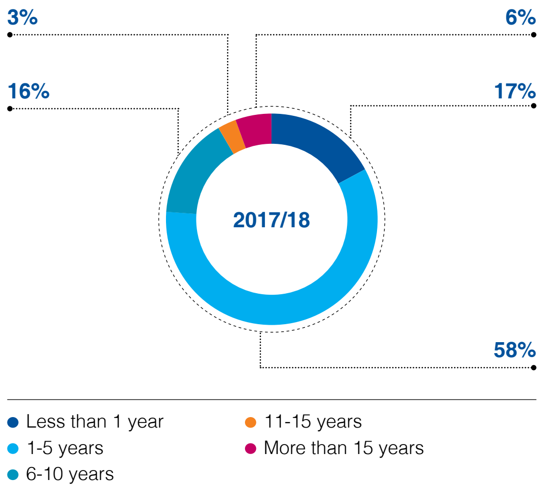
Training and Development

Through continuous development, we strive to build a competent workforce equipped to serve customers with care and professionalism. Hence, our training and development function is designed to equip employees to achieve the desired level of competencies to ensure achievement of Company objectives. Through continuous training and development, career progression and impartial reward and remuneration schemes, we motivate and develop our human capital to reach their highest potential. Additionally, on-the-job training and internally developed training programmes are conducted by our own resource personnel to train our employees.

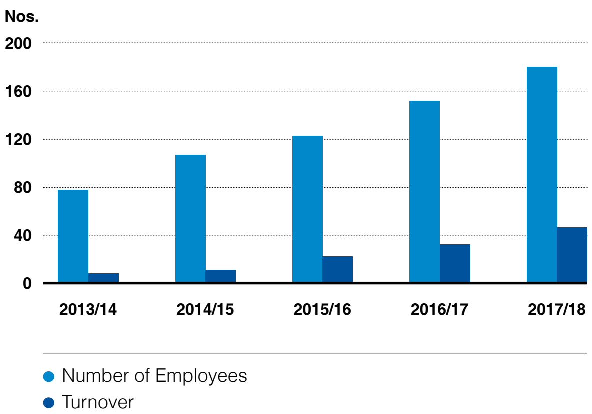
Employee Retention

Following a non-discriminative culture, through remuneration and benefits, training and development, high levels of employee engagement and numerous other factors, we strive to increase employee retention in our organisation.

Service Analysis



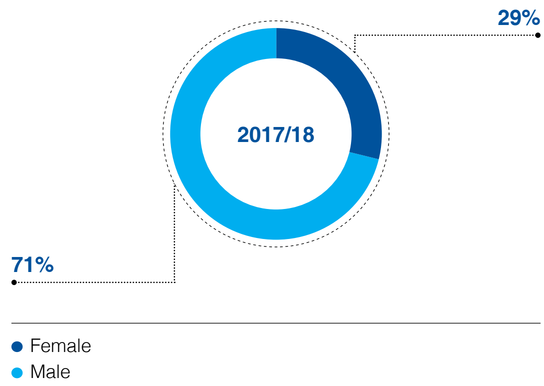
Employee Turnover



Employee Diversity

Employee diversity is essential for the stability and enrichment of human capital. Therefore, we nurture a workforce diverse in terms of gender, age, religion, service period, educational background and ethnicity. Our culture not only acknowledges but respects these differences by embracing and recognising their value. We fostering camaraderie through a range of cross departmental activities enabling employees to work alongside each other creating strong teams, which add increased value to our Organisation.

Gender Analysis



Stewardship

Managing Risk at AMF

Overview

Risk management is the process of identifying, assessing, quantifying, controlling and mitigating the risks that an organisation faces. Risk management is a rapidly developing discipline which every financial institution adopts and implements and it is an ongoing dynamic and evolving process. The aim of good risk management is to safeguard stakeholder interests whilst managing risk and return theories.

The prime objective of Associated Motor Finance Company PLC's risk management framework is to mitigate the credit, market and operational risks relating to all business activities that the Company is engaged in to ensure that the impact of identified risks is within the risk appetite and risk tolerance levels of the Company.

Risk Management Process

Risk management process implemented by AMF has two main elements, risk assessment and risk control and is overseen by the Integrated Risk Management Committee.

– Risk Assessment

The first step under risk assessment is identifying main risks under each department as the risks are specific to each department. A separate Risk Register, maintained at each department, allows the Company to identify the main areas that need attention so as to mitigate any future losses as well as opportunities to gain through identifying new control mechanisms. These risks are then analysed and prioritised based on their likelihood and impact.

– Risk Control

The Integrated Risk Management Committee develops strategies to reduce the likelihood or the loss impact of risks identified under risk assessment. Then the Committee ensures the proper implementation of the developed strategies and evaluates the overall effectiveness of the strategies.

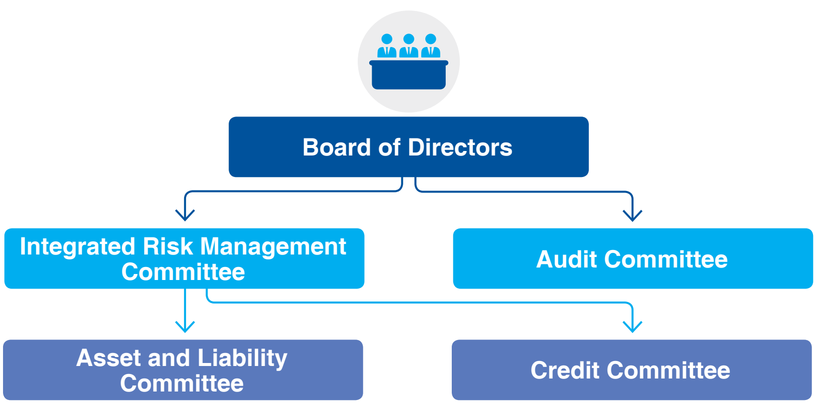
Integrated Risk Management Committee

The core duty of this Committee is to review and assess the quality, integrity and effectiveness of the risk management process and ensure that the risk policies and strategies are effectively managed. The Committee members are appointed by the Board of Directors.

The risk-related framework is mainly carried out with the aid of the Credit Committee and the Asset and Liability Committee (ALCO). These Committees monitor identified risks on a continuous basis and assume responsibility for the effective implementation of strategies related to risk management.

These Committees shall:

- Oversee formal reviews of activities associated with the effectiveness of risk management and internal control processes.
- Review issues raised by internal audit that impact the risk management framework.
- Ensure that the Company is taking appropriate measures to achieve prudent balance between risk and reward in both ongoing and new business activities.
- Monitor external development relating to the practice of corporate accountability and the reporting of specifically associated risk, including emerging and prospective impacts.
- Perform other activities related to risk management as requested by the Board of Directors or to address issues related to any significant subject within its term of reference.



Key risks monitored and controlled by the Risk Management Committee:

No.	Risk Exposure	Description	Level of Risk	Company Objectives	Risk Minimisation Strategies
01.	Credit Risk	Credit risk can be defined as borrower's failure to repay a loan or otherwise meet a contractual obligation. Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorised into three types – default, concentration and settlement risk.	H	• Minimising risks associated with debtor defaults. • Working towards obtaining collaterals from defaulters with long-standing balances.	• The credit risk is managed at two broad levels, Pre and Post-disbursement. • Pre disbursement is regulated by having experienced credit professionals evaluating and approving credit within a clearly delegated authority framework. • Post-disbursement is regulated by having visiting officers to ensure recoveries of the credit transactions and following-up customers with outstanding balances with the support of credit indicators and analytical tools through call centres on a daily basis.
02.	Market Risk	Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, currency risk and other price risk such as equity price risk.	H	• Minimising adverse effects of interest rate volatility and currency denominated borrowings. • Ensuring cost of borrowing is at the optimum level.	• Maintaining a mix of funding options. • Maintaining high levels of lending rates resulting in higher net interest margins.
03.	Business Risk	Business risk is the possibility a company will have lower than anticipated profits and it is influenced by numerous factors, including sales volume, competition, the overall economic climate and Government regulations.	H	• Maximising the market share and maintain leadership in the industry.	• Planning procedures to enhance the business operations and increase the market share throughout the country. • Ensuring speedy delivery of high quality service in the eyes of the customer. • Carrying out market analyses regularly in order to identify key areas to be focused. • Planning to introduce new strategies to build up strong relationships with dealers.

No.	Risk Exposure	Description	Level of Risk	Company Objectives	Risk Minimisation Strategies
04.	Liquidity Risk	Liquidity risk arises when the Company, despite being solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due or can only do so at materially disadvantageous terms.	M	• Ensuring proper management of liquidity position in the Company. • Capitalising on opportunities to raise funds at lowest possible cost. • Maximum utilisation of the concessionary funding available to Financial Sector.	• Ensure that the short-term and medium-term liquidity is managed acceptable levels. • Funding of long-term assets through Equity and long term-loans. • Ensure availability and effective utilisation of short-term facilities where necessary.
05.	Operational Risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes information and legal risk as well.	M	• Identifying and minimising risk associated with processes and systems of the Company.	• Ensuring effectiveness of operational functions in the organisation by regularly reviewing processes. • The Company has outsourced the internal auditing function to ensure adequacy and effectiveness of internal controls. Their reports are reviewed, discussed and recommendations are implemented. • Proper training sessions for staff members have been designed and implemented to train them on compliance with operational policies and controls of the organisation.
06.	Reputation Risk	Reputation risk is a risk of loss resulting from damages to an organisation's reputation, in lost revenue; increased operating, capital or regulatory costs; or destruction of shareholder value.	L	• Preventing the adverse impacts for the reputation of the Organisation.	• Ensuring effective communication with various stakeholders such as employees, bankers, regulators, customers, suppliers and the shareholders. • Having in place a budgetary process and a budgetary control mechanism on a monthly and ongoing basis to ensure that the Company's performance is continuously in line with its targets.

Report of the Integrated Risk Management Committee

The Integrated Risk Management Committee (IRMC) is a Subcommittee of the Board established to assist the Board in performing its oversight function in relation to different types of risks faced by the Company in its business operations and to ensure adequacy and effectiveness of the Risk Management Framework of the Company.

The Committee comprises the following members:

Mr. K.D.U.S. Nanayakkara (The Committee Chairman) – Independent Non-Executive Director

Mr. L.C.W. Edirisooriya – Independent Non-Executive Director

Mr. J.P.I.N. Dayawansa – Executive Director

Mr. J.P.I.S. Dayawansa – Executive Director

Mr. T.M.A. Sallay – CEO

The Committee presented reports on the risks identified in the respective areas of supervision of each Committee member. Mitigation measures were continuously assessed and developed over time and it was ensured that measures in place were viable and actively understood and supported by all officers. Constant review of processes and analysis ensured that risk identification is a continuous process.

During the year, the Committee met four times and proceedings of the meetings were reported to the Board.

A dedicated officer has been entrusted to ensure the Company's level of conformance with laws, regulations, directions, rules and guidelines.

The Committee worked closely with the Key Management Personnel, Internal Auditors and the Board in fulfilling its duties in risk management.

K.D.U.S. Nanayakkara
Committee Chairman

Corporate Governance

Finance Companies Direction No. 03 of 2008 (And Subsequent Amendments thereto) on Corporate Governance for Licensed Finance Companies in Sri Lanka

Section Number	Description	State of Compliance
2. The Responsibilities of the Board of Directors	(1) The Board of Directors (hereinafter referred to as the Board) shall strengthen the safety and soundness of the finance company by – (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;	Complied
	(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;	Complied
	(c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	Complied
	(d) approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Complied
	(e) reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	Complied
	(f) identifying and designating Key Management Personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied
	(g) defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel;	Complied
	(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;	Complied
	(i) periodically assessing the effectiveness of its governance practices, including: (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;	Complied
	(j) ensuring that the finance company has an appropriate succession plan for Key Management Personnel;	Complied
	(k) meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	Complied

Section Number	Description	State of Compliance
	(l) understanding the regulatory environment;	Complied
	(m) exercising due diligence in the hiring and oversight of External Auditors.	Complied
	(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.	Complied
	(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.	Complied
	(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.	Complied
	(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.	Complied
	(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.	Such a situation has not arisen
	(7) The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied
	(8) The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied
3. Meetings of the Board	(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.	Complied
	(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.	Complied
	(3) A notice of at least seven 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.	Complied
	(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.	This situation has not arisen
	(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.	Complied

Section Number	Description	State of Compliance
	(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.	Complied
	(7) All Directors shall have access to advise and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied
	(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.	Complied
	(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.	Complied
4. Composition of the Board	(1) Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than five and not more than thirteen.	Complied
	(2) Subject to the transitional provisions contained herein 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.	Complied
	(3) Subject to the transitional provisions contained herein, 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.	Complied
	(4) With effect from three years commencing 1st January 2009 of this Direction, the number of Independent Non-Executive Directors of the Board shall be at least one-fourth of the total numbers of Directors. A Non-Executive Director shall not be considered independent if such Director: (a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company;	Complied
	(b) has or had during the period of two years immediately preceding his appointment as Director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;	Complied

Section Number	Description	State of Compliance
	(c) has been employed by the finance company during the two-year period immediately preceding the appointment as Director;	Complied
	(d) has a relative, who is a Director or Chief Executive Officer or a Key Management Personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company;	Complied
	(e) represents a shareholder, debtor, or such other similar stakeholder of the finance company;	Complied
	(f) is an employee or a Director or has a shareholding of 10% or more of the paid up capital in a company or business organisation: (i) which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or (ii) in which any of the other Directors of the finance company is employed or is a Director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company; or (iii) in which any of the other Directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company.	Complied
	(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.	Situation has not arisen
	(6) Non-Executive Directors shall have necessary skills and experience to bring an objective judgement to bear on issues of strategy, performance and resources.	Complied
	(7) With effect from three years commencing 1st January 2009 of this Direction, 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.	Complied
	(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.	Complied
	(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.	Complied
	(10) All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied
	(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.	N/A for 2017/18

Section Number	Description	State of Compliance
5. Criteria to Assess the Fitness and Propriety of Directors	(1) Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company.	Complied
	(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.	Complied
6. Delegation of Functions	(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.	Complied
	(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.	Complied
7. The Chairman and the Chief Executive Officer	(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 three years commencing from 1st January 2009.	Complied
	(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.	This situation has not arisen
	(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.	Complied
	(4) The Chairman shall: (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.	Complied
	(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.	Complied
	(6) The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied
	(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.	Complied
	(8) The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	Complied
	(9) Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied
	(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.	Complied

Section Number	Description	State of Compliance
	(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.	Complied
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.	Complied
	(2) Audit Committee The following shall apply in relation to the Audit Committee: (a) The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied
	(b) The Board members appointed to the Committee shall be Non-Executive Directors.	Complied
	(c) The Committee shall make recommendations on matters in connection with: (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.	Complied
	(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.	Complied
	(e) 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: (i) whether the skills and experience of the Auditor make it a suitable provider of the non-audit services; (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 (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.	Complied

Section Number	Description	State of Compliance
	(f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of Financial Statements in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between Auditors where more than one Auditor is involved.	Complied
	(g) 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 judgements 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: (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied
	(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.	Complied
	(i) The Committee shall review the External Auditor's management letter and the management's response thereto.	Complied
	(j) The Committee shall take the following steps with regard to the internal audit function of the finance company: (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; (70) (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.	Complied
	(k) The Committee shall consider the major findings of internal investigations and management's responses thereto.	Complied

Section Number	Description	State of Compliance
	(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 Chief Executive Officer 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.	Complied
	(m) The Committee shall have: (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.	Complied
	(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.	Complied
	(o) The Board shall, in the Annual Report, disclose in an informative way: (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.	Complied
	(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.	Complied
	(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.	Complied
	(3) Integrated Risk Management Committee The following shall apply in relation to the Integrated Risk Management Committee: (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.	Complied
	(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.	Complied

Section Number	Description	State of Compliance
	(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.	Complied
	(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.	Complied
	(e) The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied
	(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-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied
	(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.	Complied
	(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.	Complied
9. Related Party Transactions	(1) The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.	
	(2) 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: (a) A subsidiary of the finance company; (b) Any associate company of the finance company; (c) A Director of the finance company; (d) A Key Management Personnel of the finance company; (e) A relative of a Director or a Key Management Personnel of the finance company; (f) A shareholder who owns shares exceeding 10% of the paid-up capital of the finance company; (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.	Complied

Section Number	Description	State of Compliance
	(3) The transactions with a related party that are covered in this Direction shall be the following: (a) Granting accommodation; (b) Creating liabilities to the finance company in the form of deposits, borrowings and investments; (c) providing financial or non-financial services to the finance company or obtaining those services from the finance company; (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.	Complied
	(4) 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 favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, "more favourable treatment" shall mean: (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 five years or more. (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 counterparty. (c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties. (d) Providing or obtaining services to or from a related-party without a proper evaluation procedure. (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.	Complied
10. Disclosures	(1) The Board shall ensure that: (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 and that	Complied
	(b) such Statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied
	(2) The Board shall ensure that at least the following disclosures are made in the Annual Report:	Complied
	(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.	Complied

Section Number	Description	State of Compliance
	(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 for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied
	(c) The External Auditor's certification on the effectiveness of the internal control mechanism referred to in subparagraph (2) (b) above, in respect of any statements prepared or published after 31st March 2010.	Complied
	(d) Details of Directors, including names, transactions with the finance company.	Complied
	(e) Fees/Remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after 1st January 2010.	Complied
	(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.	Complied
	(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.	Complied
	(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.	Complied
	(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-Bank 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.	Complied
	(j) The External Auditor's certification of the compliance with the Corporate Governance Directions in the annual corporate governance reports published after 1st January 2011.	Complied

The Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka in 2013

Section No.	Description	Adoption Status
A A.1	**The Board** The Company should be headed by an effective Board, which should direct, lead and control the Company.	
A.1.1	The Board meets regularly on monthly intervals. The Board met 13 times during the year. The attendance at the Board Committee meeting for the year 2016/17 is mentioned on page 66.	Adopted
A.1.2	The Board's role and responsibilities The Board as a whole responsible for: • Formulation and implementation of a sound business strategy • Ensures that the Chief Executive Officer and Management team possess the skills, experience and knowledge to implement the strategy • Ensuring the adoption of an effective CEO and Key Management Personnel succession strategy • Implementing effective systems to secure integrity of information, internal controls, business continuity and risk management • Ensuring compliance with laws, regulations and ethical standards • Ensuring all stakeholders interests are considered in corporate decision • Recognising sustainable business development in corporate strategy, decision and activities • Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations • Fulfilling other Board functions as are vital given the scale, nature and complexity of the business concerned	Adopted
A.1.3	The Board collectively and Directors individually are bound to act according to the laws in the country and establish a procedure to obtain independent professional service when required The Board members function collectively and individually according to the laws in the country and the members established procedure to obtain independent professional service upon the request.	Adopted
A.1.4	The Board members have access to advice the Company Secretary on corporate services The Company Secretary provides Corporate services to the Company. The Board has access to advise the Company Secretary in all corporate matters related to the applicable laws and regulations. Removal of Company Secretary would be a matter for the Board as a whole.	Adopted
A.1.5	Providing independent judgement All Directors provide independent judgement for theirs decision-makings on strategy, performance resources and standards of business conduct.	Adopted

Section No.	Description	Adoption Status
A.1.6	**Dedicating adequate time and effort to matters of the Board and the Company** The Board allocates sufficient time to scrutinise the matters of the Company prior and post to meetings and ensures that the duties and responsibilities owned to the Company are satisfactorily discharged.	Adopted
A.1.7	**Every Director should receive appropriate training at the first appointment to the Board** The Directors at their first appointment receive an induction with regard to the Directorship and affairs of the Company and also recognise the need for continuous training and an expansion of the knowledge and skills required to effectively perform his duties as a Director.	Adopted
A.2	**Chairman and Chief Executive Officer (CEO)** There should be a clear division of responsibilities at the head of the Company, which will ensure balance of power and authority, so that no one individual has unfettered powers of decision.	
A.2.1	**Division of responsibilities of the Chairman and CEO** The Chairman and the CEO positions of the Company are held by separate persons.	Adopted
A.3	**Chairman's role** The Chairman's role in preserving good corporate governance is crucial. As the person responsible for running of the Board, the Chairman should preserve order and facilitate the effective discharge of the Board functions.	
A.3.1	**Chairman's responsible to conduct Board proceedings in a proper manner** The Chairman of the Board Committee ensures the effective participation and contribution of both Executive and Non-Executive Directors. Also ensures that a balance of power between Executive and Non-Executive Directors is maintained and the Board is in complete control of the Company's affairs.	Adopted
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. The Board comprises Directors, have the capacity to provide sufficient financial acumen and knowledge to offer guidance on matters of finance. The Chairman of the Audit Committee is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) (FCA) and the Chairman of the Integrated Risk Management Committee is a Fellow Member of the Institute of Management Accountants, UK.	Adopted
A.5	**Board balance** It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group can dominate the Board's decision-taking.	
A.5.1	**Contribution of Non-Executive Directors** The Board comprises three Non-Executive Directors and it carries significant weight in the Board's decisions.	Adopted
A.5.2	**Independent Non-Executive Directors** The Board comprises three Independent Non-Executive Directors.	Adopted
A.5.3 and A.5.4	**Evaluation of Independence of Non-Executive Directors** The Independent Non-Executive Directors are complied with the applicable rules and regulations and they annually submit declarations on their independency.	Adopted
A.5.5	**Determination of Independence of Non-Executive Directors** The disclosure is made on the independence status of the Directors on page 66.	Adopted

Section No.	Description	Adoption Status
A.5.6	**Appointment of Alternative Directors** No alternative Director was appointed during the year of 2017/18.	Adopted
A.5.7 and A.5.8	**Senior Independent Director** Situation has not risen.	Adopted
A.5.9	**Meeting with Non-Executive Directors** The Chairman held meetings with Non-Executive Directors on an annual basis.	Adopted
A.5.10	**Recording of concerns about the matters of the Company which cannot be unanimously resolved** Concerns raised by the Directors are recorded in the minutes and there were no such instances where the Directors could not unanimously resolve.	Adopted
A.6	**Supply of information** The Board should be provided with timely information in a form and of quality appropriate to enable it to discharge its duties.	
A.6.1	**Providing adequate information to the Board** The Management provides adequate information to the Board within the stipulated time period.	Adopted
A.6.2	**Minutes, agendas and papers should provide to the Board members at least seven days before the meeting** The minutes, agendas and papers are provided to the Board before seven days prior to the meeting.	Adopted
A.7	**Appointment to the Board** There should be a formal and transparent procedure for the appointment of new Directors to the Board.	
A.7.1	**Establishment of the Nomination Committee** The Company has formed a Nomination Committee and the Report of the Nomination Committee is presented on page 61.	Adopted
A.7.3	**Disclosure of details of the new Directors to shareholders** Disclosures are made to the shareholders subsequent to the approval obtained by the Central Bank of Sri Lanka.	Adopted
A.8	**Re-election** All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	
A.8.1	**Appointment of Non-Executive Directors** The requirement is specified in the Articles of Association of the Company.	Adopted
A.8.2	**Re-election by the Shareholders** The requirement is specified in the Articles of Association of the Company.	Adopted

