Abans Finance PLC
Annual Report 2017/18

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ABOUT US......

OUR VISION

Be the Soundest and Most Trusted Financial Solutions Provider in the Industry.

OUR MISSION

Power of the consumer through innovative products, personalized service and a wide range of financial solutions by maximizing the synergies of the Abans Group, thereby creating wealthy fuelling growth and adding to stakeholder value.

ORGANIZATIONAL PROFILE

Abans Finance PLC was incorporated on 08 April 2005 under the companies Act No. 17 of 1982 and was re-registered under the new companies Act No.7 of 2007, on 15 June 2009. The company's journey of just over 13 years has been an eventful one, where the Company has endured challenges and emerged a strong, resilient force in the sector. Over the 13 years in operation, the Company has grown to be a large subsidiary of the prestigious Abans Group and contributed favorably towards the overall strategic goals of the Group .The Abans Group of Companies, is one of the most respected diversified business conglomerates in Sri Lanka having a history of more than four decades and multiple companies in sectors that cover travel, hospitality, tourism, logistics and fashion.

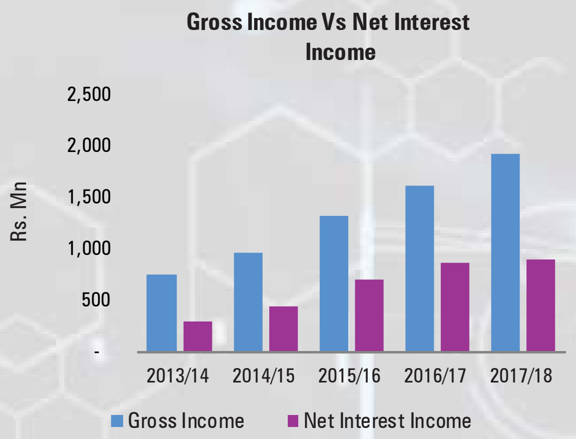
The Company commenced business initially as a registered Finance Leasing establishment under the Finance Leasing Act No.56 of 2000 on 19 April 2006 and thereafter obtained finance company license in terms of the Finance Companies Act No.78 of 1988 with an initial stated capital of Rs. 382 million on 27 August 2007. The Company was listed on the Colombo Stock Exchange in year 2011.

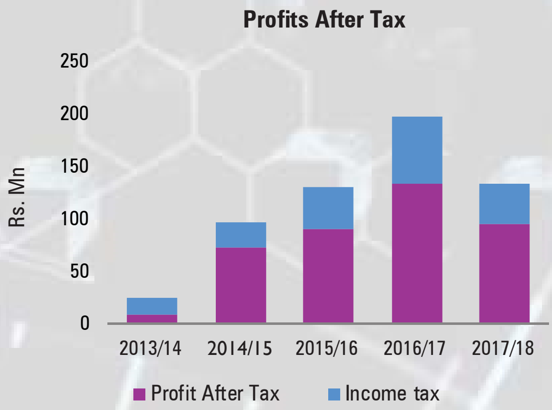
The Company currently operates with ten Branches, nine Customer Centers and four Kiosks. Comprehensive range of financial services encompassing acceptance of Fixed Deposits, maintenance of Saving Deposits and provision of Finance Leases, Mortgage Loans, Business Loans, Personal Loans and other Credit Facilities have been designed to cater to varied needs of our customers.

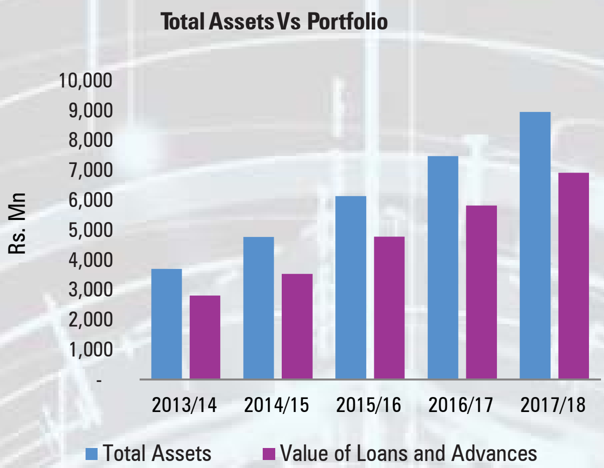
FINANCIAL HIGHLIGHTS

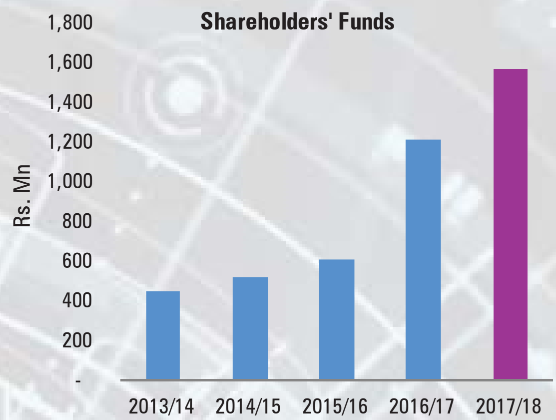
Financial Performance (Rs. '000)	2017/18	2016/17	Change
Income	1,917,671	1,620,506	18.34%
Net Interest Income	897,991	871,034	3.09%
Net Fee and Commission Income	42,167	19,367	117.73%
Total Operating Income	960,526	912,119	5.31%
Profit Before Taxation	132,949	197,406	(32.65%)
Taxation	38,086	63,842	(40.34%)
Profit After Taxation	94,864	133,564	(28.98%)
Financial Position at the Year End (Rs. '000)			
Total Assets	8,957,424	7,486,207	19.65%
Loans and Advances to Customers	6,928,118	5,825,642	18.92%
Public Deposits	6,615,159	5,550,553	19.18%
Borrowings	218,381	213,739	2.17%
Shareholders' Funds	1,567,628	1,210,266	29.53%
Profitability			
Return on Assets (%)	1.15%	1.96%	(81) bps
Return on Equity (%)	6.83%	14.64%	(781) bps
Net Interest Margin (%)	10.92%	12.78%	(185) bps
Cost to Income Ratio (%)	56.83%	51.53%	529 bps
Investor Information			
Earnings Per Share (Rs.)	1.44	2.36	(38.85%)
Price to Earnings Ratio (Times)	14.76	8.76	68.42%
Net Asset Values Per Share (Rs.)	23.55	21.82	7.94%
Market Value Per Share (Rs.)	21.30	24.10	(11.62%)
Market Capitalization (Rs. Mn)	1,418	1,337	6.06%
Regulatory Ratios			
Capital Adequacy			
- Core Capital Ratio (%) (Minimum - 5%)	21.00%	19.41%	159 bps
- Total Risk Weighted Capital Ratio (%) (Minimum - 10%)	21.00%	19.37%	163 bps
Statutory Liquid Asset Ratio (%)	23.32%	21.80%	152 bps
Capital Funds to Total Deposit Liabilities (%) (Minimum - 10%)	23.70%	21.81%	189 bps

FINANCIAL HIGHLIGHTS *[Contd.]*









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CHAIRMAN'S MESSAGE

Dear Stakeholder,

It is with great pleasure that I present to you the Annual Report and Audited Financial Statement for the year ended 31 March 2018 of Abance Finance PLC.

The Global Economy

The Global growth was projected to rise to 3.6 % in 2017 reflecting a global upswing in economic activities. The growth in the advanced economies stood at an estimated rate of 2.3 % led by substantial growth in the Euro area and to a lesser degree in the United States and Japan. However, the global economic outlook seems to be subjected to downside risks due to numerous factors in terms of financial stress, increased protectionism and increasing geopolitical tension in the coming years. Thus, the need to increase long term productivity and improve living standards is vital.

The Sri Lankan Economy and the NBFI Sector

The Sri Lankan economy recorded a moderate GDP growth rate of 3.1 % in 2017, compared to that of 4.5 % in 2016. The adverse weather condition which impacted negatively on real economic activity was the main reason behind this slowdown.

The total asset base of the NBFI sector grew moderately by Rs. 143 billion during the year reaching Rs. 1,355 billion by the year end 2017, at a growth rate of 11.8 %, compared to the 21.7 % growth reported in 2016. One of the main reasons behind this slow down is Government curtailing credit growth with further tightening of Loan to Value Ratio that was effective at the beginning of 2017. The adverse weather condition is another main reason which adversely affected the asset growth of the sector.

The gross Non Performing Loan ratio increased to 5.9 % in 2017 from 5.3 % reported in 2016 due to the increase in gross NPLs and decline in the growth of the loan portfolio. The total loan loss provisions increased by Rs. 7.4 billion to Rs. 42.2 billion due to the increase in the specific provisions made for Non Performing Loans. The provision coverage ratio declined to 64 % in 2017, compared to 65.7 % in 2016. As a result, Net Non Performing Loan ratio increased to 1.5 % in 2017 from the reported ratio of 1.2% in 2016, showing signs of deterioration in the asset quality of the sector. However, with appropriate risk mitigation techniques, credit risk of the sector remained at manageable levels.

Performance of Your Company

The growth in Net Interest Income was only 3 % and increased from Rs. 871.03 million in 2016/17 to Rs. 897.99 million in 2017/18. However, the Gross Interest Income grew to Rs. 1.71 billion in 2017/18 from Rs. 1.49 billion reflecting a growth rate of 15 %.

Profit before Taxation stood at Rs. 132.9 million in 2017/18 compared to that of Rs. 197.4 million in 2016/17 indicating a negative growth of 33 %. One major reason behind this negative growth was the provision for impairment. The Company has adopted a more conservative Impairment methodology during the year and the charge for the year from impairment of Loans & Advances amounted to Rs. 223.1 million compared to that of 189.3 million in year 2016/17 which as a percentage is an increase of 18 %.

Total asset base grew by 20 % in the year 2017/18 whereas the total Loans and Advances grew by 18.9 % in the year 2017/18.

Compliance for Greater Governance

During the year under review, the Board focused more on improving its effectiveness towards governance while introducing comprehensive evaluations mechanisms and adopting stringent policies on Corporate Governance. Going forward, the Company would ensure that there will be a continuous commitment to improve on transparency, accountability and reporting.

Appreciation

The Managing Director / CEO, Mr. Roshan Nanayakkara and his management team are to be commended for their continuous efforts in making the Company a more profitable one despite economic headwinds and competitive challenges in the environment in which we do business. Going forward, finance companies are likely to face strategic challenges with increase in regulatory capital requirements. Competitors are likely to take steps to diversify and control costs as margins would diminish. AFPLC is reviewing these changes and its own strategic responses.

I am confident that the Board and Management will be successful in positioning the company appropriately in changing circumstances and that it will sustain its growth trajectory over the long term.

I would like to take this opportunity to thank my fellow Directors, the CEO, the Management Team and our parent company, Abans PLC, for their invaluable contribution to the success of the Company.

We foresee success in the coming years, and look forward to our stakeholders continued support which would give us added comfort in the years ahead.

Rusi Pestonjee
Chairman

Colombo,Sri Lanka
25 June 2018

MANAGING DIRECTOR / CEO'S MESSAGE

It is my pleasure to present to you the Annual Report and Financial Statements for the year ended 31 March 2018.

Performance of Non Bank Financial Institutions

Licensed Finance Companies and Specialized Leasing Companies (LFCs and SLCs) Sector performance moderated during the year with low credit growth, declining profitability and increase in non-performing loans. The sector expanded in 2017, with an asset growth of 11.8 %, representing 7.9 % of Sri Lanka's financial system. The sector remained strong, with capital maintained at healthy levels along with adequate liquidity buffers well above the regulatory minimum levels. The sector exhibits a shift in funding mix, as increased assets were mainly funded through deposits while borrowings of the sector declined compared to the high growth recorded during the previous year. The Central Bank continued to take prudent measures to maintain the stability of the sector with much consideration on reviving the companies with weak financial positions.
(Central Bank of Sri Lanka, Annual Report 2017, page 260)

Operating Results of the Company

The Company's Total Asset Base (YOY) grew by 20% from Rs.7.4 billion on 31 March 2017 to Rs.8.9 billion in 31 March 2018. The Income earning Asset Base (YOY) grew by 18.9% from Rs. 5.8 billion on 31 March 2017 to Rs. 6.9 billion in 31 March 2018. The Total Gross Interest Income recorded a 15% growth amounting to Rs. 1.7 billion compared to Rs. 1.49 billion in the previous year. However, the Net Interest Income eroded with high Interest Expense with an increase of 30% amounting to Rs. 0.8 billion compared to Rs. 0.6 billion in the prior year. As such the Net Interest Income grew only by 3%.

The Company adopted a more conservative Impairment Methodology under the guidance of External Auditors. Allowances for impairment charges for loans and advances increased from Rs. 189 million in prior year to Rs. 223 million.

During the year, the authorized share capital was increased by Rs.277 million by the issue of 11 million ordinary shares, Rs.25/= each by way of a Rights issue.

Risk Measures and Growth Strategies

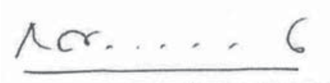
The Company continues to focus on all identified risks ensuring effective controls are in place. As a control measure the Company expanded the Call Center in focusing follow up of collections. The Company also launched a pioneering and novel mobile device based application for its Marketing Officers and Collection Officers, with the objective of initiating a Lease or a Personal Loan and improving the Collection process in the field. This mobile application named "AFiMobile" aims to assist the Company Officers to capture customer information and collect rental payments on the go.

The Company is also in the process of migrating to a new plat form of IT to help leverage and manage growth of its Vehicle Leasing business and Fixed Deposit & Savings Mobilization.

Appreciation

With a deep sense of gratitude, I would like to place on record my thanks and appreciation to the Chairman and the Board of Directors for their continuous guidance and contribution. I would also wish to extend my gratitude to the CBSL officers for their regulatory guidance and to say thank you to our external auditors, fund providers and all other stake holders who helped us in numerous ways in our path to success.

I sincerely thank all staff and management team for their dedication, commitment and diligent execution of tasks assigned.



Roshan Nanayakkara
Managing Director/CEO

Colombo, Sri Lanka
25 June 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Overview

The Sri Lankan economy grew at a moderate pace of 3.1 % in 2017, compared to the growth of 4.5 % in 2016, amidst the challenges arising from both domestic and external fronts. The main reason for this slowdown was the prevailing high interest rates and the adverse weather conditions which were reflected in the continued negative impact on real economic activity.

In terms of industry growth, the agricultural sector recorded a contraction of 8%, while the industrial and services sectors, too, recorded a slowdown in growth. The 3.9% growth of the industrial sector was supported by manufacturing, construction, and mining and quarrying. However, the slowdown was attributed to the contraction in the construction industry when compared with previous years. The main reason for the slowdown in growth in the services sector was due to reduced activities from public administration and defence, while the 3.2% growth realised is attributed to the growth in financial services activities, wholesale and retail trade, and other personal services activities.

Moreover, the business surveys conducted by the Central Bank also indicated subdued business conditions during the year. Meanwhile, investment expenditure grew at a slower pace compared to the previous year whereas consumption expenditure, which witnessed some slowdown in the previous year, accelerated in 2017. Even though exports grew at a higher rate benefitting from the stronger recovery of some of the Sri Lanka's major export destinations such as the US and Europe, the substantial increase in imports resulted in a further deterioration of the net external demand.

Meanwhile, the domestic savings grew at a slower rate while the net primary income from the rest of the world continued to contract during the year. Further, net current transfers from rest of the world moderated reflecting the slowdown in workers' remittances partly due to geopolitical tensions and uncertainties in some regions including the Middle East. Reflecting these developments, growth in national savings moderated during the year and the resources gap broadened due to the relatively high growth in investment. (Source: CBSL Annual Report 2017)

Financial Sector Performance

Financial sector showed improved performance as the supportive prudent measures continued to preserve stability of the financial system in 2017. The improved performance of the financial sector was broad-based and mainly contributed by the banks, other deposit taking financial institutions and contractual savings institutions. The banking sector continued to expand with improved business operations and risk management practices with the implementation of timely and appropriate regulatory measures during the year. Asset growth of the banking sector remained high though it gradually moderated during the second half of the year responding to the tight monetary policy stance and the resultant high market interest rates.

NBFI Sector

The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector performance moderated during the year with low credit growth, declining profitability and increase in non-performing loans. The slowdown in the sector was mainly due to fiscal and macro prudent policy measures taken to curtail importation of motor vehicles, moderate economic growth and natural calamities such as floods and drought conditions that prevailed in 2017. Nevertheless, the key performance indicators of the sector, including capital, liquidity and profitability, continued to be positive. The Central Bank initiated key prudent fiscal measures with much consideration on reviving the companies with weak financial positions. Necessary actions have been taken to cease or limit finance business operations of weak finance companies to safeguard depositors and the long term stability of the financial sector. Healthy growth was recorded by the contractual savings institutions, dominated by the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF), providing reasonable returns for their members. Other sub sectors of the financial sector, which include the insurance sector, the primary dealers in government securities and the unit trust sector, recorded positive business performance during the period, without major stability concerns.

The sector expanded in 2017, with an asset growth of 11.8%, representing 7.9 % of Sri Lanka's financial system. The total assets base of the sector grew moderately by Rs. 143 billion during the year reaching Rs. 1,355 billion by end 2017, at a growth rate of 11.8 %, compared to the 21.7 % growth reported in 2016. The assets base of the sector mainly consisted of loans and advances and accounted for 78 % of the total assets which contributed to 66 % of the assets growth. Finance leases accounted for 50 % of the loans and advances followed by other secured loans which accounted for 40 %.

Composition of Assets and Liabilities of the LFCs and SLCs Sector

Item	2016 (a) Rs. bn	2016 (a) Share (%)	2017 (b) Rs. bn	2017 (b) Share (%)	Change (%) 2016 (a)	Change (%) 2017 (b)
Assets						
Loans and Advances (net)	962.7	79.4	1,057.1	78.0	21.0	9.8
Investments	111.7	9.2	118.1	8.7	12.1	5.7
Other	137.5	11.3	179.8	13.3	36.6	30.8
Liabilities						
Total Deposits	530.7	43.8	686.7	50.7	10.4	29.4
Total Borrowings	438.7	36.2	396.0	29.2	39.6	-9.7
Capital Elements	146.1	12.1	169.7	12.5	18.7	16.1
Other	96.4	8.0	102.6	7.6	23.5	6.4
Total Assets/Liabilities	1,211.9	100.0	1,355.0	100.0	21.7	11.8

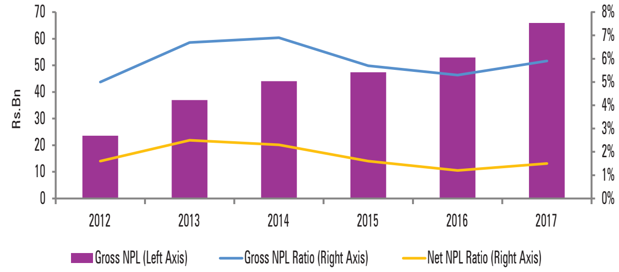
(a) Revised

(b) Provisional

Source: Central Bank of Sri Lanka

Customer deposits became the major portion of liabilities in 2017 and accounted for 50.7 % of the total liabilities of the sector. Sector borrowings and capital accounted for 29.2% and 12.5 %, respectively. The sector exhibited a shift in the funding mix as the expansion was largely funded through the customer deposit mobilisation. The deposits grew by 29.4 % to Rs. 686.7 billion in 2017, compared to the growth of 10.4 % in 2016. Time deposits grew by 29.2 % compared to the growth of 11.1 % in the year 2016 and savings deposits grew by 35.3 % compared to the negative growth of 1.7 % recorded in the previous year. Neverthe-less, time deposits accounted for a major share of total deposits, representing 95.5 %. The sector borrowings indicated a negative growth of 9.7 % to Rs. 396.0 billion in 2017, compared with the high growth of borrowings of 39.6% experienced during 2016. The increasing reliance on deposits were mainly attributed to the declining trend of deposit interest rates.

Non - Performing Loans and Provision Coverage of the LFCs/SLCs Sector



Source: Central Bank of Sri Lanka

Gross non-performing loans (NPLs) portfolio increased to Rs. 65.9 billion by Rs. 12.9 billion in 2017 (24 %) mainly due to the floods that occurred during the first half of 2017, nationwide drought and slowing down of the economy. The gross NPL ratio increased to 5.9 % in 2017 from 5.3 % reported in 2016 due to the increase in gross NPLs and decline in the growth of the loan portfolio. The total loan loss provisions increased by Rs. 7.4 billion to Rs. 42.2 % in 2016. As a result, net NPL ratio increased to 1.5 % in 2017 from the reported ratio of 1.2 % in 2016, showing signs of deterioration in the asset quality of the sector. However, with appropriate risk mitigation techniques, credit risk of the sector remained at manageable levels.

The net interest income of the sector increased at a slower rate than in 2016, recording a growth of 11.5 % to Rs. 102.7 billion. This was mainly due to the increase in interest expenses by 33.1%, compared to the growth of interest income only by 22.6 %. As a result, net interest margin of the sector (net interest income as a percentage of average assets) declined marginally to 7.7 % in 2017 from 7.9% in 2016. Non-interest income increased by 20.3% mainly due to the increase in default charges and other service charges, while non-interest expenses also increased by 21.9 %, affecting adversely towards sector profitability, mainly due to the increase in staff costs. The loan loss provisions made against NPLs, which was Rs. 13.5 billion increased by Rs.6 billion during 2017, when compared to the provision of Rs.7.6 billion made in 2016 which also affected the profitability in 2017.

Accordingly, the sector posted a profit after tax of Rs. 25.8 billion, an 18.0 % decline compared to the profit of Rs. 31.5 billion recorded in the year 2016, mainly due to increased funding cost and higher loan loss provisions.

AFPLC Performance during the year 2017/18

Amidst a challenging operating environment, Abans Finance PLC was able to manage its market share, mitigate the adverse impact of the challenging environment and maintain operating performance at a favorable level through market oriented strategic initiatives.

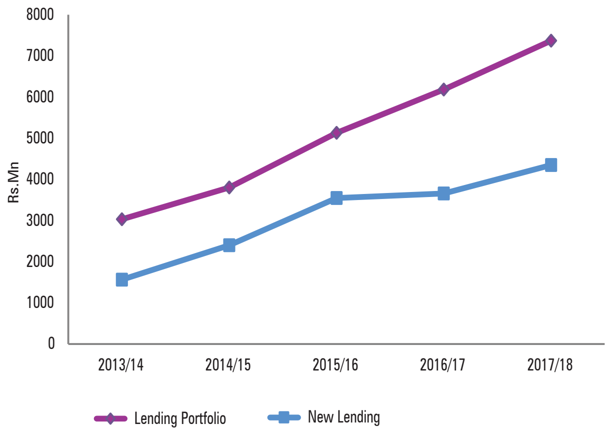
Product: Finance Lease, Other Loans and Advances

Company was able to maintain a diversified lending portfolio in order to mitigate the credit risk and reach extended customer base. Finance Leases, Business Loans, and other Loans and Advances were the main lending product lines serviced by the Company during the Financial Year 2017/18. In terms of new accommodations, the Company extended a total of Rs.4.3 billion worth of disbursements during the year 2017/18, an increase of 19 % from the previous year's disbursements.

The increase in lending volume was the aim of improving the size of lending portfolio in order to facilitate top line growth.

The value of the Total Lending portfolio increased from Rs.6.2 billion in 2016/17 to Rs.7.4 billion in 2017/18, an increase of 19.2 %. The increase in the lending portfolio was by way of a restructured credit approval process coupled with a sound recovery process.

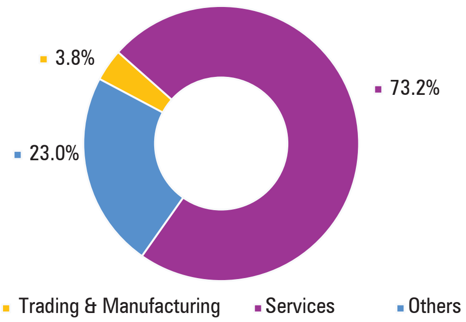
Lending Portfolio & New Lending



A closer analysis of the lending portfolio outstanding as at end March 2018 reveals that from an 'asset type' classification (for Finance Leases, Other Loans and Advances) the Company advances portfolio is predominantly exposed towards 'Motor Bikes' and 'Business Loans' which as at end March 2018 accounted for 58.80 % and 11.25 % of the lending portfolio value respectively.

From a sector wise classification, the portfolio concentrations are predominant in the service sector, a percentage of 73.2 %. Emerging trend of tourism industry and increasing trend of service sector to the Sri Lankan economy were the leading factors of this composition. A sector wise graphical presentation is as given below.

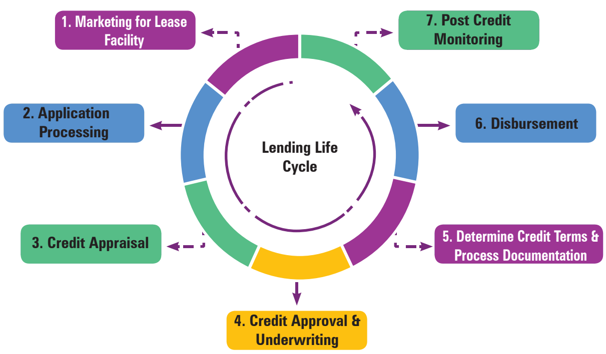
Portfolio Outstanding as 31 March 2018 - Sector Analysis



Credit Distribution and Centralized Approvals

The Company has established a Credit Approval Committee chaired by Chief Executive Officer accompanied by other Heads of Operations to review credit quality, to accelerate the granting cycle, to mitigate risk, to avoid discrepancies & finally to deliver a high value added product.

The Credit approval cycle consists of a seven stage centralised approach which could be depicted as follows.



Marketing Strategies for product Portfolio

As an emerging business entity AFPLC has to face severe competition from market giants in the finance sector. Hence Company has to adopt strong marketing strategies towards building trustworthiness, awareness and deliver a quality assured service.

During the year under review, the Company extended three-wheeler leasing facilities for Bajaj three-wheelers at competitive rates by entering in to an agreement with David Pieris Motor Company. Increasing trends of women motorcycle riders and difficulties in public transportation system in rural areas have been identified as strengths for promoting two wheeler financing facilities in rural areas.

Further, the Company reviewed its products against the competitor offerings and considered the following as being vital when strategising its market offerings in relation to the competition.

1. Number of units leased / hired per month in terms of gaining supplier favouration
2. Service efficiencies
3. Number of Direct Branches / Customer Centres and KIOSKs
4. Nature of vendor relationship
5. Minimum required down payment
6. Upfront charges collected
7. Effective Interest Rate
8. Specialization and knowledge of staff

Competitive Landscape

The narrowing of interest spreads caused by competitive rivalry could lead to lower profitability amongst licensed finance companies. However, access to low cost financing, constant innovation in leasing products and effective promotions may provide a competitive advantage to capable NBFIs who would be able to not only sustain but experience growth in their profitability. In addition, due to the narrow product line in the leasing portfolios, diversification may enable NBFIs to increase their profitability.

Core competitive value propositions are shifting from the factor of interest rate to certain other considerations such as service sufficiency, accessibility, convenience and brand recall amongst the competition. Further, emerging changes in socio- economic factors tend to enhance the level of market demand for motor bikes, registered vehicles, permit vehicles and hybrid vehicles.

Channel Expansion & Branch Performance

As an emerging Company in the market, our product portfolio is not much wider as the other companies operating in this sector. However we intend to initiate our strategies to enhance the value of our customers living condition with limited but attractive range of products. AFPLC aims to increase its products breadth to include a wider range of asset/liability products. The following table provides a comparative of AFPLC products with some of the larger peers in the NBFI sector.

	Abans Finance	Other Large Peers
Leasing and Hire Purchase	■	■
Fixed Deposits/Savings	■	■
Loans/Advances/ Others	■	■
Currency Related Services		■
Micro Finance/ Development Financing		■
Real Estate		■
Islamic Finance		■
Pawning/Gold Loans		■
Factoring/Working Capital		■
Trade Finance		■
Margin Trading		■
Payment Card		■
Wealth Management		■
Debt Instruments		■

Delivery Channels

Delivery channels used by AFPLC are currently limited to Branches, Customer centres & KIOSKs. Tabulated below are the delivery channel platforms used by AFPLC in comparison to larger peers.

Company	Branches	Customer Centres	Mini/Micro Branches / KIOSKs	Mobile / Propaganda Vehicles	Tele Based	Electronic Web Based	ATM
Abans Finance	■	■	■				
Other Large Peers	■	■	■	■	■	■	■

Place / Channel positioning is a critical success factor in the industry which will determine the success or the failure of the geographical expansion strategy of the Company. Therefore channel placement would be done on a solid rationale which can justify the channel choice made by the Company. Channel positioning generates a definite competitive edge for a financial institute since this affects the overall business model of the entity in terms of market penetration and customer convenience. Choice of channels will have to be made by considering both organizational aspects as well as customer aspects. Current distribution of the channel network of AFPLC can be summarized as follows.

Channel Performance Analysis

	Channel Location	Channel Category	Province	District	No of Staff	Age of Channel (Years)
1	Colombo	Head Office	Western	Colombo	163*	13.15
2	Kurunegala	Branch	North Western	Kurunegala	13	10.13
3	Dambulla	Branch	Central	Matale	16	9.78
4	Badulla	Branch	Uva	Badulla	11	9.74
5	Anuradhapura	Branch	North Central	Anuradhapura	16	9.70
6	Galle	Branch	Southern	Galle	14	9.53
7	Gampaha	Branch	Western	Gampaha	14	8.71
8	Jaffna	Branch	Northern	Jaffna	9	7.73
9	Rathnapura	Branch	Sabaragamuwa	Rathnapura	10	7.58
10	Kandy	Branch	Central	Kandy	22	6.60
11	Kaduruwela	Customer Centre	North Central	Polonnaruwa	6	2.83
12	Embilipitiya	Customer Centre	Sabaragamuwa	Rathnapura	6	2.83
13	Ampara	Customer Centre	Eastern	Ampara	15	2.72
14	Batticaloa	Customer Centre	Eastern	Batticaloa	10	2.72
15	Puttalam	Customer Centre	North Western	Puttalam	7	2.72
16	Matara	Customer Centre	Southern	Matara	6	2.56
17	Thissamaharama	Customer Centre	Southern	Matara	7	2.56
18	Trincomalee	Customer Centre	Eastern	Trincomalee	6	2.43
19	Vavuniya	Customer Centre	Northern	Vavuniya	7	2.43
21	Kadawatha	KIOSK	Western	Gampaha	2	6.28
20	Ja-ela	KIOSK	Western	Gampaha	3	6.27
22	Moratuwa	KIOSK	Western	Colombo	2	6.19
23	Piliyandala	KIOSK	Western	Colombo	5	6.19

*Include Corporate and Back Office support functions

The customer preference for a specific channel would primarily depend on factors favoured by the customer in terms of convenience and confidence. The Company has taken consideration of these factors in the future branch roll out plan. Currently, AFPLC has introduced KIOSKs in strategic locations across the country in order to serve a wider range of customers. AFPLC has also received beneficial synergy spill overs from the brand recognition strength of the Parent Company (Abans PLC).

System Model of Abans Finance PLC

Information & Communication Technology

Our IT platform enables us to provide more customer convenience, customer centric and speedier service. Company has identified that rivalry against competitors requires a strongly powered technological advantage that would enable a more effective service to our customers.

AFPLC took a major leap in its Digital Transformation journey during the year 2017/18. Following are some key Projects which were launched:

* **AFiMOBILE - Mobile App for Lending and Collections**

  This is a pioneering Mobile Application for the Marketing Officers and Recovery Officers, with the objective of initiating a Lease or a Personal Loan and improving the Recovery Process in the field.

* **SkyBank - New Core Information System**

  With the current Core System being saddled with a lot of issues and nearing end of life, a new Web based Core Information System is taking its place module by module. The new System offers a lot of new features including a Digital Banking Front-end for the Customers.

* **New Interactive Website**

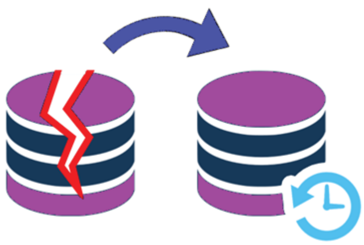
  Apart from easy navigation and user friendly interfaces, the new Website offers a host of interactive features such as dynamic loan calculator, inquiry submission tool, interactive branch map, etc.

Abans Finance Newly Launched website

* **Document Management System**

  This Solution is used to track, manage and store documents and reduce paper.

* **Disaster Recovery Site**



* **Business Continuity Plan**

The other Projects launched during the year include the following:

* **Cloud based Intranet**
* **Migration of Staff Emails to the Cloud**
* **New Collaboration Platform for Staff**
* **VPN Links with the Branches upgraded**
* **Upgraded Information Systems Security Policy**

Infrastructure

Branch infrastructure has been upgraded to improve the customer reach and service quality to cover all parts of the Island. We have also focused on improving the Security Policies in order to strengthen the Security and Controls on vital information assets. Enhancements have been carried out in the areas of Risk Management and Compliance as well.

Future Strategic Outlook

FUTURE STRATEGIC DIRECTION

Analysis of Strategic Position - Abans Finance PLC

AFPLC has a rich history of serving clients and customers with integrity and establishing relationships based on trust. It is our responsibility to preserve and build upon the solid values on which this Company was founded, and in this context it is supported strongly by the synergies gained from the association with its parent- Abans PLC. The joint synergies have helped the Company to emerge triumphant despite challenging macroeconomic conditions prevailing through the year. In order to initiate market pursuant strategies, we had carried out a SWOT analysis to identify the current market position of the Company.

- Being a subsidiary of a leading Company, using its corporate brand, trusted relationship with group companies, cross selling opportunities, service efficiency and flexibility need to be matched with the available market opportunities to generate the maximum output can be viewed as strengths of the Company.
- Prevailing weaknesses of the Company such as higher lending rates, increasing default rates, limited approach to market segments and limited branch network needs to be mitigated and converted to strengths.
- Raising market trend of women vehicle riders, opening of North & East provinces, general economic growth, expansion of certain economic sectors and influx of new vehicles, should have to be identified and addressed as opportunities.
- Tightened CBSL policy regulations, high NPLs due to credit growth, competition leading to narrow margins, availability and growth of substitute products such as vehicle loans are some of the threats which must be converted into opportunities since they are beyond the direct control of the business.

Key Strategic Objectives

a. To expand channel distribution in both physical and virtual forms with the purpose of enhancing customer convenience.

b. To achieve a higher Return on Assets, Return on Equity and Operational Efficiency levels above industry norms.

c. To maintain a quality lending book which will help to achieve a lower Non Performing Loan (NPL) ratio.

d. To gain a top of the mind recall in relevant target markets, such as the Hero motorbike market, by being amongst the most preferred brands in such categories.

e. To deliver augmented returns to shareholders and to be a preferred entity to investors.

f. To become a diversified financial entity through fund based asset lending products in both short and medium term markets

g. To deliver extra ordinary customer service through flexibility and service efficiencies over other leading competitors in the industry which will lead towards a market differentiation.

h. To deliver positive externalities to the business and social environment by being a socially responsible brand in the Market

i. To generate maximum value additions to internal customers on both financial and non-financial terms by being a preferred employer in the labour market.

Future Strategic Direction – Strategic Initiatives

The Board of Directors are keen on formulating strategies by paying attention on the interest of our stakeholders, minimizing possible conflict of interest, in line with risk mitigating strategies and delivering core values of the business. We ensure that formulation and execution of these strategies would bring meaningful progress and create longer-term value for our target customers and other related parties.

- **Launching New products and entering into different market segments**

The Company tries to address new market segments by going beyond the existing customer profiles in order to cope up with the rising competition and regulations. Diversification of services is not only expected to help the Company to reduce its reliance on one sector, but is also expected to help leverage on the significant opportunities of other sectors.

The strategy is to increase cross-selling opportunities and ensure client retention via increasing the diversity of the product range offered, by utilizing synergies with Abans PLC and by becoming more assiduous in the deposit mobilization process.

- **Entering into agreements with leaders of automobile industry**

Agreement between market leaders in the automobile industry will lead to reach a wider customer range and address un tap markets in the future.

- **Strong Focus on Recovery Strategies**

Growing credit facilities in the market will automatically lead to increase credit defaults by customers if proper recovery processes are not in place. Therefore a sound recovery process needs to be established in order to maintain default rates at a reasonable level.

- **Cost Reduction Strategies and Dealing with Banks**

Raising interest cost will narrow the margins and Company pays higher attention in this aspect. The Company maintains banking relationships to reduce the funding cost and obtain funds at the lowest possible rates.

- **Expansion of Distribution Footprint**

The Company intends to expand its operations by growing its branch network and expanding partnership with dealers and agents. It plans to establish additional branches to cover all potential areas in the country. The Company also intends to increase its operations in the Northern and Eastern provinces.

This initiative will help the Company to tap potential geographies and also contribute towards partly mitigating the risks emerging from increased competition.

- **Focus on Brand Building**

AFPLC's focus on strengthening its own brand and image in the market is unquestionable. It recently completed thirteen years in operation and is planning to launch a creative campaign, with the objective of emphasizing and highlighting the attributes of reliability and trust.

- **Attracting Human Skills**

Hiring talented individuals is critical to the Company's success. The Company aims to be more forward looking. We need to understand our future direction as well as the changes happening in the market. In this context, the Company would adopt more rigorous systems of identifying the talent that it would need in the future.

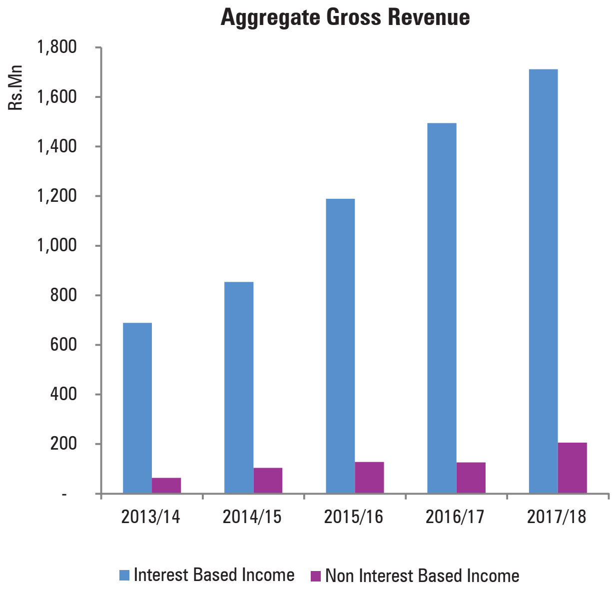
- **Leveraging Technology to Extend Reach and Control Costs**

Since its inception, the Company has successfully used technology to gain a competitive advantage in view of intense competition in the sector. Over the next three years, the Company plans to concentrate its technological initiatives in key areas and make more use of Business Intelligence tools.

Financial Review

Total Gross Revenue

Total aggregate Gross Revenue increased from Rs.1,620 million in 2016/17 to reach Rs. 1,918 million in 2017/18, recording an increase of 18.34 %. The components of gross revenue consist of items of income that are 'Interest based' and 'Non Interest based'.



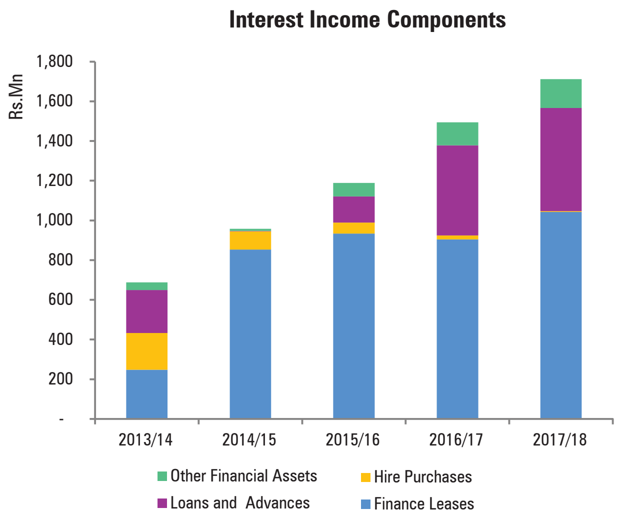
Interest based items of revenue consist of interest income earned from Finance leases, Hire Purchase, Loans and Advances and interests earned from money market investments. Non Interest based sources of Income consist of Fee and Commission Income, Net Gain/ (Loss) from Trading and Other Operating Income. The growth in total revenue is mainly due to the growth in Interest based income streams.

Abans Finance PLC being a Licensed Finance Company derives most of its income from interest earned on its Finance Lease and Loan Portfolio. The proportion of Interest Income to Total Income was 89.25 % in 2017/18 as against 92.23 % in 2016/17.

Interest Income

Total interest income for the year 2017/18 was recorded at Rs. 1,712 million, a growth of 14.51% from the previous year. As stated, interest income was mainly derived from asset financing products such as Finance Lease, and Loan Portfolio. Apart from lending products, interest income on Held to Maturity Financial Assets and Placements with Banks were other main contributors of interest income.

A component analysis of interest income indicates that asset financing products such as finance leases and loans accounted for 91.23 % of total interest income in year 2017/18 (year 2016/17 -90.89 %).

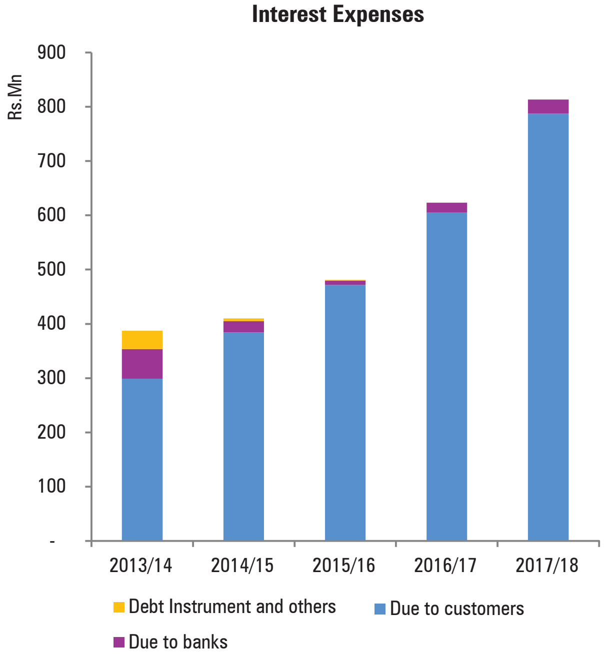


MANAGEMENT DISCUSSION AND ANALYSIS *[Contd.]*

Interest Expenses

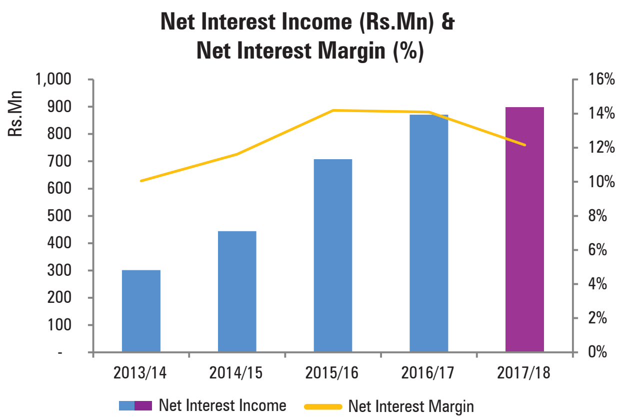
Interest Expenses increased to Rs. 814 million in 2017/18 from Rs.624 million in 2016/17 which is an increase of 30.46%.

