

Abans Finance PLC
Annual Report 2018 ▶ 19



CONTENTS

Overview

About Us	01
Financial Highlights	02
Chairman's Message	04
Managing Director/CEO's Message	05

Management Discussion and Analysis

Economic Overview	06
AFPLC Performance in Year 2018/19	07
Financial Review	14
Future Strategic Direction	16
Engaging Stakeholders	17
External Capital Formation	
Investors Capital	19
Customer Capital	23
Employee Capital	24
Social and Environmental Capital	26

Corporate Stewardship

Board of Directors	27
Chairman's Statement of Corporate Governance	29
Corporate Governance	30
Audit Committee Report	51
Related Party Transactions Review Committee Report	52
Remuneration Committee Report	53
Nomination Committee Report	54
Integrated Risk Management Committee Report	55
Risk Management Report	56

Financial Information

Report of the Board of Directors	61
Directors' Responsibility for Financial Reporting	65
Independence Assurance Report	66
Directors' Statement of Internal Control Over Financial Reporting	68
Managing Director's and Chief Financial Officer's Responsibility for Financial Reporting	69
Independent Auditors' Report	70

Financial Reports

Statement of Comprehensive Income	74
Statement of Financial Position	75
Statement of Changes in Equity	76
Statement of Cash Flows	77
Notes to the Financial Statements	78

Supplementary Information

Value Addition	137
Capital Adequacy	138
Ten Year Summary	139
Branch Network	141
Glossary of Terms	143
Notice of Meeting	146

Corporate Information

Inner Back Cover

ABC OF 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 8 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 14 years has been an eventful one, where the Company has endured challenges and emerged a strong, resilient force in the sector. Over the 14 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)	2018/19	2017/18	Change
Income	1,978,549	1,917,671	3.17%
Net Interest Income	959,776	897,991	6.88%
Net Fee and Commission Income	70,655	42,167	67.56%
Total Operating Income	1,044,149	960,526	8.71%
Profit Before Taxation	110,880	132,949	(16.60%)
Taxation	87,158	38,086	128.85%
Profit After Taxation	23,721	94,864	(74.99%)

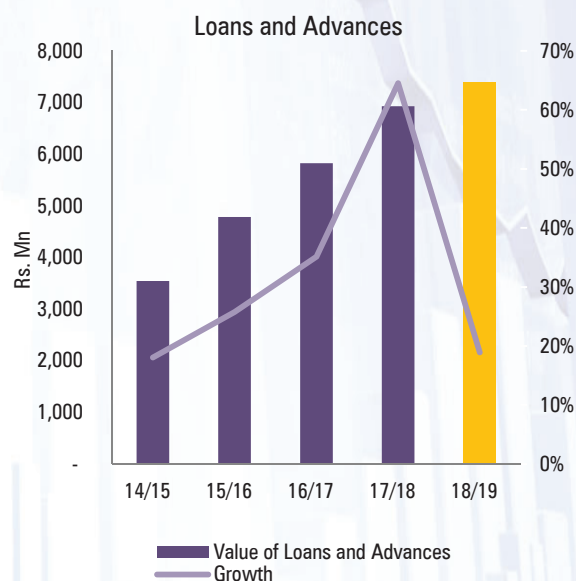
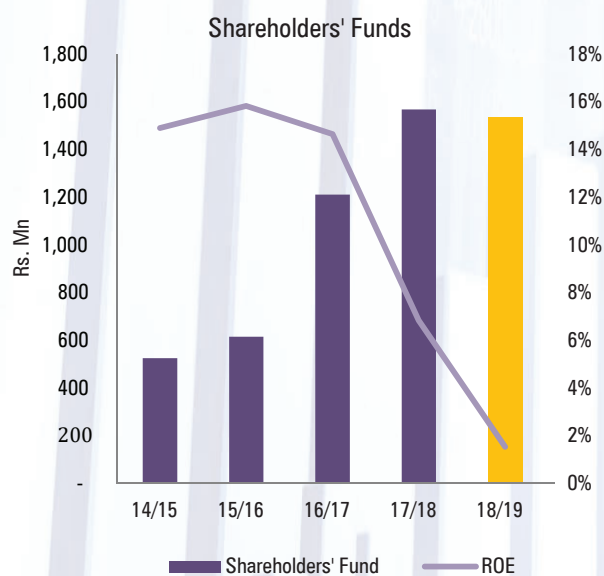
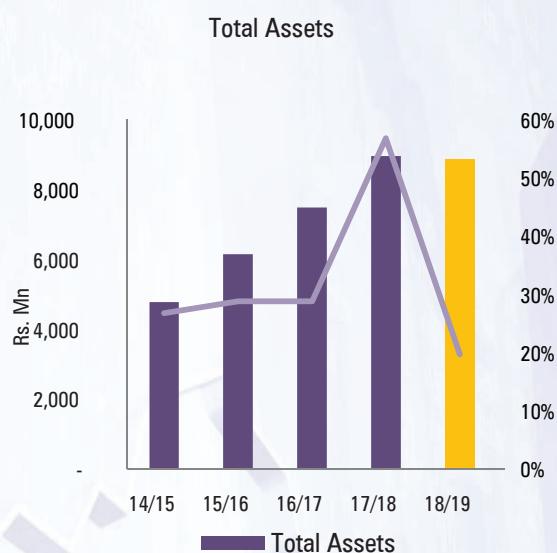
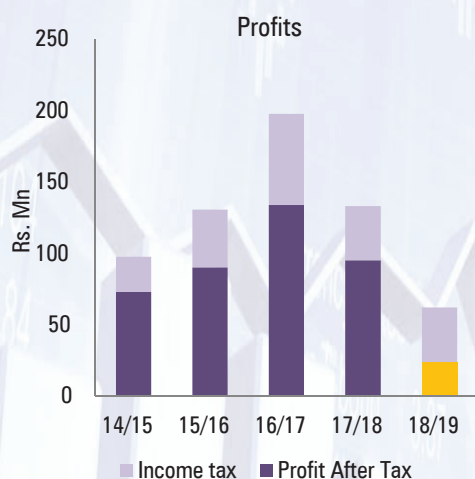
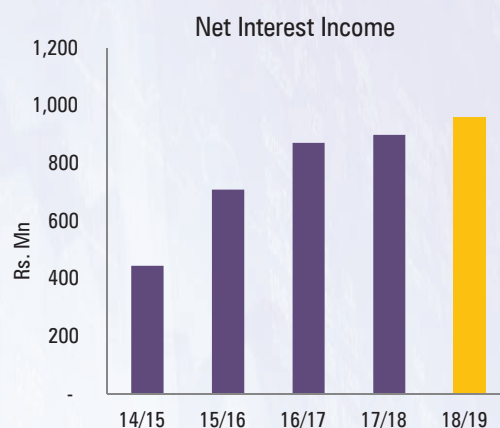
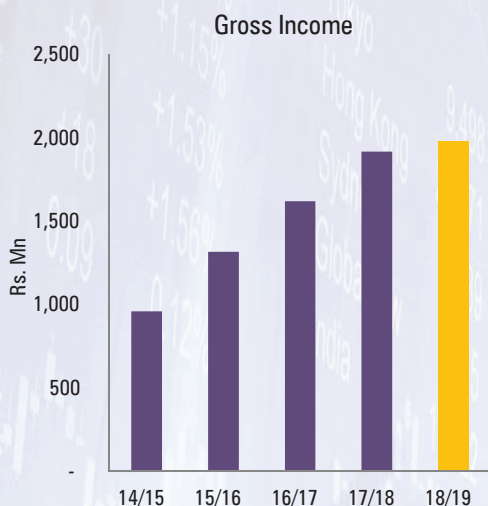
Financial Position at the Year End (Rs. '000)			
Total Assets	8,860,311	8,957,424	(1.08%)
Loans and Advances to Customers	7,389,405	6,928,118	6.66%
Public Deposits	5,792,967	6,615,159	(12.43%)
Borrowings	976,488	218,381	347.15%
Shareholders' Funds	1,534,060	1,567,628	(2.14%)

Profitability			
Return on Assets (%)	0.27%	1.15%	(89) bps
Return on Equity (%)	1.53%	6.83%	(5.30) bps
Net Interest Margin (%)	10.77%	10.92%	(.15) bps
Cost to Income Ratio (%)	53.05%	56.83%	(3.77) bps

Investor Information			
Earnings Per Share (Rs.)	0.36	1.44	(75.31%)
Price to Earnings Ratio (Times)	43.77	14.76	196.58%
Net Asset Values Per Share (Rs.)	23.05	23.55	(2.14%)
Market Value Per Share (Rs.)	15.60	21.30	(26.76%)
Market Capitalization (Rs. Mn)	1,038	1,418	(26.76%)

Regulatory Ratios			
Capital Adequacy			
- Core Capital Ratio (%) (Minimum - 5%)	19.55%	21.00%	(1.45) bps
- Total Risk Weighted Capital Ratio (%) (Minimum - 10%)	19.55%	21.00%	(1.45) bps
- Under New Method Tier 1 Capital Ratio, (%)	13.94%	-	-
- Under New Method New Total Capital Ratio, (%)	20.56%	-	-
Statutory Liquid Asset Ratio (%)	17.92%	23.32%	(5.40) bps
Capital Funds to Total Deposit Liabilities (%) (Minimum - 10%)	26.48%	23.70%	2.78 bps

FINANCIAL HIGHLIGHTS [Contd.]



CHAIRMAN'S MESSAGE

Dear Stakeholder,

I present to you the Annual Report and Audited Financial Statement for the year ended 31 March 2019 of Abans Finance PLC.

The Sri Lankan Economy and the NBFI Sector

Sri Lankan economy recorded a modest GDP growth of 3.2% in 2018 compared to the growth of 3.4 % in 2017, mainly contributed by the services sector which had a growth pace of 4.3% and the agricultural sector due to good weather conditions. The total asset base of the NBFI sector grew at a slower pace of 5.63% to Rs. 1,431.3 billion. The sector's market share declined to 10.82% in 2018 from 11.63% in 2017 enabling the banking sector to expand its market share to 89.18%. The sector recorded a Profit After Tax (PAT) of Rs. 21.4 billion for the year 2018 which showed a decline of 17.5% compared to 2017. The sector's NPL ratio at 180 days spiked to 7.7% by end- 2018 from 5.9% at end 2017, with the target customer base suffering from the adverse economic condition.

Performance of Your Company

The growth in Net Interest Income was 7 % and increased from Rs.897.9 million in 2017/18 to Rs.959.8 million in 2018/19. This is resultant from a Gross Interest Income growing to Rs.1.82 billion in 2018/19 from Rs.1.71 billion reflecting a growth rate of 6 %.

Profit before Taxation stood at Rs. 111 million in 2018/19 compared to that of Rs. 133 million in 2017/18 indicating a negative growth of 17 %. The new Accounting Standard, SLFRS 9 on Financial Instruments was effective from 01 January 2018, in replacing the LKAS 39 - Financial Instruments; Recognition and Measurement. The new standard focuses on "expected credit loss" (ECL) method instead of the "incurred credit loss" method prescribed by LKAS 39 in calculating the impairment on financial assets. With the new forward looking accounting standard, Allowances for impairment charges for loans and advances increased from Rs. 223 million in prior year to Rs. 302 million.

After tax Profit was only Rs. 24 million for the year ending 31 March 2019 compared to Rs. 95 million for the previous year ending 31 March 2018. One main reason for the increase in Taxation is the withdrawal of capital allowance claims granted following the enactment of the New Inland Revenue Act No.24 of 2017 which became effective from 01 April 2018.

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 management team and CEO are to be commended for their unconditional efforts in making the Company more sustainable despite strict rules & regulations, economic headwinds and competitive challenges in the environment in which we operate the business.

I would like to take this opportunity to thank my fellow Directors for their valuable and unstinted support, expertise and guidance extended to me at all times to drive the Company forward through some difficult and challenging times.

I greatly appreciate the support given by the Central Bank of Sri Lanka and other regulatory bodies for their valued counsel and direction and I would like to thank our valued customers for the continues confidence they placed in our company.



Rusi Pestonjee
Chairman

Colombo, Sri Lanka
24 June 2019

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 2019.

Performance of Non Bank Financial Institutions

The financial sector continued to expand moderately during the year without causing any major macro prudential concerns, amidst challenging market conditions both globally and domestically. However, credit quality of the banking sector and the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector deteriorated considerably during 2018 with increased non-performing loans and advances compared to 2017. The challenging global and domestic market conditions, unfavourable weather conditions in 2017 and slowdown of economic activities in 2018 contributed significantly to the deterioration of quality of credit. Further, overall performance of LFCs and SLCs sector slowed down significantly during 2018 due to low credit growth, declining profitability and increasing nonperforming loans. Unfavourable developments in global and domestic markets are also reflected in moderate growth recorded by other sub sectors such as insurance and primary dealers and decline in equity market activities.

(Central Bank of Sri Lanka, Annual Report 2018, page 249)

Operating Results of the Company

Much focus was given on the execution of lease and loan facilities for motor bikes and three wheelers during the year and there was a deliberate effort in discouraging high value business loans. As a result the Income earning Asset Base (YOY) grew moderately by 6% from Rs. 6.9 billion in 31 March 2018 to Rs. 7.4 billion in 31 March 2019. Company's Total Asset Base (YOY) marked a slight negative growth of 1% from Rs. 8.96 billion as at 31 March 2018 to Rs. 8.86 billion as at 31 March 2019. The Total Gross Interest Income recorded a 6% growth amounting to Rs.1.8 billion compared to Rs. 1.7 billion in the previous year. Net Interest Income grew by 7% during the year under review.

The new Accounting Standard, SLFRS 9 on Financial Instruments was effective from 1st January 2018, in replacing the previous Accounting Standard LKAS 39 - Financial Instruments; Recognition and Measurement. SLFRS 9 uses the forward looking "expected credit loss" (ECL) method instead of the "incurred credit loss" method prescribed by LKAS 39 in calculating the impairment on financial assets. With the new forward looking accounting standard, allowances for impairment charges for loans and advances increased from Rs. 223 million in prior year to Rs. 302 million for the year under review.

The Profit before Tax for the year ending 31 March 2019 amounted to Rs. 111 million compared to that of Rs. 133 million for the year ending 31 March 2018. After tax Profit was only Rs. 24 million for the year ending 31 March 2019 compared to Rs. 95 million for the previous year ending 31 March 2018. One main reason for the increase in Taxation is the withdrawal of capital allowance claims granted following the enactment of the New Inland Revenue Act No.24 of 2017 which became effective from 01 April 2018.

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 further expanded the Call Center so as to increase focusing on follow up of delinquent accounts. During the previous year, the Company 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 on the field. This mobile

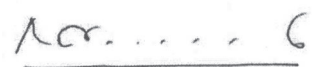
application named "AFiMobile" aims to assist Company Officers to capture customer information and collect rental payments "on the go". During the year under review, this mobile application was further developed. Monitoring recovery status is now easier to the extent of just "click on a button" with the development of a Recovery Dash Board which gives all recovery details Branch wise, Arrear Bucket wise & Collection officer wise.

The Company migrated to a new IT platform for Fixed Deposit & Savings Mobilization which is advanced version of "Inbank", called "Sky Bank" during the year. As the second phase the Company is in the process of migrating its lending module to this newer version of Sky Bank.

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

24 June 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Overview

The vulnerability of the Sri Lankan economy to global and domestic disturbances became increasingly visible in 2018, with a modest expansion in real economic activity amidst a low inflation environment during the year. Real GDP growth was recorded at 3.2 % in 2018, compared to 3.4 % in the previous year.

This growth was largely supported by services activities that expanded by 4.7 % and the recovery in agriculture activities, which recorded a growth of 4.8 %. Industry activities slowed down significantly to 0.9 % during the year, mainly as a result of the contraction in construction.

According to the expenditure approach, both consumption and investment expenditure supported growth. Investment as a percentage of GDP stood at 28.6 % in 2018 compared to 28.8 % in the previous year, while the savings-investment gap widened during the year indicating increased dependence on external resources to fill the shortfall. The total size of the Sri Lankan economy was estimated at US dollars 88.9 billion, while the per capita GDP was recorded at US dollars 4,102 in 2018, which was marginally lower than in the previous year. Amidst the moderate growth in economic activity, a marginal increase in the unemployment rate and a decline in the labour force participation rate were observed during the year.

The external sector of the economy was volatile during the year due to both global and domestic factors. Globally, monetary policy normalization, particularly in the United States of America (USA), resulted in global financial conditions tightening, thus causing capital outflows from emerging market economies and increased pressure on exchange rates of twin deficit economies, in particular. Sri Lanka also experienced these headwinds, particularly from mid-April 2018, which were exacerbated following the political uncertainties and the downgrade of the country's Sovereign rating in the fourth quarter of the year. 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. (Source: CBSL Annual Report 2018)

Financial Sector Performance

The financial sector continued to expand moderately during the year without causing any major Macro prudential concerns, amidst challenging market conditions both globally and domestically.

However, credit quality of the banking sector and the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector deteriorated considerably during 2018 with increased non-performing loans and advances compared to 2017. The challenging global and domestic market conditions, unfavourable weather conditions in 2017 and slowdown of economic activities in 2018 contributed significantly to the deterioration of quality of credit. Further, overall performance of LFCs and SLCs sector slowed down significantly during 2018 due to low credit growth, declining profitability and increasing nonperforming loans. Unfavourable developments in global and domestic markets also reflected in moderate growth recorded by other sub sectors such as insurance and primary dealers and decline in equity market activities.

LFCs and SLCs sector recorded a moderate expansion, with a slowdown in credit growth and profitability and a decline in asset quality. The slowdown in credit growth was mainly attributed to the fiscal and macro prudential policy measures taken by authorities to curtail import of motor vehicles with certain exceptions. Quality of assets of the LFCs and SLCs sector (NPL) ratios mainly due to the unfavourable weather conditions deteriorated as reflected in the increase in Non-Performing Loans

experienced in 2017. Profitability of the sector during the period also slowed down with increased funding cost and loan loss provisions. With a view of safeguarding the financial system stability, the Central Bank continued to take appropriate prudential measures where necessary to strengthen the supervisory and regulatory framework of LFCs and SLCs and also to address the issues relating to several weak finance companies. The contractual savings institutions sector dominated by the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), other than the Approved Pension and Provident fund recorded a moderate expansion during the year.

NBFI Sector

The performance of the Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector moderated during the year in terms of credit growth, profitability and non-performing loans. Fiscal and macro prudential policy measures taken to curtail importation and credit granted for, purchasing motor vehicles negatively affected the demand for core lending products in the sector. Further, it is observed that the LFCs and SLCs are gradually moving away from vehicle financing to other secured lending activities. However, the sector expanded in 2018, with an asset growth of 5.6 % and represented 7.6 % of Sri Lanka's financial sector assets by end 2018. The sector as a whole maintained capital at a healthy level along with adequate liquidity buffers above the regulatory minimum levels. The sector also exhibited a shift in the funding mix, as increased assets were mainly funded through borrowings while deposits increased slightly compared to high growth recorded during the previous year. The Central Bank continued to take prudential measures to maintain stability of the sector with much consideration on reviving several companies with weak financial positions.

The sector comprised of 43 LFCs and 5 SLCs at end 2018. LFCs and SLCs contributed to the economy by providing enhanced services to the customers and expanding its branch network. At end 2018, there were 1,373 branches and 658 other outlets of the LFCs and SLCs sector. The expansion of total assets slowed down, recording a growth rate of 5.6 % (Rs. 76.3 billion) during the year reaching Rs.1,431.3 billion compared to the 11.8 % growth reported in 2017.

The asset base of the sector mainly consists of loans and advances which accounted for 79.4 % of the sector assets. Finance leases accounted for the highest share of loans and advances, representing 52.8 % followed by other secured loans (38 %).

Lending activities of the sector showed signs of slowing down in response to fiscal and macro prudential policy measures taken to curtail importation of motor vehicles and lending towards vehicles and the slow down in economic activities among other reasons. Credit provided by the LFCs and SLCs sector grew by 7.6 % (Rs. 79.9 billion) to Rs.1,137 billion compared to the growth of 9.8 per cent in the corresponding period of 2017. The expansion in finance leases contributed to 84.5 % of the credit growth while 16.1 % was through secured loans and advances.

The hire purchase portfolio contracted during the year by Rs. 8 billion (29.7 %). However, the growth of finance lease portfolio for the year 2018 was 14.7 % compared to growth of 13 % recorded in year 2017.

The investment portfolio of the LFCs and SLCs sector, comprises of investment in equities, capital market debt instruments, government securities and Investment properties. Investment portfolio recorded a negative growth of 7.1 % to Rs 109.7 billion in 2018 compared to a growth of 5.7 % to Rs. 118.1 billion in 2017 mainly due to the decline in market value of investments in subsidiaries, associates and unit trusts. Other assets, mainly maintained in the form of cash, balances with banks and financial institutions, trading stocks, and fixed assets showed an increase of Customer deposits still dominate the major portion

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

of liabilities which accounted for 50.1 % of the total liabilities of the sector. Borrowings recorded a growth of 17.1 % (Rs. 67.8 billion) in 2018, a shift from the negative growth recorded in the year 2017. Deposit growth slowed down to 4.4 %, compared with the growth of % recorded in the corresponding period of 2017. The sector showed a reliance on bank borrowings over deposits due to flexibility and negative public perception towards LFCs which reduced the funds mobilized through deposits.

The growth in deposits were mainly attributed to the declining trend in deposit interest rates. The capital elements of the sector increased by 8.2 % to Rs.183.7 billion at end 2018, mainly on account of the increase in capital due to steps taken by LFCs to enhance the minimum core capital to meet the Rs. 1.5 billion requirement by 01 January 2019 and due to accumulation of profits for the financial year 2017/18.

The gross non-performing advances (NPAs) ratio increased to 7.7 % in 2018 compared to 5.9 % reported in 2017. This is the highest NPA ratio recorded since February 2015. The main reasons attributable to this increase are unfavourable weather conditions during 2017 and slowing down in economic activities in 2018. Further, the provision coverage ratio declined to 57 % in 2018

compared to 64 % reported in 2017. As a result, net NPA ratio also increased to 2.4 % in 2018 from the reported ratio of 1.6 % in 2017 showing signs of deterioration in the asset quality of the sector. It is expected that NPA will rise further if extreme weather conditions prevail and due to spillover effect of the Debt Relief program that was introduced by the Ministry of Finance and Mass Media in August 2018. Further, implementation of SLFRS 9 is also expected to be a challenge for 2.7 % in 2018 largely due to increased placements in banks and financial institutions.

The net interest income of the sector increased at a slower rate than in 2017, recording a growth of 6 per cent to Rs. 108.8 billion. This was mainly due to increase in interest income by 4.3 % and the growth of interest expenses by 2.9 %. As a result, the net interest margin (net interest income as a % of average assets) of the sector declined marginally to 7.4 % in 2018 from 7.7 % in 2017. However, non-interest income increased by 11.9 % mainly due to increase in default charges and other service charges while non-interest expenses also increased by 1.5 % adversely affecting the sector profitability mainly due to

Composition of Assets and Liabilities of the LFCs and SLCs Sector

Item	2017 (a)		2018(b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2017 (a)	2018 (b)
Assets						
Loans and Advances (net)	1,057.1	78.0	1,137.0	79.4	9.8	7.6
Investments	118.1	8.7	109.7	7.7	5.7	-7.1
Other	179.8	13.3	184.6	12.9	30.8	2.7
Liabilities						
Total Deposits	686.7	50.7	716.8	50.1	29.4	4.4
Total Borrowings	396.0	29.2	463.8	32.4	-9.7	17.1
Capital Elements	169.7	12.5	183.7	12.8	16.1	8.2
Other	102.6	7.6	67.0	4.7	6.4	34.7
Total Assets/Liabilities	1,355.0	100.0	1,431.3	100.0	11.8	5.6

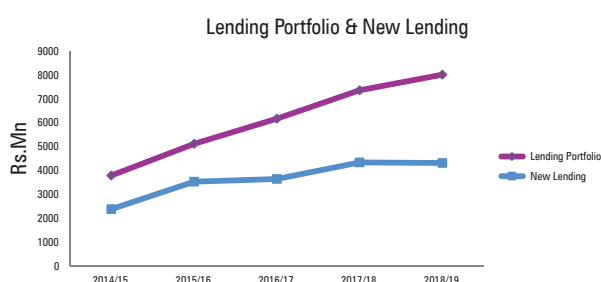
(a) Provisional

Source: Central Bank of Sri Lanka

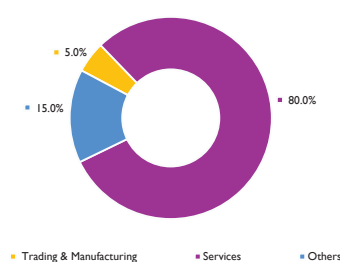
AFPLC performance during the year 2018/19

Finance Leases, Business Loans, and Other Loans and Advances were the main lending product lines distributed by the Company during the Financial Year 2018/19. In terms of new accommodations, the Company extended a total of Rs.4.3 billion during the year 2018/19, however it is a slight decrease of 0.44% from the previous year's disbursements.

The value of the Total Lending portfolio increased from Rs.7.3 billion in 2017/18 to Rs. 8.02 billion in 2018/19, an increase of 8.9%. The increase of lending portfolio was lead by the restructured credit approval process and sound recovery process.



Portfolio Outstanding as at 31 March 2019 - Sector Analysis



MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Marketing Strategies for product Portfolio

Since there is a fierce competition in the finance sector, AFPLC tries putting in place strong and sustainable marketing strategies while building trust worthiness and awareness in the minds of its valued customers. During the year under review, company extended three-wheeler leasing facilities for Bajaj three-wheelers and a newer product introduced by David Peiris Motor Company, "Qute" which is a Quadricycle. The general business lines which AFPLC had with Abans Auto which is an affiliate Company of Abans PLC remained to continue in the year under review. This includes Hero Motor Bikes and TVS three wheelers.

Company is more focusing on customers in rural areas and extend its marketing campaign in those areas with a view of win their mindset. Increasing trends of women motorcycle riders and difficulties in public transportation system in these rural areas have been identified as strengths for promoting our products in these areas. Company has a well trained well experienced and customer friendly marketing force for this purpose.

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

- Number of units leased / hired per month in terms of gaining supplier favouration
- Service efficiencies
- Number of Direct Branches / Customer Centres and KIOSKS
- Nature of vendor relationship
- Required down payment
- Upfront charges collected
- Effective Rate
- Specialization and knowledge of staff

Credit Quality

Our lending strategy was focused on enhancing volumes while ensuring the quality of the portfolio through a risk based pricing mechanism based on the credit worthiness of customers. The Company's credit approval process defines the principles about delegation of lending authority, client selection, due diligence in line with the Company's risk appetite plays the most vital role in credit risk management. The lending strategy concentrated more than the income generation for our Company to be an engine for developing and creating wealth for individuals and uplift the community. Several promotional campaigns were organized by marketing team to promote our lending products and attract new customers. To build our lending portfolio, entered into strategic partnerships with motor vehicle agents and dealers Island wide. We created internal structural changes to offer an enhanced customer service by geographically segmenting our sales team. We have made changes to our credit policy as a cornerstone of our corporate strategy to support sustainable growth. Our lending practices are applied at each stage of the customer relationship, from making a loan offer to setting up and monitoring the loan. These practices are basically built on customer needs and customer satisfaction, which are measured regularly. The Company uses various credit indicators to identify the emerging credit risks and analytical tools to manage such risks. The credit process starts with the preliminary screening and credit appraisal. The objective of this process is to assess the borrower's ability to meet its obligations. An investigation procedure takes place to assess physical verification of moveable and immovable assets, documentary evidence, references, income sources and the past payment history. This enables the Company to assess the default risk of the borrower. The Company has clearly defined guidelines

for credit approvals. Approving authority has been delegated based on seniority and experience. Approval limits have been set taking into consideration factors such as maximum counterparty exposures, loan to value ratio (LTV) and forced sale value (FSV) of the collateralised asset. The efficiency of the granting process enhanced with the introducing of "AFiMOBILE APP". Initial verification of the customer and activation of files done by marketing officer through Mobile App. The Company's credit assets consist primarily of Two Wheeler & Three Wheeler leasing advances. Exposure to other loans and advances (comprising Business loans, Four Wheeler leasing and other loans). Credit policy of the Company clearly defines main guidelines on lending and periodically reviewed by a team specialized in Credit Management under the supervision of Credit Committee. Approved credit files are randomly scrutinized from on monthly basis and reasons for discrepancies questioned and corrective actions taken.

Credit Operations Department is responsible for facilitating an efficient disbursement process by ensuring that approved procedures are adhered to.