Section No.	Description	Adoption Status
A.9	Appraisal of Board performance Board members should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	
A.9.1, A.9.2 and A.9.3	Annual appraisal of Board performance The Board annually evaluates its performance in the discharge of its key responsibilities and the relevant disclosures are made on page 65.	Adopted
A.10	Disclosure of information in respect of Directors Shareholders should be kept advised of relevant details in respect of Directors.	
A.10.1	Disclosure of information in respect of Directors Profiles of the Board of Directors are given on page 11.	Adopted
A.11	Appraisal of Chief Executive Officer (CEO) The Board should require at least annually to assess the performance of the CEO.	Adopted
A.11.1 and A.11.2	Setting targets by the Board in line with the short, medium and long-term objectives of the Company, reasonable financial and non-financial targets that should be met by the CEO during the year. The Board appraises the CEO by a formal annual review at the end of each financial year.	Adopted
B B.1	**Directors' Remuneration** Remuneration procedure The Company has a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Directors should be involved in deciding his/her own remuneration.	
B.1.1	Formation of Remuneration Committee The Committee is responsible for making recommendations to the Board with regard to remuneration of Executive Directors.	Adopted
B.1.2 and B.1.3	Composition of Remuneration Committee The Remuneration Committee comprised Non-Executive Directors. The Remuneration Committee Report is given on page 56.	Adopted
B.1.4	Remuneration of Non-Executive Directors The Board as a whole determines the remuneration of Non-Executive Directors and they receive a fee for attending Board and Subcommittee meetings.	Adopted
B.1.5	Access to professional advice The Committee is empowered to seek professional advice inside and outside the Company as and when it is deemed necessary.	Adopted
B.2	The level and make-up of remuneration Level of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully.	
B.2.1 to B.2.8	The level and make-up of remuneration of Executive Directors The Committee considers the following when determining the remuneration: • Sufficient capacity to attract, retain and motive the Executive Directors to achieve the Company objectives • Comparison of industrial remuneration standards	Adopted

Section No.	Description	Adoption Status
B.2.9	Level of remuneration for Non-Executive Directors The remuneration for the Non-Executive Directors is paid according to the time commitment, responsibilities of their role and market practices.	Adopted
B.3	Disclosure of remuneration The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.	
B.3.1	Disclosure of Directors' remuneration in the Annual Report The pertinent disclosures are made on page 89 and page 120. (Notes to the Financial Statements).	Adopted
C C.1	**Relations with Shareholders** Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings. Board should use the AGM to communicate with shareholders and should encourage their participation.	
C.1.1	Use of proxy votes The Company has recorded all proxy votes for each resolution prior to the AGM.	Adopted
C.1.2	Separate resolution for separate issues A separate resolution is proposed for each substantially separate issue.	Adopted
C.1.3	Availability of Subcommittee Chairmen at the AGM The Chairmen of the Subcommittees are present at the AGM to answer questions by shareholders.	Adopted
C.1.4 and C.1.5	Circulation of AGM Notice and pertinent documents Company circulates the AGM Notice and a summary of the procedures within a stipulated time period.	Adopted
C.2	Communication with shareholders The Board should implement effective communication with shareholders.	
C.2.1 and C.2.7	Communication with shareholders A Board approved policy on communication with shareholders is available. The core communication modes are Annual Report and the AGM. Additionally, the shareholders could communicate through Company website, announcement on CSE, newspaper publications pertinent to corporate matters. The Company adopts open communication with shareholders. Chairman, CEO and the Company Secretary are contactable with short notice. The Company Secretary maintains records of all correspondence received from shareholders and direct the same to appropriate channels for resolution.	Adopted
C.3	Major and material transactions Directors are required to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company.	
C.3.1	Major transactions The Company did not engage any major transaction during the period of 2017/18 as defined by Section 185 of the Companies Act No. 07 of 2007.	Adopted

Section No.	Description	Adoption Status
D	**Accountability and Audit**	
D.1	The Board should present a balanced and an understandable assessment of the Company's financial position and prospects.	
D.1.1	Reports to public, regulatory and statutory reporting AMF has complied with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and Sri Lankan Accounting Standards in the preparation and presentation of Financial Statements and complied with the reporting requirement prescribed by the Regulatory Authorities such as the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.	Adopted
D.1.2	Directors' Report in the Annual Report The Report of the Board of Directors on the Affairs of the Company is given in this Annual Report on page 64.	Adopted
D.1.3	Statement of Directors' and Auditor's responsibility for the Financial Statements Directors' Responsibility for Financial Reporting is given on page 67.	Adopted
D.1.4	Management discussion and analysis Management discussion and analysis is given on pages 16.	Adopted
D.1.5	Declaration by the Board that the business is a going concern Refer the Report of the Board of Directors on pages 66.	Adopted
D.1.6	Summoning an Extraordinary Meeting to notify serious loss of capital The situation has not arisen during the year 2017/18.	Adopted
D.1.7	Disclosure of related party transactions 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.	Adopted
D.2	Internal Control The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and the Company assets.	
D.2.1	Annual evaluation of the internal control system Adequacy and integrity of the Company's internal control system is reviewed by the Board Audit Committee on a quarterly basis or more frequently as it deems necessary.	Adopted
D.2.2 to D.2.4	Internal Audit Function The Company's internal audit function has been outsourced and carried out by BDO Partners. internal audit reports are discussed at the Audit Committee meetings and appropriate recommendations/actions are agreed upon based on those findings.	Adopted
D.3	Audit Committee The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors.	
D.3.1	Composition of the Audit Committee The Audit Committee consists of two members, all of whom are Independent Non-Executive Directors. Details of the Committee members, are mentioned in the Report of the Audit Committee given in this Annual Report on Page 57.	Adopted

Section No.	Description	Adoption Status
D.3.2	Duties of the Audit Committee The duties of the Audit Committee are mentioned in the Report of Board Audit Committee in this Annual Report.	Adopted
D.3.3	Terms of reference of the Audit Committee The Audit Committee is guided by the Board approved Terms of Reference which specifies the authority and responsibility of the Committee.	Adopted
D.3.4	Disclosures of the Audit Committee Refer "Audit Committee Report" on page 57 of this Annual Report.	Adopted
D.5	Corporate Governance Disclosures The Company should disclose the extent of adoption of best practices in Corporate Governance.	
D.5.1	Disclosure of corporate governance compliance This requirement is met through the disclosures related to Corporate Governance made in this Annual Report.	Adopted
E	**Institutional Investors** Institutional shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice.	
E.1.1	Shareholder voting Regular dialogue to be maintained with shareholders and Chairman to communicate shareholders views to the Board. General Meetings are used to have an effective dialogue with the shareholders on matters which are relevant and of concern to the general membership.	Adopted
F.1	Investing/Divesting decision Individual shareholders who invest directly in shares of the Company are encouraged seeking independent advice in investing or divesting decisions.	Adopted
F.2	Shareholder Voting Individual shareholders are encouraged to participate at the Annual General Meeting and to exercise their voting rights.	Adopted

The following table indicates the status of compliance on the contents of Annual Report in terms of the Listing Rules of the Colombo Stock Exchange Rule No. 7.6:

Section Number	Description	State of Compliance
7.6 (i)	Name of the Directors who held duties during the financial year. Refer the Annual Report of the Board of Directors on the Affairs of the Company on page 64.	Complied
7.6 (ii)	Principal activities of the Company and its subsidiaries during the year and any changes therein. Refer the Annual Report of the Board of Directors on the Affairs of the Company on page 64.	Complied
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 as at the end of the financial year. The Company has not issued any Non-voting shares. Refer Share Information of Annexes on page 138.	Complied
7.6 (iv)	The public holding percentage. Refer Share Information of Annexes on page 140.	Complied
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 Share Information of Annexes on page 140.	Complied
7.6 (vi)	Information pertaining to material foreseeable risk factors. Refer "Managing Risk at AMF" on page 32.	Complied
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	There were no material issues pertaining to the employees and industrial relations during the year 2017/18
7.6 (viii)	Extents, locations, valuation and the number of buildings of the land holdings and investment properties as at the end of the financial year. Refer notes to the Financial Statements on page 103.	Complied
7.6 (ix)	Number of shares representing the stated capital as at the end of the financial year. Refer Notes to the Financial Statements on page 118.	Complied
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holding as at the end of the financial year. Refer Share Information of Annexes on page 138.	Complied
7.6 (xi)	Ratios and market price information on: Equity – Dividend per share, dividend payout, net asset value per share, market value per share (highest and lowest values recorded during the financial year and the value as at the end of financial year). Debt – Interest rate of comparable Government Security, debt/equity ratio, interest cover, quick asset ratio, market prices and yield during the year (Highest, lowest and last traded price). Refer page 04.	Complied

Section Number	Description	State of Compliance
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 as at the end of the year. Refer Notes 24 - Property, Plant and Equipment in the Financial Statements on page 104.	
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement during the year.	The Company has not raised funds through public issue or rights issue during the year 2017/18
7.6 (xiv)	Information in respect of Employee Share Ownership or Stock Option Schemes.	The Company does not have any Employee share ownership or Stock Option Schemes at present
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 Listing Rules. Refer report of the Board of Directors on the Affairs of the Company, Report of the Remuneration and Audit Committees and Corporate Governance section in this Annual Report.	Complied
7.6 (xvi)	Related Party Transactions exceeding 10% of the equity or 5% of the total assets of the entity as per Audited Financial Statements, whichever is lower.	Refer Note 39 in page 120.
Compliance requirements on Corporate Governance Rule 7.10 of the Listing Rules		
7.10	Corporate Governance – statement confirming that as at the date of the Annual Report. They are in compliance with the Corporate Governance Rules.	The Company is compiled as per the below sections
7.10 (1)	Non-Executive Directors to be at least two or one-third of the total number whichever is higher. The Board consists with three Non-Executive Directors.	Complied
7.10 (2)	Independent Directors to be at least two or one-third of the total number of Non-Executive Directors. The three Non-Executive Directors are independent and submit annual declarations on their independence.	Complied
7.10 (3)	Disclosures relating to Directors. Annual determinations as to the independence of Directors and a profile of the Directors have been made and disclosed in the Annual Report.	Complied
7.10 (4)	Criteria for defining independence. Criteria that determines the independence of Directors have been taken into consideration for the determination of independence status of the Company's Independent Directors.	Complied
7.10 (5)	Remuneration Committee (a) Composition (b) Functions (c) Disclosures The Remuneration Committee Report is given on page 56.	Complied
7.10 (6)	Audit Committee (a) Composition (b) Functions (c) Disclosure The Audit Committee Report is given on page 57.	Complied

Report of the Remuneration Committee

The Remuneration Committee, appointed by and responsible to the Board of Directors, comprises two Independent Non-Executive Directors.

Mr. L.C.W. Edirisooriya –
Chairman, Independent Non-Executive Director

Mr. K.D.U.S. Nanayakkara –
Independent Non-Executive Director

The remuneration policy of the Company endeavours to attract, motivate, and retain quality management in a competitive environment with the skills, experience and quality demanded necessary to achieve the objectives of the Company. This is to ensure that the Company is able to attract, motivate and retain high quality management in a competitive environment and this is well placed to meet the challenges of the Company. The Committee is responsible for ensuring that the total compensation package is competitive and can attract the best talent in the market.

The following decisions were taken by the Committee:

- Equity based or performance-based compensation will not be extended to Non-Executive Directors as adopted previously.
- Directors' fees cover all Board activities including the membership of Committees.
- The remuneration policy of the Company encourages enhanced performance and in a fair and responsible manner rewards individuals for their contribution to the success of the Company.
- The Committee should lead the process for make recommendations to the Board, ensuring there is a formal, rigorous and transparent procedure.
- Determine and agree with the Board the remuneration policy set and monitor the remuneration of the Chairman and Executive Directors of the Company and members of the Company's Senior Management group as agreed from time to time, and recommend to the Board a remuneration framework for the Group.
- Request the structure of, and determine targets for performance related pay schemes provided by the Company.
- Review the ongoing appropriateness of the remuneration policy taking into consideration the provisions and recommendations.
- When setting the remuneration of the Executive Directors and the Company's Senior Management review and have regard to the remuneration trends across the Group.

The Committee reviewed the remuneration levels annually by evaluating the individual performances of Senior Management staff and its impacts to the Company together with matching market levels. In addition External Consultants provide analysis and advice to ensure Key Management Personnel remuneration is competitive in the market.

All executive remuneration decisions are made at Board level, upon recommendation by the Remuneration Committee.

Non-Executive Directors do not receive equity-based compensation or any performance-based remuneration. Directors' fees cover all Board activities including membership of Board committees.

Meetings

The Remuneration Committee held four (04) meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below:

Remuneration Committee meeting attendance:

Name of Committee Member	Number of Meetings Eligible to Attend	Attended
Mr. L.C.W. Edirisooriya	04	04
Mr. K.D.U.S. Nanayakkara	04	04

On behalf of the Remuneration Committee.

L.C.W. Edirisooriya
Chairman

Audit Committee Report

The Company's Audit Committee was constituted on 8th September 2011 and the members were appointed by the Board of Directors of Associated Motor Finance Company PLC, comprise two Independent Non-Executive Directors, and chaired by Mr. L.C.W. Edirisooriya.

The members of the Audit Committee are –

Mr. L.C.W. Edirisooriya –
Chairman/Independent Non-Executive Director

Mr. K.D.U.S. Nanayakkara –
Independent Non-Executive Director

Mr. L.C.W. Edirisooriya is a Bachelor of Commerce Special Degree holder at the University of Sri Jayewardenepura, Fellow Member of The Institute of Chartered Accountants of Sri Lanka and a Fellow Member of Certified Management Accountants of Sri Lanka. He is a Director of Access Company (Pvt) Ltd.

Mr. K.D.U.S. Nanayakkara holds a Bachelor of Science Degree in Pure Mathematics and Physics from University of Colombo and an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura. He is also a Fellow of the Institute of Management Accountants, UK. He is currently the Director – Finance and Planning of MAS Active.

The Company's Secretaries Chart Business Systems (Pvt) Ltd. function as the Secretaries to the Audit Committee.

Audit Committee designed to help Boards and Directors discharge their duties regarding reported financial information and internal controls. In many cases, the Audit Committee is also expected to assume responsibility for risk management as well.

Members of the Audit Committee absolutely must be able to discuss the fundamental accounting issues facing the Company and advise the Board on their impact and consequences.

The role of the Audit Committee will typically cover overseeing the financial reporting process; improving the quality of financial reporting in terms of accuracy, clarity and timeliness; appointing the External and Internal Auditors; reviewing the scope and results of the External and Internal Auditing processes; and ensuring, as a result, that the Board makes properly informed decisions regarding accounting policies, practices and disclosure.

The Company's Management is responsible for the Financial Statements and for maintaining effective internal control over financial reporting. The key purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibility for:

(a) The quality and integrity of the Company's Financial Statement and financial reporting process including the preparation, presentation and adequacy of disclosures in the Financial Statements of the Company in accordance with the Sri Lanka Accounting Standards.

(b) The Company's compliance with financial reporting and information requirement of the Companies Act No. 07 of 2007 and other relevant financial reporting-related regulations.

(c) Ensure that the Company's internal controls and risk management are adequate to meet the requirement of Sri Lanka Auditing Standards and Compliance by the Company with legal and statutory requirements.

(d) Assessing the independence and performance of the Company's External Auditors.

(e) Monitoring of timely payments of all statutory liabilities.

The Audit Committee invited Mr. J.P.I.N. Dayawansa, Managing Director, Mr. J.P.I.S. Dayawansa, Executive Director and Mr. T.M.A. Sallay, the CEO/GM to attend its meetings.

During the year the Committee carried out the following activities:

- Review of Quarterly Financial Statements and discussion of these Financial Statements with Management.
- Review of the Audited Financial Statements for the year and discussion of those Financial Statements with the Management and External Auditors.
- Discussion of the Management Letter issued by the External Auditors and monitoring follow-up action by the Management.
- Review of the internal audit plan for the Company and monitoring the performance of the Internal Auditors.
- Review of the internal audit reports and monitoring follow-up action by the Management of the Company.

Meetings

The Audit Committee held five (05) meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below:

Audit Committee Meeting Attendance

Name of Committee Member	Number of Meetings Eligible to Attend	Attended
Mr. L.C.W. Edirisooriya	05	05
Mr. K.D.U.S. Nanayakkara	05	05

Other members of the Board and the members of the Management, as well as the External Auditors were present at the discussions when appropriate.

Internal Audits

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Auditors' role include monitoring, assessing, and analysing organisational risk and controls; and reviewing and confirming information and compliance with policies, procedures, and laws. Working in partnership with Management, Internal Auditors provide the Board, the Audit Committee, and Executive Management assurance that risks are mitigated and that the Organisation's corporate governance is strong and effective. And, when there is room for improvement, Internal Auditors make recommendations for enhancing processes, policies, and procedures.

External Audits

External audit is a periodic or specific purpose conducted by an external party. Its objective is to determine, among other things, whether the accounting records are accurate and complete, prepared in accordance with the provisions of GAAP, and the statements prepared from the accounts present fairly the organisation's financial position, and the results of its financial operations.

The Committee with the approval of the Board of Directors developed and implemented a policy for engagement of External Auditor to provide non-audit services to safeguard the Auditors' independence and objectivity.

The Committee had meetings with the External Auditors to review the nature, approach and scope of the audit. Actions taken by the Management in response to the issues raised were discussed with the Key Management Personnel of the Company.

On behalf of the Audit Committee.

L.C.W. Edirisooriya
Chairman

Risk Committee Report

Risk Committee Report

The Company's Risk Committee was constituted on 15th February 2012 and the members were appointed by the Board of Directors of Associated Motor Finance Company PLC, comprise two Independent Non-Executive Directors, and are chaired by Mr. K.D.U.S. Nanayakkara.

The members of the Committee are –

Mr. K.D.U.S. Nanayakkara –
Chairman/Independent Non-Executive Director

Mr. L.C.W. Edirisooriya – Independent Non-Executive Director

Mr. J.P.I.N. Dayawansa – Managing Director

Mr. J.P.I.S. Dayawansa – Executive Director

Mr. T.M.A. Sallay – Chief Executive Officer

Purpose

The Committee integrated all the risk areas, and these along with identified Company requirements make up the overall function of the Committee being:

- Reviewing and assessing the integrity and effectiveness of the risk management process considering the consolidated risk assessment results and determining trends, common areas of concern, emerging risks, and the most significant risks for reporting to the Board.
- Monitoring and reviewing changes in stakeholders' expectations, corporate governance codes and best practice guidelines relating to risk issues.
- Reviewing and approving the renewal programme.
- Assisting the Board with activities relating to the governance of information technology.

Duties Carried Out

The Committee assists the Board in recognising all material risks to which the Company is exposed and ensuring that the requisite risk management culture, policies and systems are progressively implemented and functioning effectively. The Committee is accountable to the Board for implementing and monitoring the processes of risk management and integrating this into day-to-day activities.

This ensures risks and opportunities are adequately identified, evaluated and managed at the appropriate level in each division, and that their individual and joint impact on the Company is considered.

Meetings

The Risk Management Committee held four (04) meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below:

Risk Management Committee Attendance

Name of Committee Member	Number of Meetings Eligible to Attend	Attended
Mr. K.D.U.S. Nanayakkara	04	04
Mr. L.C.W. Edirisooriya	04	04
Mr. J.P.I.N. Dayawansa	04	04
Mr. J.P.I.S. Dayawansa	04	04
Mr. T.M.A. Sallay – CEO	04	04

On behalf of the Risk Committee.

K.D.U.S. Nanayakkara
Chairman

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee was established on 1st January 2016 in terms of the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC). The Committee is a formally constituted as a Subcommittee of the Board of Directors and reports to the Board.

Composition

The Committee comprises two Independent Non-Executive Directors and two Executive Directors. Mr. K.D.U.S. Nanayakkara, Independent Non-Executive Director is the Chairman of the Committee and the composition meets the requirements stipulated in the Listing Rules of the CSE. The Company Secretary functions as the Secretary to the Committee.

The members of the Committee are –

Mr. K.D.U.S. Nanayakkara –
Chairman/Independent Non-Executive Director

Mr. L.C.W. Edirisooriya – Independent Non-Executive Director

Mr. J.P.I.N. Dayawansa – Managing Director

Mr. J.P.I.S. Dayawansa – Executive Director

Duties Carried Out

The primary function of the Committee is to review Related Party Transactions (RPTs) as prescribed in Section 9 of the Listing Rules of the CSE, in order to ensure that transactions with related parties are on normal commercial terms, similar to those afforded to non-related parties.

Scope of the Committee Includes

- Review in advance all proposed related party transactions of the Company, except those explicitly exempted in the Code.
- Determine whether the related party transaction is fair and in the best interest of the Company.
- Review, revise, formulate and approve policies on related party transactions.

Meetings

The Related Party Transactions Review Committee held four (04) meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below:

Name of Committee Member	Number of Meetings Eligible to Attend	Attended
Mr. K.D.U.S. Nanayakkara	04	04
Mr. L.C.W. Edirisooriya	04	04
Mr. J.P.I.N. Dayawansa	04	04
Mr. J.P.I.S. Dayawansa	04	04

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 were disclosed under Note 39 “Related Party Disclosures” in the Audited Financial Statements in this Annual Report.

Policies and Procedures

The Board has adopted a Related Party Transaction Policy that gives necessary guidelines in recognising, recording and reporting of related party transactions. According to the policy, declarations are obtained quarterly from each Director on related party transactions.

Declaration

A declaration by the Board of Directors is given as required by the Listing Rules of Colombo Stock Exchange, in the Annual Report of the Board of the Directors on the Affairs of the Company on page 64.

On behalf of the Related Party Transactions Review Committee.

K.D.U.S. Nanayakkara
Chairman

Nomination Committee Report

Pursuant to the Corporate Governance, the Company's Nomination Committee was constituted on 25th September 2015. The members were appointed by the Board of Directors of Associated Motor Finance Company PLC, comprise the following members and chaired by Mr. L.C.W. Edirisooriya.