The components of Interest costs indicate that Interest Expense Due to Customers accounted for 96.82 % of total Interest Cost for year 2017/18 compared to 97.1% in 2016/17.



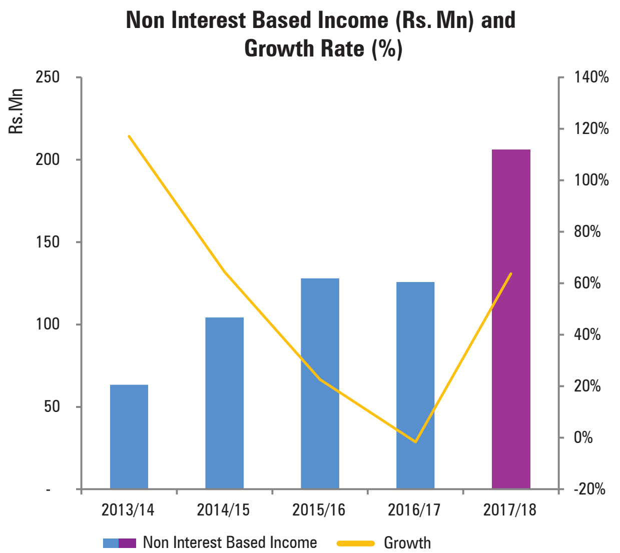
Net Interest Income / Net Interest Margin (NIM)

Net Interest Income increased from Rs. 871.03 million in 2016/17 to reach Rs. 897.99 million in 2017/18, an increase of 3 %. The NIM settled at 12.15% as at end March 2018, a decline from the achieved NIM of 14.09% in 2016/17.



Non Interest Based Income

Non Interest based income grew from Rs. 125.8 million as at end 2016/17 to reach Rs. 206.0 million as at March 2018, an increase of 63.78%. The objective of increasing fee based income lies in the fact that it provides a cushion for supporting an increase in operational costs. Attempts are being made to provide value added services to clients with a view in enabling the Company to increase its fee based income streams.

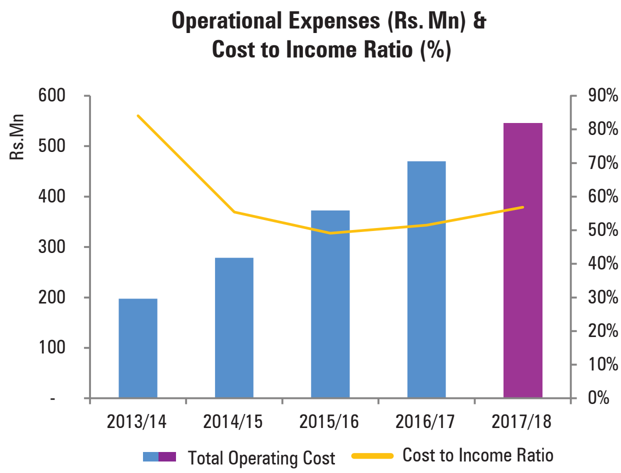


Cost to Income Ratio

The Cost to Income ratio increased to 56.83 % during the year under review from 51.53 % recorded in the year 2016/17. The increase in operational costs was 16.13%. (2016/17-26.14%), attributed in the main towards the increase in personnel cost.

Personnel Cost increased from Rs.217.08 million in 2016/17 to Rs. 256.39 million in 2017/18, an increase of 18.11%, Increases stemming from higher personnel expenses was triggered by increase in new recruitments and staff training initiatives.

Other Operating Expenses increased from Rs.234.28 million in 2016/17 to Rs.265.78 million in 2017/18, an increase of 13.45%.

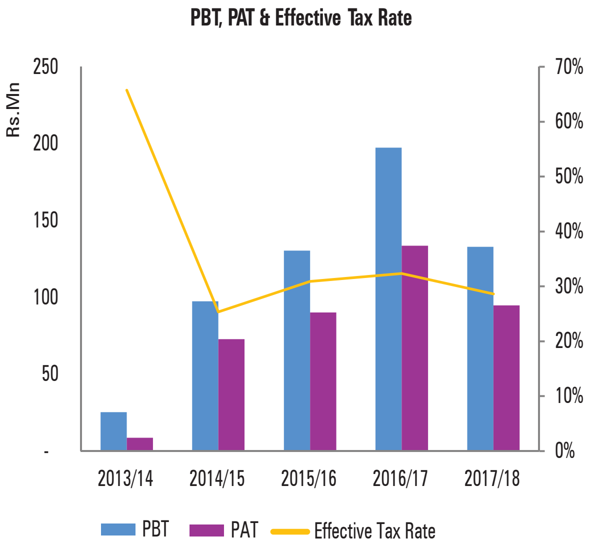


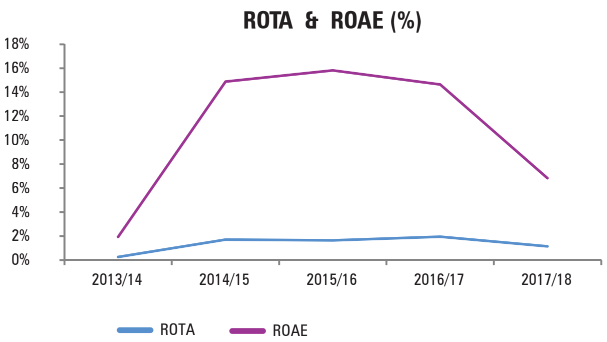
MANAGEMENT DISCUSSION AND ANALYSIS *[Contd.]*

Profitability

The Profit before Tax for the year 2017/18 reached a total of Rs. 132.95 million and the Profit after Tax was Rs. 94.86 million in comparison to the Rs. 197.41 million and Rs. 133.56 million recorded respectively in 2016/17. The decline in profitability has adversely impacted profitability ratios for the year; the Company has recorded Return on Total Assets (ROTA) and Return on Average Equity (ROAE) of 1.15% and 6.83%.

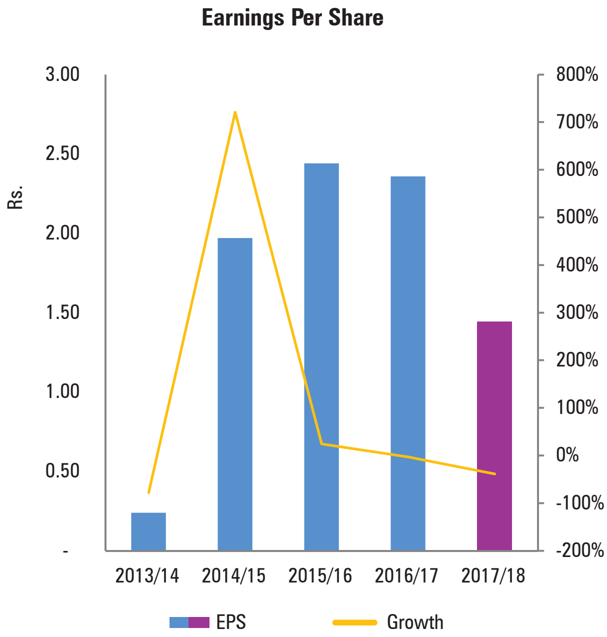
Based on the taxation charge made in the accounts the effective tax rate of the Company was 29% for 2017/18 as against 32% for financial year 2016/17.





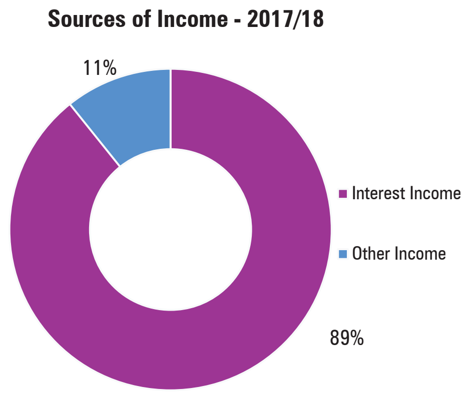
Earnings Per Share (EPS)

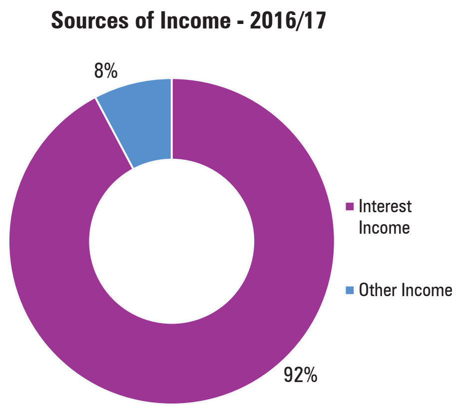
The EPS for the year 2017/18 was Rs.1.44 per Ordinary Share in Issue compared to the EPS of Rs.2.36 reported in 2016/17.



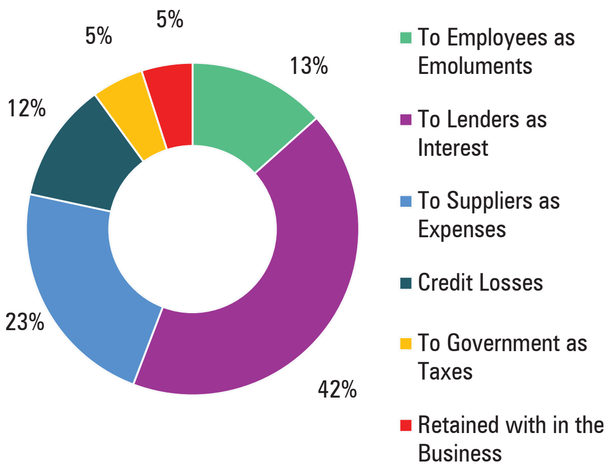
Sources and Distribution of Income

Interest Income represented 89% of Total Income for the year 2017/18 as against 92% for the year 2016/17. In terms of distribution of income, interest costs absorbed 42% of Total Income (2016/17- 39 %) and 23 % distributed among the suppliers as expenses. (2016/17- 21%)

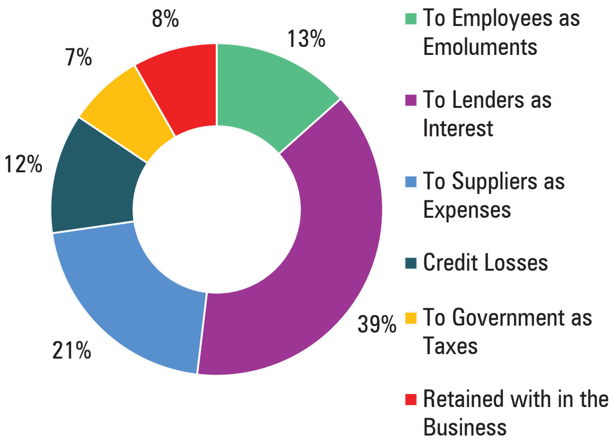




Distribution of Income - 2017/18



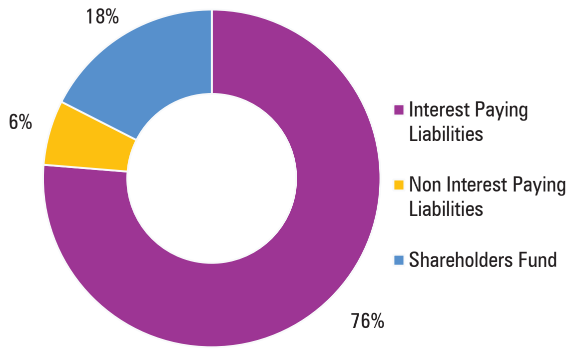
Distribution of Income - 2016/17



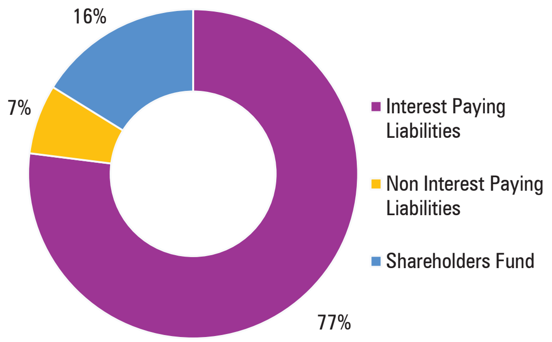
Sources and Uses of Funds

Interest Paying Liabilities accounted for 76 % of funding sources for the year 2017/18, (2016/17-77%). Interest Earning Assets on the other hand accounted for 90% of funding uses as at 31 March 2018 (31 March 2017-89 %).

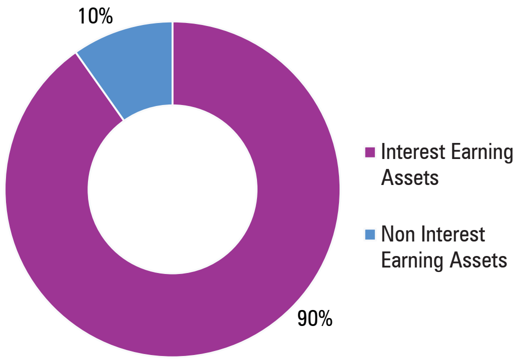
Sources of Funds - 2017/18



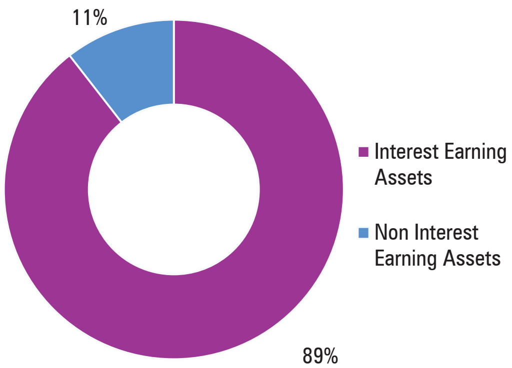
Sources of Funds - 2016/17



Uses of Funds - 2017/18



Uses of Funds - 2016/17



Stakeholders Analysis

Engaging Stakeholders

As a financial services provider, Stakeholders' engagement processes are considered key to our growth as we recognize that stakeholder concerns provide guidance to our next strategic goal. It is a key input to our strategic planning process as it enables evaluation of our strengths & weaknesses in a systematic manner using feedback from our key stakeholders.

The schematic diagram below summarises how we engage with our valued stakeholder groups.

Stakeholder	Sustainable Business Objective	Engagement Mechanism	Frequency of Engagement	Our Responses / Achievements
Shareholder	• Balancing Profitability and sustainable growth • To deliver returns on investment by strengthening governance to support future growth momentum • To establish strong internal processes and policies	• Annual General Meeting • Extra Ordinay General Meeting • Official Website • Annual Reports	• Annually • Whenever necessary • Regularly • Annually	• Return on Investment • Development of Shareholder communication • Continuous engagement
Customers	• Customer complaint handling • Quality customer service • Handling customer complaints	• Customer Surveys • Customer complaints handling mechanism • Call Centre & Official web-site	• Regularly • Regularly • Regularly	• Promotional Compaign • Customer care service
Employees	• Career Development • Work Life Balance • Promotions and Job Oppartunities	• Annual Get together • Training Procedures • Department Head Involvement with the employees	• Annually • Monthly • Monthly	• Organized peridically • Continuous Training • Job Enrichment • Internal Promotion
Regulators	• Reporting to CSE and Central Bank to ensure compliance • Meetings with Regulatory Bodies • Industry Forums	• Compliance with the requlatory requirements	• Whenever required	• Strengthening relationships with public and professional institutions
Society & Environment	• Employment Opportunities • Community Development	• Sponsorships • Feedback Comments • Call Centre	• Ongoing	• Funding towards sponsorships • Responses given by the management & staff

External Capital Formation

External sources of capital comprise of Investor Capital, Customer Capital, Employee Capital, Social Capital and Environmental Capital that are generated through external relationships with stakeholders and commercial partnering with our customers. These are the sources that the Company uses to raise capital and deliver value to its key stakeholders.

Investor Capital

The return generated by the Company by using its Investors' Funds with a view to maximizing and delivering value.

Market Capitalisation

The Stated Capital of the Company as at the end of the year under review was Rs. 1,121.41 million. This capital was accumulated and increased by way of a rights issue of Rs. 277 million (11.09 million No. of shares) made during the year. The market capitalization and share price of the Company as at 31 March 2018 was 114.78 million and Rs. 21.30 respectively. Further the Company continued to be listed on the Diri Savi Board of the Colombo Stock Exchange from year 2011 onwards.

Market Price of the Shares

According to Colombo Stock Exchange, the Company recorded a highest market price of Rs. 37.50 and a lowest of Rs. 21.00 during the financial year of 2017/2018. The changes of market price in comparison to the previous year are given below.

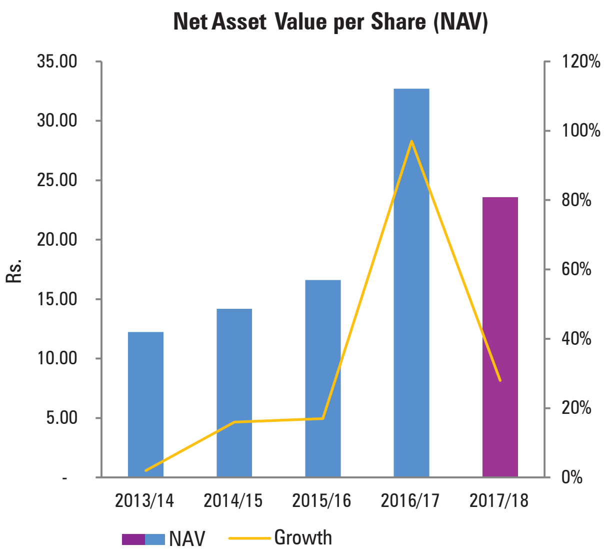
Market Price	2017/18 Rs.	2016/17 Rs.
Highest	37.50	69.90
Lowest	21.00	23.00
Price as at 31 March	21.30	24.10

Earnings

The Basic Earnings per Share (EPS) of Rs. 1.44 has been achieved by the Company during the year and is 64% lower than the previous year's Basic Earnings per Share of Rs. 2.36

Net Assets Value per Share (NAV)

The Company has achieved a 23% growth in Net Assets during the year from Rs. 1,210.3 million in 2016/17 to Rs. 1,567.6 million 2017/18. The Net Assets per Share reached the mark of Rs. 23.55 as at 31 March 2018.



Public Shareholding

The percentage of shares held by the public as at 31 March 2018 was 8.1%. The number of public shareholders stood at 811 as at 31 March 2018.

Distribution of Shareholding

No. of shares held	As at 31.03.2018				As at 31.03.2017			
	No. of shareholders		No. of shares		No. of shareholders		No. of shares	
	No.	%	No.	%	No.	%	No.	%
1-1,000	628	76.77	123,721	0.19	631	78.39	114,633	0.21
1,001 - 10,000	140	17.11	478,107	0.72	136	16.89	441,154	0.80
10,001 - 100,000	37	4.52	840,936	1.26	25	3.10	628,597	1.13
100,001 - 1,000,000	11	1.34	4,173,696	6.27	11	1.37	3,498,082	6.30
OVER 1,000,000	2	0.24	60,945,113	91.56	2	0.25	50,785,512	91.56
Total	818	100.00	66,561,573	100.00	**805**	**100.00**	**55,467,978**	**100.00**

Individual/ Institutional Shareholding

No. of shares held	As at 31.03.2018				As at 31.03.2017			
	No. of shareholders		No. of shares		No. of shareholders		No. of shares	
	No.	%	No.	%	No.	%	No.	%
Individual	783	95.72	4,212,699	6.33	776	96.40	3,540,015	6.38
Institutional	35	4.28	62,348,874	93.67	29	3.60	51,927,963	93.62
Total	818	100.00	66,561,573	100.00	**805**	**100.00**	**55,467,978**	**100.00**

Resident and Non Resident Shareholding

No. of shares held	As at 31.03.2018				As at 31.03.2017			
	No. of shareholders		No. of shares		No. of shareholders		No. of shares	
	No.	%	No.	%	No.	%	No.	%
Resident	814	99.51	66,541,902	99.97	802	99.63	55,457,642	99.98
Non - Resident	4	0.49	19,671	0.03	3	0.37	10,336	0.02
Total	818	100.00	66,561,573	100.00	**805**	**100.00**	**55,467,978**	**100.00**

Directors' and Chief Executive Officer's Shareholding

Name of the Director	31.03.2018		31.03.2017	
	No. of Shares	%	No. of Shares	%
Mr. R Pestonjee	220,660*	0.33	183,884***	0.33
Mr. K B Wanigasekara	Nil	Nil	Nil	Nil
Mr. Roshan Nanayakkara	Nil	Nil	Nil	Nil
Mr. V. K. Choksy	Nil	Nil	Nil	Nil
Mr. A S Ratnayake	Nil	Nil	Nil	Nil
Mr. Mayank Pravin Parekh	Nil	Nil	Nil	Nil
Mr. C H A W Wickramasuriya**	Nil	Nil	Nil	Nil

* This includes 28,800 shares held jointly with Miss J E S Fernando

** Alternate Director to Mr.Mayank Pravin Parekh

*** This includes 24,000 shares held jointly with Miss J E S Fernando

Twenty Major Shareholders of the Company

NAME OF THE SHAREHOLDER	31 March 2018		NAME OF THE SHAREHOLDER	31 March 2017	
	NO. OF SHARES	(%)		NO. OF SHARES	(%)
Abans PLC	33,063,877	49.67	Abans PLC	39,717,534	71.60
Ironwood Investment Holding (Pvt) Limited	27,881,236	41.89	Ironwood Investment Holding (Pvt) Limited	11,067,978	19.95
Mr. P N Pestonjee	911,520	1.37	Mr. P N Pestonjee	759,600	1.37
Able Investments (Pvt) Limited	806,917	1.21	Able Investments (Pvt) Limited	672,431	1.21
Mr. K Kunenthiran	466,816	0.70	Mr. K Kunenthiran	389,014	0.70
Mrs. C V Sumanadasa	444,000	0.67	Mrs. C V Sumanadasa	370,000	0.67
Mrs. S C Henagama Gamage	444,000	0.67	Mrs. S C Henagama Gamage	370,000	0.67
Mr. B Pestonjee	308,160	0.46	Mr. B Pestonjee	256,800	0.46
Mr. R Pestonjee *	220,660	0.33	Mr. R Pestonjee **	183,884	0.33
Mrs. S Dubash	192,423	0.29	Mrs. S Dubash	160,353	0.29
A B Cold Storage (Pvt) Ltd	144,000	0.22	A B Cold Storage (Pvt) Ltd	120,000	0.22
Cleantech (Pvt) Ltd	144,000	0.22	Cleantech (Pvt) Ltd	120,000	0.22
AB Securitas (Pvt) Ltd	144,000	0.22	AB Securitas (Pvt) Ltd	120,000	0.22
Mrs. A Pestonjee	80,000	0.12	Mr. J S A Perera & Mrs. R N Perera	68,316	0.12
Mrs. H I Salgado	66,600	0.10	Mrs. A Pestonjee	66,667	0.12
Mr. G C Goonetilleke	48,105	0.07	Mrs. H I Salgado	66,600	0.12
Nation Lanka Capital Ltd/K L G Uday	38,004	0.06	Mr. G C Goonetilleke	48,105	0.09
Mr. R E Rambukwella	37,120	0.06	Nation Lanka Capital Ltd/K L G Uday	32,300	0.06
Miss. M F F Safina	36,748	0.06	Miss. M F F Safina	30,624	0.06
Dr. K. Poologasundram	36,000	0.05	Mr. R E Rambukwella	30,517	0.06
	65,514,186	98.43		54,650,723	98.53
OTHERS	1,047,387	1.57	OTHERS	817,255	1.47
TOTAL	66,561,573	100.00	TOTAL	55,467,978	100.00

* This includes 28,800 shares held jointly with Miss. J. E. S. Fernando
**This includes 24,000 shares held jointly with Miss. J. E. S. Fernando

Compliance report in terms of section 7.6- Contents of the Annual Report in terms of the Listing Rules of the Colombo Stock Exchange

The table below summarises the Company's degree of compliance with section 7.6 of the Listing Rules issued by the Colombo Stock Exchange.

Rule No.	Disclosure Requirements	Section Reference	Page No.
7.6 (i)	Names of persons, who during the financial year were Directors of the Entity.	Report of the Board of Directors.	61
7.6 (ii)	Principal activities of the entity and its subsidiaries during the year and any changes therein.	Company does not have any Subsidiary. Refer Notes to the Financial Statements (Note 1.2)	75
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non- voting share and the percentage of such shares held.	Management Discussion and Analysis - External Capital Formation - Investor Capital.	19
7.6 (iv)	The Public Holding percentage.	Management Discussion and Analysis - External Capital Formation - Investor Capital.	18
7.6 (v)	A Statement of each Directors' holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of the financial year.	Management Discussion and Analysis - External Capital Formation - Investor Capital	18
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Risk Management Report.	54
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity.	Management Discussion and Analysis -External Capital Formation -Employee Capital, Social and Environment Capital.	22-24
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	Supplemenotry Information - Details of Freehold Land.	128
7.6 (ix)	Number of shares representing the Entity's Stated Capital.	Notes to the Financial Statements -Note 34	105
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.	Management Discussion and Analysis - External Capital Formation - Investor Capital	18
7.6 (xi)	Ratios and Market Price Information - Dividend per Share	Company has not declared any dividend for the year under review and hence it is not applicable	N/A
	- Dividend Pay Out		
	- Net Asset Value per Share	Management Discussion and Analysis - External Capital Formation - Investor Capital	17
	- Market Value Per Share		
7.6 (xii)	Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Not Applicable	N/A
7.6 (xiii)	Details of funds raised through Public Issues, Right Issues and Private Placement during the year.	Report of the Board of Directors-Equity and Reserves & Issue of Ordinary shares during the year.	60
7.6 (xiv)	Information in respect of Employee Share Option / Purchase Scheme	The Company does not have an Employee Share Option / Purchase Scheme.	N/A
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c and 7.10.6.c of section 7 of the Rules.	Corporate Governance Report (Section - Two & Three) and this report satisfies the requirements.	20 & 40-48
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the Total Assets whichever is lower.	Note No. 45 to the Financial Statements and "Directors Interest in contracts and Related Party Transactions" under report of the Board of Directors discloses the transactions with related parties.	62 & 124-129

MOTORBIKE
LEASING
Experience Freedom

4WHEELER
LEASING
Set your dreams in motion

Personal
Loans
There for you, when you need it

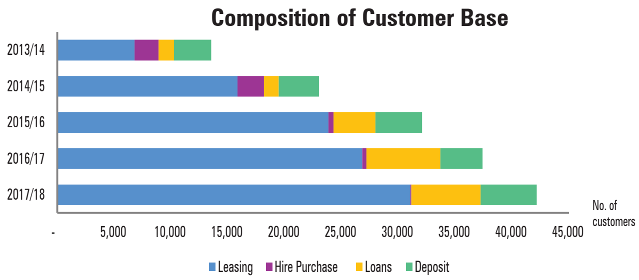
Savings
Maximum savings, minimum effort

FD
FixedDeposits
Let your money work for you

MANAGEMENT DISCUSSION AND ANALYSIS *[Contd.]*

Customer Capital

The Company's major business activities comprise of lending and acceptance of deposits. Lending portfolio consists mainly of Finance Leases, Hire Purchase, Mortgage Loans, Revolving Loans, Business Loans and Personal Loans. Company also offers tailor-made financial solutions which cater to diverse needs of a pool of customers. Further Deposits include Term and Saving Deposits.



PRODUCT PORTFOLIO

Finance Leasing

A Finance Lease is a contractual agreement where the owner (Lessor) of the equipment /asset, transfers the right to use the equipment/asset to the user (lessee) for an agreed period of time in return for a periodic rental. The entire risks incidental to the usage of the asset is transferred to the lessee, who has to bear the cost of insurance, maintenance and repairs. The lessor agrees to transfer the title of the equipment/asset to the lessee at the end of the lease period, once all rentals are paid. Abans Finance PLC has focused more on the provision of Finance Leases for two wheelers and three wheelers. In this regard, Abans Group as a supplier is making a massive contribution.

Two Wheeler Leasing

Abans Finance has been able to penetrate the market on two wheelers from the time of the introduction of the Hero motorcycle product. The Company is confident that with the additional features designed for the leasing product and the utilization of Hero Two Wheeler Network of the Abans Group, the Company can further strengthen the product performance significantly in the future.

Four Wheeler Leasing

The Company also provides special packages with flexible payment schemes to suit the customer requirements which include, Finance Leases for brand-new and reconditioned Motor Vehicles and Plant and Machinery.

Three Wheeler Leasing

The Company offers the easiest and most convenient way to lease brand new & registered three wheelers.

Loans

The Company has a different range of loan products to cater to various customer needs. The loan portfolio consists of following loans.

- Personal Loans
- Mortgage Loans
- Revolving Loans
- Business Loans

* Personal Loans

Personal Loans are focused on Individuals who are in need of financial support for their personal needs. This is a specific predetermined market segment of the Company.

* Mortgage Loans

The terms of a Mortgage Loan include a specific payment period and interest rate. The borrower (mortgagor) gives the lender (mortgagee) a lien over the property as collateral for the loan. The mortgagor's lien on the property expires when the mortgage is paid in full.

* Revolving Loans

A flexible loan scheme provided on the security of property where the borrower has the option to make capital repayments on a staggered basis whereas the interest is paid on a regular basis. The borrower also has the option to obtain additional funds as and when capital repayments are made on the facility depending on the terms and conditions.

* Business Loans

Business Loans are granted to Individuals with Business Registration or business entities within a specific pre-determined market segment to meet the financial requirements with particular attention to operational cash flow needs.

Deposits

The Company promotes Fixed and Saving Deposits as its major funding source. Upward movement in interest rates in line with increased policy rates have made a significant impact in the deposit base. The Company had re-priced interest rates on its deposits on several occasions during the year under review, to remain competitive in the market.

CUSTOMER SATISFACTION

The Company continuously monitors and provides solutions on customer complaints, queries and customer requests. Abans Finance encourages its customers to provide their feedback and suggestions on the service that the Company provided to them. All customer feedback and complaints received are forwarded to relevant departments for immediate solutions.

Employee Capital

A key driver of the organization's success is Human Capital and with increasing importance being placed on understanding its role. It is a significant asset an organization has as business models become centered on people, intellectual capital and technology. Further, the shape of the future of the organization and current performance is attached to employee's talent, skills, personal attributes and creativity. We take responsibility to build a healthy culture which motivates employees to learn and grow with opportunities and prosper in their chosen career path. We give opportunities for employees to become essential building blocks for creating value. With the high complexity and the current challenging business environment, it requires us to take a proactive approach in order to derive a dynamic, people-driven organization.

Workforce

In order to accommodate rapid growth in operations with 09 branches and 09 Centers across the country, we have a total workforce of 370. Out of the total workforce, 74 % are under permanent cadre, whilst the balance 21 % come under the probation cardre and 5 % are on contract.

Type of Employment	Male	Female	Total
Permanent	156	118	274
Probationers	50	27	77
Contract	6	13	19
Total	**212**	**158**	**370**

Workforce by Gender, Age & Grade

In order to ensure equality the Company always tries to give equal opportunity to female employees. The current composition of male and female workforce is 57% and 43% respectively. The Company always tries to attract young employees for executive & below grades whilst well experienced middle aged employees are selected for management & above grades.

Grade	Male	Female	Total
Senior Management	7	1	8
Management	43	7	50
Executive	119	103	222
Trainee Executive	33	34	67
Other	10	13	23
Total	**212**	**158**	**370**

Age Analysis

Age Group	Male	Female	Total
Below 21 years	5	9	14
21-30 years	126	114	240
31-40 years	44	20	64
41-50 years	25	7	32
Above 51 years	12	8	20
Total	**212**	**158**	**370**

Composition of Work Force by Gender & Location

Below tabulation shows how our workforce is located by province.

Province	Male	Female	Total
Central	29	27	56
Eastern	16	12	28
North Central	17	5	22
North Western	14	7	21
Nothern	9	7	16
Sabaragamuwa	9	7	16
Southern	20	7	27
Uva	8	3	11
Western	90	83	173
Total	**212**	**158**	**370**

Recruitment 2017/18

Our talent management strategies are geared to ensure that people with the right skills and capabilities are in the right roles by recruiting the right people for the right job positions to enhance the positive direction of the Company's future. Further to support career development, we widened the scope of the professional development program. We are passionate about our employees and we continue to follow policies and practices that are in strict conformity with all relevant labor statutes.

Our recruitment process encourages the applicants who have the requisite qualification and experience. We short list and select applicants on clear criteria and guidelines as set within the job description.

In the year under the review, we recruited 89 employees to our workforce. Out of the new recruitments, 52 % were for male employees.

Gender & Grade	Male	Female	Total
Senior Management	1	1	2
Management	4	0	4
Executive	13	3	16
Trainee Executive	25	28	53
Other	3	11	14
Total	**46**	**43**	**89**
As a Percentage	**51.69**	**48.31**	**100.00**

Rewards & Recognition

Retention of talented skilled work force is a pillar to the sustainability of any successful business. Rewards & Recognition is a critical element in the HR Process which ensures retention of quality workforce. The Company's Rewards & Recognition process is aimed at identifying talented workforce and rewarding them in a timely manner. The employee evaluation process is transparent, in order to ensure that each employee knows that they are rewarded based on their performance.

The Company tries to actively engage all its employees in achieving the set strategic goals while rewarding & motivating them. Work Life balance is always considered an ultimate objective of HR functions.

Performance Evaluations are carried out annually and all incentives and rewards are determined on performance merits ascertained during the evaluation. In addition front line staff is incentivized based on the achievement of given targets.
To assess the need for improvements, HR department carries out a comprehensive review of the benefit structure. Main benefits offered by the Company are as follows.

- Salary Increments and market adjustments
- Performance based incentives
- Bonus (Based on the Company profits)
- Staff Loans at concessionary rates
- Medical Insurance
- Study Leave

Training & Development

Training helps to enhance the productivity, quality improvement, safety, reduction of turnover and learning time and ability to maintain an effective Work Force. We deploy targeted people strategies aimed at motivating and retaining people by providing compelling opportunities for both personal and professional development. With the changes of the business scope, behavior or change in the market, employee should be trained to improve individual skills and maintain the performance level of an organization.

We invest in training and development programs to improve team morale, confidence and hone the skills, to strengthen human relations, addressing the weaknesses of the employees, promote productivity with quality standards, and enhance the Company profile.

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Annually, the Company conducts, Training Need Analysis based on annual performance appraisal and developments. Both internal and external trainings are arranged based on the requirement.

In-house training or internal training provide on the job, internal seminars or conferences. Also internal training has the potential to positively impact employee learning and development. For these programs we make use of the experience and expertise of our team members for training sessions to share their experience gained. External training includes programs carried out by the professional institutions, the regulators etc.

Social & Environmental Capital

The Company operates within its social internal environment that simply includes: customs, beliefs, practices and behaviours within the confines of the environment. The organizational values of Abans Finance PLC ensure that they always encourage their customers and employees through community development that contribute to the society and the environment.

Work Place

Company is in a position of ensuring that the entire business is conducted in accordance with professional, ethical and legal standards. Management of Abans Finance helps in creating the working environment which fits with the Company culture and becomes more comfortable to the entire staff.

Health & Safety

The Company provides and ensures to maintain a clean, healthy and safe working environment. Further Abans Finance conforms to the safety working practices in achieving Company's goals and objectives. We involve with our employees and make them aware, so that everyone develops positive attitudes and behaviors for their safety.

Market Place

Customers

Customer satisfaction is a key indicator of how likely the same customer will obtain another service in the future. Abans Finance always ensures that its customers are satisfied to an extent where they come back to receive the same or a different service provided by the Company.

The business of finance is always competitive. Companies repeatedly compete for good customers. Therefore, the Company always ensures customer satisfaction is a key differentiator in the business the Company operates.

Environment

Abans Finance has recognized the importance of minimizing a direct environmental impact of its business activities and in this context the Company continuously focuses on improving environmental friendly business practises. We monitor and ensure the impact on the environment by;

- Adopting practices that will benefit the resource efficiency, lower energy consumption, emissions and waste minimization.
- Retaining customers who have contributed positively to the environment.
- Making our employees feel that they work in an environmental-friendly Company. In order to positively display the employers' contribution, Abans Group of Companies has a waste management and water efficiency system in a sister Company.

Community

As a responsible corporate citizen, the Company has understood its corporate responsibility towards the public. Some of the key community activities of the Company are providing training and development opportunities to young school leavers and undergraduates. These trainings have empowered these students to obtain employment in corporate entities and become successful citizens.

Company has also trained and developed the university students enabling them to achieve the industry requirements and assist them to enhance their career prospects. The Company, as part of its obligations has identified the importance in practical training and has assisted them to fulfill their training requirements while giving them priority as and when job opportunities arise within the Company.

BOARD OF DIRECTORS

MR. RUSI PESTONJEE (CHAIRMAN)
NON-EXECUTIVE DIRECTOR

Appointed as a Director and Chairman with effect from 01 January 2012. A member of the Remuneration Committee and the Chairman of the Nomination Committee of the company.

A Director of Abans PLC. (Formally Abans (Pvt) Ltd). He is an alumnus of the executive management programmes at the Indian School of Business, focusing on strategy and managing family businesses. He supports relationship building with key international partners and has been instrumental in implementing several new strategic growth initiatives. He also holds directorships within Abans Group of Companies.

MR.ROSHAN ANTHONY NANAYAKKARA
MANAGING DIRECTOR

Assumed duties as Chief Executive Officer on 02 May 2016 and appointed to Abans Finance PLC Board as Managing Director/-CEO on 27 September 2017.

He is a member of the Related Party Transaction Review Committee and Integrated Risk Management Committee of the Company.

Mr.Roshan Anthony Nanayakkara's career spans over 30 years in Banking and Finance sector, having held several key positions in the fields of Credit, Marketing, Financial Planning and Risk Management. He started his career in Credit and his senior positions include Chief Executive Officer of Siyapatha Finance PLC. Head of Risk and Financial Planning at Senkadagla Finance PLC and Assistant General Manager –Leasing at Nations Trust Bank PLC.

Mr. Nanayakkara holds a Master of Business Administration degree from University of Western Sydney, Australia, Executive Diploma in Business Administration from University of Colombo and a Diploma in Credit Management from the Institute of Bankers of Sri Lanka.

MR. AJITH S. RATNAYAKE
FCA, FCMA (UK), ACCA, CMA, FCMI, FCMA, CGMA
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 16 May 2014. Chairman of the Audit Committee and the Related Party Transactions Review Committee. He is also a member of the Remuneration Committee.

Mr. Ajith S. Ratnayake is the founder Director General of the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), where he served for 15 years. He was responsible for setting up its monitoring process for financial reporting and auditing of public interest entities in Sri Lanka and building its technical capacity.

As the Director General of SLAASMB, he served in the Advisory Council of the International Forum of Audit Regulators (IFIAR), Consultative Advisory Committees of the International Auditing and Assurance Standards Board (IAASB) and the Ethics Standards Board for Accountants (IESBA), Intergovernmental Group of Experts on International Standards on Accounting and Reporting (ISAR) serviced by the United Nations Conference on Trade and Development (UNCTAD), and in the working group on Commercial Forests of the International Valuations Standards Council (IVSC).

Prior to setting up SLAASMB, Mr. Ratnayake served in a number of private sector enterprises in Sri Lanka and in multinational companies abroad in diverse positions, including as CEO and CFO, over a period of more than 15 years after qualifying as a Chartered Accountant. In his last assignment before SLAASMB, he headed the setting up of the Finance Division of a joint venture Vodafone (UK) established in Fiji. He has extensive experience and expertise in revival of underperforming enterprises and in acting as a catalyst for growth in profitability.

BOARD OF DIRECTORS [*Contd.*]

MR.VISHTASP KAIRSHASP CHOKSY(SENIOR DIRECTOR) INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 15 March 2011. He became the senior Director with effect from 01 January 2012 in terms of the Finance Companies (Corporate Governance) Direction No 3 of 2008.

The Chairman of the Remuneration Committee of the Company, a member of the Audit Committee and the Nomination Committee. Provides specialised legal advice to the company on key business-related issues.

An Attorney- at- Law by profession. Possesses twenty-five years of legal practice and has been specializing in Civil Law with particular emphasis in Commercial, Business and Industrial Law.

MR. MAYANK PAREKH NON-EXECUTIVE DIRECTOR

Appointed to the Board on 14 December 2016.Chairman of the Integrated Risk Management Committee (w.e.f 16 December 2016) and a member of the Remuneration Committee (w.e.f 16 December 2016) and the Related Party Transaction Review Committee (w.e.f 14 December 2016)

Mayank Parekh is the founder of Grange Partners (2012), a private investment holding company based in Singapore focused on making venture and growth capital investments in the SME sector across Southeast Asia. From 2007 to 2012, Mr. Parekh was a General Partner/Managing Director with Southern Capital Group (SCG), a private equity fund based in Singapore focused on middle market leveraged buyouts pan-Asia. The firm adopts an activist value-add approach and Mayank led the portfolio management function; he was on the Board of several portfolio companies, including holding Chairman Positions. Prior to joining SCG, Mr. Parekh spent 11 years with McKinsey & Company across three offices, namely Chicago, Johannesburg and Singapore. He joined McKinsey post-MBA in 1996 and was elected a Partner in 2001. At McKinsey, Mayank was the Managing Partner of the Singapore Office; prior to that, he held the position of Managing Partner, Corporate Finance Practice, Southeast Asia.

Mr. Parekh earned his MBA in Finance from the University of Chicago, Graduate School of Business in 1996 and his Bachelor of Arts in Economics and Psychology from Hamilton College in 1989.

MR. CHANAKA WICKRAMASURIYA (CFA) NON-EXECUTIVE DIRECTOR (ALTERNATE TO MR. MAYANK PAREKH)

Appointed to the Board on 14 December 2016. An alternate director to Mr.Mayank Parekh.

Mr. Chanaka Wickramasuriya is currently joint Managing Partner at Ironwood Capital Partners. He has a long track record in Private Equity as a Partner with Aureos Capital and LR Global Lanka. From 2009 to 2011 he was a Partner at Aureos Capital, where he oversaw the development and functioning of the overall Global Portfolio Management process. During this time, he was also seconded to the Aureos' China office and oversaw portfolio management and investment in 4 transactions. From 2000 to 2006 he was a Partner based at Aureos' Colombo office where he worked on investment transactions, exits, and sat as a Board Representative for 10 transactions in Sri Lanka. From 2006 to 2009 he functioned as Country Head of Fitch Ratings in Colombo, and has also worked as Head of Research for a local stock broking firm. Chanaka was also the Managing Partner of LR Global Lanka Private Equity Fund.

Mr. Chanaka Wickramasuriya graduated Summa Cum Laude with a BSc in Electrical Engineering from The Rutgers College of Engineering and is also a Chartered Financial Analyst (CFA).

CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

Dear Stakeholder,

It is my pleasure to present the Corporate Governance Report on behalf of the members of the Board of Abans Finance PLC for the year ended 31 March 2018.This report gives details of our progress, achievements, challenges and areas which we seek to improve. The Board firmly believes that a robust governance structure is vital for effective management of the Company.