Credit quality of the Company's loan book continued to improve with successful follow-up procedures in the post disbursement review process. Once a loan is overdue for more than the tolerance period, responsibility for recovery and collections is transferred to Recoveries Department. The Company continued and expanded the Call Centre for initial follow up of collections and established a special recovery team to recover the facilities over 18 months in arrears. Abans Finance continues to focus on safeguarding the shareholders and deposit holders through prudent lending, effective systems and controls and adequate funding.

The geographic spread of risk for Abans Finance is broad and island wide as our loan portfolio consists of credit originating from all branches of the company and from the Head Office.

Credit Committee

The Credit Committee comprises the Managing Director/ Chief Executive Officer, Chief Financial Officer, Head of Credit and Head of Recoveries. Authorizing and recommending of large exposures is primarily handled by the Credit Committee. The Committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. The committee also periodically reviews the Company's credit policy and lending guidelines to different business segments, in line with prevailing market conditions and industry dynamics.

Deposits

Our Products

Customer deposits are the main source of funding used to carry out business operations at AFPLC. Company's deposit products help it to expand the customer base across the island. The product range includes Fixed Deposits & Savings accounts where both of them are customized to provide numerous benefits to the customer. Fixed deposits are accepted for tenures ranging from 1 month to 5 years where interest being paid either periodically (monthly, quarterly, semi annually, annually) or at maturity, while the Savings accounts are opened for longer periods.

Our Service

The investment returns to our depositors have been guaranteed by our prudent approach and stringent regulatory compliance and adjusted for risk & customers' deposits are handled with utmost

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

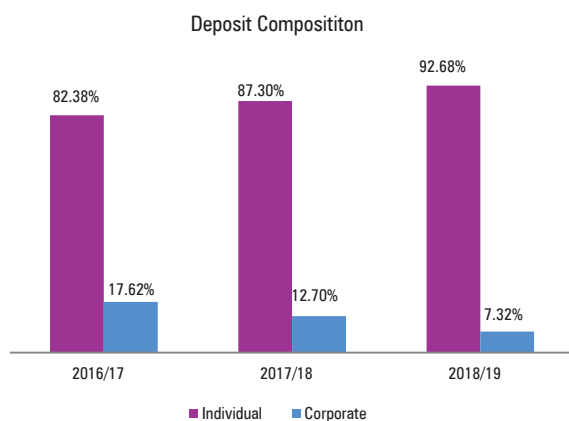
care and managed by means of a framework of ethical fund management. All funds received are re-invested into the various lending products offered by the Company, thereby adding value to all stakeholders.

The Deposit division is organized with 5 co-values (PRACT) which have been the key success factors in building a strong customer base.

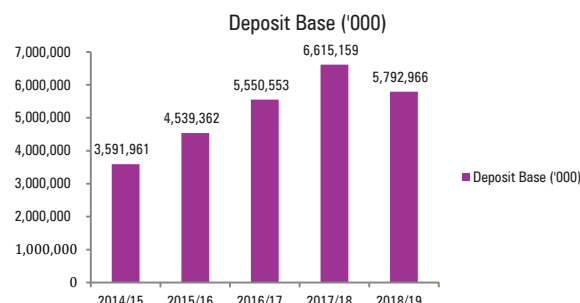
- **Professionalism:** The team is equipped to provide professional service at all times in order to fulfill the depositors' requirements.
- **Respect:** The team is groomed to treat the customer with love, care and respect thereby winning their trust.
- **Accessibility:** The team is recommended by depositors as they can reach the deposit division for any inquiry at any time irrespective of office working hours.
- **Compliance:** The team is well guided and to comply with CBSL guidelines and updated with the relevant changes.
- **Transparency:** The team is advised exercise due care when dealing with customers and share the necessary information as and when they required.

Deposit Base

90% of Our Clientele is composed by retail depositors where most of them invest with us for many years. More than 230 new depositors parked funds during the financial year where among more than 10% of them were introduced by existing depositors. Despite the fierce competition to grab Fixed Deposit customers by other Financial Institutions AFPLC could maintain a Retention Ratio of deposit base more than 80%.



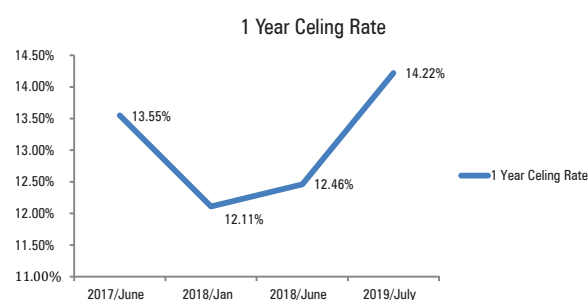
It was a challenging year for licensed companies operating in the financial services due to recent collapses in few finance companies and adverse macroeconomic environment. Lowest deposit growth in non bank financial sector was recorded in 2018 as depicted above.



AFPLC was seen as a deposit driven finance company where 74% of total assets were financed by customer deposits and 97% of external liabilities are composed by customer deposits as per the financials as at 31 March 2018. The management has decided to adopt diversified funding policy instead of relying on customer deposits in order to mitigate the funding risk and strengthen the bottom line. As at 31 March 2019, 65% of total assets were financed by customer deposits and

Due to the adverse economic context, most of corporate found it difficult to raise funds from the market. So they pulled out majority of the investments in order to finance their core business activities. This resulted a reduction in corporate to individual deposit ratio in AFPLC as well as in the industry.

In 2018/19 Central bank has revised ceiling rates applicable to fixed deposit where the base rate was 365 day weighted average treasury bill yield of last month.



2018/19 Highlights

Deposits of Non-Bank Financial Institutions

Year	2014	2015	2016	2017	2018
Deposits of NBFIs (Million)	396,468	457,486	507,688	655,670	681,317
Growth in Deposits	-	15.39%	10.97%	29.15%	3.91%

Source : Central Bank of Sri Lanka

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Due to the increase in government security yield, FD ceiling rates shown upward trend in last financial year. Since Central bank has highlighted that lower nominal interest rate regime to be introduced as they have decided to promote flexible inflation based monetary policy. The expected rate reduction will be beneficial to AFPLC as more than 80% of deposits are to be matured within 365 days. This would enable AFPLC to lower the cost of deposits while catering the best possible benefits to depositors.

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. But we initiate our strategies to enhance the value of our customers living condition with the 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		■

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.

Delivery Channels

Delivery channels used by AFPLC are currently limited to Branches, Customer centers & KIOSKS. Tabulated below are the delivery channel platforms used by AFPLC its larger peers.

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

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Current distribution of the channel network of AFPLC can be summarized as follows.

Channel Performance Analysis

Branch Analysis						
Channel Location		Channel Category	Province	District	No. of Staff	Age of Branch in (Years)
1	Colombo	Head Office	Western	Colombo	184*	14.15
2	Kurunegala	Branch	North Western	Kurunegala	11	11.13
3	Dambulla	Branch	Central	Matale	13	10.78
4	Badulla	Branch	Uva	Badulla	14	10.74
5	Anuradhapura	Branch	North Central	Anuradhapura	17	10.70
6	Galle	Branch	Southern	Galle	11	10.53
7	Gampaha	Branch	Western	Gampaha	10	9.71
8	Jaffna	Branch	Northern	Jaffna	9	8.73
9	Rathnapura	Branch	Sabaragamuwa	Rathnapura	12	8.58
10	Kandy	Branch	Central	Kandy	21	7.60
11	Kaduruwela	Customer Centre	North Central	Polonnaruwa	7	3.83
12	Embilipitiya	Customer Centre	Sabaragamuwa	Rathnapura	8	3.83
13	Ampara	Customer Centre	Eastern	Ampara	11	3.72
14	Batticaloa	Customer Centre	Eastern	Batticaloa	8	3.72
15	Puttalam	Customer Centre	North Western	Puttalam	8	3.72
16	Matara	Customer Centre	Southern	Matara	8	3.56
17	Thissamaharama	Customer Centre	Southern	Matara	8	3.56
18	Trincomalee	Customer Centre	Eastern	Trincomalee	6	3.43
19	Vavuniya	Customer Centre	Northern	Vavuniya	6	3.43
21	Kadawatha	KIOSK	Western	Gampaha	1	7.28
20	Ja-ela	KIOSK	Western	Gampaha	2	7.27
22	Moratuwa	KIOSK	Western	Colombo	2	7.19
23	Piliyandala	KIOSK	Western	Colombo	6	7.19

The customer preference for a specific channel will primarily depend on factors favored 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 spillovers from the brand recognition strength of the parent Company (Abans PLC).

The Journey of Digital Transformation of Abans Finance

AFPLC took a major leap in its Digital Transformation journey during the years 2018/2019 with some innovative product launches.

The recently launched Mobile App for Lending and Collections has helped cutting down lead times and streamline the workflow originating at the point of on boarding a customer to the point of activating the facility. With the use of Geo-Tags for locating the customers, the Recovery and Collection processes too have improved drastically.



Training Session on the operation of the Mobile App for Lending and Collections for the Staff

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]



Training Session on the PO Automation via the Mobile App for Lending and Collections for the Staff

AFPLC is also in the process of replacing its legacy Core System with a state of the art Solution and hope to extend online Services with a Digital Banking Frontend to its Customers in the future. The new System will further streamline Process Workflows and cut down paper based manual processes. As the first phase of the New Core Information System implementation Project the Funding and Savings Modules went Live in July 2018.



Training Session on the operation of the Fixed Deposits and Savings Modules of the new Core Banking Solution

The Company is now leveraging on improved collection of sales and collections data, with the use of a powerful Business Intelligence tool and presenting actionable information to help executives, managers and other corporate end users make informed business decisions.

AFPLC made its presence felt in the Social Media sphere with the Official Launch of its Face book, Instagram and LinkedIn pages. The page likes sky-rocketed with the creative flyers posted daily on products and services. Along with Face book Campaigns, a Lead Management Tool was launched to catch the inquiries generated online which helped in streamlining the responses from AFPLC and converting the inquiries into actual sales.

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]



With the Implementation of a new Document Management System, Documents related to the Lending Processes are now being stored Digitally further strengthening the road-map towards a paperless digital work-place.



Abans Finance was recently awarded with a Digital Maestro Award in recognition of its Digital-led Transformation and Innovation on the Technology front.

Major process improvements were carried out in the existing Core Information System during the year including the following :

- Tracking System for Certificates of Registration
- Daily Impairment Computation
- Call Center Process Optimization
- Insurance Claim Tracker
- Money Laundering Risk Grading and Blacklisting Facility

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

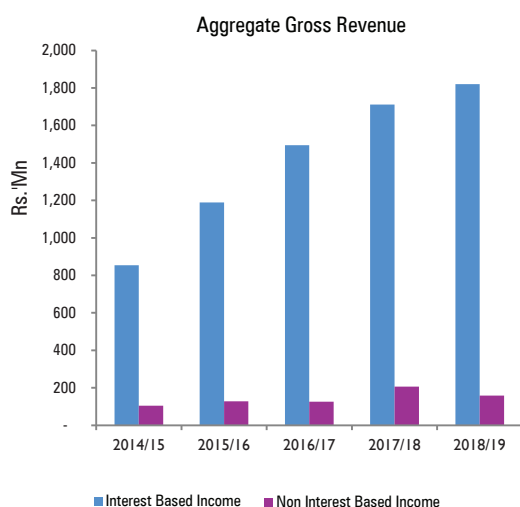
Financial Review

Significant Changes in Accounting Treatments

The new Accounting Standard, SLFRS 9 on Financial Instruments was effective from 01 January 2018, in replacing the previous Accounting Standard LKAS 39 - Financial Instruments; Recognition and Measurement. SLFRS 9 uses the forward looking "expected credit loss" (ECL) method instead of the "incurred credit loss" method prescribed by LKAS 39 in calculating the impairment on financial assets. The new standard also introduced a new classification approach for financial assets and financial liabilities in line with the business model in which they are managed and their cash flow characteristics. For the first time adoption, the Company adopted the Modified Retrospective method prescribed in the standard to prepare Financial Statements. Under this method the comparative figures are not restated, and instead, the standard requires a disclosure of the impact of adopting SLFRS 9 on the Statement of Financial Position and Retained Earnings and to restate the opening balances as at the transition date.

Revenue

Total aggregate Gross Revenue of the Company recorded a growth of Rs.61 million from Rs. 1,918 in 2017/18 to Rs. 1,979 million during the year under review. The components of gross revenue consist of items of income that are 'Interest based' and 'Non Interest based'.



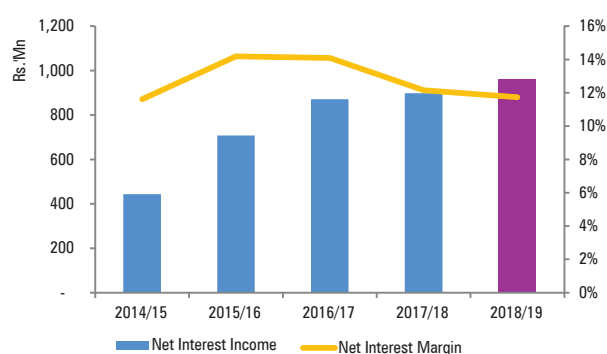
Interest based items of revenue consists of interest income earned from Finance leases, Hire Purchase, Loans and Advances and interests earned from the investments. Non Interest based sources of Income consists of fee and commission income, net gain/ (loss) from trading and other operating income. The 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 91.99% in 2018/19 as against 89.25% in 2017/18.

Net Interest Income / Net Interest Margin

The Company managed to record a Net Interest Income (NII) of Rs.959.8 million in 2018/19 compared to Rs.897.99 million in 2017/18. Net Interest Income (NII) increased only by 7% by Rs.61.8 million. The NIM settled at 11.73% as at end March 2019, a decline from the achieved NIM of 12.15% in 2017/18

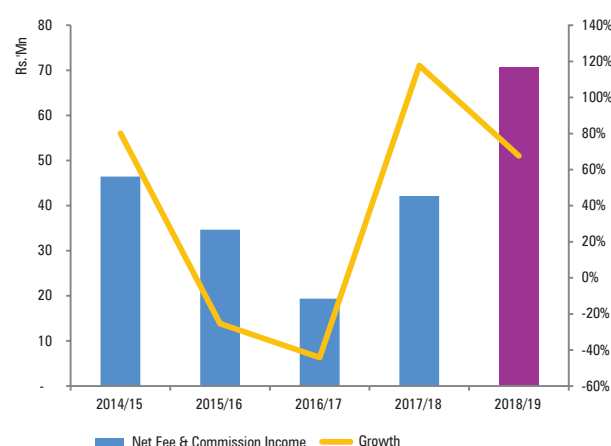
Net Interest Income (Rs.Mn) & Net Interest Margin (%)



Net Fee & Commission Income

Net Fee and Commission Income has grown by 68%, from Rs. 42.2 million as at end 2017/18 to reach Rs. 70.7 million as at March 2019.

Net Fee & Commission Income (Rs. Mn) and Growth Rate (%)



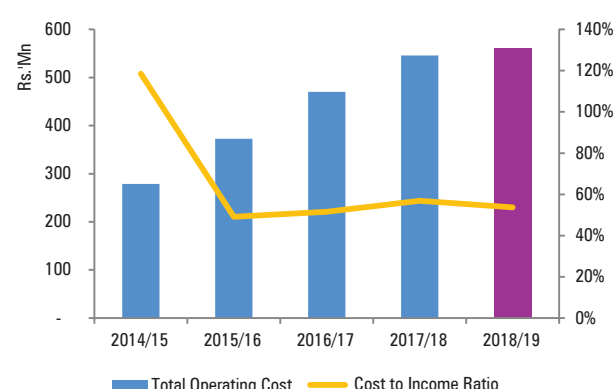
Operating Expenses

Operating Expenses including Personnel Costs, Depreciation and Amortization and Other Operating Expenses which stood at Rs.545.8 million in 2017/18, increased to Rs. 561.0 million for the year 2018/19, reflecting a slight increase of 3%.

Cost to Income Ratio

The Cost to Income ratio has decreased to 53.73% during the year under review from 56.83% recorded in the year 2017/18. The Company focuses on strengthening this ratio further.

Operational Expenses (Rs. Mn) & Cost to income Ratio (%)



MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Credit Loss Expense on Financial Assets

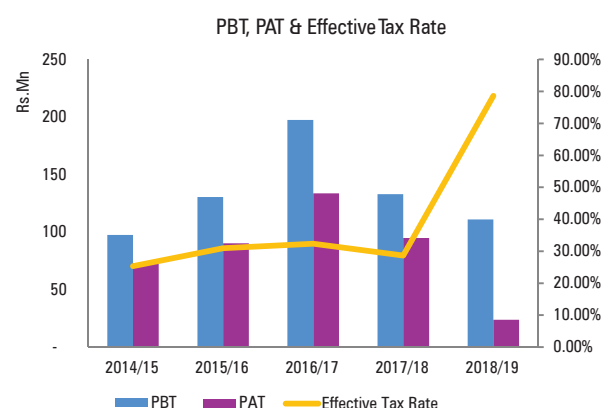
Implementation of SLFRS 09 with effect from 01 April 2018 resulted in the Company's impairment charges for the year increasing to Rs.301.9 million in comparison to the Rs.223.1 million in year 2017/18, an increase of 35%. In addition, the cumulative impact of impairment allowance as at 01 April 2018 arising from the change in the methodology from LKAS 39 to SLFRS 09, the deferred tax impact thereon and the impact from reclassification of Financial Assets categories in total amounted to Rs.59.7 million. This was charged against the Retained Earnings as at 01 April 2018. In aggregate, adoption to the SLFRS 09 resulted in an increase in total impairment provision by 65%, amounting to Rs. 331 million.

Profitability and Taxation

The Company managed to record a Profit before tax of Rs.110.9 million in year 2018/19 compared to Rs.132.9 million in year 2017/18. Tax expense for the year increased more than proportionately by 129% to Rs.87.1 million compared to Rs.38.01 million in year 2017/18. One main reason is the withdrawal of capital allowance claims granted following the enactment of the New Inland Revenue Act No.24 of 2017 which became effective from 01 April 2018.

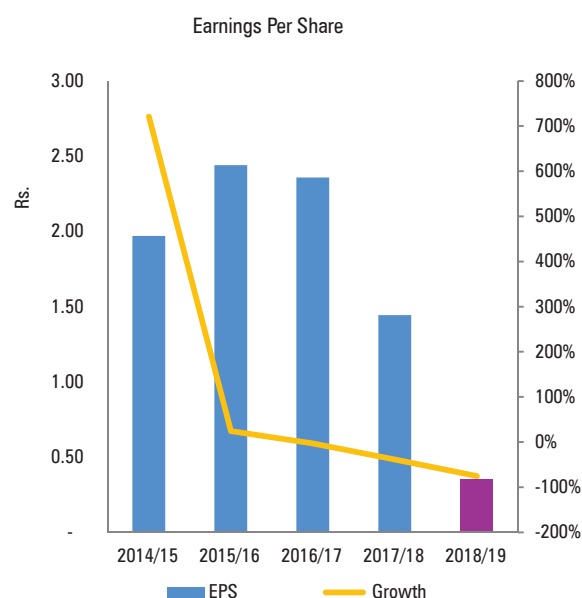
Taxes on Financial services which include Value Added tax (VAT), Nations Building Tax (NBT) and Debt Repayment Levy (DRL) increased by 20% amounting to Rs.11.6 million compared to the year 2017/18. This increase is primarily due to the Debt Repayment Levy amounting to Rs.16.3 million which was imposed with effect from 01 October 2018.

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 0.27% and 1.53% as opposed to the recorded 1.15% and 1.53% in 2017/18. The reduction in profitability on account of higher taxes and higher impairment charges mainly contributed to the reduction in ROTA & ROAE.



Earnings Per Share (EPS)

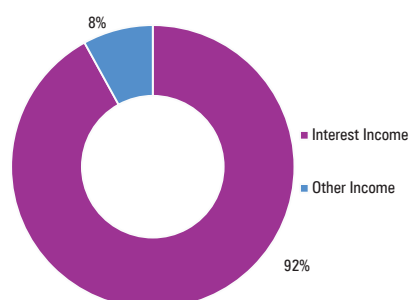
The EPS for 2018/19 was Rs. 0.36 per ordinary share in issue, a decrease from the EPS of Rs.1.44 reported in 2017/18.



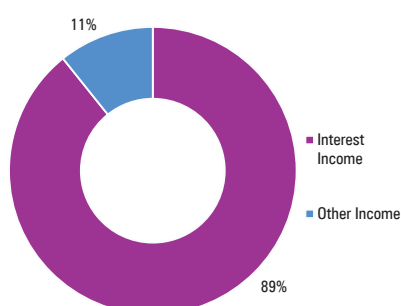
Sources and Distribution of Income

Interest Income represented 92% of Total Income for the year 2018/19 as against 89% for the year ended 31 March 2018. In terms of distribution of income, interest costs absorbed 44% of Total Income (2018/19= 42%) and 20 % distributed among the suppliers. (2018/19= 23%)

Sources of Income - 2018/19

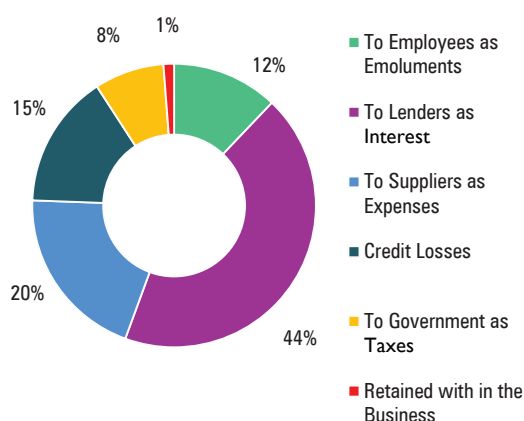


Sources of Income - 2017/18

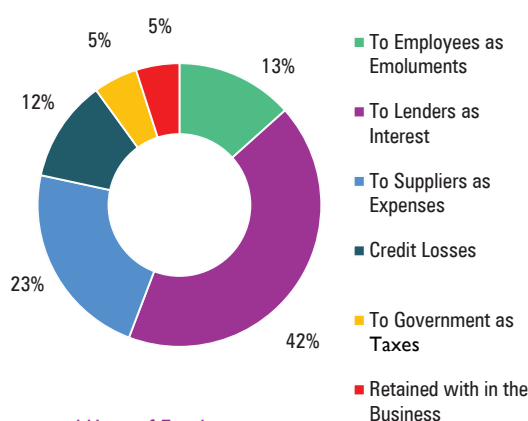


MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Distribution of Income - 2018/19



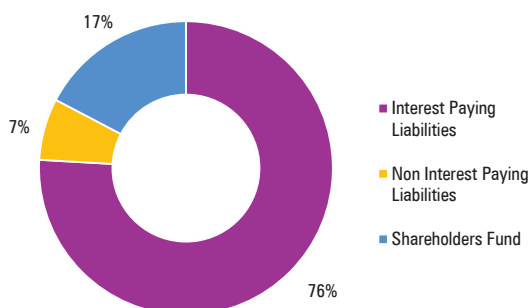
Distribution of Income - 2017/18



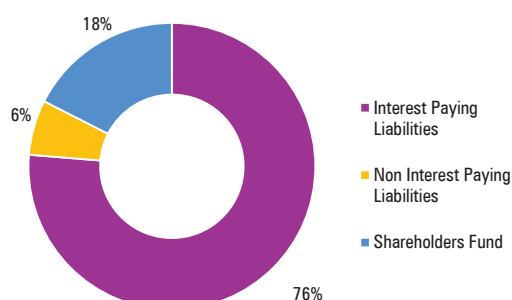
Sources and Uses of Funds

Interest paying liabilities accounted for 76% of funding sources for the year 2018/19, (2017/18=76%). Interest Earning Assets on the other hand accounted for 93% of funding uses as at 31 March 2018 (31 March 2018=90%).

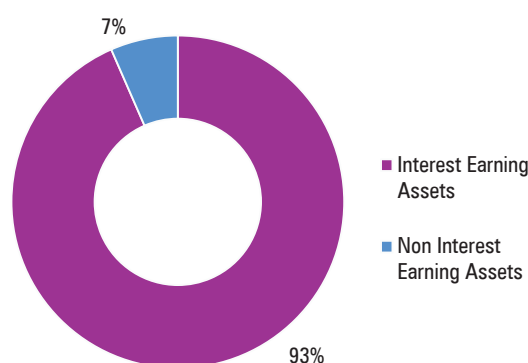
Sources of Funds - 2018/19



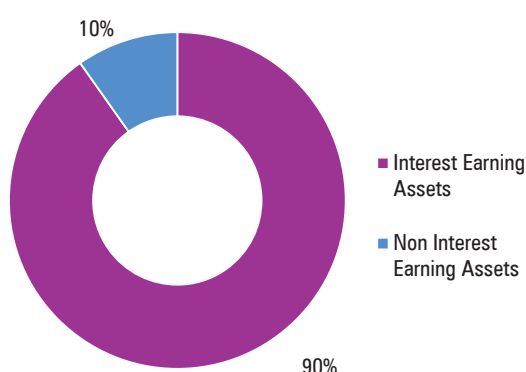
Sources of Funds - 2017/18



Uses of Funds - 2018/19



Uses of Funds - 2017/18



Future Strategic Direction

Abans Finance as a trusted financial service provider in the industry for more than 13 years is ready to commence a multipronged approach to augment its relevance to customers through an expanding portfolio of financial services and also grow the footprint to enhance its reach and financial inclusion. As a responsible corporate citizen, the Company continues to engage with the community to ensure their well-being and also minimize the impact of its operations on the environment demonstrating sustainable leadership. In order to initiate market pursuant strategies, a SWOT analysis has been carried out to identify the current market position of the company.

- **Strengths;** being a subsidiary of a leading company, Abans PLC, using its corporate brand, trusted relationship with peer companies, cross selling opportunities, service efficiency and flexibility that could be matched with the available market opportunities to generate the maximum output.
- **Weaknesses;** 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
- **Opportunities;** existing market opportunities such as 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, will have to be concentrated on and initiatives taken to capitalize on these aspects.
- **Threats;** Tightened CBSL policy regulations, higher effective tax rates, high NPLs due to credit growth, competition leading to narrow margins, availability and growth of substitute products such as vehicle loans are some of those threats which must be strategically handled since they are beyond the direct control of the business.

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Key Strategic Objectives

- To gain a top of the mind recall in relevant target markets, such as motorbike market, by being amongst the most preferred financial provider.
- To deliver augmented returns to shareholders and to be a preferred entity to investors.
- To become a diversified financial entity through fund based asset lending products in both short and medium term markets
- To expand channel distribution in both physical and virtual forms with the purpose of enhancing customer convenience.
- To achieve a higher Return on Assets, Return on Equity and Operational Efficiency levels above industry norms.
- To generate maximum value additions to internal customers on both financial and non-financial terms by being a preferred employer in the labour market.
- To maintain a quality lending book which will help to achieve a lower NPL ratio.
- 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.
- To deliver positive externalities to the business and social environment by being a socially responsible brand in the Market

Future Strategic Direction – Strategic Initiatives

• Strengthen the credit evaluation process

Non Performing Loans is the most crucial area to be further controlled which will pave way to reduce impairment charges. Company intends to strengthen the credit evaluation process by assessing the credit worthiness of the potential customers. Company anticipates ensuring this process also by expanding the scope of existing credit committee & enhancing the ability of marketing officers to evaluate customers. A credit scoring mechanism is being developed and will be in place to evaluate the customer credit worthiness.

• Talent Retention and Development

Hiring talented individuals and retention them is critical to the company's success. Company is willing to increase the training hours in order to provide opportunities to grow in line with the industry requirements. Moreover company expects to reward the talented employees by implementing incentive schemes base on their target achievements.

• Increasing Automation and accelerate the Operations

Company has successfully implemented the technology to gain the competitive advantage through the journey of digital transformation. Over the next years, the Company plans to concentrate its technology initiatives in key areas and make more use of business intelligence tools.

• Business Growth and Excellence in Customer Service

Company tries to address new market segments by going beyond the existing customer profiles in order to attain business growth through market development. Through gathering customer feedbacks and enhancing customer data base, company expects being excellence in providing diversified customer services.

• 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. These expansions will however be after careful analysis of geographical areas where potential market places are seen.

Engaging Stakeholders

A stakeholder is an individual or a group that has an interest in the organization and can affect or be affected by the operations and activities of the organization. They are either internal stakeholders who are part of the organization or external stakeholders who are affected by the activities of the organization.

As a financial services provider, Stakeholder's engagement processes 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.