The members of the Committee are –

Mr. L.C.W. Edirisooriya – Independent Non-Executive Director

Mr. K.D.U.S. Nanayakkara – Independent Non-Executive Director

Mr. J.P.I.N. Dayawansa – Managing Director

Mr. J.P.I.S. Dayawansa – Executive Director

Scope and Objective

The main objective of the Nomination Committee is to lead the process for new appointments to the Board.

Duties Carried Out

The Nomination Committee recommends new appointments to the Board based on the recommendation of the Nomination Committee, the Board approves the new appointments of Executive and Non-Executive Directors to the Board. Any Director of the Board may be invited to attend.

Meetings

There were no any new appointments to the Board during the year. Therefore, there were no any meetings held.

On behalf of the Nomination Committee.

L.C.W. Edirisooriya
Chairman

Financial Reports

The Annual Report of the Board of Directors on the Affairs of the Company

The Board of Directors of Associated Motor Finance Company PLC has pleasure in presenting their Report on the affairs of the Company together with the Audited Financial Statements of the Company, and the Audited Consolidated Financial Statements of the Group for the year ended 31st March 2018. The Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and directions issued thereunder.

This report provides the information as required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and Directions issued thereunder, the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL), the Securities and Exchange Commission of Sri Lanka (SEC) and Listing Rules of the Colombo Stock Exchange. This report was approved by the Board of Directors on 28th June 2018.

Legal Status

Incorporated as a Limited Liability Company on 25th July 1962 under Chapter 145 of the Companies Ordinance No. 51 of 1938 and a registered Finance Company with the Monetary Board of the Central Bank of Sri Lanka under the Finance Companies Act No. 78 of 1988 and re-registered under the Companies Act No. 07 of 2007 and changed its status of the name as Associated Motor Finance Company PLC on 9th August 2011. Ordinary shares of the Company are listed on the Colombo Stock Exchange from 23rd May 2011 onwards.

Company Vision, Mission and Corporate Conduct

The Company Vision and Mission are provided on page 02 of this Annual Report.

Principal Business Activities

Company – The principal activities of the Company are accepting public deposits, lending money for facilities including leases, hire purchases, loans and other trading activities such as real estate business, selling of imported vehicles.

Subsidiaries – The Company has one subsidiary and given below provide details on the nature of the principal business activities:

Name of the Subsidiary (Percentage of Holding)	Principal Activities and Nature of Operations
Arpico Finance Company PLC (94.02%)	The principal activities of the Company are accepting public deposits, lending money for facilities including leases, hire purchases, loans and other trading activities such as real estate business.

Review of Operations

A review of Company's business and its performance during the year with comments on financial results and future developments contained in the Chairman's Review on page 06 and the Managing Director's/CEO's Review on pages 08.

Financial Statements of the Group and the Company

The Financial Statements of the Group and the Company, which are approved by the Board of Directors and signed by the two Directors and the Chief Executive Officer of the Company, are appearing on pages 72 to 133 of this Annual Report.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements, the maintaining of proper accounting records and disclosures regarding accounting policies and principles of the Company and the Group.

The Directors are of the view that the Financial Statements appearing on pages 72 to 133 have been prepared in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS/LKAS) as issued under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

Auditor's Report

The Company's Auditors, Messrs SJMS Associates performed the audit on the Consolidated Financial Statements for the year ended 31st March 2018 and the Auditor's Report issued thereon is given on page 69 of this Annual Report.

Accounting Policies and Changes During the Year

Section 168 (1) (d) of the Companies Act No. 07 of 2007 Significant new accounting policies adopted in preparation of the Financial Statements of the Group and the Company are given on pages 78 to 133 These Financial Statements comply with the requirements of Sri Lanka Accounting Standards 01 – "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

Corporate Governance

The Board of Directors has adopted a Corporate Governance Charter to ensure proper systems and procedures are in place within the Company.

The Board has ensured that the Company is in compliant with the recommendations of the Code of Best Practices on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka,The Institute of Chartered Accountants of Sri Lanka, the Listing Rules of the Colombo Stock Exchange and the Finance Companies – Corporate Governance Directions.

Statutory Payments

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

Stated Capital

The Stated Capital of the Company as per the Audited Accounts as at 31st March 2018 was Rs. 56,086,280.00.

Reserves

The reserves of the Company with the movements during the year are given on page 119 of the Financial Statements.

Property and Equipment

Details and movements of property and equipment are shown on Note 24 to the Financial Statements on page 104.

Donations

The total donations made by the Company was Rs. 156,949.00.

Appraisal of Board Performance

The Directors perform a self-assessment of the Board conduct annually by answering a Self-Assessment Questionnaire. The responses to the Self-Assessment Questionnaire are evaluated by the Chairman and any action, recommendations and/or concerns are discussed with the Board and accordingly noted and action taken where deemed appropriate.

Directors' Interest in Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on this Annual Report. These interests have been declared at Directors' meetings. As a practice, Directors have refrained from voting on matters in which they were materially interested.

Interest Register

The Directors of the Company has made the General Disclosures provided for in Section 192 (2) of Companies Act No. 07 of 2007 and maintains an Interest Register.

Directors' shareholding of ordinary shares in the Company is given below:

Names of the Directors	Number of Shares as at 31st March 2018	Number of Shares as at 31st March 2017
Mr. J.P.I.N. Dayawansa	**2,375,405**	2,397,868
Mr. A.S. Dayawansa	**98,784**	98,784
Mr. J.P.I.S. Dayawansa	**92,386**	92,386

Directorate

The names of the Directors of the Company who served during the year are given below and their brief profiles appear on page 11:

- Dr. L.R. Karunaratne
- Mr. J.P.I. N. Dayawansa
- Mrs. A.S. Dayawansa
- Mr. J.P.I.S. Dayawansa
- Mr. L.C.W. Edirisooriya
- Mr. K.D.U.S. Nanayakkara

Executive Directors

- Mr. J.P.I.N. Dayawansa
- Mrs. A.S. Dayawansa
- Mr. J.P.I.S. Dayawansa

Independent/Non-Executive Directors

- Dr. L.R. Karunaratne
- Mr. L.C.W. Edirisooriya
- Mr. K.D.U.S. Nanayakkara

Re-Election of Directors

In terms of the Articles of Association of the Company, one-third of the Directors, excluding Executive Directors (or the number nearest to one-third) retire by rotation at each AGM and offer themselves for reappointment by the shareholders.

Dr. L.R. Karunaratne, who has been longest in office since his appointment, retires by rotation in terms of Article 35 of the Articles of Association of the Company and being eligible offer himself for re-election.

Board Meetings and Attendance

The Company held Thirteen (13) Board meetings during the financial year. Information on the attendance at these meetings are given below:

Name of Director	Attendance
Dr. L.R. Karunaratne	13/13
Mr. L.C.W. Edirisooriya	13/13
Mr. K.D.U.S. Nanayakkara	13/13
Mr. J.P.I.N. Dayawansa	13/13
Mrs. A.S. Dayawansa	13/13
Mr. J.P.I.S. Dayawansa	12/13

Disclosures

There is no financial, business, family or other relationship between the Chairman and the CEO. Mr. J.P.I.N. Dayawansa, Mrs. A.S. Dayawansa and Mr. J.P.I.S. Dayawansa share a family relationship.

The Remuneration and Other Benefits of the Directors

Directors' remuneration and other emoluments in respect of the Company for the year ended 31st March 2018 was Rs. 35,100,000.00 as compared with the remuneration of Rs. 35,189,834.00 during previous financial year.

Going Concern

After considering the financial position, Operating conditions regulatory and other factors, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Auditors

The Financial Statements for the year have been audited by Messrs SJMS Associates, Chartered Accountants. Messrs SJMS Associates are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No. 07 of 2007.

The Auditors, Messrs SJMS Associates, was paid Rs. 534,564.00 as audit fees by the Company.

As far as the Directors are aware, the Auditors do not have any relationships (other than that of an Auditor) with the Company other than those disclosed above. The Auditors also do not have any interests in the Company.

Related Party Transactions

During the year ended 31st March 2018, there were no non-recurrent related party transactions, which exceeded 10% of the equity, or 5% of the total assets whichever is lower according to the Listing Rule 9.3.2 of the Colombo Stock Exchange.

However, the Directors have disclosed the transactions that could be classified as related party transactions in the presentation of Financial Statements and accordingly given in Note 39 on page 120 of this Annual Report.

Annual General Meeting

The Annual General Meeting will be held at Light House at Lakshman Kadirgamar Institute No. 24, Horton Place, Colombo 07 on 28th September 2018 at 9.30am.

Notice of Meeting

Notice of the meeting relating to the Annual General Meeting is provided on page 141 of this Annual Report.

Signed on behalf of the Board,

Associated Motor Finance Company PLC

Dr. L. Rohan Karunaratne	**J.P.I.S. Dayawansa**
Director	Director

CHART BUSINESS SYSTEMS (PVT) LTD. COMPANY SECRETARIES

Chart Business Systems (Private) Ltd.
Secretaries

28th June 2018

Directors' Responsibility for Financial Reporting

The following statement sets out the responsibilities of the Board of Directors in relation to the preparation and presentation of the Financial Statements of the Company. These responsibilities differ from those of the Auditors, which are set out in their Report appearing on page 69 of this Annual Report.

The Companies Act No. 07 of 2007 requires that the Directors are required to prepare Financial Statements for each financial year, giving a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company for the financial year.

The Board of Directors is responsible for ensuring that the company maintains adequate accounting records, which are sufficient enough to prepare Financial Statements that disclose with reasonable accuracy the financial position of the Company. Further the Directors have the responsibility for the general supervision, control and administration of the affairs and business of the Company.

The overall responsibility for the Company's internal control systems lies with the Board of Directors. Whilst recognising the fact that there is no single system of internal control that could provide absolute assurance against material misstatements and fraud, the Directors confirm that the prevalent internal control systems are so designed that, there is reasonable assurance that the assets are safeguarded and transactions properly authorised and recorded so that material misstatements and irregularities are either prevented or detected within a reasonable period of time. The Finance Committee under the guidance of the management to monitor the effectiveness of the system of internal controls and recommends modifications where necessary.

The Directors are responsible to ensure that the Financial Statements presented in the Annual Report give a true and fair view of the state of affairs of the Company as at 31st March 2018 and the profit/loss for the year ended.

The Directors confirm that the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Listing Rules of the Colombo Stock Exchange.

The Directors confirm that suitable accounting policies have been used and applied consistently and that all applicable accounting standards have been followed in the preparation of the Financial Statements. Furthermore, reasonable and prudent judgements and estimates have been made in the preparation of these Financial Statements.

Directors confirm that to the best of their knowledge all taxes, statutory dues and levies payable by the Company as at the balance sheet date have been paid for or where relevant provided for.

By Order of the Board,

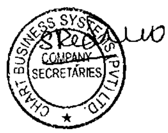


Chart Business Systems (Private) Ltd.
Secretaries

28th June 2018

Directors' Statement on Internal Control

Responsibility

Pursuant to the Section 10 (2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors presents this report on internal control over financial reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of Associated Motor Finance Company PLC's ("the Company") System of Internal Controls. Such a system is designed to manage the Company's key areas of risk within an acceptable risk profile in achieving the policies and business objectives of the Company, rather than eliminating the risk of failure. Accordingly, the System of Internal Controls can only provide reasonable but not absolute assurance against material misstatement of Management and financial information and records or against financial losses of fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the System of Internal Controls as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board.

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the Company and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The Board of the view that the Systems of Internal Controls 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.

Key features of the process adopted in reviewing the design and effectiveness of the Internal Control System.

The key processes that have been established in reviewing the adequacy and integrity of the System of Internal Controls with respect to financial reporting include the following:

Subcommittees are established to assist the Board in ensuring the effectiveness of the Company's daily operations in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved by the Board.

The Internal Auditors which has been outsourced checks for compliance with policies and procedures and the effectiveness of the Internal Control System on an ongoing basis using samples and rational procedures and highlight significant findings in respect of any non-compliance. Internal Audits are carried out and the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the Internal Auditors are submitted to the Audit Committee for review at their periodic meetings.

The Audit Committee of the Company reviews internal control issues identified by the Internal Auditors, regulatory authorities and Management, and evaluates the adequacy and effectiveness of the Internal Control System. They also review the internal audit function with particular emphasis on the quality of audits performed. The minutes of the Audit Committee meetings are tabled for the information of the Board on a period basis.

In assessing the Internal Control System, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures in the Financial Statements. The Internal Auditors checks for suitability of design and effectiveness of these procedures and controls on an ongoing basis during their audit process.

Confirmation

Based on the above process, 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 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 Auditor

The External Auditor has reviewed the above Director's Statement on Internal Control included in the Annual Report of the Company for the year ended 31st March 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the Statements is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control System of the Company.

L.C.W. Edirisooriya	**J.P.I. Shanil Dayawansa**
Chairman of the Audit Committee	Executive Director

Independent Auditors' Report

Deloitte.

SJMS Associates
Chartered Accountants
No.11, Castle Lane
Colombo 04
Sri Lanka

Tel: +94 11 2580409, 5444400
Fax: +94 11 2582452
www.deloitte.com

To the Shareholders of Associated Motor Finance Company PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the Financial Statements of Associated Motor Finance PLC ("the Company") and the Consolidated Financial Statements of the Company and its subsidiary ("the Group"), which comprise the Statement of Financial Position as at 31st March 2018, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31st 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 Auditors' 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 judgement, 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.

Key Audit Matter in the Audit of the Company and the Group

1. **Impairment of leases and hire purchases and loans and receivables**

   As at 31st March 2018, as disclosed in Note 17, the Company and the Group's "loans and receivables", gross balances amounted to Rs. 5,770 Mn. and Rs. 26,331 Mn.

   The Company's and Group's loans and receivables are measured at the amortised cost using the effective interest method. During the year ended 31st March 2018, the impairment of "loans and receivables" amounted to Rs. 591 Mn. of the Group and Rs. 206 Mn. of the Company.

   Impairment in respect of "loans and receivables" represents the management's best estimate of the impairment losses incurred within the loan portfolio as at the reporting date. The Company's and Group's loan portfolio consists of lease receivables, hire purchase receivables, term loans, loans against fixed deposits, and other medium term credit products.

   As disclosed in Notes to the Financial Statements, impairment is calculated for individual leases and loans or for a homogeneous group of leases and loans with similar credit risk characteristics by an individual or collective assessment of impairment using statistical methods and historical collection trends. Collectively calculated impairment, also includes impairment losses which have not yet been identified on leases, hire purchases and loans which are subject to individual assessments. The calculation of the collective impairment is inherently judgemental.

   We have identified impairment as a key audit matter as the calculation of impairment is a complex area and requires the management to make significant assumptions on the customer payment behaviour and other relevant risk characteristics when assessing the Group's statistics of historical information and estimating the level and timing of the expected future cash flows.

P. E. A. Jayewickreme, M. B. Ismail, Ms. S. L. Jayasuriya, G. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, R. H. M. Minfaz, Ms. S. Y. Kodagoda

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How our audit addressed the key audit matters of the Company and the Group

Our audit focused on assessing the appropriateness of the management's judgement and estimates used in the impairment analysis through the following procedures:

- We discussed with the Audit Committee as to whether there were any significant changes made to the inputs or models impacting the collective impairment as well as changes in the control environment. These included key assumptions over the impairment model.
- We tested the operating effectiveness of key controls relating to the calculation of impairment. This included using our IT specialists to test the data flows from source systems to spreadsheet-based models to test their completeness and accuracy.
- We tested the methodology applied in the impairment calculation by comparing it to the requirements of LKAS 39 – "Financial instruments": recognition and measurement, and we tested the mathematical accuracy of the management's model used to calculate impairment.
- We tested the key underlying assumptions by evaluating the process by which these were drawn up.
- We understood and critically assessed the models used for impairment. Since modelling assumptions and parameters are based on historic data, we assessed whether historic experience was representative of current circumstances and of the recent impairment incurred within the portfolios.
- We also assessed the adequacy of the disclosures in respective of impairment provisions.

2. Recognition of deferred tax assets

As at 31st March 2018, the following items were recorded in the Company Financial Statements: Rs. 278 Mn. in respect of deferred tax assets, including Rs. 53.7 Mn. related to deferred tax assets on the carried forward tax losses and Rs. 216 Mn. on the tax credits.

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

The recognition of deferred tax assets involves judgement, as it is based on specific considerations, such as the future profitability of the business, local tax law and availability of temporary differences, such as an excess of capital allowances over depreciation on tax losses.

During the current and the previous year, the Company has realised the tax losses. This indicates that deferred tax assets can be recoverable against those of taxable profits for future.

The materiality of the deferred tax asset, combined with the significant uncertainties in the recognition and subsequent assessment of the recoverability of deferred tax assets resulted in this being a key audit matter.

The disclosures relating to taxation are included in the Notes 13 and 27 of the Financial Statements.

How our audit addressed the key audit matters of the Company

We involved our tax specialists to assist us in assessing the appropriateness of the management's judgements and estimates used in the calculation of the deferred tax and conducting a critical review of the assumptions used by management.

In assessing the amount of the deferred tax assets to be recognised in the Company's Statement of Financial Position, we compared the assumptions used in respect of the calculation of future taxable income to the Company's long-term forecasts and relevant tax laws.

We used the substantially enacted tax rates and recalculated the deferred tax. We also assessed the adequacy of the disclosures in respect of deferred taxes.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the Financial Statements and our Auditors' Report thereon. The Annual Report is expected to be made available to us after the date of this Auditor's Report.

Our opinion on the Financial Statements does not cover the other information included in the Annual Report and we will not, express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information identified above 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.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

Deloitte.

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.

Auditors' 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 Auditors' 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 judgement and maintain professional skepticism throughout the audit. We also –

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and 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 Auditors' 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 Auditors' Report. However, future events or conditions may cause the Company and 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 Auditors' 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 Auditors' Report is 3991.

sjmsassociates

SJMS ASSOCIATES
Chartered Accountants

25th June 2018

Statement of Comprehensive Income

For the Year ended 31st March	Note	Company 2017/18 Rs.	Company 2016/17 Rs.	Group 2017/18 Rs.	Group 2016/17 Rs.
Income		1,596,423,353	1,261,013,554	4,754,346,444	3,108,332,337
Interest and similar income	7	1,487,906,012	1,154,715,066	4,637,997,892	3,005,090,676
Interest expense and similar charges	8	(900,308,737)	(596,970,879)	(2,575,584,863)	(1,452,368,995)
Net interest income		587,597,275	557,744,187	2,062,413,029	1,552,721,681
Other operating income	9	108,517,340	106,298,488	116,348,552	103,241,660
Total operating income		696,114,616	664,042,675	2,178,761,581	1,655,963,341
Impairment charge for loans and other losses	10	(235,823,377)	(122,713,688)	(534,733,514)	(280,392,557)
Net operating income		460,291,238	541,328,987	1,644,028,066	1,375,570,784
Less: Operating expenses					
Personnel expenses	11	(170,660,578)	(159,023,029)	(393,882,198)	(346,242,667)
Depreciation of property and equipment		(21,041,198)	(23,859,538)	(45,236,104)	(40,476,882)
Amortisation of intangible assets		(834,060)	(814,340)	(4,956,627)	(4,861,140)
Other operating expenses		(112,819,840)	(137,254,893)	(531,717,310)	(428,526,756)
Profit from operations		154,935,562	220,377,187	668,235,828	555,463,339
Operating profit before tax on financial services		154,935,562	220,377,187	668,235,828	555,463,339
Tax on financial services		(46,163,571)	(34,019,065)	(166,213,165)	(89,476,133)
Profit before taxation	12	108,771,991	186,358,122	502,022,663	465,987,206
Income tax expense	13	13,102,520	34,467,849	(59,507,351)	(46,861,884)
Profit for the year		121,874,511	220,825,971	442,515,312	419,125,322
Other comprehensive income net of tax					
Items that may be subsequently reclassified to profit or loss					
Available-for-sale financial assets:					
Net change in fair value during the year		615,155	508,877	5,420,981	2,162,136
Items that will not be reclassified to profit or loss					
Actuarial gains/(loss) on retirement benefit obligations, net of tax		1,370,795	(888,231)	(1,187,020)	(2,818,666)
Gain on revaluation of land and buildings, net of tax		–	–	(28,512,750)	35,314,214
Other comprehensive income for the year, net of tax		1,985,950	(379,354)	(24,278,790)	34,657,685
Total comprehensive income for the year		123,860,461	220,446,618	418,236,522	453,783,007
Profit attributable to					
Equity holders of the parent		121,874,511	220,825,971	421,348,317	405,571,888
Non-controlling interest		–	–	21,166,996	13,553,434
		121,874,511	220,825,971	442,515,312	419,125,322
Total comprehensive income attributable to					
Equity holders of the parent		123,860,461	220,446,618	398,640,158	438,134,358
Non-controlling interest		–	–	19,596,364	15,648,649
		123,860,461	220,446,618	418,236,522	453,783,007
Earning per share – Basic	14	21.73	39.37	75.13	72.32

The accounting policies and Notes from 1 to 44 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31st March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Assets					
Cash and cash equivalents	15	176,843,373	83,986,417	1,154,515,981	354,986,829
Placement with banks and other financial institutions	16	824,919,099	331,541,717	277,514,789	428,543,633
Loans and receivables	17	4,663,330,578	4,207,429,517	20,599,702,445	13,985,366,770
Financial investments – Held for trading	18	–	–	14,650,404	12,662,498
Financial investments – Available for sale	19	1,311,490	628,471	554,415,075	481,491,291
Financial investments – Held to maturity	20	228,765,868	209,963,844	228,765,868	209,963,844
Financial investments – Loans and receivables	21	617,138,177	673,517,252	617,138,177	673,517,252
Inventories	22	118,927,120	78,273,464	119,833,080	78,985,211
Investment properties	23	–	107,497,955	–	107,497,954
Property and equipment	24	62,984,568	59,332,732	721,036,617	432,892,100
Intangible assets	25	3,280,803	3,300,768	14,549,307	12,255,811
Current tax asset	26	46,179,625	21,851,667	99,713,267	60,134,941
Deferred tax assets	27	223,222,980	210,700,590	223,222,980	214,818,644
Other assets	28	50,945,373	32,983,369	191,959,392	79,678,307
Investment in subsidiary	29	1,160,387,961	1,160,387,961	–	–
Goodwill	30	–	–	385,244,360	385,244,360
Total assets		8,178,237,016	7,181,395,724	25,202,261,742	17,518,039,446
Liabilities					
Due to financial institutions	31	1,160,306,000	1,325,998,737	8,147,530,926	4,528,625,480
Deposits from customers	32	5,435,798,282	4,340,492,204	13,500,580,420	9,892,094,437
Debentures	33	–	–	359,804,292	358,064,562
Other liabilities	34	286,432,687	274,215,143	829,698,569	790,612,119
Retirement benefit obligations	35	29,573,044	28,318,661	88,094,326	78,325,295
Deferred tax liability	27	–	–	64,091,238	–
Total liabilities		6,912,110,012	5,969,024,745	22,989,799,772	15,647,721,894
Equity					
Stated capital	36	56,086,280	56,086,280	56,086,280	56,086,280
Capital reserve	38	17,930	17,930	17,930	17,930
General reserve	38	1,029,052	1,029,052	1,029,052	1,029,052
Statutory reserve	38	80,733,474	74,639,748	235,399,230	162,746,277
Available-for-sale reserve	38	1,124,032	508,877	8,243,121	3,109,529
Revaluation reserve		–	–	6,739,025	33,546,713
Retained earnings	37	1,127,136,235	1,080,089,092	1,804,591,423	1,531,267,960
Total equity attributable to equity holders of the Company		1,266,127,003	1,212,370,979	2,112,106,062	1,787,803,741
Non-controlling interests		–	–	100,355,908	82,513,812
Total equity		1,266,127,003	1,212,370,979	2,212,461,970	1,870,317,553
Total liabilities and equity		8,178,237,016	7,181,395,724	25,202,261,742	17,518,039,446

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

T.M.A. Sallay
Head of Finance

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

J.P.I. Nalatha Dayawansa
Managing Director
25th June 2018

J.P.I.S. Dayawansa
Director

The accounting policies and Notes from 1 to 44 form an integral part of these Financial Statements.