We continue to adopt all mandatory guidelines on corporate governance such as Finance Companies (Corporate Governance) Direction No.3 of 2008 as amended, Listing Rules of the Colombo Stock Exchange and in addition, voluntarily adopted Code of Best Practice on Corporate Governance 2013 issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

At Abans Finance PLC, we believe that building a sound Corporate Culture is vital to establish good governance practices. We are confident that such a culture will enhance the success of the business and realise long term shareholder value by enhancing the trust of our depositors whilst safeguarding the interest of our stakeholders. The Company is committed to high standards of Corporate Governance and business integrity, which are essential in maintaining the trust of its investors and other stakeholders.

During the year under review, the Board focused more on improving its effectiveness towards governance and conducted an independent evaluation on the Board's effectiveness. This encompasses the effectiveness of the Board as a whole, and the effectiveness of each Sub-Committee of the Board.

I wish to extend my appreciation to the members of the Board who have been supportive and committed in their efforts in implementing a good governance culture within the Company. Their contribution at meetings of the Board as well as at the Sub-Committees of the Board in sustaining transparent governance practices is immense. Going forward, we will ensure that we continuously commit to further improve on transparency, accountability and reporting.

The Corporate Governance Report on pages 28 to 48 contains comprehensive governance arrangements as required under the regulations and details on the extent of the Company's compliance with the provisions set out in the regulations.

Rusi Pestonjee
Chairman / Non-Executive Director
25 June 2018

CORPORATE GOVERNANCE

Introduction

Corporate governance is a system by which a Company is directed, controlled and managed. A good corporate governance framework guides the Company to drive towards progress with implementation of relevant strategies. Good corporate governance has as its objectives the maintenance of a high level of governance that will foster a culture of integrity, values and rewards for the stakeholders. The creation of long term stakeholder value is a key towards an effective governance framework.

The Board of Directors of the Company under the leadership of the Chairman is responsible for the Governance of the Company. The development of an effective corporate governance framework is a priority on the agenda of the Board. The Board of Directors is committed to review and improve systems within the Company in order to maintain accountability and transparency.

The Company operates with an effective Corporate Governance Framework. The framework has been designed based on the provisions of the Finance Companies (Corporate Governance) Direction No.3 of 2008 as amended, Code of Best Practice on Corporate Governance 2013 issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Listing Rules of the Colombo Stock Exchange.

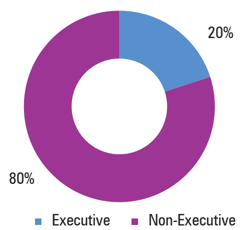
Board Composition and Balance

Strong governance is dependent upon a Board of Directors that is cohesive, independent in nature, fully engaged and committed to the role and, as a result, operates effectively. The Board reflects a balance between financial, sector specific and general business skills, with a highly experienced team that leads the business in both executive and non-executive roles. The major role of the Board includes overseeing the risk profile of the Company, monitoring the integrity of its business and control mechanisms, ensuring expert management and maximizing the interest of all stakeholders.

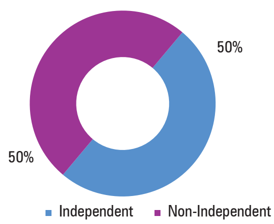
The Board of Directors currently has five members; Two Non Independent Non Executive Directors including the Chairman, Two Independent Non Executive Directors one of whom is designated as the Senior Director and an Executive Director who is the Managing Director.

The Board comprises of individuals with appropriate abilities, skills and competencies. Each Director provides the Company the knowledge, experience and skills for effective performance of the Board and they allocate adequate time to discharge their responsibilities. A list of the individual Directors and their profiles including dates of appointment to the Board and their Committee memberships are set out in the Directors' profile on pages 25 to 26 of this report.

Executive Vs. Non - Executive Directors



Non Executive Directors - Independent Vs. Non Independent



Division of Responsibilities - Chairman and Chief Executive Officer (CEO)

The role of Chairman and CEO is segregated and there are clear and documented divisions of accountability and responsibility. The Chairman is accountable to shareholders for the effectiveness of the Board and this builds a sustainable business through consistent, profitable growth, while taking account of the interests of wider stakeholders. The Chairman leads the Board and chairs its meetings, having agreed on a balanced agenda covering business performance, strategy, risk, compliance and people. He ensures that the Directors receive accurate, timely and relevant information for deliberations and high-quality decision-making.

The CEO is the apex executive-in-charge of the day to day management of the Company's operations and business and accountable to the Board. This includes developing business strategies for the approval of the Board and timely and effective implementation of such strategies whilst managing relevant risks. The CEO provides the leadership and environment within the Company to implement the Board's policies and the achievement of the Company's objectives.

Appointment, Resignation and Re-election

The Directors are elected by the shareholders at the Annual General Meeting (AGM) except for casual vacancies arising during the year filled by the Board of Directors until the next AGM (Article 26 (5) of the Article of Association addresses this). Accordingly, all Directors are subject to election by shareholders at the first AGM following their appointment, and to re-election thereafter at intervals of no more than three years in compliance with the Code of Best Practice on Corporate Governance 2013. Directors who are nominated for re-election submit affidavits and declarations and obtain prior approval from the Director, SNBFI of Central Bank of Sri Lanka in compliance with the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers performing executive functions) Direction No. 03 of 2011.

During the year under review Mr. K B Wanigasekara has relinquished the office as the Managing Director of the Company and resigned from the Board with effect from 27 September 2017. Further Mr. R. A. Nanayakkara, the Chief Executive Officer of the Company was appointed as the Managing Director on the same date. Currently, Mr. R. A. Nanayakkara is functioning as the Chief Executive Officer/ Managing Director of the Company.

Two Directors, Mr. V. K. Choksy, Mr. Ajith S. Ratnayake, who retired by rotation in conformity with section A.8 of the Code of Best Practice on Corporate Governance 2013 was re-elected at Annual General Meeting (AGM). In addition, Mr. M. P. Parekh and Mr. C. H. A. W. Wickramasuriya (Alternate Director to M. P. Parekh) was re-elected at the last AGM in conformity with Article 26 (05) of the Articles of Association and in terms of Section 4 (10) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

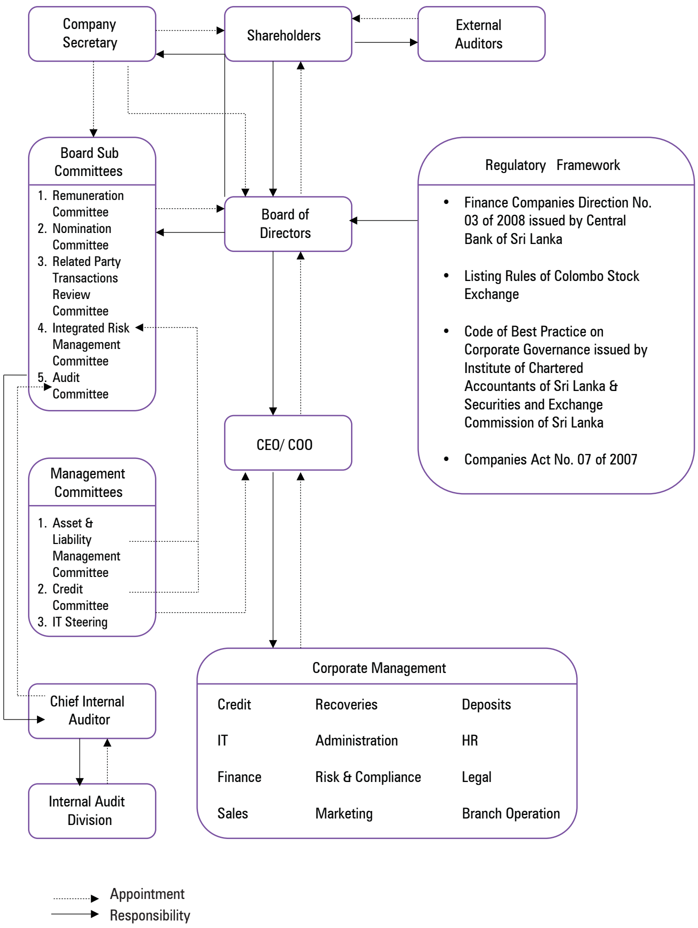
Determination of Independence of Non-Executive Directors

The Board evaluates annually whether each of the Non-Executive Director is independent. The Non-Executive Directors submit declarations on their independence in terms of rule 7.10.2(b) of the Listing Rules of the Colombo Stock Exchange to facilitate the Board to decide on their independence. The Board further considers criteria for independence set out in the Finance Companies (Corporate Governance) Direction No. 03 of 2008, Listing Rules of the Colombo Stock Exchange and Code of Best practice on Corporate Governance – 2013.The Board has concluded that Mr. V. K. Choksy and Mr. A. S. Ratnayake are independent and Mr. M. P. Parekh and Mr. R. Pestonjee are non-independent.

CORPORATE GOVERNANCE [*Contd.*]

Board Sub Committees

The Board has established Board Sub Committees such as Audit Committee, Remuneration Committee, Nomination Committee, Integrated Risk Management Committee and Related Party Transactions Review Committee. Each committee plays a vital role in serving the Board to discharge its duties and to ensure that high standards of Corporate Governance are preserved throughout the Company. The Committees are governed by Board approved Terms of Reference which are reviewed periodically. Each Sub Committee's minutes are forwarded to the Board and the Chairman of each Sub Committee provides the Board with a summary of crucial issues considered at the meetings of the Sub Committees. The diagram below illustrates the Organization's Governance Structure.



Board and its Sub Committees' Effectiveness

An effective Board is crucial to the success of the Company. To assess the performance of the Board and its Sub Committees, the Company conducted a rigorous performance evaluation during the year. The process was led by the Chairman and supported by the Secretaries to the Board. As part of the evaluation, the Directors performed a self-evaluation (separate set of questionnaire for Board and Board Sub Committees such as Audit Committee, Remuneration Committee, Nomination Committee, Integrated Risk Management Committee and Related Party Transactions Review Committee) and it was summarized by the Secretaries for the evaluation of the Board and its Sub Committees as a whole. The Secretaries maintain the records of the Board and Sub Committees' evaluations. Following this review, the Board is satisfied that the Board and its Sub Committees are performing effectively and that there is appropriate balance of skills, experience, independence and knowledge to enable the Directors to discharge their respective duties and responsibilities, effectively. The Board is also satisfied that the members of the Board, in particular the Non Executive Directors, have sufficient time to undertake their roles at Board and Sub Committee levels within the Company.

Management of Conflicts of Interests

A conflict of interests arises when a Board member has a personal interest that conflicts with the interests of the Company. The Company has adopted a Board approved policy on the Management of Conflicts of Interests which specifies the processes and procedures to be followed to manage conflicts since the ultimate purpose of managing a conflict of interests is protecting the public interest. Accordingly, any Director who has a conflict of interests on a matter will not participate in the deliberations except to disclose material facts and to respond to questions and abstain from voting thereon.

Board and Board Sub Committee Meetings and Attendance

The Directors meet on regular basis and receive accurate, timely and relevant information for such meetings so that they can maintain full and effective oversight of strategic, financial, risk management, operational, compliance and governance issues. The following table shows the number of Board and Sub Committee meetings held during the financial year of 2017/18 and the attendance by individual Directors.

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Name of the Director	Non Independent Non Executive	Independent Non Executive	Executive	Board		Audit Committee		Integrated Risk Management Committee		Related Party Transactions Review Committee		Remuneration Committee		Nomination Committee	
				Attendance	Status	Attendance	Status	Attendance	Status	Attendance	Status	Attendance	Status	Attendance	Status
R. Pestonjee	✓			11/12	C									1/1	C
K. B. Wanigasekara*			✓	6/6	M			1/1	M	1/2	M				
R. A. Nanayakkara**			✓	6/6	M			2/3	M	1/2	M				
V. K. Choksy		✓		10/12	M	12/14	M					1/1	C	1/1	M
A. S. Ratnayake		✓		12/12	M	14/14	C			4/4	C	1/1	M		
M. P. Parekh or his Alternate	✓			12/12	M			4/4	C	4/4		1/1	M		

C indicates the Chairman of the Committee & M indicates Member of the Committee

* Relinquished office as the Managing Director of the Company and resigned from the Board with effect from 27/09/2017

** Appointed as Managing Director with effect from 27/09/2017

Management Committees

The management committees at Abans Finance PLC function under the guidance of the Chief Executive Officer with the direction on designing, implementing and monitoring best practices in their respective functions. These committees implement the policies and strategies determined by the Board and Board Sub Committees and manage the business and affairs of the Company with the main objective of improving sustainable growth. Management Committees include Asset and Liability Committee (ALCO), Credit Committee and IT Steering Committee. The scope of the Credit Committee is to review and make recommendations on credit policy and procedures, portfolio delinquency management and credit evaluation process, whilst the scope of the ALCO is to monitor and manage liquidity risks, interest rate risks, pricing and capital planning. The function of the IT Steering Committee is to ensure that the Company's information technology needs and objectives are being adequately addressed and that the IT strategy is aligned with the Company's strategic perspectives and goals.

Engagement of External Auditors to Provide Non Audit Services and Auditors' Independence

The external auditors' independence is a key factor in ensuring that the financial statements of the Company would meet the highest standards of financial integrity. The Audit Committee of the Company annually evaluates the independence of the external auditors including any relationships with the group or any other person or the Company that may impair or compromise their independence. The Company also adopted a procedure on the "Engagement of External Auditor to Provide Non Audit Services" in order to ensure the best practices and to avoid actual or perceived conflict of interests. The policy has precisely identified the permitted services and prohibited services, approval process and reporting requirements including non audit fees to audit fees ratio in order to ensure the External Auditors' independence and objectivity. The recruitment of external audit partners and / or employees as either Directors or as employees in senior positions within the preceding two years of involvement with the Company's audit is also prohibited. Further, the Engagement Partner and / or the Partner responsible for quality review will be rotated in order to ensure the partner should not serve the Company for more than five successive years. The external auditors M/s. Ernst & Young have provided a declaration of their independence to the Audit Committee and the Committee evaluated their independence, objectivity and effectiveness of the audit process and recommended their re-appointment for the ensuing year.

Delegated Authority

The Corporate Governance framework and Article 38 of the Articles of Association of the Company provide the delegation of authority and segregation of duties while enabling the Board to retain effective control. Accordingly, the Board has delegated its authority to the Board Sub Committees and the Management with clearly defined mandates, directives and authorities, while ensuring such delegations would not hinder or reduce the ability of the Board to discharge its duties. The Board of Directors of the Company makes necessary reviews on delegated authority limits in order to ensure that the set limits remain relevant to the needs of the Company.

Degree of Conformity with Corporate Governance Regulations

The level of compliance with the regulations on Corporate Governance is presented under the three sections given below.

Section One – The level of compliance with Finance Companies (Corporate Governance) Direction No. 03 of 2008 and subsequent amendments thereto issued by the Central Bank of Sri Lanka.

Section Two – The level of compliance with the Listing Rules - Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange.

Section Three – The level of compliance with the Code of Best Practice on Corporate Governance 2013, issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

Section One - Finance Companies (Corporate Governance) Direction No. 03 of 2008 and subsequent amendments thereto on Corporate Governance for Licensed Finance Companies in Sri Lanka

The Central Bank of Sri Lanka issued the Direction on Corporate Governance in order to improve and sustain the Corporate Governance processes and practices of the Licensed Finance Companies in Sri Lanka. This Direction is identified as the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and the amendments are referred to as Finance Companies (Corporate Governance – Amendment) Direction No. 04 of 2008 and Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013.The above Directions comprise of nine fundamental principles, namely the responsibilities of the Board, Meetings of the Board, Composition of the Board, Criteria to assess the fitness and propriety of Directors, Management functions delegated by the Board, The Chairman and the Chief Executive Officer, Board appointed Committees, Related party transactions and Disclosures.

The Company's level of compliance with the Corporate Governance Directions is tabulated below.

Section	Rule	Status of Compliance
2. THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS		
2 (1)	**Strengthening the safety and soundness of the Company**	
	(a) Approve, oversee and communicate the strategic objectives and corporate values.	Board approved strategic objectives and corporate values have been derived from the Company's vision and mission and it has been communicated throughout the Company.
	(b) Approve the overall business strategy, including the overall risk policy and risk management.	The strategic plan for 2018/19 to 2020/21 is currently at the final stage. The strategic plan includes the overall risk management policy, procedures and mechanisms with measureable goals. The business strategy is reviewed by the Board on a regular basis with management updates at Board meetings on the execution of the agreed strategy.
	(c) Identifying and managing risk.	Integrated Risk Management Committee (IRMC) of the Company identifies risks related to credit, market, liquidity and operations and ensures that appropriate actions are taken to manage risks. Further, IRMC reports to the Board of Directors. The Risk Management Report on pages 54 to 58 provides further information.
	(d) Communication policy with all stakeholders.	A Board approved communication policy is in place and ensures the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders and borrowers of the Company.
	(e) Reviewing the adequacy and the integrity of the internal control system and management information system.	The Internal Auditors of the Company on the instructions of the Audit Committee have reviewed the integrity of the Company's internal control system and the management information system. The Board of Directors of the Company confirmed the adequacy of the management information submitted for regular Board Meetings.
	(f) Identifying and designating Key Management Personnel.	The Board of Directors identified and designated the Key Management Personnel as Members of the Board including Managing Director, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Head of Recoveries, Head of Deposits, Head of Branches, Head of Marketing, Head of Information Technology, Acting Compliance Officer and Manager - IT.
	(g) Defining authority and responsibilities of the Board and Key Management Personnel.	The Board of Directors of the Company has defined the duties and responsibilities of the Key Management Personnel. Article 28 of the Company's Articles of Association contains provisions pertaining to the authority of the Board of Directors and the Board of Directors has approved delegated authority limits applicable to Management and staff.

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Section	Rule	Status of Compliance
	(h) Oversight of affairs of the Company by Key Management Personnel.	Oversight of the affairs of the Company by its Key Management Personnel takes place at the Board meetings and Board Sub-Committee meetings and Key Management Personnel make regular presentations to the Board / Board Sub-Committees on matters under their purview.
	(i) Periodically assess the effectiveness of its governance practices, including:	The Board has delegated the functions of selection, nomination and election of Directors and appointment of Key Management Personnel to the Nomination Committee which is a Board Sub-Committee.
	i) selection, nomination, and election of directors and appointment of KMP.	The extent of compliance with this requirement is disclosed on page No 29 under "Management of Conflicts of Interests"
	ii) management of conflicts of interests.	The Board and the Board Sub Committees have a formal self evaluation process annually in order to identify and rectify the weaknesses.
	iii) determination of weaknesses and implementation of changes where necessary.	
	(j) Succession plan for Key Management Personnel.	The Company has a Board approved one to one succession plan in place for the Key Management Personnel and the Board currently reviews the same in order to accommodate changes in the Key Management Personnel that took place during the recent past.
	(k) Regular meetings with the Key Management Personnel.	Key Management Personnel participate in discussions at the Board and its Sub-Committee meetings when the need arises to explain matters relating to their areas of responsibility.
	(l) Understanding Regulatory environment.	The Board of Directors closely monitors regulatory compliances at monthly Board meetings by means of a regular monthly board paper on compliance. Further, the Acting Compliance Officer presents changes to the regulatory environment from time to time and any other necessary information to the Board.
	(m) Hiring and oversight of External Auditors.	Hiring of external auditors is carried out by the Board with the recom mendation of the Audit Committee and it is approved by shareholders at the Annual General Meeting (AGM).
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities.	The Board has appointed the Chairman and the Chief Executive Officer (CEO) and there is a clear division of the functions and responsibilities of the Chairman and CEO.
2 (3)	Directors' ability to seek independent professional advice.	The Directors are able to obtain independent professional advice as and when necessary at the expense of the Company and a Board approved procedure is in place. However, no such instances have occurred during the year.
2 (4)	Dealing with conflicts of interests.	The extent of compliance with this requirement is disclosed on page No 29 under "Management of Conflicts of Interests"
2 (5)	Formal schedule of matters specifically reserved for Board Decisions.	A Board approved formal schedule of matters specifically reserved for Board decisions is in place which ensures that the direction and control of the Company is firmly under the authority of the Board.
2 (6)	Situation on insolvency.	No such situation has arisen during the year and we do not visualize such situations in the foreseeable future.
2 (7)	Publish corporate governance report in the Annual Report.	Annual corporate governance report has been published in the Annual Report 2017/18. This report from pages 28 to 48 satisfies this requirement.
2 (8)	Annual self-assessment by the Directors and maintenance of such records.	The extent of compliance with this requirement is disclosed on page No. 29 under "Board and its Sub Committees' effectiveness".

Section	Rule	Status of Compliance
3. MEETINGS OF THE BOARD		
3 (1)	Regular Board meetings and circulation of written or electronic resolutions.	The Board has conducted 12 meetings during the year. The consent of the Board is usually obtained at meetings with due notice given with Board papers. Consent obtained by circulation has been kept at minimal.
3 (2)	Arrangements for Directors to include matters and proposals in the agenda.	A formal procedure has been implemented to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3 (3)	Notice of meetings.	An annual calendar of Board meetings has been issued at the beginning of the year. It was ensured that prior notice of at least 7 days was given to Board members. There were no special meetings held during the period.
3 (4)	Directors' attendance at Board meetings.	All Directors have attended at least two thirds of the meetings and non-attendance of consecutive three meetings did not arise. Refer page 30 for details on Directors' attendance at Board meetings.
3 (5)	Appointment of a Company Secretary to handle the secretarial services to the Board.	The Board has appointed Varners International (Pvt.) Ltd., Level 14, World Trade Centre (West Tower), Colombo – 01 as Secretaries to the Company. The Company Secretaries advise the Board and ensure that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.
3 (6)	Responsibility of preparation of agenda for a Board meeting.	The Chairman has delegated to the Company Secretaries the function of preparing the Agenda for Board Meetings and for circulation to the Board.
3 (7)	Directors' access to advice and services of the Company Secretaries.	A formal procedure has been implemented and all Directors have access to the Company Secretaries for advice and services where necessary.
3 (8)	Maintenance of Board minutes.	The Company Secretaries maintain and circulate the minutes to Board members and provide certified copies of the Minutes at any time at the request of any director of the Company. A formal procedure is in place to enable directors to inspect the minutes.
3 (9)	Recording of Minutes of Board meetings in sufficient detail.	The Company Secretaries record the contributions made by each member and the decisions / resolutions made in sufficient detail to satisfy the requirements of the direction.
4. COMPOSITION OF THE BOARD		
4 (1)	The number of Directors.	The extent of compliance with this requirement is disclosed on page No. 28 under "Board Composition and Balance".
4 (2)	Period of service of a Director.	The extent of compliance with this requirement is disclosed on page No. 28 under "Board Composition and Balance"
4 (3)	Board balance.	The extent of compliance with this requirement is disclosed on page No. 28 under "Board Composition and Balance".
4 (4)	Independent Non-Executive Directors and the criteria for independence.	The extent of compliance with this requirement is disclosed on page No. 28 under "Board Composition and Balance" and on page No. 28 under "Determination of independence of Non-Executive Directors"
4 (5)	Appointment of Alternate Directors.	No alternate directors were appointed to represent any Independent Director. However, Mr. C. H. A. W. Wickramasuriya functions as an Alternate Director to Mr. M. P. Parekh, Non Executive (Non Independent) Director of the Company.
4 (6)	Skills and experience of Non-Executive Directors.	Appointments to the Board are made with the recommendation of the Nomination Committee.

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Section	Rule	Status of Compliance
		The Directors are eminent persons with the required knowledge, expertise and experience to bring an independent judgment and their profiles are given on pages 25 to 26.
4 (7)	More than half the quorum of Non-Executive Directors in Board meetings.	All Board meetings held during the Financial Year were duly constituted with one half of the number of Directors present and one half of the number of Directors constituting the quorum being non-executive Directors.
4 (8)	Express identification of the Independent Non-Executive Directors in corporate communications and disclosing the details of Directors.	Please refer the profiles of Board of Directors on pages 25 to 26 and report of Board of Directors on pages 59 to 63.
4 (9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	The new appointments to the Board are based on the recommendations made by the Nomination Committee and there is a procedure in place for the succession of appointments to the Board.
4 (10)	Directors appointed to fill a casual vacancy to be re-elected at the first general meeting after their appointment.	The extent of compliance with this requirement is disclosed on page No. 28 under "Appointment, Resignation and Re-election of Directors"
4 (11)	Communication of reasons for removal or resignation of Directors.	Appointment, removal or resignations of Directors are informed to shareholders, with immediate notification to the Colombo Stock Exchange (CSE). Prior approval is obtained from the Central Bank of Sri Lanka (CBSL) on such circumstances.
5. CRITERIA TO ASSESS THE FITNESS AND THE PROPRIETY OF DIRECTORS		
5 (1)	The age of a Director shall not exceed 70 years.	All the Directors were below the age of 70 years during the year under review.
5 (2)	Directors shall not hold office as a Director of more than 20 Companies / Societies / Corporate bodies including Associate and Subsidiary Companies.	All Directors other than Mr. M. P. Parekh (Non Independent Non Executive Director) hold Directorates in less than 20 Companies. Mr. M. P. Parekh who held Directorates in 20 Companies as at 31 December 2017 has increased his Directorates to 23 Companies as at 31 March 2018. He has indicated that he will reduce his Directorates to 20 before the end of 30 September 2018.
6. DELEGATION OF FUNCTIONS		
6 (1)	Delegation of work to the Management.	The extent of compliance with this requirement is disclosed on page No. 30 under "Delegated Authority".
6 (2)	Periodical evaluations of the delegation process.	The extent of compliance with this requirement is disclosed on page No. 30 under "Delegated Authority".
7. THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER		
7 (1)	Division of responsibilities of the Chairman and Chief Executive Officer.	The roles of Chairman and Chief Executive Officer were held by two (02) individuals separately.
7 (2)	Chairman preferably an Independent Non-Executive Director and if not appoint a Senior Director.	Chairman of the Company is a Non Independent Non-Executive Director. Since the Chairman is not an Independent Non-Executive Director, the Board has designated Mr. V. K. Choksy, Independent Non-Executive Director as the Senior Director and the terms of reference have been documented. The designation of the Senior Director has been disclosed by the Company in the Annual Report on Page 26.
7 (3)	Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board Members.	The Board has adopted a formal procedure to identify and disclose the relationships between the CEO and the Chairman and among other Directors. Accordingly, the Board has declared that there are no material relationships [including financial, business, family or other material / relevant relationship(s)] between the Chairman and Chief Executive Officer and among the members of the Board which will impair their respective roles. Details of the Chairman and Chief Executive Officer are disclosed in the "Corporate Information" of the Annual Report.

Section	Rule	Status of Compliance
7 (4)	Chairman to; (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner	Functions and responsibilities of the Chairman approved by the Board include the stipulated requirements. The annual self-assessment of the Board includes a criterion that evaluates the effectiveness of the Chairman in facilitating the Board's discharge of its responsibilities.
7 (5)	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary.	The Chairman has delegated this function to the Company Secretaries, to prepare the agenda of Board Meetings.
7 (6)	Ensure that all Directors are properly briefed on issues and receive adequate information in a timely manner.	The Chairman ensures that all Directors are properly briefed on issues arising at Board Meetings by submission of the agenda and Board papers with sufficient time prior to the meetings.
7 (7)	Encourage all Directors to actively contribute and ensure they act in the best interests of the Company.	The Chairman ensures that all Directors make a full and active contribution to the Board's affairs and the Board acts in the best interests of the Company.
7 (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors.	The Chairman ensures that the relationship among the Directors provides an opportunity to all Directors to actively participate in the Board's affairs. This process is further strengthened through the annual self-evaluation of the Board and Board Sub Committees where views of all Directors are canvassed in respect of the performance of the Board and Sub Committees as a whole.
7 (9)	Refrain from direct supervision of Key Management Personnel or executive duties.	The Chairman is not directly involved in the supervision of Key Management Personnel or any other executive duties.
7 (10)	Maintain effective communication with shareholders.	The AGM of the Company is the main forum where the Board maintains effective communication with shareholders. Further, the Board approved communication policy evidences the Company's process in this regard.
7 (11)	Chief Executive Officer functions as the apex executive-in-charge of the day-to-day operations and businesses.	In terms of duties and responsibilities of the CEO, he is the apex executive of the Company who is responsible for day-to-day operations of the Company with the assistance of Key Management Personnel and is accountable to the Board to recommend the Company's strategy, implementation, and ensure appropriate internal controls are in place to assess and manage risks.
8. BOARD APPOINTED COMMITTEES		
8 (1)	Establishing Board committees, their functions and reporting.	The following Board Sub-committees have been appointed by the Board and each Committee is required to report to the Board, (a) Audit Committee (b) Integrated Risk Management Committee (c) Remuneration Committee (d) Nomination Committee (e) Related Party Transactions Review Committee Each Committee has a Secretary, and the Secretary arranges its meetings, maintains minutes and carries out other secretarial functions under the supervision of the Committee Chairman and minutes of the Sub-Committees are submitted to the Board. The Company has presented a report on the performance, duties and functions of each Board Sub-Committee on pages 49 to 53.
8 (2)	**Audit Committee**	
	(a) The Chairman to be a Non-Executive Director with relevant qualifications and experience.	The Chairman of the Audit Committee, Mr. Ajith S. Ratnayake is an Independent Non- Executive Director. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of U.K. Please refer page 25 for the complete profile of Mr. Ajith S. Ratnayake.

CORPORATE GOVERNANCE [*Contd.*]

Section	Rule	Status of Compliance
	(b) All members of the Committee to be Non-Executive Directors.	All members of the Audit Committee are Non-Executive Directors.
	(c) Functions of the Committee include; (i) The appointment of the External Auditors. (ii) The implementation of the Central Bank Guidelines. (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the Auditor;	The Audit Committee has recommended, i. the re-appointment of M/s. Ernst & Young, Chartered Accountants as External Auditors for Audit Services; ii. the implementation of guidelines issued by the Central Bank of Sri Lanka to auditors from time to time; iii. the application of Accounting Standards in consultation with the Chief Financial Officer and External Auditors. iv. the service period, audit fees, resignation or dismissal of an auditor, re-engaging the audit partner in line with the regulatory requirements. No resignation or dismissal of the auditor has taken place during the year under review.
	(d) Review and monitor the External Auditors' independence, objectivity and effectiveness of the audit processes.	The extent of compliance with this requirement is disclosed on page No. 30 under "Engagement of External Auditor to Provide Non Audit Services and Auditors' Independence".
	(e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services while considering; (i) skills and experience of the Auditor (ii) threat to the independence (iii) Fee for the non-audit services and independence	The extent of compliance with this requirement is disclosed on page No. 30 under "Engagement of External Auditor to Provide Non Audit Services and Auditors' Independence".
	(f) Determines the nature and the scope of the External Audit.	The Audit Committee met with External Auditors, M/s. Ernst and Young and discussed the Audit Plan, nature and scope before the commencement of the Audit.
	(g) Review the financial information of the Company.	The Audit Committee periodically reviews the financial information in order to monitor major judgmental areas, changes in accounting policies, significant audit judgments in the financial statements, going concern assumption and compliance with Accounting Standards and other legal requirements. The Audit Committee reviews and recommends the Interim Financial Statements and Audited Financial Statements before submission thereof to the Board.
	(h) Meeting of External Auditors to discuss issues and problems of Interim and Final audits in the absence of Key Management Personnel (if necessary)	The Audit Committee has met the External Auditors thrice, without Key Management Personnel during the year under review.
	(i) Reviewing of the External Auditors' management letter and the response thereto.	The Audit Committee has reviewed the Management Letter issued by the External Auditors with the responses of the Management.
	(j) Review of the Internal Audit Function, - Review scope, function and resources - Review of Internal Audit Program - Review of Internal Audit Department - Recommendations on Internal Audit Functions	The Audit Committee has reviewed the information provided in the risk based audit plan and concluded that scope, functions and resources of the Internal Audit Dept. are sufficient to carry out its functions. The Audit Committee has reviewed and approved the Internal Audit Program. The Audit Committee has carried out a performance appraisal of the Internal Audit Division. The Audit Committee has recommended and with the approval of the Board appointed M/s.BDO Partners to conduct Information Systems Audits.

Section	Rule	Status of Compliance
	- Appraise the resignation of Senior staff of Internal Audit and any outsourced service providers. - Independence of Internal Audit Functions.	Circumstances to this effect have not arisen during the year under review. The Committee ensured the independence of the Internal Audit Function.
	(k) Consideration about the internal investigations and management's responses.	The need for an internal investigation on major findings has not arisen during the year.
	(l) Attendees of Audit Committee meeting with Corporate Management and External Auditors.	The Committee met -thrice with the External Auditors without the presence of the Executive Directors and Key Management Personnel. Chief Financial Officer and Chief Internal Auditor normally attend the meetings. The Managing Director and CEO and other members of the Key Management Personnel also attend meetings by invitation.
	(m) Explicit authority, adequate resources, access to information and obtain external professional advice wherever necessary.	The Audit Committee is empowered by Board approved terms of reference which set out the authority and responsibility of the Committee.
	(n) Regular meetings.	The Audit Committee met 14 times during the financial year under review. Please refer page 30 for details of the attendance of the Committee members.
	(o) Disclosures in the Annual Report.	The "Audit Committee report" on page 49 includes the details of activities of the Audit Committee. Please refer page 30 for details of attendance of the Committee members.
	(p) Maintain minutes of meetings.	The Company Secretaries act as the Secretary to the Audit Committee and maintain the minutes of the meetings.
	(q) Whistle Blower Policy.	On the recommendation of the Audit Committee, the Board has adopted a Whistle Blower policy for employees, in confidence to report violations of laws, rules, regulations or unethical conduct to the Audit Committee.
8 (3)	**Integrated Risk Management**	
	(a) The composition of IRMC.	The Integrated Risk Management Committee is chaired by a Non - Executive Director and comprises of Managing Director and CEO and Other Key Management Personnel who supervise the broad risk categories such as Credit, Market, Liquidity, Operational and Strategic risks.
	(b) Periodical risk assessment.	The Committee has a process to assess risks, such as Credit, Market, Operational and Liquidity through appropriate risk indicators and management information.
	(c) Review the adequacy and effectiveness of Management level Committees to manage risk.	Asset and Liability Committee and Credit Committee review the adequacy and effectiveness in addressing the specific risks and managing risks. However, the Committee is in the process of reviewing the effectiveness of the Asset and Liability Committee and Credit Committee.
	(d) Corrective action to mitigate the risk.	The risk indicators introduced have been reviewed and corrective action has been taken to mitigate risks. Further, the Company is in the process of reviewing the risk limits to identify the factors which have exceeded the specified limits.
	(e) Frequency of meetings.	The Committee has met four times on a quarterly basis during the year.
	(f) Actions against the officers responsible for failure to identify risks and take prompt corrective actions.	No such matters have arisen during the year. Further, the Committee is in the process of documenting the formal procedure.

Section	Rule	Status of Compliance
	(g) Risk assessment report to the Board.	For the quarter ended 30 June 2017 and 30 September 2017, the Company has circulated minutes of Integrated Risk Management Committee to the Board of Directors. The company has submitted IRMC reports for the quarter ended 31 December 2017 and 31 March 2018 in compliance with the Direction and will continue to submit risk assessment reports to the Board within the specified time frame.
	(h) Establishment of a compliance function.	A Compliance Officer selected from Key Management Personnel has been appointed to carry out the Compliance function. The Compliance Unit reviews the Company's compliance with laws, regulations, guidelines and rules on a regular basis and reports non-compliances, if any, to the Board. The Audit Committee reviews adequacy of the Internal Control mechanism of the Company in order to maintain the independence and objectivity of the Internal Audit function.
9. RELATED PARTY TRANSACTIONS		
9 (2)	Avoid conflicts of interest that arise from transactions of the Company with related parties.	The Board has approved a Related Party Transactions Policy where the categories of persons considered as "Related Parties" have been identified. Further, the Company is not involved in any transactions, which gives favorable treatment to such parties.
9 (3)	Related party transactions.	The Related Party transactions policy of the Company addresses all the transactions with related parties irrespective of their nature and value. Related Party Transactions Review Committee further ensures that the transactions with related parties are on an arm's length basis.
9 (4)	Monitoring of related party transactions defined as more favorable treatment including, (a) Granting accommodation in excess of prudent percentage of regulatory capital. (b) Charging lower rate than the best rate on accommodation and paying upper rate compared to unrelated counterparty. (c) Allowing preferential treatment compared to unrelated parties in the normal course of business. (d) Providing or obtaining services without proper evaluation. (f) Maintaining reporting lines and information flows that may give benefits to related parties other than performance of legitimate duties.	The Company has established a Board approved documented procedure to monitor the Related Party Transactions in order to avoid more favourable treatment to such parties. The Company is in the process of implementing, monitoring and reporting the process through the IT system.
10. DISCLOSURES		
10 (1)	Publish Interim and Annual Financial Statements based on applicable accounting standards and published in Sinhala, Tamil and English newspapers.	The audited financial statements and periodical financial statements were prepared in accordance with the formats prescribed by regulatory and supervisory authorities and applicable accounting standards, and have been published in an abridged form in Sinhala, Tamil and English newspapers.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report; (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.	Compliance with applicable Accounting Standards and regulatory requirements has been reported under "Statement of Directors' responsibility for Financial Reporting" on page 64.

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<table>
<tr><th>Section</th><th>Rule</th><th>Status of Compliance</th></tr>
<tr><td></td><td>(b) A report by the Board on the Finance Company's internal control mechanism.</td><td>Directors' Statement on the Internal Control system over financial reporting is given on page 65.</td></tr>
<tr><td></td><td>(c) The External Auditors' certification on the effectiveness of the internal control mechanism.</td><td>The Company has obtained an assurance report from the External Auditors on the effectiveness of the Internal Control Mechanism.</td></tr>
<tr><td></td><td>(d) Details of Directors and the transactions with the Finance Company.</td><td>This is disclosed under "Report of the Board of Directors" on pages 59 to 63.</td></tr>
<tr><td></td><td>(e) Fees / remuneration paid by the Finance Company to the Directors in aggregate.</td><td>Fees and remuneration paid is disclosed under note No. 12 to the Financial Statements.</td></tr>
<tr><td></td><td>(f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds.</td><td>The details of the net accommodation of each related party and as a percentage of the Company's capital funds are as follows
<table><tr><th>Name of the Related Party</th><th>Outstanding as at 31/03/2018</th><th>Percentage of capital funds</th></tr><tr><td>Abans Tours (Pvt) Ltd
Abans Transport (Pvt) Ltd</td><td>28,413,929
18,084,697</td><td>1.81%
1.15%</td></tr></table></td></tr>
<tr><td></td><td>(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel.</td><td>The aggregate value of remuneration paid to KMPs (as defined by CBSL) is Rs. 51,122,278/-.
The aggregate value of transactions of the Company with KMPs (as defined by CBSL),
Loans and Advances –Rs. 21,151,201/-
Deposits – Rs. 6,312,067/-</td></tr>
<tr><td></td><td>(h) A report confirming compliance with prudential requirements, regulations, laws and internal controls.</td><td>This is disclosed under "Report of the Board of Directors" on pages 59 to 63.</td></tr>
<tr><td></td><td>(i) Non-Compliance reporting.</td><td>There are no significant lapses which require to be disclosed to the public.</td></tr>
<tr><td></td><td>(j) The External Auditors' certification of compliance with the corporate governance direction.</td><td>The Company has obtained a certificate from the External Auditors of the compliance with the corporate governance direction.</td></tr>
</table>

Section Two - Listing Rules - Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange

The Listing Rules – Section 7.10 of the Colombo Stock Exchange (CSE) mandates listed companies to publish a table in the Annual Report, confirming that as at the date of the Annual Report they comply with the Corporate Governance rules. The rule addresses areas such as Non-Executive Directors, Independent Directors and Disclosures relating to Directors, Remuneration Committee and Audit Committee.

The Company's level of compliance with the Listing Rules (Section 7.10) is tabulated below.

Section	Rule	Status of Compliance
7.10.1 NON EXECUTIVE DIRECTORS		
7.10.1 (a)	Two or one third of the Directors, whichever is higher, should be Non-Executive Directors.	The extent of compliance with this requirement is disclosed on page No. 28 under "Board Composition and balance".
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	The Board comprised of five Directors as at the conclusion of the immediately preceding Annual General Meeting. Mr. R. A. Nanayakkara was appointed at the Annual General Meeting held on 27 September 2017 with the resignation of Mr. K. B. Wanigasekara.
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	The cessation and the appointment of Directors as disclosed in 7.10.1. (b) comply with the requirement.
7.10.2 INDEPENDENT DIRECTORS		
7.10.2 (a)	Two or one third of Non-Executive Directors, whichever is higher, should be independent.	The extent of compliance with this requirement is disclosed on page No. 28 under "Board Composition and balance"
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence / non-independence in the prescribed format.	The extent of compliance with this requirement is disclosed on page No. 28 under "Determination of Independence of Non-Executive Directors"
7.10.3 DISCLOSURES RELATING TO DIRECTORS		
7.10.3 (a)	The Board shall make determination of Independence / Non Independence annually and names of Independent Directors should be disclosed in the Annual Report.	The extent of compliance with this requirement is disclosed on page No. 28 under "Determination of Independence of Non-Executive Directors"
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.	No such determination was required since all Independent Directors have qualified as independent as per the said rules.
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise.	Please refer pages 25 to 26 for the profiles of the Board of Directors to the Annual Report.
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for Dissemination to the public.	The resume of Mr. R. A. Nanayakkara was published in Colombo Stock Exchange website on 27 September 2017 upon his appointment as Managing Director.
7.10.4 CRITERIA FOR DETERMINATION OF INDEPENDENCE OF DIRECTORS		
7.10.4 (a-h)	Requirements for meeting criteria to be independent.	All Independent Directors of the Company met the criteria for independence specified in this rule.
7.10.5 REMUNERATION COMMITTEE		
7.10.5 (a)	A listed company shall have a Remuneration Committee. The remuneration committee shall comprise; of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Remuneration Committee comprised of three Directors and out of which two of them are Independent Non Executive Directors. Refer the Remuneration Committee Report on page 51.

Section	Rule	Status of Compliance
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Refer the Remuneration Committee Report on page 51 for details.
7.10.5 (c)	The Annual Report shall set out; (i) The names of the Directors that comprise the Remuneration Committee; (ii) A statement of remuneration policy; (iii) Aggregate remuneration paid to Executive and Non-Executive Directors.	Refer the Remuneration Committee Report on page 51 for details. Refer the Remuneration Committee Report on page 51 for details. Refer the Note No. 12 of the Audited Financial Statements
7.10.6 AUDIT COMMITTEE		
7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher.	Audit Committee is comprised of two Directors and both of them are Independent Non-Executive Directors and hence complied with the requirements.
	One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.	Mr. A. S. Ratnayake (Independent Non - Executive Director) functions as the Chairman of the Board Audit Committee.
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.	Chief Executive Officer and Chief Financial Officer attend the meetings regularly by invitation.
	The Chairman or one member of the Committee should be a member of a recognized professional accounting body.	The Chairman is a fellow member of the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of U.K. Please refer page 25 for the complete profile of Mr. A. S. Ratnayake.
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10 of the Listing Rules.	Please refer Audit Committee Report on page 49 of the Annual Report for description of its functions.
7.10.6 (c)	Annual Report shall set out;	
	(i) The names of the Directors who comprise the Audit Committee.	Please refer Audit Committee Report on page 49 for the composition of the Audit Committee.
	(ii) The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination.	The extent of compliance with this requirement is disclosed on page No. 30 under "Engagement of External Auditors to Provide Non Audit Services and Auditors' Independence"
	(iii) A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the listing rules.	Please refer Audit Committee Report on page 49 for the Board Audit Committee Report.