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

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

Stakeholder	Sustainable Business Objective	Engagement Mechanism	Frequency of Engagement	Our Responses / Achievements
Stakeholder	<ul style="list-style-type: none"> ✦ Blancing profitability and sustainable growth ✦ To deliver returns on investment by strengthening governance to support future growth momentum ✦ To establish strong internal processes and policies 	<ul style="list-style-type: none"> ✦ Annual General Meeting ✦ Extra Ordinary General Meeting ✦ Official Website ✦ Annual Reports 	<ul style="list-style-type: none"> ✦ Annually ✦ Whenever necessary ✦ Regularly ✦ Annually 	<ul style="list-style-type: none"> ✦ Return on Investment ✦ Development of Shareholder communication ✦ Continuous engagement
Customers	<ul style="list-style-type: none"> ✦ Customer complaint handling ✦ Quality customer service 	<ul style="list-style-type: none"> ✦ Customer Surveys ✦ Customer complain handling mechnism ✦ Call Centre & Official web-site ✦ Social Media Interactions 	<ul style="list-style-type: none"> ✦ Regularly ✦ Regularly ✦ Regularly 	<ul style="list-style-type: none"> ✦ Promotional Campaign ✦ Customer care service
Employees	<ul style="list-style-type: none"> ✦ Career Development ✦ Work Life Balance ✦ Promotions and Job Opportunities 	<ul style="list-style-type: none"> ✦ Annual Get together ✦ Training Procedures ✦ Department Head involvement with the employees 	<ul style="list-style-type: none"> ✦ Annually ✦ Monthly ✦ Monthly 	<ul style="list-style-type: none"> ✦ Organized periodically ✦ Continuous Training ✦ Job Enrichment ✦ Internal Promotion
Regulators	<ul style="list-style-type: none"> ✦ Reporting to CSE and Central Bank to ensure compliance ✦ Meetings with Regulatory bodies ✦ Industry Forums 	<ul style="list-style-type: none"> ✦ Compliance with the regulatory requirements 	<ul style="list-style-type: none"> ✦ Whenever required 	<ul style="list-style-type: none"> ✦ Strengthening relationships with public and professional institutions
Society & Environment	<ul style="list-style-type: none"> ✦ Employment Oppertunities ✦ Community Development 	<ul style="list-style-type: none"> ✦ Sponsorships ✦ Feedback Comments ✦ Call Centre 	<ul style="list-style-type: none"> ✦ Ongoing 	<ul style="list-style-type: none"> ✦ Funding towards sponsorships ✦ Responses given by the management & staff

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

External Capital Formation

Investor Capital

The return generated by the company by using its Investor's Funds with a view to maximizing and delivering value.

Market Capitalization

The Stated Capital of the company as at the end of the year under review was Rs. 1,121.41 million. The market capitalization and share price of the Company as at 31 March 2019 was 1,038.36 million and Rs. 15.60 respectively. Float Adjusted Market Capitalization was recorded at Rs. 84.10 million as at 31 March 2019. Further the Company continued to be listed on the Diri Savi Board of the Colombo Stock Exchange from the year 2011 onwards.

Market Price of the Shares

According to the Colombo Stock Exchange, the company recorded a highest market price of Rs. 25.50 and a lowest of Rs. 14.50 during the financial year of 2018/2019. The changes of market price in comparison to the previous year are given below.

Market Price	2018/19 Rs.	2017/18 Rs.
Highest	25.50	37.50
Lowest	14.50	21.00
Price as at 31 March (Rs.)	15.60	21.30

Public Shareholding

The percentage of shares held by the public as at 31 March 2019 was 8.1%. The number of public shareholders stood at 820 as at 31 March 2019.

Distribution of Shareholding

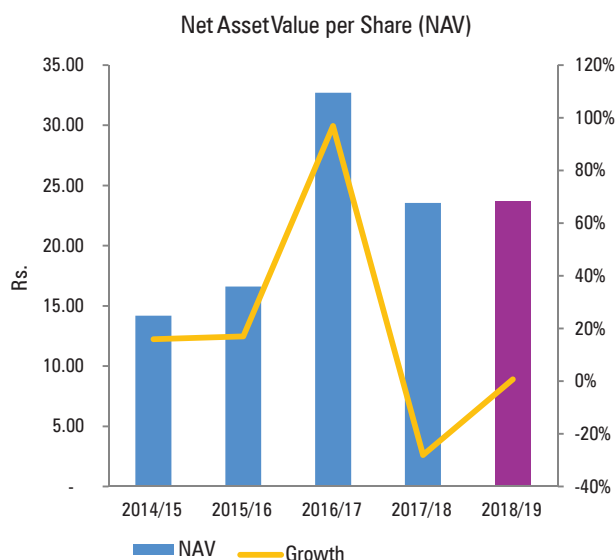
No. of shares held	As at 31.03.2019				As at 31.03.2018			
	No. of shareholders		No. of shares		No. of shareholders		No. of shares	
	No.	%	No.	%	No.	%	No.	%
1-1,000	635	77.44	116,808	0.18	628	76.77	123,721	0.19
1,001 - 10,000	135	16.46	473,113	0.71	140	17.11	478,107	0.72
10,001 - 100,000	37	4.51	828,843	1.25	37	4.52	840,936	1.26
100,001 - 1,000,000	11	1.34	4,197,696	6.31	11	1.34	4,173,696	6.27
OVER 1,000,000	2	0.24	60,945,113	91.56	2	0.24	60,945,113	91.56
Total	820	100.00	66,561,573	100.00	818	100.00	66,561,573	100.00

Earnings

The Basic Earnings per Share (EPS) of Rs. 1.02 has been achieved by the company during the year and is 29% lower than the previous year Basic Earnings per Share of Rs. 1.44

Net Assets Value per Share (NAV)

The company has achieved a 0.66% growth in Net Assets during the year from Rs. 1,567.6 million in 2017/18 to Rs. 1,577.9 million 2018/19. The Net Assets per Share reached the mark of Rs. 23.71 as at 31 March 2019.



MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Individual/ Institutional Shareholding

No. of shares held	As at 31.03.2019				As at 31.03.2018			
	No. of shareholders		No. of shares		No. of shareholders		No. of shares	
	No.	%	No.	%	No.	%	No.	%
Individual	785	95.73	4,207,379	6.32	783	95.72	4,212,699	6.33
Institutional	35	4.27	62,354,194	93.68	35	4.28	62,348,874	93.67
Total	820	100.00	66,561,573	100.00	818	100.00	66,561,573	100.00

Resident and Non Resident Shareholding

No. of shares held	As at 31.03.2019				As at 31.03.2018			
	No. of shareholders		No. of shares		No. of shareholders		No. of shares	
	No.	%	No.	%	No.	%	No.	%
Resident	816	99.51	66,541,902	99.97	814	99.51	66,541,902	99.97
Non-Resident	4	0.49	19,671	0.03	4	0.49	19,671	0.03
Total	820	100.00	66,561,573	100.00	818	100.00	66,561,573	100.00

Director's and Chief Executive Officer's Shareholding

Name of the Director	31.03.2019		31.03.2018	
	No. of Shares	%	No. of Shares	%
Mr. R. Pestonjee	220,660*	0.33	220,660*	0.33
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 Prvin 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 (Mr. C. H. A. W. Wickramasuriya resigned with effect from 8th April 2019)

Total No. of shareholders (Merged with CDS and NON CDS) as at 31st March 2019 - 820

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Twenty Major Shareholders of the Company

NAME OF THE SHAREHOLDER	31 March 2019		NAME OF THE SHAREHOLDER	31 March 2018	
	NO. OF SHARES	(%)		NO. OF SHARES	(%)
Abans PLC	33,063,877	49.67	Abans PLC	33,063,877	49.67
Ironwood Investment Holding (Pvt) Limited	27,881,236	41.89	Ironwood Investment Holding (Pvt) Limited	27,881,236	41.89
Mr. P N Pestonjee	911,520	1.37	Mr. P N Pestonjee	911,520	1.37
Able Investments (Pvt) Limited	806,917	1.21	Able Investments (Pvt) Limited	806,917	1.21
Mr. K Kunenthiran	466,816	0.70	Mr. K Kunenthiran	466,816	0.70
Mrs. C V Sumanadasa	444,000	0.67	Mrs. C V Sumanadasa	444,000	0.67
Mrs. S C Henagama Gamage	444,000	0.67	Mrs. S C Henagama Gamage	444,000	0.67
Mr. B Pestonjee	308,160	0.46	Mr. B Pestonjee	308,160	0.46
Mr. R Pestonjee *	220,660	0.33	Mr. R Pestonjee *	220,660	0.33
Mrs. S Dubash	192,423	0.29	Mrs. S Dubash	192,423	0.29
A B Cold Storage (Pvt) Ltd	144,000	0.22	A B Cold Storage (Pvt) Ltd	144,000	0.22
Cleantech (Pvt) Ltd	144,000	0.22	Cleantech (Pvt) Ltd	144,000	0.22
AB Securitas (Pvt) Ltd	144,000	0.22	AB Securitas (Pvt) Ltd	144,000	0.22
Mrs. A Pestonjee	80,000	0.12	Mrs. A Pestonjee	80,000	0.12
Mrs. H I Salgado	66,600	0.10	Mrs. H I Salgado	66,600	0.10
Mr. G C Goonetilleke	48,105	0.07	Mr. G C Goonetilleke	48,105	0.07
Seylan Bank PLC / K. L. Gamage Udayananda	38,004	0.06	Nation Lanka Capital Ltd/K L G Uday	38,004	0.06
Mr. R E Rambukwella	37,120	0.06	Mr. R E Rambukwella	37,120	0.06
Miss. M F F Safina	36,748	0.06	Miss. M F F Safina	36,748	0.06
Dr. K. Poologasundram	36,000	0.05	Dr. K. Poobalasundaram	36,000	0.05
	65,514,186	98.43		65,514,186	98.43
OTHERS	1,047,387	1.57	OTHERS	1,047,387	1.57
TOTAL	66,561,573	100.00	TOTAL	66,561,573	100.00

* Includes 28,800 shares held jointly with Ms. J. E. S. Fernando.

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

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 summaries 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 1.3	78
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.	21
7.6 (iv)	The Public Holding percentage.	Management Discussion and Analysis External Capital Formation-Investor Capital.	19
7.6 (v)	A Statement of each Director's 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.	20
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Risk Management Report.	56
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.	24 - 26
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	Refer Notes to the Financial Statement Note 28.7.	106
7.6 (ix)	Number of shares representing the Entity's Stated Capital.	Notes to the Financial Statements -Note 36	112
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	20
7.6 (xi)	Ratios and Market Price Information - Dividend per Share - Dividend Pay Out - Net Asset Value per Share - Market Value Per Share	Company has not declared any dividend for the year under review and hence it is not applicable	N/A
		Management Discussion and Analysis-External Capital Formation – Investor Capital.	19
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 & Issues of Ordinary shares during the year.	62
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	22 & 42 - 50
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 Boars of Directors discloses the transactions with related parties.	63 & 132 - 133

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Customer Capital

Abans Finance PLC offers a wide range of finance solutions for a diversified range of customer segments: The following product ranges are currently marketed by the Company.

Finance Leasing



MOTORBIKE LEASING

Experience Freedom

Abans Finance offers the easiest and most convenient way to purchase brand new or registered Motorbikes with flexible lease terms, hassle free documentation and quick processing with flexible & structured payment schemes.

Abans Finance facilitates customers in purchasing brand new or registered three wheelers with flexible lease terms, hassle free documentation and quick processing with flexible & structured payment schemes.



Set your dreams in motion

Abans Finance offers the easiest and most convenient way to lease registered or unregistered 4-Wheelers with flexible & structured payment schemes to suit the customer's repayment ability.

Loans

Personal Loans will be granted for Individuals within a specific predetermined market segment in order to financially enable them to fulfill their identified personal lifestyle needs. Obtain a loan to purchase consumer items, tour packages, home improvements, education, special events, weddings, medical expenses and more. The maximum loan amount a customer can obtain is flexible, depending on their disposable income, repayment capacity and requirements.



There for you, when you need it

Mortgage Loans

The terms of a mortgage loan includes 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 off in full.

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

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 where as 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 will be granted for Individuals (With a Business Registration) or Business entities within a specific pre-determined market segment in order to financially enable them to fulfill their identified business operational cash flow needs.

Deposits

Abans Finance offers Savings Accounts with one of the most attractive rates-of-interest in the market

Savings

Maximum savings, minimum effort

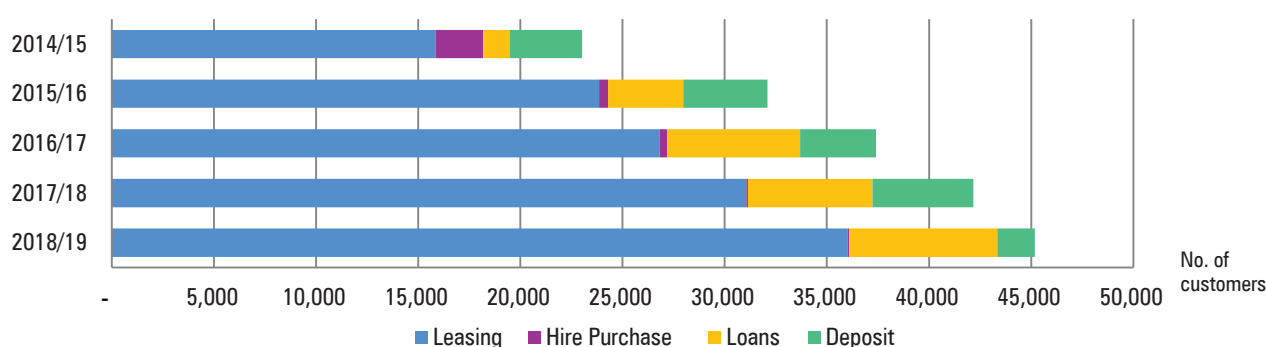
Abans Finance accepts term deposits from the public with one of the most attractive rates-of-interest in the market while ensuring the security of the investment. Term structures ranging from one month, up to five years, are available in the investment plan. Interest payments are made on monthly, quarterly, annually and maturity basis.

FD

Fixed Deposits

Let your money work for you

Composition of Customer Base



Employee Capital

Given the crucial part that employees play in the success of our business and the heavy reliance on our employees to propel growth, a people-driven approach has been adopted across the board. This approach has enabled Abans Finance PLC to consolidate growth in most areas and measure the value of developing talent against tangible outcomes.

Employment Status

We have been able to support the high volume of recruitment activity during this period of rapid growth which saw recruitment across 9 branches and 9 centers across the country. Out of a total workforce of 383 employees:

- 70% were permanent employees
- 24% were on probation; and
- 5% were on contract

The emphasis on well-being as one of the HR management practices can be attributed to this high permanent employee status. Our ongoing efficiency and effectiveness in core services such as payroll and contract administration can also be contributing factors to this success.

Abans Finance PLC operates competitively within the local framework given that the Company remunerates employees beyond expectations. This enables us to continually attract quality candidates given the offer of interesting and meaningful work. The retention of talent as permanent employees has enabled us to maintain a highly engaged workforce.

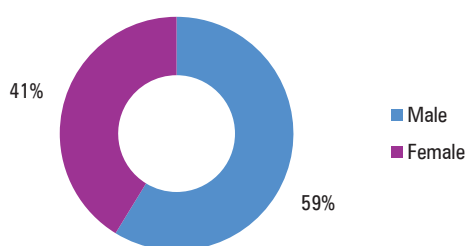
MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Type of Employment	Male	Female	Total
Permanent	167	102	269
Probationers	52	41	93
Contract	6	15	21
Total	225	158	383

Employees by Gender, Age & Grade

Abans Finance PLC is committed to providing a safe working environment that optimises diversity and inclusion. Our employment framework provides flexible and responsive people management policies, practices and conditions. The current composition of males and females in the workforce is 59% and 41% respectively. The narrowing of the gap between our percentages of Male to Female ratios indicate that our level of representation of female employees feel increasingly catered to through our intentional offerings to this important segment of our workforce.

Employees By Gender



Our strengthened commitment to diversity and inclusion through a strategic priority of attracting employees from the entire gamut of age ranges. We have been able to attract young employees for Executive roles whilst candidates with more experience are selected for Management positions.

Grade	Male	Female	Total
Senior Management	8	1	9
Management	43	6	49
Executive	132	106	238
Trainee Executive	34	31	65
Other	8	14	22
Total	225	158	383

Age Analysis

Age Group	Male	Female	Total
Below 21 years	9	6	15
21-30 years	126	114	240
31-40 years	48	21	69
41-50 years	31	7	38
Above 51 years	11	10	21
Total	225	158	383

Composition of Work Force by Gender & Location

This country-wide representation by Province and Gender is also indicative of the narrowing of the gap between Male and Female employees which is testament to our ongoing commitment to diversity and inclusion.

Province	Male	Female	Total
Central	31	21	52
Eastern	13	12	25
North Central	20	4	24
North Western	12	7	19
Nothorn	11	4	15
Sabaragamuwa	13	7	20
Southern	20	7	27
Uva	11	3	14
Western	94	93	187
Total	225	158	383

Performance Management

Abans Finance PLC continues to be actively involved in the adherence to all legal statutes in Sri Lanka.

Our high quality performance management strategies are integral to developing Abans Finance PLCs strategic priorities and strengthening organizational and individual capability. Performance reviews are reviewed annually and at times, mid-yearly so that ongoing regular conversations enable a focused delivery of organizational objectives.

Abans Finance PLC is committed to developing the skills employees need to undertake their respective roles. This also takes into account that a large proportion of learning occurs on the job whilst peer-to-peer and formal learning comprise a smaller skills development subset.

We have given much consideration to developing and implementing workforce planning strategies to ensure that Abans Finance PLC has an appropriately skilled workforce. The agility with which the workforce is able to deploy resources is another focus of the current year.

Training & Development

Abans Finance PLC continued to strengthen its workforce by building organizational capability to encourage retention and enhance ongoing performance. We worked closely with sectional business heads to ensure that development opportunities were integrated and, where possible, co-designed with subject matter experts from the business itself. This approach also ensured that development activities were finitely tailored to meet business needs and that support was garnered using resources that promoted a blended approach to learning.

In 2018–19, the Human Resources Department's analysis of the training and development opportunities requirements revealed that the following activities needed to be planned and integrated into our workforce planning strategy:

- A formalized induction process
- On the job training using existing and internal expertise and subject experts
- Cross functional training to promote transferrable skills
- Leadership training to encourage top down visionary leadership
- Competency refreshers and enhancements

MANAGEMENT DISCUSSION AND ANALYSIS [Contd.]

Rewards & Recognition

The strategic outlook for 2018-2019 provides for transforming our workforce and driving performances through the retention of talented and skilled employees. Abans Finance PLC takes pride in recognizing staff contributions to its successes. Our transparent internal evaluation process enables us to recognize staff that have:

- Gone beyond their normal work,
- Excellence in people management,
- Client management,
- Innovation and
- Dealing with exceptional or extenuating circumstances.

More immediate forms of recognition come in the form of:

- Development opportunities for staff,
- working on high priority accounts to gain cross-organizational exposure and
- Acknowledging employees contributions at regular meetings.

A comprehensive review of the benefits structure enabled us to narrow in on the tangible benefits of being an employee of Abans Finance PLC. They were as follows:

- Salary increments which are inflation adjusted annually
- Performance based incentives
- Bonus (based on company profitability)
- Staff loans at concessionary rates
- Medical insurance
- Study leave

Social & Environmental Capital

Corporate Social Responsibility (CSR) is making strong social and environmental capital around the company while increasing the value of stakeholders. It can bring benefits in terms of risk management, cost saving, access to capital, maintaining long term customer relationships and human resource management.

Abans Finance is taking responsibility for their impact on society. Also company does its business initiative in line with laws and regulations related to the society and environment. Operating in a responsible and sustainable manner is important to the company in order to meet the expectations of stakeholders.

We further discuss the company's CSR activities through the following criteria;

WORK PLACE

Company is in the position of ensuring that our entire business is conducted in accordance with professional, ethical and legal standards. Management of Abans Finance concerns in creating the working environment which fit with the company culture and more comfortable to entire staff of Head office as well as branches that is ultimately effect on making a productive environment.

Health & Safety

The Company provide and ensure to maintain a clean, healthy and safe working environment. Further Abans Finance confirms 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 behaviours on their safety. Further we revisit our plans and policy documents periodically, to ensure that employees are well focused towards their health and safety.

MARKET PLACE

Customers

Abans Finance core objective is to provide the best financial solution to our customers through our excellence in rendering services corresponding to customer requirements and focusing on delivering services in a timely manner. Company will always ensure that its customers are satisfied to an extent when they come back to get the same or any other service provided by us.

The business of financing is always competitive. Therefore, we ensure customer satisfaction as a key differentiator in the business we operate.

Environment

Abans Finance has recognized the importance of minimizing direct environmental impact of its business activities and so that Company continuously focuses on improving environmentally friendly business practices. 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 environmentally 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, 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 be successful.

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 assist 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), FCCA, CMA, FCMI, 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.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

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 1 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.

A President's Counsel by profession. Possesses twenty-six 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

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

Mr. Chanaka Wickramasuriya is currently an Independent Consultant and was 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 Analysts (CFA).

Mr. Chanaka Wickramasuriya ceased to be a Director of the Company with effect from 08 April 2019 after completing two years of service as an Independent Non- Executive Director of the Company.

CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

Dear Stakeholder,

It is my pleasure to present to you on behalf of my fellow Board members, the Corporate Governance Report of Abans Finance PLC for the year ended 31 March 2019. This report gives details of our progress, achievements, challenges and areas which we seek to improve.

The Board firmly believes that a sound governance framework is vital for sustainable growth in the Finance business in order to maintain trust and confidence that our investors and customers place in us. We believe that good corporate governance is a cornerstone of a successful and sustainable Company.

During the year, few initiatives were taken to strengthen the governance of the business, in line with best practices which are highlighted in this report. We continue to adopt all mandatory guidelines on corporate governance such as Finance Companies (Corporate Governance) Direction No. 03 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.

During the year under review, the Board focused more on improving its effectiveness towards governance and conducted an independent evaluation on Board's effectiveness. This encompasses the effectiveness of the Board as a whole, and the effectiveness of each Sub-Committees 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 30 to 50 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
24 June 2019

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

CORPORATE GOVERNANCE

Introduction

Corporate governance is a system by which a company is directed, controlled and managed. A sound corporate governance framework guides the Company to drive towards progress with implementation of relevant strategies. Sound 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. 03 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

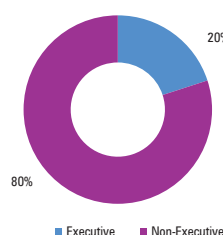
Strong governance is dependent upon a Board of Directors that is cohesive, independent in nature, fully engaged and committed to the role and, as a result, operates effectively. The Board reflects a balance between financial, sector specific and general business skills, with a highly experienced team 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 which consist of the following structure;

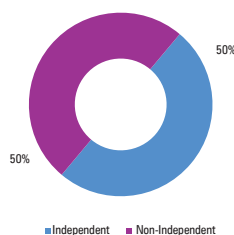
- a. Two Non Independent Non Executive Directors
 - Mr. R. Pestonjee (Chairman)
 - Mr. M. P. Parekh (Alternate Director)
 - Mr. C. H. A. W. Wickramasuriya - resigned with effect from 08 April, 2019)
- b. Two Independent Non Executive Directors
 - Mr. V. K. Choksy (Senior Director)
 - Mr. A. S. Ratnayake
- c. One Executive Director
 - Mr. R. A. Nanayakkara (Managing Director/ CEO)

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 27 to 28 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

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. Rusi Pestonjee 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). Further Mr. C. H. A. W. Wickramasuriya has resigned as an Alternate Director to Mr. M. P. Parekh Non Executive (Non Independent) Director of the Company with effect from 08 April, 2019.

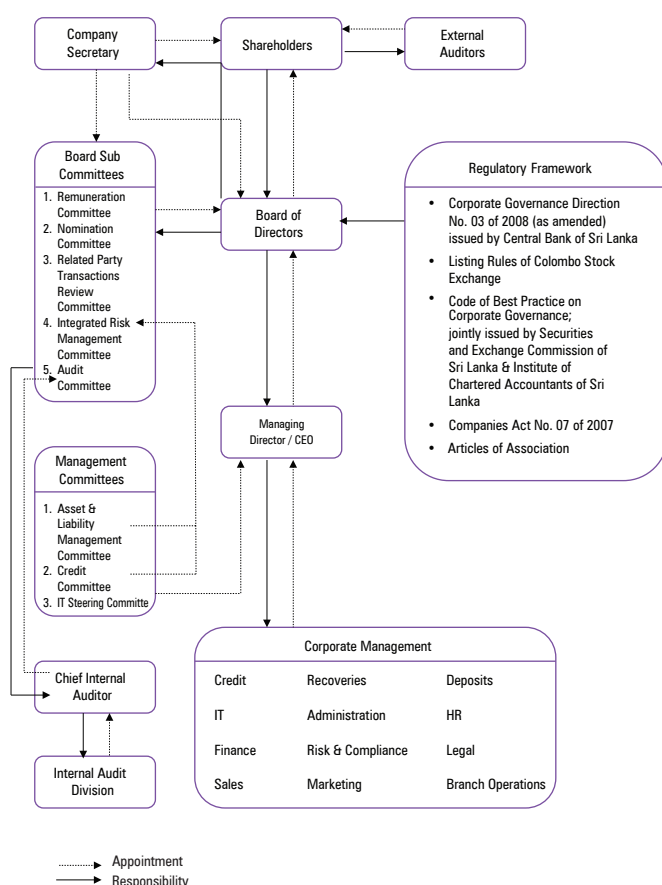
Determination of Independence of Non-Executive Directors

The Board evaluates annually whether each of the Non-Executive Directors 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 2018/19 and the attendance by individual Directors.

CORPORATE GOVERNANCE [Contd.]

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Name of the Director	Non Independent Non Executive	Executive	Independent Non Executive	Board		Audit Committee		Integrated Risk Management Committee		Related Party Transactions Review Committee		Remuneration Committee		Nomination Committee	
				C / M	Attendance	C / M	Attendance	C / M	Attendance	C / M	Attendance	C / M	Attendance	C / M	Attendance
R. Pestonjee	✓			C	10/12									C	1/1
R. A. Nanayakkara		✓		M	12/12			M	4/4	M	4/4				
V. K. Choksy			✓	M	12/12	M	14/15					C	1/1	M	1/1
A. S. Ratnayake			✓	M	12/12	C	15/15			C	4/4	M	1/1		
M. P. Parekh or his Alternate*	✓			M	12/12			C	4/4	M	4/4	M	1/1		

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

Column Attendance Indicates the number of Meetings attended

* Mr. C. H. A. W. Wickramasuriya resigned as the Alternate Director to Mr. M. P. Parekh Non Executive (Non Independent) Director with effect from 08 April, 2019.

Management Committees

The Management Committees at Abans Finance PLC function under the guidance of the Managing Director/ 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.

CORPORATE GOVERNANCE [Contd.]

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 2019/20 to 2021/22 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 56 to 60 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 (resigned w.e.f 31.07.2018), Chief Financial Officer, Head of Credit & Legal, Head of Recoveries, Head of Deposits, Head of Branches, Head of Marketing, Head of Information Technology, Manager – Compliance/ 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.
	(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

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
Overview	(i) Periodically assess the effectiveness of its governance practices, including: i) Selection, nomination, and election of directors and appointment of KMP. ii) Management of conflicts of interests. iii) Determination of weaknesses and implementation of changes where necessary.	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. The extent of compliance with this requirement is disclosed on page No 31 under "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.
	(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.
	(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 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 recommendation of the Audit Committee and it is approved by shareholders at the Annual General Meeting (AGM).
Management Discussion and Analysis	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 31 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.
Corporate Stewardship	2 (7) Publish corporate governance report in the Annual Report.	Annual corporate governance report has been published in the Annual Report 2018/19. This report from pages 30 to 50 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. 31 under "Board and its Sub Committees' Effectiveness".
Financial Information	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.
Supplementary Information		

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
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 32 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. 30 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. 30 under "Board Composition and Balance".
4 (3)	Board balance.	The extent of compliance with this requirement is disclosed on page No. 30 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. 30 under "Board Composition and Balance" and on page No. 30 under "Determination of independence of Non-Executive Directors".
4 (5)	Appointment of Alternate Directors.	No alternate directors were appointed during the year.
4 (6)	Skills and experience of Non-Executive Directors.	Appointments to the Board are made with the recommendation of the Nomination Committee. The Directors are eminent persons with the required knowledge, expertise and experience to bring an independent judgment and their profiles are given on pages 27 to 28.
4 (7)	Presence of Non-Executive Directors to satisfy the quorum for meetings of the Board.	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 27 to 28 and Report of Board of Directors on pages 61 to 64.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
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. 30 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 holds Directorates in 22 Companies as at 31 March 2019.
6. DELEGATION OF FUNCTIONS		
6 (1)	Delegation of work to the Management.	The extent of compliance with this requirement is disclosed on page No. 32 under "Delegated Authority".
6 (2)	Periodical evaluations of the delegation process.	The extent of compliance with this requirement is disclosed on page No. 32 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 28.
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.
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.