Statement of Changes in Equity

	Stated Capital Rs.	Capital Reserves Rs.	General Reserves Rs.
Company			
Balance as at 31st March 2016	56,086,280	17,930	1,029,052
Profit for the year	–	–	–
Other comprehensive income net of tax	–	–	–
Dividend paid	–	–	–
Transfer to reserve fund	–	–	–
Transfer from investment fund account	–	–	–
Balance as at 31st March 2017	56,086,280	17,930	1,029,052
Profit for the year	–	–	–
Other comprehensive income net of tax	–	–	–
Dividend paid	–	–	–
Transfer to reserve fund	–	–	–
Balance as at 31st March 2018	56,086,280	17,930	1,029,052
Group			
Balance as at 31st March 2016	56,086,280	17,930	1,029,052
Acquisition of subsidiary	–	–	–
Acquisition of portion of non-controlling interest	–	–	–
Profit for the year	–	–	–
Other comprehensive income net of tax	–	–	–
Dividend paid	–	–	–
Transfer to reserve fund	–	–	–
Transfer of additional depreciation on revaluation	–	–	–
Balance as at 31st March 2017	56,086,280	17,930	1,029,052
Profit for the year	–	–	–
Other comprehensive income net of tax	–	–	–
Dividend paid	–	–	–
Transfer to reserve fund	–	–	–
Transfer of additional depreciation on revaluation	–	–	–
Deferred tax relating to additional depreciation	–	–	–
Balance as at 31st March 2018	56,086,280	17,930	1,029,052

The accounting policies and Notes from 1 to 44 form an integral part of these Financial Statements.

Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	Available for Reserve Rs.	Retained Earnings Rs.	Non-controlling Interest Rs.	Total Rs.
63,598,449	–	–	955,317,975	–	1,076,049,686
–	–	–	220,825,972	–	220,825,972
–	–	508,877	(888,231)	–	(379,354)
–	–	–	(84,125,325)	–	(84,125,325)
11,041,299	–	–	(11,041,299)	–	–
–	–	–	–	–	–
74,639,748	–	508,877	1,080,089,092	–	1,212,370,979
–	–	–	121,874,511	–	121,874,511
–	–	615,155	1,370,795	–	1,985,950
–	–	–	(70,104,438)	–	(70,104,438)
6,093,726	–	–	(6,093,726)	–	–
80,733,474	–	1,124,032	1,127,136,235	–	1,266,127,003
140,372,675	–	1,046,258	1,234,898,225	72,027,212	1,505,477,631
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	405,571,888	13,553,434	419,125,322
–	33,202,425	2,063,271	(2,703,226)	2,095,215	34,657,686
–	–	–	(84,125,325)	(5,162,049)	(89,287,374)
22,373,602	–	–	(22,373,602)	–	–
–	344,288	–	–	–	344,288
162,746,277	33,546,713	3,109,529	1,531,267,960	82,513,812	1,870,317,553
–	–	–	421,348,317	21,166,996	442,515,312
–	(26,807,688)	5,133,592	(1,034,063)	(1,570,631)	(24,278,790)
–	–	–	(70,104,438)	(5,987,667)	(76,092,105)
72,652,953	–	–	(76,886,353)	4,233,399	–
–	–	–	–	–	–
–	–	–	–	–	–
235,399,230	6,739,025	8,243,121	1,804,591,423	100,355,908	2,212,461,970

Cash Flow Statement

For the Year ended 31st March	Company		Group	
	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Cash flow from operating activities				
Profit before taxation	108,771,991	186,358,122	502,022,663	465,987,206
Adjustments for;				
Write-off of property and equipment	190,911	–	190,911	–
Depreciation	21,875,258	24,673,878	50,192,731	45,338,022
Gain on disposal of property and equipment	(1,291,730)	(236,558)	(1,581,445)	(123,923)
Gain on disposal of investment property	(32,125,000)	–	(32,125,000)	–
Impairment provision	160,453,512	33,644,061	459,363,648	191,322,930
Gratuity charge for the year	6,250,765	4,987,641	18,896,917	15,092,957
Dividend income	(33,419,342)	(28,391,467)	(1,407,373)	(1,038,731)
Interest on borrowings	194,646,665	66,294,393	851,210,308	250,110,808
Lease interest	117,492	209,302	117,492	209,302
Fair value loss/(gain) on investment property	3,497,955	(28,900,000)	3,497,955	(28,900,000)
Loans and advances written off	–	–	(112,618,554)	(176,710,737)
Operating profit before working capital changes	428,968,477	258,639,372	1,737,760,253	761,287,835
(Increase)/decrease in financial investments	(455,800,331)	(420,349,089)	119,732,700	148,165,798
(Increase)/decrease in other assets	(17,962,004)	(31,252,107)	(112,281,085)	(36,720,881)
(Increase)/decrease in loans and advances	(616,354,572)	(1,200,455,518)	(6,961,080,769)	(5,033,436,481)
(Increase)/decrease in inventories	(40,653,656)	45,874,656	(40,847,870)	45,265,228
Increase/(decrease) in amount due to customers	1,095,306,078	361,800,455	3,608,485,983	718,191,598
Increase/(decrease) in debentures	–	–	1,739,729	1,569,289
Increase/(decrease) in other liabilities	12,582,171	62,389,236	39,451,077	253,730,747
	(22,882,316)	(1,181,992,366)	(3,344,800,233)	(3,903,234,702)
Cash generated from operations	406,086,161	(923,352,994)	(1,607,039,980)	(3,141,946,867)
Tax paid	(27,814,983)	(21,208,574)	(74,678,612)	(50,811,173)
Gratuity paid	(3,092,500)	(402,000)	(10,776,525)	(2,937,000)
Interest paid	(194,646,665)	(66,294,393)	(715,393,236)	(198,413,224)
Net cash flow from/(used in) operating activities	180,532,014	(1,011,257,962)	(2,407,888,353)	(3,394,108,264)

For the Year ended 31st March	Company 2017/18 Rs.	Company 2016/17 Rs.	Group 2017/18 Rs.	Group 2016/17 Rs.
Cash flow from investment activities				
Dividend received	33,419,342	28,391,467	1,407,373	1,038,731
Proceeds from disposal of property and equipment	139,627,609	880,870	188,394,362	1,995,869
Purchase of property and equipment	(27,094,824)	(9,185,337)	(385,255,377)	(117,170,559)
Purchase of intangible assets	(814,096)	–	(7,650,122)	–
Net cash flow from/(used) investing activities	145,138,031	20,087,000	(203,103,764)	(114,135,958)
Cash flow from financing activities				
Dividend paid	(66,638,232)	(78,547,463)	(72,625,898)	(83,709,509)
Proceeds on borrowings	437,480,000	1,084,736,737	5,091,908,705	3,694,979,922
Repayment of borrowings	(603,172,737)	(236,586,000)	(1,854,728,278)	(442,978,783)
Repayment of lease creditor	(482,119)	(5,002,201)	(482,119)	(5,002,201)
Net cash flow from/(used) financing activities	(232,813,088)	764,601,073	3,164,072,410	3,163,289,430
Net increase/(decrease) in cash and cash equivalents	92,856,956	(226,569,888)	553,080,293	(344,954,794)
Cash and cash equivalent at the beginning of the year	83,986,417	310,556,306	116,177,867	461,132,660
Cash and cash equivalent at the end of the year	176,843,373	83,986,417	669,258,160	116,177,867
Cash and cash equivalents				
Cash in hand and at bank	176,843,373	83,986,417	1,154,515,981	354,986,829
Bank overdrafts	–	–	(485,257,821)	(238,808,962)
	176,843,373	83,986,417	669,258,160	116,177,867

The accounting policies and Notes from 1 to 44 form an integral part of these Financial Statements.

Summary of Significant Accounting Policies

1. Corporate Information

1.1 General

Associated Motor Finance Company PLC ("The Company") regulated under the Finance Business Act No. 42 of 2011, was incorporated on 25th July 1962 and domiciled in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 as a public limited liability company and re-registered under the Companies Act No. 07 of 2007. The registered office and the principal place of business of the Company is located at 89, Hyde Park Corner, Colombo 2.

The shares of the Company have a primary listing on the Diri Savi Board of the Colombo Stock Exchange.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Associated Motor Finance Company PLC as at and for the year ended 31st March 2018 comprise the Company and its subsidiary (together referred to as the "Group"). The Company does not have an identifiable parent on its own.

1.3 Principle Activities and Nature of Operations of the Company and its Subsidiary

Entity	Principle Business Activities
Company Associated Motor Finance Company PLC	The principal activities of the Company are accepting public deposits, lending money for facilities including leases, hire purchases, loans and other trading activities such as real estate business, selling of imported vehicles and dealing in securities.
Subsidiary Arpico Finance Company PLC	The principal activities of the Company are accepting public deposits, lending money for facilities including leases, hire purchases, loans, pawning activities, and other trading activities such as real estate business and dealing in securities. The Company has discontinued the operations of pawning activities with effect from August 2013.

1.4 Date of Authorisation for Issues

The Financial Statements of Associated Motor Finance Company PLC for the year ended 31st March 2018 were authorised for issue by the Board of Directors on 25th June 2018.

2. Basis of Preparation

2.1 Statements of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Company, which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the Statement of Cash Flows together with the Accounting Policies and Notes (the "Financial Statements") have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) as issued by The Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007 the Finance Business Act No. 42 of 2011, and amendments thereto and the Finance Business Act No. 42 of 2011; and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

2.2 Responsibility for the Financial Statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements of the Company as per the provision of the Companies Act No. 07 of 2007 and SLFRS and LKAS.

2.3 Basis of Measurement

The Consolidated Financial Statements have been prepared on the historical cost basis except for the following items in the Statement of Financial Position:

- Available-for-sale financial assets are measured at fair value.
- Liability of defined benefit obligation is recognised as the present value of the defined benefit obligation.
- Investment properties are measured at cost at the time of acquisition and subsequently at revalued amounts, which are the fair values of the date of revaluation.

2.4 Functional and Presentation Currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Group's functional currency and presentational currency. All financial information presented in Sri Lanka Rupees has been rounded to the nearest Rupee unless otherwise stated.

2.5 Comparative Information

The accounting policies have been consistently applied by the Group with those of the previous financial year in accordance with LKAS 1 – "Presentation of Financial Statements". Further, comparative information is reclassified wherever necessary to comply with the current presentation.

2.6 Presentation of Financial Statements

The assets and liabilities of the Group presented in its Statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern.

2.7 Materiality and Aggregation

In compliance with LKAS 1 – "Presentation of Financial Statements", each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions are presented separately, if they are material.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the 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 Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

2.8 Rounding

The amounts in the Financial Statements have been rounded-off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard LKAS 1 – "Presentation of Financial Statements".

2.9 Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements of the Group and the Company requires the application of certain critical accounting assumptions relating to the future.

Further, it requires the Management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in future periods. Hence, actual experience and results may differ from these judgements and estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods as well, if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, Management has made the following judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the Financial Statements:

(a) Taxation

The Group is subject to income taxes and other taxes including VAT on financial services. Significant judgement is required to determine the total provision for current, deferred and other taxes.

The Group recognised assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

(b) Useful lifetime of the Property and Equipment and Intangible Assets

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

(c) Going Concern

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

(d) Impairment Losses on Loans and Receivables (leases, hire purchase and other loans)

The Group assesses at each reporting date or more frequently to determine whether there is any objective evidence whether an impairment loss should be recorded in the Statement of Comprehensive Income. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. Management judgement is required in the estimation of the amount and timing of future cash flows when determining impairment losses. Estimation methodologies are based on assumptions concerning a number of factors though actual results may differ, resulting in future changes to the impairment losses so made.

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

(e) Impairment of Available-for-Sale Investments

The Group reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied on the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements, duration and extent up to which the fair value of an investment is less than its cost.

(f) Deferred Tax Assets

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and tax credits to the extent it is probable that taxable profits will be available against which these losses/credits can be utilised. Significant Management judgements are required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

(g) Defined Benefit Plans

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

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

(h) Events after the Reporting Period

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

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate adjustments are made where necessary.

(i) Provisions for Liabilities and Contingencies

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effects on the amounts recognised in the Consolidated Financial Statements are described under respective Notes.

3. Fair Value Measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted pricing in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

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

All assets and liabilities which are measured or disclosed at fair value in the Financial Statements are categorised within the fair value hierarchy given below based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements.

- Level 1 – Quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

4. Summary of Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its Financial Statements are included below. The accounting policies set out below have been applied consistently to all periods presented in theses Financial Statements of the Group, unless otherwise is indicated.

5. Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiary as at 31st March 2018 in terms of the Sri Lanka Accounting Standard SLFRS 10 – "Consolidated Financial Statements". The Financial Statements of the subsidiary are prepared in compliance with the Group's accounting policies unless otherwise stated.

Intra-group balances and transactions, income and expenses and any unrealised gains arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

The Consolidated Financial Statements for the year ended 31st March 2018 comprise the Financial Statements of the Company (Parent Company) and its subsidiaries (together referred to as the "Group"). The Financial Statements of all companies in the Group have common financial year which ends on 31st March and use consistent accounting policies.

5.1.1 Investment in Subsidiary

Subsidiary is fully-consolidated from the date on which control is transferred to the Company and continues to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Generally, there is a presumption that a majority of voting rights results in control. When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. When the Group has less than a majority of the voting rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangements with the other vote holders of the investee and the rights arising from other contractual arrangements.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by Associated Motor Finance. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interests.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

5.1.2 Loss of Control

Upon the loss of control, the Group derecognises the assets 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 profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

5.1.3 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised 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 against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

5.1.4 Goodwill

Goodwill arising on an acquisition of business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses if any.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, more frequently when there is an indication that the unit may be impaired.

5.2 Financial Assets – Recognition and Measurement

5.2.1 Initial Recognition

All financial assets are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.2.2 Initial Measurement

The classification of financial instruments at the initial recognition depends in their purpose and characteristics and the Management's intention in acquiring them. All financial instruments are measured initially at their fair value through profit or loss.

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

5.2.3 Subsequent Measurement

The Group subsequently measures non-derivative financial assets categorising them into the categories of financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets.

The policies pertaining to each type of financial assets are given in the detailed notes.

5.2.4 Reclassification of Financial Assets

The Group may reclassify non-derivative financial assets other than those designated at FVTPL upon initial recognition, in certain circumstances:

- Out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories.
- Out of the "available-for-sale" category and into the "loans and receivables", "held-for-trading category" or "held to maturity". 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 Comprehensive Income.
- 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 election of the Management, and is determined on an instrument by instrument basis.

5.2.5 Derecognition of Financial Assets

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

- The rights to receive cash flows from the asset have expired;
- The 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 taking into discount or premium on 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.

5.2.6 Impairment of Financial Assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets classified as held to maturity, available for sale or loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an "incurred loss event") and that loss event (or events) has financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that co-relate with defaults.

5.3 Financial Liabilities

5.3.1 Initial Recognition and Measurement

Financial liabilities within the scope of LKAS 39 are classified as deposits from customers and due to other financial institutions, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

The Group classifies financial liabilities into financial liabilities at Fair Value Through Profit or Loss (FVTPL) or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

The Group recognises financial liabilities in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the financial liability.

i. Financial Liability at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes therein recognised in profit or loss.

Upon initial recognition, transaction cost is directly attributable to the acquisition are recognised in profit or loss as incurred. The criteria for designation of financial liabilities at FVTPL upon initial recognition are the same as those of financial assets at FVTPL.

ii. Other Financial Liabilities

Other financial liabilities including deposits, debt issued by the Group and the other borrowed funds are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by issue and costs that are an integral part of the EIR.

5.3.2 Derecognition of Financial Liabilities

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

5.3.3 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under LKASs/SLFRSs or for gains and losses arising from a group of similar transactions.

5.4 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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 Comprehensive Income net of any reimbursement.

5.5 Tax on Financial Services

Tax on Financial Services include Value Added Tax on Financial Services and Nation Building Tax on Financial Services.

5.5.1 Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and NBT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits. VAT rate applied for the financial year ended 31st March 2018 was 15% VAT rates applied during the financial year ended 31st March 2017 were as follows:

Period	Rate (%)
1st April 2016-1st May 2016	11
2nd May 2016-11th July 2016	15
12th July 2016-31st October 2016	11
1st November 2016-31st March 2017	15

5.5.2 Nation Building Tax (NBT) on Financial Services

As per provisions of the Nation Building Tax Act No. 09 of 2009 and amendments thereto, NBT on Financial Services was payable at 2% on Company's value additions attributable to Financial Services with effect from 1st January 2014. The value addition attributable to Financial Service is same as the value using to calculate VAT on Financial Services.

5.6 Recognition of Income and Expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The specific recognition criteria that must be met for each type of income is given under the respective income notes.

5.7 Dividend on Ordinary Shares

Dividend on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim Dividends are deducted from equity when they are declared and no longer at the discretion of the Company. Dividend for the year that are approved after the reporting date are disclosed as an events after the reporting date.

5.8 Statement of Cash Flows

The Statement of Cash Flows is prepared using the "Indirect Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard LKAS 7 – "Statement of Cash Flows". Cash and cash equivalents comprise of cash in hand, cash at bank, bank overdrafts and investments in REPO.

5.9 Segment Reporting

The Group does not have any operating segment that engages in business activities from which it may earn revenues and on which expenses incurred whose operating results are regularly reviewed by the entity's Management to determine the resources to be allocated to the segment and asses its performance for which discrete financial information is available.

6. Accounting Standards

6.1 New Accounting Standards Issued but not yet Effective

The Institute of Chartered Accountants of Sri Lanka has issued the following new Accounting Standards that have an effective date in the future and have not yet been applied in preparing the Financial Statements for the year ended 31st March 2018. Accordingly, the Company plans to apply these Standards on the respective effective dates:

Accounting Standard	Summary of the Requirements	Possible Impact on Financial Statements
SLFRS 9 – "Financial Instruments"	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 – "Financial Instruments: Recognition and Measurement", is effective for annual reporting periods beginning on or after 1st January 2018. SLFRS 9 contains three principal classification categories for financial assets – i.e, measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The existing LKAS 39 categories of Held to maturity, Loans and receivables and Available for sale are removed. SLFRS 9 replaces the "incurred loss" model in LKAS 39 with an "expected credit loss" model. The new model applies to financial assets that are not measured at FVTPL.	The Company is in the process of assessment of the potential impact on its Financial Statements resulting from the application of SLFRS 9 with the assistance of an external consultant.
SLFRS 15 – "Revenue from Contracts with Customers"	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable Financial Statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. It replaces existing revenue recognition guidance, including LKAS 18 – "Revenue" and LKAS 11 – "Construction Contracts" and IFRIC 13 – "Customer Loyalty Programmes". SLFRS 15 is effective for annual reporting periods beginning on or after 1st January 2018, with early adoption permitted.	The Company does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15.
SLFRS 16 – "Leases"	SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On balance Sheet finance leases and Off balance Sheet operating leases. Instead there will be a single On balance Sheet accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for annual reporting periods beginning on or after 1st January 2019.	The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

Notes to the Financial Statements

7. Interest and Similar Income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company/Group and the revenue can be reliably measured. Specific recognition criteria, for each type of income, is given under the respective income notes.

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

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

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Interest income from leasing	**1,228,385,338**	1,020,229,248	**3,625,617,452**	2,529,627,018
Interest income from the hire purchases and others	**19,013,432**	24,839,846	**592,291,859**	238,705,980
Income on service finance	**53,601,858**	38,670,169	**208,905,542**	106,551,068
Interest on Government Securities and other	**149,266,679**	69,038,254	**116,715,016**	83,459,053
Interest on unit trust	**8,361,619**	356,839	**8,361,619**	356,839
Income on other financial assets	**29,277,086**	1,580,710	**86,106,403**	46,390,718
	1,487,906,012	1,154,715,066	**4,637,997,892**	3,005,090,676

8. Interest Expense and Similar Charges

Interest expenses are recognised in profit or loss using the effective interest rate (EIR) method.

Effective Interest Rate

The "effective interest rate" is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

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

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Interest on public deposits	**705,544,580**	530,676,486	**1,645,770,670**	1,170,427,673
Debt instruments issued and other borrowings	**194,764,156**	66,294,393	**929,814,193**	281,941,322
	900,308,737	596,970,879	**2,575,584,863**	1,452,368,995

9. Other Operating Income

Other operating income includes gains on disposal of property and equipment and motor vehicles, dividend income, fair value gain on investment property and other income.

Gain/Loss on Disposal of Property and Equipment
The profit/(loss) on disposal of property, plant and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, net of incremental disposal costs. This is recognised as an item of "Other operating income" in the year in which significant risks and rewards of ownership are transferred to the buyer.

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

Bad Debts Recovered
Recovery of amounts written off as bad and doubtful debts is recognised on a cash basis.

Other Income
Other income is recognised on an accrual basis.

Fair Value Gain on Investment Property
Gain/losses arising from changes in fair value of investment properties are included in profit/loss in the period in which they arise.