CORPORATE GOVERNANCE [*Contd.*]

Section Three - Code of Best Practice on Corporate Governance 2013, issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka

The Code of Best Practice on Corporate Governance 2013, comprises seven fundamental principles such as Directors, Directors' Remuneration, Relations with Shareholders, Accountability and Audit, Institutional Investors, Other Investors and Sustainability Reporting.

The Company's adherence with aforementioned is tabulated below.

Section	Rule	Status of Compliance
A. DIRECTORS		
A.1	**The Board -** The Company should be headed by an effective Board of Directors, which should direct, lead and control the Company. The Board comprises of professionals with required professional competence, skills and experience to lead and control the Company. The Board gives leadership in setting the strategic direction and creates a sound environment for the successful functioning of the Company.	
A.1.1.	Board meetings – The Board should meet at least once in every quarter.	The Board usually meets monthly and special meetings are convened wherever necessary. During the year, the Board met 12 times. Please refer page 30 for the details of attendance at Board meetings held during the year.
A.1.2	Board's responsibilities – - Formulation and implementation of a sound business strategy.	The Board engages in providing direction in formulating strategic direction for the development of strategy which is aimed at the long term success of the Company. Finalization of the Strategic Plan for 2018/19 to 2020/21 is currently at the final stage and the Board reviews performance on a regular basis.s
	- CEO, Executive Directors and Senior Management team possess the skills, experience and knowledge.	The Managing Director and CEO and other Key Management Personnel possess extensive skills, knowledge, competencies and experience.
	- CEO and Key Management Personnel (KMP) succession planning.	The Company has a Board approved one to one succession plan in place for the Key Management Personnel and the Board reviews the same in order to accommodate changes in the Key Management Personnel that took place during the recent past.
	- Implementing security and integrity of information, internal controls, business continuity and risk management.	The Board ensures that an effective system is in place to secure the integrity of information, internal controls and risk management. The Audit Committee and the IRMC on behalf of the Board monitor the integrity of financial information, the robustness of financial control and system of risk management of the Company.
	- Ensuring compliance with laws, regulations and ethical standards.	The Board has established a separate Compliance function to ensure that the Company has complied with the relevant laws, regulations, ethical standards and other regulatory frameworks.
	- Ensuring all stakeholder interests are considered in corporate decisions.	The Board considers the stakeholder interests in the decision making process.
	- Recognizing sustainable business development.	The Board recognizes the importance of sustainable development in corporate strategy and business development.
	- Ensuring that the Company's values and standards are set with emphasis on adopting appropriate Accounting Policies.	The Company's accounting policies are reviewed annually by the Audit Committee so as to be updated with new developments, changing business requirements and best practices.
	- Fulfilling other Board functions is vital, given the scale, nature and the complexity of the organization.	The Board has attempted to fulfill the obligations towards all stakeholders during the year.
A.1.3	Compliance with laws and access to independent professional advice.	The Board collectively and individually recognizes its duty to comply with the laws prevailing in the country. The Board ensures that policies and procedures are in place to comply with applicable laws and regulations. The Board has approved a procedure to seek Independent Professional advice by Directors at the expense of the Company. No such advice has been taken during the year under review.

Section	Rule	Status of Compliance
A.1.4	All Directors should have access to the services and advice of the Company Secretary.	A Board approved policy is in place to enable all Directors to have access to the Company Secretaries. Directors are authorized to access the Company Secretaries to obtain advice and services as and when required on any matter relating to the Board procedures and all applicable rules and regulations.
A.1.5	Independent judgment of Directors.	All Directors exercise independent judgment in the decisions made by the Board on issues of strategy, performance, resources and conduct of business.
A.1.6	Every Director should dedicate adequate time and effort to the matters of the Board and the Company.	All Directors of the Company have dedicated adequate time and attention to the affairs of the Company. The Company circulates Board papers and relevant information with adequate notice in order for them to review before the Board / Board Sub Committee meetings. The number of Board / Board Sub Committee meetings held and attendance is presented on page 30.
A.1.7	Every Director should receive appropriate training.	Every Director is provided appropriate induction with regard to the affairs, rules and regulations of the Company and subsequent training on latest trends and issues facing the Company and the industry in general
A.2	**Chairman and Chief Executive Officer –** There should be a clear division of responsibilities at the head of the Company, which will ensure the balance of power and authority, so that no one individual has unfettered powers of decision.	
A.2.1.	If CEO and Chairman is one person justification in the Annual Report.	Since CEO's and Chairman's roles are segregated, a specific disclosure is not made.
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 role.	The Chairman conducts Board procedures in a proper manner and ensures that Board members discharge their responsibility effectively to make a contribution to Board's affairs. Agenda for meetings and matters to be taken up at Board Meetings are duly scheduled.
A.4	**Financial Acumen –** The Board should ensure the availability of those with sufficient financial acumen and knowledge to offer guidance on matters of finance within the Board.	
A.4.1	Financial Acumen.	The Board is comprised with sufficient number of directors with financial acumen who provide guidance to the Board on matters relating to finance. Please refer pages 25 to 26 of the Annual Report for the profile of the Directors.
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	Board should include at least two Non- Executive Directors or one-third of total Directors, whichever is higher.	The extent of compliance with this requirement is disclosed in page No. 28 under "Board Composition and balance"
A.5.2	Two or one-third of Non- Executive Directors whichever is higher should be independent.	The extent of compliance with this requirement is disclosed in page No. 28 under "Board Composition and balance"
A.5.3	Evaluation of independence of Non- Executive Directors.	
A.5.4	Signed declaration of Independence by the Non- Executive Directors.	The extent of compliance with this requirement is disclosed in page No. 28 under "Determination of Independence of Non-Executive Directors"
A.5.5	Determination of the independence and non-independence of each Non- Executive Directors annually.	

Section	Rule	Status of Compliance
A.5.6	Alternate Directors to meet the criteria for independence / Non Executive status of the appointer.	No alternate director was appointed to represent any Independent Director. Further, Mr. C. H. A. W. Wickramasuriya (who is not an Executive Director) functions as an Alternate Director to Mr. M. P. Parekh, Non Executive (Non Independent) Director.
A.5.7	Senior Independent Director (SID).	Even though a Senior Independent Director's role was not necessary under this section, Mr. V. K. Choksy has been appointed as the Senior Director (Independent Non- Executive) in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008, since the Chairman is not an Independent Director.
A.5.8	Confidential discussion with other Directors by the Senior Independent Director.	The Terms of Reference adopted by the Board for the Senior Independent Director requires him to make himself available for any confidential discussion with Non-Executive Directors. However, no such situation has arisen during 2017/18.
A.5.9	Meetings held by the Chairman with Non-Executive Directors.	Chairman meets the Non Executive Directors without the presence of Managing Director/ CEO on a need basis.
A.5.10	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved.	Concerns raised by Directors at Board Meetings and the final decisions are recorded in the Minutes of the meetings.
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	Management should provide timely information to the Board.	The Management ensured that the Board has been provided with timely and accurate information that is circulated within the prescribed period. Key Management personnel make themselves available to respond to any queries raised at the meetings and for the provision of additional information.
A.6.2	Adequate time for effective Board meetings.	In order to facilitate an effective Board Meeting the minutes, agenda and Board papers are circulated to the Directors prior to 7 days of the Board Meeting.
A.7	**Appointments to the Board –** There should be a formal and transparent procedure for the appointment of new Directors to the Board.	
A.7.1	Nomination Committee.	Nomination Committee makes recommendations to the Board on all new appointments to the Board. Refer page 52 for the details of the Nomination Committee.
A.7.2	Assessment of Board composition by the Nomination Committee.	Nomination Committee reviews the new appointments and re-elections to the Board with strategic direction of the Company to attract and retain Board members with relevant experience and qualifications.
A.7.3	Disclosure requirements when appointing new Directors to the Board.	Details of new Directors are disclosed to shareholders when appointed, with immediate notification to the Colombo Stock Exchange along with a brief resume of such Director. Further, prior approvals for such appointments are obtained from the Central Bank of Sri Lanka in terms of regulations applicable to Finance Companies.
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 – A.8.2	Re-election of Directors.	The extent of compliance with this requirement is disclosed in page No. 28 under Appointment, Resignation and Re-election.
A.9	**Appraisal of Board Performance -** The Board should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	

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Section	Rule	Status of Compliance
A.9.1–A.9.3	Appraisal of Board Performance. Annual self-evaluation by the Board members and of its committees. Disclosure of evaluation process.	The extent of compliance with this requirement is disclosed in page No. 29 under "Board and its Sub Committees' effectiveness".
A.10	**Disclosure of information in respect of Directors** Shareholders should be kept advised of relevant details in respect of Directors.	
A.10.1	Annual Report disclosure in respect of Directors (Name, Qualifications, etc.)	Profiles of the Board of Directors are given on pages 25 to 26.
A.11	**Appraisal of Chief Executive Officer (CEO)** The Board should require at least annually to assess the performance of the CEO.	
A.11.1	Targets for CEO at the commencement of each fiscal year.	CEO's performance targets are aligned with business strategies of the Company. Targets are set at the beginning of every financial year by the Board which is in line with the short, medium and long term objectives of the Company.
A.11.2	Evaluation of the performance at the end of each fiscal year.	At the end of each financial year the Board evaluates the set targets and the actual performance.
B. DIRECTORS' REMUNERATION		
B.1	**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 Director should be involved in deciding his / her remuneration.	
B.1.1	Setting up of Remuneration Committee.	The Committee determines the compensation and benefits of the Executive Directors and ensures no director is involved in determining his own remuneration. Further, the Committee is responsible for deciding the overall remuneration structure of the Company.
B.1.2	Composition of Remuneration Committee.	The Remuneration Committee is comprised of Non-Executive Directors. Refer the Remuneration Committee report on page 51.
B.1.3	Disclosure in the Annual Report about the Remuneration Committee members.	The Remuneration Committee report is given on page 51.
B.1.4	Remuneration of Non-Executive Directors.	The Non-Executive Directors (Independent) receive fees for attending meetings of the Board and Board Sub-committees.
B.1.5	Remuneration Committee consult Chairman / CEO and other Executive Directors and access to the professional advice.	The Committee consults Chairman/ CEO when recommending the remuneration of other Executive Directors and also has access to professional advice when deemed necessary.
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' to run the company successfully. A proportion of Executive Director's remuneration should be structured to link rewards to corporate and individual performance.	
B.2.1 – B.2.9	Level and make up of remuneration of Executive Directors including performance element in pay structure. - Remuneration packages in line with industry practices.	The Remuneration Committee gives due consideration to the provisions of these sections and arrives at final recommendations as specified. The Remuneration Committee ensures that remuneration packages are in line with the industry practices.

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Section	Rule	Status of Compliance
	- Executive share option. - Non Executive Directors' remuneration.	The Company does not have an executive share option scheme The Non-Executive Directors (Independent) receive a fee for attending meetings of the Board and additional fee whenever they serve on Board Sub-committees.
B.3	**Disclosure of Remuneration** Annual Report of the Company should contain a statement of remuneration policy and details of remuneration of the Board as a whole.	
B.3.1	Disclosure in the Annual report about the. (a) Remuneration Committee members. (b) statement of remuneration policy. (c) aggregate remuneration paid.	Please refer the Remuneration Committee report on page No. 51 and Note No. 12 to the Financial Statements.
C. RELATIONS WITH SHAREHOLDERS		
C.1	**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 General Meeting.
C.1.2	Separate resolutions for separate issues.	Separate resolutions are placed before shareholders for business transactions at the AGM.
C.1.3	Arrangement made by the Chairman of Board that all Chairmen of sub-committees make themselves available at the AGM.	The Chairman of the Board ensures that the Chairmen of the Board sub-committees are present at the AGM unless under exceptional circumstances.
C.1.4	Adequate notice for the AGM to the shareholders.	Annual Report including Financial Statements and the notice of the meeting are sent to shareholders at least 15 working days prior to the date of the AGM.
C.1.5	Procedure of voting at general meeting.	A summary of the procedure is set out in the Proxy form itself sent to each shareholder.
C.2	**Communication with Shareholders** The Board should implement effective communication with shareholders.	
C.2.1	Channel to reach all shareholders to disseminate timely information.	The Board approved communication policy addresses this matter.
C.2.2	Disclose the policy and methodology of communication with shareholders.	The Annual General Meeting of the Company is the main forum where the Board maintains effective communication with the shareholders. Hence all shareholders are encouraged to participate at the AGM. Further, the Company's website, corporate disclosures and other news releases to the Colombo Stock Exchange function as additional communication channels.
C.2.3	Implementation of the methodology.	Refer the comment on principle C.2.2
C.2.4	Disclose a contact person in relation to communications.	Shareholders may contact the Chief Financial Officer for queries, if any.
C.2.5	Awareness of Directors on major issues and concerns of shareholders.	The Company Secretaries maintain records of all correspondence received from shareholders and direct the same to appropriate channels for resolution.
C.2.6	Identify a contact person in relation to shareholders' matters.	The Company Secretaries can be contacted for any queries of shareholders, whose details are given below, Varners International (Pvt.) Ltd., Corporate Secretaries, Level 14, West Tower, World Trade Centre, Echelon Square, Colombo – 01.

Section	Rule	Status of Compliance
C.2.7	Process for responding to shareholders.	Refer the comment on principle C.2.5
C.3	**Major and Material Transactions** Directors should disclose all proposed corporate transactions which would materially alter the net asset base of the Company.	
C.3.1	Disclosure of major and material transactions.	The Company did not enter into major transactions during the year.
D. ACCOUNTABILITY AND AUDIT		
D.1	**Financial Reporting** The Board should present a balanced and an understandable assessment of the Company's financial position and prospects.	
D.1.1	The Board should present interim and other price sensitive information to the public and reports to regulators.	The Company has reported the Audited Financial Statements as at 31 March, 2018 and the Interim Financial Statements at the end of each quarter of the financial year which has complied with the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the directions made there under and in conformity with the Sri Lanka Accounting Standards. This information is initially uploaded to the Colombo Stock Exchange website in order to ensure the maintenance of a fair and orderly securities market as required by Listing Rules of the CSE.
D.1.2	Include Directors' Report in the Annual Report.	Refer the Report of the Board of Directors on pages 59 to 63.
D.1.3	Include Annual Report disclosure stating Board's and Auditors' responsibility.	Statement of Directors' responsibilities is given on page 64.
D.1.4	Include Management Discussion and Analysis.	Management Discussion and Analysis is given on pages 6 to 24.
D.1.5	Include Directors' assumption of the going concern of the business.	Please refer the Report of the Board of Directors on pages 59 to 63.
D.1.6	Include a notification of serious loss of capital.	This situation has not arisen during the year and the likelihood of such a situation is remote.
D.1.7	Include Disclosure of related party transactions.	Refer the Note No. 45 to the Audited Financial Statements and Report of the Board of Directors on pages 59 to 63.
D.2	**Internal control** The Board should maintain a sound system of internal control to safeguard shareholders' investments and Company assets.	
D.2.1	Evaluation of internal controls by the Board.	The Audit Committee, with the assistance of the Internal and External Auditors reviews the effectiveness of the internal control procedures and takes corrective action where necessary.
D.2.2	Internal Audit function.	The Company's Internal Audit Function is carried out by the Chief Internal Auditor of Abans Group. Findings together with appropriate recommendations are discussed at Audit Committee Meetings. Please refer the Audit Committee Report on page 49 for more details.
D.2.3	Evaluation of the process and effectiveness of risk management and internal controls.	The Internal Audit Division regularly reviews and reports to the Audit Committee on Risk Management measures and internal control system. The Audit Committee on behalf of the Board monitors and takes corrective action where necessary on the said controls and risk management measures.
D.2.4	Responsibilities of Directors in maintaining a sound system of internal control and statement of internal control.	Refer Directors' Statement on Internal Control over Financial Reporting on page 65.
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 maintain an appropriate relationship with the Company's Auditors.	

Section	Rule	Status of Compliance
D.3.1	Composition of the Audit Committee.	The Audit Committee comprises two Independent Non-Executive Directors. Please refer Audit Committee Report on page 49.
D.3.2	Reviewing the scope and results of the audit and its effectiveness and independence and objectivity of the Auditors.	The extent of compliance with this requirement is disclosed on page No. 49 under "Audit Committee Report"
D.3.3	Terms of reference of the Audit Committee.	The Audit Committee is guided by the Terms of Reference approved by the Board which outlines its authority and responsibility.
D.3.4	Disclosure made in the Annual Report about the Audit Committee.	Refer the Audit Committee Report on page 49.
D.4	**Code of Business Conduct and Ethics** The Company must adopt a Code of Business Conduct and Ethics for Directors and members of the Senior Management team. Any non-compliance with the said Code should be promptly disclosed.	
D.4.1	Code of business conduct and ethics.	The Company has in place a code of conduct and ethics which is applicable to Directors and Employees.
D.4.2	Chairman's confirmations for any violation of code of conduct and ethics.	Refer the Chairman's Statement on Corporate Governance on page 27.
D.5	**Corporate Governance disclosures** The Board should include this in the Annual Report setting out the manner and extent for it to be complied.	
D.5.1	Disclosure of corporate governance compliance.	This requirement is met through presentation of this report.
E. INSTITUTIONAL INVESTORS		
E.1	**Shareholder Voting** Institutional shareholders are required to make considered use of their votes and encouraged to ensure that their voting intentions are translated into practice.	
E.1.1	Regular dialogue to be maintained with shareholders and Chairman to communicate shareholders views to the Board.	Annual General Meeting is a forum to have an effective dialogue with shareholders.
E.2	**Evaluation of Governance disclosure** Institutional investors are encouraged to give due weight to all relevant factors in the Board structure and composition.	
F. OTHER INVESTORS		
F.1	**Investing / Divesting Decisions**	
F.1	Individual shareholders' investment decisions.	Individual shareholders investing directly in the Company are encouraged to seek independent advice on their investment holding or divesting decisions.
F.2	**Shareholder Voting**	
F.2	Individual shareholder voting.	Individual shareholders are encouraged to participate at the Annual General Meeting and to exercise their voting rights. Notices of the meetings are dispatched to all shareholders within the prescribed time period.
G. SUSTAINABILITY REPORTING		
G.1.1	Economic Sustainability.	Refer Pages 12 to 15 to the Annual Report
G.1.2	The Environment.	Refer Page 24 to the Annual Report
G.1.3	Labour Practice.	Refer Pages 22 to 24 to the Annual Report
G.1.4	Society.	Refer Page 24 to the Annual Report
G.1.5	Product Responsibility.	Refer Page 22 to the Annual Report
G.1.6	Stakeholder identification, engagement and effective communication.	Refer Page 16 to the Annual Report
G.1.7	Sustainable reporting and disclosure should be formalized.	Refer Pages 6 to 24 to the Annual Report

AUDIT COMMITTEE REPORT

TERMS OF REFEENCE

The Audit Committee assists the Board of Directors in its general oversight of financial reporting, internal control and internal audit functions. Recommendations of the Audit Committee are discussed and appropriate measures are taken by the management or the Board on a continuous basis. The Company has derived the requirements relating to the terms of reference of the Audit Committee from the Finance Companies (Corporate Governance) Direction No.03 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka, Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

COMPOSITION OF THE AUDIT COMMITTEE

The Composition of the Audit Committee is as follows;

- Mr.Ajith.S. Ratnayake- Chairman, Independent Non-Executive Director
- Mr.V.K.Choksy- Independent Non-Executive Director and Senior Director

The Chairman of the Committee is the retired founder Director General of the Sri Lanka Accounting and Auditing Standards Monitoring Board. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka, fellow member of the Chartered Institute of Management Accountants (UK) and a fellow member of the Association of Chartered Certified Accountants.

RESPONSIBILITIES OF THE AUDIT COMMITTEE

Responsibilities include;

- Overseeing the internal control systems and reviewing their effectiveness.
- Reviewing and monitoring the systems adopted by the management to control impairment of receivables.
- Reviewing and monitoring the effectiveness of the internal audit function.
- Review of accounting policies, practices and the financial statements.
- Monitoring the integrity of the financial statements.
- Advising the Board on appointment of the External Auditors and the remuneration of the External Auditors.

MEETINGS

The Audit Committee met Fourteen times during the year. The attendance of committee members at meetings is given below.

Name of the Directors	No. of Meetings held	No. of Meetings Attended
Mr. A. S. Ratnayake	14	14
Mr. V.K. Choksy	14	12

The Managing Director, Chief Operating Officer, Chief Internal Auditor, Chief Financial Officer, Manager Risk and Compliance/ Compliance Officer, Head of Recoveries, and other officers attended meetings by invitation based on the items under discussion during the year under review. The Audit Committee met the external auditors without the presence of the management on two occasions during the year to facilitate their independence and maintenance of the scope of the audit. The Committee also met the internal auditors without the presence of the management.

FINANCIAL REPORTING

The Audit Committee assists the Board of Directors in its oversight on the preparation and presentation of the financial statements in order to show a true and fair view of the financial position and performance in compliance with Sri Lanka Accounting Standards (SLFRSs). In accordance with the mandates mentioned above, committee reviews the following.

- The adequacy and the effectiveness of the internal control systems and procedures to provide reasonable assurance that all transactions are monitored and recorded in the books of account.
- The Company's financial statements and accounting policies and practices.
- Effectiveness of the financial reporting systems in place to ensure reliability of the information provided to the stakeholders.
- The processes by which the Company ensures compliance with Sri Lanka Accounting Standards (SLFRSs) relating to financial reporting.
- The Annual Financial Statements for the year and the Interim Financial Statements.

RISK AND INTERNAL CONTROL

The Committee reviews the effectiveness of the Company's internal control systems over financial reporting and other relevant operations. The Committee also recommended systems and procedures to reduce risks identified.

INTERNAL AUDIT

The Internal Audit plan of the Company was reviewed and approved by the Committee. The Committee regularly reviews the internal audit reports and their findings. Detailed discussions are conducted with the management at committee meetings to improve procedures to prevent or reduce recurrence of adverse findings.

EXTERNAL AUDIT

The Audit Committee monitors and reviews the external auditors' independence, and the objectivity and effectiveness of the audit process considering relevant regulatory requirements.

The Committee obtained a declaration of independence from the external auditors, and assessed their independence. Non-audit services provided by the external auditors were reviewed by the Committee to ensure that they are not likely to impair the independence and objectivity of the external auditors.

The Committee met the external auditors to discuss the audit plan, progress of audit, the results of the audit. Meetings were held both with and without the presence of management.

ETHICS AND GOOD GOVERNANCE

The Company's Whistle Blowing Policy serves as a mechanism to manage risks pertaining to corporate fraud. There is a provision under this policy for any staff member, who has a legitimate concern on an existing potential "wrong doing" committed by any person within the Company, to bring such concerns in confidence to the notice of the Chairman of the Audit Committee. A process is also in place for such concerns to be investigated, while maintaining identity of the whistle-blower confidential. The Committee is empowered under their Terms of Reference to monitor this procedure.

On behalf of the Audit Committee

Ajith S. Ratnayake
Chairman- Audit Committee
25 June 2018

RELATED PARTY TRANSACTIONS REVIEW COMMITTE REPORT

Introduction

The Related Party Transactions Review Committee was formed by the Board of Directors in compliance with section 9 of the Listing Rules of the Colombo Stock Exchange.

Composition of the Committee

The Committee comprised of the following members of the Board.

Mr. A. S. Ratnayake - Independent Director (Chairman of the Committee)
Mr. M. P. Parekh* - Non-Executive Director
Mr. R. A. Nanayakkara** – Managing Director
Mr. K. B. Wanigasekara*** - Managing Director

* Mr. C. H. A. W. Wickramasuriya - Alternate Director to Mr. M. P. Parekh, attends meetings of the Committee as his alternate.

** Appointed to the Board of Abans Finance PLC and as a Member of the Committee with effect from 27 September 2017.

***Ceased to be a member of the Board and as Member of the Committee with effect from 27 September, 2017

Varners International (Pvt) Ltd., Secretaries of the Company function as the Secretary of the Related Party Transactions Review Committee.

The Role of the Committee

The Committee is entrusted with the responsibility to assist the Board

(a) to ensure that every related party transaction is conducted in a manner that will protect the Company from conflict of interest which may arise between the Company and its Related Parties;

(b) that the interest of shareholders as a whole are taken into account by the Company when entering into transactions with Related Parties;

(c) to ensure proper review and approval is obtained from the Committee either prior to the transaction being entered into or if the transaction is expressed to be conditional on such approval, prior to the completion of the transaction;

(d) to recommend the Board of Directors to obtain the shareholder approval by way of special resolution prior to the concerned transaction being entered into in conformity with Section 9.1 and 9.4 of the Listing Rules;

(e) to ensure that the objective and the economic and commercial substance of the Related Party Transactions should take precedence over the legal form and technicality, and

(f) to monitor disclosure of transactions between the Company and any of its Related Party/ies as required in compliance with legal and / or regulatory requirements stipulated by the Listing Rules of the Colombo Stock Exchange, Central Bank of Sri Lanka and Sri Lanka Financial Reporting Standards.

Meetings

The quorum for a meeting is two Directors and both of them should be Non-Executive. The Committee met four times in the financial year under review and the attendance of the Directors at the meetings is given on page 30 of the Annual Report. The minutes of the meeting were reported to the Board of Directors.

Review of Related Party Transactions

The Committee reviewed the systems in place to report related party transactions to the Committee and advised the management on improvements required. The Committee reviewed related party transactions reported by the management in compliance with its terms of reference. No related party transactions which required approval of shareholders by way of a Special Resolution in terms of section 9.4.1 or those which required immediate disclosure in terms of section 9.3.1 were reported to the Committee by the Management during the year.

For and on behalf of
Related Party Transactions Review Committee

Ajith S. Ratnayake
Chairman - Related Party Transactions Review Committee
25 June 2018

REMUNERATION COMMITTEE REPORT

THE COMPOSITION

The Remuneration Committee comprises three Non-Executive Directors, of whom two including the Chairman are Independent Directors. Details of the members of the committee during the year are as follows.

Mr. V. K. Choksy
Chairman
Independent Non Executive Director/ Senior Director

Mr. Ajith S. Ratnayake
Independent Non-Executive Director

Mr. Mayank Parekh
Non-Executive Director

Brief profiles of the members are given on pages 25 to 26 of the Annual Report. The Chief Executive Officer (CEO) who is the apex executive-in-charge of the day to day management of the Company attends meetings and participates in the Committee meetings by invitation. The CEO takes part in all deliberations except when his own performance and remuneration is discussed. The Company Secretaries functions as the Secretary to the Committee.

THE ROLE OF THE COMMITTEE

The Committee is entrusted with the responsibility of evaluating, assessing and recommending to the Board of Directors on any matters that may affect the remuneration structure of the company including the following;

- The determination of remuneration and other benefits of Key Management Personnel and the establishment of performance parameters.
- The determination of the remuneration of the CEO and the Independent Non - Executive Directors while ensuring that no Director is involved in setting his own remuneration.
- To introduce policies and parameters of the remuneration structure for all staff members of the Company and monitor the implementation thereof.
- Review of information related to remuneration of staff members from time to time in order to ensure that the remuneration payable by the company is on par or above the industry norms and align remuneration to market rates to ensure the retention of the Key Management Personnel.
- Recruitments and promotions of staff at management level are also considered and recommended based on proposals submitted by the CEO following a formal process of evaluation.
- Approval of annual increments, profit share bonus and incentives.

REMUNERATION POLICY

The company's rewarding strategies and remuneration structures are designed to attract, motivate and retain high competent staff at all levels of the organization. Accordingly salaries and other benefits are reviewed periodically taking into account the performance of the employee and comparison with the group companies. The qualifications, competence and experience are considered in determining the remuneration. Further the employees who are directly related to the performance of the company are rewarded with a variable payment based on the performance that he or she demonstrates.

Principles that strengthen the Company's remuneration strategy:

- The reward focus is on the creation of an appropriate balance between the fixed and variable pay.
- Individual performance appraisals identify talents at all levels of the organization, enabling fair and competitive remuneration.
- There is no discrimination against employees based on diversity or physical differences.
- Remuneration is commensurate with each employee's expertise and contribution and it is aligned with the business performance and long term shareholders' returns.

MEETINGS

The committee held one meeting during the financial year. The attendance by members is given in the Corporate Governance Report on page 30 of the Annual Report.

The proceedings of the Committee meetings have been reported to the Board of Directors during the year.

DIRECTORS' REMUNERATION

The total of Directors' remuneration paid during the year under review is set out in Note 12 to the Financial Statements. This comprises fees for all the committees of the company that Directors serves on.

COMMITTEE EVALUATION

The Committee completed an evaluation process with self-assessment of members in March 2017, which was forwarded to the Board and the Board was satisfied with the performance of the Committee.

V.K. Choksy
Chairman – Remuneration Committee
25 June 2018

NOMINATION COMMITTEE REPORT

The Nomination Committee comprises of two Non-Executive Directors appointed by the Board of Directors of the Company. The following Directors served on the Nomination Committee during the year under review,

Mr. Rusi Pestonjee	-	Chairman of the Committee (Non - Executive Director)
Mr. V. K. Choksy	-	Independent Non-Executive Director / Senior Director

Brief profiles of the members of the Committee are given at pages 25 to 26 of the Annual Report. The Company Secretary functions as the secretary to the committee.

COMMITTEE'S ROLES AND RESPONSIBILITIES

The Committee is entrusted with the board approved terms of reference and its role and responsibilities are in conformity with the provisions stipulated in the Code of Best Practice on Corporate Governance - 2013 issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Nomination Committee is responsible for reviewing the composition of the Board to ensure that the Board is properly constituted and balanced in terms of skills, experience and diversity. In addition, the Committee is also entrusted with the following responsibilities,

- Recommending to the Board on appointments of new Directors and ensuring the implementation of the approved procedure in selecting such Directors;
- Recommending the re-appointment of existing Directors of the Board of Directors, taking into account the performance and contribution made by such Directors towards the overall discharge of responsibilities of the Board and Board-Sub Committees;
- Ensuring that the Directors fulfill the fit and proper criteria to hold office in conformity with Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011 and other applicable statutes;
- Reviewing criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment of Directors;
- Assessing from time to time the requirements of additional and / or new expertise and the succession arrangements for retiring Directors with a view to providing advice and recommendations to the Board on any such appointment.

MEETINGS & MINUTES

The Committee held one meeting during the year and the attendance of Committee Members at each of these meetings is given in page 30 to the Annual Report. The Committee reports to the Board of Directors on its activities and the minutes of the meetings are tabled at the Meetings of the Board of Directors.

Rusi Pestonjee
Chairman - Nomination Committee
25 June 2018

INTEGRATED RISK MANAGEMENT REPORT

The Integrated Risk Management Committee (IRMC) is a Board Sub-Committee established in conformity with Section 8 of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 with the Board approved Terms of Reference. The IRMC is entrusted with the responsibility to assist the Board to oversee the Risk Management framework of the Company, set the risk appetite and to determine the appropriate tolerable limits, monitor the limits continuously for effective risk management and to overlook the Compliance Function of the Company.

COMPOSITION OF THE COMMITTEE

The Committee comprised of the following members,

Board representatives are,

- Mr. Mayank Pravin Parekh
  (Alternate C. H. A. W. Wickramasuriya) - Chairman
  (Non Independent Non Executive Director)
- Mr. Kithsiri Wanigasekara - Managing Director
  (Retired w.e.f 27 September 2017)

Management representatives are,

- Mr. Roshan Nanayakkara - Managing Director/ CEO
  (Appointed as Managing Director w.e.f. 27 September 2017)
- Mr. J. A. P. Fernando - Chief Operating Officer
- Mr. Aruna Somasiri - Head of Recoveries
- Mr. Gemunu Gunawardena - Head of Deposits
- Ms. Ivon Brohier - Chief Financial Officer
- Mr. Bathiya Samaraweera - Head of Marketing
- Mr. Gayan Wickramasinghe - Head of IT
- Mr. Manura Rajakaruna - Manager-IT
- Ms. Mahika Rajakaruna - Acting Compliance Officer

COMMITTEE MEETINGS

The Committee meets on an approximately quarterly basis and the attendance of the Directors at the meetings is given on Page 30 of the Annual Report. The discussions and conclusions reached at the meetings are recorded in minutes and circulated to the Board of Directors for information and advice.

DUTIES AND RESPONSIBILITES OF THE COMMITTEE

The main responsibility of the Committee is to assess risks faced by the company such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk and Strategic Risk. In fulfilling its duties, the Committee covers the following areas,

- Review the quality of the Credit Portfolio including delinquency monitoring and Credit Concentration Management.
- Review the Funding Concentration Risks and the available Contingency Funding Plans.
- Review financial performance and the Capital Adequacy of the Company.
- Review the Asset and Liability Management Policy including the specific risk limits and monitoring the compliance.
- Review progress on operational risk throughout the Company.
- Review of Business Continuity and Disaster Recovery Plan related issues.
- Assess adequacy and effectiveness of Management Committees, namely Credit Committee and Asset and Liability Committee (ALCO)
- Review the Company's Compliance with laws and regulations.
- Propose appropriate measures for corrective action as part of the risk mitigation process.

COMMITTEE EVALUATION

The committee completed the evaluation process with self assessment in 2018 March which deemed to be satisfactory.

On behalf of the Integrated Risk Management Committee,

C. H. A. W. Wickramasuriya
(Alternate to Mayank Parekh)
Chairman - Integrated Risk Management Committee

25 June 2018

RISK MANAGEMENT REPORT

OVERVIEW

Effective risk management is at the core of Abans Finance PLC's value creation model as we accept risk in the normal course of business. Our stability and profitability are determined by how we manage risk. Significant resources are devoted to this critical function to ensure that it is well articulated, communicated and understood by all employees of the Company as it is a shared responsibility.

A disciplined risk management culture and framework facilitates oversight of and accountability for risk at all levels of the company and across all risk types. The Board determines the risk appetite based on current and anticipated exposures and views on the economy in normal and stressed conditions. In effect, the risk appetite is designed to measure the magnitude of market volatility and stress which the company can withstand, while meeting its financial goals and regulatory requirements. This enables the risk function to set, monitor and enforce appropriate risk limits.

RISK GOVERNANCE

We believe that an effective Risk Management begins with effective risk governance. The Company has an established risk governance structure with an active and engaged Board of Directors supported by an experienced management team. The following figure illustrates the risk governance structure of the Company.

The risk management function serves to enable the business risk owners and executive management to carry out their respective responsibilities for the execution of risk framework. The ultimate risk oversight responsibilities remain at the Board level and the Board of Directors, either directly or through Integrated Risk Management Committee (IRMC) ensures that decision-making is aligned with the Company's strategies. The Board receives regular updates on key risks indicators of the Company.

The IRMC plays a catalytic role in formulating and recommending relevant policy framework to the Board in conformity with the Directions issued by the regulator on Risk Management to ensure the safety and financial soundness of the Company. IRMC is entrusted with the responsibility by the Board to have in place a well structured and effective risk policy and framework. The IRMC is supported by the Credit Committee, Asset and Liability Management Committee and an independent Risk & Compliance Management Division.

The Credit Committee is entrusted to implement credit policies approved by the Board while reviewing and making recommendations periodically, that arise in day to day high value credit decisions, managing of portfolio delinquency and establishing strategies to improve the quality of credit disbursements.

The Asset and Liability Committee is engaged in Liquidity Risk Management, Interest Rate Risk Management, Capital Planning, Product Pricing, Settings of appropriate Margins and conducting reviews on shock analysis, stress testing and sensitivity analysis and reporting the identified concerns to IRMC and / or Board.

Independent Risk & Compliance Management Division is entrusted with independent oversight function, assisting in identifying and managing risks, monitoring the status of remedial actions and monitoring the compliance with risk limits and reporting.

Three lines of defence

The Company's three lines of defence model helps to oversee risks and provide an independent assurance.

1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Business Units	Oversight Function	Independent Assurance
Take and manage risk - Primarily responsible for risk management of the Company by managing the risk-reward trade-off within the scope of risk tolerance and policies. The process of assessing, evaluating and measuring risk is ongoing and itergrated into day-to-day activities of the business. This process includes implementing the Company's risk management framework, identifying issues and taking remedial action where required.	**Set risk policy and monitor-** The risk management function is primarily accountable for setting the Company's risk management framework and policy, providing oversight and independent reporting. This function doesn't have the business line responsibilities and provide an independent overview of the effectiveness of risk management by the first line of defence.	**Validate** - Provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures, and reports to the Audit Committee.

CREDIT RISK

Credit Risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Company. Credit Risk arises in the Company's direct lending operations, and investment activities where counterparties have repayment or other obligations to the Company. The Credit Risk Management of lending operations and investment activities are the responsibilities of the Credit Committee and the Asset & Liability Committee, the two key Management Committees. The Board of Directors monitors the performance of these management committees with the assistance of the Integrated Risk Management Committee.

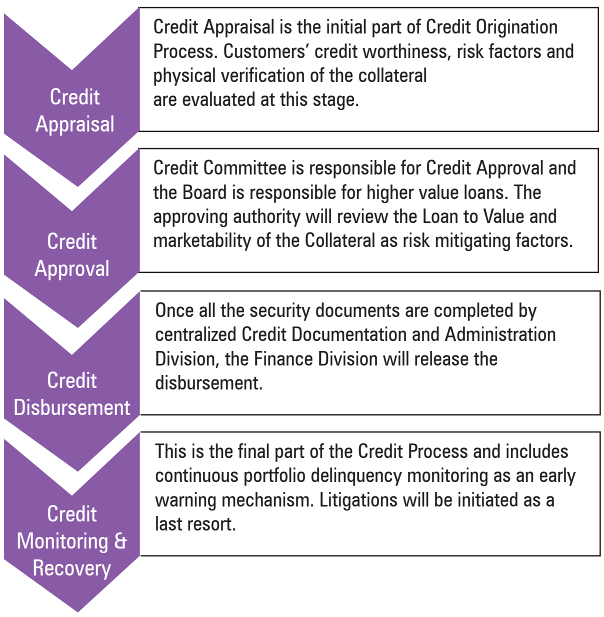
The Board of Directors approves the Company's Credit Risk framework, which provides the overall structure that supports effective governance of the Company's Credit Risk.
The Company's Credit Policy, Credit Risk Appetite and the Credit Risk framework set expectations for the conduct of the Credit Risk Management activities and behaviour throughout the organization. This ensures,

- A consistent and effective execution of Credit Risk Management activities across the Company
- A strong Credit Risk Management culture
- A performance that is in line with strategic objectives
- Compliance with regulatory requirements in relation to lending activities

RISK MANAGEMENT REPORT *[Contd.]*

Credit Process

The Company's credit process ensures that loans are granted within the customers' financial capacity and that delinquent loans are identified at an early stage and managed proactively. Assessing customer's financial capacity is an element of the credit approval process. The Company follows a policy of mitigating Credit Risk by means of collateralization and/or guarantees. The credit control environment verifies that credit facilities granted are in compliance with credit policies and in alignment with the Company's Credit Risk Appetite. The following figure defines the credit process of the Company,

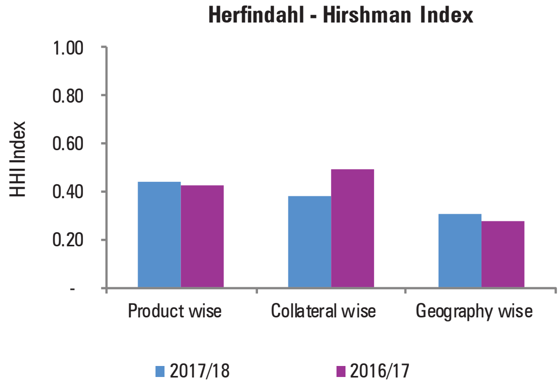


Concentration Risk

The Credit Risk profile is monitored and strengthened in accordance with the Credit Risk Appetite, which encompasses credit quality and Credit Concentration (limits on single borrowers, products, collateral and geographical regions). As a part of the overall risk appetite framework, the Company has implemented a set of frameworks to manage Credit Concentrations. The frameworks cover the following concentrations:

- Single-borrower concentration
- Product concentration
- Collateral concentration
- Geographical concentration

The Herfindahl - Hirschman Index (HHI) is used to measure the Concentration risk (Product, Collateral and Geographical concentrations). A well diversified portfolio has an HHI value close to zero and a high concentrated portfolio may represent a very high HHI value.



Impairment Charges and Non-Performing Loans

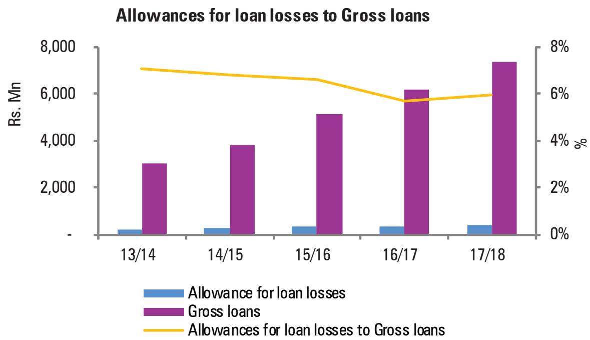
The Company conducts impairment tests collectively as well as individually (for individually significant loans and advances) in accordance with IFRSs. The Company assesses all individually significant credit facilities for objective evidence and impairment is calculated based on a discounted cash flow model. The charge equals the difference between the carrying amount and the present value of the estimated future cash flow from the asset, including the realization value of collateral.

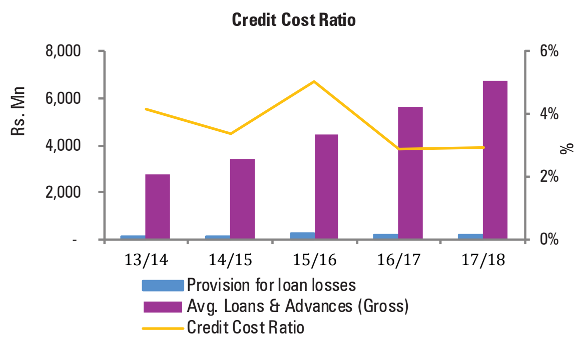
In addition to the individual impairment charges, the Company is required to test the remaining Loan portfolio collectively. This includes,

(a) Loans and Advances which are not individually significant,
(b) Individually significant but no objective evidence of impairment is found, and
(c) Individually significant with objective evidence of impairment and however where the present value of the estimated future cash flow exceeds the carrying amount of the Loan.

Collective impairment charges are calculated by grouping the Loans and Advances with similar credit characteristics.

The allowance for Loan Losses to Gross loan ratio has increased to 5.93% during the financial year compared to 5.68% in the previous year. The credit cost ratio has remained constant at 2.92% as at 31/03/2018.