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
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.	<p>The following Board Sub-committees have been appointed by the Board and each Committee is required to report to the Board,</p> <ul style="list-style-type: none"> (a) Audit Committee (b) Integrated Risk Management Committee (c) Remuneration Committee (d) Nomination Committee (e) Related Party Transactions Review Committee <p>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.</p> <p>The Company has presented a report on the performance, duties and functions of each Board Sub-Committee on pages 51 to 55.</p>
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 27 for the complete profile of Mr. Ajith S. Ratnayake.
	(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; <ul style="list-style-type: none"> (i) The appointment of the External Auditors (ii) The implementation of the Central Bank Guidelines. (iii) The application of the relevant accounting standards; and 	The Audit Committee has recommended, <ul style="list-style-type: none"> 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.

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
	(iv) The service period, audit fee and any resignation or dismissal of the Auditor;	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. 32 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. 32 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 four times, 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 - Appraise the resignation of Senior staff of Internal Audit and any outsourced service providers. - Independence of Internal Audit Functions	<p>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.</p> <p>The Audit Committee has reviewed and approved the Internal Audit Program.</p> <p>The Audit Committee has carried out a performance appraisal of the Internal Audit Division.</p> <p>Circumstances have not arisen during the year under review.</p> <p>Circumstances to this effect have not arisen during the year under review.</p> <p>The Committee ensured the independence of the Internal Audit Function.</p>
	(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 four times 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 / CEO and other members of the Key Management Personnel also attend meetings by invitation.

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
	(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 15 times during the financial year under review. Please refer page 32 for details of the attendance of the Committee members.
	(o) Disclosures in the Annual Report.	The "Audit Committee report" on page 51 includes the details of activities of the Audit Committee. Please refer page 32 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 Committee	
	(a) The composition of IRMC.	The Integrated Risk Management Committee is chaired by a Non-Executive Director /his Alternate and comprises of Managing Director/ 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.
	(g) Risk assessment report to the Board.	Risk assessment reports have been submitted 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.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance						
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 favorable 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. (b) A report by the Board on the Finance Company's internal control mechanism. (c) The External Auditor's certification on the effectiveness of the internal control mechanism. (d) Details of Directors and the transactions with the Finance Company. (e) Fees / remuneration paid by the Finance Company to the Directors in aggregate. (f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds.	<p>Compliance with applicable Accounting Standards and regulatory requirements has been reported under "Statement of Directors' Responsibility for Financial Reporting" on page 65.</p> <p>Directors' Statement on the Internal Control System over Financial Reporting is given on page 68.</p> <p>The Company has obtained an assurance report from the External Auditors on the effectiveness of the Internal Control Mechanism.</p> <p>This is disclosed under "Report of the Board of Directors" on pages 61 to 64 and the aggregate value of deposits held by Directors is Rs. 12,493,126/-.</p> <p>Fees and remuneration paid is disclosed under note No. 13 to the Financial Statements.</p> <p>The details of the net accommodation of each related party and as a percentage of the Company's capital funds are as follows</p> <table border="1"> <thead> <tr> <th>Name of the Related Party</th><th>Outstanding as at 31/03/2019</th><th>Percentage of Capital Funds</th></tr> </thead> <tbody> <tr> <td>Abans Transport (Pvt) Ltd.</td><td>6,807,875</td><td>0.44%</td></tr> </tbody> </table>	Name of the Related Party	Outstanding as at 31/03/2019	Percentage of Capital Funds	Abans Transport (Pvt) Ltd.	6,807,875	0.44%
Name of the Related Party	Outstanding as at 31/03/2019	Percentage of Capital Funds						
Abans Transport (Pvt) Ltd.	6,807,875	0.44%						

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
	(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel.	The aggregate value of remuneration paid to KMPs (as defined by CBSL) is Rs. 49,002,750/- The aggregate value of transactions of the Company with KMPs (as defined by CBSL), Loans and Advances – Rs. 22,328,139/-, Deposits – Rs. 17,007,551/-.
	(h) A report confirming compliance with prudential requirements, regulations, laws and internal controls.	This is disclosed under “Report of the Board of Directors” on pages 61 to 64.
	(i) Non-Compliance reporting.	There are no significant lapses which require to be disclosed to the public.
	(j) The External Auditors’ certification of compliance with the corporate governance direction.	The Company has obtained a certificate from the External Auditors of the compliance with the corporate governance direction.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

CORPORATE GOVERNANCE [Contd.]

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, Criteria for determination of Independence of 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. 30 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 and the requirement under 7.10.1 (a) is complied throughout the year.
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	There were no changes to the Board of Directors during the year and hence complied with the requirements. However, Mr. C. H. A. W. Wickramasuriya was resigned as an Alternate Director to Mr. M. P. Parekh Non Executive (Non Independent) Director of the Company with effect from 08 April, 2019.
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. 30 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. 30 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. 30 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 27 to 28 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.	There were no new appointments to the Board of Directors during the year under review.
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 53.

CORPORATE GOVERNANCE [Contd.]

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 53 for details.
7.10.5 (c)	<p>The Annual Report shall set out;</p> <p>(i) The names of the Directors that comprise the Remuneration Committee;</p> <p>(ii) A statement of remuneration policy;</p> <p>(iii) Aggregate remuneration paid to Executive and Non-Executive Directors.</p>	<p>Refer the Remuneration Committee Report on page 53 for details.</p> <p>Refer the Remuneration Committee Report on page 53 for details.</p> <p>Refer the Note No. 13 of the Audited Financial Statements.</p>
7.10.6 AUDIT COMMITTEE		
7.10.6 (a)	<p>The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher.</p> <p>One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.</p> <p>The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.</p> <p>The Chairman or one member of the Committee should be a member of a recognized professional accounting body.</p>	<p>Audit Committee is comprised of two Directors and both of them are Independent Non-Executive Directors and hence complied with the requirements.</p> <p>Mr. A. S. Ratnayake (Independent Non- Executive Director) functions as the Chairman of the Board Audit Committee.</p> <p>Chief Executive Officer and Chief Financial Officer attend the meetings regularly by invitation.</p> <p>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 27 for the complete profile of Mr. A. S. Ratnayake.</p>
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 51 of the Annual Report for description of its functions.
7.10.6 (c)	<p>Annual Report shall set out;</p> <p>(i) The names of the Directors who comprise the Audit Committee.</p> <p>(ii) The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.</p> <p>(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.</p>	<p>Please refer Audit Committee Report on page 51 for the composition of the Audit Committee.</p> <p>The extent of compliance with this requirement is disclosed on page No. 32 under "Engagement of External Auditors to Provide Non Audit Services and Auditors' Independence".</p> <p>Please refer Audit Committee Report on page 51 for the Board Audit Committee Report.</p>

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

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 Corporate Governance Code issued initially, in 2008 that was revised and updated in 2013, comprises of 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 the Code of Best Practice on Corporate Governance 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 32 for the details of attendance at Board meetings held during the year.
A.1.2	Board's responsibilities – <ul style="list-style-type: none"> - Formulation and implementation of a sound business strategy. - CEO, Executive Directors and Senior Management team possess the skills, experience and knowledge. - CEO and Key Management Personnel (KMP) succession planning. - Implementing security and integrity of information, internal controls, business continuity and risk management. - Ensuring compliance with laws, regulations and ethical standards. - Ensuring all stakeholder interests are considered in corporate decisions. - Recognizing sustainable business development. - Ensuring that the Company's values and standards are set with emphasis on adopting appropriate Accounting Policies. - Fulfilling other Board functions is vital, given the scale, nature and the complexity of the organization. 	<p>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.</p> <p>Finalization of the Strategic Plan for 2019/20 to 2021/22 is currently at the final stage and the Board reviews performance on a regular basis.</p> <p>The Managing Director/CEO and other Key Management Personnel possess extensive skills, knowledge, competencies and experience.</p> <p>The Company has a Board approved one to one succession plan in place for the Key Management Personnel.</p> <p>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.</p> <p>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.</p> <p>The Board considers the stakeholder interests in the decision making process.</p> <p>The Board recognizes the importance of sustainable development in corporate strategy and business development.</p> <p>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.</p> <p>The Board has attempted to fulfill the obligations towards all stakeholders during the year.</p>
A.1.3	Compliance with laws and access to independent professional advice.	<p>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.</p> <p>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.</p>

CORPORATE GOVERNANCE [Contd.]

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 32.
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 27 to 28 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. 30 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. 30 under "Board Composition and Balance."
A.5.3	Evaluation of independence of Non-Executive Directors.	The extent of compliance with this requirement is disclosed in page No. 30 under "Determination of Independence of Non-Executive Directors."
A.5.4	Signed declaration of Independence by the Non-Executive Directors.	
A.5.5	Determination of the independence and non-independence of each Non-Executive Directors annually.	

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

CORPORATE GOVERNANCE [Contd.]

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. However, Mr. C. H. A. W. Wickramasuriya (who was not an Executive Director) resigned as an Alternate Director to Mr. M. P. Parekh, Non Executive (Non Independent) Director of the Company with effect from 8 April, 2019.
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 2018/19.
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.	The Nomination Committee makes recommendations to the Board on all new appointments to the Board. Refer page 54 for the details of the Nomination Committee.
A.7.2	Assessment of Board composition by the Nomination Committee.	The 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. 30 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.	
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. 31 under "Board and its Sub Committees' effectiveness".

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
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 27 to 28.
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.	The 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 53.
B.1.3	Disclosure in the Annual Report about the Remuneration Committee members.	The Remuneration Committee report is given on page 53.
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 Chairman of the Board is a member of the Remuneration Committee and the Directors are empowered to seek appropriate professional advice within and outside the Company as and when it is deemed necessary by the Committee.
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. - Executive share option. - Non Executive Directors' remuneration.	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. 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. 53 and Note No. 13 to the Financial Statements.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
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	Policy and methodology of communicating.	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	Contact person in relation to communications.	The 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	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.
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.	

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
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, 2019 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	Directors' Report in the Annual Report.	Refer the Report of the Board of Directors on pages 61 to 64.
D.1.3	Annual Report disclosure stating Board's and Auditors' responsibility.	Statement of Directors' Responsibilities is given on page 65.
D.1.4	Management discussion and analysis.	Management Discussion and Analysis is given on pages 06 to 26.
D.1.5	Directors' assumption of the going concern of the business.	Please refer the Report of the Board of Directors on pages 61 to 64.
D.1.6	Serious loss of Capital.	This situation has not arisen during the year and the likelihood of such a situation is remote.
D.1.7	Disclosure of related party transactions.	Refer the Note No. 45 to the Audited Financial Statements and Report of the Board of Directors on pages 61 to 64.
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 51 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 68.
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.	
D.3.1	Composition of the Audit Committee.	The Audit Committee comprises two Independent Non-Executive Directors. Please refer Audit Committee Report on page 51.
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 51 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 51.
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.	

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

CORPORATE GOVERNANCE [Contd.]

Section	Rule	Status of Compliance
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 29.
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 14 to 17 to the Annual Report.
G.1.2	The Environment.	Refer Page 26 to the Annual Report.
G.1.3	Labour Practice.	Refer Pages 23 to 26 to the Annual Report.
G.1.4	Society.	Refer Page 26 to the Annual Report.
G.1.5	Product Responsibility.	Refer Pages 23 to 24 to the Annual Report.
G.1.6	Stakeholder identification, engagement and effective communication.	Refer Pages 17 to 18 to the Annual Report.
G.1.7	Sustainable reporting and disclosure should be formalized.	Refer Pages 06 to 26 to the Annual Report.

AUDIT COMMITTEE REPORT

TERMS OF REFERENCE

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 Auditor.

MEETINGS

The Audit Committee met Fifteen 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	15	15
Mr. V.K. Choksy	15	14

The Managing Director, Chief Operating Officer (resigned w.e.f 31 July 2018), Chief Internal Auditor, Chief Financial Officer, Manager 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 four 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

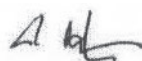
The Audit Committee monitors and reviews the external auditors' independence, and the objectivity and effectiveness of the audit process considering relevant regulatory requirements.

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 & 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
24 June 2019

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Related Party Transactions Review Committee (RPTRC) was formed by the Board of Directors of the Company as a Board Sub Committee effect from 1 January, 2016 in compliance with the Section 9 of the Listing Rules of the Colombo Stock Exchange. The Committee comprised of a combination of Executive, Non-Executive (Non-Independent) and Independent Non-Executive Directors as follows,

- Mr. Ajith S. Ratnayake - Independent Non Executive Director
- Mr. Mayank Pravin Parekh - Non Executive Director
- Mr. Roshan Nanayakkara - Executive Director

Mr. Ajith S. Ratnayake, Independent Non-Executive Director functions as the Chairman of the Committee. Secretaries of the Company function as the Secretary to the Committee.

THE ROLE OF THE COMMITTEE

The Committee is entrusted with the responsibility to assist the Board

- 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;
- that the interest of shareholders as a whole are taken into account by the Company when entering into transactions with Related Parties;
- to ensure proper review and approval may 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;
- 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;
- 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
- 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.

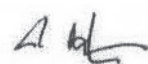
MEETINGS

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 32 of the Annual Report. The Managing Director, Chief Financial Officer, Head of Credit and Legal and the Compliance Officer attended the meeting by invitation. The minutes of the meetings were reported to the Board of Directors.

SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

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.

24 June 2019.

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 xxx to xxx 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 Secretary 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 xx 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 13 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 2019, which was forwarded to the Board and the Board was satisfied with the performance of the Committee.



V.K. Choksy

Chairman – Remuneration Committee

24 June 2019

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

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 27 to 28 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 32 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
24 June 2019

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,

- Mr. Mayank Pravin Parekh (Alternate C. H. A. W. Wickramasuriya*) – Chairman (Non Independent Non Executive Director)
- Mr. Roshan Nanayakkara - Managing Director
- Mr. J.A.P.Fernando - Chief Operating Officer (resigned w.e.f. 31 July, 2018)
- Ms. Ivon Brohier - Chief Financial Officer
- Mr. Aruna Somasiri - Head of Credit & Legal
- Mr. Gemunu Gunawardena - Head of Deposits
- Mr. Bathiya Samaraweera - Head of Marketing
- Mr. Gayan Wickramasinghe - Head of IT
- Mr. Manura Rajakaruna - Manager-IT
- Ms. Mahika Rajakaruna - Compliance Officer

*Mr. C. H. A. W. Wickramasuriya has resigned as an Alternate Director to Mr. M. P. Parekh Non Executive (Non Independent) Director of the Company with effect from 08 April, 2019.

COMMITTEE MEETINGS

The Committee meets on an approximately quarterly basis and the attendance of the Directors at the meetings is given on page 32. The Committee assesses all key risks of the Company and discussions and conclusions reached at meetings are recorded in the minutes of the meetings and a Risk Assessment Report is circulated within a week to the Board of Directors for information and appropriate action.


DUTIES AND RESPONSIBILITIES 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.

On behalf of the Integrated Risk Management Committee,



Mayank Pravin Parekh
Chairman

24 June 2019

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

RISK MANAGEMENT REPORT

RISK MANAGEMENT REPORT

OVERVIEW

In the course of our daily operations, the Company takes on a wide variety of risks. These risks arise from the products / services we offer and the business activities that the Company is engaged in. An effective risk management is fundamental to the business activities of the Company. While we remain committed to increasing shareholder value by developing and growing our business within our Board-determined risk appetite, we are mindful of achieving this objective in line with the interests of all stakeholders.

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 the decision-making is aligned with the Company's strategies. The Board receives regular updates on key risks indicators of the Company.

The IRMC plays an imperative 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. The 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.

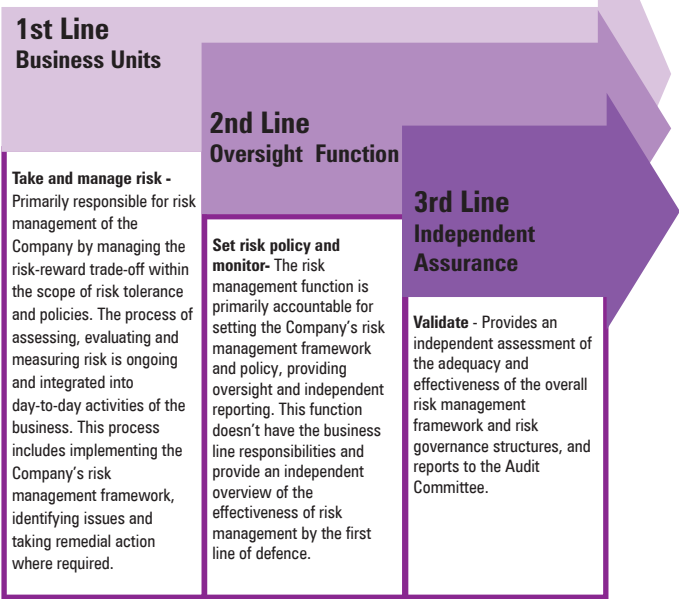
The Credit Committee is entrusted to implement credit policies approved by the Board while reviewing and making recommendations periodically, that arise in day to day high value credit decisions, managing of portfolio delinquency and establishing strategies to improve the quality of credit disbursements.

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 facilitate to oversee risks and provide an independent assurance.



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 two key Management Committees; Credit Committee and Asset & Liability Committee. The Board of Directors monitors the performance of these Management Committees with the assistance of the Integrated Risk Management Committee.

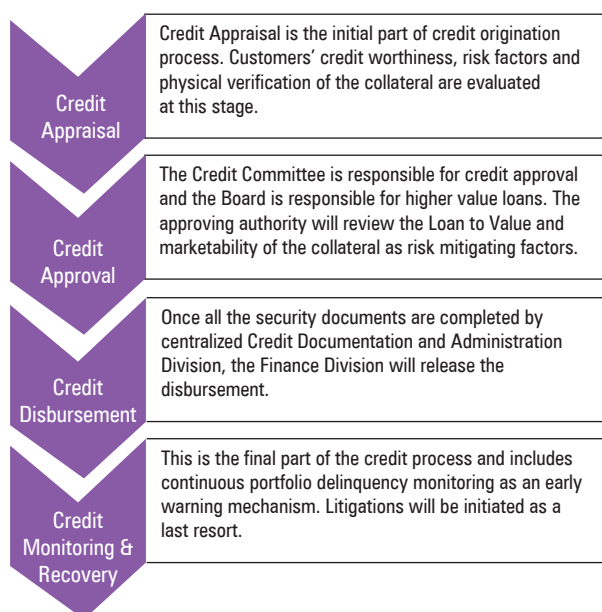
The Board of Directors approves the Company's credit risk framework, which provides the overall structure that supports effective governance of the Company's credit risk. The Company's credit policy, credit risk appetite and the credit risk framework set expectations for the conduct of the credit risk management activities and behaviour throughout the organization. This ensures,

- Consistent and effective execution of credit risk management activities across the Company
- Strong credit risk management culture
- 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 customers' 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 position with the Company's credit risk appetite. The following figure defines the credit process of the Company.

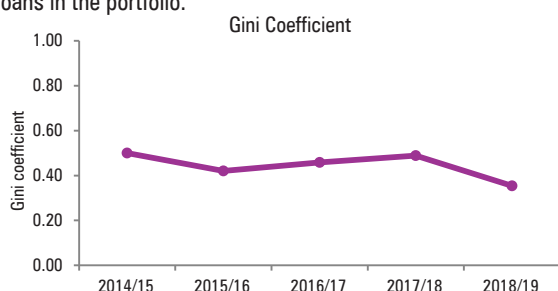


Concentration Risk

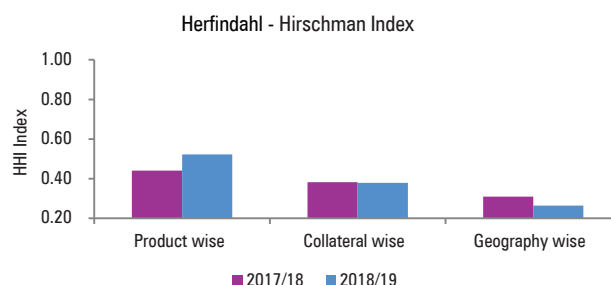
The credit risk profile is monitored and strengthened in accordance with the credit risk appetite, which encompasses credit quality and credit concentration (limits on single borrowers, products, collateral and geographical regions). As a part of the overall risk appetite framework, the Company has implemented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

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

The Company uses the Gini Coefficient, based on the Lorenz curve of inequalities to measure the Single-borrower concentrations. The Gini Coefficient varies from zero to one. The closer to zero, the more equal is the distribution of loans in the portfolio. A Coefficient closer to one indicates a less equal distribution of loans in the portfolio.



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.

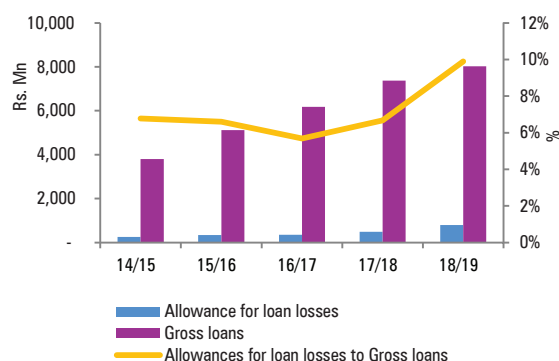


Impairment Charges and Non-Performing Loans

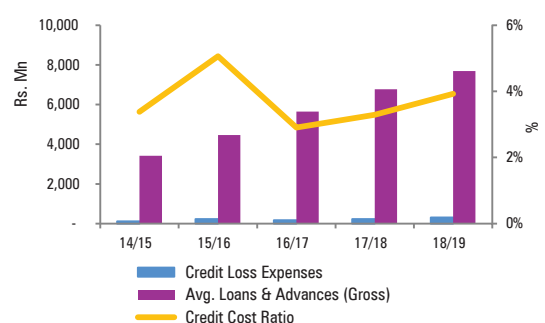
The Company conducts impairment tests collectively as well as individually (for individually significant loans and advances) in accordance with International Financial Reporting Standards (IFRSs). The new accounting standard, IFRS 9 uses the forward looking "expected credit loss" (ECL) method as it introduces a new classification approach for financial assets and financial liabilities in line with the business model in which they are managed and their cash flow characteristics. When doing impairment calculations, the Company adopted the Modified Retrospective method as prescribed in the standard.

The allowance for Loan Losses to Gross loan ratio has increased to 9.90% during the financial year compared to 6.67% in the previous year. Similarly, the credit cost ratio has also increased to 3.92% in the year under review compared to 3.29% in 2017/18.

Allowances for Loan Losses to Gross Loans



Credit Cost Ratio

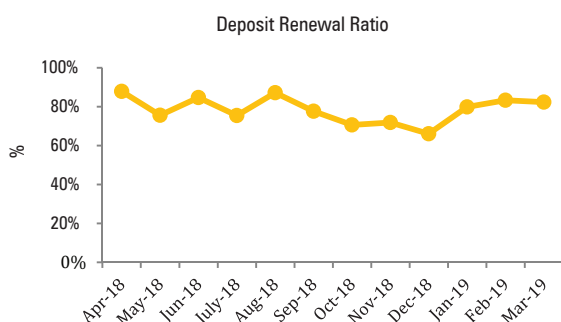
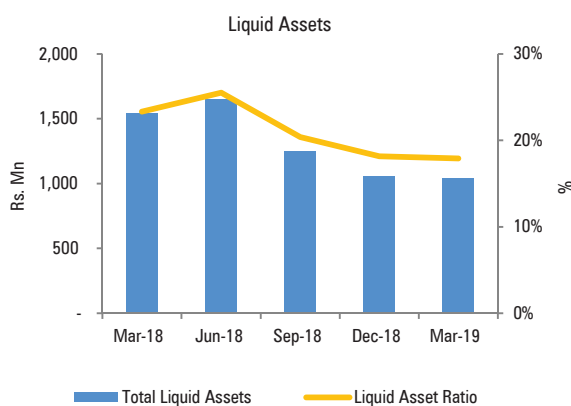
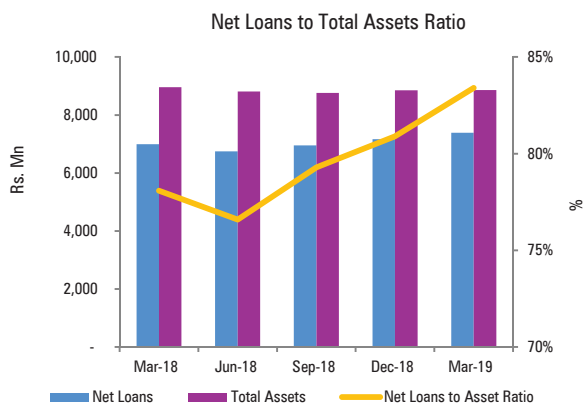
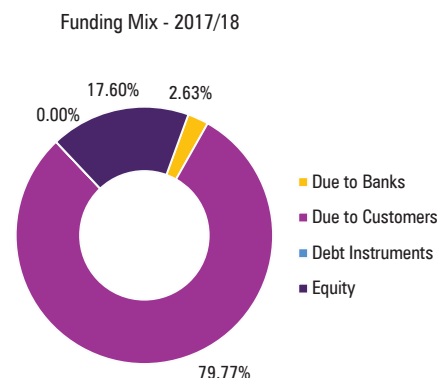
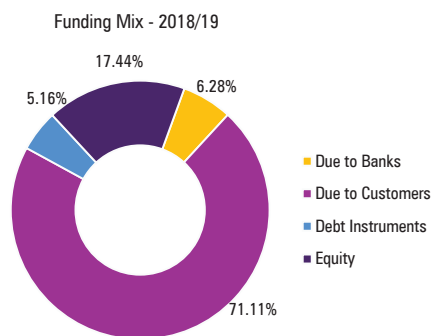


RISK MANAGEMENT REPORT [Contd.]

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 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.



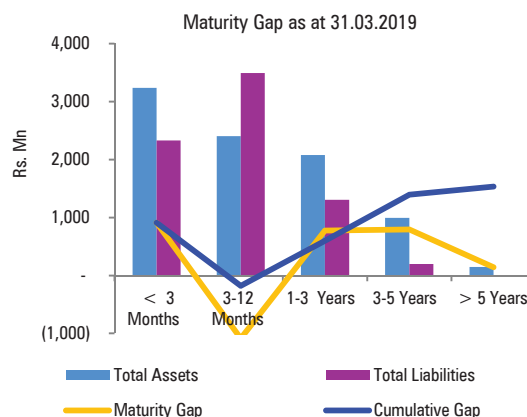
Contingency Funding Plan

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 responses 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.

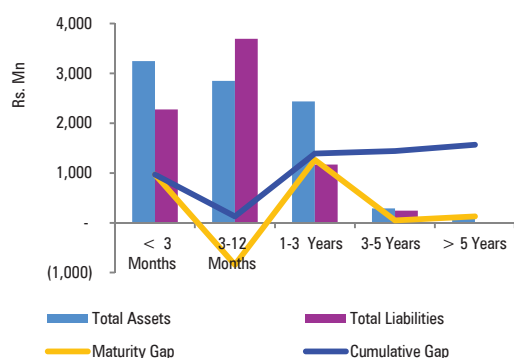
Liquidity Gap

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 period. This Gap represents the estimated cash flows of the month end Financial Position.



RISK MANAGEMENT REPORT [Contd.]

Maturity Gap as at 31.03.2018



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 - 17.92%

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%	13.60%	17.51%
2	7.5%	11.26%	15.28%
3	10.0%	8.80%	12.92%

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

Statutory Liquid Asset Ratio - 17.92%

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%	12.46%	16.42%
2	50%	6.22%	10.46%
3	25%	(0.98)%	3.59%

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).

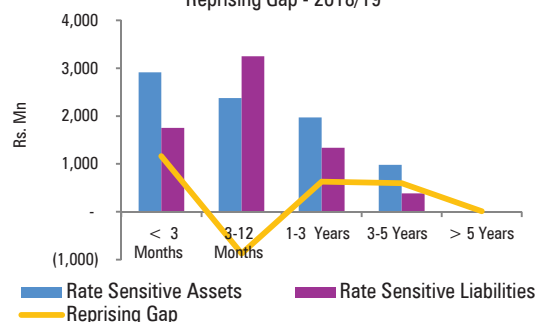
Interest Rate Risk

Interest rate risk management in finance business has assumed more significant 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.

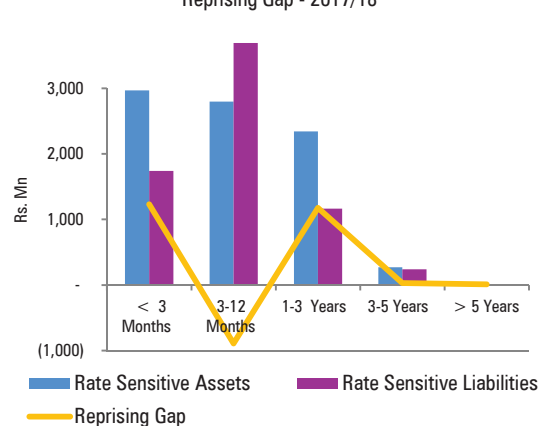
The Asset and Liability Committee (ALCO) monitors and reviews the Company's net interest income that ultimately affects the performance in financial terms. For the purpose of proper mitigation of risks in this area, ALCO takes into account the proper maintenance of the interest spread and net interest 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 reviews and re-prices the assets and liabilities, where necessary.