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Profit from the sale of motor vehicles (Note 9.1)	2,873,337	25,914,245	2,873,337	25,914,245
Dividend income	33,419,342	28,391,467	1,407,373	1,038,731
Interest income on savings accounts	4,833	4,662	4,833	4,662
Rent income	3,215,217	–	3,215,217	–
Sundry income	204,824	175,865	16,320,489	13,139,375
Bad debt recoveries	93,899	1,035,087	21,536,111	14,878,121
Insurance commission	38,743,821	21,616,427	38,743,821	21,616,427
Profit on disposal of property equipment	1,291,730	236,558	1,581,445	123,923
Foreign exchange gain	43,293	24,177	43,293	24,177
Gain on disposal of investment property	32,125,000	–	32,125,000	–
Fair value gain on dealing securities	–	–	1,987,907	(122,572)
Fair value gain on investment property	(3,497,955)	28,900,000	(3,497,955)	28,900,000
Net amount transferred to profit or loss from AFS reserve	–	–	7,681	(2,275,429)
	108,517,340	106,298,488	116,348,552	103,241,660

9.1 Profit from the Sale of Motor Vehicles

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Sales proceeds	169,040,000	236,080,000	169,040,000	236,080,000
Less: Cost of vehicles	(145,520,672)	(180,876,414)	(145,520,672)	(180,876,414)
Less: Direct costs	(20,645,991)	(29,289,341)	(20,645,991)	(29,289,341)
Profit for the year	2,873,337	25,914,245	2,873,337	25,914,245

10. Impairment Charge for Loans and Other Losses

The Company recognise the changes in the impairment provisions for loans and receivables which are assessed as per the Sri Lanka Accounting Standard LKAS 39 – "Financial Instruments – Recognition and Measurement". The methodology adopted by the Company is explained in Note 17.1.2 to these Financial Statements.

For the Year ended 31st March	Company		Group	
	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Impairment charge/(reversal) on loans and advances	9,729,229	(308,041)	66,633,257	30,277,575
Impairment charge/(reversal) on leases	150,724,283	33,952,102	392,730,391	161,045,355
Loss on repossessed vehicles	76,162,874	85,980,786	76,162,874	85,980,786
Loss on inventory valuation	(793,008)	3,088,841	(793,008)	3,088,841
	235,823,377	122,713,688	534,733,514	280,392,557

11. Personnel Expenses

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses. The provision for bonus is recognised when 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 on the amount of the obligation.

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

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods as defined in the Sri Lanka Accounting Standard LKAS 19 – "Employee Benefits".

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

The Company and the employees contribute 12% and 8% respectively on the salary of each employee to the Employees' Provident Fund.

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

For the Year ended 31st March	Company		Group	
	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Salaries and bonus	151,263,380	142,324,540	326,031,225	292,147,125
Employer's contribution to EPF	10,517,147	9,373,270	41,625,701	33,237,590
Employer's contribution to ETF	2,629,287	2,337,578	7,328,355	5,917,225
Gratuity charge for the year	6,250,765	4,987,641	18,896,917	14,940,728
	170,660,578	159,023,029	393,882,198	346,242,669

12. Profit Before Taxation

Other operating expenses are recognised in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earnings of the specific items of the income. All the expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Statement of Comprehensive Income in arriving at the profit for the year.

Profit before taxation is stated after charging all expenses including the following:

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Directors' remuneration	35,100,000	35,189,834	43,065,000	43,154,834
Staff costs	118,052,118	102,697,688	118,052,118	252,520,273
Depreciation and amortisation	21,875,258	24,673,878	46,070,165	24,673,878
Auditors' remuneration – Audit	534,564	485,966	1,659,114	1,343,966
– Non-Audit	135,762	123,420	315,728	313,420

13. Income Tax Expense

As per Sri Lanka Accounting Standard LKAS 12 – "Income Taxes", tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Statement of Comprehensive Income except to the extent it relates to items recognised directly in "Equity" or "Other Comprehensive Income" (OCI), in which case it is recognised in Equity or in OCI.

Current Tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

Accounting Estimates

The Group is subject to income taxes and other taxes including VAT on financial services. Significant judgement was required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements.

The Company recognised assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and other tax amounts in the period in which the determination is made.

Deferred Tax

Detailed disclosure of accounting policies and estimate of deferred tax is available in Note 27 to the Financial Statements.

13.1 Income Tax Recognised in the Statement of Comprehensive Income

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Tax expense comprises:				
Current tax expense	–	–	31,613,260	13,747,037
Reversal of previous year income tax over provision	20,820	–	20,820	3,993,217
	20,820	–	31,634,080	17,740,254
Recognition/(reversal) of deferred tax asset	(13,123,340)	(34,467,849)	27,873,271	29,121,630
	(13,102,520)	(34,467,849)	59,507,351	46,861,884

13.2 Income tax on profit of the Company has been computed at the rate of 28% (2016/17 – 28%) on the taxable income. Group Company have computed tax at 28% for the financial year 2017/18 as per the provisions of Inland Revenue Act No. 07 of 2017 (2016/17 – 28%).

13.3 Reconciliation Between Tax Expense and the Product of Accounting Profit Multiplied by the Statutory Tax Rate is as Follows:

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Accounting profit chargeable for income taxes	108,771,991	186,358,123	535,344,997	494,333,909
Tax effect on chargeable profits (at 28%)	30,456,158	52,180,274	149,896,599	138,413,495
Tax effect on deductible expenses/allowable credits	(992,932,067)	(819,404,799)	(3,275,206,200)	(2,224,572,562)
Tax effect on disallowable items	1,006,197,825	752,881,746	2,916,678,784	1,880,016,972
Tax effect on losses (claimed)/incurred	–	–	–	–
On leasing activities	(48,179,780)	14,920,164	(65,202,305)	7,517,913
On general activities	(497,748)	(202,085)	300,490,770	212,746,519
Tax effect on qualifying payments – Investment in subsidiary	(924,389)	(375,300)	(924,389)	(375,300)
Income tax for subsidiary prior to the acquisition	–	–	–	–
Current tax expense	–	–	25,733,260	13,747,037
Effective tax rate (%)	0.00	0.00	4.81	2.78

A provision for income tax has not been made in the current year for the Company since there is no taxable income after claiming the deductible tax losses and qualifying payments on (investment in subsidiary).

14. Earning Per Share – Basic

Basic earning per share is calculated by dividing the profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year.

	Company		Group	
For the Year ended 31st March	2017/18	2016/17	2017/18	2016/17
Amount used as the numerator				
Profit for the year attributable to equity holders (Rs.)	121,874,511	220,825,972	421,348,317	405,571,888
Amount used as the denominator				
Weighted average number of ordinary shares	5,608,355	5,608,355	5,608,355	5,608,355
Basic earning per ordinary share (Rs.)	21.73	39.37	75.13	72.32

15. Cash in Hand and at Bank

Cash and bank balances are defined as cash in hand and balances with banks. For the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

	Company		Group	
For the Year ended 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Cash in hand	386,005	450,000	71,925,570	37,732,243
Cash at bank	176,457,368	83,536,417	1,082,590,411	317,254,585
Cash in hand and at bank	176,843,373	83,986,417	1,154,515,981	354,986,829

16. Placements with the Banks and other Financial Institutions

Balances with banks and financial institutions include fixed deposits and deposits in foreign currency. Balances with banks and financial institutions are carried at amortised cost in the Statement of Financial Position.

	Company		Group	
For the Year ended 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Investments in fixed deposits	824,919,099	331,541,717	277,514,789	428,543,633

17. Loans and Receivables

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

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Company, upon initial recognition, designates as available for sale.
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.
- After initial measurement loans and receivables are subsequently measured at amortised cost using the effective interest rate (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 Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income "impairment (charge)/reversal on loans and receivables". The Group may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held for trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where a loan, on drawdown, is expected to be retained by the Group, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss.

	Company		Group	
For the Year ended 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Investment in finance leases (Note 17.1)	**4,581,272,171**	4,094,669,085	**17,662,281,648**	12,439,361,776
Investment in hire purchase (Note 17.2)	**1,732,051**	7,840,907	**79,306,920**	197,805,596
Promissory Notes (Note 17.3)	**545,480**	561,617	**545,480**	561,617
Loans against fixed deposits (Note 17.4)	**47,677,895**	44,972,317	**47,677,895**	44,972,317
Term loan (Note 17.5)	**26,878,968**	54,029,501	**2,804,666,488**	1,297,309,375
Staff loans and advances (Note 17.6)	**5,224,012**	5,356,090	**5,224,012**	5,356,090
	4,663,330,578	4,207,429,517	**20,599,702,445**	13,985,366,770

17.1 Investment in 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.

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 Group is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are recognised on the Statement of Financial Position. The finance income receivable is recognised in "interest income" over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

After initial measurement, lease receivable and stock out on hire are subsequently measured at amortised cost using the effective interest rate (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 Comprehensive Income. The losses arising from impairment are recognised in "impairment (charge)/reversal on loans and other losses" in the Statement of Comprehensive Income.

	Company		Group	
For the Year ended 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Gross investment in leases	5,695,701,309	5,264,724,947	23,491,103,108	16,160,847,932
Lease rental receivables	514,922,983	321,701,568	1,462,267,436	831,878,939
	6,210,624,293	5,586,426,515	24,953,370,544	16,992,726,871
Less: Unearned income	(1,382,629,996)	(1,367,962,323)	(6,654,607,227)	(4,188,322,736)
	4,827,994,297	4,218,464,192	18,298,763,317	12,804,404,136
Less: Prepaid rentals	(46,334,125)	(45,959,360)	(159,733,211)	(140,285,337)
	4,781,660,172	4,172,504,832	18,139,030,106	12,664,118,799
Less: Allowance for impairment of leases (Note 17.1.2)	(200,388,000)	(77,835,747)	(476,748,458)	(224,757,023)
Net investment in finance leases	4,581,272,171	4,094,669,085	17,662,281,648	12,439,361,776
Lease receivable within one year				
Total lease rental and other receivable within one year	3,471,748,622	3,039,922,552	11,942,656,694	7,462,901,820
Less: Unearned income	(905,147,910)	(874,052,629)	(3,680,058,217)	(2,421,659,769)
	2,566,600,712	2,165,869,923	8,262,598,477	5,041,242,051
Lease receivable from one to five years				
Total lease rental receivable from one to five years	2,692,541,545	2,500,544,603	13,010,713,850	9,389,539,715
Less: Unearned income	(477,482,086)	(493,909,694)	(2,974,549,010)	(1,766,662,967)
	2,215,059,460	2,006,634,909	10,036,164,840	7,622,876,747
Net investment in leases	4,781,660,172	4,172,504,832	18,139,030,106	12,664,118,799

There were no lease receivables beyond five years.

17.1.1 Movement in Allowance for Individual and Collective Impairment for Leases

Accounting Estimates

The Group assesses at each reporting date or more frequently, to determine whether there is any objective evidence whether an impairment loss should be recorded in the Statement of Comprehensive Income. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. Management judgement is required in the estimation of the amount and timing of future cash flows when determining impairment losses. Estimation methodologies are based on assumptions concerning a number of factors though actual results may differ, resulting in future changes to the impairment losses so made.

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

Individually Impaired Receivables
For financial assets above a pre-determined threshold (i.e., for individually significant financial assets), if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognised in profit or loss. Interest income continues to be accrued and recorded in "Interest Income" on the reduced carrying amount/impaired balance 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 asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Company has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collectively Impaired Receivables
Loans and advances and finance lease receivables that are not individually assessed for impairment are collectively assessed for impairment by grouping together with similar risk characteristics.

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

The key inputs into the measurement of provision for collective impairment are the term structure of the variables of probability of default (PD) and loss given default (LGD).

PD values are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counter parties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss in case of default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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 financial asset impairment allowance account accordingly. The write-back is recognised in the Statement of Comprehensive Income.

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

Collateral Repossessed
Repossessed collateral will not be taken into books of accounts unless the Company has taken those collaterals into its business operations. However, such additions from the repossessed collaterals to the business operations are not significant

17.1.2 Lease Allowance for Impairment

For the Year ended 31st March	Company 2017/18 Rs.	Company 2016/17 Rs.	Group 2017/18 Rs.	Group 2016/17 Rs.
Individual impairment charges				
Balance at the beginning of the year	76,072,024	47,753,886	93,579,123	59,422,420
Charge to Statement of Comprehensive Income	110,251,136	33,367,692	265,545,819	39,206,257
Amounts written off	(28,172,030)	(5,049,554)	(140,738,957)	(5,049,554)
Balance at the end of the year	158,151,129	76,072,024	218,385,985	93,579,123
Collective impairment chargers				
Balance at the beginning of the year	1,763,724	1,179,313	131,177,900	148,251,459
Increase in impairment on acquisition of subsidiary	–	–	–	–
Charge to Statement of Comprehensive Income	40,473,148	584,410	127,184,574	121,839,098
Write back to Statement of Comprehensive Income	–	–	–	(138,912,657)
Balance at the end of the year	42,236,871	1,763,724	258,362,474	131,177,900
Total	200,388,000	77,835,747	476,748,459	224,757,023

17.1.3 Impairment Allowance for other Loan and Advance

For the Year ended 31st March	Company 2017/18 Rs.	Company 2016/17 Rs.	Group 2017/18 Rs.	Group 2016/17 Rs.
Balance at the beginning of the year	3,635,080	3,988,242	55,539,840	63,105,465
Charge to Statement of Comprehensive Income	9,729,229	(308,041)	66,633,257	30,277,576
Amounts written off	(7,688,251)	(45,120)	(7,739,878)	(37,843,200)
Balance at the end of the year	5,676,058	3,635,081	114,433,219	55,539,840

17.2 Investments in Hire Purchase

For the Year ended 31st March	Company 2017/18 Rs.	Company 2016/17 Rs.	Group 2017/18 Rs.	Group 2016/17 Rs.
Hire purchase stock	1,639,363	8,378,861	70,704,232	208,633,611
Hire purchase rental receivable	764,555	1,706,480	23,742,028	33,959,754
	2,403,918	10,085,341	94,446,259	242,593,365
Less: Unearned income	(300,219)	(1,566,613)	(8,008,679)	(32,617,500)
	2,103,699	8,518,728	86,437,581	209,975,865
Less: Prepaid rentals	(207,825)	(330,588)	(908,310)	(3,067,489)
	1,895,874	8,188,140	85,529,270	206,908,376
Less: Allowance for impairment	(163,822)	(347,233)	(6,222,350)	(9,102,780)
Net investment in hire purchase	1,732,051	7,840,907	79,306,920	197,805,596

17.3 Promissory Notes

For the Year ended 31st March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Promissory Note debtors	686,873	771,881	686,873	771,881
Less: Unearned income	(13,252)	(82,123)	(13,252)	(82,123)
	673,622	689,758	673,622	689,758
Less: Allowance for impairment	(128,141)	(128,141)	(128,141)	(128,141)
	545,480	561,617	545,480	561,617

17.4 Loans Against Fixed Deposits

For the Year ended 31st March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Loans against fixed deposits	47,677,895	44,972,317	47,677,895	44,972,317
	47,677,895	44,972,317	47,677,895	44,972,317

17.5 Investments in Term Loan

For the Year ended 31st March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Term loan stock	19,170,730	47,494,695	2,716,065,838	1,310,039,877
Term loan rental receivable	13,062,082	9,670,275	246,154,339	61,396,672
	32,232,812	57,164,970	2,962,220,176	1,371,436,549
Less: Term loan rental paid in advance	–	–	(49,501,210)	(27,842,492)
	32,232,812	57,164,970	2,912,718,967	1,343,594,057
Less: Allowance for impairment	(5,353,844)	(3,135,469)	(108,052,478)	(46,284,682)
Net investment in term loan	26,878,968	54,029,501	2,804,666,488	1,297,309,375

17.6 Staff Loans

For the Year ended 31st March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Staff loans	5,254,262	5,380,328	5,254,262	5,380,328
Less: Allowance for impairment	(30,250)	(24,238)	(30,250)	(24,238)
	5,224,012	5,356,090	5,224,012	5,356,090

18. Financial Investments – 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 "Other operating income". Interest and dividend income is recorded in "Other operating income" according to the terms of the contract, or when the right to receive the payment has been established.

Financial assets held for trading include debt securities and equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

For the Year ended 31st March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Investments in quoted shares – (Note 18.1)	–	–	14,650,404	12,662,498
	–	–	14,650,404	12,662,498

18.1 Investments in Quoted Shares

For the Year ended 31st March	Group			
	2018		2017	
	Number of Shares	Fair Value Rs.	Number of Shares	Fair Value Rs.
Bank, Financial and Insurance				
Alliance Finance Co. PLC	52,000	3,395,600	52,000	2,860,000
DFCC PLC	24	2,803	24	2,736
Lanka Orix Leasing Company PLC	5,700	672,600	5,700	347,700
Citizens Development Bank PLC	4,000	340,000	4,000	256,800
Peoples Leasing & Finance Company PLC	104,000	1,643,200	104,000	1,622,400
Beverages, Food and Tobacco				
Lanka Milk foods PLC	21,600	3,458,160	21,600	2,527,200
Chemicals and Pharmaceuticals				
Lankem Ceylon PLC	42	1,676	42	1,848
Chemanex PLC	4,300	273,050	4,300	236,500
Hotel and Tourism				
Sigiriya Village Hotel PLC	1,600	65,920	1,600	95,200
Hotel Corporation PLC	10,478	170,791	10,000	192,000
Serendib Hotels PLC (N/V)	10,000	131,000	10,000	200,000
Power and Energy				
Laughs Gas PLC	8,000	284,000	8,000	224,800
Manufacturing				
Blue Diamond Jewellery PLC	19	5.7	19	6
ACL Cables PLC	23,800	975,800	11,900	1,297,100
Diversified Holdings				
Vallibel One PLC	104,000	2,371,200	104,000	1,820,000
Motors				
Diesel & Motor Engineering PLC	1,122	519,598	1,122	628,208
Land and Property				
Seylan Developments PLC	25,000	345,000	25,000	350,000
Total		14,650,404		12,662,498

19. Financial Investments – Available for Sale

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

When the Group holds more than one investment in the same security, they are deemed to be disposed of on a first in first our basis. Interest earned whilst holding the available-for-sale financial investments is reported as interest income using the EIR method. Dividend income earned whilst holding available-for-sale financial investments are recognised in the Statement of Comprehensive Income as "Operating income" when the right of the payment has been established.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised in Equity through OCI in the "Available-for-sale reserve". When these financial investments are disposed of, the cumulative gain or loss previously recognised in Equity is recycled to profit or loss through "Other income". Interest earned while holding available-for-sale financial investments is reported as "Interest income" using the EIR. Dividend earned while holding available-for-sale financial investments are recognised in the Statement of Comprehensive income as "Other income" when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in "Impairment charges for loans and other losses" and removed from the "Available-for-sale reserve".

	Company		Group	
For the Year ended 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Investment in unquoted securities (Note 19.1)	682,934	4,300	7,086,483	9,623,425
Investment in quoted securities (Note 19.2)	–	–	14,472,622	8,674,537
Investments in unit trust (Note 19.3)	628,555	624,171	628,555	624,171
Government of Sri Lanka Treasury Bonds	–	–	17,624,008	18,963,753
Investments in repos	–	–	514,603,406	443,605,405
	1,311,490	628,471	554,415,075	481,491,291

19.1 Investments in Unquoted Securities – Unquoted Shares

	Company			
For the Year ended 31st March	2018		2017	
	Number of Shares	Cost Rs.	Number of Shares	Cost Rs.
Credit Information Bureau	43	682,934	43	4,300
Poltech (Ceylon) Ltd.	12,715	125,000	12,715	125,000
		807,934		129,300
Less: Provision for impairment		(125,000)		(125,000)
Fair value of the investment		682,934		4,300

For the Year ended 31st March	Group			
	2018		2017	
	Number of Shares	Cost Rs.	Number of Shares	Cost Rs.
Poltech (Ceylon) Ltd.	12,715	125,000	12,715	125,000
Jetwing Symphony Ltd.	–	–	250,000	3,215,576
Alliance Agencies Limited	1,303	392,517	1,303	392,517
Ranweli Holiday Resorts Limited	34,667	780,889	34,667	780,889
Credit Information Bureau of Sri Lanka	190	2,254,806	190	1,576,172
Comtrust Equity Fund	17,819	283,322	17,819	283,322
Finance House Consortium	20,000	200,000	20,000	200,000
Nation Lanka Equities	800,005	3,174,949	800,005	3,174,949
		7,211,483		9,748,425
Less: Allowance for impairment		(125,000)		(125,000)
Fair value of the investment		7,086,483		9,623,425

All unquoted available-for-sale investments are recorded at cost, since the fair value of these investments can not be reliably measured.

19.2 Investments in Quoted Securities

For the Year ended 31st March	Group			
	2018		2017	
	Number of shares	Fair Value Rs.	Number of shares	Fair Value Rs.
Ceylinco Insurance PLC	1,250	2,250,000	1,250	1,982,750
Blue Diamond Jewellery World Wide PLC	6,839	6,155	6,839	6,155
The Finance Company PLC	1,749	8,045	1,749	8,220
Central Industries PLC	24	943	24	1,056
Merchant Bank of Sri Lanka & Finance PLC	224	2,890	224	2,419
Chemanex PLC	600	38,100	600	33,000
Sinhaputhara Finance Company PLC	5,000	610,000	5,000	575,000
Citizen Development Bank PLC	95,485	8,256,489	95,485	6,065,937
Jetwing Symphony PLC	250,000	3,300,000	–	–
		14,472,622		8,674,537

19.3 Investments in Unit Trust

For the Year ended 31st March	Company/Group			
	2018		2017	
	Number of Units	Fair Value Rs.	Number of Units	Fair Value Rs.
Namal Unit Trust	19,608	628,555	19,608	624,171
		628,555		624,171

20. Financial Investments – Held to Maturity

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. Subsequent to initial measurement, held-to-maturity financial investments are measured at amortised cost using the effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee that are an integral part of EIR.The amortisation is included in interest income in the Statement of Comprehensive income. The losses arising from impairment of such investments, if any, are recognised in the Statement of Comprehensive Income.

If the Group, were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale.

Furthermore, the Group would be prohibited from classifying any financial asset as held to maturity during the following two years:

For the Year ended 31st March	Company		Group	
	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Treasury Bonds	5,100,665	5,021,927	5,100,665	5,021,927
Treasury Bills	243,766,092	215,000,000	243,766,092	215,000,000
	248,866,757	220,021,927	248,866,757	220,021,927
Less: Unearned interest	(20,100,889)	(10,058,083)	(20,100,889)	(10,058,083)
	228,765,868	209,963,844	228,765,868	209,963,844

21. Financial Investments – Loans and Receivables

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

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as at fair value through profit or loss.
- Those that the Company, upon initial recognition, designates as available for sale.
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.
- After initial measurement loans and receivables are subsequently measured at amortised cost using the effective interest rate (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 Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income “impairment (charge)/reversal on loans and receivables”. The Group may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held for trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where a loan, on drawdown, is expected to be retained by the Group, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss.