Stress Testing for Credit Risk

The Company conducts a regular stress test to assess the impact to Capital Adequacy Ratio (Core Capital Ratio) due to increase in impairment charges with identified stress scenarios, in order to ensure that the Company operates with adequate capital. Stress tests were carried out by the company to gauge the potential impact of the following hypothetical stress scenarios,

Increase in Allowance for Loan Losses to Gross loans Ratio

Capital Adequacy Ratio (Core) as at 31.03.2018 - 21.00%

Scenario	Magnitude of the Shock	Shock Adjusted Capital Adequacy Ratio (Core)
1	1%	20.65%
2	2%	19.84%
3	3%	19.01%

Allowance for Loan Losses to Gross Loans Ratio as at 31/03/2018 is 5.93%

Top 20 customers falling into delinquent category

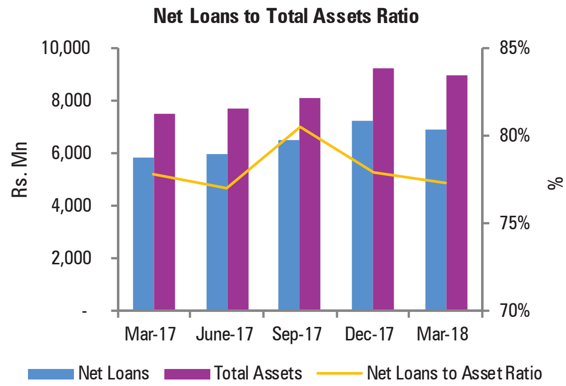
Capital Adequacy Ratio (Core) as at 31.03.2018 - 21.00%

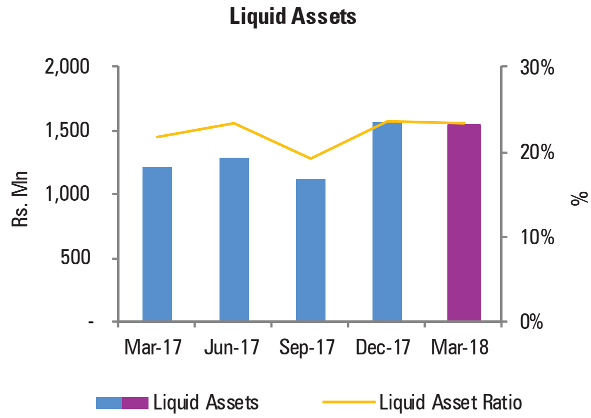
Scenario	Magnitude of the Shock	Shock Adjusted Capital Adequacy Ratio (Core)
1	Top 5	12.60%
2	Top 10	9.64%
3	Top 20	6.24%

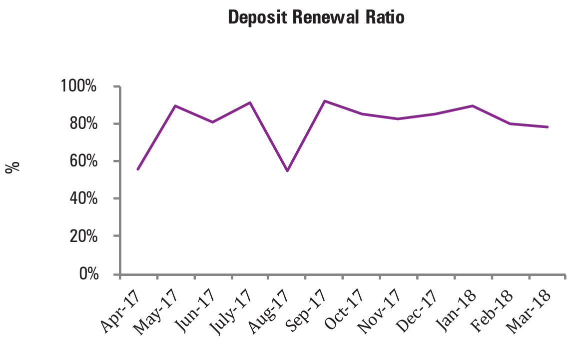
LIQUIDITY RISK

Liquidity risk is the risk that the Company is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due to suppliers, settlement of borrowings and lending and investment commitments. An effective liquidity risk management is crucial to maintain the confidence of depositors and counterparties, manage the funding cost and to enable the core businesses to continue the generation of revenue even under adverse circumstances.

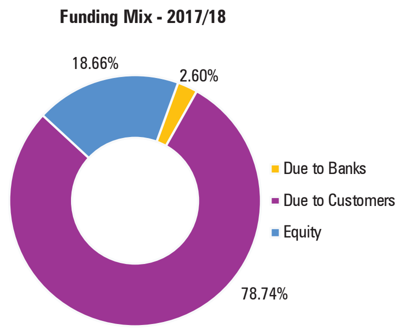
The objective of liquidity risk management is to ensure that sufficient funding is available at all times irrespective of cyclical fluctuations in the market. The company analyzes periodical liquidity requirements with the assistance of the ALCO in order to ensure satisfactory liquidity status at all times. The ALCO uses the Statutory Liquid Asset Ratio, Net Loans to Total Assets Ratio, Deposit Renewal Ratio and Funding Mix to evaluate the liquidity position on a regular basis. ALCO also considers the Funding / Deposits concentration risk on a regular basis. During the year under review, the Company maintained a pool of high liquid, unencumbered assets that can be readily sold or pledged to secure any borrowings.

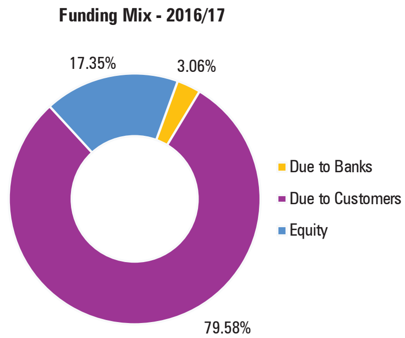






Funding Mix





RISK MANAGEMENT REPORT *[Contd.]*

Contingency Funding Plan

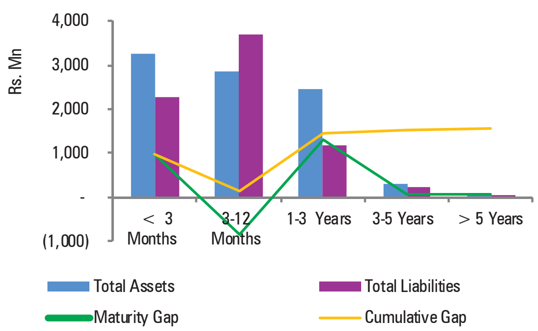
The Company maintains a Contingency Funding Plan (CFP) that specifies the approach for analyzing and responding to actual and potential liquidity requirements. The CFP outlines an appropriate governance structure for the management and monitoring of liquidity events (company specific triggers as well as systemic triggers), processes for effective internal and external communication, Severity Levels and Reponses including identification of potential counter measures to be considered at various stages of an event.

Integrated Risk Management Committee and the Board of Directors continuously review the liquidity position of the Company and contingency funding sources.

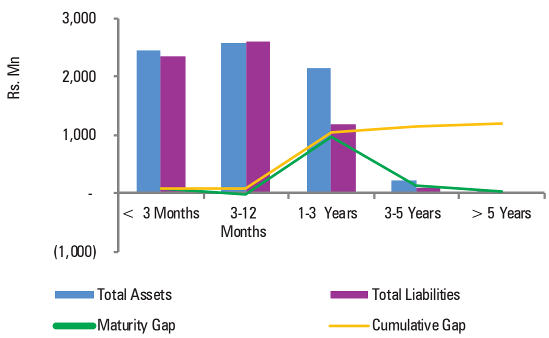
Liquidity Gap

The company assesses on a continuous basis the vulnerability of liquidity and solvency related issues that arise mainly due to mismatches in its assets and liabilities. ALCO monitors the Maturity Gap Statement on a monthly basis to reduce the mis-matches as much as possible in each of the time frames. Maturity Gap represents the ratio of assets to liabilities maturing or having a scheduled amortization in a given time frame. This Gap represents the estimated cash flows of the month end Financial Position.

Maturity Gap as at 31.03.2018



Maturity Gap as at 31.03.2017



Stress Testing for Liquidity Risk

Liquidity stress testing is one of the key tools for measuring liquidity risk and evaluating the Company's short-term liquidity position. We use stress testing to evaluate the impact of sudden and severe stress events on our liquidity position. This helps ALCO to assess and determine the buffers against potential liquidity shocks. Stress testing were carried out by the company to determine the potential impact of the following hypothetical stress scenarios,

Unexpected fall in Deposit Base

Statutory Liquid Asset Ratio (AFPLC) - 23.32%

Scenario	Magnitude of the Shock (Fall in Deposit Base by)	Stress Adjusted Liquid Asset Ratio	Stress Adjusted Liquid Asset Ratio with Contingent Funds
1	5.0%	18.97%	22.14%
2	7.5%	16.77%	20.04%
3	10.0%	14.46%	17.82%

Unexpected fall in the Deposit Renewal Ratio (over next 3 months)

Statutory Liquid Asset Ratio (AFPLC) - 23.32%

Scenario	Magnitude of the Shock (Fall in Renewal Ratio by)	Stress Adjusted Liquid Asset Ratio	Stress Adjusted Liquid Asset Ratio with Contingent Funds %
1	75%	17.99%	21.21%
2	50%	12.26%	15.71%
3	25%	5.66%	9.38%

MARKET RISK

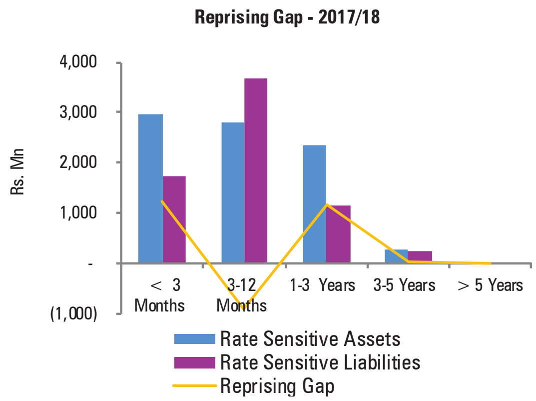
Market risk refers to the risk to an institution resulting from movements in market prices, in particular, changes in interest rates, foreign exchange rates, equity and commodity prices. The company is exposed to Market risk that may arise as a result of values of assets and liabilities or revenues being adversely affected by changes in market conditions. This includes interest rates, equity prices and commodity prices (vehicle / collateral prices).

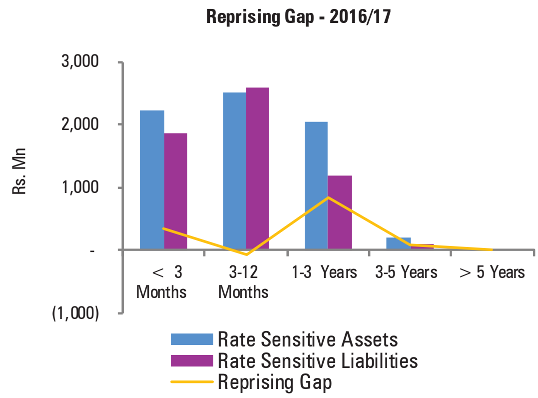
Interest Rate Risk

Interest rate risk management in finance business has assumed such importance during the last decades in relation to the interest rate volatility. Interest rate risk is the risk that changes in market rates which will adversely affect the financial institution's net worth and earnings. The Company's major line of business is the financial intermediation function and the impact of interest rate risk is mainly on interest earnings.

The Asset and Liability Committee (ALCO) monitors and reviews the Company's net interest income that ultimately affects the performance in financial terms. For the purpose of proper mitigation of risks in this area, ALCO takes into account the proper maintenance of the interest spread and net interest margin for the Company, principally through minimizing of gaps between rate sensitive assets and rate sensitive liabilities.

The change in interest rates in the market place from time to time requires the Company to assess its assets and liabilities portfolio with particular attention in re-pricing the both. In order to ensure that the interest spread and net interest margin are maintained, ALCO conducts monthly reviews and re-prices the assets and liabilities, where necessary.





OPERATIONAL RISK

Operational risk is the risk of loss, whether direct or indirect, to which the Company is exposed due to inadequate or failed internal processes or systems, human error, or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches, technology failure, financial crime and environmental risk. It exists in some form in every Company's business and function. Operational risk cannot only result in financial loss, but also regulatory sanctions and damage to the Company's reputation. The Company is very successful in managing operational risk with the view to safeguarding client assets and preserving shareholder value.

The Company has developed policies, processes and assessment methodologies to ensure that operational risk is appropriately identified and managed with effective controls. The governing principles include the three lines of defence model which helps to ensure proper accountability and clearly define the roles and responsibilities for operational risk management. The individual business units are accountable for management and control of the significant operational risks to which they are exposed.

The Company has a governance and organizational structure through which operational risk is managed. As pre-requisite to management of Operational Risk the Company defined the areas of responsibility for key management including segregation of duties between key functions. The system has as its priorities to find out errors/frauds or other aspects on mismanagement, to prevent errors or frauds or other related aspects, monitoring of operational procedures, assisting in resolving issues for the purpose of control, guiding human resources in the execution of businesses and providing a favourable business environment with good governance. Further, an independent Internal Audit Division is responsible for verification of significant risks are identified and assessed, and for testing controls to ensure that overall risk is at an acceptable level. The Internal Audit Division is also responsible for auditing and assessing the Company's operational risk management framework and its design and effectiveness.

STRATEGIC RISK

Strategic risk is the risk that the Company's business strategies are ineffective, being poorly executed, or insufficiently resilient to changes in the business environment. The Board of Directors is ultimately responsible for oversight of strategic risk, by adopting a strategic planning process and approving, on a regular basis. The Key Management Team meets regularly to evaluate the effectiveness of the Company's strategic plan, and consider amendments, if any, are required and recommends to the Board for final approval. The Company's three year strategic plan is in the final stage and it describes the overall business plan for the next three years with clearly defined risk limits.

REPUTATIONAL RISK

Reputational risk is the risk of negative publicity about the Company's conduct, business practices, whether true or not, will adversely affect its revenue, operations or customer base, or require costly litigation or other defensive measures. Negative publicity about Company's practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Reputational risk is managed and controlled throughout the Company by codes of conduct, governance practices and risk management programs, policies, procedures and training. All Directors, Officers and employees have a responsibility to conduct their activities in accordance with the guidelines for business conduct, and in a manner that minimizes reputational risk.

REPORT OF THE BOARD OF DIRECTORS

GENERAL

The Directors of Abans Finance PLC are pleased to present to the shareholders the report of the Directors together with the Audited Financial Statements for the year ended 31 March 2018 and the Independent Auditor's Report on those Financial Statements in conformity with the requirements of the Companies Act No. 7 of 2007 and the Finance Business Act No. 42 of 2011 and the directions issued there under.

The Company was incorporated as a Public Company in terms of the Companies Act No. 17 of 1982 and was subsequently re-registered as per the requirements of the Companies Act No. 7 of 2007 on 15 June 2009. The Company registration No. is PB-1015-PQ. The Ordinary Shares of the Company are listed on the Colombo Stock Exchange. The Registered Office is at No. 498, Galle Road, Colombo 03 and the Head Office/ principal place of business is located at No. 456, R. A. De Mel Mawatha, Colombo 03.

PRINCIPAL ACTIVITIES

The principal business activity of the Company is the conduct of finance business as defined in the Finance Business Act No. 42 of 2011 and includes the acceptance of Deposits, granting Finance Leasing, Hire Purchase, Mortgage Loans, Personal Loans & Real Estate and Capital Market Operations.

REVIEW OF PERFORMANCE FOR 2017/2018

The Chairman's Message, Chief Executive Officer's Review along with the Management Discussion and Analysis highlight the financial performance, financial position and the state of affairs of the Company during the year under review.

FINANCIAL STATEMENTS

The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs). The Financial Statements are duly certified by the Chief Financial Officer, recommended by the Audit Committee for the approval by the Board of Directors and approved by the Board of Directors and signed on behalf of the Board by the Chairman and Managing Director in accordance with the Companies Act No. 7 of 2007.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Statement of the Directors' Responsibilities for Financial Statements is given on page 64.

INDEPENDENT AUDITOR'S REPORT

The Company's External Auditors M/s. Ernst & Young performed the audit of the Financial Statements for the year ended 31 March 2018 and their report as required by Section 168 (1)(c) of the Companies Act is provided together with the Audited Financial Statements.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The significant accounting policies adopted in the preparation of the Financial Statements are given in the Audited Financial

GOING CONCERN

The Board of Directors has reasonable expectation that the Company has adequate resources to continue the business activities in the foreseeable future. Therefore, the Company has adopted a "Going Concern" basis in preparing its Financial Statements.

ACCOUNTING PERIOD

The financial reporting period reflects the information from 01 April 2017 to 31 March 2018.

FINANCIAL PERFORMANCE

The Company's Profit before Taxation amounted to Rs. 132,949,426/- (after deducting Value Added Tax on Financial Services of Rs. 58,654,511/-) in comparison to Rs. 197,406,328/ - in 2016/17. After deducting Rs.38,085,738/- (Rs. 63,842,188/- in 2016/17) for Taxation, the Profit after Tax for the year amounted to Rs. 94,863,688 /-(Rs.133, 564,140/-in2016/17).This represents net profit dropped by 32% compared to the previous financial year. Details are given in the Statement of Comprehensive Income on page 71 of the Financial Statements.

PROFIT APPROPRIATIONS

A summary of the financial results of the Company for the years ended 31 March 2017 and 31 March 2018 are given below;

Description	**2017/18 (Rs)**	**2016/17 (Rs)**
Profit before Taxation from Operations	132,949,426	197,406,328
Provision for Income Tax	(38,085,738)	(63,842,188)
Profit for the Year	94,863,688	133,564,140
Transfer to Statutory Reserve Fund	(18,972,738)	(26,712,829)
Retained Profit Brought Forward From the Previous Year	276,925,848	169,597,476
Direct Cost on Right Issue	(631,142)	(785,447)
Direct Cost on Private Placement	-	(1,279,995)
Dividend Paid	(13,312,315)	-
Other Comprehensive Income Net of Tax	(897,936)	2,542,503
Retained Earnings Carried Forward	**337,975,406**	**276,925,848**

TOTAL OPERATING INCOME

The Total Operating Income of the Company for 2017/18 was Rs. 960,525,877/- compared to Rs. 912,119,367/- in 2016/17. An analysis of the Income is given on page 71 of the Financial Statements.

EQUITY AND RESERVES

The stated capital and reserves were Rs.1,567,627,928/- as at 31 March 2018 (Rs.1,210,265,757/- as at 31 March 2017). The Equity and Reserves of the Company as at the end of each of the following years were follows;

Description	2017/18 (Rs)	2016/17 (Rs)
Stated Capital *	1,121,412,955	844,073,080
Statutory Reserve	108,239,567	89,266,829
Retained Earnings	337,975,406	276,925,848
Total Shareholders' Funds	**1,567,627,928**	**1,210,265,757**

* The movement in the Stated Capital during the Financial Year under review is as follows;

Description	Stated Capital (Rs)
As at the beginning of the year (01 April 2017)	844,073,080
Rights Issue of Shares (Listed in May 2017)	277,339,875
As at the end of the Year (31 March 2018)	**1,121,412,955**

ISSUE OF ORDINARY SHARES DURING THE FINANCIAL YEAR

(a) Issue of Shares by way of Rights Issue

The Company issued 11,093,595 ordinary shares by way of a Rights Issue in the proportion of One (01) Ordinary Share for every Five (05) Ordinary Shares held in the capital of the Company at a consideration of Rupees Twenty Five (Rs.25/-) per share amounting to a total consideration of Rupees Two Hundred and Seventy Seven Million Three Hundred and Thirty Nine Thousand Eight Hundred and Seventy Five (Rs. 277,339,875/-). The Ordinary Resolution pertaining to the above issue was approved by the shareholders at an Extraordinary General Meeting held on 05 April 2017 and the allotment for cash considerations was completed on 09 May 2017 (listed on 23 May 2017). The status of the utilization of the proceeds as at 31 March 2018 is as follows,

Continuous Disclosure regarding status of utilization of funds raised via Rights Issue (Listed on May 2017)
Rights Issue proceeds utilization as at 31 March 2018

Objective as per Circular	Amount allocated as per Circular in Rs.	Proposed date of utilization as per Circular	Amount allocated from proceeds in Rs.	Percentage of total proceeds	Amount utilized Rs. (B)	Percentage Utilized against allocation (B/A)	Clarification if funds are not fully utilized including where the funds are invested
To expand the lending activities of the Company	275,839,875	1st & 2nd Quarter 2017/18	276,708,733	99.77%	276,708,733	100%	-
Expences relating to the rights issue	1,500,000	1st Quarter 2017/18	631,142	0.23%	631,142	100%	-
	277,339,875	**-**	**277,339,875**	**100%**	**277,339,875**	**-**	**-**

(b) Issue of Shares by way of Private Placement

The Special Resolution pertaining to the issue of 11,067,978 Ordinary Shares by way of a Private Placement to Ironwood Investment Holding (Private) Limited at a consideration of Rupees Twenty Five (Rs.25/-) per share amounting to a total consideration of Rupees Two Hundred and Seventy Six Million Six Hundred and Ninety Nine Thousand and Four Hundred and Fifty (Rs. 276,699,450/-), was approved by the shareholders at an Extraordinary General Meeting held on 30 September 2016 and the allotment of shares to Ironwood Investment Holding (Private) Limited for cash consideration was completed during the financial year under review. The status of the utilisation of the proceeds as at 31 March 2017 is as follows,

Objective as per Circular	Amount allocated as per Circular in Rs.	Proposed date of utilization as per Circular	Amount allocated from proceeds in Rs.	Percentage of total proceeds	Amount utilized Rs. (B)	Percentage Utilized against allocation (B/A)	Clarification if funds are not fully utilized including where the funds are invested
To expand the lending activities of the Company	246,669,450	3rd Quarter 2016/17	246,699,450	89%	246,699,450	100%	-
Invest in IT Systems (Hardware & Software)	30,000,000	3rd Quarter 2016/17	30,000,000	11%	23,553,284	79%	Remaining funds are invested in Placements with Banks
	276,699,450		**276,699,450**	**100%**	**270,252,734**		

PROPERTY, PLANT AND EQUIPMENT

Capital Expenditure incurred on Property, Plant and Equipment amounted to Rs. 27,690,516/- in 2017/18 (Rs. 26,179,254/- in 2016/17). Details applicable to Capital Expenditure are given in Note 27 to the Financial Statements.

BOARD OF DIRECTORS

In terms of the Articles of Association of the Company, the Board of Directors, as at 31 March 2018 consisted of five Directors including the Chairman and the Managing Director. The list of Directors who held office as at the end of the financial year is as follows.

Name of the Director	Independent/ Non-Independent	Executive/ Non-Executive
Mr. R. Pestonjee	Non-Independent	Non-Executive
Mr. V.K. Choksy	Independent	Non-Executive
Mr. Mayank Parekh (Alternate Director - Mr. C. H. A. W. Wickramasuriya)	Non-Independent	Non-Executive
Mr. Ajith S. Ratnayake	Independent	Non-Executive
Mr. K. B. Wanigasekara (Retired w.e.f.27/09/2017)	Non-Independent	Executive
Mr. R. A. Nanayakkara (Appointed w.e.f.27/09/2017)	Non-Independent	Executive

RE – ELECTION OF DIRECTORS

All Directors nominated for re-election have submitted declarations and affidavits in terms of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No.3 of 2011 issued by the Central Bank of Sri Lanka.

In terms of section A.8 of the Code of Best Practice on Corporate Governance 2013, Mr. Rusi Pestonjee will retire at the Annual General Meeting and being eligible offer himself for re-election with the unanimous support of the other Directors.

RESIGNATION AND APPOINTMENT OF DIRECTORS

Mr. Kithsiri Wanigasekara relinquished office as the Managing Director of the Company and resigned from the Board at the Annual General Meeting held on 27 September 2017. The resolution pertaining to the appointment of Mr. Roshan Nanayakkara was approved by the Shareholders at the same Annual General Meeting. Accordingly, Mr. Roshan Nanayakkara has assumed duties as the Managing Director / Chief Executive Officer with effect from 27 September 2017.

MEETINGS OF THE BOARD OF DIRECTORS AND BOARD SUB COMMITTEES

Details of Directors' meetings and Board Sub Committee meetings are given in the Corporate Governance Report.

BOARD SUB COMMITTEES

There are Five permanent committees of the Board, namely, Audit Committee, Related Party Transactions Review Committee, Integrated Risk Management Committee, Remuneration Committee and Nomination Committee. The details of the members are as follows;

AUDIT COMMITTEE

All members of the Audit Committee are Independent Non Executive Directors. The Managing Director/Chief Executive Officer, Chief Operating Officer, Senior Management, Internal and External Auditors attend the meeting by invitation as and when required.

- Mr. Ajith S. Ratnayake – Chairman (Independent Non-Executive Director)
- Mr. V. K. Choksy – (Independent Non-Executive Director, Senior Director)

REMUNERATION COMMITTEE

- Mr. V.K. Choksy –Chairman (Independent Non-Executive Director, Senior Director)
- Mr. Ajith S. Ratnayake (Independent Non-Executive Director)
- Mr. Mayank Parekh (or his alternate Mr. Chanaka Wickramasuriya) (Non Independent Non Executive Director)

NOMINATION COMMITTEE

- Mr. R. Pestonjee – Chairman (Non Independent Non Executive Director)
- Mr. V.K.Choksy (Independent Non-Executive Director, Senior Director)

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

- Mr. Ajith S. Ratnayake –Chairman (Independent Non-Executive Director)
- Mr.Mayank Parekh (Alternate Mr. Chanaka Wickramasuriya) (Non Independent Non Executive Director)*
- Mr.Kithsiri Wanigasekara (Managing Director), Resigned w.e.f 27/09/2017
- Mr. R. A.Nanayakkara (Managing Director/ Chief Executive Officer), Appointed w.e.f. 27/09/2017

INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

- Mr. Mayank Parekh (or his alternate Mr. Chanaka Wickramasuriya) – Chairman (Non Independent Non Executive Director)
- Mr. K.B. Wanigasekara – Managing Director/ Chief Executive Officer (Resigned w.e.f 27/09/2017)
- Mr. R.A. Nanayakkara – Managing Director (Appointed w.e.f. 27/09/2017)
- Mr. Anura Fernando – Chief Operating Officer
- Ms. Ivon Brohier – Chief Financial Officer
- Mr. Bathiya Samaraweera - Head of Marketing
- Mr. Gemunu Gunawardena – Head of Deposits
- Mr. Aruna Somasiri – Head of Recoveries
- Mr. G.T. Wickramasinghe - Head of Information Technology
- Ms. Mahika Rajakaruna – Acting Compliance Officer
- Mr. Manura Rajakaruna – Manager IT

DISCLOSURE OF DIRECTORS INTERESTS IN SHARES

Directors	As at 31 March 2018	As at 31 March 2017
Mr. R. Pestonjee	220,660*	183,884*
Mr. K. B. Wanigasekara**	Nil	Nil
Mr. R.A. Nanayakkara***	Nil	Nil
Mr. V. K. Choksy	Nil	Nil
Mr. Ajith S. Ratnayake	Nil	Nil
Mr. Mayank Parekh	Nil	Nil

* This includes 28,800 (as at 31/03/2018) and 24,000 (as at 31/03/2017) shares held jointly

** Relinquished office as the Managing Director of the company and resigned from the board w.e.f. 27/09/2017

*** Appointed as a Director (Managing Director) w.e.f. 27/09/2017

DIRECTORS' INTERESTS IN CONTRACTS AND RELATED PARTY TRANSACTIONS

The Directors' interests in contracts, if any, that could be classified as related party transactions in terms of the Sri Lanka Accounting Standard LKAS 24, are disclosed in Note 46 to the Audited Financial Statements.

Recurrent Related Party Transactions which exceed 10% of the gross revenue require disclosure as per Rule 9.3.2 of the Listing Rules of the Colombo Stock Exchange. As required, we tabulate below the relevant transactions:

Recurrent Transactions with Abans Auto (Private) Limited

Name of the Related Party	Abans Auto (Pvt.) Ltd.
Relationship	Affiliate Company
Nature of Transaction	Purchase of Motorcycles for Finance Leases
Aggregate value of Related Party Transactions entered into during the financial year	Rs. 2,187,268,840/-
Aggregate value of Related Party Transactions as a % of Net Revenue/ Income	114%
Terms and Conditions of the Related Party Transactions	Usual Terms available to the general public

RELATED PARTY TRANSACTIONS

Transactions of related parties with the Company (as defined in LKAS 24 Related Party Disclosures) are set out in Note 45 to the Financial Statements.

The Board of Directors confirm that it has taken all measures necessary to ensure compliance with section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the year ended 31 March 2018

STATUTORY PAYMENTS

The Directors to the best of their knowledge and belief are satisfied that all material statutory payments due to the Government, other Regulatory Institutions and related to the employees have been made. The Board of Directors has assessed the status pertaining to statutory payments at the Board meetings for which regular Board Papers have been submitted by the Key Management Personnel.

APPOINTMENT OF AUDITORS

The Company's Auditors during the year under review were M/s. Ernst & Young, Chartered Accountants. The retiring auditors M/s. Ernst & Young have expressed their willingness to continue in office and a resolution to re-appoint them as Auditors and authorizing the Directors to fix their remuneration will be proposed at the Annual General Meeting. The Audit Committee has recommended the re-appointment of the Auditors.

SYSTEM OF INTERNAL CONTROL

The Board of Directors ensures that an effective and robust internal controls procedure is in place to safeguard the Company's Assets. The Board appointed Audit Committee reviews the adequacy and the integrity of the internal control systems relating to compliance and risk management.

Further, the Board has issued a Statement on the Internal Controls for Financial Reporting and an Assurance Report from External Auditors in terms of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 has also been obtained.

CORPORATE GOVERNANCE

The Board of Directors places heavy emphasis in maintaining an effective Corporate Governance frame work within the Company. The report on Corporate Governance covers the extent of compliance in Corporate Governance.

OUTSTANDING LITIGATION

The Directors are of the opinion that pending litigation against the Company will not have any material impact on the financial position of the Company.

EVENTS OCCURRING AFTER THE REPORTING PERIOD

No circumstances have arisen after the reporting period which require adjustments to or disclosures in the Financial Statements

NOTICE OF THE ANNUAL GENERAL MEETING

The Twelfth Annual General Meeting of the Company will be held at the Organization of Professional Associations of Sri Lanka, No. 275 /75, Professor Stanley Wijesundara Mawatha, Colombo 7 on Friday, 21 September 2018 at 9.30 am.

For and on behalf of the Board of Directors,

Varners International (Pvt.) Ltd.
Corporate Secretaries
Level 14, West Tower, World Trade Centre,
Echelon Square, Colombo 1
25 June 2018

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibilities of the Directors of Abans Finance PLC in relation to the preparation of Financial Statements as at 31 March 2018 are set out in this Statement.

The Financial Statements comprise the Statement of Financial Position as at the end of the period, the Statement of Comprehensive Income for the period, the Statement of Changes in Equity for the period and the Statement of Cash Flows for the period and Notes comprising a Summary of Significant Accounting Policies and other Explanatory Information.

The Directors are responsible to oversee the preparation of Financial Statements with a view to ensure that the Financial Statements comply with the provisions of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, and provide additional disclosures as required by the Companies Act No. 7 of 2007, the continuing listing requirements of the Colombo Stock Exchange and the Corporate Governance Code for Licensed Finance Companies issued by the Central Bank of Sri Lanka (CBSL)

The Directors are responsible for overseeing the preparation of Financial Statements with a view to ensure that the Company prepares Financial Statements which present fairly the financial position, financial performance and cash flows of the entity. The application of Sri Lanka Accounting Standards (SLFRSs & LKASs), with additional disclosure when necessary, is presumed to result in Financial Statements that achieve a fair presentation.

The Directors are required to oversee the preparation of Financial Statements with a view to ensure that all applicable Accounting Standards are followed as relevant in preparing the Financial Statements. This includes;

- Appropriate selection and application of accounting policies; and
- Judgments and estimates being made on an appropriate basis.

The Directors are responsible for overseeing the keeping of books of accounts with a view to ensure that proper accounting records which appropriately record and explain the Company's transactions are maintained.

SLFRSs require that the Company prepare Financial Statements on a going concern basis unless the management either intents to liquidate the entity or cease trading, or has no realistic alternative but to do so. The Directors have made an assessment and have concluded that the going concern basis is appropriate.

The Directors have overseen the maintenance of a system of internal control. The system of internal control comprise internal checks, internal audits and the whole system of financial and other controls required to carry on its business in an orderly manner, safeguard assets, prevent and detect fraud and other irregularities and secure as far as practicable accuracy and reliability of records. The details relating to the system of internal control are provided in the Statement of Internal Control, Report of the Integrated Risk Management Committee, Report of the Audit Committee and the Report of the Directors. The Directors obtained an Assurance Report from the External Auditors on the Statement of Internal Control.

The Board of Directors accepts responsibility for having monitored the process of preparation and presentation of the financial statements of the Company with a view to ensure integrity and objectivity of the Financial Statements presented in this Annual Report.

The Financial Statements of the Company have been certified by the Chief Financial Officer of the Company, the officer responsible for their preparation as required by the section 151 (2) (b) and they have also been signed by two Directors of the Company as required by the section 151 (1) (c) of the Companies Act.

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments which were due and payable by the Company as at the date of the Statement of Financial Position have been paid or, where relevant, provided for.

The External Auditors, M/s Ernst & Young, Chartered Accountants were given access to all accounting records and other documents of the Company to carry out the audit as they considered appropriate to form their opinion on the Financial Statements.

Section 189 of the Companies Act No. 7 of 2007 states that a person exercising powers or performing duties as a Director of a company-

- Shall not act in a manner which is reckless or grossly negligent; and
- Shall exercise the degree of skill and care that may reasonably be expected of a person of his knowledge and experience.

Section 190 (1) of the said Act states:

Subject to the provisions of subsection (2), a Director of a company may rely on reports, statements, and financial data and other information prepared or supplied, and on professional or expert advice given by any of the following persons:

- an employee of the company;
- a professional adviser or expert in relation to matters which the Director believes to be within the person's professional or expert competence; Any other Director or committee of directors in which the director did not serve, in relation to matters within the Director's or Committee's designated authority.

Sub section (2) of that section states that provisions of subsection (1) shall apply to a Director, if, and only if, the Director:

- Acts in good faith;
- Makes proper inquiry where the need for Inquiry is indicated by the circumstances; and
- Has no knowledge that such reliance is unwarranted.

The Directors of the Company are of the view that they have discharged their responsibilities accordingly, and as set out in this Statement.

By order of the board,

Varners International (Pvt.) Ltd.
Corporate Secretaries,
Level 14, West Tower, World Trade Centre,
Echelon Square, Colombo 01.

25 June 2018

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors ("Board") of Abans Finance PLC presents this report on Internal Control over Financial Reporting, in compliance with Section 10(2) (b) of Finance Companies Corporate Governance Direction No. 03 of 2008.

The Board of Directors ("Board") is responsible for ensuring the adequacy and effectiveness of the internal control mechanism in place at Abans Finance PLC. ("Company")

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board. The Board is of the view that the system of Internal Control over Financial Reporting in place, is sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purpose is in accordance with relevant accounting principles and regulatory requirements.

Board's policies and procedures pertaining to internal control over financial reporting, have been documented. The implementation of such policies and procedures is carried out with the assistance of the management. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis.

KEY INTERNAL CONTROL PROCESSES

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- Establishment of various Committees of Board to assist the Board with a view of ensuring the effectiveness of the Company's daily operations and such operations conform to Company's corporate objectives, strategies and the annual budget as well as policies and business directions approved by the Board.
- The Internal Audit Division of the Company checks for compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. All Departments and Branches are subjected to audits, the frequency of which is determined by the level of risk assessed by the internal audit, to provide an independent and objective report on operational and management activities of these departments and branches. The Internal Audit Department submits the Annual Audit Plan for review and approval of the Audit Committee and the findings of the audits are submitted to the Board Audit Committee for review at their periodic meetings.
- The Board Audit Committee of the Company reviews internal control issues identified by the Internal Audit Department, the External Auditors, Regulatory Authorities and the Management; and evaluates the adequacy and effectiveness of the risk management and internal control systems. It also reviews the internal audit function with particular emphasis on the scope of audits and quality of the same. Further details of the activities undertaken by the Board Audit Committee of the Company are set out in the Board Audit Committee Report.
- In order to assess the internal control systems, all procedures and controls which are connected with significant accounts and disclosures of the Financial Statements of the Company are being continuously reviewed and updated by identified officers of the Company. The Internal Audit Department verifies the suitability of design and effectiveness of such procedures and controls, on an ongoing basis.

The comments made by External Auditors in connection with internal control system over financial reporting in previous years were reviewed during the year and appropriate steps have been taken to rectify them. Company will be adopting the new Sri Lanka Financial Reporting Standards, which will be effective from the year 2018. Processes applied to adopt the said accounting standards were identified during the year 2017 /2018 based on the feedback received from the external auditors, internal audit department, regulators and the Board Audit Committee and are in place in order to comply with recognition, classification, measurement and disclosure requirements of the new accounting standards. Continuous monitoring is in progress and steps are being taken to make improvements to the Processes where required, to enhance effectiveness and efficiency.

The Board has taken into consideration the requirements of the Sri Lanka Accounting Standard SLFRS - 9 (Financial Instruments) which is effective from 1st January 2018 by replacing the Sri Lanka Accounting Standard – LKAS 39 (Financial Instruments: Recognition and Measurement). This will have a significant impact on the calculation of impairment on financial instruments as it uses forward looking 'expected credit loss model' compared to the previously applied 'incurred credit loss model' under LKAS 39. The Company has obtained the services of an External Consultant for SLFRS 9 implementation. The Board will continuously strengthen the processes required for validation and compliance with SLFRS 9 with the support of the External Consultant.

CONFIRMATION

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

EXTERNAL AUDITORS ASSURANCE REPORT

The external auditor, Messrs Ernst & Young, have reviewed the above Directors' Statement on Internal Control for the year ended 31 March 2018 and reported to the Board that nothing has come to their attention that causes them to believe that the statement 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.

By order of the Board,

Chairman

Director

Chairman- Audit Committee
25 June 2018

MANAGING DIRECTOR'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Financial Statements of Abans Finance PLC as at 31 March 2018, are prepared and presented in conformity with the requirements of the following:

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka
- Companies Act No. 7 of 2007
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Finance Business Act No. 42 of 2011 and amendments thereto and Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka and effective for the financial year ended 31 March 2018
- Listing rules of the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Formats used in the preparation of Financial Statements and disclosures made comply with the specified formats prescribed by the Central Bank of Sri Lanka.

The Significant Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Company. There are no material departures from the prescribed accounting standards in there adoption. Comparative information has been amended wherever necessary to comply with the current presentation and material departures, if any, has been disclosed and explained.

Significant Accounting Policies and Estimates that involved a high degree of judgment and complexity were discussed with External Auditors and the Audit Committee. The Board of Directors and the management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. These estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect a true and fair manner, the form and substance of transactions and that the Company's state of affairs is reasonably presented. To ensure this, the Company has taken proper and sufficient care in installing a system of internal controls and accounting records, for safe guarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Audit Division has conducted periodic audits to provide a reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements of the Company were audited by M/s. Ernst & Young Chartered Accountants, the Independent External Auditors and their report is given on pages 67 to 70 to the Annual Report.

The Audit Committee of the Company met periodically with the Internal Audit team and the independent External Auditor to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. Audit Committee also reviewed the quality of Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the Board Audit Committee report on page 49 of this Annual Report. To ensure complete independence, the External Auditors and the Internal Auditor have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Audit Committee approves the Audit and Non Audit Services provided by External Auditors, M/s Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors.

We confirm to the best of our knowledge;

- The Company has complied with all applicable laws, regulations and prudential requirements and there is no material non – compliance
- There are no material litigations that are pending against the Company
- All taxes, duties, levies and all statutory payments of the Company and all contributions, levies and taxes paid on behalf of and in respect of the employees of the Company as at the Statement of Financial Position date have been paid off and where relevant provided for.

Ivon Brohier
Chief Financial Officer

Roshan Nanayakkara
Managing Director/Chief Executive Officer

25 June 2018

EY
Building a better working world

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABANS FINANCE PLC

Report on the audit of the financial statements

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

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Key Audit Matter	How our audit addressed the key audit matter
Allowance for impairment of loans & leases As at 31 March 2018, loans & advances and receivables from lease & hire purchase (net of impairment) amounted to Rs. 2.43Bn and Rs. 4.49Bn respectively. These collectively contributed 77 % to the Company's total assets. The allowance for impairment (both specific and collective) of these financial assets is estimated by management. The estimation involves a complex calculation. Assumptions used by management in this calculation are inherently judgmental. Note 9.3 to the financial statements more fully describes the sensitivity of key assumptions. We considered the estimation of allowance for impairment as a Key Audit Matter due to sensitivity of reported results (on financial performance) to this allowance and the inherent uncertainty involved in its estimation.	To assess the reasonableness of the allowance for impairment, our audit procedures (among others) included the following: - We understood & evaluated the key internal controls over estimation of the allowance for impairment including those over identifying occurrence of loss events; - We test - checked the underlying calculations and data used in such calculations on a sample basis; - In addition to the above, focused procedures were performed as follows: • Specific allowance for impairment: For a sample of non – performing loans & leases, management's forecasts of cash flows were test – checked to historical patterns of customer repayment. Among other procedures, forecast cash flows arising from collateral (or other source (s) of expected recovery) were verified to source documents; • Collective allowance for impairment: For loss rates used by management, we assessed the appropriateness of the loss emergence period including consistency with historical loss experience. - We assessed the adequacy of the related financial statement disclosures as set out in note(s) 19 and 20

Other information included in the 2018 Annual Report

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

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

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

Responsibilities of management and those charged with governance for the Financial Statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

1. 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.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. 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.

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

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

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

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1864.

Ernst & Young

25 June 2018
Colombo

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2018	Notes	2018 Rs.	2017 Rs.
Income	5	1,917,670,594	1,620,506,380
Interest Income	5.1	1,711,585,707	1,494,673,696
Interest Expenses	5.2	(813,594,238)	(623,639,761)
Net Interest Income		897,991,469	871,033,935
Fee and Commission Income	6.1	185,717,691	104,114,176
Fee and Commission Expenses	6.2	(143,550,479)	(84,747,252)
Net Fee and Commission Income		42,167,212	19,366,924
Net Gain/(loss) from Trading	7	1,676,964	948,394
Other Operating Income (net)	8	18,690,232	20,770,114
Total Operating Income		960,525,877	912,119,367
Impairment (Charges) / Reversal for loans and other losses			
Individual	9.1	(19,689,954)	(21,441,585)
Collective	9.2	(203,412,165)	(167,927,808)
Net Operating Income		737,423,758	722,749,974
Operating Expenses			
Personnel Costs	10	(256,394,681)	(217,088,659)
Depreciation & Amortization	11	(23,644,486)	(18,660,549)
Other Operating Expenses	12	(265,780,655)	(234,275,675)
Operating Profit before Value Added Tax on Financial Services		191,603,937	252,725,091
VAT & NBT on Financial Services		(58,654,511)	(55,318,763)
Profit before Taxation from Operations		132,949,426	197,406,328
Provision for Income Taxation	13.1	(38,085,738)	(63,842,188)
Profit for the Year		**94,863,688**	**133,564,140**
Other Comprehensive Income (OCI)			
Items that will not be reclassified to profit or loss			
Actuarial Gains/(Losses) on Defined Benefit Plan	33.1	(1,247,133)	3,531,254
Deferred Tax effect of above	13.1	349,197	(988,751)
		(897,936)	2,542,503
Other Comprehensive Loss for the Year, Net of Tax		(897,936)	2,542,503
Total Comprehensive Income for the Year		**93,965,752**	**136,106,643**
Earnings Per Share : Basic / Diluted (Rs.)	14	1.44	2.36

Accounting Policies and Notes from pages 75 to 126 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION
As at 31March 2018

Assets	Notes	2018 Rs.	2017 Rs.
Cash and Bank Balances	15	405,474,541	376,968,804
Placement With Banks	16	550,601,090	384,100,772
Repurchase Agreements	17	362,248,075	250,809,890
Financial Investments - Held for Trading	18	-	7,624,408
Loans and Advances	19	2,435,821,344	2,145,676,031
Lease rentals receivable & Stock out on hire	20	4,492,296,195	3,679,965,646
Financial Investments - Available for Sale	21	80,400	80,400
Financial Investments - Held to Maturity	22	239,630,135	238,572,963
Other Financial Assets	23	155,935,006	108,507,477
Real Estate Stock	24	58,049,675	66,050,693
Other Non Financial Assets	25	74,538,359	40,725,064
Tax Recoverable		19,422,858	20,800,270
Property, Plant & Equipment	27	89,641,860	85,843,673
Intangible Assets	26	21,098,350	22,681,042
Deferred Tax Assets	28	52,586,166	57,800,324
Total Assets		**8,957,424,054**	**7,486,207,457**
Liabilities			
Due to Banks	29	218,381,026	213,738,920
Due to Customers	30	6,615,159,367	5,550,552,545
Other Financial Liabilities	31	525,278,976	482,649,541
Other Non Financial Liabilities	32	12,064,037	13,862,374
Retirement Benefit Liability	33	18,912,720	15,138,320
Total Liabilities		7,389,796,126	6,275,941,700
Shareholders' Funds			
Stated Capital	34	1,121,412,955	844,073,080
Statutory Reserve Fund	35.2	108,239,567	89,266,829
Retained Earnings	35.1	337,975,406	276,925,848
Total Shareholders' Funds		1,567,627,928	1,210,265,757
Total Liabilities and Shareholders' Funds		**8,957,424,054**	**7,486,207,457**
Commitments and Contingencies	40	**144,325,714**	**172,609,297**

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Ivon Brohier
Chief Financial Officer

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

R. A. Nanayakkara
Director

V. K. Choksy
Director

Accounting Policies and Notes from pages 75 to 126 form an integral part of these Financial Statements.