Repricing Gap - 2018/19



Repricing Gap - 2017/18



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 errors, 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.

RISK MANAGEMENT REPORT [Contd.]

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 definition of 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 has 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, directing 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, is required and recommends to the Board for final approval. The Company's Strategic Plan for 2019/20 to 2021/22 is currently at the final stage and it describes the overall business plan 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 the 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 Board of Directors of Abans Finance PLC is pleasure in presenting their Annual Report together with the Audited Financial Statements for the year ended 31 March 2019 and the Independent Auditor's Report on those Financial Statements in conforming 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 2018/2019

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 comprising Sri Lanka Financial Reporting Standards (SLFRS) and Lanka Accounting Standards (LKAS) set by the Institute of Chartered Accountants of Sri Lanka and are in compliance with the requirements of the Companies Act, Finance Business Act No. 42 of 2011. 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 65.

INDEPENDENT AUDITOR'S REPORT

The Auditors of the Company are M/s Ernst & Young, Chartered Accountants. M/s Ernst & Young carried out the audit of the Financial Statements for the year ended 31 March 2019 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 Statements.

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 2018 to 31 March 2019.

FINANCIAL PERFORMANCE

The Company's Profit before Taxation amounted to Rs. 110,879,553/- (after deducting Value Added Tax on Financial Services of Rs. 70,281,850/-) in comparison to Rs. 132,949,426/- in 2017/2018. After deducting Rs.87,158,231/- (Rs. 38,085,738/- in 2017/2018) for Taxation, the Profit after Tax for the year amounted to Rs. 23,721,323/-(Rs.94,863,688/-in 2017/2018).This represents net profit dropped by 75% compared to the previous financial year. Details are given in the Statement of Comprehensive Income on page 74 of the Financial Statements.

PROFIT APPROPRIATIONS

A summary of the financial results of the Company for the year ended 31 March 2019 and 31 March 2018 are given below;

Description	2018/19 (Rs)	2017/18 (Rs)
Profit before Taxation from Operations	110,879,553	132,949,426
Provision for Income Tax	(87,158,231)	(38,085,738)
Profit for the Year	23,721,323	94,863,688
Transfer to Statutory Reserve Fund	(4,744,265)	(18,972,738)
Retained Profit Brought Forward From the Previous Year	278,298,323	276,925,848
Direct Cost on Right Issue	-	(631,142)
Dividend Paid	-	(13,312,315)
Other Comprehensive Income Net of Tax	2,387,969	(897,936)
Retained Earnings Carried Forward	299,663,476	337,975,496

TOTAL OPERATING INCOME

The Total Operating Income of the Company for 2018/2019 was Rs. 1,044,148,576 compared to Rs. 960,525,877 in 2017/2018. An analysis of the Income is given on page 74 of the Financial Statements.

EQUITY AND RESERVES

The stated capital and reserves were Rs.1,534,060,263 as at 31 March 2019 (Rs.1,567,627,928/- as at 31 March 2018). The Equity and Reserves of the Company as at the end of each of the following years were follows;

Description	2018/19 (Rs)	2017/18 (Rs)
Stated Capital	1,121,412,955	1,121,412,955
Statutory Reserve	112,983,832	108,239,567
Retained Earnings	299,663,476	337,975,406
Total Shareholders' Funds	1,534,060,263	1,567,627,928

REPORT OF THE BOARD OF DIRECTORS [Contd.]

PRIVATE PLACEMENT PROCEEDS UTILIZATION AS AT 31.03.2019 (LISTED ON 18th NOVEMBER 2016)

(a) 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 utilization of the proceeds as at 31.03.2019 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. (A)	Percentage of total proceeds	Amount utilized in 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 and Software)	30,000,000	3rd Quarter 2016/17	30,000,000	11%	30,000,000	100%	-
	276,699,450	-	276,699,450	100%	276,699,450	-	-

PROPERTY, PLANT AND EQUIPMENT

Capital Expenditure incurred on Property, Plant and Equipment amounted to Rs. 18,855,254/- in 2018/2019 (Rs. 27,690,516/- in 2017/18). Details applicable to Capital Expenditure are given in Note 28 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 2019 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.

REPORT OF THE BOARD OF DIRECTORS [Contd.]

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. R. A. Nanayakkara (Appointed w.e.f.27/09/2017)	Non-Independent	Executive

RE – ELECTION OF DIRECTORS

All Directors 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.

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, 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. R. A. Nanayakkara - (Managing Director/ Chief Executive Officer)

INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

- Mr. Mayank Parekh (or his alternate Mr. Chanaka Wickramasuriya) - Chairman (Non Independent Non Executive Director)
- Mr. Roshan Nanayakkara - Managing Director
- Mr. Anura Fernando - Chief Operating Officer (Resigned w.e.f. 31 July, 2018)
- Ms. Ivon Brohier - Chief Financial Officer
- Mr. Gemunu Gunawardena - Head of Deposits
- Mr. Aruna Somasiri - Head of Recoveries
- Mr. Bathiya Samaraweera - Head of Marketing
- Mr. Gayan Wickramasinghe - Head of Information Technology
- Ms. Mahika Rajakaruna - Compliance Officer
- Mr. Manura Rajakaruna - Manager IT

DISCLOSURE OF DIRECTORS INTERESTS IN SHARES

Directors	As at 31-03-2019	As at 31-03-2018
Mr. R. Pestonjee	220,660*	220,660*
Mr. Roshan Nanayakkara	Nil	Nil
Mr. V. K. Choksy	Nil	Nil
Mr. Ajith S. Ratnayake	Nil	Nil
Mr. Mayank Parekh	Nil	Nil

* This includes 28,800 shares held jointly.

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 Related Parties

Name of the Related Party	Abans Auto (Pvt.) Ltd.	Abans PLC
Relationship	Affiliate Company	Parent Company
Nature of Transaction	Purchase of Motorcycles for Finance Leases	Collections made on behalf of AFPLC through payment gateway of Abans PLC
Aggregate value of Related Party Transactions entered into during the financial year	LKR 1,477,277,551/-	LKR 1,309,547,875/-
Aggregate value of Related Party Transactions as a % of Net Revenue/ Income	74.66%	66.19%
Terms and Conditions of the Related Party Transactions	Usual Terms available to the general public	Usual terms available to the general public

REPORT OF THE BOARD OF DIRECTORS [Contd.]

RELATED PARTY TRANSACTIONS

Transactions of related parties with the Company (as defined in LKAS 24 Related Party Disclosures) are set out in Note 46 to the Financial Statements.

The Board of Directors confirm that 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 2019

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 Thirteenth 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, 20 September 2019 at 10.30 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
24 June 2019

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Statement sets out the responsibility of the Board of Directors, in relation to the Financial Statements of the Abans Finance PLC as at 31 March 2019. The responsibilities of the External Auditors in relation to the Financial Statements are set out in the "Independent Auditors' Report" given on pages 67 to 70.

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 Board of 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 intends 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 Head of Finance 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.

24 June 2019



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

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

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF ABANS FINANCE PLC

Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Abans Finance PLC ("The Company") to provide assurance on the Directors' Responsibility Statement on Internal Control over Financial Reporting ("The Statement") included in the annual report for the year ended 31 March 2019.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with section 10(2) (b) of the Finance Companies(Corporate Governance) Direction No. 3 of 2008/ section 10 (2) (b) of the finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/Finance Leasing Company on Directors' Statement on Internal Control, issued by the institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

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

Principal : T P M Ruberu FCMA FCCA

A member Firm of Ernst & Young Global Limited

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

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

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control over financial reporting of the Company.



24 June 2019
Colombo

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.

Company adopted SLFRS 9, the new Sri Lanka Accounting Standards on Financial Instruments and SLFRS 15 on Revenue from Contracts with customer with effect from 01 April, 2018. Processes applied to adopt the said accounting standards were identified during the year 2017/2018 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. In addition, required enhancements in control process are being carried out in respect of Management Information System and its reports. The Board will continuously strengthen the processes required for validation and compliance with SLFRS 9 with the support of the External Consultant

The Board has taken into consideration the requirements of the SLFRS 16 - Leases which is effective from 01 April 2019 and necessary steps are being taken to assess its impact on financial statements and to design suitable internal controls.

The comments made by the 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 address any matters raised. The recommendations made by the External Auditors during the year in connection with the internal control system over financial reporting will be dealt with in the future.

CONFIRMATION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditor, Messrs Ernst & Young, have reviewed the above Directors' Statement on Internal Control for the year ended 31 March 2019 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.

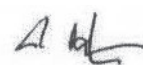
By order of the Board,



Chairman



Director



Chairman- Audit Committee
24 June 2019

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

The Financial Statements of Abans Finance PLC as at 31 March 2019, 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 their 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 pages xx 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.

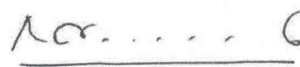
The Audit Committee approves the Audit and Non Audit Services provided by External Auditors, M/s Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors.

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
24 June 2019



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

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

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 2019, 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 give a true and fair view of the financial position of the Company as at 31 March 2019, 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.

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

Principal : T P M Ruberu FCMA FCCA

A member Firm of Ernst & Young Global Limited

Key Audit Matter

Allowance for impairment of loans & leases including Company's transition to SLFRS 9:

Our audit considered impairment for loans and Leases as a key audit matter. The materiality of the reported amounts for loans and leases (and impairment thereof), the subjectivity associated with management's impairment estimation, complex manual calculations of impairment and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it as a Key Audit Matter.

As at 31 March 2019, loans & advances and receivables from lease & hire purchase (net of impairment) amounted to Rs. 2,128 Million (Note 20) and Rs. 5,262 Million (Note 21) respectively net of total allowance for impairment of LKR 794 Million (Note 20.1 and 21.1). These collectively contributed 83% to the Company's total assets. The impact on transition to SLFRS 9 on the Company's Financial Statements has been quantified and presented in the Note 05 to the Financial Statements.

The allowance for impairment (both specific and collective) of these financial assets is estimated by management. Assumptions used by management in this calculation are inherently judgmental.

40.4.1(e) to the financial statements more fully describes the sensitivity of key assumptions.

How our audit addressed the key audit matter

To assess the reasonableness of the allowance for impairment, we carried out audit procedures (among others) to obtain sufficient and appropriate audit evidences, that included the following:

- We evaluated the design, implementation and operating effectiveness of key internal controls over estimation of impairment for loans and leases, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management.
- 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:
 - For those individually assessed 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;
 - For those collectively assessed for impairment :
we tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT system.

we also considered reasonableness of macro - economic and other factors used by management in their judgmental overlays, by comparing them with relevant publicly available data and information sources.
- By using a set of audit procedures similar to those enumerated above, we validated the quantitative impact of the transition
- We assessed the adequacy of the related financial statement disclosures as set out in note 5 (transition note)

Other information included in the 2019 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 will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

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.

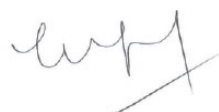
We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and 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 1697.



24 June 2019
Colombo

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2019	Notes	2019 Rs.	2018 Rs.
Income	6	1,978,548,890	1,917,670,594
Interest Income	6.1	1,820,102,486	1,711,585,707
Interest Expense	6.2	(860,326,072)	(813,594,238)
Net Interest Income		959,776,414	897,991,469
Fee and Commission Income	7.1	144,729,403	185,717,691
Fee and Commission Expense	7.2	(74,074,243)	(143,550,479)
Net Fee and Commission Income		70,655,160	42,167,212
Net Gain/(Loss) from Trading	8	206,400	1,676,964
Other Operating Income (net)	9	13,510,601	18,690,232
Total Operating Income		1,044,148,575	960,525,877
Credit Loss Expense on Financial Assets and Other Losses	10	(301,980,973)	(223,102,119)
Net Operating Income		742,167,602	737,423,758
Operating Expenses			
Personnel Costs	11	(239,637,004)	(256,394,681)
Depreciation & Amortization	12	(26,955,230)	(23,644,486)
Other Operating Expenses	13	(294,413,965)	(265,780,655)
Operating Profit before Taxes on Financial Services		181,161,403	191,603,937
Taxes on Financial Services	14	(70,281,850)	(58,654,511)
Profit before Taxation from Operations		110,879,553	132,949,426
Provision for Income Taxation	15.1	(87,158,230)	(38,085,738)
Profit for the Year		23,721,323	94,863,688
Other Comprehensive Income (OCI)			
Items that will not be reclassified to profit or loss			
Actuarial Gains/(Losses) on Defined Benefit Plan	35.1	3,316,624	(1,247,133)
Deferred Tax Effect of above	15.1	(928,655)	349,197
		2,387,969	(897,936)
Other Comprehensive Profit/(Loss) for the Year, Net of Tax		2,387,969	(897,936)
Total Comprehensive Income for the Year		26,109,292	93,965,752
Earnings Per Share : Basic / Diluted (Rs.)	16	0.36	1.44

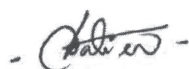
Accounting Policies and Notes from pages 78 to 136 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Notes	2019 Rs.	2018 Rs.
Assets			
Cash and Bank Balances	17	263,517,684	405,474,541
Placement With Banks	18	249,659,017	550,601,090
Repurchase Agreements	19	281,537,224	362,248,075
Loans and Advances	20	2,127,780,588	2,447,085,638
Lease Rentals Receivable & Stock out on Hire	21	5,261,624,362	4,547,537,098
Financial Investments - Available for Sale	22	-	80,400
Equity Instruments at Fair Value through OCI	22	80,400	-
Financial Investments - Held to Maturity	23	-	239,630,135
Debt Instruments at Amortised Cost	23	235,914,339	-
Other Financial Assets	24	171,436,746	89,429,809
Real Estate Stock	25	50,793,213	58,049,675
Other Non Financial Assets	26	64,153,395	74,538,359
Tax Recoverable		-	19,422,858
Property, Plant & Equipment	28	85,287,696	89,641,860
Intangible Assets	27	32,758,835	21,098,350
Deferred Tax Assets	29	35,767,246	52,586,166
Total Assets		8,860,310,735	8,957,424,054
Liabilities			
Due to Banks	30	511,760,291	218,381,026
Due to Customers	31	5,792,966,524	6,615,159,367
Other Borrowed Funds	32	420,593,845	-
Other Financial Liabilities	33	555,894,435	525,278,976
Other Non Financial Liabilities	34	18,741,949	12,064,037
Current Tax Liabilities		8,822,247	-
Retirement Benefit Liability	35	17,471,181	18,912,720
Total Liabilities		7,326,250,472	7,389,796,126
Shareholders' Funds			
Stated Capital	36	1,121,412,955	1,121,412,955
Statutory Reserve Fund	37.2	112,983,832	108,239,567
Retained Earnings	37.1	299,663,476	337,975,406
Total Shareholders' Funds		1,534,060,263	1,567,627,928
Total Liabilities and Shareholders' Funds		8,860,310,735	8,957,424,054
Commitments and Contingencies	42	119,300,467	144,325,714

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



Rusi Pestonjee
Director

Accounting Policies and Notes from pages 78 to 136 form an integral part of these Financial Statements.

24 June 2019 | Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2019

	Stated Capital	Statutory Reserve	Retained Earnings	Total
	Rs.	Rs.	Rs.	Rs.
Balance as at 31st 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 Fund	-	18,972,738	(18,972,738)	-
Balance as at 31 March 2018	1,121,412,955	108,239,567	337,975,406	1,567,627,927
Impact of adopting SLFRS 09 as at 01 April 2018	-	-	(59,676,957)	(59,676,957)
Restated of Balance under SLFRS 09 as at 01 April 2018	1,121,412,955	108,239,567	278,298,449	1,507,950,970
Net profit for the year	-	-	23,721,323	23,721,323
Other Comprehensive Income net of tax	-	-	2,387,969	2,387,969
Transfer to Statutory Reserve Fund	-	4,744,265	(4,744,265))	-
Balances as at 31 March 2019	1,121,412,955	112,983,832	299,663,476	1,534,060,262

Accounting Policies and Notes from pages 78 to 136 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 March 2019

	Notes	2019 Rs.	2018 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		110,879,553	132,949,426
Adjustments for			
Depreciation	28.2	23,209,418	20,670,196
Amortization of Intangible Assets	27	3,745,812	2,974,290
Impairment Provision	10	301,980,973	223,102,119
Diminution/(Appreciation) in Value of Investments	8	-	(1,561,557)
Loss/(Profit) from Sale of Investments	8	-	168,046
Loss/(Profit) on Disposal of Property & Equipment	9	-	(1,182,865)
Provision/(Reversal) for Defined Benefit Plans	11	5,242,795	5,667,867
Dividend Received		(206,400)	(283,453)
Operating Profit before Working Capital Changes		444,852,152	382,504,069
(Increase)/Decrease in Real Estate Stock		7,256,462	8,001,017
(Increase)/Decrease in Loans and Advances		278,507,298	(342,668,574)
(Increase)/Decrease in Lease Rentals Receivable & Stock out on hire		(975,963,336)	(845,544,301)
(Increase)/Decrease in Other Financial Assets		(164,097,576)	(184,792,632)
(Increase)/Decrease in Other Non Financial Assets		10,384,965	(33,813,296)
Increase/(Decrease) in Amounts Due to Customers		(822,192,842)	1,064,606,822
Increase/(Decrease) in Other Financial Liabilities		30,615,459	42,629,434
Increase/(Decrease) in Other Non Financial Liabilities		6,677,912	(1,798,337)
Cash Generated from Operations		(1,183,959,506)	89,124,202
Retirement Benefit Liabilities Paid	35	(3,367,710)	(3,140,600)
Taxes Paid		(19,815,156)	(31,135,695)
Net Cash From/(Used in) Operating Activities		(1,207,142,372)	54,847,906
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment	28	(18,855,254)	(27,690,516)
Acquisition of Intangible Assets	27	(15,406,297)	(1,391,598)
Proceeds from Sales of Property, Plant & Equipment		-	4,391,000
Proceeds from Sale of Financial investments held -for- trading		-	9,022,642
Cash Flow from /(Used in) Fixed Deposits		286,034,476	(300,874,398)
Sale/(Purchase) of Financial Investments- Held to Maturity		3,715,796	(1,057,171)
Dividend Received		206,400	283,453
Net Cash Flows from/(Used in) Investing Activities		255,695,121	(317,316,588)
Cash Flows from / (Used in) Financing Activities			
Cash Inflow from Long Term Bank Borrowings	30.2	445,000,000	100,000,000
Cash OutFlow from Long Term Bank Borrowing	30.2	(271,383,333)	(91,666,666)
Cash Flow form Other Borrowings	32.2	420,593,845	-
Net Cash Flow from Issue of Shares		-	276,708,733
Dividend Paid		-	(13,312,315)
Net Cash Flows from/(Used in) Financing Activities		594,210,512	271,729,752
Net Increase in Cash and Cash Equivalents		(357,236,739)	9,261,070
Cash and Cash Equivalents at the beginning of the year		1,008,737,712	999,476,642
Cash and Cash Equivalents at the end of the year		651,500,973	1,008,737,712

Accounting Policies and Notes from pages 78 to 136 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

1. CORPORATE INFORMATION

1.1 General

Abans Finance PLC is 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 estate and Real Estate and 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 Approval of Financial Statements by Directors

The Financial Statements of Abans Finance PLC for the year ended 31 March 2019 was authorized for issue in accordance with a resolution of the Board of Directors on 24 June 2019.

This is the first set of Annual Financial Statements in which SLFRS 9 – Financial Instruments and SLFRS15 - Revenue from Contracts with Customers have been applied. The changes to the significant accounting policies are described in Note 03 to the Financial Statements.

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 2019 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 (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007.

2.2 Basis of Measurement

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following items in the Statement of Financial Position.

- Financial Assets at fair value through other comprehensive income (applicable from 01 January 2018) at fair value (Note 22)
- Available for Sale Financial Instruments (applicable before 01 January 2018) at fair value (Note 22)
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation less the fair value of the plan assets (Note 35)

2.3 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees (Rs.), which is the currency of the primary economic environment in which Abans Finance PLC operates. The Financial information presented in Sri Lankan Rupees has been rounded to the nearest Rupee, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard LKAS 01 on "Presentation of Financial Statements". There was no change in the Company's presentation and functional currency during the year under review.

2.4 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 39.

2.5 Materiality and 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 comparative information is re-classified whenever necessary to conform to the current year's presentation the details of which are given in Note 47 to the Financial Statements.

The comparative information has not been restated due to adoption of SLFRS 9, as explained in Note 3

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

2.7 Statement of Cash Flow

The cash flow statement has been prepared by using the indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby operating, investing and financial activities have been separately recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in hand, balances with banks, placements with banks (less than 3 months), net of unfavourable bank balances and securities purchased under repurchase agreement (less than three months).

2.8 Events After the Reporting Date

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

No circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the financial statements, other than those disclosed in Note 48 to the Financial Statements.

2.9 Significant Accounting Judgements, 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 into 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 35.

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. The sensitivity of assumptions used in actuarial valuations are set out in Note 35.5 to the Financial Statements.

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

The measurement of impairment losses under SLFRS 9 and LKAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates driven by a number of factors, changes which can result in different levels of allowances.

Applicable from 1 January 2018

The Company's expected credit loss (ECL) calculations are output of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The elements of the ECL models that are considered accounting judgements and estimates include.

- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their fair values when their ECL is assessed on a collective basis.
- Development of ECLs, models, including the various formulas and the choice of inputs Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of default (PDs), Exposure at default (EADs) and loss given default (LGDs).
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

Applicable before 1 January 2018

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

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan type, asset type and past due status etc., and judgments on the effect of concentrations of risks and economic data including levels of unemployment, consumer price indices, interest rates, exchange rates). Impairment of loans and receivables is discussed in detail under Note 20 to 21 to the Financial Statements.

It is the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary.

IV. 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 39 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 39.2 to the Financial Statements.

V. Financial Assets and Financial Liabilities Classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at inception in to different accounting categories. The classification of financial instrument is given in Note 38 "Analysis of Financial Instruments by Measurement Basis".

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 amortization 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 judgment 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.

The Company has adopted the requirements of the New Inland Revenue Act 24 of 2017 which was effective from 01 April 2018 and 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. Judgment 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.

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. Judgment 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 42 for more details on Commitments and Contingencies.

3. CHANGES IN ACCOUNTING POLICIES

The Company has adopted SLFRS 9 –Financial Instruments, SLFRS 7 (Revised) - Financial Instruments Disclosures, SLFRS 15-Revenue from Contracts with Customers, effective for annual periods beginning on or after 01 January 2018, for the first time. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

SLFRS 9 -Financial Instruments

The Company has initially adopted SLFRS 9 with the date of transition as 01 January 2018. The Company has not early adopted this standard in previous periods. The adoption of SLFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. SLFRS 9 significantly amends the other standards dealing with financial instruments such as SLFRS 7 'Financial Instruments: Disclosure'.

As permitted by the transitional provisions of SLFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities, at the date of transition were recognized in the retained earnings as at 1 April 2018. Accordingly, the information presented for year 2017 /2018 does not reflect the requirements of SLFRS 9 and therefore not comparable to the information presented for the year 2018/2019 under SLFRS 9.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

SLFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement. The requirements of SLFRS 9 represent a significant change from LKAS 39. This new standard brings fundamental changes to the accounting for financial assets and to certain aspects of accounting for financial liabilities.

Additionally, the Company has adopted consequential amendments to SLFRS 7 Financial Instruments: Disclosures that are applied to disclosures of 2018/2019, but have not been applied to the comparative information.

The key changes to the Company's accounting policies resulting from its adoption of SLFRS 9 are summarised below. The full impact of adopting SLFRS 9 is set out in Note 5 to the Financial Statements.

Classification of Financial Assets & Financial Liabilities

SLFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and Fair value through Profit & Loss (FVTPL).

SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

SLFRS 9 largely retains the existing requirements in LKAS 39 for classification of Financial Liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows.

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

The Company's classification of its financial assets and liabilities is explained in Note 38 to the Financial Statements. The quantitative impact of applying SLFRS 9 as at 01 April 2018 is disclosed in Note 5 to the Financial Statements.

Impairment of financial assets

The adoption of SLFRS 9 has fundamentally changed the Company's accounting for loan loss impairments by replacing LKAS 39's Incurred Loss approach with a forward looking Expected Credit Loss (ECL) approach. The SLFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

Details of the Company's impairment method are disclosed in Note 4.1.10 to the Financial Statements. The quantitative impact of applying SLFRS 9 as of 01 April 2018 is disclosed in Note 5 to the Financial Statements.

To reflect the differences between SLFRS 9 and LKAS 39, Financial Instruments: Disclosures was updated and the Company has adopted it, together with SLFRS 7, for the year beginning 01 April 2018. Changes include transition disclosures as shown in Note 5, detailed information about the ECL calculations such as assumptions and inputs are set out in Note 4.1.10 to the Financial Statements.

SLFRS 15 –Revenue from Contracts with Customers

The Company has also adopted SLFRS 15 on 01 April 2018 prospectively. The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Company. Accordingly, the impact of comparative information is limited to new disclosure requirements.

Except for the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in these Financial Statements.

4. GENERAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements except for the changes mentioned in Note 3 to the Financial Statements.

4.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

4.1.1 Date of Recognition

All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades". Regular way trade means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

4.1.2 Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for "Day 1 profit or loss", as described below.

4.1.3 'Day 1' profit or loss

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

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

instrument using effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Income Statement when the inputs become observable, or when the instrument is derecognised.

4.1.4 Measurement categories of Financial Assets and Financial Liabilities

4.1.4 (a) Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at,

- Amortised Cost,
- Fair Value Through Other Comprehensive Income (FVOCI) or
- Fair value Through Profit or Loss.(FVPL)

Financial liabilities are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied

4 (a) (i).Financial Assets at Amortised cost :

The Company only measures loans, receivables, and other financial investments, at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial Assets consist of cash and bank balances, securities purchased under repurchase agreements, placement with banks, lease rentals receivable & stock out on hire, loan receivables, and other financial assets.

The details of the above conditions are outlined below.

Business Model Assessment

The Company determines its business model at the level that best reflect how it manages groups of financial assets to achieve its business objective.

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 assets held within that business model are evaluated and reported to the entity's Key Management Personnel
- The risks that affect the performance of the business model (and the financial assets 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 values of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, 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 going forward.

The Solely Payments of Principal and Interest (SPPI) test

As a second step of its classification process, the Company assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' 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 principal or amortisation of the premium/discount).

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

In contrast, contractual terms of that introduce a more than de minimis exposure to risks 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 payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

4.1.4 (a) (ii)Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Currently, the Company has recorded its non-quoted equity investments FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 22 to the Financial Statements.

4 (a) (iii) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortised Cost in the form of term loans, short term loans and securitizations.

4.1.4. (b) Policy applicable before 1 January 2018

The Company classified its financial assets into one of the following categories, as per Sri Lanka Accounting Standard LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

- Financial assets at Fair value through profit or loss (FVTPL);
- Loans & Receivables (L&R)
- Held to Maturity (HTM) Financial assets
- Financial assets Available For Sale

The Company determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments were acquired or originated and based on the Company's ability to hold.

Subsequent measurement of financial assets depends on their classification.

a) Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

The Company does not have financial assets under this category.

b) Financial Assets Available for Sale

Financial Assets Available For Sale include 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. The Company has not classified any loans or receivables as Available For Sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains or losses are recognised directly in equity (Other Comprehensive Income) in the 'Available for Sale Reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in 'Other Operating Income'. When the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate (EIR).

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 losses arising from impairment of such investments are recognised in the Income Statement in 'impairment charges for loans and other losses' and removed from the Available for Sale Reserve.

Currently, the Company does not have any non-quoted equity investments.

c) Held to Maturity Financial Assets

Held to Maturity Financial assets 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. This includes investment in government securities.

After the initial measurement, held to maturity financial instruments are subsequently measured at amortised cost using the EIR, 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 EIR. 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 in 'impairment charges for loans and other losses'.

If the Company were to sell or reclassify more than an insignificant amount of Held to Maturity investments before maturity (other than in certain specific circumstances) the entire category would be tainted and would be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial assets as held to maturity during the following two years. The details of HTM financial investments are given in Note 23 to Financial Statements.

d) Loans and Receivables

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 in the near term and those that, upon initial recognition, designates as 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 investments, other than because of credit deterioration

After initial measurement, 'Loans and Receivables' are subsequently measured at amortised cost using the Effective Interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition, fees, and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in impairment charges for loans and receivables in the Income Statement.