	Company		Group	
For the Year ended 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Investments in commercial papers	391,962,828	50,000,000	391,962,828	50,000,000
Investments in repos	225,175,349	602,679,255	225,175,349	602,679,255
Investment in debentures	–	20,837,997	–	20,837,997
	617,138,177	673,517,252	617,138,177	673,517,252

22. Inventories

Unsold vehicles at the reporting date are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost necessary to make the sale.

Investments in real estates are valued at cost or net realisable value whichever is lower. Net realisable value is the estimated selling price less estimated cost of completion and the estimated cost necessary to make the sale.

	Company		Group	
For the Year ended 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Investments in land and buildings	28,147,363	28,147,363	28,147,363	28,147,363
Stationery stock	–	–	905,960	711,747
Motor vehicles	93,075,589	53,214,942	93,075,589	53,214,942
	121,222,952	81,362,305	122,128,913	82,074,052
Less: Provision for inventory loss	(2,295,833)	(3,088,841)	(2,295,833)	(3,088,841)
	118,927,120	78,273,464	119,833,080	78,985,211

23. Investment Property

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

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

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in the profit or loss.

	Company/Group			
	Balance as at 31st March 2017 Rs.	**Additions/ (Disposal) Rs.**	**Disposal/ Impairment Rs.**	**Balance as at 31st March 2018 Rs.**
Cost				
Land – Battaramulla	100,184,279	–	(100,184,279)	–
Building – Battaramulla	3,815,721	–	(3,815,721)	–
Kirinda Land	3,497,955	–	–	3,497,955
	107,497,955	–	104,000,000	3,497,955
Accumulated depreciation				
Building	–	–	–	–
Carrying amount	107,497,955			3,497,955
Provision for impairment on investment property				(3,497,955)
Total				–

If these buildings were measured at cost model, written down value of the assets would be as follows:

For the Year ended 31st March	Company/Group	
	2018 Rs.	**2017 Rs.**
Rental income derived from investment property	–	–
Direct operating expenses arising from investment property:		
– that generate rental income during the period	–	–
– that did not generate rental income during the period	–	–
Disposal profit of investment property	32,125,000	–
Impairment loss on investment property	(3,497,955)	–
Fair value gain on investment property	–	28,900,000

Property	**Location**	**Building (sq.ft)**	**Extent**	**Cost Rs.**	**Fair Value Rs.**
Kirinda Land	Kirinda, Thissamaharama	–	2A-3R-30P	3,497,955	–

The company has not carried out the fair valuation of the Kirida Land due to a dispute on the land deed that ensures the ownership of the land.

24. Property and Equipment

Recognition and Measurement

Property and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 – "property, plant and equipment". Initially property and equipment are measured at cost.

Cost Model

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Subsequent Cost

Subsequent expenditure incurred for the purpose of acquiring, extending, or improving assets of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business is treated as capital expenditure and such expenses are recognised in the carrying amount of an asset. The costs associated with day-to-day servicing of property and equipment are recognised in the Income Statement as incurred.

Depreciation

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated. Depreciation of asset begins from the date they are available for use or in respect of self-constructed assets from the date that asset is completed and ready for use. The rates of depreciations based on the estimated useful lives are as follows:

Category of Assets	Depreciation Rate
Motor vehicles	20% p.a.
Office equipment	10% p.a.
Computer equipment	20% p.a.
Furniture and fittings	10% p.a.
Air conditioners	10% p.a.
Telephone system	20% p.a.
Agricultural equipment	20% p.a.
Tractors and tailors	20% p.a.
Building on leasehold land	20% p.a.

	Company		Group	
For the Year ended 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Freehold	60,897,540	52,623,473	718,949,589	426,182,841
Leasehold	2,087,028	6,709,259	2,087,028	6,709,259
	62,984,568	59,332,732	721,036,617	432,892,100

24.1 Freehold

Company

	Balance at the Beginning of the Year Rs.	Additions Rs.	Transfers from Lease Hold Rs.	Disposals/ Write-off Rs.	Balance at the End of the Year Rs.
Cost 31st March 2017					
Motor vehicles	69,152,415	4,575,000	–	(1,391,900)	72,335,515
Furniture, fittings and fixtures	6,628,018	647,671	–	–	7,275,689
Office equipment	2,366,399	160,008	–	–	2,526,407
Generator	1,815,223	369,374	–	–	2,184,597
Computer equipment	8,496,661	3,433,283	–	(386,800)	11,543,144
Telephone system	173,000	–	–	–	173,000
Agricultural equipment	411,020	–	–	–	411,020
Tractor and trailer	2,042,200	–	–	(586,250)	1,455,950
	91,084,935	9,185,337	–	(2,364,950)	97,905,322
Cost 31st March 2018					
Motor vehicles	72,335,515	25,220,000	20,000,000	(5,664,041)	111,891,474
Furniture, fittings and fixtures	7,275,689	393,726	–	(52,111)	7,617,304
Office equipment	2,526,407	290,540	–	(297,000)	2,519,947
Generator	2,184,597	290,408	–	–	2,475,005
Computer equipment	11,543,144	900,150	–	(330,800)	12,112,494
Telephone system	173,000	–	–	–	173,000
Agricultural equipment	411,020	–	–	–	411,020
Tractor and trailer	1,455,950	–	–	–	1,455,950
	97,905,322	27,094,824	20,000,000	(6,343,952)	138,656,194

	Balance at the Beginning of the Year Rs.	Change for the Year Rs.	Transfers from Lease Hold Rs.	Disposals/ Write-off Rs.	Balance at the End of the Year Rs.
Accumulated Depreciation 31st March 2017					
Motor vehicles	19,283,473	12,927,204	–	(747,589)	31,463,088
Furniture, fittings and fixtures	3,499,506	480,224	–	–	3,979,730
Office equipment	711,993	226,672	–	–	938,665
Generator	522,904	192,283	–	–	715,187
Computer equipment	4,888,830	1,722,898	–	(386,800)	6,224,928
Telephone system	58,681	34,600	–	–	93,281
Agricultural equipment	411,020	–	–	–	411,020
Tractor and trailer	2,042,200	–	–	(586,250)	1,455,950
	31,418,606	15,583,881	–	(1,720,639)	45,281,849
Accumulated Depreciation 31st March 2018					
Motor vehicles	31,463,087	13,844,648	19,686,758	(3,453,162)	61,541,331
Furniture, fittings and fixtures	3,979,730	520,591	–	(33,656)	4,466,665
Office equipment	938,666	237,187	–	(124,544)	1,051,309
Generator/Air conditioner	715,187	232,019	–	–	947,206
Computer equipment	6,224,928	1,863,165	–	(330,800)	7,757,293
Telephone system	93,281	34,600	–	–	127,881
Agricultural equipment	411,020	–	–	–	411,020
Tractor and trailer	1,455,950	–	–	–	1,455,950
	45,281,849	16,732,209	19,686,758	(3,942,162)	77,758,654
Carrying amount as at 31st March 2017	59,666,329				52,623,473
Carrying amount as at 31st March 2018	52,623,473				60,897,540

24.2 Leasehold

Company/Group

	Balance at the Beginning of the Year Rs.	Additions Rs.	Disposals/ Transfers to Freehold Rs.	Balance at the End of the Year Rs.
Cost 31st March 2017				
Motor vehicles	20,000,000	–	–	20,000,000
Leasehold improvements – Building	18,179,379	–	–	18,179,379
	38,179,379	–	–	38,179,379
Cost 31st March 2018				
Motor vehicles	20,000,000	–	(20,000,000)	–
Leasehold improvements – Building	18,179,379	–	–	18,179,379
	38,179,379	–	(20,000,000)	18,179,379

	Balance at the Beginning of the Year Rs.	Charge for the Year Rs.	Disposals/ Transfers to Freehold Rs.	Balance at the End of the Year Rs.
Accumulated Depreciation 31st March 2017				
Motor vehicles	15,353,425	4,000,000	–	19,353,425
Leasehold improvements – Building	8,141,040	3,975,655	–	12,116,695
	23,494,465	7,975,655	–	31,470,120
Accumulated Depreciation 31st March 2018				
Motor vehicles	19,353,425	333,333	(19,686,758)	–
Leasehold improvements – Building	12,116,695	3,975,655	–	16,092,350
	31,470,120	4,308,988	(19,686,758)	16,092,350
Carrying amount as at 31st March 2017	14,684,914	–	–	6,709,259
Carrying amount as at 31st March 2018	6,709,259	–	–	2,087,028

24.3 Freehold

Group

	Balance at the Beginning of the Year Rs.	Additions Rs.	Transfers from Lease Hold Rs.	Disposals/ Write-off Rs.	Balance at the End of the Year Rs.
Cost 31st March 2017					
Land	127,216,500	30,167,674	22,546,251	–	179,930,425
Building	70,099,019	11,121,500	11,448,267	–	92,668,786
Motor vehicles	80,042,958	4,575,000	–	(2,674,067)	81,943,891
Furniture, fittings and fixtures	50,257,127	26,008,332	–	(494,173)	75,771,286
Office equipment	21,253,039	8,550,181	–	–	29,803,220
Generator	1,815,223	369,374	–	–	2,184,597
Computer equipment	34,577,251	13,913,957	–	(386,800)	48,104,408
Telephone system	173,000	–	–	–	173,000
Agricultural equipment	411,020	–	–	–	411,020
Office lift	3,600,000	–	–	–	3,600,000
Tractor and trailer	2,042,200	–	–	(586,250)	1,455,950
Capital work-in progress	–	18,576,903	–	–	18,576,903
	391,487,336	113,282,922	33,994,518	(4,141,290)	534,623,486
Cost 31st March 2018					
Land	179,930,425	196,562,161	–	–	376,492,586
Building	92,668,786	33,327,164	–	–	125,995,949
Motor vehicles	81,943,891	50,698,236	20,000,000	(8,013,799)	144,628,328
Furniture, fittings and fixtures	75,771,286	36,593,277	–	(465,085)	111,899,478
Office equipment	29,803,220	6,106,417	–	(574,309)	35,335,329
Generator	2,184,597	290,408	–	–	2,475,005
Computer equipment	48,104,408	9,183,921	–	(441,750)	56,846,579
Telephone system	173,000	–	–	–	173,000
Agricultural equipment	411,020	–	–	–	411,020
Office lift	3,600,000	–	–	–	3,600,000
Tractor and trailer	1,455,950	–	–	–	1,455,950
Capital work-in progress	18,576,903	52,493,794	–	(48,099,959)	22,970,738
	534,623,486	385,255,377	20,000,000	(57,594,902)	882,283,961

	Balance at the Beginning of the Year Rs.	Change for the Year Rs.	Adjustment on Revaluation Rs.	Disposals/ Write-off Rs.	Balance at the End of the Year Rs.
Accumulated Depreciation 31st March 2017					
Building	4,515,042	1,893,516	(6,285,016)	–	123,541
Motor vehicles	20,561,142	15,004,548	–	(1,031,475)	34,534,215
Furniture, fittings and fixtures	21,097,037	5,441,958	–	(264,819)	26,274,176
Office equipment	9,070,351	3,153,218	–	–	12,223,569
Generator	522,904	192,283	–	–	715,187
Computer equipment	25,147,402	6,121,104	–	(386,800)	30,881,706
Telephone system	58,681	34,600	–	–	93,281
Agricultural equipment	411,020	–	–	–	411,020
Office lift	1,368,000	360,000	–	–	1,728,000
Tractor and trailer	2,042,200	–	–	(586,250)	1,455,950
	84,793,778	32,201,226	(6,285,016)	(2,269,344)	108,440,645
Accumulated Depreciation 31st March 2018					
Building	123,541	2,852,884	–	(140,914)	2,835,511
Motor vehicles	34,534,214	17,504,897	19,686,758	(4,549,572)	67,176,297
Furniture, fittings and fixtures	26,274,176	9,764,373	–	(369,456)	35,669,092
Office equipment	12,223,568	3,774,588	–	(361,222)	15,636,934
Generator/Air conditioner	715,187	232,019	–	–	947,206
Computer equipment	30,881,706	6,544,669	–	(439,894)	36,986,481
Telephone system	93,281	34,600	–	–	127,881
Agricultural equipment	411,020	–	–	–	411,020
Office lift	1,728,000	360,000	–	–	2,088,000
Tractor and trailer	1,455,950	–	–	–	1,455,950
	108,440,643	41,068,030	19,686,758	(5,861,058)	163,334,373
Carrying amount as at 31st March 2017	306,693,558	–	–	–	426,182,841
Carrying amount as at 31st March 2018	426,182,843	–	–	–	718,949,589

25. Intangible Assets

The company's intangible assets include the value of acquired computer software.

Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on "Intangible Assets".

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Useful Economic Lives, Amortisation and Impairment

Computer Software

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated using the straight-line method to write-down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software – 10 years

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Computer software Cost				
Balance at the beginning of the year	8,143,401	8,143,401	34,685,205	30,797,567
Additions during the year	814,096	–	7,650,122	3,887,637
Disposal during the year	–	–	(400,000)	–
Balance at the end of the year	8,957,497	8,143,401	41,935,327	34,685,204
Accumulated amortisation				
Balance at the beginning of the year	4,842,633	4,028,293	22,429,393	17,568,253
Charge for the year	834,060	814,340	5,063,293	4,861,140
Disposals during the year	–	–	(106,667)	–
Balance at the end of the year	5,676,693	4,842,633	27,386,020	22,429,393
Carrying amount	3,280,803	3,300,768	14,549,307	12,255,811

26. Current tax Asset

For the Year ended 31st March	Company		Group	
	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Balance at the beginning of the year	21,851,667	6,220,955	60,134,941	32,641,885
Provision for the year	–	–	(31,613,260)	–
Economic service charge	17,063,263	14,666,346	56,426,759	25,382,501
Income tax over/under provision	(20,820)	–	(20,820)	(3,258,911)
Notional tax credit	–	–	5,396,586	4,405,101
Dividend tax	(3,466,206)	(5,577,862)	(3,466,206)	(5,577,862)
Withholding tax	10,751,720	6,542,228	12,855,267	6,542,228
Balance at the end of the year	46,179,625	21,851,667	99,713,267	60,134,941

27. Deferred Tax Assets

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or 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; and
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred 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 credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Profit or Loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred Tax Asset/Liability

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

	Company		Group	
For the Year ended 31st March	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
The movement in the deferred tax is as follows:				
Balance at the beginning of the year	210,700,590	175,887,318	210,700,590	175,887,318
Deferred tax adjustment relating to additional depreciation on revaluation	–	–	–	–
Recognition/(reversal) to Statement of Comprehensive Income	13,123,340	34,467,849	13,123,340	34,467,849
Recognition/(reversal) to Other comprehensive income	(600,950)	345,423	(600,950)	345,423
Balance at the end of the year	223,222,980	210,700,590	223,222,980	210,700,590
Balance at the beginning of the year	–	–	4,118,054	71,577,840
Deferred tax adjustment relating to additional depreciation on revaluation	–	–	(28,512,750)	344,288
Recognition/(reversal) to Statement of Comprehensive Income	–	–	(40,996,610)	(63,589,480)
Recognition/(reversal) to Other comprehensive income	–	–	1,300,068	(4,214,595)
Balance at the end of the year	–	–	(64,091,238)	4,118,054
Balance at the end of the year 2016/17	–	–	–	214,818,644

27.1 Deferred Tax Assets, Liabilities, and Income Tax Relate to the Following:

	Company			
	Statement of Financial Position 31st March 2018 Rs.	Statement of Comprehensive Income 2017/18 Rs.	Statement of Financial Position 31st March 2017 Rs.	Statement of Comprehensive Income 2016/17 Rs.
Deferred tax liability				
Capital allowances for tax purposes	(55,024,898)	(5,790,163)	(49,234,734)	(41,576,632)
Available for financial assets	(67,863)	(67,863)	–	–
Deferred tax assets				
Defined benefit plans	8,280,452	351,227	7,929,225	1,629,403
Investment allowance	216,329,706	66,124,552	150,205,154	59,715,377
Carried forward tax losses	53,705,582	(48,095,363)	101,800,945	15,045,124
Deferred tax income/(expense)	–	12,522,389	–	34,813,272
Net deferred tax assets recognised	223,222,979	–	210,700,590	–
Unrecognised deferred tax asset				
– on carried forward tax losses	–	–	–	–
– on investment allowance	103,410,688	–	170,514,499	–
Total unrecognised deferred tax asset	103,410,688	–	170,514,499	–
Tax rate used (%)	28	–	28	–

The Company is eligible for qualifying payment relief on the investment in subsidiary under the guidelines pursuant to the amendments introduced to the provisions of the Inland Revenue Act No. 10 of 2006 and the Value Added Tax Act No. 14 of 2002 to facilitate Financial Sector Consolidation. The value of future tax benefits have been recognised as a deferred tax asset as required by SLFRS based on best management estimates. The value of this asset is subject to eligibility for this allowance and the availability of taxable income during these respective periods.

	Group			
For the Year ended 31st March	Statement of Financial Position 31st March 2018 Rs.	Statement of Comprehensive Income 2017/18 Rs.	Statement of Financial Position Income 31st March 2017 Rs.	Statement of Comprehensive Income 2016/17 Rs.
Deferred tax asset/(liability)				
Capital allowances for tax purposes	(525,134,969)	(321,717,809)	(203,417,160)	(278,823,138)
Deferred tax assets				
Defined benefit plans	16,385,958	2,384,101	14,001,857	2,870,413
Property and equipment	(41,803,421)	(4,569,856)	(37,233,565)	–
Revaluation reserve on lands	(28,512,750)	(28,512,750)	–	–
Investment allowance	–	–	–	–
Available for financial assets	305,362	305,362	–	–
Carried forward tax losses	514,668,582	283,901,659	230,766,923	208,492,940
Deferred tax income/(expense)	–	(68,209,293)	–	(67,459,785)
Net deferred tax assets	(64,091,238)	–	4,118,055	–

28. Other Assets

The Group classifies all other assets as other financial assets and other non-financial assets. Other assets mainly comprises deposits and prepayments, VAT receivable, debtors on sale of motor vehicles.

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Deposits, advances and prepayments	38,520,053	17,517,585	165,312,217	46,940,474
Debtors on sale of motor vehicles	1,782,862	10,625,000	1,782,862	10,625,000
Debtors on insurance commission	10,431,756	–	10,431,756	–
Pre paid interest securitisation loan	–	4,786,521	–	4,786,521
Miscellaneous	–	–	14,221,855	8,401,978
Other receivables	210,702	54,263	210,702	8,924,333
	50,945,373	32,983,369	191,959,392	79,678,307

29. Investments in Subsidiary

Investment in subsidiaries are accounted for at cost less accumulated impairment losses in the Financial Statements of the company. Provision for impairment is made, where the decline in value is other than temporary, and such impairment is made for investments individually.

For the Year ended 31st March	Company 2018 Rs.	Company 2017 Rs.
Quoted shares		
Arpico Finance Company PLC		
Cost	1,160,387,961	1,160,387,961
	1,160,387,961	1,160,387,961
Number of shares	6,992,610	6,992,610
Percentage of holding	94.02%	94.02%

30. Goodwill

Goodwill is allocated to Arpico Finance PLC which is a cash-generating unit (CGU) operating within the Group. When testing for impairment on goodwill, the recoverable amount of a cash-generating unit is determined on the basis of fair value less cost to sell and value-in-use, whichever is higher.

The fair value less cost to sell is computed based on earnings multiples/revenue multiples of comparable companies (listed), adjusted to reflect the liquidity. Value-in-use calculations are cash flow projections based on financial budgets, which are approved by the management, typically covering a five-year period. Further the net assets of the CGU also can be used to identify any indication of an impairment.

Accordingly, impairment test did not indicate an impairment on goodwill on acquisition of Arpico Finance PLC as at 31st March 2018.

31. Due to Financial Institutions

Due to banks and other financial institutions include bank overdrafts and long-term and short-term loans obtained from banks and other financial institutions. Subsequent to initial recognition, these are measured at their 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 an 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 derecognis as well as through the EIR amortisation process.

	Company		Group	
For the Year ended 31st March	**2017/18 Rs.**	**2016/17 Rs.**	**2017/18 Rs.**	**2016/17 Rs.**
Bank overdraft	–	–	485,257,821	238,808,962
Bank loan	–	90,000,000	–	90,000,000
Securitisation loan	1,160,306,000	1,235,998,737	7,662,273,104	4,199,816,518
	1,160,306,000	1,325,998,737	8,147,530,925	4,528,625,480

31.1 Security Details of the Loans

Lending Institution	Nature of Facility	Security Pledged	31st March 2018 Rs.	31st March 2017 Rs.
Abans Finance PLC	Business loan	Promissory Note for Rs. 90 Mn. with interest at 15% per annum and personal guarantee of two directors	–	90,000,000
Deutsche Bank	Securitisation loan – Trust 5	Lease agreements identified by the Company	–	1,200,000
Deutsche Bank	Securitisation loan – Trust 6	Lease agreements identified by the Company	–	10,800,000
Deutsche Bank	Securitisation loan – Trust 7	Four finance lease agreements	–	87,600,000
Sampath Bank	Securitisation loan – Trust 8	3,000,000 shares of Arpico Finance	108,326,000	141,662,000
Bank of Ceylon	Securitisation loan – Trust 9	Lease agreements identified by the Company	30,000,000	202,036,737
Seylan Bank	Securitisation loan – Trust 10	Performing lease receivables	255,100,000	342,700,000
Hatton National Bank	Securitisation loan – Trust 11	Receivables and the underlying assets of selected lease portfolio	134,000,000	200,000,000
Deutsche Bank	Securitisation loan – Trust 12	Lease agreements identified by the Company	195,400,000	250,000,000
Sampath Bank	Securitisation loan – Trust 13	Lease agreements identified by the Company	437,480,000	–
			1,160,306,000	1,325,998,737

32. Due to Other Customers

Deposits from customers include fixed deposits. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. 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 as well as through the EIR amortisation process.

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Term deposits	5,366,607,068	4,278,077,905	13,330,630,075	9,829,680,138
Commercial papers	69,191,214	62,414,299	169,950,345	62,414,299
	5,435,798,282	4,340,492,204	13,500,580,420	9,892,094,437

33. Debentures

Debentures issued represent the funds borrowed by the Company for long-term and short-term liquidity fund requirements. Subsequent to initial recognition, these are measured at their 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 an 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 as well as through the EIR amortisation process.