25 June 2018 | Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31March 2018

	Stated Capital	Statutory Reserve	Reserve on Available for Sale Financial Instruments	Retained Earnings	Total
	Rs. (Note 34)	Rs. (Note 35.2)	Rs.	Rs. (Note 35.1)	Rs.
Balance as at 1 April 2016	382,373,630	62,554,000	-	169,597,476	614,525,106
Issue of Shares	461,699,450	-	-	-	461,699,450
Direct Cost on Right Issue	-	-	-	(785,447)	(785,447)
Direct Cost on Private Placement	-	-	-	(1,279,995)	(1,279,995)
Net profit for the year	-	-	-	133,564,140	133,564,140
Other Comprehensive Income net of tax	-	-	-	2,542,503	2,542,503
Transfer to Statutory Reserve	-	26,712,829	-	(26,712,829)	-
Balance as at 31 March 2017	844,073,080	89,266,829	-	276,925,848	1,210,265,757
Issue of Shares	277,339,875	-	-	-	277,339,875
Direct Cost on Right Issue	-	-	-	(631,142)	(631,142)
Dividend Paid	-	-	-	(13,312,315)	(13,312,315)
Net profit for the year	-	-	-	94,863,688	94,863,688
Other Comprehensive Income net of tax	-	-	-	(897,936)	(897,936)
Transfer to Statutory Reserve	-	18,972,738	-	(18,972,738)	-
Balances as at 31 March 2018	1,121,412,955	108,239,567	-	337,975,406	1,567,627,928

Accounting Policies and Notes from pages 75 to 126 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS
Year ended 31 March 2018

Cash Flows From / (Used in) Operating Activities	Notes	2018 Rs.	2017 Rs.
Profit before Income Tax Expense		132,949,426	197,406,328
Adjustments for			
Depreciation	27.2	20,670,196	16,146,846
Amortization of Intangible Assets	26	2,974,290	2,513,703
Impairment Provision	9	223,102,119	189,369,393
Diminution/(Appreciation) in Value of Investments	7	(1,561,557)	(674,167)
Loss/(Profit) from Sale of Investments	7	168,046	-
Loss/(Profit) from Sale of Unit Trust	8	-	(2,142,786)
Loss/(Profit) on Disposal of Property & Equipment	8	(1,182,865)	-
Provision/(Reversal) for Defined Benefit Plans	10	5,667,867	4,466,536
Dividend Received		(283,453)	(274,227)
Operating Profit before Working Capital Changes		382,504,069	406,811,625
(Increase)/Decrease in Real Estate Stock		8,001,017	17,015,788
(Increase)/Decrease in Loans and Advances		(342,668,574)	(1,017,572,990)
(Increase)/Decrease in Lease Rentals Receivable & Stock out on hire		(845,544,301)	(83,841,030)
(Increase)/Decrease in Other Financial Assets		(184,792,632)	(163,503,724)
(Increase)/Decrease in Other Non Financial Assets		(33,813,296)	57,169,761
Increase/(Decrease) in Amounts Due to Customers		1,064,606,822	1,011,190,324
Increase/(Decrease) in Other Financial Liabilities		42,629,434	(354,375,970)
Increase/(Decrease) in Other Non Financial Liabilities		(1,798,337)	5,775,853
Cash Generated from Operations		89,124,202	(121,330,364)
Retirement Benefit Liabilities Paid	33	(3,140,600)	(1,046,300)
Taxes Paid		(31,135,695)	(138,357,828)
Net Cash From/(Used in) Operating Activities		54,847,906	(260,734,492)
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment	27	(27,690,516)	(26,179,254)
Acquisition of Intangible Assets	26	(1,391,598)	(9,585,849)
Proceeds from Sales of Property , Plant & Equipment		4,391,000	-
Acquisition of Financial Investment held - for - trading		-	(35,000)
Proceeds from Sale of Financial investments held -for- trading		9,022,642	-
Cash Flow from /(Used in) Fixed Deposits		(300,874,398)	(3,710)
Sale/(Purchase) of Financial Investments- Held to Maturity		(1,057,171)	(216,903,150)
Sale of Financial Investments- Unit Trust		-	102,142,786
Purchase of Financial Investments- Unit Trust		-	(100,000,000)
Dividend Received		283,453	274,227
Net Cash Flows from/(Used in) Investing Activities		(317,316,588)	(250,289,950)
Cash Flows from / (Used in) Financing Activities			
Net Cash Outflow from Securitized Borrowings and other bank facilities		(91,666,666)	(104,971,953)
Cash Flow from Debt Instruments Issued and Other Borrowings	29.2	100,000,000	250,000,000
Net Cash Flow from Issue of Shares		276,708,733	459,634,008
Dividend Paid		(13,312,315)	-
Net Cash Flows from/(Used in) Financing Activities		271,729,752	604,662,054
Net Increase in Cash and Cash Equivalents		9,261,070	93,637,612
Cash and Cash Equivalents at the beginning of the year		999,476,642	905,839,030
Cash and Cash Equivalents at the end of the year	15.1	1,008,737,712	999,476,642

Accounting Policies and Notes from pages 75 to 126 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2018

1. CORPORATE INFORMATION

1.1 General

Abans Finance PLC is a domiciled, public limited liability company incorporated in Sri Lanka on 08 April 2005 under the Companies Act No. 17 of 1982, The Company was reregistered under the Companies Act No.7 of 2007 on 15 June 2009.It is a Licensed Finance Company registered under the Finance Business Act No.42 of 2011.The Company was listed on the Colombo Stock Exchange in 2011.

The registered office of the Company is located at No. 498, Galle Road, Colombo 03 and the principal place of business is situated at No. 456, R.A. De Mel Mawatha, Colombo 03.

1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing Acceptance of Fixed Deposits, Maintenance of saving Deposits, Providing Finance Leases, Hire Purchase, Mortgage Loans, Personal Loans and Other Credit Facilities. The Company also deals in Real Eestate and Real Estate related Services.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent company is Abans PLC and the ultimate parent company is Abans International (Pvt) Limited which are incorporated in Sri Lanka.

1.4 Date of Authorization for Issue

The Financial Statements of Abans Finance PLC for the year ended 31 March 2018 was authorized for issue in accordance with a resolution of the Board of Directors on 25 June 2018.

1.5 Directors' Responsibility Statement

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards comprising LKASs and SLFRSs (hereafter "SLFRS").

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company (Statement of Financial Position and Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes) as at 31 March 2018 are prepared in accordance with Sri Lanka Accounting Standards comprising of SLFRSs and LKASs (hereafter referred as SLFRSs), as laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007.

2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis, except for Financial Investments held for trading and Available-for-sale financial assets which are measured at fair value and Defined Benefit Obligations which are measured at present value using the projected unit credit method in the Statement of Financial position.

2.3 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees, which is also the Company's functional and presentation currency. (except otherwise indicated).

2.4 Presentation of financial statements

The Company presents its Statement of Financial Position broadly grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 39.

2.5 Materiality & Aggregation

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too 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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

2.6 Comparative Information

The accounting policies have been consistently applied by the company with those of the previous financial year in accordance with LKAS 01 Presentation of Financial Statements.

The comparative information is re-classified wherever necessary to conform to the current year's presentation. Note 46

2.7 Events after Reporting Date

All material events after the reporting date have been considered and appropriate disclosures are made in Note 41 to the Financial Statements.

2.8 Statement of Cash Flows

The Statement of Cash flows is prepared using the indirect method, as stipulated in LKAS 7-"Statement of Cash Flows". Cash and cash equivalents comprise cash in hand; cash at bank, bank overdraft and Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements requires the application of certain critical accounting and assumptions relative to the future. Further, it requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, 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 affected in future periods.

a) Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based these assumptions and estimates on parameters available at the time Financial Statements were prepared. Existing circumstances and assumptions about future developments, these may change due to market changes or circumstances arising beyond the control of the Company. Such changes are taken in to consideration in the assumptions when they occur.

I. Going Concern

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

II. Defined Benefit Plans

The cost of defined benefit pension plan is 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 and future pension increases. 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 as disclosed in Note 33.

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 of the Company.

III. Impairment losses on Loans and Advances (Finance Leases ,Hire Purchases, Mortgage Loans, Revolving Loans and Business/Personal Loans)

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

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 in to account data from the loan portfolio (such as asset type, past due status, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, interest rates, exchange rates).

IV. Impairment of Financial Investments - Available for Sale Financial Assets

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

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

V. Fair Value of Financial Instruments

The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in Note 37 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is also given in Note 37.1 to the Financial Statements.

VI. Useful life of Property, Plant and Equipment and Intangible Assets

The Company reviews the assets' residual values, useful lives and methods of depreciation and amortisation of Property, Plant, Equipments and Intangible Assets at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

VII. Taxation

The Company is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

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

VIII. Provisions, Commitments and Contingencies

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

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. Refer Note 40 for more details on Commitments and Contingencies.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and Cash Equivalents

The Cash Flow statement is prepared using the indirect method, as stipulated in LKAS 7-"Statement of Cash Flows" Where by operating, investing and financial activities are separately recognised.

For the purpose of the Statement of Cash Flow, cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, non–restricted current account balances with Company's on demand (net of unfavourable balances) or with an original maturity of three months or less and placements with banks (less than three months) Details of Cash and Cash Equivalents are given in note 15.

4.2 Financial Assets

4.2.1 Financial Assets – Initial Recognition and Subsequent Measurement

Financial Assets within the scope of LKAS 39 are classified as Loans and Advances, Lease Rental Receivables, Financial Investments Held-to-Maturity, Financial Investments Available-for-sale, Financial Investments Held for Trading as appropriate. The Company determines the classification of its financial assets at initial recognition.

(i) Date of recognition

All Financial Assets are initially recognized on the trade date, i.e., the date that the company 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. Those trades are initially recognized on the settlement date.

(ii) Initial measurement of Financial Assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All Financial Assets are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

(iii) Financial Assets Held for Trading

Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net Trading Income'. Dividend income is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

(iv) Available for Sale Financial Assets

Available for sale investments include non-quoted equity 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.

Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established.

The Company has measured its non-quoted equity investments classified as available for sale financial instruments at Fair Value.

(v) Held- to- Maturity Financial Investments

Held to maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the company has the intention and ability to hold to maturity. Subsequent to initial recognition, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the Effective Interest Rate.

The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairment (Charges) / Reversal for loans and other losses'.

If the company was 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 company would be prohibited from classifying any financial asset as held to maturity during the following two years.

(vi) Loans and Advances to customers and Lease Rental Receivables from customers

Loans and advances to customers and Lease Rental Receivables from customers include 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, amounts 'loans and advances to customers and Lease Rental Receivables from customers are subsequently measured at amortised cost using the Effective Interest Rate, 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 Effective Interest Rate. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment are recognised in the income statement in "Impairment (Charges) / Reversal for loans and other losses".

4.2.2 'Day 1' difference

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the Income Statement over the tenor of the financial instrument using the effective interest rate method.

4.2.3 Reclassification of Financial Assets

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost, if the basis of measurement of the reclassified category is amortized 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 Effective Interest Rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the Effective Interest Rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

The Company may reclassify a non–derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Company 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 Company 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 Effective Interest Rate from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

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

When the company 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 company's continuing involvement in the asset. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company 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 company could be required to repay.

4.2.5 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 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 an impact on the estimated future cash flows of the 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 are 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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

i. Loans and Advances to customers, Lease Rental Receivable from customers and Stock Out on Hire to Customers

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and for groups of loans, this is done collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed Loans and Advances and Lease and Stock out on hire

For all loans that are considered individually significant, the company assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence includes:

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

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- Company's aggregate exposure to the customer;
- The viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainities are evident;
- The realisable value of security and likelihood of successful repossession; and
- The likely deduction of any costs involved in recovery of amounts outstanding;

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed Loans and Advances to customers, Lease Rental Receivable from customers and Stock out on Hire to customers

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogeneous groups of loans those are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the company has incurred as a result of events occurring before the balance sheet date, which the company is not able to identify on an individual loan basis, and that can be reliably estimated.

These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of Loans and Advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

Following method is used to calculate historical loss experience on a collective basis:

- Net flow rate method

Under this methodology the movement in the outstanding balance of customers in to bad categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the reporting date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Under these methodologies, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required covering inherent loss.

These additional macro and portfolio risk factors may include:

- Recent loan portfolio growth and product mix,
- Unemployment rates, Gross Domestic Production (GDP) growth, inflation
- Exchange rates, interest rates
- Changes in government laws and regulations

Write-off of Loans and Advances

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

Renegotiated Loans

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

Reversals of impairment

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

ii. Available for Sale Financial Investments

For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available for sale, the company assesses individually whether there is objective evidence of impairment.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

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

iii. Held-to-Maturity Financial Assets

An impairment loss in respect of held-to-maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original Effective Interest Rate and is recognized in profit or loss. Interest on impaired assets continues to be recognized through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

4.2.6 Collateral valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, and other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers and other independent sources.

4.2.7 Collateral Repossessed

The Company's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

4.2.8 Other Financial Assets

Other Financial Assets includes the Other Receivables and Refundable Deposits. Refundable Deposits are initially recorded at Fair value and subsequently measured and amortized cost.

4.2.9 Real Estate Stock

Real Estate stock comprises all costs of purchase, cost of conversion and other costs incurred in bringing the real estate to its saleable condition.

Purchase Cost	-	Land Cost with Legal Charges
Cost of Conversion	-	Actual Development Costs

Real Estate stocks are valued at the lower of cost and net realisable value, after making due allowances for slow moving items. Net realisable value is the price at which the real estate stocks can be sold in the ordinary course of business less estimated cost necessary to make the sale.

4.3 Non - Financial Assets

4.3.1 Property, Plant and Equipment

Property, plant & equipment are tangible items that are held for servicing, or for administrative purposes,and are expected to be used during more than one year.

Property, Plant & 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 on Property, Plant & Equipment. Initially property and equipment are measured at cost.

Basis of Recognition and Measurement

- Cost Model

An item of property, plant & equipment that qualifies or recognition as an asset is initially measured at its costs. Costs include expenditure that is directly attributable to the acquisition of the asset and cost is incurred subsequently to add to or replace a part of it.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalized borrowing costs.

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

The Company applies the cost model to property, plant & equipment and records at cost of purchase or construction together with any incidental expense thereon less accumulated depreciation and any accumulated impairment losses.

Changes in the expected useful life are accounted by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost canbe reliably measured. The costs of the day to day servicing property, plant and equipment are charged to the Statement of Comprehensive Income.

Repairs and Maintenance

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

Depreciation

The provision for depreciation is calculated by using the straight line method over the useful life of the assets on cost or valuation of the Property & Equipment other than freehold land, commencing from when the assets are available for use. The rates of depreciations are given below;

Asset Category	Rate of Depreciation (per annum)
• Furniture & Fittings	12.5% - 33.33%
• Office Equipment	12.5%
• Motor Vehicle	12.5%
• Computer Equipment	25%

The asset’s residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

De-recognition

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in ‘Other Operating Income' in the income statement in the year the asset is derecognised.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

4.3.2 Intangible Assets

The Company’s intangible assets include the value of computer software.

Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the company 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, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses if any.

Subsequent Expenditure

Subsequent expenditure on Intangible Asset is capitalized 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 life, Amortization and Impairment

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisa- - tion period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as approprate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortization

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;

Asset Category	Useful life
• Computer software	10 Years

The residual value of the intangible asset is zero.

The unamortised balances of Intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset, (Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

4.3.3 Impairment of Non–Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4.4 Finance and Operating Lease

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.

Finance Lease

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

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

Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'other operating expenses' and 'other operating income', respectively.

4.5 Taxes

Income tax expense consists of current and deferred tax. Income tax expense is recognized in the Statement of Comprehensive Income.

4.5.1 Current Taxes

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted at the end of the reporting period.

Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment there to, at the rates specified in Note 13 to the Financial Statements.

Current tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Comprehensive Income.

4.5.2 Deferred Taxation

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

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transac--tion that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Comprehensive Income.

4.5.3 Value AddedTax (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 income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

4.5.4 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and subsequent amendments thereto, ESC is payable on aggregate turnover of the Company at 0.5% and is deductible from income tax payable. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

ESC is not payable on turnover on which income tax is payable.

4.5.5 Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act, No 9 of 2009 and subsequent amendments thereto with effect from 01st January 2014.NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on Financial Services.

4.5.6 WithholdingTax on Dividends

Withholding tax on dividends distributed by the Company withholding tax that arise from the distribution of dividends of the Company is recognised at the time of liability to pay the related dividend is recognized. At present, the rate of 10% is deducted at source.

4.6 Financial Liabilities

Initial recognition and measurement

Financial instruments issued by the Company that are not designated as fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset for a fixed number of own equity shares.

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

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the Effective Interest Rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate.

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.

Other Financial Liabilities

Other Financial labilities including Due to Customer (Deposits), Due to Banks, Debt issued and 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 Effective Interest Rate method.

Amortised cost is calculated by taking in to account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate.

Borrowings

Borrowings obtained by the Company that are not designated at fair value through profit or loss, are classified as liabilities under 'Borrowings', where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments.

After initial measurement, borrowings are subsequently measured at amortised cost using the Effective Interest Rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate.

4.7 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligationin accordance with Sri Lanka Accounting Standard– LKAS 37 on 'provision, contingent liabilities and contingent assets'.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligations at that date.

When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

4.8 Retirement Benefit Obligations

(i) Defined Benefit Plan – Gratuity

All the employees of the Company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

The Company measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit Method (PUC) as required by LKAS19, Employee Benefits.

The item is stated under Defined Benefit Liability in the Statement of financial position.

Recognition of Actuarial Gains and Losses

Actuarial gains and losses are recognized in Other Comprehensive Income in the year in which they arise.

Interest Cost

Interest cost is the expected increase due to interest during the period in the present value of the planned liabilities because the benefits are one year closer to settlement.

Recognition of Past Service Cost (Applicable only when a plan has been changed)

Past Service Costs are recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already been vested, immediately following the introduction of, or changes to the plan, past service costs are recognized immediately.

Funding Arrangements

The Gratuity liability is not externally funded.

(ii) Defined Contribution Plan

The Company also contributes defined contribution plans. 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 under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

The Company contributes to the following Schemes:

- Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund.

- Employees' Trust Fund

The Company contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

4.9 Recognition of Income and Expenses

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

4.9.1 Interest and Similar Income and Expenses

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate.

Effective Interest Rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original Effective Interest Rate and the change in carrying amount is recorded as 'Interest and similar income' for financial assets or 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the Company subsequently increases its estimates of future cash receipts as a result of increased recover ability of those cash receipts, the effect of that increase is recognised as an adjustment to the Effective Interest Rate from the date of the change in estimate.

When the carrying amount of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4.9.2 Interest Income on Overdue Rentals

Interest from overdue rentals has been accounted for on cash received basis.

4.9.3 Fee and Commission Income

The company earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for the provision of services over a certain period of time are accrued over that period. These fees include Credit Related Fees & commission, Service Charge, Transfer Fees and Other Fees income. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the Effective Interest Rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

4.9.4 Dividend Income

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

4.9.5 Income from Government Securities and Securities purchased under Re-Sale Agreement

Discounts/ Premium on Treasury bills & Treasury bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on treasury bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreement is recognised in the Income Statement on an accrual basis over the period of the agreement.

4.9.6 Commission on Insurance

Commission on Insurance has been accounted for on cash received basis.

4.9.7 Net Trading Income

Net trading income includes all gains and losses from changes in fair value and related dividends for financial assets and financial liabilities 'held for trading' other than interest income.

4.9.8 Recovery of Bad Debts Written Off

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

4.9.9 Personnel Costs

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

4.9.10 Other Operating Expenses

Other operating expenses are recognized 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 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 of the year.

4.9.11 Dividends on Ordinary Shares

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

4.10 Segment Reporting

The Company's segmental reporting is based on the following operating segments identified based on products and services;

- Leasing
- Hire Purchase
- Term Loans
- Others

A segment is a distinguishable component of a Company that is engaged in providing products and services. (Business segment, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the financial statements of the Company.

4.11 Regulatory Provisions

(a) Statutory Reserve Fund

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 20% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) ii of the said Direction.

(b) Deposit Insurance and Liquidity Support Scheme

In terms of the Finance Company's Act Direction No 2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments there to all Registered Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32E of the Monetary Law Act with effect from 1 October 2010. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No 1 of 2013.

Deposits to be insured include demand, time and savings deposit liabilities and exclude the following;

a) Deposit liabilities to member institutions
b) Deposit liabilities to Government of Sri Lanka
c) Deposit liabilities to Directors, Key Management Personnel and other related parties as defined in Banking Act Direction No 11 of 2007 on Corporate Governance of Licensed Commercial Banks

d) Deposit liabilities held as collateral against any accommodation granted
e) Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Registered Finance Companies are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

(c) Crop Insurance Levy (CIL)

In terms Section 15 of the Finance Act No 12 of 2013 all institutions under the purview of Banking Act No 30 of 1988, Finance Companies Act No 78 of 1988 and Regulation of Insurance Industry Act No 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund Board effective from 01 April 2013.

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

SLFRS 16- Leases

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

The new standard requires a lessee to:

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

Present depreciation of lease assets separately, from interest on lease liabilities in the income statement.

SLFRS 16 substantially carries forward the lessor accounting requirement in LKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

SLFRS 16 will become effective on 01 January 2019. The impact on the implementation of the above Standard has not been quantified yet.

4.13 SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM JANUARY 2018

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

SLFRS 15 -Revenue from Contracts with Customers

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

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

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

SLFRS 9 - Financial Instruments

Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments" will replace Sri Lanka Accounting Standard - LKAS 39 "Financial Instruments - Recognition and Measurement" for annual periods beginning on or after 01 January 2018 with early adoption permitted.

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

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

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

Classification & Measurement

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

Business Model Assessment

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

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

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

Contractual Cash Flow Characteristic Test

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

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

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

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

Impairment of Financial Assets

Overview of Expected Credit Loss Principle (ECL)

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

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

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

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

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

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

Significant Increase in Credit Risk

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

Individually Significant Assessment and Not Impaired Individually

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

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

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

Grouping financial assets measured on a collective basis

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

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

The Calculation of ECL

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

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

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

- PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio
- EAD: Exposure At Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract to otherwise, expected draw downs on committed facilities.
- LGD: Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realization of any collateral. It is usually expressed as a % of the EAD.

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

Forward Looking Information

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

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

Transition process of the Company

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

4.14 AMENDMENTS TO EXISTING ACCOUNTING STANDARDS EFFECTIVE FROM JANUARY 2017

Amendments to existing Accounting Standards with effect from 01 January 2017 as published by the Institute of Chartered Accountants of Sri Lanka did not have any impact on the Financial Statements of the Company other than those disclosed below.

LKAS 7 - Statement of Cash Flows

The amendment requires an entity to disclose information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Accordingly an entity shall disclose the following changes in liabilities arising from financing activities:

- Changes from financing cash flows
- Changes arising from obtaining or losing control of subsidiaries or other businesses
- The effect of changes in foreign exchange rates
- Changes in fair values and
- Other changes

Necessary disclosures have been given under Note 29 to the Financial Statements.

LKAS 12 - Income Taxes

When an entity assesses whether taxable profits will be available against which it can utilize a deductible temporary difference, the entity shall consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. If tax law imposes no such restrictions, entity may assess the deductible temporary difference in combination with all of its other deductible temporary differences.

However, if tax law restricts the utilization of losses to deduction against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

Further the amendment requires an entity to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences, when evaluating whether the entity will have sufficient taxable profit in future periods. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

According to the amendment introduced through Inland Revenue Act, the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The Company did not have a material impact from the above amendment during the year ended 31 March 2018.

5 . INCOME	2018 Rs.	2017 Rs.
Interest Income	1,711,585,707	1,494,673,696
Fee & Commission Income	185,717,691	104,114,176
Net Gain/(Loss) from Trading	1,676,964	948,394
Other Operating Income	18,690,232	20,770,114
Total Income	1,917,670,594	1,620,506,380

5.1 Interest Income		
Loans and Advances	519,241,077	453,946,296
Lease Rentals Receivable & Stock out on hire	1,047,044,191	924,623,165
Financial Investments - Held to Maturity & Repurchase Agreements	76,205,802	52,571,244
Other Financial Assets	11,604,992	11,566,438
Placement with Banks	57,489,645	51,966,553
Total Interest Income	1,711,585,707	1,494,673,696

Interest Income on Loans and Advances and Lease Rentals Receivable & Stock out on hire includes interest income accrued on impaired Financial Assets amounting to Rs.33,947,010/- (2016/17 -Rs.14,695,267/-).

5.2 Interest Expenses		
Due to Banks	25,862,725	17,909,634
Due to Customers	787,731,513	605,501,131
Debt Instruments Issued and Other Borrowed Funds	-	228,996
Total Interest Expenses	813,594,238	623,639,761

Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue Act No.10 of 2007, provided that a company which derives interest income from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statement & the resulting notional Tax credit amounts to Rs.12,410,922/- (2017 - Rs.5,257,125/-)

6. NET FEE AND COMMISSION INCOME	2018 Rs.	2017 Rs.
6.1 Fee and Commission Income		
Credit Related Fees and Commissions	28,420,361	16,584,089
Service Charge	149,980,969	82,777,943
Transfer Fees	6,701,763	4,089,167
Other Fees	614,598	662,977
Total Fee and Commission Income	185,717,691	104,114,176
6.2 Fee and Commission Expenses		
Brokerage Fees	143,550,479	84,747,252
Total Fee and Commission Expenses	143,550,479	84,747,252
6.3 Net Fee and Commission Income	42,167,212	19,366,924

7. NET GAIN/(LOSS) FROM TRADING	2018 Rs.	2017 Rs.
Dividend Income from Financial Investments - Held for Trading	283,453	274,227
Appreciation/ (Depreciation) in Market Value of Financial Investments - Held for Trading	1,561,557	674,167
Profit /(Loss) on sale of Financial Investments - Held for Trading	(168,046)	-
	1,676,964	948,394

8. OTHER OPERATING INCOME

	2018 Rs.	2017 Rs.
Income from Sale of Available - for-Sale Financial Investments	-	2,142,786
Profit/(loss) on disposal of Property & Equipment	1,182,865	-
Bad Debt Recoveries	12,974,722	9,077,411
Rent Income	2,877,416	3,292,892
Others	1,655,229	6,257,025
Total Other Operating Income	18,690,232	20,770,114

9. IMPAIREMENT CHARGES/ (REVERSAL) FOR LOANS AND OTHER LOSSES

	2018 Rs.	2017 Rs.
9.1 Individual		
Loans and Advances	21,668,084	10,742,981
Lease Rentals Receivable & Stock Out on Hire	22,157,800	(15,785,057)
Other Debtors	(24,135,930)	26,483,661
	19,689,954	21,441,585
9.2 Collective		
Loans and Advances	30,850,997	49,700,823
Lease Rentals Receivable & Stock Out on Hire	11,060,134	15,912,220
Other Debtors	161,501,034	102,314,765
	203,412,165	167,927,808
Total Impairment charges/ (Reversal) for Loans and Advances	223,102,119	189,369,393

9.3 Sensitivity of Assumptions in Collective Impairment

The following table demonstrates the sensitivity to a reasonably possible change in the key assumption (LGD and PD) employed with all other variables held constant with regard to Collective Impairment as at 31 March 2018.

	Increase/(Decrease) Percentage	Overall Impact to the Profit and Loss in Rs.
Increase/ Decrease in Percentage LGD	10%	10,875,505
	-10%	(10,875,505)
Increase/ Decrease in Percentage PD	10%	19,504,372
	-10%	(9,454,882)

10. PERSONNEL COSTS

	2018 Rs.	2017 Rs.
Salaries and Bonus	185,360,613	159,818,313
Employer's Contribution to EPF	19,642,827	16,943,581
Employer's Contribution to ETF	4,910,707	4,248,395
Gratuity Charge/ (Reversals) for the Year (Note 33.1)	5,667,867	4,466,536
Other Allowances & Staff Related Expenses	40,812,667	31,611,834
	256,394,681	217,088,659

11. DEPRECIATION & AMORTIZATION

	2018 Rs.	2017 Rs.
Depreciation of Property Plant & Equipment	20,670,196	16,146,846
Amortization of intangible assets	2,974,290	2,513,703
	23,644,486	18,660,549

12. OTHER OPERATING EXPENSES

	2018 Rs.	2017 Rs.
Directors' Emoluments	11,342,750	10,900,600
Auditors Remuneration - Audit	1,044,150	876,500
- Non Audit	900,000	300,000
Professional & Legal Expenses	14,127,605	6,486,716
Office Administration & Establishment Expenses	141,732,264	130,593,126
Advertising & Business Promotion Expenses	38,665,917	35,374,417
Deposit Insurance premium	8,170,756	7,228,136
Others	49,797,213	42,516,180
	265,780,655	234,275,675

13. TAXATION

13.1 The major components of income tax expense for the years ended 31 March are as follows.

	2018 Rs.	2017 Rs.
(A) Statement of Profit or Loss		
Current Income Tax		
Income Tax for the year	32,522,382	61,211,726
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 28)	5,563,356	2,630,462
	38,085,738	63,842,188
(B) Other Comprehensive Income		
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 28)	(349,197)	988,751
	(349,197)	988,751
(C) Total Tax Expense for the year	37,736,541	64,830,939

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13.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 March 2018 and 2017 is as follows.

	2018 Rs.	2017 Rs.
Accounting Profit Before Income Taxation	132,949,426	197,406,328
Adjustments		
Capital Portion of Leasing Rental Due	1,630,462,901	1,469,478,702
Non-taxable Income/ Losses	(494,099)	(3,091,181)
Disallowable Expenses	239,416,256	247,852,138
Allowable Expenses	(2,091,534,833)	(1,693,032,679)
Total Statutory Income	(89,200,349)	218,613,308
Claim on Carried Forward Tax Losses	205,351,711	-
Taxable Income	116,151,362	218,613,308
Income Tax Rate (%)	28%	28%
Income Tax	32,522,382	61,211,726
Deferred Taxation Charge/(Reversal) (Note 28)	5,563,356	2,630,462
Total Tax Expense (Note 13.1 (A))	38,085,738	63,842,188
Effective Tax Rate	29%	32%

14. EARNINGS PER ORDINARY SHARE

The Company presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity share holders of the Company by the weighted average number of ordinary shares outstanding during the year.Diluted EPS is determined by adjusting both the profit attributable to the ordinary equity share holders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares if any.

14.1 Earnings per Share: Basic / Diluted	2018 Rs.	2017 Rs.
Amount used as the numerator		
Profit after tax for the year attributable to equity holders (Rs)	94,863,688	133,564,140
No. of ordinary shares used as the denominator		
Weighted average number of ordinary shares (Note 14.1.1)	65,733,693	56,627,011
Basic / diluted earnings per ordinary share (Rs)	1.44	2.36

	Outstanding No. of Shares		Weighted Average No. of Shares	
	2018	2017	2018	2017
14.1.1 Weighted Average Number of Ordinary Shares for Basic / Diluted EPS				
Number of shares in issue as at 01 April	55,467,978	37,000,000	55,467,978	37,000,000
Add : Number of shares issued under rights issue 2016/2017	-	7,400,000	-	7,400,000
Add : Number of shares issued under private placement 2016/2017	-	11,067,978	-	11,067,978
	55,467,978	55,467,978	55,467,978	55,467,978
Add : Number of shares issued under rights issue 2017/2018	11,093,595	-	9,106,682	-
Add : Bonus element on number of shares issued under rights issue 2017/2018	-	-	1,159,033	1,159,033
Number of shares in issue / weighted average number of shares as at 31 March	66,561,573	55,467,978	65,733,693	56,627,011

15. CASH AND BANK BALANCES

	2018 Rs.	2017 Rs.
Cash in Hand	58,406,720	42,315,367
Balances with Banks	347,067,821	334,653,437
	405,474,541	376,968,804

15.1 Cash and Cash Equivalents in the Cash Flow Statement

	2018 Rs.	2017 Rs.
Cash and Bank Balances	405,474,541	376,968,804
Bank Overdrafts	(8,658,861)	(12,350,088)
Treasury Bills and Repurchase Agreements	362,248,075	250,809,890
Placement with Banks	249,673,957	384,048,036
Total Cash and Cash Equivalents for the purpose of Cash Flow Statements	1,008,737,712	999,476,642

16. PLACEMENT WITH BANKS

	2018 Rs.	2017 Rs.
Fixed Deposit Investments	550,601,090	384,100,772
	550,601,090	384,100,772

Fixed Deposit Investments include Investments amounting to Rs.34,000,000/- that have been Pledged for facilities obtained from Banks.

17. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENT

	2018 Rs.	2017 Rs.
Repurchased Agreements	362,248,075	250,809,890
	362,248,075	250,809,890

18. FINANCIAL ASSETS- HELD FOR TRADING

	2018 Rs.	2017 Rs.
Quoted equities (Note 18.1)	-	7,624,408
	-	7,624,408

18.1 DEALING SECURITIES

Quoted Shares	2018 No. of Shares	2018 Cost Rs.	2018 Market Value Rs.	2017 No. of Shares	2017 Cost Rs.	2017 Market Value Rs.
Plantations Hotels & Travels						
Mahaweli Reach Hotels PLC	-	-	-	9,400	365,104	178,600
Renuka City Hotel PLC	-	-	-	1,300	394,136	382,850
	-	-	-	10,700	759,240	561,450
Diversified Holdings						
John Keells Holdings PLC	-	-	-	2,720	490,343	375,088
	-	-	-	2,720	490,343	375,088
Power & Energy						
Lanka IOC PLC	-	-	-	15,000	649,191	435,000
	-	-	-	15,000	649,191	435,000
Banking & Finance						
Sampath Bank PLC	-	-	-	4,361	1,036,175	1,129,499
Seylan Bank PLC - Voting	-	-	-	1,000	102,131	87,000
Seylan Bank PLC - Non Voting	-	-	-	12,000	673,660	656,400
Hatton National Bank PLC	-	-	-	1,525	248,806	302,597
First Capital Holdings PLC	-	-	-	1,952	78,757	39,235
Central Finance Company PLC	-	-	-	2,067	239,149	178,175
DFCC Bank	-	-	-	1,000	213,262	114,000
Nations Trust Bank PLC	-	-	-	2,000	183,027	148,000
Union Bank PLC	-	-	-	7,000	189,600	99,400
Commercial Bank Of Ceylon PLC	-	-	-	514	57,740	52,993
Pan Asia Banking Corporation PLC	-	-	-	7,500	159,486	115,500
	-	-	-	40,919	3,181,793	2,922,800
Telecommunication						
Sri Lanka Telecom PLC	-	-	-	4,190	239,386	139,527
	-	-	-	4,190	239,386	139,527
Manufacturing						
Singer Sri Lanka	-	-	-	500	60,672	69,950
Tokyo Cement Company (Lanka) PLC -Non Voting	-	-	-	16,375	640,367	867,875
Tokyo Cement Company (Lanka) PLC - Voting	-	-	-	10,000	444,928	610,000
	-	-	-	26,875	1,145,967	1,547,825
Hospitals						
Lanka Hospital Corporation PLC	-	-	-	3,000	157,343	184,500
	-	-	-	3,000	157,343	184,500
Investment						
Ceylon Investment PLC	-	-	-	1,009	108,300	40,360
Access Engineering Ltd	-	-	-	4,000	150,264	95,200
Ceylon Guardian Investment Trust PLC	-	-	-	505	102,687	45,501
	-	-	-	5,514	361,251	181,061
Automobiles						
United Motors Lanka PLC	-	-	-	500	53,088	39,000
	-	-	-	500	53,088	39,000
Beverage Food & Tobacco						
Stores Supplies						
Hemas Holdings PLC	-	-	-	2,333	117,502	253,597
Piramal Glass Ceylon Plc	-	-	-	100,000	465,152	560,000
	-	-	-	102,333	582,654	813,597
Insurance						
Peoples' Insurance PLC	-	-	-	23,200	348,000	424,560
	-	-	-	23,200	348,000	424,560
Total	-	-	-	234,951	7,968,257	7,624,408

NOTES TO THE FINANCIAL STATEMENTS [*Contd.*]

Year ended 31 March 2018

19. LOANS AND ADVANCES

	2018 Rs.	2017 Rs.
Real Estate Loans	2,994,278	3,313,673
Mortgage Loans	586,369,059	405,840,872
Personnel Loans	301,743,047	113,901,642
Loans against Fixed Deposits	145,764,194	164,754,856
Staff Loans	41,841,032	28,408,286
Revolving Loans	133,301,535	170,837,388
Business Loans	815,306,787	393,506,492
Other Loans	563,414,822	967,502,971
	2,590,734,754	2,248,066,180
Less : Allowance for Impairment Losses (Note 19.1)	(154,913,410)	(102,390,149)
Net Loans and Advances	2,435,821,344	2,145,676,031

19.1 Allowance for Impairment Losses

	2018 Rs.	2017 Rs.
As at 01 April	102,390,149	61,273,426
Charge / (Reversal) for the year	52,523,261	60,443,804
Amounts written off	-	(19,327,081)
As at 31 March	154,913,410	102,390,149
Individual Impairment	39,812,532	18,144,449
Collective Impairment	115,100,878	84,245,700
	154,913,410	102,390,149
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	182,269,548	61,937,004

20. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE

	2018 Rs.	2017 Rs.
Gross rentals receivables		
- Lease Rentals	6,221,315,557	5,050,089,722
- Amounts Receivable from Hirers	39,912,328	78,079,436
	6,261,227,885	5,128,169,158
Less: Unearned Income	(1,481,675,613)	(1,192,323,653)
Net rentals receivables	4,779,552,272	3,935,845,505
Less : Rental Received In Advance	(16,512)	(16,512)
Less : Suspended VAT	(5,333,626)	(7,171,161)
	4,774,202,134	3,928,657,832
Less : Allowance for Impairment Losses (Note 20.1)	(281,905,939)	(248,692,186)
Total net rentals receivable (Note 20.2, 20.3)	4,492,296,195	3,679,965,646

Lease & hirers receivables include receivables amounting to Rs. 766,811,112 that have been Pledged for facilities obtained from Banks.

20. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE (Contd…)

20.1 Allowance for Impairment Losses

	2018 Rs.	2017 Rs.
As at 01 April	248,692,186	276,780,949
Charge / (Reversal) for the year	33,213,752	127,163
Amounts written off	-	(28,215,926)
As at 31 March	281,905,938	248,692,186
Individual Impairment	40,045,920	17,888,120
Collective Impairment	241,860,019	230,804,066
	281,905,939	248,692,186
Gross amount of lease and hire purchase rental receivables individually determined to be impaired, before deducting the individually assessed impairment allowance	92,080,129	52,440,345

20.2 As at 31st March 2018

	Within One Year Rs.	1-5 Years Rs.	Over 5 Years Rs.	Total Rs.
Gross rentals receivables				
- Lease Rentals	3,349,447,344	2,871,712,521	155,692	6,221,315,557
- Amounts Receivable from Hirers	36,105,909	3,806,419	-	39,912,328
	3,385,553,253	2,875,518,940	155,692	6,261,227,885
Less: Unearned Income	(627,475,860)	(854,133,936)	(65,816)	(1,481,675,613)
Net rentals receivables	2,758,077,393	2,021,385,004	89,876	4,779,552,272
Less : Rental Received In Advance				(16,512)
Less : Suspended VAT				(5,333,626)
				4,774,202,134
Less : Allowance for Impairment Losses				(281,905,939)
Total net rentals receivable				4,492,296,195

20.3 As at 31st March 2017

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables				
- Lease Rentals	2,805,275,780	2,244,813,942	-	5,050,089,722
- Amounts Receivable from Hirers	65,384,569	12,694,867	-	78,079,436
	2,870,660,349	2,257,508,809	-	5,128,169,158
Less: Unearned Income	(730,522,043)	(461,801,610)	-	(1,192,323,653)
Net rentals receivables	2,140,138,306	1,795,707,199	-	3,935,845,505
Less : Rental Received In Advance				(16,512)
Less : Suspended VAT				(7,171,161)
				3,928,657,832
Less : Allowance for Impairment Losses				(248,692,186)
Total net rentals receivable				3,679,965,646

21. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	2018 Rs.	2017 Rs.
Credit Information Bureau-Unquoted Equities *	80,400	80,400
	80,400	80,400

* Cost is assumed to be the best approximation for the fair value of unquoted equity shares due to the absence of most recent exit prices.