Loans and Receivables consist of cash and bank balances, securities purchased under repurchase agreements, placement with banks, lease rentals receivable & stock out on hire, loan receivables, and other financial assets.

4.1.5 Cash and Bank balances

Cash and bank balances comprise cash in hand, balances with banks, loans at call and at short notice that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term commitments. Details of cash and bank balances are given in Note 17 to Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

4.1.6 Classification and Subsequent Measurement of Financial Liabilities

Financial liabilities, other than loan commitments and financial guarantees, are classified as,

- (i) Financial Liabilities at Fair Value through Profit or Loss (FVTPL)
 - a) Financial Liabilities held for trading
 - b) Financial Liabilities designated at fair value through profit or loss
- (ii) Financial Liabilities at amortised cost, when they are held for trading and derivative instruments or the fair value designation is applied.

The subsequent measurement of Financial Liabilities depends on their classification.

i. Financial Liabilities at Amortised Cost

Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortised cost under 'bank overdraft', 'due to other customers', 'debt issued and other borrowed funds' and 'other payables' as appropriate, 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 assets for a fixed number of own equity shares at amortised cost using EIR method.

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

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortised Cost in the form of term loans, short term loans and debentures.

4.1.7 Reclassifications of Financial assets and Financial Liabilities

From 01 April 2018, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2017/2018.

4.1.8 Derecognition of Financial Assets and Financial Liabilities

4.1.8 (a) 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 financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset, if and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset
- Or
- It retains the rights to cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if 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

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises as 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.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

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 the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

4.1.8 (b) Derecognition - 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.

4.1.9 Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value

- measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The disclosure of fair value of financial instruments is disclosed in Note 39 to the Financial Statements.

4.1.10 Impairment of Financial Assets

4.1.10 (i) Policy applicable from 01 January 2018

a. Overview of the expected credit loss (ECL) principles

The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 40.4.1 (b)

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

- Stage 1: When loans are first recognised, the Company recognises an allowance based on 12m ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Company records an allowance for the LTECLs.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

POCI : Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

b. The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on a four probability-weighted scenarios to measure the 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 calculations are outlined below and the key elements are, as follows.

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

EAD : The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments.

LGD : The 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 lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The mechanism of the ECL method are summarised below.

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the

use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

c. Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rate
- Central Bank base rates
- Inflation

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

4.1.10 (ii) Policy applicable before 01 January 2018

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 are 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.

a. Financial Assets carried at Amortised Cost

(i) Individually assessed Loans and Advances and Lease and Stock out on Hire

For financial assets carried at amortised cost (such as loans and advances to customers as well as held to maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

- 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, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in Income Statement.

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 uncertainties 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.

(ii) 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 reporting 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.

(iii) Collectively assessed Loans and Receivables

Impairment is assessed on a collective basis in two circumstances:

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

(iv) 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

Under the methodology, 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

b. 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 future cash flows discounted at the asset's original EIR and is recognised in profit or loss. Interest on impaired asset continues to be recognised 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.

4.1.10 (iii) 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 income statement.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

4.1.10 (iv) Renegotiated Loans

The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renegotiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it collected or written off.

4.1.10 (v) Write-off of Financial Assets at Amortised Cost

The Company's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

4.1.10 (vi) 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, gold, securities, letter of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. 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.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Nonfinancial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, Audited Financial Statements and other independent sources.

4.1.10 (vii) Collateral repossessed

The Company's accounting policy under SLFRS 9 remains same as it was under LKAS 39. The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

4.1.10 (viii) Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

Income and expenses are presented on a net basis only when permitted under LKAS/ SLFRS, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

4.1.11 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.

4.1.12 Other Financial Liabilities

Other Financial liabilities 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.

4.1.13 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.

4.2 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.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

4.2.1 Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease 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.

4.2.2 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.

4.3 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

4.4 Non – Financial Assets

4.4.1 Property, Plant & 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 recognized 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 can be 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%

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

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.

4.4.2 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 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 amortisation 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 appropriate, 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 value over their estimated useful life as follows:

Asset Category	Useful life
• Computer software	10 Years

The residual value of the intangible asset is zero.

The unamortized 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.

4.4.3 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.

4.5 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 projected unit credit actuarial cost method as required by Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

The item is stated under other liabilities 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

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

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.

4.5.2 Defined Contribution Plans

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 total earnings (as defined in the Employees' Provident Fund) to the Employees' Provident Fund.

Employees' Trust Fund

The Company contributes 3% of the employee's total earnings (as defined in the Employees' Trust Fund) to the Employees' Trust Fund.

4.6 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 obligation in 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.

4.7 Recognition of Interest Income Interest Expense

4.7.1 Interest income and Interest Expense

Under both SLFRS 9 and LKAS 39, interest income and interest expense is recorded using the Effective Interest Rate (EIR) method for all financial instruments measured at amortised cost. Similarly to interest bearing financial assets classified as Available-For-Sale or Held to Maturity under LKAS 39 is also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future

cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The EIR (and therefore, the amortised cost of the asset/liability) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income/expense using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset/liability are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statement of Financial Position with an increase or reduction in interest income/interest expense. The adjustment is subsequently amortised through Interest income/Interest expense in the income statement.

When a financial asset becomes credit-impaired (as set out in Note 40.4.1 (a)) and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate under net interest income.

4.7.2 Interest Income on Overdue Rentals

Interest from overdue rentals has been accounted when they are received.

4.8 Fee and Commission Income and Expenses

Fee and Commission Income and Expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Fee and Commission Income – including account Credit Related Fees & Commission, Service Charge, Transfer Fees and Other Fees Income – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Fees earned for the provision of services over a period of time are accrued over that period

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

4.9 Dividend Income

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

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

4.10 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.

4.11 Commission on Insurance

Commission on Insurance has been recognized when those are received.

4.12 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.

4.13 Recovery of Bad Debts Written Off

Recovery of amounts written off as bad and doubtful debts is recognised upon received.

4.14 Personnel Expenses

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 all employee benefits relating to employee services in the current and prior periods and the obligation can be estimated reliably.

4.15 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.

4.16 Taxes

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

4.16.1 Current Tax

Current Tax Assets and Liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantially enacted on the reporting date and any adjustment to the tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year 2018 adjusted for taxation purposes in

accordance with the provisions of the Inland Revenue Act No. 24 of 2017 (Inland Revenue Act No. 10 of 2006 and amendments thereto up to 31 March 2018) and the amendment thereto, at the rate specified in 15 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.

4.16.2 Deferred Tax

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 transaction 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.

4.16.3 Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees including cash, Non-cash benefits and provisions relating to terminal benefits, computed on prescribed rate.

4.16.4 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.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

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.

4.16.5 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 01 January 2014. NBT on Financial Services is calculated as 2% of the value addition used for the purpose of VAT on Financial Services.

4.16.6 Debt Repayment Levy

As per the provisions of the Finance Act No.35 of 2018, Debt Repayment Levy has been imposed for a limited period from 01 October 2018 to 31 December 2021.

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25C of the Value Added Tax (VAT) Act No. 14 of 2002.

4.16.7 Withholding Tax (WHT) on Dividends

Withholding tax on dividends distributed by the Company 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 14 % (Up to 31 March 2018-10%) is deducted at source.

4.17 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.

4.18 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 0.15% on total amount of eligible deposits as at end of the month with in a period of 15 days from the end of the respective month

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.

4.19 Earnings per Share (EPS)

Basic EPS is calculated by dividing the net profit or loss attributable to ordinary equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares if any.

5. SRI LANKA ACCOUNTING STANDARDS EFFECTIVE FROM 01 JANUARY 2019

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which have been effective from 01 January 2019. The Company intends to adopt these standards, if applicable.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

A. 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 eliminates the current dual accounting model for leases which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.

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

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

Leases in which the Company is a lessee

The actual impact of applying SLFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Company's lease portfolio, the Company's assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

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.

The Company will recognise new assets and liabilities for its operating leases of branch and office premises. The nature of expenses related to these leases will now change because SLFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

No significant impact is expected for the Company's finance leases.

Transition

The Company plans to apply SLFRS 16 initially on 01 April 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting SLFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 01 April 2019, with no restatement of comparative information.

The impact on the implementation of the above Standard has not been quantified yet.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

5. TRANSITION DISCLOSURES

5.1 The following set out the impact of adopting SLFRS 9 on the Statement of Financial Position, and Retained Earnings including the effect of replacing LKAS 39's incurred loss calculations with SLFRS 9's expected credit losses.
A reconciliation between the carrying amounts under LKAS 39 to the balances reported under SLFRS 9 as of 01 April 2018 is, as follows.

Reference	LKAS 39 Measurement	Reclassification	Remeasurement		SLFRS 9	
	Category	Amount	Rs.	Rs.	Amount	Category
Assets						
	Cash and Bank Balances		405,474,541		405,253,890	Amortized Cost
	Placement With Banks		550,601,090		550,497,469	Amortized Cost
	Repurchase Agreements		362,248,075		362,248,075	Amortized Cost
	Loans and Advances		2,447,085,638		2,420,835,167	Amortized Cost
	Lease rentals receivable & Stock out on hire		4,547,537,098		4,489,561,360	Amortized Cost
	Financial Investments - Available for Sale		80,400		-	
	Equity Instruments at Fair Value Through OCI		-		-	
	Financial Investments - Held to Maturity		239,630,135		80,400	FVOCI
	Debt Instruments at Amortised Cost		-		-	
	Other Financial Assets		89,429,809		239,630,135	Amortized Cost
	Real Estate Stock		58,049,675		91,095,628	Amortized Cost
	Other Non Financial Assets		74,538,359		58,049,675	
	Tax Recoverable		19,422,858		74,538,359	
	Property, Plant & Equipment		89,641,860		19,422,858	
	Intangible Assets		21,098,350		89,641,860	
	Deferred Tax Assets		52,586,166		21,098,350	
	Total Assets		8,957,424,054		8,897,747,097	
Liabilities						
	Due to Banks		218,381,026		218,381,026	Amortized Cost
	Due to Customers		6,615,159,367		6,615,159,367	Amortized Cost
	Debt Instruments Issued and Other Borrowed Funds		-		-	Amortized Cost
	Other Financial Liabilities		525,278,976		525,278,976	Amortized Cost
	Other Non Financial Liabilities		12,064,037		12,064,037	
	Retirement Benefit Liability		18,912,720		18,912,720	
	Total Liabilities		7,389,796,126		7,389,796,126	
Shareholders' Funds						
	Stated Capital		1,121,412,955		1,121,412,955	
	Statutory Reserve Fund		108,239,567		108,239,567	
	Retained Earnings		337,975,406		278,298,449	
	Total Shareholders' Funds		1,567,627,928		1,507,950,971	
	Total Liabilities and Shareholders' Funds		8,957,424,054		8,897,747,097	

L&R : Loans & Receivables | AFS : Available-For-Sale | HTM : Held-To-Maturity | FVOCI: Fair Value through Other Comprehensive Income

- A. Financial Assets previously classified under Available For Sale category have been reclassified as Financial Assets Fair Value through Other Comprehensive Income (FVOCI) upon adoption of SLFRS 9.
B.As of 01 April 2018, the Company elected to classify its previous held to maturity financial investments as debt instruments measured at amortised cost since these instruments met the "Solely Payments of Principal and Interest" (SPPI) criterion.
- C. The impact of adopting SLFRS 9 on deferred tax is set out under Note 5.2 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

5. TRANSITION DISCLOSURES (Contd...)

5.2 The impact of transition to SLFRS 9 on retained earnings, is as follows.

	Retained Earnings Rs.
Closing balance under LKAS 39 as at 31 March 2018	337,975,406
Remeasurement adjustments on adoption of SLFRS 9	
Impact of expected credit losses under SLFRS 9	(82,884,663)
Deferred tax impact on above	23,207,706
Total change in equity due to adoption of SLFRS 9	(59,676,957)
Opening balance under SLFRS 9 as at 01 April 2018	278,298,449

5.3 The following table reconciles the aggregate opening loan loss provision allowances under LKAS 39 to the ECL allowances under SLFRS 9.

	Note	Loan loss provision under LKAS 39 as at 31 March 2018 Rs.	Remeasurement Rs.	ECLs under SLFRS 9 as at 01 April 2018 Rs.
Cash and Bank Balances	17.1	-	220,652	220,652
Placement With Banks	18.1	-	103,621	103,621
Loans and Advances	20.2	171,460,468	26,250,471	197,710,939
Lease rentals receivable & Stock out on hire	21.2	320,130,687	57,975,738	378,106,424
Other Financial Assets	24.2	19,698,194	(1,665,819)	18,032,375
		511,289,349	82,884,663	594,174,012

6. INCOME

	2019 Rs.	2018 Rs.
Interest Income	1,820,102,486	1,711,585,707
Fee & Commission Income	144,729,403	185,717,691
Net Gain/(Loss) from Trading	206,400	1,676,964
Other Operating Income	13,510,601	18,690,232
	1,978,548,890	1,917,670,594

6.1 Interest Income

Loans and Advances	467,140,076	519,241,077
Lease Rentals Receivable & Stock out on Hire	1,234,252,136	1,047,044,191
Financial Investments in Government Securities	46,574,875	76,205,802
Other Financial Assets	4,815,757	11,604,992
Placement with Banks	67,319,642	57,489,645
Total Interest Income	1,820,102,486	1,711,585,707

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.180,164,072/- (2017/2018 -Rs.33,947,010/-).

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

	2019 Rs.	2018 Rs.
6.2 Interest Expenses		
Due to Banks	34,819,975	25,862,725
Due to Customers	804,884,530	787,731,513
Debt Instruments Issued and Other Borrowed Funds	20,621,567	-
Total Interest Expenses	860,326,072	813,594,238
7. NET FEE AND COMMISSION INCOME	2019 Rs.	2018 Rs.
7.1 Fee and Commission Income		
Credit Related Fees and Commissions	43,002,032	28,420,361
Service Charge	90,619,841	149,980,969
Transfer Fees	10,762,988	6,701,763
Other Fees	344,542	614,598
Total Fee and Commission Income	144,729,403	185,717,691
7.2 Fee and Commission Expenses		
Brokerage Fees	74,074,243	143,550,479
Total Fee and Commission Expenses	74,074,243	143,550,479
Net Fee and Commission Income	70,655,160	42,167,212
8. NET GAIN/(LOSS) FROM TRADING	2019 Rs.	2018 Rs.
Dividend Income from Financial Investments - Held for Trading	206,400	283,453
Appreciation/ (Depreciation) in Market Value of Financial Investments - Held for Trading	-	1,561,557
Profit /(Loss) on sale of Financial Investments - Held for Trading	-	(168,046)
	206,400	1,676,964
9. OTHER OPERATING INCOME	2019 Rs.	2018 Rs.
Profit/(loss) on disposal of Property & Equipment	-	1,182,865
Bad Debt Recoveries	12,853,574	12,974,722
Rent Income	179,694	2,877,416
Others	477,333	1,655,229
Total Other Operating Income	13,510,601	18,690,232

10. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS AND OTHER LOSSES

10.1 The table below shows the expected credit loss (ECL) charges for Financial Instruments for the year 2018/2019 recorded in the income statement.

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Cash and Bank Balances	(173,433)	-	-	(173,433)
Placement With Banks	(49,676)	-	-	(49,676)
Loans and Advances	(42,553,463)	640,634	56,460,110	14,547,281
Lease Rentals Receivable & Stock Out on Hire	(2,538,295)	41,573,872	164,864,766	203,900,344
Other Debtors	-	-	83,756,458	83,756,458
	(45,314,867)	42,214,506	305,081,334	301,980,973

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

10.2 The following shows the impairment charges recorded in the Income Statement under LKAS 39 during the year 2017/2018

	Individual Rs.	Collective Rs.	Total Rs.
Loans and Advances	21,668,084	30,850,997	52,519,081
Lease Rentals Receivable & Stock Out on Hire	22,157,800	11,060,134	33,217,934
Other Debtors	(24,135,930)	161,501,034	137,365,104
	19,689,954	203,412,165	223,102,119

11. PERSONNEL COSTS

	2019 Rs.	2018 Rs.
Salaries and Bonus	170,454,233	185,360,613
Employer's Contribution to EPF	20,729,620	19,642,827
Employer's Contribution to ETF	5,182,405	4,910,707
Gratuity Charge/ (Reversals) for the Year (Note 35.1)	5,242,795	5,667,867
Other Allowances & Staff Related Expenses	38,027,951	40,812,667
	239,637,004	256,394,681

12. DEPRECIATION & AMORTIZATION

	2019 Rs.	2018 Rs.
Depreciation of Property Plant & Equipment	23,209,418	20,670,196
Amortization of intangible assets	3,745,812	2,974,290
	26,955,230	23,644,486

13. OTHER OPERATING EXPENSES

	2019 Rs.	2018 Rs.
Directors' Emoluments	16,371,402	11,342,750
Auditors Remuneration - Audit	656,194	1,044,150
- Non Audit	357,500	900,000
Professional & Legal Expenses	20,183,153	14,127,605
Office Administration & Establishment Expenses	150,439,586	141,732,264
Advertising & Business Promotion Expenses	45,423,013	38,665,917
Deposit Insurance premium	7,789,620	8,170,756
Others	53,193,497	49,797,213
	294,413,965	265,780,655

14. TAXES ON FINANCIAL SERVICES

	2019 Rs.	2018 Rs.
Value Added Tax on Financial Services	47,642,044	52,011,349
Nation Building Tax on Financial Services	6,352,273	6,643,161
Debt Repayment Levy on Financial Services	16,287,533	-
	70,281,850	58,654,511

15. TAXATION

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

(A) Statement of Profit or Loss

	2019 Rs.	2018 Rs.
Current Income Tax		
Income Tax for the year	48,060,260	32,522,382
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 29)	39,097,970	5,563,356
	87,158,230	38,085,738

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

	2019 Rs.	2018 Rs.
(B) Other Comprehensive Income		
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 29)	928,655	(349,197)
	928,655	(349,197)
(C) Total Tax Expense for the year	88,086,885	37,736,541

15.2 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 2019 and 2018 is as follows.

	2019 Rs.	2018 Rs.
Accounting Profit Before Income Taxation	110,879,553	132,949,426
Adjustments		
Capital Portion of Leasing Rental Due	1,720,485,136	1,630,462,901
Non-taxable Income/ Losses	(206,400)	(494,099)
Disallowable Expenses	137,322,724	239,416,256
Allowable Expenses	(1,591,485,515)	(2,091,534,833)
Total Statutory Income	376,995,499	(89,200,349)
Claim on Carried Forward Tax Losses	(205,351,711)	205,351,711
Taxable Income	171,643,788	116,151,363
Income Tax Rate (%)	28%	28%
Income Tax	48,060,260	32,522,382
Deferred Taxation Charge/(Reversal) (Note 29)	39,097,970	5,563,356
Total Tax Expense (Note 15.1 (A))	87,158,230	38,085,738
Effective tax rate	79%	29%

16. 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.

16.1 Earnings per Share: Basic / Diluted

	2019 Rs.	2018 Rs.
Amount used as the numerator		
Profit after tax for the year attributable to equity holders (Rs.)	23,721,323	94,863,688
No. of ordinary shares used as the denominator		
Weighted average number of ordinary shares (Note 16.1.1)	66,561,573	65,733,693
Basic / diluted earnings per ordinary share (Rs.)	0.36	1.44

	Outstanding No. of Shares		Weighted Average No. of Shares	
	2019	2018	2019	2018
16.1.1 Weighted Average Number of Ordinary Shares for Basic / Diluted EPS				
Number of shares in issue as at 1st April	66,561,573	55,467,978	66,561,573	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
Number of shares in issue / weighted average number of shares as at 31 March	66,561,573	66,561,573	66,561,573	65,733,693

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

17. CASH AND BANK BALANCES

	2019 Rs.	2018 Rs.
Cash in Hand	140,409,957	58,406,720
Balances with Banks	123,154,946	347,067,821
Less: Allowance for expected credit losses	(47,219)	-
	263,517,684	405,474,541

17.1 The movement in provision for expected credit losses are as follows.

	Rs. Stage 01	2019 Rs. Total
Balance as at 01 April 2018	220,652	220,652
Charge/(Reversal) to Income Statement	(173,433)	(173,433)
Balance as at 31 March 2019	47,219	47,219

17.2 Cash and Cash Equivalents in the Cash Flow Statement

	2019 Rs.	2018 Rs.
Cash and Bank Balances	263,564,903	405,474,541
Bank Overdrafts	(128,421,459)	(8,658,861)
Treasury Bills and Repurchase Agreements	281,537,224	362,248,075
Placement with Banks	234,820,305	249,673,957
Total Cash and Cash Equivalents for the purpose of Cash Flow Statements	651,500,973	1,008,737,712

18. PLACEMENT WITH BANKS

	2019 Rs.	2018 Rs.
Fixed Deposit Investments	249,712,962	550,601,090
Less: Allowance for Expected Credit Losses	(53,945)	-
	249,659,017	550,601,090

18.1 The movement in provision for expected credit losses are as follows.

	Rs. Stage 01	2019 Rs. Total
Balance as at 01 April 2018	103,621	103,621
Charge/(Reversal) to Income Statement	(49,676)	(49,676)
Balance as at 31 March 2019	53,945	53,945

Fixed Deposit Investments include Investments amounting to Rs.48,725,317/- that have been Pledged for facilities obtained from Banks.

19. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENT

	2019 Rs.	2018 Rs.
Repurchased Agreements	281,537,224	362,248,075
	281,537,224	362,248,075

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

20. LOANS AND ADVANCES

	2019 Rs.	2018 Rs.
Real Estate Loans	2,647,670	2,994,278
Mortgage Loans	329,013,622	586,369,059
Personnel Loans	842,262,706	301,743,047
Loans against Fixed Deposits	138,274,158	145,764,194
Staff Loans	51,052,155	41,841,032
Revolving Loans	99,205,632	133,301,535
Business Loans	609,462,122	815,306,787
Other Loans	238,534,915	563,414,822
	2,310,452,980	2,590,734,754
Other Charges Receivable	29,381,411	27,811,352
	2,339,834,391	2,618,546,106
Less : Allowance for Impairment Losses (Note 20.1)	(212,053,803)	(171,460,468)
Net Loans and Advances	2,127,780,588	2,447,085,638

20.1 Analysis of Loans and Advances on Maximum Exposure to credit Risk as at 31 March 2019

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Loans and Advances	-	-	795,702,286	795,702,286
Loans and Advances subject to Collective Impairment	966,872,613	216,253,636	361,005,856	1,544,132,105
Allowances for Expected Credit Losses	(12,874,716)	(17,942,647)	(181,236,440)	(212,053,803)
	953,997,897	198,310,989	975,471,702	2,127,780,588

20.2 Allowance for Impairment Losses

	2019 Rs.	2018 Rs.
As at 01 April	171,460,468	110,577,470
Impact on Adoption of SLFRS 09 as at 01 April 2018 (Note 5.1)	26,250,471	-
	197,710,939	110,577,470
Charge / (Reversal) for the year	14,547,281	60,882,998
Amounts written off	(204,417)	-
As at 31 March	212,053,803	171,460,468
Individual Impairment	96,763,081	39,812,532
Collective Impairment	115,290,722	131,647,936
	212,053,803	171,460,468
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	795,702,286	187,767,677

20.3 Movement in Allowance for Expected Credit Loss (ECL)

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2018	55,428,179	17,302,013	124,980,747	197,710,939
Charge/(Reversal) to Income Statement (Note 10.3)	(42,553,463)	640,634	56,460,110	14,547,281
Amounts written off	-	-	(204,417)	(204,417)
Balance as at 31 March 2019	12,874,716	17,942,647	181,236,440	212,053,803

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

21. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE

	2019 Rs.	2018 Rs.
Gross rentals receivables		
-Lease Rentals	7,446,807,974	6,221,315,557
-Amounts Receivable form Hirers	27,931,588	39,912,328
	7,474,739,562	6,261,227,885
Less: Unearned Income	(1,760,822,865)	(1,481,675,613)
Net rentals receivables	5,713,916,697	4,779,552,272
Less : Rental Received In Advance	-	(16,512)
Less : Suspended VAT	(4,475,554)	(5,333,626)
	5,709,441,143	4,774,202,134
Other Charges Receivable	134,171,505	93,465,652
	5,843,612,648	4,867,667,786
Less : Allowance for Impairment Losses (Note 21.1)	(581,988,296)	(320,130,688)
Total Net Rentals Receivable (Note 21.2, 21.3)	5,261,624,352	4,547,537,098

Lease & hirers receivables include receivables amounting to Rs. 1,092,627,095 that have been Pledged for facilities obtained from Banks.

21.1 Analysis of Lease Rental Receivable & Stock Out on Hire on Maximum Exposure to credit Risk as at 31 March 2019	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Individually Impaired Lease Receivables	-	-	338,995,572	338,995,572
Lease Rental Receivable & Stock out of Hire subject to Collective Impairment	3,203,173,743	1,190,743,952	1,110,699,381	5,504,617,076
Allowances for Expected Credit Losses	(141,187,705)	(102,416,668)	(338,383,923)	(581,988,296)
	3,061,986,038	1,088,327,284	1,111,311,030	5,261,624,352

21.2 Allowance for Impairment Losses

	2019 Rs.	2018 Rs.
As at 01 April	320,130,687	275,228,607
Impact on Adoption of SLFRS 09 as at 01 April 2018 (Note 5.1)	57,975,738	-
	378,106,425	275,228,607
Charge / (Reversal) for the year	203,900,344	44,902,080
Amounts written off	(18,473)	-
As at 31 March	581,988,296	320,130,687
Individual Impairment	48,804,943	41,259,754
Collective Impairment	533,183,353	278,870,933
	581,988,296	320,130,687

Gross amount of lease and hire purchase rental receivables individually determined to be impaired, before deducting the individually assessed impairment allowance

338,995,572 99,666,925

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

21.3 Movement in Allowance for Expected Credit Loss (ECL)

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	Total Rs.
Balance as at 01 April 2018	143,725,999	60,842,796	173,537,630	378,106,425
Charge/(Reversal) to Income Statement (Note 10.3)	(2,538,294)	41,573,872	164,864,766	203,900,344
Amounts written off	-	-	(18,473)	(18,473)
Balance as at 31 March 2019	141,187,705	102,416,668	338,383,923	581,988,296

21.4 As at 31 March 2019	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables				
-Lease Rentals	3,999,518,639	3,444,096,025	3,193,310	7,446,807,974
-Amounts Receivable form Hirers	26,754,962	1,176,626	-	27,931,588
	4,026,273,601	3,445,272,651	3,193,310	7,474,739,562
Less: Unearned Income	(725,814,464)	(1,033,708,906)	(1,299,495)	(1,760,822,865)
Net rentals receivables	3,300,459,137	2,411,563,745	1,893,815	5,713,916,697
Less : Suspended VAT				(4,475,554)
Other Charges Receivable				5,709,441,143
				134,171,505
Less : Allowance for Impairment Losses				5,843,612,648
				(581,988,296)
Total net rentals receivable				5,261,624,352

As at 31 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 form 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)
Other Charges Receivable				4,774,202,134
				93,465,652
Less : Allowance for Impairment Losses				4,867,667,786
				(320,130,688)
Total net rentals receivable				4,547,537,098

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

22. FINANCIAL INVESTMENTS -FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / AVAILABLE FOR SALE	2019 Rs.	2018 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."

23. DEBT INSTRUMENTS AT AMORTISED COST / FINANCIAL INVESTMENTS - HELD TO MATURITY	2019 Rs.	2018 Rs.
Government of Sri Lanka Treasury Bills	215,455,125	216,714,891
Government of Sri Lanka Treasury Bonds	20,459,214	22,915,244
	235,914,339	239,630,135

The Company has classified its investments in government debt securities-Treasury bonds & Treasury Bills previously classified as financial investments held to maturity as debt instruments at amortised cost.

24. OTHER FINANCIAL ASSETS	2019 Rs.	2018 Rs.
Reposessed Stock	47,820,057	18,032,375
Other Receivables	131,915,742	60,951,320
	179,735,799	78,983,695
Less : Allowance for Impairment Losses (Note 24.1)	(47,820,057)	(19,698,194)
	131,915,742	59,285,501
Deposit	20,952,403	15,409,628
Due From Related Parties	18,568,601	14,734,680
	171,436,746	89,429,809

Reposessed stock of the Company and the corresponding ECL allowances are grouped under Stage 3.