For the Year ended 31st March	Company		Group	
	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Debentures	–	–	359,804,292	358,064,562

Details of debentures issued:

Description	Number of Debentures	Issued Date	Maturity Date	Rate of Interest (%)	Face value Rs.	Amortised Cost Rs.
Type A	316,970,000	28th November 2013	28th November 2018	16.67	316,970,000	325,564,194
Type B	35,307,553	28th November 2013	28th November 2018	16.75	35,307,553	34,240,098
						359,804,292

34. Other Liabilities

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Trade payables are obligations to pay for vehicle suppliers in the ordinary course of business.

Company classifies all non-financial liabilities other than post employment benefit liability and current tax liabilities and trade payables under other non-financial liabilities. Other non-financial liabilities include accruals, advances and provisions. These liabilities are non-interest bearing and recorded at the amounts that are expected to be paid.

For the Year ended 31st March	Company		Group	
	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Accrued expenses	16,682,542	28,101,275	65,492,881	60,009,614
Lease creditor (Note 34.1)	–	364,627	–	364,627
Other payables	269,744,847	245,718,283	764,200,391	730,206,920
Rental received in advance	5,298	30,958	5,298	30,958
	286,432,687	274,215,143	829,698,569	790,612,119

34.1 Other Payables – Lease Creditors

	Company		Group	
	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Balance at the beginning of the year	**871,799**	5,874,000	**871,799**	5,874,000
Payments made during the year	**(871,799)**	(5,002,201)	**(871,799)**	(5,002,201)
	–	871,799	**–**	871,799
Less: Interest in suspense	**–**	(87,597)	**–**	(87,597)
	–	784,202	**–**	784,202
Less: Rentals paid in advance	**–**	(419,575)	**–**	(419,575)
	–	364,627	**–**	364,627

35. Retirement Benefit Obligations

The Group measures the present value of the promised retirement benefits for gratuity, which is a retirement benefit plan with the advice of an independent professional actuary using the "Projected Unit Credit method" (PUC) as required by the Sri Lanka Accounting Standard LKAS 19 – "Employee Benefits".

Recognition of Actuarial Gains/Losses

The Group recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Statement of Comprehensive Income during the period in which it occurs.

Funding Arrangement

The gratuity liability is not externally funded.

The cost of the retirement benefit obligation is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future gratuity increases. Due to the long-term nature of such obligation, these estimates are subjected to significant uncertainty. All assumptions are reviewed at each reporting date.

	Company		Group	
For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.	2017/18 Rs.	2016/17 Rs.
Provision as at the beginning of the year	**28,318,661**	22,499,366	**78,325,295**	62,254,525
Gratuity charge for the year	**2,640,136**	2,175,220	**8,910,441**	7,311,141
Interest charge for the year	**3,610,629**	2,812,421	**9,986,476**	7,781,816
(Gain)/loss arising from changes in the assumptions	**(1,903,882)**	1,233,654	**1,648,639**	3,914,813
Payment during the year	**(3,092,500)**	(402,000)	**(10,776,525)**	(2,937,000)
Provision as at the end of the year	**29,573,044**	28,318,661	**88,094,326**	78,325,295

An actuarial valuation of the retirement benefit obligation was carried out as of 31st March 2018 by qualified actuarial valuer Mr. M. Poopalanathan [Actuarial and Management Consultants (Pvt) Ltd.].

The following key assumptions and data were used in valuing the defined benefit obligation by the actuarial valuer:

Expected salary increment rate (%)	**10.00**	10.00	**10.00**	10.00
Discount rate (%)	**11.00**	12.75	**12.75**	12.75

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected defined benefit obligation by the amounts shown below:

	Company		Group	
Factor	**+ 1% Rs.**	**- 1% Rs.**	**+ 1% Rs.**	**- 1% Rs.**
Discount rate	**28,747,097**	30,462,206	**85,404,776**	90,980,953
Expected salary increment rate	**30,353,029**	28,838,206	**91,125,620**	85,222,741

36. Stated Capital

	Company		Group	
	31st March 2018 Rs.	**31st March 2017 Rs.**	**31st March 2018 Rs.**	**31st March 2017 Rs.**
Voting ordinary shares	**56,086,280**	56,086,280	**56,086,280**	56,086,280
Reconciliation of number of shares				
Voting ordinary shares	**5,608,355**	5,608,355	**5,608,355**	5,608,355

Rights of Shareholders

The holders of ordinary shares have the right to receive dividends as declared from time to time and are entitled to one vote per share at meetings. All shares rank equally with regard to the Company's residual assets.

37. Retained Earnings

Retained earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future losses or dividends payable.

	Company		Group	
	31st March 2018 Rs.	31st March 2017 Rs.	31st March 2018 Rs.	31st March 2017 Rs.
Balance at the beginning of the year	1,080,089,092	955,317,975	1,531,267,960	1,234,898,225
Profit/(loss) for the period	121,874,511	220,825,972	421,348,317	405,571,888
Other comprehensive income for the period	1,370,795	(888,231)	(1,034,063)	(2,703,226)
Transfer from revaluation reserve	–	–	–	–
(-) Dividend paid	(70,104,438)	(84,125,325)	(70,104,438)	(84,125,325)
(-) Transfers to statutory reserve fund	(6,093,726)	(11,041,299)	(76,886,353)	(22,373,602)
Balance at the end of the year	1,127,136,235	1,080,089,092	1,804,591,423	1,531,267,960

38. Other reserves

"General Reserve" represents the amounts set aside by the Directors for general application. The purpose of setting up the General Reserve is to meet the potential future unknown liabilities.

"Available-for-sale" reserve, which comprises changes in fair value of available-for-sale investments.

"A statutory reserve fund" to secure the deposit holders of the Company was created under the directions issued by the Central Bank of Sri Lanka under Finance Companies Act No. 78 of 1988 and Finance Companies (Capital Funds) Direction No. 01 of 2003.

Funds are transferred to reserve fund out of the profit of each year based on the criteria specified as follows:

(i) so long as the capital funds are not less than twenty-five (25)% of total deposit liabilities, a sum equal to not less than five (5)% of the net profits;

(ii) so long as the capital funds are less than twenty-five (25)% of total deposit liabilities, but not less than ten (10)% thereof, a sum equal to not less than twenty (20)% of the net profits; and

(iii) so long as the capital funds are less than ten (10)% of the total deposit liabilities, a sum equal to not less than fifty (50)% of the net profits.

	Company		Group	
	31st March 2018 Rs.	31st March 2017 Rs.	31st March 2018 Rs.	31st March 2017 Rs.
General reserve	1,029,052	1,029,052	1,029,052	1,029,052
Statutory reserve (Note 38.1)	80,733,474	74,639,748	235,399,230	162,746,277
Available-for-sale reserve	1,124,032	508,877	8,243,121	3,109,529
Capital reserve	17,930	17,930	17,930	17,930
	82,904,488	76,195,607	244,689,333	166,902,788

38.1 Statutory Reserve Fund

	Company		Group	
	31st March 2018 Rs.	31st March 2017 Rs.	31st March 2018 Rs.	31st March 2017 Rs.
Balance at the beginning of year	**74,639,749**	63,598,449	**162,746,277**	140,372,675
Transfers during the year	**6,093,725**	11,041,299	**72,652,953**	22,373,602
Balance at the end of year	**80,733,474**	74,639,748	**235,399,230**	162,746,277

During the year 2017/18 the Company transferred Rs. 6,537,296 sum equal to 5% of the net profits for the year ended 31st March 2018 to reserve fund.

39. Related Party Disclosures

The Company carries out transactions in the ordinary course of business with parties who are defined as related parties in the Sri Lanka Financial Reporting Standard LKAS 24 "Related Party Disclosures", the details of which are reported below:

39.1 Transactions with Directors and Other Key Management Personnel (KMP)

Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. The Company considered the members of its Board and Chief Executive Officer as KMP with effect from 1st April 2012, since they have the authority and responsibility for planning, directing and controlling the activities of the Company.

Mr. J.P.I.N. Dayawansa, Mrs. W.A.S. Dayawansa, Mr. J.P.I.S. Dayawansa, Mr. K.D.U.S. Nanayakkara and Mr. L.C.W. Edirisooriya were the Directors of the Company during the period.

The Group carries out transactions with KMPs and their close family members in the ordinary course of its business on an arm's length basis at commercial rates.

	Company	
For the Year ended 31st March	**2017/18 Rs.**	**2016/17 Rs.**
(i) Compensation of KMP		
Short-term employment benefits	**47,978,285**	41,999,834
(ii) Lending facilities granted to KMP against their fixed deposit		
Aggregate amount	**2,005,770**	3,000,000
Outstanding balance as at 31st March	**2,005,770**	Nil
(iii) Deposits held by KMP with the Company		
Fixed deposits	**238,703,677**	136,919,149
(iv) Other business transactions with KMP		
Office rent payment	**6,600,000**	6,600,000

39.2 Transactions with Subsidiary and Other Related Companies

During the year the Company carried out the following transactions with its subsidiary Arpico Finance Company PLC and other related companies.

Related Party	Nature of Relationship	Nature of Transactions	Transaction Value Rs.	Balance as at 31st March 2018 Rs.
(i) Arpico Finance Company PLC	Investment in 94% of shares of Arpico Finance Company PLC and common Directors	– Reimbursement of travelling charges for official matters	1,011,408	–
		– Dividend income received from the subsidiary	33,322,334	–
		– Investment in 6,992,610 shares	1,160,387,961	1,160,387,961
		– Deposits accepted during the year	–	596,138,655
		– Interest on FD	50,312,613	–
		– Interest expense on FD-Receivable		6,131,409
(ii) Poltech (Ceylon) Company Ltd.	Common Directors	– Rent of Poltech (Ceylon) Co. Ltd.	616,000	–
		– Fixed deposits in Poltech	16,379,684	16,379,684
		– Refundable deposit on rent	819,600	819,600
(iii) Imperial Import and Export Company (Pvt) Ltd.	One of the major shareholder of the Company and common Directors	– Fixed Deposit investment in Imperial	86,620,000	5,405,000
		– Investment in 2,422,308 shares	24,223,080	24,223,080

40. Contingent Liabilities and Commitments

40.1 Capital Commitments

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 readily measured as defined in the Sri Lanka Accounting Standard LKAS 37 – “Provisions, Contingent Liabilities and Contingent Assets”. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

There were no material capital commitments outstanding as at the reporting date that require adjustments to or disclosure in the Financial Statements of the Company.

Arpico Finance Company PLC has commitments for acquisition of property, plant and equipment, intangible assets incidental to the ordinary course of business as at 31st March as follows:

For the Year ended 31st March	2017/18 Rs.	2016/17 Rs.
Approved and contracted for	–	8,300,000

40.2 Litigations Against the Company/Group

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal 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 the reporting date the Company had several unresolved legal claims. The significant unresolved legal claims against the Company for which legal adviser of the Company advised as the loss is possible, but not probable, that the action will succeed. Accordingly, no provision for any claims has been made in these Financial Statements.

There were no material litigations against the Company that requires any adjustments to or disclosures in the Financial Statements.

The Company filed a case in the High Court of Western Province of Colombo, seeking an interim injunction/permanent injunction restraining Richard Pieris Arpico Finance Limited from using the word “Arpico Finance”. Subsequently, Richard Pieris Finance Limited appealed this matter to the Supreme Court and by the judgement dated 29th September 2014, the Supreme Court upheld the order of the learned High Court Judge dated 30st July 2013 in granting the interim injunction. Subsequent to this order, Richard Pieris Finance Limited made an application to the High Court of Western Province (Civil) to amend their answer and the Company objected for the same. The Judge rejected the application of the Defendant to amend the answer with cost and fixed the matter to be mentioned to fix a date for trial. The Defendant Richard Peiris Arpico Finance Limited, filed a Leave to Appeal application in the Supreme Court against that order and said Leave to Appeal application was refused by the Supreme Court on 19th February 2018. This case will be called in Commercial High Court on 4th July 2018 for Pre Trial.

Tax Assessment

As per the notice of assessment issued by the Department of Inland Revenue dated 30th May 2016 and 30th May 2017, the Company has to make an additional tax payment for the years of assessment 2013/14 and 2014/15, amounting to Rs. 8,488,500 and Rs. 28,402,545 respectively. The Company has already appealed in this regard and the management of the Company is in confidence that there will be no tax payment in this regard.

41. Events After the Reporting Date

There were no material events that occurred after the reporting date that require adjustments to or disclosure in the Financial Statements.

42. Risk Management

42.1 Introduction

Risk Management of the Company is the systematic process of identifying, quantifying and managing all risks and opportunities that can affect the achievement of the Associated Motor Finance Company PLC strategic and financial goals. The Company has established a sound risk management framework to identify and mitigate the risk exposure.

The Board of Directors (BOD) is primarily responsible for overall risk management of the Company. Hence the BOD has established an Integrated Risk Management Committee for prudent risk management. 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 on a periodic basis.

Though the risk is inherent in the finance companies activities, it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. Finance companies are exposed to various risks during their business operations. The major categories of risks are credit, market, liquidity, operational and interest rate.

42.2 Risk Mitigation and Risk Management Systems

The Company is exposed to a multitude of risks when reaching its realisation of vision, mission and corporate objectives. The Board of Directors therefore places special emphasis on the management of risks and together with the Management Committee, ensures that a sound system of controls including financial, operational and compliance controls are in place, and reviews regularly the effectiveness of such controls, to safeguard shareholder investments. Based on the likelihood of occurrence and the impact of the risks, the Company takes risk minimisation strategies to deal with them.

42.3 Risk Faced by the Company

(a) Credit Risk

"Credit risk can be defined as borrower's failure to repay a loan or otherwise meet a contractual obligation." Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorised into three types – default, concentration and settlement risk. A separate recovery office is established to manage the credit risk faced by the Company. It adopts strict credit risk evaluation processes by assessing credit worthiness of the customers, monitoring debt collection process and remedial actions and effective recovery processes. Company uses various credit indicators to identify the emerging credit risks and analytical tools to manage such risks.

The greatest of the credit risk assumed by the Company is the default risk. NPL (non-performing loan) ratio is an important measure which highlights the credit risk representing the default or non-payment of loans and advances by the customers. NPL ratio increases up to 6.38% during the current financial year in comparison to 3.48% in the last year.

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

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

	Neither Past Due Nor Impaired* Rs.	Past Due and Impaired Rs.	Total Rs.
As at 31st March 2018			
Financial assets			
Cash and bank balances	176,843,373	–	176,843,373
Placement with banks and other financial institutions	824,919,099	–	824,919,099
Financial investments – Available for sale	1,311,490	–	1,311,490
Financial investments – Held to maturity	228,765,868	–	228,765,868
Financial investments – Loans and receivables	617,138,177	–	617,138,177
Loans and receivables	4,558,945,984	310,448,652	4,869,394,637
	6,407,923,992	310,448,652	6,718,372,644

** These are considered for collective impairment.*

Definition of Past Due

The Company considers that any amounts uncollected one day or more beyond their contractual due date as "past due".

Age analysis of past due (i.e. facilities in arrears of one day and above) loans and receivables by class of Financial Assets are given below:

	< 3 Months	> 3 and <= 6 Months	> 6 and <=12 Months	>12 Months	Total
As at 31st March 2018					
Loans and advances	68,063,526	9,923,013	4,774,739	4,973,186	87,734,465
Finance lease receivable	3,913,511,234	567,448,211	158,153,140	142,547,587	4,781,660,172
As at 31st March 2017					
Loans and advances	98,367,447	6,749,042	8,505,895	2,773,129	123,144,555
Finance lease receivable	3,739,765,977	294,686,000	61,980,831	76,072,024	4,172,504,832

(b) Market Risk

This is the risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices; currency exchange and interest rates; credit spreads; recovery rates and correlations; as well as implied volatilities in all the above. In managing the market risk the Company uses a variety of quantitative methods to assess the Company's market risk exposures, portfolio performance and impact on earnings. Marketing Division in particular is responsible for quantifying the impact, advising the top management on acceptable tolerance levels and monitoring the set levels regularly.

(c) Liquidity Risk

Liquidity risk arises when the Company, despite being solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due or can only do so at materially disadvantageous terms. The Company assures its liquidity position by ensuring the holdings of adequate liquid funds and effective review of assets and liabilities of the Company. The Company treasury function continuously maintains good relationships with banks and currently has an overdraft facility to meet its obligations.

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

Further the Company is maintaining assets in the form of Sri Lankan Government Treasury Bills and Government Securities equivalent to 7.5% of the average of its month end total deposit liabilities and unsecured borrowings of the 12 months preceding financial year.

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 31st March 2018:

	On Demand Rs.	Less than 3 Months Rs.	3-12 Months Rs.	1-5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets						
Cash and bank balances	176,843,373	–	–	–	–	176,843,373
Placement with banks and financial institutions	–	1,216,881,927	–	–	–	1,216,881,927
Investment in Government Securities	–	225,175,349	223,665,203	–	5,100,665	453,941,217
Loans and receivables	–	19,271,737	26,046,777	36,739,893	–	82,058,407
Lease rentals receivables	–	989,913,087	1,576,660,624	2,035,698,460	–	4,602,272,172
Total financial assets	176,843,373	2,451,242,100	1,826,372,604	2,072,438,353	5,100,665	6,531,997,096
Financial Liabilities						
Due to banks	–	158,994,000	375,382,000	625,930,000	–	1,160,306,000
Due to customers	–	1,403,896,208	1,891,823,990	2,098,139,220	41,938,863	5,435,798,282
Other financial liabilities	–	–	–	–	–	–
Total financial liabilities	–	1,562,890,208	2,267,205,990	2,724,069,220	41,938,863	6,596,104,282
Total net financial assets/ (liabilities)	176,843,373	888,351,892	(440,833,386)	(651,630,867)	(36,838,198)	(64,107,186)

(d) Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

Operational risk of the Company are managed through a Board approved operational risk management policy control framework which consists of monitoring and responding to potential risks.

(e) Interest Rate Risk

Interest rate risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating rates. The Group manages its interest rate risk by monitoring and managing cash flows, negotiating favourable rates on borrowings and deposits including and maintaining an appropriate combination of fixed and floating rate debt.

If interest rates had been higher/lower by 50 basis points and all other variances were held constant, the profit before tax for the period ended 31st March 2018 would decrease/increase by Rs. 7,452,264. This is mainly attributable to the Group's exposure to the interest rate on variable rate of interest.

(f) Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Company has no investment and no borrowing in foreign currency and there is no currency risk for the Company.

(g) Equity Price Risk

The Group is exposed to equity risk because of investments in quoted shares held by the Group classified as financial assets available for sale. The value of these investments is subjected to the performance of investee company and the factors that affects the status of the stock market. The Group manages the equity risk through diversification and by placing limits on individual and total equity instruments. The Board of Directors reviews and approves all equity investment decisions. Sensitivity analysis on the value of the investments is not provided as it is deemed to be not material.

(h) Capital Adequacy Risk

For a financial institution, capital is a buffer against insolvency. It is available to absorb unforeseen losses so the Company can remain in business. The more capital the Company has relative to the risks it takes, the more confidence the stakeholders are that it will meet its obligations to them.

The Company manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed finance companies in Sri Lanka. Thus the Company's operations are directly supervised by the CBSL and the Company is required to comply Directions on Risk Weighted Capital Adequacy Ratio issued by CBSL. Licensed finance companies in Sri Lanka need to maintain a minimum Capital Adequacy Ratio (CAR) of 10% and a Core Capital Ratio (Tier 1) of at least 5%.

Although the Company has maintained the core capital ratio of 5%, the total risk weighted capital ratio of 10% of AMF was impacted due to the large leveraged investment in Arpico Finance Company PLC (AFCP). Currently, Central Bank of Sri Lanka has allowed AMF to operate below the regulatory requirement pending the merger with AFCP.

42.4 Maturity Analysis

Company

	Up to 3 Months		3 to 12 Months	
	31st March 2018 Rs.	31st March 2017 Rs.	31st March 2018 Rs.	31st March 2017 Rs.
Interest earning assets				
Investments in Government Securities	225,175,349	602,679,255	223,665,203	204,941,917
Investments in fixed deposits and other	1,216,881,927	382,379,714	–	–
Investments in hire purchase	233,163	2,704,552	728,015	3,144,311
Investments in leases	989,913,087	778,408,116	1,576,660,624	1,387,461,807
Investment on loans against fixed deposit	10,358,827	6,457,075	12,344,832	13,699,656
Investment in other loans	8,679,747	6,504,376	12,973,930	28,973,272
	2,451,242,100	1,779,133,087	1,826,372,604	1,638,220,963
Non-interest earning assets				
Cash in hand and at banks	176,843,373	83,986,417	–	–
Inventories	22,694,939	12,531,525	96,232,181	65,741,939
Investments in shares	–	–	–	–
Deferred tax assets	–	–	–	–
Other assets	50,945,373	32,983,369	46,179,626	21,851,667
Property and equipment	–	–	–	–
Intangible assets	–	–	–	–
Investment property	–	–	–	–
Investment in subsidiary	–	–	–	–
	250,483,686	129,501,312	142,411,806	87,593,606
Total assets	2,701,725,786	1,908,634,399	1,968,784,410	1,725,814,570
Percentage (%)	33.04	26.58	24.07	24.03
Interest bearing liabilities				
Public deposits	1,387,025,397	1,131,882,643	1,800,729,952	1,491,293,006
Interest bearing public deposits	16,870,811	15,274,039	21,902,825	20,124,054
Bank overdraft	–	–	–	–
Commercial papers	–	–	69,191,214	62,414,299
Securitisation loan	158,994,000	72,034,000	375,382,000	440,338,737
Bank loan	–	90,000,000	–	–
	1,562,890,208	1,309,190,682	2,267,205,990	2,014,170,096
Non-interest bearing liabilities				
Other liabilities	280,717,504	269,498,599	5,363,683	4,334,085
Retirement benefit obligations	–	–	–	–
	280,717,504	269,498,599	5,363,683	4,334,085
Total liabilities	1,843,607,712	1,578,689,281	2,272,569,673	2,018,504,181
Percentage (%)	26.67	26.45	32.88	33.82

1 to 5 Years		More than 5 years		Total	
31st March 2018 Rs.	31st March 2017 Rs.	31st March 2018 Rs.	31st March 2017 Rs.	31st March 2018 Rs.	31st March 2017 Rs.
–	–	5,100,665	5,021,927	453,941,217	812,643,098
–	20,000,000	–	–	1,216,881,927	402,379,714
770,874	1,992,044	–	–	1,732,051	7,840,907
2,014,698,459	1,928,799,162	–	–	4,581,272,171	4,094,669,085
24,974,236	24,815,586	–	–	47,677,895	44,972,317
10,994,783	24,469,560	–	–	32,648,460	59,947,209
2,051,438,353	2,000,076,353	5,100,665	5,021,927	6,334,153,723	5,422,452,330
–	–	–	–	176,843,373	83,986,417
–	–	–	–	118,927,120	78,273,465
1,311,490	628,471	–	–	1,311,490	628,471
223,222,980	210,700,590	–	–	223,222,980	210,700,590
–	–	–	–	97,124,999	54,835,036
62,984,568	59,332,731	–	–	62,984,568	59,332,731
3,280,804	3,300,768	–	–	3,280,804	3,300,768
	107,497,955	–	–	–	107,497,955
–	–	1,160,387,961	1,160,387,961	1,160,387,961	1,160,387,961
290,799,841	381,460,515	1,160,387,961	1,160,387,961	1,844,083,294	1,758,943,394
2,342,238,194	2,381,536,868	1,165,488,626	1,165,409,888	8,178,237,017	7,181,395,724
28.64	33.16	14.25	16.23	100.00	100.00
2,072,925,597	1,597,940,962	41,434,878	–	5,302,115,825	4,221,116,610
25,213,623	21,563,201	503,985	–	64,491,243	56,961,295
–	–	–	–	–	–
–	–	–	–	69,191,214	62,414,299
625,930,000	723,626,000	–	–	1,160,306,000	1,235,998,737
–	–	–	–	–	90,000,000
2,724,069,220	2,343,130,164	41,938,863	–	6,596,104,282	5,666,490,942
351,500	382,458	–	–	286,432,687	274,215,142
29,573,044	28,318,661	–	–	29,573,044	28,318,661
29,924,544	28,701,119	–	–	316,005,731	302,533,803
2,753,993,764	2,371,831,283	41,938,863	–	6,912,110,012	5,969,024,744
39.84	39.74	0.61	0.00	100.00	100.00

Group

	31st March 2018				
	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 5 years Rs.	More than 5 Years Rs.	Total Rs.
Interest earning assets					
Cash in hand and at banks	1,154,515,981	–	–	–	1,154,515,981
Investments in Government Securities	225,175,349	223,665,203	–	5,100,665	453,941,217
Placement with banks and other financial institutions	665,010,851	1,310,958	3,155,808	–	669,477,617
Financial investments – Held for trading	14,650,404	–	–	–	14,650,404
Investments in leases	2,487,102,678	4,775,785,246	10,660,075,854	216,066,329	18,139,030,106
Loans and advances	656,862,255	1,261,287,435	1,122,558,295	10,859,497	3,051,567,483
Financial investments – Available for sale	354,652,516	188,700,200	9,553,002	1,509,356	554,415,074
	5,557,970,034	6,450,749,043	11,795,342,959	233,535,847	24,037,597,883
Interest bearing liabilities					
Public deposits	2,540,534,557	3,879,353,620	7,471,073,101	41,434,878	13,932,396,157
Debentures	–	–	–	–	–
Commercial papers	–	69,191,214	–	–	69,191,214
Due to banks	4,624,939,606	2,689,366,025	933,984,426	–	8,248,290,057
Other financial liabilities	408,856,793	–	–	–	408,856,793
Bank loan	–	–	–	–	–
	7,574,330,955	6,637,910,859	8,405,057,528	41,434,878	22,658,734,221

43. Analysis of Financial Instruments by Measurement Basis

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39 and by headings of the Statement of Financial Position.