22. FINANCIAL INVESTMENTS - HELD TO MATURITY

	2018 Rs.	2017 Rs.
Government of Sri Lanka Treasury Bills	216,714,891	216,321,780
Government of Sri Lanka Treasury Bonds	22,915,244	22,251,183
	239,630,135	238,572,963

23. OTHER FINANCIAL ASSETS

	2018 Rs.	2017 Rs.
Other Receivables	200,260,699	150,009,839
Deposit	15,409,628	13,682,034
Due From Related Parties	14,734,680	21,011,870
	230,405,007	184,703,743
Less : Allowance for Impairment Losses (Note 23.1)	(74,470,001)	(76,196,266)
	155,935,006	108,507,477

23.1 Allowance for Impairment Losses

	2018 Rs.	2017 Rs.
Balance at the Beginning	76,196,266	167,657,318
Charge / (Reversal) for the year	137,365,104	128,798,427
Amounts written off	(139,091,369)	(220,259,479)
Balance at the end of the year	74,470,001	76,196,266
Individual Impairment	1,213,834	25,349,764
Collective Impairment	73,256,167	50,846,502
	74,470,001	76,196,266
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	3,658,939	27,904,052

24. REAL ESTATE STOCK

	2018 Rs.	2017 Rs.
Real Estate Stocks	58,049,675	66,050,693
	58,049,675	66,050,693

25. OTHER NON FINANCIAL ASSETS

	2018 Rs.	2017 Rs.
Advances	35,446,356	15,831,344
Pre-paid Staff Cost	22,429,909	9,710,210
Other Receivables	212,630	212,630
Pre Paid Rent Deposit	4,139,456	5,376,261
Pre-Paid Expenses	12,310,008	9,594,619
	74,538,359	40,725,064

26. INTANGIBLE ASSETS

	Computer Software 2018 Rs.	Computer Software 2017 Rs.
Cost		
Cost as at 01 April	53,967,404	44,381,555
Additions	1,391,598	9,585,849
As at 31 March	55,359,002	53,967,404
Amortisation & Impairment:		
As at 01 April	31,286,362	28,772,659
Amortisation Charge for the year	2,974,290	2,513,703
As at 31 March	34,260,652	31,286,362
Net book value:		
As at 31 March	21,098,350	22,681,042

Nature and Amortization Method

Intangible Assets represent acquisition of computer software from third parties. These software are amortized over the estimated useful life of 10 years on a straight line basis.

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs.1,391,597 (2016/2017 - Rs.9,585,849).

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Gross Carrying Amounts

Cost	Balance As at 01.04.2017 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.
Freehold Assets				
Land	28,094,075	-	(3,153,982)	24,940,093
Furniture & Fittings	53,046,579	11,572,278	(45,030)	64,573,827
Office Equipment	21,930,506	4,045,369	(130,852)	25,845,023
Motor Vehicles	3,325,613	-	-	3,325,613
Computer Hardware	45,654,654	12,072,870	-	57,727,524
Total Value of Depreciable Assets	152,051,427	27,690,517	(3,329,864)	176,412,080

27.2 Depreciation

	Balance As at 01.04.2017 Rs.	Charge for the Period Rs.	Disposals Rs.	Balance As at 31.03.2018 Rs.
Freehold Assets				
Furniture & Fittings	29,342,812	8,063,720	(45,030)	37,361,502
Office Equipment	9,650,975	2,443,025	(62,700)	12,031,300
Motor Vehicles	3,325,613	-	-	3,325,613
Computer Hardware	23,888,354	10,163,451	-	34,051,805
	66,207,754	20,670,196	(107,730)	86,770,220

27.3 Net Book Values

	2018 Rs.	2017 Rs.
At Cost		
Land	24,940,093	28,094,075
Furniture & Fittings	27,212,325	23,703,767
Office Equipment	13,813,723	12,279,531
Motor Vehicles	-	-
Computer Hardware	23,675,719	21,766,300
Total Carrying Amount of Property, Plant & Equipment	89,641,860	85,843,673

27.4 The useful lives of the assets are estimated as follows;

	2018	2017
Furniture & Fittings	3 - 8 Years	3 - 8 Years
Office Equipment	8 Years	8 Years
Motor Vehicles	8 Years	8 Years
Computer Equipment	4 years	4 years

27.5 During the Financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 27,690,516/- (2016/17- Rs.26,179,255/-)

27.6 Cost of fully depreciated assets of the company as at 31 March 2018 is Rs. 41,040,777/- (2016/17 - Rs. 34,591,434/-).

28.DEFERRED TAXATION

Deferred Tax Assets, Liabilities and Income Tax relates to the followings

	Satement of Financial Position		Recogninzed in Statement of Other Comprehensive Income		Recognized in Statement of Profit or Loss	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Deferred Tax Liability						
Capital Allowances for Tax Purposes						
-Property Plant & Equipment	10,268,583	8,900,867	-	-	1,367,716	3,493,043
-Leased Asset	108,547,217	15,953,999	-	-	92,593,219	15,953,999
Define Benefit Plan- Other Comprehensive Income	-	558,540	(558,540)	558,540	-	-
	118,815,800	25,413,405	(558,540)	558,540	93,960,935	19,447,042
Deferred Tax Assets						
Capital Allowances for Tax Purposes						
-Leased Asset	-	-	-	-	-	31,099,822
Defined Benefit Plans- Income Statement	(5,504,904)	(4,797,269)	-	-	(707,635)	(957,666)
Define Benefit Plan- Other Comprehensive Income	209,343	-	209,343	430,211	-	-
Provision for Impairment on Financial Assets	(108,607,925)	(78,416,461)	-	-	(30,191,465)	(46,958,736)
Brought Forward Tax Losses	(57,498,479)	-	-	-	(57,498,479)	-
	(171,401,966)	(83,213,729)	209,343	430,211	(88,397,579)	(16,816,580)
Defferred income tax charge / (reversal)	-	-	(349,197)	988,751	5,563,356	2,630,462
Net Defferred Tax Liability / (Asset)	(52,586,166)	(57,800,324)				

29. DUE TO BANKS

	2018 Rs.	2017 Rs.
Bank Overdrafts	8,658,861	12,350,088
Securitised Borrowings and Other Bank Facilities (Note 29.2 (a), 29.2 (b))	209,722,165	201,388,832
Total	218,381,026	213,738,920

29. DUE TO BANKS (Contd...)

29.1 Due to Banks

	2018			2017		
	Amount repayable within 1 year Rs.	Amount repayable after 1 year Rs.	Total Rs.	Amount repayable within 1 year Rs.	Amount repayable after 1 year Rs.	Total Rs.
Securitised Borrowings and Other Bank Facilities	103,333,333	106,388,832	209,722,165	83,333,333	118,055,499	201,388,832
	103,333,333	106,388,832	209,722,165	83,333,333	118,055,499	201,388,832

29.2 (a) Securitised Borrowings and Other Bank Facilities

Direct Bank Borrowings	As at 01.04.2017 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Repayments Interest Rs.	As at 31.03.2018 Rs.	Period	Security
Term Loans								
Term Loan 02 Union Bank of Colombo PLC	201,388,832	-	20,182,495	83,333,333	20,182,495	118,055,498	36 Months	Lease Portfolio
Term Loan Seylan Bank PLC	-	100,000,000	5,536,329	8,333,333	5,536,328	91,666,667	60 Months	Lease Portfolio
	201,388,832	100,000,000	25,718,824	91,666,666	25,718,823	209,722,165		

29.2 (b) Securitised Borrowings and Other Bank Facilities

Direct Bank Borrowings	As at 01.04.2016 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Repayments Interest Rs.	As at 31.03.2017 Rs.	Period	Security
Term Loans								
Term Loan Bank of Ceylon	492,203	-	-	486,112	6,091	-	48 Months	Lease & Hire
Term Loan 01 Union Bank of Colombo PLC	15,757,950	-	324,377	15,757,950	324,377	-	48 Months	Purchase
Term Loan Sampath Bank PLC	9,000,000	-	453,670	9,000,000	453,670	-	50 Months	Portfolio
Term Loan 02 Union Bank of Colombo PLC	-	250,000,000	16,698,382	48,611,111	16,698,439	201,388,832	36 Months	Lease Portfolio
	25,250,154	250,000,000	17,476,430	73,855,173	17,482,579	201,388,832		

30. DUE TO CUSTOMERS

	2018 Rs.	2017 Rs.
Fixed Deposits	6,583,032,884	5,527,707,069
Savings Deposits	32,126,483	22,845,476
	6,615,159,367	5,550,552,545

31. OTHER FINANCIAL LIABILITIES

	2018 Rs.	2017 Rs.
Trade Payables - Related Parties (31.1)	146,161,587	218,443,576
Non Trade Payables - Related Parties (31.2)	1,764,979	1,012,476
Trade Payables - Other Parties	133,005,500	32,953,866
Accrued Expenses	244,346,910	230,239,623
	525,278,976	482,649,541

31.1 Trade Payables to Related Parties

	Relationship	2018 Rs.	2017 Rs.
Abans PLC	Ultimate Parent Company	2,549,551	1,590,488
Abans Auto (Pvt)Ltd	Affiliate Company	143,612,036	216,853,088
		146,161,587	218,443,576

31.2 Non Trade Payables to Related Parties

	Relationship	2018 Rs.	2017 Rs.
Abans PLC	Ultimate Parent Company	941,649	-
Abans Retail (Pvt) Ltd	Affiliate Company	211,224	-
Abans Graphics (Pvt) Ltd	Affiliate Company	61,582	-
Abans Environmental Services	Affiliate Company	184,425	201,825
ABS Gardner Dixon Hall International (Pvt) Ltd	Affiliate Company	4,317	-
AB Securitas (Pvt) Ltd	Affiliate Company	256,197	697,951
AB Logistics (Pvt) Ltd	Affiliate Company	835	-
ABS Courier (Pvt) Ltd	Affiliate Company	104,750	112,700
		1,764,979	1,012,476

32. OTHER NON FINANCIAL LIABILITIES

	2018 Rs.	2017 Rs.
VAT on Financial Services	4,881,309	4,547,099
VAT Payable	300,661	1,785,335
Others	6,882,067	7,529,940
	12,064,037	13,862,374

33. RETIREMENT BENEFIT OBLIGATIONS

Retirement Benefit Obligations - Gratuity

	2018 Rs.	2017 Rs.
Balance at the beginning of the year	15,138,320	15,249,338
Current Service Cost	3,775,577	2,754,035
Payments made during the year	(3,140,600)	(1,046,300)
Interest Charged/(Reversed) for the year	1,892,290	1,712,501
(Gain)/loss arising from changes in the assumption	1,247,133	(3,531,254)
Balance at the end of the year	18,912,720	15,138,320

33. RETIREMENT BENEFIT OBLIGATIONS (Contd...)

	2018 Rs.	2017 Rs.
33.1 Expenses on Defined Benefit Plan		
Current Service Cost for the year	3,775,577	2,754,035
Interest Charge for the year	1,892,290	1,712,501
	5,667,867	4,466,536
Amount Recognized in the Other Comprehensive Income		
(Gain) / Loss arising from changes in the assumption (Note 33.2)	1,247,133	(3,531,254)
	1,247,133	(3,531,254)
33.2 (Gain) / Loss arising from the changes in the assumption		
Due to change in Demographic Assumptions	-	30,566
Due to change in Financial Assumptions	1,521,991	(2,222,119)
Experience Adjustment	(274,858)	(1,339,701)
	1,247,133	(3,531,254)

33.3 Actuarial valuation of Retiring Gratuity Obligation as at 31 March 2018 was carried out by Messrs. Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries using "Project Unit Credit Method" as recommended by LKAS 19-'Employee Benefits'.

33.4 Assumptions	2018	2017
Discount Rate	10.20%	12.50%
Salary Increment Rate	8.50%	8.50%
Staff Turnover	17.00%	17.00%
Retirement Age	60 Years	60 Years

Assumptions regarding future mortality are based on 67/70 Mortality Table and issued by the Institute of Actuaries, London.

33.5 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement. The sensitivity of the Statement of Financial position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment on the profit or loss and Retiring Gratuity obligation for the year.

		2018		2017	
Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation	Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation
1%	-	913,512	(913,512)	586,660	(586,660)
-1%	-	(1,013,575)	1,013,575	(644,288)	644,288
-	1%	(1,110,687)	1,110,687	(734,610)	734,610
-	-1%	1,016,782	(1,016,782)	678,756	(678,756)

33.6 Maturity Profile of the Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at the reporting date is given below;

	2018 Years	2017 Years
Weighted Average Duration of the Defined Benefit Obligation	5.58	4.54
Average Time to Benefit Payout	5.47	5.35

33. RETIREMENT BENEFIT OBLIGATIONS (Contd...)

33.7 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates distribution of the future working lifetime of the Defined Benefit Obligation as at the reporting period.

	2018 Rs.	2017 Rs.
Less than 1 year	2,855,665	3,944,830
Between 1-5 years	8,330,035	6,416,140
Between 5-10 years	3,957,007	2,793,136
Over 10 years	3,770,013	1,984,214
	18,912,720	15,138,319

34. STATED CAPITAL

34.1 Issued and Fully Paid-Ordinary shares

	2018 No. of Shares	2018 Rs.	2017 No. of Shares	2017 Rs.
At the beginning of the year	55,467,978	844,073,080	37,000,000	382,373,630
Issued during the year				
-Right Issue	11,093,595	277,339,875	7,400,000	185,000,000
-Private Placement	-	-	11,067,978	276,699,450
At the end of the year	66,561,573	1,121,412,955	55,467,978	844,073,080

During the year, the authorised share capital was increased by Rs.277,339,875 by the issue of 11,093,595 ordinary shares by of Rs.25/= each by way of Right issue.

34.2 Rights of Shareholders

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

35. RETAINED EARNINGS AND OTHER RESERVES

35.1 Retained Earnings

	2018 Rs.	2017 Rs.
As at 01 April	276,925,848	169,597,476
Dividend Paid	(13,312,315)	-
Profit /(Loss) for the Year	94,863,688	133,564,140
Other Comprehensive Income net of tax	(897,936)	2,542,503
Transfers to Statutory Reserve Fund	(18,972,738)	(26,712,829)
Direct Cost on Right Issue	(631,142)	(785,447)
Direct Cost on Private Placement	-	(1,279,995)
As at 31 March	337,975,406	276,925,848

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 possible losses or dividends payable.

35.2 Other Reserves

	Statutory Reserve Rs.	Total Rs.
As at 01 April 2017	89,266,829	89,266,829
Transfers to/(from) during the year	18,972,738	18,972,738
As at 31 March 2018	108,239,567	108,239,567

35.2.1 Statutory Reserve Fund

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bnak of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 20% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) ii of the said Direction.

36. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

36.1 As at 31 March 2018	HFT at Fair Value Rs.	HTM at Amortised Cost Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
Assets					
Cash and Bank Balances	-	-	405,474,541	-	405,474,541
Placement With Banks	-	-	550,601,090	-	550,601,090
Repurchase Agreements	-	-	362,248,075	-	362,248,075
Financial Investments - Held for Trading	-	-	-	-	-
Loans and Advances	-	-	2,435,821,344	-	2,435,821,344
Lease rentals receivable & Stock out on Hire	-	-	4,492,296,195	-	4,492,296,195
Financial Investments - Available for Sale	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	239,630,135	-	-	239,630,135
Other Financial Assets	-	-	155,935,006	-	155,935,006
Total Financial Assets	-	239,630,135	8,402,376,251	80,400	8,642,086,786

	OFL at Amortized Cost Rs.	Total Rs.
Liabilities		
Due to Banks	218,381,026	218,381,026
Due to Customers	6,615,159,367	6,615,159,367
Other Financial Liabilities	525,278,976	525,278,976
Total Financial Liabilities	7,358,819,369	7,358,819,369

36.2 As at 31 March 2017	HFT at Fair Value Rs.	HTM at Amortised Cost Rs.	L & R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
Assets					
Cash and Bank Balances	-	-	376,968,804	-	376,968,804
Placement With Banks	-	-	384,100,772	-	384,100,772
Repurchase Agreements	-	-	250,809,890	-	250,809,890
Financial Investments - Held for Trading	7,624,408	-	-	-	7,624,408
Loans and Advances	-	-	2,145,676,031	-	2,145,676,031
Lease rentals receivable & Stock out on Hire	-	-	3,679,965,646	-	3,679,965,646
Financial Investments - Available for Sale	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	238,572,963	-	-	238,572,963
Other Financial Assets	-	-	108,507,477	-	108,507,477
Total Financial Assets	7,624,408	238,572,963	6,946,028,620	80,400	7,192,306,391

Liabilities	OFL at Amortized Cost Rs.	Total Rs.
Due to Banks	213,738,920	213,738,920
Due to Customers	5,550,552,545	5,550,552,545
Other Financial Liabilities	482,649,541	482,649,541
Total Financial Liabilities	6,246,941,006	6,246,941,006

HFT - Held for Trading
HTM - Held-to-Maturity
L & R - Loans and Receivables
AFS - Available for Sale
OFL - Other Financial Liabilities

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Recorded at Fair Value

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

37.1 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 : Quoted (unadjusted) prices in active markets for identical assets or liabilities in the active Market.

Level 2 : Valuation technique using observerable inputs : Quoted prices for similar assets and liabilities in active markets or quoted prices for identical or similar assets and liabilities in active markets and are valued using models where all significant inputs are observable.

Level 3: Valuation techniques with significant unobservable inputs: assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorized.

As at 31 March 2018	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Investments - Held for Trading				
Quoted equities	-	-	-	-
Financial Investments - Available for Sale				
Unquoted equities	-	-	80,400	80,400
Total Financial Assets	-	-	80,400	80,400

As at 31 March 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Investments - Held for Trading				
Quoted equities	7,624,408	-	-	7,624,408
Financial Investments - Available for Sale				
Unquoted equities	-	-	80,400	80,400
Total Financial Assets	7,624,408	-	80,400	7,704,808

There were no financial liabilities recorded at fair value as at 31 March 2017 & 2018.

There were no transfers between Level 1 and Level 2 during 2017 & 2018.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd...)

37.2 Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

Set out below is the comparison, by class, of the carrying amounts of fair values of the company's financial instruments that are not carried at Fair Value in the Financial Statements. This table does not include the Fair Values of Non- Financial Assets and Non- Financial Liabilities.

	2018	2018 Fair Value				2017	2017 Fair Value			
	Carrying Amount Rs.	Level 01 Rs.	Level 02 Rs.	Level 03 Rs.	Total Rs.	Carrying Amount Rs.	Level 01 Rs.	Level 02 Rs.	Level 03 Rs.	Total Rs.
Financial Assets										
Loans and Advances	2,435,821,344	-	2,019,393,934	-	2,019,393,934	2,145,676,031	-	1,916,636,928	-	1,916,636,928
Lease rentals receivable & Stock out on Hire	4,492,296,195	-	3,445,927,736	-	3,445,927,736	3,679,965,646	-	3,369,188,748	-	3,369,188,748
Financial Investments - Held to Maturity	239,630,135	-	240,556,351	-	240,556,351	238,572,963	-	236,853,501	-	236,853,501
	7,167,747,674	-	5,705,878,021	-	5,705,878,021	6,064,214,640	-	5,522,679,177	-	5,522,679,177
Financial Liabilities										
Due to Customers	6,615,159,367	-	6,934,668,510	-	6,934,668,510	5,550,552,545	-	5,835,968,390	-	5,835,968,390
	6,615,159,367	-	6,934,668,510	-	6,934,668,510	5,550,552,545	-	5,835,968,390	-	5,835,968,390

The following describes the methodologies and assumptions used to determine the fair values for those Financial Assets & Liabilities which are not already recorded at fair value in the Financial Statements.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. All credit facilities with fixed interest rates were fair valued using market rates at which fresh credit facilities were granted during the last month of the reporting year. Conversely, fixed deposits with remaining tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the last month of the reporting year.

Assets & Liabilities for which Fair Value Approximates Carrying Value

The Following is a list of financial investments whose carrying amount is a reasonable approximation of fair value. Because for example, they are short-term in nature or reprice to current market rates frequently:

Assets	Liabilities
Cash and Bank Balances	Due to Banks
Placement With Banks	Due to Customers Savings
Repurchase Agreements	Debt Instruments Issued and Other borrowed Funds
Other Financial Assets	Other Financial Liabilities

Reclassification of financial assets

There have been no reclassifications during 2017 & 2018.

38. RISK MANAGEMENT DISCLOSURES

38.1 Introduction

Risk is inherent in a financial business and such risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company is exposed to credit risk, interest rate risk, liquidity risk, operational risk, the latter being subdivided into regulatory & compliance risk, reputation risk and environmental risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry.

The Company's policy is to monitor those business risks through the Company's strategic planning process.

38.2 Risk Management Structure

The Board is primarily responsible for risk management initiatives. Integrated Risk Management Committee (IRMC), which is a sub-committee of the Board has been established and delegated risk management responsibilities. This Committee plays a vital role in establishing best practices in relation to risk policies and practices within the company.

The quantum and level of risks that the Company is willing to accept is decided at the IRMC level, and the decisions made by this Committee are communicated to the Board of Directors. The Board ratifies the risk policies and risk tolerance levels agreed at the Integrated Risk Management Committee meetings.

The Committee fulfils the requirement set out in the Finance Companies Direction No. 3 of 2008 on Corporate Governance issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act No. 42 of 2011.

The Committee currently consists of 2 Directors; Managing Director and one Non Executive Director. Chief Executive Officer, Cheif Operating Officer, Chief Financial Officer / Accountant, Head of Sales, Head of Recoveries, Head of Branches, Manager - Risk & Compliance, Manager - IT and Manager - Corporate Affairs were also co-opted to the Committee.

IRMC is supported by two sub committees such as Assets and Liabilities Committee (ALCO) and Credit Committee (CC). ALCO is entrusted with the identification and managing of Market Risk and Liquidity Risk where as CC is responsible for managing Assets Quality and credit policy of the Company.

The Company's policy is to ensure that risk management processes throughout the Company are audited by the Internal Audit function, which examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit division discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

38.3 Risk measurement & Reporting System and Risk Mitigation

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk.

38.4 Credit Risk

Credit risk refers to the risk that borrowers will default on any type of debt by failing to disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances to make payments they are obligated to do. The risk of loss of principal or loss of a financial reward stems from a borrower's failure to repay a loan or otherwise meet a contractual obligation. The risk is primarily that of the lender and includes lost principal and interest.

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

38.4.1 Impairment Assessment

For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Company grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or encounter other financial difficulties
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant Loans and Receivables on an individual basis, including any overdue payments of interests, credit rating down grades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order 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 in the individual loans assessments.

The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry–specific problems).

38. RISK MANAGEMENT DISCLOSURES (Contd…)

38.4 CREDIT RISK (Contd...)

38.4.2 Maximum Exposure to Credit risk

The following table shows the maximum exposure to credit risk by class of Financial Asset and the value of Financial Assets covered by the collateral.

Type of Collateral As at 31 March 2018	Maximum Exposure to Credit Risk	Fair Value of Collateral Held				Total Collateral Value	Net Exposure to Credit Risk
		Cash / Near Cash	Property Mortgages	Moveable Assets*	Other**		
Cash and Bank Balances (Excluding cash in hand)	347,067,821	-	-	-	-	-	347,067,821
Placement With Banks	550,601,090	-	-	-	-	-	550,601,090
Repurchase Agreements	362,248,075	-	-	-	-	-	362,248,075
Financial Investments - Held for Trading	-	-	-	-	-	-	-
Loans and Advances	2,590,734,754	345,764,194	712,204,652	738,862,291	2,994,278	1,799,825,415	790,909,339
Lease rentals receivable & Stock out on hire	4,774,202,134	-	-	4,378,020,432	-	4,378,020,432	396,181,702
Financial Investments - Available for Sale	80,400	-	-	-	-	-	80,400
Financial Investments - Held to Maturity	239,630,135	-	-	-	-	-	239,630,135
Other Financial Assets	155,935,006	-	-		-	-	155,935,006
	9,020,499,415	345,764,194	712,204,652	5,116,882,723	2,994,278	6,177,845,847	2,842,653,568

Type of Collateral As at 31 March 2017	Maxium Exposure to Credit Risk	Fair Value of Collateral Held				Total Collateral Value	Net Exposure to Credit Risk
		Cash / Near Cash	Property Mortgages	Moveable Assets*	Other**		
Cash and Bank Balances (Excluding cash in hand)	334,653,437	-	-	-	-	-	334,653,437
Placement With Banks	384,100,772	-	-	-	-	-	384,100,772
Repurchase Agreements	250,809,890	-	-	-	-	-	250,809,890
Financial Investments - Held for Trading	7,624,408	-	-	-	-	-	7,624,408
Loans and Advances	2,248,066,180	164,754,856	538,541,871	1,153,949,890	3,313,673	1,860,560,290	387,505,890
Lease rentals receivable & Stock out on Hire	3,928,657,832	-	-	3,694,689,732	-	3,694,689,732	233,968,100
Financial Investments - Available for Sale	80,400	-	-	-	-	-	80,400
Financial Investments - Held to Maturity	238,572,963	-	-	-	-	-	238,572,963
Other Financial Assets	108,507,477	-	-	-	-	-	108,507,477
	7,501,073,359	164,754,856	538,541,871	4,848,639,622	3,313,673	5,555,250,022	1,945,823,337

* Movable assets includes absolute ownership/ mortgage over motor vehicles and Machineries & Equipments.
** Other collateral includes secured by consumer durables & title deed transfers (Real Estate Loans).

38. RISK MANAGEMENT DISCLOSURES (Contd...)

38.4 CREDIT RISK (Contd...)

38.4.3 Credit Quality by Class of Financial Assets

The amounts presented are gross of Impairment allowance

As at 31 March 2018	Neither Past Due nor Individually Impaired	Past Due Not Individually Impaired	Individually Impaired	Total
Assets				
Cash and Bank Balances	405,474,541	-	-	405,474,541
Placement With Banks	550,601,090	-	-	550,601,090
Repurchase Agreements	362,248,075	-	-	362,248,075
Financial Investments - Held for Trading	-	-	-	-
Loans and Advances	1,623,864,641	784,600,565	182,269,548	2,590,734,754
Lease rentals receivable & Stock out on Hire	2,685,207,295	1,996,914,710	92,080,129	4,774,202,134
Financial Investments - Available for Sale	80,400	-	-	80,400
Financial Investments - Held to Maturity	239,630,135	-	-	239,630,135
Other Financial Assets	127,881,991	98,864,076	3,658,939	230,405,006
Total	5,994,988,168	2,880,379,351	278,008,616	9,153,376,136

As at 31 March 2017	Neither Past Due nor Individually Impaired	Past Due Not Individually Impaired	Individually Impaired	Total
Assets				
Cash and Bank Balances	376,968,804	-	-	376,968,804
Placement With Banks	384,100,772	-	-	384,100,772
Repurchase Agreements	250,809,890	-	-	250,809,890
Financial Investments - Held for Trading	7,624,408	-	-	7,624,408
Loans and Advances	1,448,058,464	738,070,712	61,937,004	2,248,066,180
Lease rentals receivable & Stock out on Hire	2,301,218,597	1,574,998,890	52,440,345	3,928,657,832
Financial Investments - Available for Sale	80,400	-	-	80,400
Financial Investments - Held to Maturity	238,572,963	-	-	238,572,963
Other Financial Assets	107,627,817	49,171,875	27,904,052	184,703,743
Total	5,115,062,115	2,362,241,477	142,281,401	7,619,584,993

38.4.3.1 Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not individually impaired loans by class of Financial Assets as at the end of the relevant financial period.

As at 31 March 2018	Past Due but Not Individually Impaired				
	1 to 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and Advances	184,174,351	227,330,745	85,602,843	287,492,626	784,600,565
Lease rentals receivable & Stock out on hire	942,899,277	377,258,110	190,651,235	486,106,088	1,996,914,710
Other Financial Assets	21,293,840	13,860,631	8,242,302	55,467,303	98,864,076
	1,148,367,468	618,449,486	284,496,380	829,066,017	2,880,379,351

Aging Analysis of past due(i.e. facilities in arrears of 1 day and above) but not individually impaired loans by class of Financial Assets as at the previous financial period.

As at 31 March 2017	Past Due but Not Individually Impaired				
	1 to 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and Advances	230,230,277	164,128,873	78,065,440	265,646,122	738,070,712
Lease rentals receivable & Stock out on hire	524,621,687	295,416,729	163,487,667	591,472,807	1,574,998,890
Other Financial Assets	5,616,355	5,163,070	4,016,378	34,376,072	49,171,875
	760,468,319	464,708,672	245,569,485	891,495,001	2,362,241,477

38. RISK MANAGEMENT DISCLOSURES (Contd...)

38.4 CREDIT RISK (Contd.)

38.4.4 Analysis of Risk Concentration

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position.

As at 31 March 2018

Purpose wise Breakdown	Cash and Bank Balances Rs.	Placement with Banks Rs.	Securities Purchased Under Repurchase Agreement Rs.	Financial Investments Held for Trading Rs.	Loans and Advances Rs.	Lease rentals receivable & Stock out on hire Rs.	Financial Investments Available for Sale Rs.	Financial Investents Held to Maturity Rs.	Other Financial Assets Rs.	Total Financial Assets Rs.
Agriculture	-	-	-	-	5,813,590	2,486,914	-	-	-	8,300,504
Manufacturing	-	-	-	-	13,429,399	14,225,025	-	-	-	27,654,424
Construction	-	-	-	-	223,355,601	28,697,661	-	-	-	252,053,262
Financial Services	405,474,541	550,601,090	-	-	12,613,593	1,067,655	80,400	-	-	969,837,281
Trading	-	-	-	-	58,961,837	9,110,879	-	-	-	68,072,716
Government	-	-	362,248,075	-	-	-	-	239,630,135	-	601,878,210
Hotels	-	-	-	-	514,593	1,913,744	-	-	-	2,428,336
Services	-	-	-	-	696,887,612	4,295,546,491	-	-	-	4,992,434,103
Others	-	-	-	-	1,424,245,119	139,247,826	-	-	155,935,006	1,719,427,950
Total	405,474,541	550,601,090	362,248,075	-	2,435,821,344	4,492,296,195	80,400	239,630,135	155,935,006	8,642,086,786

As at 31 March 2017

Purpose wise Breakdown	Cash and Bank Balances Rs.	Placement with Banks Rs.	Securities Purchased Under Repurchase Agreement Rs.	Financial Investments Held for Trading Rs.	Loans and Advances Rs.	Lease rentals receivable & Stock out on hire Rs.	Financial Investments Available for Sale Rs.	Financial Investents Held to Maturity Rs.	Other Financial Assets Rs.	Total Financial Assets Rs.
Agriculture	-	-	-	-	9,353,520	8,140,110	-	-	-	17,493,630
Manufacturing	-	-	-	1,547,825	18,263,457	21,418,890	-	-	-	41,230,172
Construction	-	-	-	-	64,300,958	38,836,939	-	-	-	103,137,897
Financial Services	376,968,804	384,100,772	-	2,922,800	12,914,651	2,102,489	80,400	-	-	779,089,915
Trading	-	-	-	39,000	68,712,664	13,340,777	-	-	-	82,092,441
Government	-	-	250,809,890	-	-	-	-	238,572,963	-	489,382,853
Hotels	-	-	-	561,450	2,116,412	2,300,839	-	-	-	4,978,701
Services	-	-	-	1,183,587	853,338,328	3,375,019,441	-	-	-	4,229,541,356
Others	-	-	-	1,369,746	1,116,676,042	218,806,161	-	-	108,507,477	1,445,359,425
Total	376,968,804	384,100,772	250,809,890	7,624,408	2,145,676,031	3,679,965,646	80,400	238,572,963	108,507,477	7,192,306,391

38. RISK MANAGEMENT DISCLOSURES (Contd...)

38.5 INTEREST RATE RISK

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows and / or the fair values of financial instruments. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;

- Reprising risk arising from a fixed rate borrowing portfolio where reprising frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve.

Assets and Liabilities Committee of the company is having the primary responsibility of managing the Interest Rate Risk. Interest rate risk is managed principally through minimizing interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly.

38.5.1 Interest Rate Sensitivity

38.5.1.1 The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Profit or Loss and Equity.

Rs. Million

Borrowings/ Advance	Increase (Decrease) in basis points	Sensitivity of Profit or Loss	Sensitivity of Equity
	2018	2018	2018
Long Term Loans linked to AWPLR -LKR	+100/ (-100)	(2.01) / 2.01	(2.98) /2.98
	2017	2017	2017
	+100/ (-100)	(1.41) / 1.41	(2.48) / 2.48

The base ratio considered in the Interset Rate Sensitivity Analysis is the AWPLR. Since 46% of total borrowings (excluding Due to Customers) are linked to AWPLR, the above Sensitivity ratio indicates the impact on Profit or Loss and Equity.

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38. RISK MANAGEMENT DISCLOSURES (Contd...)

38.5 INTEREST RATE RISK (Contd...)

38.5.2 Interest Rate Risk

The table below analyses the company's interest rate risk exposure on Non-trading Financial Assets & Liabilities. The Company's Assets & Liabilities are included at carrying amount categorized by the earlier of contractual reprising or maturity dates as at the end of the relevant financial period.

ASSETS	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non interest bearing Rs.	Total as at 31.03.2018 Rs.
Cash and Bank Balances	308,453,199	-	-	-	-	97,021,342	405,474,541
Placement with Banks	249,673,965	300,927,125	-	-	-	-	550,601,090
Securities Purchased under Repurchase Agreement	362,248,075	-	-	-	-	-	362,248,075
Loans and Advances	719,310,731	1,017,147,861	596,602,864	93,720,873	9,039,014	-	2,435,821,344
Lease rentals receivable & Stock out on Hire	1,111,852,139	1,478,274,878	1,739,581,483	162,503,122	84,574	-	4,492,296,195
Financial Investments Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments Held to Maturity	216,714,891	3,181,751	6,809,827	12,923,665	-	-	239,630,135
Other Financial Assets	-	-	-	-	-	155,935,006	155,935,006
TOTAL ASSETS	2,968,253,000	2,799,531,615	2,342,994,174	269,147,660	9,123,588	253,036,748	8,642,086,786
LIABILITIES							
Due to Banks	34,492,194	77,500,000	74,722,165	31,666,667	-	-	218,381,026
Due to Customers	1,703,912,197	3,614,027,595	1,090,862,152	206,357,423	-	-	6,615,159,367
Other Financial Liabilities	-	-	-	-	-	525,278,976	525,278,976
TOTAL LIABILITIES	1,738,404,391	3,691,527,595	1,165,584,317	238,024,090	-	525,278,976	7,358,819,369
TOTAL INTEREST SENSITIVITY GAP	1,229,848,609	(891,995,980)	1,177,409,857	31,123,570	9,123,588	(272,242,228)	1,283,267,417

38. RISK MANAGEMENT DISCLOSURES (Contd...)

38.5 INTEREST RATE RISK (Contd...)

38.5.2.1 Interest Rate Risk

The table below analyses the company's interest rate risk exposure on Non-trading Financial Assets & Liabilities. The Company's Assets & Liabilities are included at carrying amount categorized by the earlier of contractual reprising or maturity dates as at the end of the previous financial period.

ASSETS	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non interest bearing Rs.	Total as at 31.03.2017 Rs.
Cash and Bank Balances	281,963,504	-	-	-	-	95,005,300	376,968,804
Placement with Banks	384,048,045	52,727	-	-	-	-	384,100,772
Securities Purchased under Repurchase Agreement	-	250,809,890	-	-	-	-	250,809,890
Loans and Advances	619,219,423	712,006,394	754,545,182	54,863,979	5,041,053	-	2,145,676,031
Lease rentals receivable & Stock out on Hire	928,025,318	1,342,912,059	1,278,980,503	126,697,428	3,350,338	-	3,679,965,646
Financial Investments Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments Held to Maturity	-	216,321,780	3,150,104	19,101,079	-	-	238,572,963
Other Financial Assets	-	-	-	-	-	108,507,477	108,507,477
TOTAL ASSETS	2,213,256,290	2,522,102,850	2,036,675,789	200,662,486	8,391,391	203,593,177	7,184,681,983
LIABILITIES							
Due to Banks	26,238,920	69,444,445	118,055,555	-	-	-	213,738,920
Due to Customers	1,842,797,336	2,522,776,498	1,076,828,418	108,150,293	-	-	5,550,552,545
Other Financial Liabilities	-	-	-	-	-	482,649,541	482,649,541
TOTAL LIABILITIES	1,869,036,256	2,592,220,943	1,194,883,973	108,150,293	-	482,649,541	6,246,941,006
TOTAL INTEREST SENSITIVITY GAP	344,220,034	(70,118,093)	841,791,816	92,512,193	8,391,391	(279,056,364)	937,740,977

38. RISK MANAGEMENT DISCLOSURES (Contd...)

38.6 LIQUIDITY RISK

Liquidity risk refers to the availability of sufficient cash balances to meet the demand on deposits and new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments. Liquidity risk is financial risk due to uncertain liquidity. An institution might lose liquidity if it experiences sudden unexpected cash outflows, or some other event causes counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity. 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 asset and liability management committee (ALCO) analyses and monitors liquidity risk, and maintains an adequate margin of safety in liquid assets.

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.

38.6.1 Statutory Liquid Asset Ratio

As per the requirements of Finance companies (Liquid Assets) Direction No.4 of 2013 the Company has to maintain minimum liquid assets comprises of 10% of Time Deposits and Certificates of Deposits at the close of the business on such day and 15% of Savings Deposits at the close of the business on such day. In addition to the above, with effect from 01st July, 2014 the company needs to maintain 10% on Borrowings which are not included in the Tier –II capital base and borrowings which are not secured by mortgage of any assets. Further the Company has to maintain liquid assets in the form of Sri Lanka Government Securities not less than 7.5% of average month end total deposit liabilities and the above said borrowings of twelve months of the preceding financial year.

The company maintained a healthy statutory liquid asset ratio throughout the year. The Company considers cash balances, Favorable Balances held with Commercial Banks on demand deposits, Placement with banks in the form of Time Deposits and Savings, Investment in Treasury Bills, Securities Purchased under Repurchase Agreement are considered as Liquid Assets for the purpose Statutory Liquid Asset Ratio calculation.

	Statutory Liquid Asset Ratio	
	2018	2017
Maximum	28.49%	29.31%
Minimum	19.25%	14.24%
Average	23.54%	23.62%
Closing	23.32%	21.81%

38.6.2 Advances to Deposits Ratio

The Company stresses the importance of maintaining an adequate Customer Deposit Base such as Time and Savings Deposits as sources of funds to finance Loans and Advances. They are monitored using the Advances to Deposits ratio which comprises accommodations to customers as a percentage of customer deposits.

	Advances to Deposits Ratio	
	2018	2017
Maximum	113.43%	109.53%
Minimum	104.66%	97.76%
Average	107.67%	102.68%
Closing	104.73%	104.96%

38. RISK MANAGEMENT DISCLOSURES (Contd...)

38.6.3 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

38.6.3.1 The table below analyses the maturity profile of the undiscounted cash flows of the Company's Financial Assets & Liabilities as at the end of relevant financial period.

	On Demand Rs.	Up to 03 Months Rs.	03-12 Years Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31.03.2018 Rs.
ASSETS							
Cash and Bank Balances	405,474,541	-	-	-	-	-	405,474,541
Placement with Banks	27,551,861	232,794,600	323,179,000	-	-	-	583,525,461
Securities Purchased under Repurchase Agreement	212,198,793	151,301,849	-	-	-	-	363,500,642
Loans and Advances	270,951,085	576,465,767	1,304,074,623	838,366,564	164,136,335	16,277,971	3,170,272,345
Lease rentals receivable & Stock out on Hire	480,270,543	873,925,576	2,031,357,134	2.600,187,875	275,250,116	155,692	6,261,146,936
Financial Investments Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments Held to Maturity	-	221,403,433	3,165,200	8,000,000	13,605,500	-	246,174,133
Other Financial Assets	3,404,789	139,277,216	1,926,916	2,264,926	9,061,158	-	155,935,006
TOTAL FINANCIAL ASSETS	1,399,851,612	2,195,168,441	3,663,702,873	3,448,819,365	462,053,109	16,514,063	11,186,109,464
LIABILITIES & EQUITY							
Due to Banks	8,658,861	32,451,744	92,465,500	90,650,937	35,393,790	-	259,620,832
Due to Customers	174,007,569	1,543,057,270	3,786,565,290	1,170,559,315	247,116,696	-	6,921,306,140
Other Financial Liabilities	-	525,278,976	-	-	-	-	525,278,976
TOTAL FINANCIAL LIABILITIES	182,666,430	2,100,787,990	3,879,030,790	1,261,210,252	282,510,486	-	7,706,205,948
	1,217,185,182	94,380,451	(215,327,917)	2,187,609,113	179,542,623	16,514,063	3,479,903,516

38. RISK MANAGEMENT DISCLOSURES (Contd...)

38.6.3 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

38.6.3.2 The table below analyses the maturity profile of the undiscounted cash flows of the Company's Financial Assets & Liabilities as at the end of previous financial period.

	On Demand Rs.	Up to 03 Months Rs.	03-12 Years Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31.03.2017 Rs.
ASSETS							
Cash and Bank Balances	376,968,804	-	-	-	-	-	376,968,804
Placement with Banks	35,301,130	354,084,754	56,298	-	-	-	389,442,182
Securities Purchased under Repurchase Agreement	-	-	276,873,626	-	-	-	276,873,626
Financial Investments - Held for Trading	7,624,408	-	-	-	-	-	7,624,408
Loans and Advances	213,663,189	489,143,368	920,296,880	1,092,180,440	101,377,420	8,868,958	2,834,530,255
Lease rentals receivable & Stock out on Hire	429,893,243	702,658,053	1,803,267,913	1,977,295,411	209,086,391	5,970,760	5,128,171,772
Financial Investments Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments Held to Maturity	-	-	221,415,805	3,165,200	21,605,500	-	246,186,505
Other Financial Assets	-	108,507,477	-	-	-	-	108,507,477
TOTAL FINANCIAL ASSETS	1,063,450,774	1,663,393,653	3,221,910,522	3,072,641,051	332,069,312	14,920,118	9,368,385,429
LIABILITIES & EQUITY							
Due to Banks	12,350,088	18,005,043	85,692,420	129,104,122	-	-	245,151,673
Due to Customers	371,351,090	1,486,877,630	2,631,955,350	1,140,835,712	117,369,730	-	5,748,389,512
Other Financial Liabilities	-	482,649,541	-	-	-	-	482,649,541
TOTAL FINANCIAL LIABILITIES	383,701,179	1,987,532,214	2,717,647,769	1,269,939,834	117,369,730	-	6,476,190,726
	679,749,595	(324,138,561)	504,262,753	1,802,701,217	214,699,582	14,920,118	2,892,194,703

38.7 Operational Risk

An operational risk is the risk arising from execution of a company's business functions. The concept of operational risk is broad and focuses on the risks arising from the people, systems and processes through which a company operates. It also includes other categories such as fraud risks, regulatory and compliance risks, reputation and physical or environmental risks.

39. MATURITY ANALYSIS (CONTRACTUAL)

39.1 An analysis of the Total Assets employed and Total Liabilities at the year end, based on the remaining at the date of the Statement of Financial Position to the respective contractual maturity dates are given below.