24.1 Allowance for Impairment Losses	2019 Rs.	2018 Rs.
As at 01 April	19,698,194	41,472,523
Impact on Adoption of SLFRS 09 as at 01 April 2018 (Note 5.1)	(1,665,819)	-
	18,032,375	41,472,523
Charge / (Reversal) for the year	83,756,458	117,317,040
Amounts written off	(53,968,776)	(139,091,369)
As at 31 March	47,820,057	19,698,194
Individual Impairment	-	-
Collective Impairment	47,820,057	19,698,194
	47,820,057	19,698,194

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

24.2 Movement in Allowance for Expected Credit Loss (ECL)

	Stage 03 Rs.	2019 Total Rs.
Balance as at 01 April 2018	18,032,375	18,032,375
Charge/(Reversal) to Income Statement (Note 10.3)	83,756,458	83,756,458
Amounts written off	(53,968,776)	(53,968,776)
Balance as at 31 March 2019	47,820,057	47,820,057

25. REAL ESTATE STOCK

	2019 Rs.	2018 Rs.
Real Estate Stocks	50,793,213	58,049,675
	50,793,213	58,049,675

26. OTHER NON FINANCIAL ASSETS

	2019 Rs.	2018 Rs.
Advances	21,644,528	35,446,356
Pre-paid Staff Cost	23,683,269	22,429,909
Other Receivables	212,630	212,630
Pre Paid Rent Deposit	3,020,088	4,139,456
Pre-Paid Expenses	15,592,880	12,310,008
	64,153,395	74,538,359

27. INTANGIBLE ASSETS

	2019 Rs.	2018 Rs.
Cost		
Cost as at 01 April	55,359,002	53,967,404
Additions	15,406,297	1,391,598
As at 31 March	70,765,299	55,359,002
Amortisation & Impairment:		
As at 1 April	34,260,652	31,286,362
Amortisation Charge for the year	3,745,812	2,974,290
As at 31 March	38,006,464	34,260,652
Net book value:		
As at 31 March	32,758,835	21,098,350

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.15,406,297 (2017/2018 - Rs.1,391,597). "

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Gross Carrying Amounts	Balance As at 01.04.2018 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.03.2019 Rs.
Cost				
Freehold Assets				
Land	24,940,093	-	-	24,940,093
Furniture & Fittings	64,573,827	10,227,578	-	74,801,405
Office Equipment	25,845,023	1,218,316	-	27,063,339
Motor Vehicles	3,325,613	-	-	3,325,613
Computer Hardware	57,727,524	7,409,360	-	65,136,884
Total Value of Depreciable Assets	176,412,080	18,855,254	-	195,267,334

28.2 Depreciation	Balance As at 01.04.2018 Rs.	Charge for the Period Rs.	Disposals Rs.	Balance 31.03.2019 Rs.
Furniture & Fittings	37,361,502	9,310,147	-	46,671,649
Office Equipment	12,031,300	2,673,694	-	14,704,994
Motor Vehicles	3,325,613	-	-	3,325,613
Computer Hardware	34,051,805	11,225,577	-	45,277,382
	86,770,220	23,209,418	-	109,979,638

28.3 Net Book Values

	2019 Rs.	2018 Rs.
At Cost		
Land	24,940,093	24,940,093
Furniture & Fittings	28,129,756	27,212,325
Office Equipment	12,358,345	13,813,723
Motor Vehicles	-	-
Computer Hardware	19,859,502	23,675,719
Total Carrying Amount of Property, Plant & Equipment	85,287,696	89,641,860

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

	2019	2018
Furniture & Fittings	3 - 8 Years	3 - 8 Years
Office Equipment	8 Years	8 Years
Motor Vehicles	8 Years	8 Years
Computer Hardware	4 years	4 years

28.5 During the Financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 18,855,254/- (2017/2018- Rs.27,690,516/-).

28.6 Cost of fully depreciated assets of the company as at 31 March 2019 is Rs. 59,575,162/- (2017/2018 - Rs. 41,040,777/-).

28.7 Fair value related disclosures of freehold land

Freehold land located at Awissawella Road, Galwana, Mulleriyawa is carried at cost. According to the Company Policy, Valuation is done annually by an Independent Valuer. Therefore the fair value exist in the recent valuation (31 March 2019) which was carried out by professionally qualified independent valuer.

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of freehold land, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Valuation Rs.
Market Comparable Method	Estimated price per perch: Rs.1,500,000 Land extent: 72.45 perches	108,675,000

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

29. DEFERRED TAXATION

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

	Statement of Financial Position		Recognized in Statement of Other Comprehensive Income		Recognized in Statement of Profit or Loss		Recognized in Statement of Changes in Equity	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Deferred Tax Liability								
Capital Allowances for Tax Purposes								
- Property Plant & Equipment	13,163,257	10,268,583		-	2,894,674	1,367,716	-	-
- Leased Asset	25,253,759	108,547,217		-	(83,293,459)	92,593,219	-	-
Define Benefit Plan- Other Comprehensive Income	1,137,997	-	1,137,997	(558,540)	-	-	-	-
	39,555,013	118,815,800	1,137,997	(558,540)	(80,398,785)	93,960,935	-	-
Deferred Tax Assets								
Capital Allowances for Tax Purposes								
- Leased Asset	-	-	-	-	-	-	-	-
Defined Benefit Plans-Income Statement	(6,029,928)	(5,504,904)	-	-	525,024	(707,635)	-	-
Define Benefit Plan- Other Comprehensive Income	-	209,343	(209,343)	-	-	-	-	-
Provision for Impairment on Financial Assets	(46,084,626)	(108,607,925)	-	-	62,523,300	(30,191,465)	-	-
Impact of Adoption of SLFRS 09	(23,207,706)	-	-	-	-	-	(23,207,706)	-
Brought Forward Tax Losses	-	(57,498,479)	-	-	57,498,479	(57,498,479)	-	-
	(75,322,259)	(171,401,966)	(209,343)	-	119,496,755	(88,397,579)	(23,207,706)	-
Deferred income tax charge/(reversal)			928,655	(558,540)	39,097,970	5,563,356	(23,207,706)	-
Net Deferred Tax Liability/ (Asset)	(35,767,246)	(52,586,166)						

30. DUE TO BANKS

Bank Overdrafts
Securitized Borrowings and Other Bank Facilities (Note 30.2 (a), 30.2 (b))

	2019 Rs.	2018 Rs.
Bank Overdrafts	128,421,459	8,658,861
Securitized Borrowings and Other Bank Facilities	383,338,832	209,722,165
	511,760,291	218,381,026

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

30. DUE TO BANKS (Contd....)

30.1 Due to Banks

	Amount repayable within 1 year Rs.	2019 Amount repayable after 1 year Rs.	Total Rs.	Amount repayable within 1 year Rs.	2018 Amount repayable after 1 year Rs.	Total Rs.
Securitized Borrowings and Other Bank Facilities	180,522,222	202,816,610	383,338,832	103,333,333	106,388,832	209,722,165
	180,522,222	202,816,610	383,338,832	103,333,333	106,388,832	209,722,165

30.2 (a) Securitized Borrowings and Other Bank Facilities

	As at 01.04.2018 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Capital Rs.	Repayments Interest Rs.	As at 31.03.2019 Rs.	Period	Security
Rs.								
Direct Bank Borrowings								
Term Loans								
Term Loan 02 Union Bank of Colombo PLC	118,055,498	-	9,969,551	83,333,333	9,969,551	34,722,165	36 Months	Lease Portfolio
Term Loan 01 Seylan Bank PLC	91,666,667	-	12,095,109	20,000,000	12,095,109	71,666,667	60 Months	Lease Portfolio
Term Loan 02 Seylan Bank PLC	-	100,000,000	3,497,087	6,250,000	3,497,087	93,750,000	60 Months	Lease Portfolio
Term Loan 01 Nations Trust Bank PLC	-	200,000,000	4,663,494	16,800,000	4,663,494	183,200,000	24 Months	Lease Portfolio
Loan Against FD 01- Sampath Bank PLC	-	30,000,000	1,217,984	30,000,000	1,217,984	-		Fixed Deposits
Loan Against FD 02- Sampath Bank PLC	-	55,000,000	695,170	55,000,000	695,170	-		Fixed Deposits
Loan Against FD 03- Sampath Bank PLC	-	20,000,000	222,148	20,000,000	222,148	-		Fixed Deposits
Loan Against FD 04- Sampath Bank PLC	-	40,000,000	1,087,759	40,000,000	1,087,759	-		Fixed Deposits
	209,722,165	445,000,000	33,448,301	271,383,333	33,448,301	383,338,832		

30.2 (b) Securitized Borrowings and Other Bank Facilities

	As at 01.04.2017 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Capital Rs.	Repayments Interest Rs.	As at 31.03.2018 Rs.	Period	Security
Rs.								
Direct Bank Borrowings								
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	91,666,667	25,718,824	209,722,165		

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

31. DUE TO CUSTOMERS

	2019 Rs.	2018 Rs.
Fixed Deposits	5,753,972,509	6,583,032,884
Savings Deposits	38,994,015	32,126,483
	5,792,966,524	6,615,159,367
32. OTHER BORROWED FUNDS		
	2019 Rs.	2018 Rs.
Securitization Loan (Note 32.1)	420,593,845	-
	420,593,845	-

32.1 Other Borrowed Funds

	2019 Amount repayable within 1 year Rs.	2019 Amount repayable after 1 year Rs.	2018 Amount repayable after 1 year Rs.	Total Rs.
Securitized Borrowings	230,277,717	190,316,128	420,593,845	-
	230,277,717	190,316,128	420,593,845	-

32.2 (a) Other Borrowed Funds

	As at 01.04.2018 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Capital Rs.	Repayments Interest Rs.	As at 31.03.2019 Rs.	Period Rs.	Security Rs.
Securitized Borrowings	-	399,972,278	20,621,567	-	-	420,593,845	22 Months	Lease Portfolio
	-	399,972,278	20,621,567	-	-	420,593,845		

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

33. OTHER FINANCIAL LIABILITIES

	2019 Rs.	2018 Rs.
Trade Payables - Related Parties (33.1)	99,000,198	146,161,587
Non Trade Payables - Related Parties (33.2)	2,969,904	1,764,979
Trade Payables - Other Parties	175,887,347	133,005,500
Accrued Expenses	278,036,986	244,346,910
	555,894,435	525,278,976

33.1 Trade Payables to Related Parties

	Relationship		
Abans PLC	Parent Company	1,272,170	2,549,551
Abans Auto (Pvt)Ltd	Affiliate Company	97,728,028	143,612,036
		99,000,198	146,161,587

33.2 Non Trade Payables to Related Parties

	Relationship		
Abans PLC	Parent Company	464,735	941,649
Abans Retail (Pvt) Ltd	Affiliate Company	192,858	211,224
Abans Graphics (Pvt) Ltd	Affiliate Company	368,000	61,582
Abans Environmental Services	Affiliate Company	266,760	184,425
ABS Gardner Dixon Hall International (Pvt) Ltd	Affiliate Company	660,000	4,317
AB Securitas (Pvt) Ltd	Affiliate Company	878,152	256,197
AB Logistics (Pvt) Ltd	Affiliate Company	835	835
ABS Courier (Pvt) Ltd	Affiliate Company	138,564	104,750
		2,969,904	1,764,979

34. OTHER NON FINANCIAL LIABILITIES

	2019 Rs.	2018 Rs.
VAT on Financial Services	8,576,044	4,881,309
VAT Payable	120,937	300,661
Others	10,044,968	6,882,067
	18,741,949	12,064,037

35. RETIREMENT BENEFIT OBLIGATIONS

Retirement Benefit Obligations - Gratuity	2019 Rs.	2018 Rs.
Balance at the beginning of the year	18,912,720	15,138,320
Current Service Cost	3,313,698	3,775,577
Payments made during the year	(3,367,710)	(3,140,600)
Interest Charged/(Reversed) for the year	1,929,097	1,892,290
(Gain)/loss arising from changes in the assumption	(3,316,624)	1,247,133
Balance at the end of the year	17,471,181	18,912,720

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

35. RETIREMENT BENEFIT OBLIGATIONS (Contd...)	2019 Rs.	2018 Rs.
35.1 Expenses on Defined Benefit Plan		
Current Service Cost for the year	3,313,698	3,775,577
Interest Charge for the year	1,929,097	1,892,290
	5,242,795	5,667,867
Amount Recognized in the Other Comprehensive Income		
(Gain)/Loss arising from changes in the assumption (Note 35.2)	(3,316,624)	1,247,133
	(3,316,624)	1,247,133
35.2 (Gain) / Loss arising from the changes in the assumption		
Due to change in Demographic Assumptions	(18,776)	-
Due to change in Financial Assumptions	(3,480,030)	1,521,991
Experience Adjustment	182,182	(274,858)
	(3,316,624)	1,247,133

35.3 Actuarial valuation of Retiring Gratuity Obligation as at 31 March 2019 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'.

35.4 Assumptions	2019	2018
Discount Rate	11.00%	10.20%
Salary Increment Rate	5.00%	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.

35.5 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.

Increase/(Decrease) in Discount Rate	Increase/(Decrease) in Salary Increment Rate	2019		2018	
		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%		722,455	(722,455)	913,512	(913,512)
-1%		(791,299)	791,299	(1,013,575)	1,013,575
	1%	(916,430)	916,430	(1,110,687)	1,110,687
	-1%	847,624	(847,624)	1,016,782	(1,016,782)

35.6 Maturity Profile of the Defined Benefit Obligation Plan

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

	2019 Years	2018 Years
Weighted Average Duration of the Defined Benefit Obligation	4.78	5.58
Average Time to Benefit Payout	5.52	5.47

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

35. RETIREMENT BENEFIT OBLIGATIONS (Contd...)

35.7 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.

	2019 Rs.	2018 Rs.
Less than 1 year	3,317,443	2,855,665
Between 1-5 years	7,896,191	8,330,035
Between 5-10 years	4,094,776	3,957,007
Over 10 years	2,162,771	3,770,013
	17,471,181	18,912,720

36. STATED CAPITAL

36.1 Issued and Fully Paid-Ordinary shares

	2019		2018	
	No. of Shares	Rs.	No. of Shares	Rs.
At the beginning of the year	66,561,573	1,121,412,955	55,467,978	844,073,080
Issued during the year				
-Right Issue	-	-	11,093,595	277,339,875
At the end of the year	66,561,573	1,121,412,955	66,561,573	1,121,412,955

36.2 Rights of Shareholders

The holders of ordinary shares confer their right to receive 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.

37. RETAINED EARNINGS AND OTHER RESERVES

37.1 Retained Earnings

	2019 Rs.	2018 Rs.
As at 01 April	337,975,406	276,925,848
Impact of adopting SLFRS 09 as at 01 April 2018	(59,676,957)	-
Restated Balance under SLFRS 09 as at 01 April 2018	278,298,449	276,925,848
Dividend Paid	-	(13,312,315)
Profit/(Loss) for the Year	23,721,323	94,863,688
Other Comprehensive Income net of tax	2,387,969	(897,936)
Transfers to Statutory Reserve Fund	(4,744,265)	(18,972,738)
Direct Cost on Right Issue	-	(631,142)
Direct Cost on Private Placement	-	-
As at 31 March	299,663,476	337,975,406

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.

37.2 Other Reserves

	Statutory Reserve Rs.	Total Rs.
As at 01 April 2018	108,239,567	108,239,567
Transfers to/(from) during the year	4,744,265	4,744,265
As at 31 March 2019	112,983,832	112,983,832

37.2.1 Statutory Reserve Fund

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central 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.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

38. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

38.1 As at 31 March 2019	Amortised Cost Rs.	Equity Instruments FVOCI Rs.	Total Rs.
Assets			
Cash and Bank Balances	263,517,684	-	263,517,684
Placement With Banks	249,659,017	-	249,659,017
Repurchase Agreements	281,537,224	-	281,537,224
Loans and Advances	2,127,780,588	-	2,127,780,588
Lease Rentals Receivable & Stock out on Hire	5,261,624,352	-	5,261,624,352
Equity Instruments at Fair Value Through OCI	-	80,400	80,400
Debt Instruments at Amortised Cost	235,914,339	-	235,914,339
Other Financial Assets	171,436,746	-	171,436,746
Total Financial Assets	8,591,469,950	80,400	8,591,550,350
Liabilities			
Due to Banks	511,760,291	-	511,760,291
Due to Customers	5,792,966,524	-	5,792,966,524
Other Borrowed Funds	420,593,845	-	420,593,845
Other Financial Liabilities	555,894,435	-	555,894,435
Total Financial Liabilities	7,281,215,095	-	7,281,215,095

38.2 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	8,402,376,252	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

HFT - Held for Trading
 HTM - Held-to-Maturity
 L & R - Loans and Receivables
 AFS - Available for Sale
 OFL - Other Financial Liabilities

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

39. 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.

39.1 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 observable 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 2019	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 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

There were no financial liabilities recorded at fair value as at 31 March 2018 & 2019.

There were no transfers between Level 1 and Level 2 during 2018 & 2019.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

39. FAIR VALUE OF FINANCIAL INSTRUMENTS (Contd...)

39.2 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.

	Carrying Amount Rs.	2019 Fair Value			Carrying Amount Rs.	2018 Fair Value			Total Rs.
		Level 01 Rs.	Level 02 Rs.	Level 03 Rs.		Level 01 Rs.	Level 02 Rs.	Level 03 Rs.	
Financial Assets									
Loans and Advances	2,127,780,588	-	1,761,035,935	-	2,435,821,344	-	2,019,393,934	-	2,019,393,934
Lease rentals receivable & Stock out on Hire	5,261,624,352	-	4,093,652,845	-	4,492,296,195	-	3,445,927,736	-	3,445,927,736
Debt Instruments at Amortised Cost	235,914,339	-	235,429,807	-	239,630,135	-	240,556,351	-	240,556,351
	7,625,319,279	-	6,090,118,587	-	7,167,747,674	-	5,705,878,021	-	5,705,878,021
Financial Liabilities									
Due to Customers	5,792,966,524	-	6,001,318,650	-	6,615,159,367	-	6,934,668,510	-	6,934,668,510
	5,792,966,524	-	6,001,318,650	-	6,615,159,367	-	6,934,668,510	-	6,934,668,510

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 repurchase to current market rates Frequently:

Assets

Cash and Bank Balances
Placement With Banks
Repurchase Agreements
Other Financial Assets

Liabilities

Due to Banks
Due to Customers Savings
Other borrowed funds
Other Financial Liabilities

Reclassification of Financial Assets

There have been no reclassifications during 2018 & 2019.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES

40.1 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.

40.2 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 consists of 2 Directors; Managing Director and one Non Executive Director. Chief Executive Officer, Chief Financial Officer / Accountant, Head of Sales, Head of Recoveries, Head of Branches, Manager – Risk & Compliance and Manager - IT 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.

40.3 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.

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.4 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.

40.4.1 Impairment Assessment

The methodology of the impairment assessment has explained in Note 4.1.10 under Accounting policies. The references below should be read in conjunction with those Accounting policies.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40.4.1 (a) Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Company considers treasury and interbank balances defaulted and takes immediate action when the required intra day payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- * Internal assessment of the borrower indicating default or near-default
- * The borrower requesting emergency funding from the Company
- * The borrower having past due liabilities to public creditors or employees
- * The borrower is deceased
- * A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- * A material decrease in the borrower's turnover or the loss of a major customer
- * A covenant breach not waived by the Company
- * The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- * Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

40.4.1 (b) Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.4 CREDIT RISK (Contd...)

40.4.1 (c) Assessment of Expected Credit Losses

40.4.1 (c) Analysis of the total allowance for expected credit losses is as follows.

	Stage 01 Rs.	Stage 02 Rs.	Stage 03 Rs.	2019 Total Rs.
Cash and Bank Balances	(173,433)	-	-	(173,433)
Placement With Banks	(49,676)	-	-	(49,676)
Loans and Advances	(42,553,463)	640,634	56,460,110	14,547,281
Lease Rentals Receivable & Stock Out on Hire	(2,538,295)	41,573,872	164,864,766	203,900,344
Other Debtors	-	-	83,756,458	83,756,458
Total Allowance for Expected Credit Losses	(45,314,867)	42,214,506	305,081,334	301,980,973

The methodology used in the determination of expected credit losses is explained in Note 4.1.10 to Financial Statements.

40.4.1(d) Movement of the total allowance for expected credit losses during the period

	2019 Rs.
Balance as at 01 April 2018	594,174,012
Charge/(Reversal) to Income Statement (Note 10)	301,980,973
Write-off during the year	(54,191,665)
Balance as at 31 March 2019	841,963,320

40.4.1(e) Sensitivity Analysis : Impact of staging of loans on collective allowance for expected credit losses

The following table illustrates the impact of staging of loans by comparing the allowance, if all performing financial assets were in stage 1 or if all such assets were in stage 2 to the actual expected credit loss recorded on these assets.

	Stage 1 and 2 Actual ECL Rs.	ECL - If all performing loans in Stage 1 Rs.	Impact of staging Rs.
Total Allowance for Expected Credit Losses	274,421,735	229,402,527	(45,019,209)

	Stage 1 and 2 Actual ECL Rs.	ECL - If all performing loans in Stage 2 Rs.	Impact of staging Rs.
Total Allowance for Expected Credit Losses	274,421,735	399,217,899	124,796,163

The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

40.4.1(f) Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 90 days past due. Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.4 CREDIT RISK (Contd...)

40.4. 1 (f) Loans Past due but not impaired (Contd.)

As at 31 March 2019

	2019		
	31-60 Days Rs.	61-90 Days Rs.	Total Rs.
Loans and Advances	140,513,036	75,322,218	215,835,254
Lease Rentals Receivable & Stock Out on Hire	816,191,944	374,612,617	1,190,804,561
Other Debtors	-	-	-
	956,704,980	449,934,835	1,406,639,815

40.4.1(g) Overview of rescheduled loans and advances (except individually impaired loans and advances)

As at 31 March 2019	2019				Net Carrng Value
	Gross Carrying Value		Allowance for ECL		
	Stage 3	Total	Stage 3	Total	
Loans and Advances	35,353,128	35,353,128	5,618,609	5,618,609	29,734,519
Lease Rentals Receivable & Stock Out on Hire	45,494,840	45,494,840	11,085,654	11,085,654	34,409,186
	80,847,968	80,847,968	16,704,263	16,704,263	64,143,705

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.4 CREDIT RISK (Contd...)

40.4.2 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	Fair Value of Collateral Held			Maximum Exposure to Credit Risk Rs.	Total Collateral Value Rs.	Net Exposure to Credit Risk Rs.
	Cash / Near Cash Rs.	Property Mortgages Rs.	Moveable Assets* Rs.			
As at 31 March 2019						
Cash and Bank Balances (Excluding cash in hand)	-	-	-	123,107,727	-	123,107,727
Placement With Banks	-	-	-	249,659,017	-	249,659,017
Repurchase Agreements	-	-	-	281,537,224	-	281,537,224
Loans and Advances	138,273,009	375,200,576	8,806,097	2,127,780,588	524,927,350	1,602,853,238
Lease Rentals Receivable & Stock out on hire	-	-	528,711,876	5,261,624,352	528,711,876	4,732,912,476
Equity Instruments at Fair Value Through OCI	-	-	-	80,400	-	80,400
Debt Instruments at Amortised Cost	-	-	-	235,914,339	-	235,914,339
Other Financial Assets	-	-	-	171,436,746	-	171,436,746
	138,273,009	375,200,576	537,517,973	8,451,140,393	1,053,639,226	7,397,501,167

Type of Collateral	Fair Value of Collateral Held			Maximum Exposure to Credit Risk Rs.	Total Collateral Value Rs.	Net Exposure to Credit Risk Rs.
	Cash/Near Cash Rs.	Property Mortgages Rs.	Moveable Assets* Rs.			
As at 31 March 2018						
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	345,764,194	712,204,652	738,862,291	2,447,085,638	1,799,825,415	647,260,223
Lease Rentals Receivable & Stock out on Hire	-	-	4,378,020,432	4,547,537,098	4,378,020,432	169,516,666
Financial Investments - Available for Sale	-	-	-	80,400	-	80,400
Financial Investments - Held to Maturity	-	-	-	239,630,135	-	239,630,135
Other Financial Assets	-	-	-	89,429,809	-	89,429,809
	345,764,194	712,204,652	5,116,882,724	8,583,680,067	6,177,845,847	2,405,834,220

* 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).

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.4 CREDIT RISK (Contd...)

40.4.3 Credit Quality by Class of Financial Assets

The amounts presented are gross of Impairment Allowances.

As at 31 March 2019	Neither Past Due nor Individually Impaired Rs.	Past Due Not Individually Impaired Rs.	Individually Impaired Rs.	Total Rs.
Assets				
Cash and Bank Balances	263,517,684	-	-	263,517,684
Placement With Banks	249,659,017	-	-	249,659,017
Repurchase Agreements	281,537,224	-	-	281,537,224
Loans and Advances	685,019,500	859,112,605	795,702,286	2,339,834,391
Lease Rentals Receivable & Stock Out on Hire	2,127,771,473	3,376,845,603	338,995,572	5,843,612,648
Equity Instruments at Fair Value Through OCI	80,400	-	-	80,400
Debt Instruments at Amortised Cost	235,914,339	-	-	235,914,339
Other Financial Assets	131,915,742	47,820,057	-	179,735,799
Total	3,975,415,379	4,283,778,265	1,134,697,858	9,393,891,502

As at 31 March 2018	Neither Past Due nor Individually Impaired Rs.	Past Due Not Individually Impaired Rs.	Individually Impaired 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
Loans and Advances	1,640,365,779	790,412,650	187,767,677	2,618,546,106
Lease Rentals Receivable & Stock Out on Hire	2,695,736,647	2,072,264,214	99,666,925	4,867,667,786
Financial Investments - Available for Sale	80,400	-	-	80,400
Financial Investments - Held to Maturity	239,630,135	-	-	239,630,135
Other Financial Assets	60,951,320	18,032,375	-	78,983,695
Total	5,955,087,988	2,880,709,239	287,434,602	9,123,231,829

40.4.3.1 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 2019	Past Due but Not Individually Impaired				Total Rs.
	1 to 30 Days Rs.	31 to 60 Days Rs.	61 to 90 Days Rs.	More than 91 Days Rs.	
Loans and Advances	284,453,269	140,513,036	75,322,218	358,824,081	859,112,604
Lease Rentals Receivable & Stock Out on Hire	1,074,622,355	816,191,944	374,522,008	1,111,479,296	3,376,815,603
Other Financial Assets	-	-	-	47,820,057	47,820,057
	1,359,075,624	956,704,980	449,844,226	1,518,123,434	4,283,748,264

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 2018	Past Due but Not Individually Impaired				Total Rs.
	1 to 30 Days Rs.	31 to 60 Days Rs.	61 to 90 Days Rs.	More than 91 Days Rs.	
Loans and Advances	171,220,113	229,304,203	87,077,206	302,811,128	790,412,650
Lease Rentals Receivable & Stock Out on Hire	961,796,898	389,145,283	197,419,175	523,902,858	2,072,264,214
Other Financial Assets	-	-	-	18,032,375	18,032,375
	1,133,017,011	618,449,486	284,496,381	844,746,361	2,880,709,239

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.4 CREDIT RISK (Contd...)

40.4.4 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 2019

Propose wise Breakdown	Cash and Bank Balances	Placement with Banks	Securities Purchased under Repurchase Agreement	Loans and Advances	Lease Rentals Receivable & Stock Out on Hire	Equity Instruments at Fairvalue Through OCI	Debt Instruments at Amortised Cost	Other Financial Assets	Total Financial Assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	-	83,690,471	52,310,207	-	-	-	136,000,678
Manufacturing	-	-	-	36,293,040	12,384,008	-	-	-	48,677,049
Construction	-	-	-	93,035,060	25,586,617	-	-	-	118,621,677
Financial Services	263,517,684	249,659,017	-	137,531,055	1,487,973	80,400	-	-	652,276,129
Trading	-	-	-	57,631,873	45,968,950	-	-	-	103,600,823
Government	-	-	281,537,224	-	-	-	235,914,339	-	517,451,563
Hotels	-	-	-	20,732,381	3,780,199	-	-	-	24,512,580
Services	-	-	-	588,996,556	4,829,080,442	-	-	-	5,418,076,997
Others	-	-	-	1,109,870,152	291,025,956	-	-	171,436,746	1,572,332,854
Total	263,517,684	249,659,017	281,537,224	2,127,780,588	5,261,624,352	80,400	235,914,339	171,436,746	8,591,550,350

As at 31 March 2018

Propose wise Breakdown	Cash and Bank Balances	Placement with Banks	Securities Purchased under Repurchase Agreement	Loans and Advances	Lease Rentals Receivable & Stock Out on Hire	Financial Instruments Available for Sale	Financial Instruments Held to Maturity	Other Financial Assets	Total Financial Assets
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	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	-	-	969,837,280
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	-	-	-	1,435,509,413	194,488,729	-	-	89,429,809	1,719,427,951
Total	405,474,541	550,601,090	362,248,075	2,447,085,638	4,547,537,098	80,400	239,630,135	89,429,809	8,642,086,786

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.5 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.