43.1 Analysis of Financial Instruments by, Measurement Basis – As at 31st March 2018

Company

	Held for Trading Rs.	Amortised Cost Rs.	Held to Maturity Rs.	Available for Sale Rs.	Total Rs.
Financial assets					
Cash and cash equivalents	–	176,843,373	–	–	176,843,373
Loans and advances to customers	–	4,663,330,578	–	–	4,663,330,578
Financial investments – Available for sale	–	–	–	1,311,490	1,311,490
Financial investments – Held to maturity	–	–	228,765,868	–	228,765,868
Financial investments – Loans and receivables	–	617,138,177	–	–	617,138,177
Total financial assets	–	5,457,312,128	228,765,868	1,311,490	5,687,389,486

	FL at FVTPL Rs.	Other FL Rs.	Total Rs.
Financial liabilities			
Due to financial institutions	–	1,160,306,000	1,160,306,000
Due to other customers	–	5,435,798,282	5,435,798,282
Total financial liabilities	–	6,596,104,282	6,596,104,282

Group

	Held for Trading Rs.	Amortised Cost Rs.	Held to Maturity Rs.	Available for Sale Rs.	Total Rs.
Financial assets					
Cash and cash equivalents	–	1,154,515,981	–	–	1,154,515,981
Placement with banks and other finance institutions	–	277,514,789	–	–	277,514,789
Loans and advances to customers	–	20,599,702,445	–	–	20,599,702,445
Financial Investments – Held for trading	14,650,404	–	–	–	14,650,404
Financial investments – Available for sale	–	–	–	554,415,075	554,415,075
Financial investments – Held to maturity	–	–	228,765,868	–	228,765,868
Financial investments – Loans and receivables	–	617,138,177	–	–	617,138,177
Total financial assets	14,650,404	22,648,871,392	228,765,868	554,415,075	23,446,702,739

	FL at FVTPL Rs.	Other FL Rs.	Total Rs.
Financial liabilities			
Due to financial institutions	–	8,147,530,926	8,147,530,926
Due to other customers	–	13,500,580,420	13,500,580,420
Trade and other payables	–	829,698,569	829,698,569
Debentures	–	359,804,292	359,804,292
Total financial liabilities	–	22,837,614,208	22,837,614,208

43.2 Analysis of Financial Instruments by Measurement Basis – as at 31st March 2017

Company

	Held for Trading Rs.	Amortised Cost Rs.	Held to Maturity Rs.	Available for Sale Rs.	Total Rs.
Financial assets					
Cash and cash equivalents	–	83,986,417	–	–	83,986,417
Loans and advances to customers	–	4,207,429,517	–	–	4,207,429,517
Financial investments – Available for sale	–	–	–	628,471	628,471
Financial investments – Held to maturity	–	–	209,963,844	–	209,963,844
Financial investments – loans and receivables	–	673,517,252	–	–	673,517,252
Total financial assets	–	4,964,933,186	209,963,844	628,471	5,175,525,501

	FL at FVTPL Rs.	Other FL Rs.	Total Rs.
Financial liabilities			
Due to financial institutions	–	1,325,998,737	1,325,998,737
Due to other customers	–	4,340,492,204	4,340,492,204
Total financial liabilities	–	5,666,490,941	5,666,490,941

Group

	Held for Trading Rs.	Amortised cost Rs.	Held to Maturity Rs.	Available for Sale Rs.	Total Rs.
Financial assets					
Cash and cash equivalents	–	354,986,829	–	–	354,986,829
Placement with banks and other finance institutions	–	428,543,633	–	–	428,543,633
Loans and advances to customers	–	13,985,366,770	–	–	13,985,366,770
Financial investments – Held for trading	12,662,498	–	–	–	12,662,498
Financial investments – Available for sale	–	–	–	481,491,291	481,491,291
Financial investments – Held to maturity	–	–	209,963,844	–	209,963,844
Other financial assets	–	673,517,252	–	–	673,517,252
Total financial assets	12,662,498	15,442,414,484	209,963,844	481,491,291	16,146,532,117

	FL at FVTPL Rs.	Other FL Rs.	Total Rs.
Financial liabilities			
Due to financial institutions	–	4,528,625,480	4,528,625,480
Due to other customers	–	9,892,094,437	9,892,094,437
Trade and other payables	–	790,612,119	790,612,119
Debentures	–	358,064,562	358,064,562
Total financial liabilities	–	15,569,396,599	15,569,396,599

44. Fair Value of Financial Instruments

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

44.1 Determination of Fair Value and Fair Value Hierarchy

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

Level 1: Category of financial assets that are measured in whole or in party by reference to published quotes in an active market.

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 recorded at fair value by level of the fair value hierarchy.

Company

As at 31st March 2018	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets				
Financial investments – Available for sale				
Investment in unquoted securities	–	–	682,934	682,934
Investments in unit trust	628,555	–	–	628,555
Total financial assets	628,555	–	682,934	1,311,490

As at 31st March 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial assets				
Financial investments – Available for sale				
Investment in unquoted securities	–	–	4,300	4,300
Investments in unit trust	624,171	–	–	624,171
Total financial assets	624,171	–	4,300	628,471

Group

As at 31st March 2018	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial investments – Available for sale				
Unit trust	628,555	–	–	628,555
Unquoted shares	–	–	7,086,483	7,086,483
Quoted shares	14,472,622	–	–	14,472,622
Treasury Bills and Bonds	17,624,008	–	–	17,624,008
Repo investment	–	–	514,603,406	514,603,406
Financial investments – Fair value through profit or loss				
Quoted equities	14,650,404	–	–	14,650,404
Unit trusts	–	–	–	–
Total financial assets	47,375,590	–	521,689,889	569,065,479

As at 31st March 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial investments – Available for sale				
Unit trust	624,171	–	–	624,171
Unquoted shares	–	–	9,623,425	9,623,425
Quoted shares	8,674,537	–	–	8,674,537
Treasury Bills and Bonds	18,963,753	–	–	18,963,753
Repo investment	–	–	443,605,405	443,605,405
Financial investments – Fair value through profit or loss				
Quoted equities	12,662,498	–	–	12,662,498
Unit trusts	–	–	–	–
Total financial assets	40,924,958	–	453,228,830	494,153,789

Annexes

Enclosed

Form of Proxy

Inner Back Cover

Corporate Information

Five Year Summary

	31st March 2014 Rs. '000	31st March 2015 Rs. '000	31st March 2016 Rs. '000	31st March 2017 Rs. '000	31st March 2018 Rs. '000
Balance sheet					
Cash and cash equivalents	397,049	271,185	310,556	83,986	176,843
Investments in Government Securities	166,645	210,515	773,944	812,643	453,941
Placement with banks and other financial institutions	95,277	–	–	331,542	824,919
Financial investments – Available for sale	120	401,476	120	628	1,311
Other investment	–	50,010	20,729	70,838	391,963
Investment in leases	1,521,780	2,014,443	2,949,429	4,094,669	4,581,272
Investment in hire purchase	12,537	17,301	43,866	83,722	74,791
Other assets	20,886	4,675	12,532	38,339	56,169
Inventories	98,866	95,539	124,148	78,273	118,927
Deferred tax assets	62,294	124,775	175,887	210,701	223,223
Investment properties	178,530	178,198	78,898	107,498	–
Intangible assets	5,744	4,929	4,115	3,301	3,281
Property and equipment	54,946	47,254	74,351	59,333	62,985
Promissory Notes	13	1,000	11,695	562	545
Loan against fixed deposits	30,415	29,538	31,048	44,972	47,678
Investment in subsidiary company	–	1,160,388	1,160,388	1,160,388	1,160,388
Total assets	2,645,102	4,621,226	5,771,708	7,181,396	8,178,237
Liabilities					
Bank overdraft					
Public deposits	1,317,883	2,768,739	3,934,604	4,283,531	5,371,307
Loan	6,250	35,417	–	90,000	–
Securitisation loan	329,750	542,350	477,848	1,235,999	1,160,306
Interest payable on public deposits	22,289	35,888	44,088	56,961	64,491
Other liabilities	149,062	297,717	216,619	274,215	286,433
Retirement benefit obligations	14,693.36	17,527.76	22,499	28,311	29,573
Total liabilities	1,839,928	3,697,638	4,695,658	5,969,025	6,912,110
Shareholders' funds					
Stated capital	56,086	56,086	56,086	56,086	56,086
Other reserves	50,038	53,589	64,645	76,196	82,904
Retained earnings	699,049	813,912	955,318	1,080,089	1,127,136
	805,174	923,587	1,076,050	1,212,371	1,266,127
Total liabilities and shareholders' funds	2,645,102	4,621,226	5,771,708	7,181,396	8,178,237

	31st March 2014 Rs. '000	31st March 2015 Rs. '000	31st March 2016 Rs. '000	31st March 2017 Rs. '000	31st March 2018 Rs. '000
Income statement					
Gross income	706,258	666,587	1,030,791	1,261,014	**1,599,921**
Interest income	608,952	656,771	946,346	1,154,715	**1,487,906**
Interest expense	226,915	308,461	498,328	596,971	**900,309**
Net interest income	382,037	348,310	448,018	557,744	**587,597**
Other operating income	97,306	9,816	70,724	106,298	**112,015**
Operating expenditure	221,077	180,009	281,653	325,413	**305,356**
Profit before income tax	257,402	79,319	174,532	186,358	**108,772**
Income tax on profits	20,454	(59,278)	46,590	34,468	**13,103**
Gross dividends	89,734	22,433	67,300	84,125	**70,104**
Net Profit	233,498	138,603	221,122	220,826	**211,875**

	31st March 2014	31st March 2015	31st March 2016	31st March 2017	31st March 2018
Ratios					
Earning per share (Rs.)	42.25	24.71	39.43	39.37	**21.73**
Net assets per share (Rs.)	143.56	164.67	191.86	216.16	**225.75**
Return on average Shareholders' funds (%)	35.32	9.18	17.46	16.29	**8.78**
Return on average assets (%)	10.77	2.18	3.36	2.88	**1.42**
Total assets to shareholders' funds (Time)	3.29	5.00	5.36	5.92	**6.46**
Net interest margin (%)	15.98	9.59	8.89	8.61	**7.65**
Growth in gross income (%)	43.98	(5.62)	54.64	22.33	**26.88**
Growth in interest income (%)	24.76	7.85	46.18	22.02	**28.85**
Growth in interest expense (%)	34.18	35.94	61.55	19.79	**50.81**
Growth in net interest income (%)	19.76	(8.83)	32.57	24.49	**5.35**
Growth in profit before taxes (%)	36.49	(69.18)	120.04	6.78	**(41.63)**
Growth in net profit after taxes (%)	29.51	(40.64)	59.54	(0.31)	**(44.81)**
Growth in total assets (%)	23.33	74.71	24.90	24.42	**13.88**
Growth in total advance (%)	7.20	30.91	48.08	38.37	**10.84**
Growth in shareholders' funds (%)	23.41	14.71	16.51	12.67	**4.43**

Share Information

A. Analysis of Shareholders According to the Number of Shares as at 31st March 2018

Shareholdings	Resident			Non-Resident			Total		
	Number of Shareholders	Number of Shares	%	Number of Shareholders	Number of Shares	%	Number of Shareholders	Number of Shares	%
1 – 1,000 shares	360	24,614	0.44	2	33	0.00	362	24,647	0.44
1,001 – 10,000 shares	5	21,217	0.38				5	21,217	0.38
10,001 – 100,000 shares	9	664,650	11.85				9	664,650	11.85
100,001 – 1,000,000 shares	1	100,128	1.79				1	100,128	1.79
Over 1,000,000 shares	2	4,797,713	85.55				2	4,797,713	85.55
	377	5,608,322	100.00	2	33	0.00	379	5,608,355	100.00

B. Categories of Shareholders

	Number of Shareholders	Number of Shares
Individual	361	3,126,164
Institutional	18	2,482,191
	379	5,608,355

C. Twenty Largest Holders of Shares as at 31st March

	Name	2018 Number of Shares	2018 %	2017 Number of Shares	2017 %
1	Imperial Import & Export Co. (Pvt) Ltd.	2,422,308	43.19	2,422,308	43.19
2	Mr. John Paulu Irugalbandarage Nalatha Dayawansa	2,375,405	42.35	2,397,868	42.76
3	Mr. John Paulu Irugalbandarage Nadishka Dayawansa	100,128	1.79	92,386	1.65
4	Mrs. Ayanthi Shammalka Dayawansa	98,784	1.76	98,784	1.76
5	Mr. John Paulu Irugalbandarage Nelaka Dayawansa	96,257	1.72	81,536	1.45
6	Mr. John Paulu Irugalbandarage Shanil Dayawansa	92,386	1.65	92,386	1.65
7	Miss. Akuranawattage Shiyonika Perera	90,000	1.60	90,000	1.60
8	Mr. Akuranawattage Prajith Perera	90,000	1.60	90,000	1.60
9	Mrs. Ayoma Shyamali Perera	89,962	1.60	89,962	1.60
10	Kottawa Industries & Tours Ltd.	51,560	0.92	51,560	0.92
11	Mrs. John Paulu Irugalbandarage Pushparani	44,948	0.80	44,948	0.80
12	Mrs. Podinona Perera	16,966	0.30	16,966	0.30
13	Mr. John Paulu Irugalbandarage Vajira Priyantha	7,762	0.14	7,762	0.14
14	Imperial Tours	5,000	0.09	5,000	0.09
15	Mr. Puvendran Gajendra	1,160	0.02	1,160	0.02
16	Imperial Motor Finance Co. Ltd.	1,082	0.02	1,082	0.02
17	Nanayakkara Management Service (Pvt) Ltd.	1,000	0.02	1,000	0.02
18	Mrs. Sannasliyanarachchige Dona Mary Beatrice Nanayakkara	1,000	0.02	1,000	0.02
19	Mrs. Jayanthi Mala Gunaratne	1,000	0.02	1,000	0.02
20	Mr. John Paulu Irugalbandarage Kamal Kithsiri	968	0.02	968	0.02

D. Market Value per Share for the Year Ended

	31st March 2018 Rs.	31st March 2017 Rs.
Highest	480.00	500.00
Lowest	390.10	384.00
Closing	400.00	459.90

E. Directors Shareholding as at 31st March

Name	2018 Number of Shares	2017 Number of Shares
Dr. L.R. Karunaratne	–	–
Mr. J.P.I.N. Dayawansa	2,375,405	2,397,868
Mrs. A.S. Dayawansa	98,784	98,784
Mr. J.P.I.S. Dayawansa	92,386	92,386
Mr. K.D.U.S. Nanayakkara	–	–
Mr. L.C.W. Edirisooriya	–	–
CEO's shareholding as at 31st March		
Mr. T.M.A. Sallay	250	250

F. Public Holding

Public holding as at 31st March 2018 is 10.24%.

	31st March 2018 Number of Shares	31st March 2017 Number of Shares
Number of public holders	371	374

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders of Associated Motor Finance Company PLC, will be held at “Light House” at Lakshman Kadirgamar Institute. No. 24, Horton Place, Colombo 07 on 28th September 2018 at 9.30am for the following purposes:

Agenda

1. To consider and receive the Annual Report of the Board and the Audited Financial Statements for the year ended 31st March 2018, together with the Report of the Auditors thereon.
2. To authorise Directors to determine and make donations.
3. To re-elect as a Non-Executive Director Dr. Lokuvithana Rohan Karunaratne who retires under Articles of Association.
4. To authorise the Directors to determine the remuneration of the Auditors, Messrs SJMS Associates, Chartered Accountants who are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No. 07 of 2007.
5. To consider any other business of which due notice has been given.

By Order of the Board,
ASSOCIATED MOTOR FINANCE COMPANY PLC

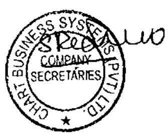

Chart Business Systems (Private) Ltd.
Secretaries
No. 141/3, Vauxhall Street,
Colombo 02

28th June 2018

Note:
- *A shareholder is entitled to appoint a proxy to attend and vote on his/her behalf, and a proxy need not to be a shareholder of the Company. A Form of Proxy is attached for this purpose. The instrument appointing a Proxy shall be deposited at S.S.P. Corporate Services (Pvt) Ltd., at No. 101, Inner Flower Road, Colombo 03 not less than forty-eight (48) hours before the time fixed for the meeting.*
- *Shareholders are requested to indicate any changes in their address.*

Form of Proxy

I/We ....

of ....

being a *shareholder/ shareholders of Associated Motor Finance Company PLC hereby appoint

(i) ....

of .... or failing him.

(ii) Dr. L.R. Karunaratne, Chairman of the Board of Associated Motor Finance Company PLC, or failing him any one of the other Directors of the Company as *my/our proxy to attend and vote as indicated hereunder for *me/us and on *my/our behalf at the Annual General Meeting of the Company to be held on 28th September 2018 at 9.30am and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To consider and receive the Annual Report of the Board and the Audited Financial Statements for the year ended 31st March 2018, together with the Report of the Auditors thereon.		
2. To authorise Directors to determine and make donations.		
3. To re-elect as a Non-Executive Director Dr. Lokuvithana Rohan Karunaratne who retires under Articles of Association.		
4. To authorise the Directors to determine the remuneration of the Auditors, Messrs SJMS Associates, Chartered Accountants who are deemed to have been reappointed as Auditors in terms of Section 158 of the Companies Act No. 07 of 2007.		

(**) The proxy may vote as he thinks fit on any other resolution brought before the Meeting.

....

Signature of Shareholder

28th June 2018

Note

(a) ** Please delete the inappropriate words.*

(b) *Instructions as to completion are noted on the reverse hereof.*

Instructions as to Completion

1. To be valid, this Form of Proxy must be deposited at S.S.P. Corporate Services (Pvt) Ltd. – Registrar of the Company at No. 101, Inner Flower Road, Colombo 03 not less than forty-eight (48) hours before the time fixed for the meeting.
2. In perfecting the Form of Proxy, please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his/her discretion will vote as he thinks fit. Please also delete (**) if you do not wish your proxy to vote as he/she thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company/Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.

Corporate Information

Name of the Company
Associated Motor Finance Company PLC

Company Registered Number
PB 733 PQ

Date of Incorporation
25th July 1962

Legal Form
A Public Limited Company, Licensed by the Monetary Board of the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011.

Registered Office
No. 89, Hyde Park Corner, Colombo 02.

Secretaries
Chart Business Systems (Private) Ltd.
No.141/3, Vauxhall Street, Colombo 02.

Registrars
S.S.P. Corporate Services (Pvt) Ltd.
No. 101, Inner Flower Road, Colombo 03.

Auditors
SJMS Associates, Chartered Accountants
No.11, Castle Lane, Colombo 04.

Internal Auditors
BDO Partners
"Charter House",
65/2, Sir Chittampalam A. Gardiner Mawatha, Colombo 01.

Bankers to the Company
People's Bank
Commercial Bank of Ceylon PLC
Bank of Ceylon
Sampath Bank PLC
Nations Trust Bank PLC
National Development Bank
Hatton National Bank
Seylan Bank PLC
Deutsche Bank AG

Stock Exchange Listing
Ordinary shares of the Company were listed on the Colombo Stock Exchange from 23rd May 2011.

Board of Directors
Dr. L.R. Karunaratne
Mr. J.P.I.N. Dayawansa
Mrs. A.S. Dayawansa
Mr. J.P.I.S. Dayawansa
Mr. K.D.U.S. Nanayakkara
Mr. L.C.W. Edirisooriya

Legal Advisor
Gunawardena & Ranasignhe Associates
Attorneys-at-Law & Notaries of Public,
No. 1056, Maradana Road, Colombo 08.

Tax Advisors
SJMS Associates, Chartered Accountants
No.11, Castle Lane, Colombo 04.

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Trustees of Your Trust

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