	On Demand Rs.	Less than 03 Months Rs.	03-12 Years Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31.03.2018 Rs.
ASSETS							
Cash and Bank Balances	405,474,541	-	-	-	-	-	405,474,541
Placement With Banks	25,176,498	224,497,467	300,927,125	-	-	-	550,601,090
Securities Purchased under Repurchase Agreement	212,118,596	150,129,479	-	-	-	-	362,248,075
Loans and Advances	256,434,364	462,876,368	1,017,147,861	596,602,864	93,720,873	9,039,014	2,435,821,344
Lease rentals receivable & Stock out on Hire	446,671,205	665,180,933	1,478,274,878	1,739,581,483	162,503,122	84,574	4,492,296,195
Financial Investments Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments Held to Maturity	-	216,714,891	3,181,751	6,809,827	12,923,665	-	239,630,135
Other Financial Assets	3,404,789	139,277,216	1,926,916	2,264,926	9,061,158	-	155,935,006
Real Estate Stock	-	5,733,860	20,765,000	31,550,815	-	-	58,049,675
Other Non Financial Assets	-	32,031,858	8,682,385	5,704,483	12,264,035	15,855,598	74,538,359
Tax Recoverable	-	-	19,422,858	-	-	-	19,422,858
Property, Plant & Equipment	-	5,618,925	14,994,108	27,010,097	8,304,048	33,714,682	89,641,860
Intangible Assets	-	743,572	2,230,717	5,948,580	5,948,580	6,226,901	21,098,350
Deferred Tax Assets	-	-	-	52,586,166	-	-	52,586,166
TOTAL ASSETS	1,349,279,993	1,902,804,569	2,867,553,601	2,468,059,241	304,725,481	65,001,169	8,957,424,054
LIABILITIES							
Due to Banks	8,658,861	25,833,333	77,500,000	74,722,165	31,666,667	-	218,381,026
Due to Customers	174,571,946	1,529,340,251	3,614,027,595	1,090,862,152	206,357,423	-	6,615,159,367
Other Financial Lilibilities	-	525,278,976	-	-	-	-	525,278,976
Other Non Financial Liabilities	-	12,064,037	-	-	-	-	12,064,037
Retirement Benefit Liability	-	-	2,855,665	4,815,035	3,515,000	7,727,020	18,912,720
TOTAL LIABILITIES	183,230,807	2,092,516,597	3,694,383,260	1,170,399,352	241,539,090	7,727,020	7,389,796,126

39. RISK MANAGEMENT DISCLOSURES (Contd...)

39.2 An analysis of the Total Assets employed and Total Liabilities at the year end, based on the remaining at the end of the previous financial period to the respective contractual maturity dates are given below

	On Demand Rs.	Less than 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31.03.2017 Rs.
ASSETS							
Cash and Bank Balances	376,968,804	-	-	-	-	-	376,968,804
Placement With Banks	35,301,130	348,746,915	52,727	-	-	-	384,100,772
Securities Purchased under Repurchase Agreement	-	-	250,809,890	-	-	-	250,809,890
Financial Investments - Held for Trading	7,624,408	-	-	-	-	-	7,624,408
Loans and Advances	197,795,369	421,424,054	712,006,394	754,545,182	54,863,979	5,041,053	2,145,676,031
Lease rentals receivable & Stock out on Hire	370,612,889	557,412,429	1,342,912,059	1,278,980,503	126,697,428	3,350,338	3,679,965,646
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	-	216,321,780	3,150,104	19,101,079	-	238,572,963
Other Financial Assets	-	108,507,477	-	-	-	-	108,507,477
Real Estate Stock	-	-	12,166,878	32,532,500	21,351,315	-	66,050,693
Other Non Financial Assets	-	17,415,422	19,654,641	3,318,000	337,000	-	40,725,064
Tax Recoverable	-	-	20,800,270	-	-	-	20,800,270
Property, Plant & Equipment	-	4,443,823	12,639,597	25,495,713	8,823,728	34,440,811	85,843,673
Intangible Assets	-	708,783	2,126,348	5,670,260	5,670,260	8,505,392	22,681,042
Deferred Tax Assets	-	-	-	57,800,324	-	-	57,800,324
TOTAL ASSETS	988,302,600	1,458,658,903	2,589,490,584	2,161,492,586	236,844,790	51,417,994	7,486,207,457
LIABILITIES							
Due to Banks	12,350,088	13,888,832	69,444,445	118,055,555	-	-	213,738,920
Due to Customers	371,038,551	1,471,758,785	2,522,776,498	1,076,828,418	108,150,293	-	5,550,552,545
Other Financial Liabilities	-	482,649,541	-	-	-	-	482,649,541
Other Non Financial Lilibities	-	13,862,374	-	-	-	-	13,862,374
Retirement Benefit Liability	-	-	3,944,830	2,901,140	3,515,000	4,777,350	15,138,320
TOTAL LIABILITIES	383,388,639	1,982,159,532	2,596,165,773	1,197,785,113	111,665,293	4,777,350	6,275,941,700

40. COMMITMENTS AND CONTINGENCIES

40.1 Commitments

As at 31 March 2018	On Demand Rs.	With in 01 year Rs.	1-5 years Rs.	More than 5 yeas Rs.	Total Rs.
Operating Lease Commitments-Company as lessee	-	43,395,515	100,930,199	-	144,325,714
	-	43,395,515	100,930,199	-	144,325,714

As at 31 March 2017	On Demand Rs.	With in 01 year Rs.	1-5 years Rs.	More than 5 yeas Rs.	Total Rs.
Operating Lease Commitments-Company as lessee	-	41,111,281	131,498,016	-	172,609,297
	-	41,111,281	131,498,016	-	172,609,297

40.2 Contingent Liabilities

The Company recognized a Contingent Liability of Rs.18,260,106 in relation to the Income Tax Assessment issued by CGIR for the Y/A 2012/13.

The Inland Revenue Department has issued the determination of appeal dated on 12 January 2018 confirming the Income Tax liability of amounting Rs. 18,260,106 for the Y/A 2012/13 and The Company has made an appeal to the Tax Appeal Commission on the same.

40.3 Capital Commitments

The Company has no commitments for acquisition of Property, Plant & Equipment incidental to the ordinary course of business.

41. EVENTS AFTER THE REPORTING DATE

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date of the financial statements are authorised for issue.

There are no events occurring after the reporting date which require adjustments to or disclosure in the financial statements as at 31 March 2018.

42. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy are to ensure that the company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

43. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2018 Rs.	2017 Rs.	Included Under
Lease & Hire Purchase Receivables	Bank Overdraft	313,366,667	313,366,667	Lease Rental Receivables and Stock Out on Hire
Placement With Banks	Bank Overdraft	34,000,000	34,000,000	Placement With Banks
Lease & Hire Purchase Receivables	Term Loan	419,444,445	402,777,664	Lease Rental Receivables and Stock Out on Hire
		766,811,112	750,144,331	

44. FINANCIAL REPORTING BY SEGMENT

	Leasing		Hire Purchase		Team Loans		Others		Total	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Interest Income	1,042,219,905	904,576,211	4,824,287	20,046,954	519,241,078	453,946,296	145,300,438	116,104,235	1,711,585,707	1,494,673,696
Fee Based Income & Others	178,462,964	87,468,321	349,736	659,385	6,904,991	15,986,470	2,924,820	3,964,382	188,642,511	108,078,558
Unallocated Income	-	-	-	-	-	-	17,442,376	17,754,126	17,442,376	17,754,126
Total Revenue	1,220,682,869	992,044,532	5,174,023	20,706,339	526,146,069	469,932,766	165,667,634	137,822,743	1,917,670,594	1,620,506,380
Interest Expenses	(442,701,500)	(355,219,827)	(3,419,295)	(7,539,007)	(250,102,272)	(166,229,062)	(117,371,171)	(94,651,865)	(813,594,238)	(623,639,761)
Fee Based Expenses & Others	(109,785,662)	(57,823,136)	-	-	(83,910)	(215,708)	(33,680,907)	(26,708,408)	(143,550,479)	(84,747,252)
Impairment Reversal / (Provision)	(33,430,770)	(11,746,867)	212,836	11,619,704	(52,519,081)	(60,443,804)	(137,365,104)	(128,798,427)	(223,102,119)	(189,369,393)
Net Operating Income	634,764,936	567,254,703	1,967,564	24,787,037	223,440,806	243,044,191	(122,749,549)	(112,335,957)	737,423,758	722,749,974
Unallocated Expenses									(604,474,332)	(525,343,646)
Profits/ (Loss) before Tax									132,949,426	197,406,328
Income Tax expenses									(38,085,738)	(63,842,188)
Net Profit /(Loss) for the period									94,863,688	133,564,140
Other Comprehensive Income									(897,936)	2,542,503
Total Comprehensive Income for the Year									93,965,752	136,106,643
Segment Assets	4,473,190,120	3,636,435,388	19,106,075	43,530,258	2,435,821,344	2,145,676,031	1,210,528,976	939,534,318	8,138,646,515	6,765,175,995
Unallocated Assets									818,777,539	721,031,462
Total Assets	4,473,190,120	3,636,435,388	19,106,075	43,530,258	2,435,821,344	2,145,676,031	1,210,528,976	939,534,318	8,957,424,054	7,486,207,457
Unallocated Liabilities									7,389,796,126	6,275,941,700
Total Liabilities									7,389,796,126	6,275,941,700

45. RELATED PARTY TRANSACTIONS

The Company carried out transactions with key management and their related concerns and other related entities in the ordinary course of its business on an arm's length basis at commercial rates with the parties who are defined as Sri Lanka Accounting Standard No.24 Related party disclosure, details of which are reported below. such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

Outstanding balances as at the year-end are unsecured, interest free, and due on demand. There have been no guarantees provided or received for any related party receivables or payables.

Details of related party transactions during the year are as follows:

45.1 The Parent

Abans PLC owns 49.67% (2017- 71.60%) shareholding of the Company.

45.2 The Ultimate Parent

Abans International (Pvt) Ltd is the ultimate parent of Abans Finance PLC.

45.3 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard-LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all of the three activities mentioned in the above definition (i.e. planning, directing and controlling the activities of the entity). Such KMPs include the Board of Directors of the Company and Chief Executive Officer (CEO).

Other related parties include CFMs of the KMPs who are family members who may be expected to influence or be influenced by that KMP in their dealings with the entity.

Compensation to Key Management Personnel	2018 Rs.	2017 Rs.
Short Term Employee Benefits	19,206,890	24,630,698
Post-employment benefits	1,685,700	2,000,000
	20,892,590	24,630,698

Other transactions with Key Management Personnel	2018 Rs.	2017 Rs.
Fixed Deposits accepted during the year	40,300,000	2,310,130
Fixed Deposits held at the beginning of the year	493,126	1,231,212
Consultancy Fee paid during the year	2,594,592	4,450,600

In addition to the above, the Company has also provided non-cash benefits such as vehicle & fuel allowance to Key Management Personnel in line with the approved employment benefits of the Company.

Loans and advances granted

No loans or advances were given to Key Managerial Personnel and their close family members during the year.(2016/17- Nil).

45. RELATED PARTY TRANSACTIONS (Contd..)

45.4 Transactions with entities that are controlled, jointly controlled or significantly influenced by Key Management Personnel or their close member of family, or shareholders who have either control, significant influences or joint control over entity.

	Abans PLC Parent Company		Abans Auto (Pvt) Ltd. Affilate Company		Abans Tours (Pvt) Ltd. Affilate Company		Abans Transport (Pvt) Ltd. Affilate Company		Other Relate Parties**		Total	
Nature of Transaction	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Fixed Deposits Accepted during the year	-	-	-	-	-	-	-	-	21,000,000	266,000,000	21,000,000	266,000,000
Fixed Deposits held at the end of the year		-	-	-	-				149,597,908	350,148,232	149,597,908	350,148,232
As at 1 April	19,421,382	20,593,249	(216,853,088)	(133,917,475)	50,679,120	-	18,126,280	-	(1,012,476)	(407,755)	(129,638,783)	(113,731,981)
Purchase of Motor Bikes - Lease Granting	-	-	(2,187,268,840)	(2,096,101,772)	-	-	-	-	-	-	(2187,268,840)	(2,096,101,772)
Collections made on behalf of Abans Finance	216,797,162	1,391,491,587	-	-	-	-	-	-	-	-	216,797,162	1,391,491,587
Expense on collection commission	(17,402,300)	(15,575,555)	-	-	-	-	-	-	-	-	(17,402,300)	(15,575,555)
Support Services Expenses	-	-	-	-	-	-	-	-	(15,012,665)	(3,480,410)	(15,012,665)	(3,480,410)
Rent Income Recognized & Expense Recoveries	4,824,426	9,938,041	-	-	-	-	-	-	(844,898)	(903,061)	3,979,528	9,034,980
Rent Expense Paid	-	-	-	-	-	-	-	-	633,673	1,310,816	633,673	1,310,816
Settlements Paid/(Received)	(212,397,189)	(1,387,025,941)	2,260,509,892	2,013,166,159	-	-	-	-	15,413,036	2,467,934	2,063,525,739	628,608,152
Facilities Granted and Interest Accrued	-	-	-	-	4,417,896	55,607,635	2,832,428	20,005,047	-	-	7,250,324	75,612,682
Settlements received for the facilities	-	-	-	-	(26,683,086)	(4,928,515)	(2,874,011)	(1,878,767)	-	-	(29,557,097)	(6,807,282)
As at 31 March	11,243,480	19,421,382	(143,612,036)	(216,853,088)	28,413,929	50,679,120	18,084,697	18,126,280	(823,330)	(1,012,476)	(86,693,258)	(129,638,783)

Included in	2018 Rs.	2017 Rs.
Loans and Advances	11,732,099	10,828,284
Lease rentals receivable & Stock out on hire	34,766,528	57,977,116
Other Financial Assets	14,734,680	21,011,870
Other Financial Liabilities	(147,926,565)	(219,456,053)
	(86,693,258)	(129,638,783)

**Other Related Parties include the following companies

Abans Graphics (Pvt) Ltd	ABS Gardiner Dixon Hall International (Pvt) Ltd
Abans Retail (Pvt) Ltd	Advantage Technologies (Pvt) Ltd
Abans Marketing (Pvt) Ltd	Abans Environment Services (Pvt) Ltd
Abans Electricals PLC (Service Department)	AB Logistics (Pvt) Ltd
Abans Office Automation (Pvt) Ltd	AB Securitas (Pvt) Ltd
AB Creation (Pvt) Ltd	ABS Courier (Pvt) Ltd
Add Outdoor Advertising (Pvt) Ltd	Ironwood Investments Holdings (Pvt) Ltd

"Other Related Parties are companies controlled / jointly controlled / significantly influenced by Key Management Personnel.

46. COMPARATIVE INFORMATION

The following comparative figures have been reclassified in the Statement of Financial Position (2016/2017) to comply with the current year classification.

Other Financial Liabilities

	Previous Year Classification	Reclassified	Current Year Classification
Trade Payables - Related Parties	218,443,576	-	218,443,576
Non Trade Payables - Related Parties	-	1,012,476	1,012,476
Trade Payables - Other Parties	32,953,866	-	32,953,866
Accrued Expenses	231,252,099	(1,012,476)	230,239,623
	482,649,541	-	482,649,541

Non Trade Payables to Related Parties

	Relationship			
Abans Environmental Services	Affiliate Company	-	201,825	201,825
AB Securitas (Pvt) Ltd	Affiliate Company	-	697,951	697,951
ABS Courier (Pvt) Ltd	Affiliate Company	-	112,700	112,700
		-	1,012,476	1,012,476

VALUE ADDITION

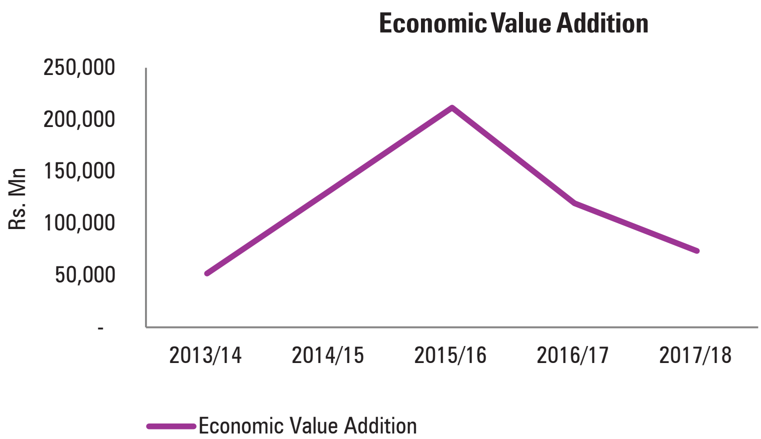
Financial Value Addition

For the year ended 31 March	2018 Rs.'000	%	2017 Rs.'000	%
Value Added				
Income earned by providing Financial Services	1,915,994		1,619,558	
Cost of Services	(1,222,925)		(942,663)	
Value added by financial services	**693,068**		**676,895**	
Net gain / (loss) from trading	1,677		948	
Impairment	(223,102)		(189,369)	
Total Value Added	**471,643**		**488,474**	
Value Allocated				
Employees as Remuneration	256,395	54	217,089	44
Government as Taxes	96,740	21	119,161	24
Shareholders as Dividends	13,312	3	-	-
Retained within the Business				
- As depreciation & amortization	23,644	5	18,661	4
- As reserves	81,551	17	133,564	27
Total Value Allocated	**471,643**	**100**	**488,474**	**100**

Economic Value Added (EVA)

Responsibility towards Economic Value Addition is the core of the business strategy that adds value to our stake holders comprising equity holders, customers, employees and finally the entire community.

For the year Ended 31 March	2018 Rs'000	2017 Rs'000
Shareholders' Funds	1,567,628	1,210,266
Accumulated Provision for Impairment chargers	511,289	427,279
	2,078,917	1,637,544
Profit Attributable to:		
Shareholders	94,864	133,564
Add-Impairment Provision.	223,102	189,369
	317,966	322,934
Economic Cost		
(Average treasury bill rate +2% Risk Premium)	11.75%	12.42%
Economic Cost	244,273	203,383
Economic Value Addition	73,693	119,551



CAPITAL ADEQUACY

Capital is one of the most important sources of funds to a financial business since provides a buffer against any losses that might occur in relation to credit risk, interest rate risk, liquidity risk, operational risk etc. Hence capital adequacy of a financial business is a dynamic concept.

The capital adequacy assures the public and the financial business supervisor that the financial business is in a position to survive whatever strains that may be placed on it.

Capital Adequacy Ratio (CAR) is a measure of capital of a finance company as a percentage of its Risk Weighted Assets.

01. Core Capital Ratio (Tier I) : $\frac{\text{Core Capital}}{\text{Risk Weighted Assets}}$

02. Total Risk Weighted Capital Ratio (Tier I+Tier II) : $\frac{\text{Capital Base}}{\text{Risk Weighted Assets}}$

Tier I -Core capital

The Tier I core capital mainly consist of shareholder's equity (paid up shares/common stock) and reserves created or increased by appropriations of retained earnings or other surpluses, i.e. retained profits and other reserves

Tier II-Supplementary capital

The Tier II supplementary capital representing revaluation reserves approved by CBSL, general provisions and other capital instruments which combine certain characteristics of equity and debt, such as subordinated term debt.

31 March	2017-18 (Rs.'000)	2016-17 (Rs.'000)
Total Tier I core capital (schedule I)	1,547,628	1,190,266
Total Capital Base (schedule II)	1,547,628	1,187,382
Total Risk Weighted Assets (schedule III)	7,369,176	6,130,991
Core Capital Ratio (Minimum 5%)	21.00	19.41
Total Risk Weighted Capital Ratio (Minimum10%)	21.00	19.37

The capital adequacy ratios stood at 21.00% both (Tier 1) and (Total of Tier 1 and Tier 2), as at 31 March, 2018. Capital adequacy ratios of the Company have increased during the year under review as opposed to previous year.

The total capital adequacy ratio increased to 21.00% as at 31 March 2018, from 19.37% at 31 March 2017. This increase was due to the issuance of shares by way of rights issue amounting Rs 277.3 Mn during the year under review.

DETAILS OF FREEHOLD LAND

Details of Freehold Land as at 31 March 2018

Location	Awissawella Road, Galwana-Mulleriyawa
Land Extent	72.45p
Cost (Rs.)	24,940,093
Valuation (Rs.)	87,000,000

Valuation of the freehold land of the Company was carried out as at 31 March 2018 by K.D Sirisena, A.I.V Sri Lanka using Market Comparable Method.

Overview
Management Discussion and Analysis
Corporate Stewardship
Financial Information
Supplementary Information

TEN YEAR SUMMARY

Statement of Comprehensive Income

	2018	2017	2016	2015	2014	2013	2012	*2011	*2010	*2009
Income	**1,917,670,594**	**1,620,506,380**	**1,317,233,363**	**958,110,639**	**751,979,154**	**570,344,914**	**456,093,900**	**396,244,898**	**287,674,710**	**354,520,565**
Interest Income	1,711,585,707	1,494,673,696	1,189,278,894	853,772,285	688,523,379	541,111,997	434,997,143	369,635,871	269,854,363	338,696,974
Interest Expense	(813,594,238)	(623,639,761)	(481,221,503)	(409,914,041)	(387,218,811)	(328,177,272)	(221,598,714)	(181,474,454)	(191,575,112)	(230,983,120)
Net Interest Income	**897,991,469**	**871,033,935**	**708,057,391**	**443,858,244**	**301,304,568**	**212,934,725**	**213,398,429**	**188,161,417**	**78,279,251**	**107,713,854**
Fee and Commission Income	185,717,691	104,114,176	111,586,810	91,787,158	48,243,961	24,513,497	19,240,537	-	-	-
Fee and Commission Expenses	(143,550,479)	(84,747,252)	(76,888,915)	(45,314,982)	(22,452,896)	(7,055,624)	(3,855,418)	-	-	-
Net Fee and Commission Income	**42,167,212**	**19,366,924**	**34,697,895**	**46,472,176**	**25,791,065**	**17,457,873**	**15,385,119**	**-**	**-**	**-**
Net Gain / (Loss) from Trading	1,676,964	948,394	(582,293)	1,830,282	272,657	449,377	(2,869,874)	-	-	-
Other Operating Income (Net)	18,690,232	20,770,114	16,949,952	10,720,913	14,939,157	4,270,043	4,726,094	26,609,027	17,820,347	15,823,591
Total Operating Income	**960,525,877**	**912,119,367**	**759,122,945**	**502,881,616**	**342,307,447**	**235,112,018**	**230,639,768**	**214,770,444**	**96,099,598**	**123,537,445**
Impairment (Charge) / Reversal (Prov. For Bad Debts)	(223,102,119)	(189,369,393)	(225,840,117)	(115,592,554)	(115,721,812)	(5,143,119)	(2,649,110)	(19,220,718)	(95,177,038)	(31,333,036)
Net Operating Income	**737,423,758**	**722,749,974**	**533,282,828**	**387,289,061**	**226,585,635**	**229,968,899**	**227,990,658**	**195,549,726**	**922,560**	**92,204,409**
Less: Operating Expenses										
Personnel Cost	(256,394,681)	(217,088,659)	(166,916,649)	(118,587,829)	(78,998,858)	(69,738,998)	(58,603,261)	(53,341,872)	(36,157,265)	(40,850,660)
Other Operating Expenses	(289,425,141)	(252,936,224)	(205,696,824)	(160,067,903)	(118,563,171)	(93,872,626)	(83,203,335)	(70,204,434)	(67,224,035)	(71,503,989)
Operating Profit before VAT on FS	**191,603,937**	**252,725,091**	**160,669,355**	**108,633,329**	**29,023,606**	**66,357,275**	**86,184,062**	**72,003,420**	**(102,458,740)**	**(20,150,240)**
Value Added Tax on Financial Services	(58,654,511)	(55,318,763)	(30,188,461)	(11,123,943)	(3,655,613)	(7,585,827)	(8,379,298)	(8,935,538)	-	(1,192,032)
Profit before Taxation from Operations	**132,949,426**	**197,406,328**	**130,480,894**	**97,509,387**	**25,367,993**	**58,771,448**	**77,804,764**	**63,067,882**	**(102,458,740)**	**(21,342,272)**
Income Tax Expenses	(38,085,738)	(63,842,188)	(40,356,230)	(24,707,819)	(16,672,634)	(18,083,398)	(32,130,568)	(20,568,382)	37,729,196	(2,306,621)
Profit for the year	**94,863,688**	**133,564,140**	**90,124,664**	**72,801,568**	**8,695,359**	**40,688,050**	**45,674,196**	**42,499,500**	**(64,729,544)**	**(23,648,893)**

* Figures as per SLASs

TEN YEAR SUMMARY [Contd.]

Statement of Financial Position

Assets	2018	2017	2016	2015	2014	2013	2012	*2011	*2010	*2009
Cash and Bank Balances	405,474,541	376,968,804	73,385,295	68,497,383	105,135,491	33,802,530	24,020,124	12,497,605	7,771,603	4,525,613
Placements with Banks	550,601,090	384,100,772	224,098,165	283,645,333	127,536,938	125,140,325	25,480,046	65,103,633	42,401,609	15,000,000
Investment in Government Securities	601,878,210	489,382,853	651,828,340	448,038,936	326,071,980	168,522,407	208,659,434	156,762,970	65,878,767	73,315,520
Financial Investment - Held for Trading	-	7,624,408	6,915,241	7,370,358	7,050,136	8,336,546	8,085,928	11,716,200	-	-
Financial Investments - Debt Securities	-	-	-	49,278,340	49,436,762	-	-	-	-	-
Loans and Advances	2,435,821,344	2,145,676,031	1,188,546,845	637,248,600	742,249,738	836,056,102	973,335,065	773,016,923	324,568,604	194,209,439
Lease Rentals Receivable & Stock Out on Hire	4,492,296,195	3,679,965,646	3,596,251,779	2,903,285,248	2,073,588,417	1,549,447,291	1,236,193,230	901,333,337	777,541,018	1,012,680,534
Financial Investments - Available for Sale	80,400	80,400	80,400	100,210,655	80,400	80,400	80,400	80,400	80,400	80,400
Real Estate and Vehicle Stock	58,049,675	66,050,693	83,066,481	97,139,978	130,860,857	133,841,502	144,617,200	135,883,066	136,058,707	133,343,132
Other Assets	230,473,365	149,232,541	171,697,004	123,914,661	117,875,934	41,400,543	40,906,702	36,477,522	79,322,350	55,775,411
Tax Recoverable	19,422,858	20,800,270	-	-	-	-	6,602,175	6,468,996	13,345,635	10,727,880
Intangible Assets	21,098,350	22,681,042	15,608,896	10,241,083	9,340,722	12,268,902	10,410,217	12,900,571	-	-
Property, Plant & Equipment	89,641,860	85,843,673	75,811,265	26,807,373	17,957,131	16,608,243	19,253,353	16,984,244	18,682,524	27,976,307
Deferred Tax Assets	52,586,166	57,800,324	61,419,536	18,446,150	155,429	-	81,683	20,557,523	32,969,828	-
Total Assets	**8,957,424,054**	**7,486,207,457**	**6,148,709,246**	**4,774,124,097**	**3,707,339,935**	**2,925,504,791**	**2,697,725,557**	**2,149,782,990**	**1,498,621,045**	**1,527,634,236**
Liabilities										
Due to Banks & Other Financial Institutions	218,381,026	213,738,920	47,004,092	155,850,542	263,270,842	359,435,796	383,057,225	153,893,325	92,607,209	340,489,122
Due to Customers	6,615,159,367	5,550,552,545	4,539,362,221	3,591,961,005	2,600,119,545	1,765,882,547	1,672,108,739	1,519,571,106	1,009,533,058	591,000,334
Debt Instruments Issued and Other Borrowed Funds	-	-	31,110,631	-	122,265,623	174,325,059	99,374,620	24,999,996	-	136,714,790
Other Liabilities	537,343,013	496,511,915	845,112,032	463,476,075	255,500,318	169,836,413	135,377,017	87,281,639	85,686,066	79,202,217
Retirement Benefit Liability	18,912,720	15,138,320	15,249,338	11,474,701	7,411,816	5,833,972	3,716,167	5,619,332	2,659,537	2,589,813
Current Tax Liabilities	-	-	56,345,826	26,491,603	5,876,796	3,376,089	-	-	-	-
Deferred Tax Liability	-	-	-	-	-	2,589,526	-	-	-	4,773,242
Total Liabilities	**7,389,796,126**	**6,275,941,700**	**5,534,184,140**	**4,249,253,926**	**3,254,444,940**	**2,481,279,402**	**2,293,633,768**	**1,791,365,398**	**1,190,485,870**	**1,154,769,517**
Shareholders' Funds										
Stated Capital	1,121,412,955	844,073,080	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630
Statutory Reserve	108,239,567	89,266,829	62,554,000	44,529,000	29,968,000	28,228,500	20,201,500	9,519,900	1,020,000	1,020,000
Investment Fund	-	-	-	-	18,454,242	14,723,671	7,833,381	-	-	-
Reserve on Available for Sale Financial Instruments	-	-	-	130,255	-	-	-	-	-	-
Retained Earnings	337,975,406	276,925,848	169,597,476	97,837,286	22,099,123	18,899,588	(6,316,722)	(33,475,938)	(75,258,455)	(10,528,911)
Total Shareholders' Funds	**1,567,627,928**	**1,210,265,757**	**614,525,106**	**524,870,171**	**452,894,995**	**444,225,389**	**404,091,789**	**358,417,592**	**308,135,175**	**372,864,719**
Total Liabilities and Shareholders' Funds	**8,957,424,054**	**7,486,207,457**	**6,148,709,246**	**4,774,124,097**	**3,707,339,935**	**2,925,504,791**	**2,697,725,557**	**2,149,782,990**	**1,498,621,045**	**1,527,634,236**

* Figures as per SLASs

BRANCH NETWORK

	Barnch	Category	Address	Telephone Number	Fax Number	E-mail Address	Name of the Branch Manager/ Officer in Charge	Branch Code
1	Colombo	Head Office/ Branch	No 456, R.A.De Mel Mawatha, Colombo 03.	011-2208888	011-2375517	inquiries@abansfinance.lk	Mr. Anura Fernando (COO)	HO
2	Kurunegala	Branch	No. 193/A, Colombo Road, Kurunegala.	037-3877888/037-3616655/ 0113075252/0373976161	037-2222611	kurunegala@abansfinance.lk	Mr. Salinda Herath	KG
3	Dambulla	Branch	Sujatha Building, Kurunegala Junction, Dambulla	066-2285004/066-2285006	066-2285000	dambulla@abansfinance.lk	Mr. M J Jayathilake	DB
4	Badulla	Branch	No. 5, Lower King Street, Badulla	055-3557730/055-2228180/055-3053757	055-2222101	badulla@abansfinance.lk	Mr. Harendra Kumara	BD
5	Anuradhapura	Branch	No 348/A, 348/B, Maithripala Senanayaka Mw, Anuradhapura	025-2220679/025-2220680 / 025-2220681/025-2220683	025-2234557	anuradhapura@abansfinance.lk	Mr. Sunil Kahawatta	AP
6	Galle	Branch	No. 02, Malwatta Road, Kaluwella, Galle	091-3907720/091-2235888/ 091-5621948/091-5621748	091-2227122	galle@abansfinance.lk	Mr. Ranjith Kalyananda	GL
7	Gampaha	Branch	No. 118, Colombo Road, Gampaha	033-3438602/033-3555450	033-2234970	gampaha@abansfinance.lk	Mr. Anushanga Mudannayake	GM
8	Jaffna	Branch	No 221, Power House Road, Jaffna	021-3207686	021-2217022	jaffna@abansfinance.lk	Mr. Thushyanthan	CH
9	Rathnapura	Branch	No 176, Main Street, Rathnapura	045-2221226	045-2226873	ratnapura@abansfinance.lk	Mr. Sujeewa Kumara	RT
10	Kandy	Branch	No. 26, Hill Street, Kandy	081-3827710/081-3842720/ 081-2220744/0812204488/0812220745	081-2205675	kandy@abansfinance.lk	Mr. Samantha Gunawardane	KD
11	Kaduruwela	Customer Centre	No.16, Opposite Police Station, Kaduruwela	066-3062444/027-3900995	027-2223323	kaduruwela@abansfinance.lk	Mr. Nuwan wanasinghe	KW
12	Embilipitiya	Customer Centre	No.125/A, Dhankotuwa Uluhala New Town Road, Embilipitiya	047-3220400/ 047-3220401	047-2262261	embilipitiya@abansfinance.lk	Mr. R U P Rupasinghe	EB
13	Ampara	Customer Centre	No. 19, D.S. Senanayaka Veediya, Ampara	063-2224747	063-2223141	ampara@abansfinance.lk	Mr. H D P Kumara	AM
14	Batticaloa	Customer Centre	No.395, Trinco Road, Batticaloa	065-3063336	065-2229799	batticaloa@abansfinance.lk	Mr. R Rasalingam	BT
15	Puttalam	Customer Centre	No. 138, Kurunegala Road, Puttalam	032-3295105	032-2267667	puttlam@abansfinance.lk	Mr. Sarath Wickramasinghe	PT
16	Matara	Customer Centre	No.402/A, Galle Road, Paburana,Matara	041-2228570 / 041-2228571	041-2238440	matara@abansfinance.lk	Mr. J G Chinthaka	MT
17	Thissamaharama	Customer Centre	No.18, Pahala Veediya Tissamaharama	047-3220240/047-3220241	047-2237937	thissamaharama@abansfinance.lk	Mr. D T M De Silva	TS
18	Trincomalee	Customer Centre	No.36/C,Sumethagama, Stage ii, Kandy Road, Trincomalee	026-3207334/026-3207333	026-2054849	trinco@abansfinance.lk	Mr. R Jerome	TR
19	Vavuniya	Customer Centre	No.24,Second Cross Street, Vauniya	024-2228222/ 024-3200222	024-2228222	vavuniya@abansfinance.lk	Mr. T Srinesa	VY
20	Kadawatha	KIOSK	No. 172/12/E, Kandy Road, Kadawatha	011-2926811	011-2926811	kadawatha@abansfinance.lk	Mr. Urantha Perera	KS
21	Ja-ela	KIOSK	No 17. Negambo Road, Ja- ela	011-3144338	011-2240228	jaela@abansfinance.lk	Mr. Urantha Perera	KS
22	Moratuwa	KIOSK	No. 486, Rawathawattha, Moratuwa.	011-3052200	011-2649177	moratuwa@abansfinance.lk	Mr. Urantha Perera	KS
23	Piliyandala	KIOSK	No. 28, Saranapala Mw, Piliyandala.	011-3034200	011-2609310	piliyandala@abansfinance.lk	Mr. Urantha Perera	KS

BRANCH NETWORK *[Contd.]*

Head Office / Branch
Colombo

Branch
Kurunegala
Dambulla
Badulla
Anuradhapura
Galle
Gampaha
Jaffna
Rathnapura
Kandy

Customer Centre
Kaduruwela
Embilipitiya
Ampara
Batticaloa
Puttalam
Matara
Thissamaharama
Trincomalee
Vavuniya

KIOSK
Kadawatha
Ja-ela
Moratuwa
Piliyandala

GLOSSARY OF TERMS

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and Presenting Financial Statements.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Amortization

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Available for Sale (AFS)

AFS are those non-derivative financial assets that are designed as available for sale or are not classified as loans and receivable, held –to-maturity investment or financial assets at fair value through profit or loss.

C

Capital Adequacy

The percentage of risk-adjusted assets supported by capital as defined under the framework of risk based capital standards developed by the Bank for International Settlement (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Capital Reserves

Capital Reserves consist of revaluation reserves arising from revaluation of properties owned by the Company and Reserve Fund set aside for specific purposes defined under the Business Finance Act No.42 of 2011 which is not available for distribution.

Cash Equivalents

Short-term highly liquid investments those are readily convertible to known amounts of cash and which subject to an insignificant risk of changes in value.

Collective Impairment

Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant.

Contingencies

A condition or situation existing at the balance sheet date where the outcome will be confirmed only by the occurrence or non-occurrence of one or more future events.

Commitments

Credit facilities approved but not yet utilized by the clients as at the Balance Sheet Date.

Corporate Governance

The Process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Credit Risk

Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

D

Dealing Securities

These are marketable securities acquired and held with the intention to resale over a short period of time.

Deferred Tax

Sum set aside in the financial statements for taxation that may become payable in a financial year other than the current financial year.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition

Removal of a previously recognized financial assets or financial liability from an entity's statement of financial position.

E

Earnings per Share (EPS)

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue.

Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

Effective Tax Rate

Provision for taxation expressed as a percentage of Profit Before Tax.

Events after Reporting Date

Transactions that are not recognized as assets or liabilities in the statement of financial position, but which give rise to the contingencies and commitments.

F

Fair Value

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Finance Lease

A contract where by a lessor conveys to the lessee the right to use asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains ownership of asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Assets

Any asset that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

Financial Instruments

Any contract that gives rise to a financial assets of one entity and financial liability or equity instrument of another entity.

GLOSSARY OF TERMS [*Contd.*]

Financial Liabilities

A contractual obligation to deliver cash or other financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

H

Held for Trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time.

Held To Maturity Investment

A non derivative financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Hire purchase

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

Impairment

This occurs when recoverable amount of an asset is less than the carrying amount.

Individual Impairment

Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

Intangible Asset

An identifiable non-monetary asset without physical substance held for use in production/supply of goods/services or for rental to others or for administrative purposes.

Interest Bearing Liabilities

Liabilities on which the Company is paying interest.

Interest Margin

Net interest income as a percentage of average interest earning assets.

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

Interest Spread

This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Interest in Suspense

Interest suspended on Non-Performing Loans, Lease, hire purchase and advances (as per previous accounting standards)

K

Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

L

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks and bills of exchange and Treasury Bills.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

M

Market Capitalization

Number of ordinary shares in issues multiplied by the market value of a share as at the year end.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, equity prices and commodity prices.

N

Net-Interest Income (NII)

The difference between what a Company earn on assets such as loans and securities and what it pays on liabilities such as deposits refinance funds and other borrowings.

Non-Performing Loans (NPL)

All loans classified as Non-Performing when a payment of capital and/or interest is in arrears for 6 months or more.

NPL Ratio (Gross)

Total Non-Performing Advances as a percentage of total advances portfolio (Net of interest in suspense).

NPL Ratio (Net)

Total Non-Performing Advances as a percentage of total advances portfolio (Net of interest in suspense and Loan loss provision).

O

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

P

Past Due

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

GLOSSARY OF TERMS [*Contd.*]

Price Earnings Ratio

A valuation ratio of a company's current share price to it's per share earnings. It can be calculated by dividing the market Value per share by Earnings per share.

Probability of Default (PD)

An internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understand.

R

Return on Average Assets (ROA)

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Revenue Reserve

Reserves set aside for future distribution and investment.

Return on Equity (ROE)

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Related Parties

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related Party Transactions

A transfer of resources, services, obligations between related parties, regardless of whether a price is charged or not.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specific date and price.

Risk Weighted Assets

On Balance Sheet Assets and the credit equivalent of off Balance Sheet Assets multiplied by the relevant risk weighting factors as specified by Central Bank of Sri Lanka.

Risk Adjusted Asset

Used the calculation of risk based capital ratio. The face amount of lower risk assets is discounted using risk weighted factor in order to reflect a comparable risk per-rupee among all type of asset.

S

Segmental Analysis

Analysis of financial information by segments of an enterprise specifically the different industries and the different geographical areas in which it operates.

Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

Statutory Reserve Fund

A capital reserve created as per the provisions of the Finance Business Act No. 42 of 2011.

T

Tier 1 Capital

Core Capital representing permanent Shareholders' equity and reserve created or increased by appropriation of retained earnings or other surpluses.

Tier 2 Capital

Tier 2 Capital or Supplementary Capital represents total value of Re-valuation reserves,General provisions and subordinated Debt.

Transaction Costs

They are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

V

Value Added

Value of wealth created by providing financial and other related services less the cost of providing such services.

Y

Yield

Rate of return on an investment in percentage terms, taking in to account annual income and any changes in capital value.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the TWELFTH ANNUAL GENERAL MEETING of ABANS FINANCE PLC will be held on 21 September 2018 at 09.30 a.m. at the Organization of Professional Associations of Sri Lanka, No. 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07 for the following purposes:

1. To receive and adopt the Report of the Directors, the Audited Financial Statements of the Company for the year ended 31 March 2018 and the Report of the Auditors thereon.

2. To re-elect Mr. Rusi Pestonjee, a Director of the Company who retires by rotation in conformity with section A.8 of the Code of Best Practice on Corporate Governance 2013, as recommended by the Directors.

3. To re-appoint Messrs. Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.

4. To inform of the non-compliance with the Minimum Public Holding Requirement and the adopted/proposed remedial action.

BY ORDER OF THE BOARD

Sgd.
Varners International (Private) Limited
Company Secretaries of Abans Finance PLC,
Level 14, West Tower,
World Trade Center,
Echelon Square,
Colombo 01.

10 August 2018

Notes;

1. A member unable to attend the above meeting is entitled to appoint a proxy, who need not be a member, to attend and vote in his/her place and Form of Proxy is attached to this report for this purpose.

2. The completed Form of Proxy should be deposited at the office of the Secretaries at Level 14, West Tower, World Trade Center, Echelon Square, Colombo 1, not less than 48 hours before the time fixed for the meeting.

3. A Form of Attendance is included in this report. Shareholders are requested to complete it and hand it over when attending meeting.

4. For reasons of security, it is essential that you bring with you, your National Identity Card/ Passport.

CORPORATE INFORMATION

NAME OF THE COMPANY

Abans Finance PLC

LEGAL FORM

A Public Limited Liability Company Incorporated in Sri Lanka on 8 April 2005 under the Companies Act No. 17 of 1982. Re-registered on 15 June 2009 in terms of the Companies Act No. 7 of 2007. A Finance Company licensed by the Monetary Board of the Central Bank of Sri Lanka in terms of The Finance Business Act No. 42 of 2011. A Registered Finance Leasing Establishment under the Finance Leasing Act No. 56 of 2000. An approved Credit Agency under the Mortgage Act No. 6 of 1949 and the Trust Receipts Ordinance No. 12 of 1947.

REGISTRATION NO. – PB 1015 PQ

STOCK EXCHANGE LISTING

The ordinary shares of the Company are listed on the Colombo Stocks Exchange of Sri Lanka.

REGISTERED OFFICE

No. 498, Galle Road,
Colombo 03

HEAD OFFICE

No. 456, R.A.De Mel Mawatha, Colombo 3.
Tel. 011- 2208888
E-mail : inquiries@abansfinance.lk

AUDITORS

M/s Ernst & Young
Chartered Accountants,
201, De Saram Place,
P.O.Box 101,
Colombo10

INTERNAL AUDITORS

Chief Internal Auditor
Abans Group of Companies
498, Galle Road,
Colombo 03

SECRETARIES & LAWYERS

Varners International (Pvt) Ltd.,
Level 14, World Trade Centre Building,
Colombo 01

BANKERS

Bank of Ceylon
Seylan Bank
People's Bank
Commercial Bank
Pan Asia Bank Corporation
Union Bank
Sampath Bank
Hatton National Bank

VAT REGISTRATION NO.

134012439-7000

BOARD OF DIRECTORS

Mr. R. Pestonjee
Chairman

Mr. K. B. Wanigasekara
Managing Director (Retired w.e.f. 27 September 2017)

Mr. R.A. Nanayakkara
Managing Derector/ Chief Executive Officer
(Appointed w.e.f. 27 September 2017)

Mr. V. K. Choksy
Senior Director
Independent Non-Executive Director

Mr. Ajith S. Ratnayake
Independent Non-Executive Director

Mr. M. P. Parekh
Non-Executive Director

Mr. C.H.A.W. Wickramasuriya
(Alternate to Mr. M. P. Parekh)
Non-Executive Director

Abans Finance PLC
No. 456, R. A. De Mel Mawatha, Colombo 3.
Tel : 011- 2208888 Fax : 011-2375517, E-mail : inquiries@abansfinance.lk
web : www.abansfinance.lk