40.5.1 Interest Rate Sensitivity

40.5.1.1 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
Long Term Loans linked to AWPLR -LKR	2019	2019	2019
	+100/ (-100)	(2.30) / 2.30	(4.76) /4.76
	2018	2018	2018
	+100/ (-100)	(2.01) / 2.01	(2.98) /2.98

The base ratio considered in the Interest Rate Sensitivity Analysis is the AWPLR. Since 44% of total borrowings (excluding Due to Customers) are linked to AWPLR, the above sensitivity ratio indicates the impact on Profit or Loss and Equity.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.5 INTEREST RATE RISK (Contd...)

40.5.2 Interest Rate Risk

Interest Rate Risk Exposure on Non Trading Financial Assets & Liabilities

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.

	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 March 2019 Rs.
ASSETS							
Cash and Bank Balances	97,333,791	-	-	-	-	166,183,893	263,517,684
Placement with Banks	234,766,360	14,892,657	-	-	-	-	249,659,017
Securities Purchased under Repurchase Agreement	281,537,224	-	-	-	-	-	281,537,224
Loans and Advances	773,451,241	590,042,448	569,360,490	185,163,332	9,763,077	-	2,127,780,588
Lease Rentals Receivable & Stock out on Hire	1,313,759,464	1,769,225,928	1,379,654,550	797,269,199	1,715,212	-	5,261,624,352
Equity Instruments at Fair Value Through OCI	-	-	-	-	80,400	-	80,400
Debt Instruments at Amortised Cost	215,455,123	-	20,459,216	-	-	-	235,914,339
Other Financial Assets	-	-	-	-	-	171,436,746	171,436,746
TOTAL ASSETS	2,916,303,204	2,374,161,033	1,969,474,255	982,432,531	11,558,689	337,620,638	8,591,550,350
LIABILITIES							
Due to Banks	185,437,118	123,238,889	172,400,000	30,684,285	-	-	511,760,291
Due to Customers	1,566,713,128	3,127,154,824	936,756,031	162,342,541	-	-	5,792,966,524
Other Borrowed Funds	-	-	230,277,717	190,316,128	-	-	420,593,845
Other Financial Liabilities	-	-	-	-	-	555,894,435	555,894,435
TOTAL LIABILITIES	1,752,150,246	3,250,393,713	1,339,433,748	383,342,954	-	555,894,435	7,281,215,095
TOTAL INTEREST SENSITIVITY GAP	1,164,152,959	(876,232,680)	630,040,507	599,089,577	11,558,689	(218,273,796)	1,310,335,254

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.5 INTEREST RATE RISK (Contd...)

40.5.2.1 Interest Rate Risk

Interest Rate Risk Exposure on Non Trading Financial Assets & Liabilities

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.

	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 March 2018 Rs.
ASSETS							
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	11,264,294	2,447,085,638
Lease Rentals Receivable & Stock out on Hire	1,111,852,139	1,478,274,878	1,739,581,483	162,503,122	84,574	55,240,903	4,547,537,098
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	-	-	-	-	-	89,429,809	89,429,809
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	(891,995,979)	1,177,409,857	31,123,570	9,123,588	(272,242,228)	1,283,267,417

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.6 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.

40.6.1 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	
	2019	2018
Maximum	25.52%	28.49%
Minimum	17.16%	19.25%
Average	20.63%	23.54%
Closing	17.92%	23.32%

40.6.2 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	
	2019	2018
Maximum	126.97%	113.43%
Minimum	104.39%	104.66%
Average	114.43%	107.67%
Closing	126.97%	104.73%

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

40. RISK MANAGEMENT DISCLOSURES (Contd...)

40.6.3 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

40.6.3.1 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 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31 March 2019 Rs.
ASSETS							
Cash and Bank Balances	263,517,684	-	-	-	-	-	263,517,684
Placement With Banks	6,406,195	234,258,050	16,092,820	-	-	-	256,757,065
Securities Purchased under Repurchase Agreement	15,511,425	267,414,286	-	-	-	-	282,925,711
Loans and Advances	398,078,914	446,409,310	736,969,788	829,137,153	299,126,704	12,690,748	2,722,412,617
Lease Rentals Receivable & Stock out on Hire	672,084,051	849,266,488	2,309,113,847	1,939,093,123	1,249,929,681	2,903,192	7,022,390,382
Equity Instruments at Fair Value Through OCI	-	-	-	-	-	80,400	80,400
Debt Instruments at Amortised Cost	-	219,592,455	-	21,605,500	-	-	241,197,955
Other Financial Assets	33,255,900	113,372,311	6,050,740	17,891,586	866,209	-	171,436,746
Total Financial Assets	1,388,854,169	2,130,312,900	3,068,227,195	2,807,727,362	1,549,922,594	15,674,340	10,960,718,560
LIABILITIES							
Due to Banks	128,421,459	71,198,640	154,204,445	202,235,410	32,239,013	-	588,298,967
Due to Customers	187,551,379	1,375,986,655	3,301,271,013	1,040,703,901	188,429,945	1,418,400	6,095,361,293
Other Borrowed Funds	-	-	243,653,846	237,692,308	-	-	481,346,154
Other Financial Liabilities	-	555,894,435	-	-	-	-	555,894,435
Total Financial Liabilities	315,972,838	2,003,079,730	3,699,129,304	1,480,631,619	220,668,958	1,418,400	7,720,900,849
	1,072,881,331	127,233,170	(630,902,109)	1,327,095,743	1,329,253,636	14,255,940	3,239,817,711

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2018

40. RISK MANAGEMENT DISCLOSURES (Contd....)

40.6.3 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

40.6.3.2 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 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31 March 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	587,730,061	1,304,074,623	838,366,564	164,136,335	16,277,971	3,181,536,639
Lease Rentals Receivable & Stock out on Hire	480,270,543	929,166,478	2,031,357,134	2,600,187,875	275,250,116	155,692	6,316,387,838
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	3,377,843	72,798,966	1,926,916	2,264,926	9,061,158	-	89,429,809
Total Financial Assets	1,399,824,666	2,195,195,387	3,663,702,873	3,448,819,365	462,053,109	16,514,063	11,186,109,464
LIABILITIES							
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
Operational Risk	1,217,158,236	94,407,397	(215,327,917)	2,187,609,113	179,542,623	16,514,063	3,479,903,516

40.7 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.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

41. MATURITY ANALYSIS (CONTRACTUAL)

41.1 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.	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31 March 2019 Rs.
ASSETS							
Cash and Bank Balances	263,517,684	-	-	-	-	-	263,517,684
Placement With Banks	5,030,452	229,789,853	14,838,712	-	-	-	249,659,017
Securities Purchased under Repurchase Agreement	15,510,438	266,026,786	-	-	-	-	281,537,224
Loans and Advances	388,934,910	384,516,331	590,042,448	569,360,490	185,163,332	9,763,077	2,127,780,588
Lease Rentals Receivable	655,330,820	658,428,645	1,769,225,928	1,379,654,550	797,269,199	1,715,212	5,261,624,352
& Stock out on Hire	-	-	-	-	-	80,400	80,400
Equity Instruments at Fair Value Through OCI	-	-	-	-	-	-	-
Debt Instruments at Amortised Cost	-	215,455,123	-	20,459,216	-	-	235,914,339
Other Financial Assets	33,255,900	113,372,311	6,050,740	17,891,586	866,209	-	171,436,746
Real Estate Stock	-	-	-	50,793,213	-	-	50,793,213
Other Non Financial Assets	20,324	8,596,357	24,356,137	5,369,937	8,362,010	17,448,630	64,153,395
Property, Plant & Equipment	-	-	-	-	-	85,287,696	85,287,696
Intangible Assets	-	-	-	-	-	32,758,835	32,758,835
Deferred Tax Assets	-	-	-	35,767,246	-	-	35,767,246
Total Assets	1,361,600,528	1,876,185,407	2,404,513,964	2,079,296,237	991,660,750	147,053,850	8,860,310,735
LIABILITIES							
Due to Banks	128,153,784	57,283,333	123,238,889	172,400,000	30,684,285	-	511,760,291
Due to Customers	191,544,371	1,375,168,757	3,127,154,824	936,756,031	162,342,541	-	5,792,966,524
Other Borrowed Funds	-	-	230,277,717	190,316,128	-	-	420,593,845
Other Financial Liabilities	-	555,894,435	-	-	-	-	555,894,435
Other Non Financial Liabilities	-	18,741,949	-	-	-	-	18,741,949
Current Tax Liabilities	-	-	8,822,247	-	-	-	8,822,247
Retirement Benefit Liability	-	-	3,317,443	3,600,550	4,295,641	6,257,547	17,471,181
Total Liabilities	319,698,155	2,007,088,474	3,492,811,120	1,303,072,709	197,322,467	6,257,547	7,326,250,472

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

41. MATURITY ANALYSIS (CONTRACTUAL)

41.2 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.	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31 March 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	474,140,662	1,017,147,861	596,602,864	93,720,873	9,039,014	2,447,085,638
Lease Rentals Receivable & Stock out on Hire	446,671,205	720,421,836	1,478,274,878	1,739,581,483	162,503,122	84,574	4,547,537,098
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	3,377,843	72,798,966	1,926,916	2,264,926	9,061,158	-	89,429,809
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	-	-	-	-	-	89,641,860	89,641,860
Intangible Assets	-	-	-	-	-	21,098,350	21,098,350
Deferred Tax Assets	-	-	-	52,586,166	-	-	52,586,166
Total Assets	1,349,253,047	1,896,469,018	2,850,328,775	2,435,100,564	290,472,853	135,799,796	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 Liabilities	-	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

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

42. COMMITMENTS AND CONTINGENCIES

42.1 Commitments

As at 31 March 2019	On Demand Rs.	With in 01 year Rs.	1-5 years Rs.	More than 5 years Rs.	Total Rs.
Operating Lease Commitments- Company as lessee	-	44,945,067	74,355,400	-	119,300,467
	-	44,945,067	74,355,400	-	119,300,467

As at 31 March 2018	On Demand Rs.	With in 01 year Rs.	1-5 years Rs.	More than 5 years 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

42.2 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 2012/2013.

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 2012/2013 and The Company has made an appeal to the Tax Appeal Commission on the same.

42.3 Capital Commitments

The Company has no commitments for acquisition of Property, Plant & Equipment incidental to the ordinary course of business.

43. 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.

Abans Finance PLC is yet to comply with the minimum core capital set out in the Direction No.02 of 2017 of Finance Business Act as of 31 March 2019. As a result, the Central Bank of Sri Lanka had issued a letter dated 23 January 2019 imposing a temporary cap on deposit base until required minimum core capital is met.

	Year ended 31.03.2019 Rs.	Year ended 31.03.2018 Rs.
SLFRS 9 based impairment provisions recorded in the Financial Statements	841,862,156	511,289,350
Regulatory provisions reported to Central Bank without Interest in Suspense	829,664,174	398,332,816
Interest in Suspense reported to Central Bank	257,603,233	157,071,339
Total Regulatory provisions reported to the Central Bank of Sri Lanka (CBSL)	1,087,267,407	555,404,156
Impairment Provision Gap between CBSL provision and SLFRS 9 provision	(245,405,250)	(44,114,806)
Profit / (Loss) after tax as reported in accordance with Central Bank provisioning method	(257,964,651)	120,237,697
Capital Adequacy Ratios (as per Central Bank Direction)		
Tier 1 Ratio - (Minimum Requirement - 5% for 2018 & 6% for 2019)	19.55	21
Total Capital Ratio - (Minimum Requirement - 10% for 2018 & 2019)	19.55	21

44. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of Assets	Nature of Liability	Carrying Amount Pledged 2019 Rs.	2018 Rs.	Included Under
Lease & Hire Purchase Receivables	Bank Overdraft	356,000,000	313,366,667	Lease Rental Receivables and Stock Out on Hire
Placement With Banks Lease & Hire Purchase Receivables	Bank Overdraft	48,725,317	34,000,000	Placement With Banks
	Term Loan	687,901,778	419,444,445	Lease Rental Receivables and Stock Out on Hire
		1,092,627,095	766,811,112	

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

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% (2018- 49.67%) 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	2019 Rs.	2018 Rs.
Short Term Employee Benefits	21,541,183	19,206,890
Post-employment benefits	2,014,725	1,685,700
	23,555,908	20,892,590
Other transactions with Key Management Personnel	2019 Rs.	2018 Rs.
Fixed Deposits accepted during the year	2,115,000	40,300,000
Fixed Deposits held at the end of the year	13,843,126	493,126
Consultancy Fee paid during the year	2,742,720	2,594,592

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.(2017/2018- Nil).

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

45. RELATED PARTY TRANSACTIONS (Contd...)

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.

Nature of Transaction	Abans PLC Parent Company		Abans Auto (Pvt) Ltd. Affiliate Company		Abans Tours (Pvt) Ltd. Affiliate Company		Abans Transport (Pvt) Ltd. Affiliate Company		Other Related Parties**		Total	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Fixed Deposits Accepted during the year	-	-	-	-	-	-	-	-	28,786,000	21,000,000	28,786,000	21,000,000
Fixed Deposits held at the end of the year	-	-	-	-	-	-	-	-	124,944,550	149,597,908	124,944,550	149,597,908
As at 1 April	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)
Purchase of Motor Bikes - Lease Granting	-	(1,477,277,551)	(2,187,268,840)	-	-	-	-	-	-	-	(1,477,277,551)	(2,187,268,840)
Collections made on behalf of Abans Finance	1,309,547,875	216,797,162	-	-	-	-	-	-	-	-	1,309,547,875	216,797,162
Expense on collection commission	(14,385,553)	(17,402,300)	-	-	-	-	-	-	(17,109,986)	(15,012,665)	(14,385,553)	(17,402,300)
Support Services Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Rent Income Recognized & Expense Recoveries	(2,102,397)	4,824,426	-	-	-	-	-	-	(771,429)	(844,898)	(2,873,826)	3,979,528
Rent Expense Paid	-	-	-	-	-	-	-	-	789,796	633,673	789,796	633,673
Settlements Paid/(Received)	(1,287,471,709)	(212,397,189)	1,523,161,560	2,260,509,892	-	-	-	-	15,409,781	15,413,036	251,099,631	2,063,525,739
Facilities Granted and Interest Accrued	-	-	-	-	-	4,417,896	1,135,570	2,832,428	-	-	1,135,570	7,250,324
Settlements received for the facilities	-	-	-	-	(28,413,929)	(26,683,086)	(12,412,392)	(2,874,011)	-	-	(40,826,322)	(29,557,097)
As at 31 March	16,831,696	11,243,480	(97,728,028)	(143,612,036)	-	28,413,929	6,807,875	18,084,697	(2,505,169)	(823,330)	(76,593,625)	(86,693,259)
Included in											2019 Rs.	2018 Rs.
Loans and Advances											6,807,875	11,732,099
Lease Rentals Receivable & Stock Out on Hire											-	34,766,528
Other Financial Assets											18,568,601	14,734,680
Other Financial Liabilities											(101,970,102)	(147,926,565)
											(76,593,625)	(86,693,259)

**Other Related Parties include the following companies

Abans Graphics (Pvt) Ltd	Abans Retail (Pvt) Ltd	Abans Marketing (Pvt) Ltd
Abans Electricals PLC (Service Department)	AB Creation (Pvt) Ltd	Abans Office Automation (Pvt) Ltd
Add Outdoor Advertising (Pvt) Ltd	ABS Gardiner Dixon Hall International (Pvt) Ltd	Advantage Technologies (Pvt) Ltd
Abans Environment Services (Pvt) Ltd	AB Logistics (Pvt) Ltd	ABS Courier (Pvt) Ltd
Ironwood Investments Holdings (Pvt) Ltd		

Other Related Parties are companies controlled / jointly controlled / significantly influenced by Key Management Personnel.

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

46. FINANCIAL REPORTING BY SEGMENT

	Leasing		Hire Purchase		Term Loans		Others		Total	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Interest Income	1,233,269,527	1,042,219,905	982,608	4,824,287	467,140,076	519,241,078	118,710,274	145,300,438	1,820,102,486	1,711,585,707
Fee Based Income & Others	1,35,477,967	1,78,462,964	679,182	349,736	8,572,254	6,904,991	290,993	2,924,819	145,020,396	188,642,511
Unallocated Income	-	-	-	-	-	-	13,426,008	17,442,376	13,426,008	17,442,376
Total Revenue	1,368,747,494	1,220,682,869	1,661,790	5,174,023	475,712,331	526,146,069	132,427,275	165,667,634	1,978,548,890	1,917,670,594
Interest Expenses	(511,059,858)	(442,701,500)	(2,311,922)	(3,419,295)	(240,193,104)	(250,102,272)	(106,761,188)	(117,371,171)	(860,326,072)	(813,594,238)
Fee Based Expenses & Others	(56,902,220)	(109,785,662)	-	-	(33,598)	(83,910)	(17,138,425)	(33,680,907)	(74,074,243)	(143,550,479)
Impairment Reversal / (Provision)	(202,914,210)	(33,430,770)	(986,134)	212,836	(14,547,281)	(52,519,081)	(83,533,349)	(137,365,104)	(301,980,973)	(223,102,119)
Net Operating Income	597,871,206	634,764,936	(1,636,266)	1,967,564	220,338,348	223,440,806	(75,005,666)	(122,749,549)	742,167,602	737,423,758
Unallocated Expenses	-	-	-	-	-	-	-	-	(631,288,049)	(604,474,332)
Profits/ (Loss) before Tax	-	-	-	-	-	-	-	-	110,879,554	132,949,426
Income Tax expenses	-	-	-	-	-	-	-	-	(87,158,230)	(38,085,738)
Net Profit/ (Loss) for the period	-	-	-	-	-	-	-	-	23,721,323	94,863,688
Other Comprehensive Income	-	-	-	-	-	-	-	-	2,387,969	(897,936)
Total Comprehensive Income for the Year	-	-	-	-	-	-	-	-	26,109,292	93,965,752
Segment Assets	5,236,804,547	4,473,190,120	24,819,806	19,106,075	2,127,780,588	2,435,821,344	817,903,793	1,210,528,976	8,207,308,734	8,138,646,515
Unallocated Assets	-	-	-	-	-	-	-	-	653,002,001	818,777,539
Total Assets	5,236,804,547	4,473,190,120	24,819,806	19,106,075	2,127,780,588	2,435,821,344	817,903,793	1,210,528,976	8,860,310,735	8,957,424,054
Unallocated Liabilities	-	-	-	-	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	-	-	-	7,326,250,472	7,389,796,126

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

47. COMPARATIVE INFORMATION

	Previous Year Classification Rs.	Reclassified Rs.	Current Year Classification Rs.
OTHER FINANCIAL ASSETS			
Reposessed Stock	-	18,032,375	18,032,375
Other Receivables	200,260,699	(139,309,379)	60,951,320
	200,260,699	(121,277,004)	78,983,695
Less : Allowance for Impairment Losses (Note 22.1)	(74,470,001)	54,771,807	(19,698,194)
	125,790,698	(66,505,197)	59,285,501
Deposit	15,409,628	-	15,409,628
Due From Related Parties	14,734,680	-	14,734,680
	155,935,006	(66,505,197)	89,429,809
Allowance for Impairment Losses			
As at 01 April	76,196,266	(34,723,742)	41,472,523
Charge / (Reversal) for the year	137,365,104	(20,048,064)	117,317,040
Amounts written off	(139,091,369)	-	(139,091,369)
As at 31 March	74,470,001	(54,771,807)	19,698,194
Individual Impairment	1,213,834	(1,213,834)	-
Collective Impairment	73,256,167	(53,557,972)	19,698,194
	74,470,001	(54,771,807)	19,698,194
	Previous Year Classification Rs.	Reclassified Rs.	Current Year Classification Rs.
LOANS AND ADVANCES			
Real Estate Loans	2,994,278	-	2,994,278
Mortgage Loans	586,369,059	-	586,369,059
Personnel Loans	301,743,047	-	301,743,047
Loans against Fixed Deposits	145,764,194	-	145,764,194
Staff Loans	41,841,032	-	41,841,032
Revolving Loans	133,301,535	-	133,301,535
Business Loans	815,306,787	-	815,306,787
Other Loans	563,414,822	-	563,414,822
	2,590,734,754	-	2,590,734,754
Other Charges Receivable	-	27,811,352	27,811,352
	2,590,734,754	27,811,352	2,618,546,106
Less : Allowance for Impairment Losses (Note 19.1)	(154,913,410)	(16,547,058)	(171,460,468)
Net Loans and Advances	2,435,821,344	11,264,294	2,447,085,638

NOTES TO THE FINANCIAL STATEMENTS [Contd.]

Year ended 31 March 2019

47. COMPARATIVE INFORMATION - [Contd.]

	Previous Year Classification Rs.	Reclassified Rs.	Current Year Classification Rs.
Allowance for Impairment Lossess			
As at 01 April	102,390,149	8,187,321	110,577,470
Charge / (Reversal) for the year	52,523,261	8,359,737	60,882,998
Amounts written off	-	-	-
As at 31 March	154,913,410	16,547,058	171,460,468
Individual Impairment	39,812,532	-	39,812,532
Collective Impairment	115,100,878	16,547,058	131,647,936
	154,913,410	16,547,058	171,460,468

LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE

	Previous Year Classification Rs.	Reclassified Rs.	Current Year Classification Rs.
Groos rentals receivables			
-Lease Rentals	6,221,315,557	-	6,221,315,557
-Amounts Receivable form Hirers	39,912,328	-	39,912,328
	6,261,227,885	-	6,261,227,885
Less: Unearned Income	(1,481,675,613)	-	(1,481,675,613)
Net rentals receivables	4,779,552,272	-	4,779,552,272
Less : Rental Received In Advance	(16,512)	-	(16,512)
Less : Suspended VAT	(5,333,626)	-	(5,333,626)
	4,774,202,134	-	4,774,202,134
Other Charges Receivable	-	93,465,652	93,465,652
	4,774,202,134	93,465,652	4,867,667,786
Less : Allowance for Impairment Losses (Note 19.1)	(281,905,939)	(38,224,749)	(320,130,688)
Total net rentals receivable (Note 19.2, 19.3)	4,492,296,195	55,240,903	4,547,537,098

	Previous Year Classification Rs.	Reclassified Rs.	Current Year Classification Rs.
Allowance for Impairment Lossess			
As at 01 April	248,692,186	26,536,421	275,228,607
Charge / (Reversal) for the year	33,213,752	11,688,328	44,902,080
Amounts written off	-	-	-
As at 31 March	281,905,938	38,224,749	320,130,687
Individual Impairment	40,045,920	1,213,834	41,259,754
Collective Impairment	241,860,018	37,010,915	278,870,933
	281,905,938	38,224,749	320,130,687

48. 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 2019.

VALUE ADDITION

Financial Value Addition

For the year ended 31 March	2019 Rs.'000	%	2018 Rs.'000	%
Value Added				
Income earned by providing Financial Services	1,978,342		1,915,994	
Cost of Services	(1,228,814)		(1,222,925)	
Value added by financial services	749,528		693,068	
Net gain / (loss) from trading	206		1,677	
Impairment	(301,981)		(223,102)	
Total Value Added	447,754		471,643	

Value Allocated

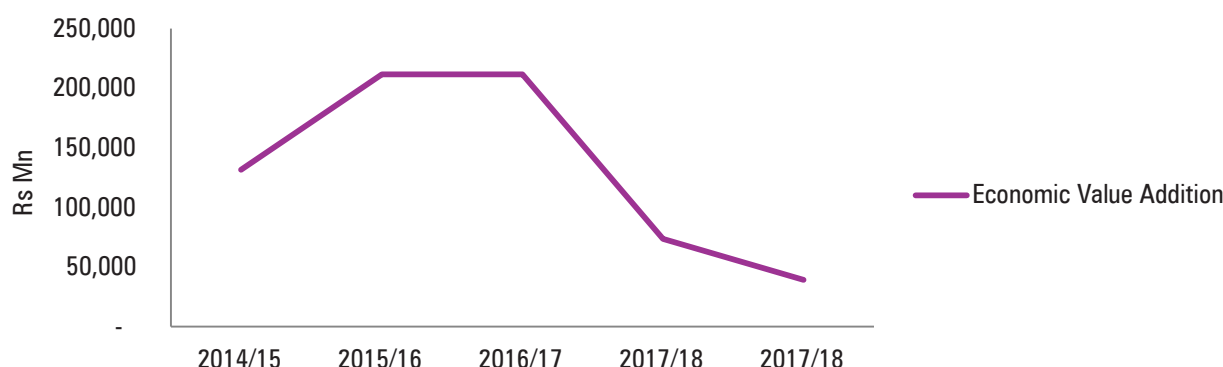
Employees as Remuneration	239,637	54	256,395	54
Government as Taxes	157,440	35	96,740	21
Shareholders as Dividends	-	-	13,312	3
Retained within the Business	-			
- As depreciation & amortization	26,955	6	23,644	5
- As reserves	23,721	5	81,551	17
Total Value Allocated	447,754	100	471,643	100

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	2019 Rs.'000	2018 Rs.'000
Shareholders' Funds		
Shareholders' Funds	1,534,060	1,567,628
Accumulated Provision for Impairment chargers	841,862	511,289
	2,375,922	2,078,917
Profit Attributable to:		
Shareholders	23,721	94,864
Add-Impairment Provision.	301,981	223,102
	325,702	317,966
Economic Cost(Average treasury bill rate + 2% Risk Premium)	12.06%	11.75%
Economic Cost	286,536	244,273
Economic Value Addition	39,166	73,693

Economic Value Addition



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) : Core Capital
Risk Weighted Assets

02. Total Risk Weighted Capital Ratio
(Tire 01 + Tire II) : Capital Base
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	2018-19 (Rs.'000)	2017-18 (Rs.'000)
Total Tier I core capital (schedule I)	1,514,060	1,547,628
Total Capital Base (schedule II)	1,514,060	1,547,628
Total Risk Weighted Assets (schedule III)	7,745,816	7,369,176
Core Capital Ratio (Minimum 5%)	19.55	21.00
Total Risk Weighted Capital Ratio (Minimum 10%)	18.10	21.00

The capital adequacy ratios stood at 19.55% both (Tier 1) and (Total of Tier 1 and Tier 2), as at 31 March, 2019. Capital adequacy ratios of the Company have decreased during the year under review as opposed to previous year.

The total capital adequacy ratio decreased to 19.55% as at 31 March 2019, from 21.00% at 31 March 2018. This decrease was due to implementation of SLFRS 9 based on which provision is being made for Lending Assets. As result this impact has caused drop in Opening Retained earnings.

New Capital Adequacy Ratio -

CBSL has imposed New Capital Adequacy Ratio which covers credit and operational risk based on principles of Basel record with effect on 31.07.2018.

2019	2018/19 (Rs' 000)
Tier 1 Capital (After Adjustment)	1,465,534
Total Capital (After Adjustment)	2,161,828
Total Risk Weighted Amount	10,514,350
Risk Weighted Amount for Credit Risk	8,974,738
Risk Weighted Amount for Operational Risk	1,539,612
Tier 1 Capital Ratio,	13.94
Total Capital Ratio,	20.56

TEN YEAR SUMMARY

Supplementary Information	Financial Information	Corporate Stewardship	Management Discussion and Analysis	Overview
---------------------------	-----------------------	-----------------------	------------------------------------	----------

Statement of Comprehensive Income

	2019	2018	2017	2016	2015	2014	2013	2012	*2011	*2010
Income	1,978,548,890	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
Interest Income	1,820,102,486	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	289,854,363
Interest Expense	-860,326,072	-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
Net Interest Income	959,776,414	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
Fee and Commission Income	144,729,403	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	-74,074,243	-143,550,479	-84,747,252	-76,888,915	-45,314,982	-22,452,896	-7,055,624	-3,955,418	-	-
Net Fee and Commission Income	70,655,160	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	206,400	1,676,964	948,394	-582,293	1,830,282	272,657	449,377	-2,869,874	-	-
Other Operating Income (Net)	13,510,601	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
Total Operating Income	1,044,148,576	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
Impairment (Charge)/Reversal										
(Prov. For Bad Debts)	-301,980,973	-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
Net Operating Income	742,167,602	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
Less: Operating Expenses										
Personnel Cost	-239,637,004	-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
Other Operating Expenses	-321,369,195	-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
Operating Profit before VAT on FS	181,161,404	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
Value Added Tax on Financial Services	-70,281,850	-58,654,511	-55,318,763	-30,188,461	-11,123,943	-3,655,613	-7,585,827	-8,379,298	-8,935,538	-
Profit before Taxation from Operations	110,879,553	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
Income Tax Expenses	-87,158,231	-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
Profit for the year	23,721,323	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

TEN YEAR SUMMARY [Cont'd]

Supplementary Information	Financial Information	Corporate Stewardship	Management Discussion and Analysis	Overview
---------------------------	-----------------------	-----------------------	------------------------------------	----------

Statement of Financial Position

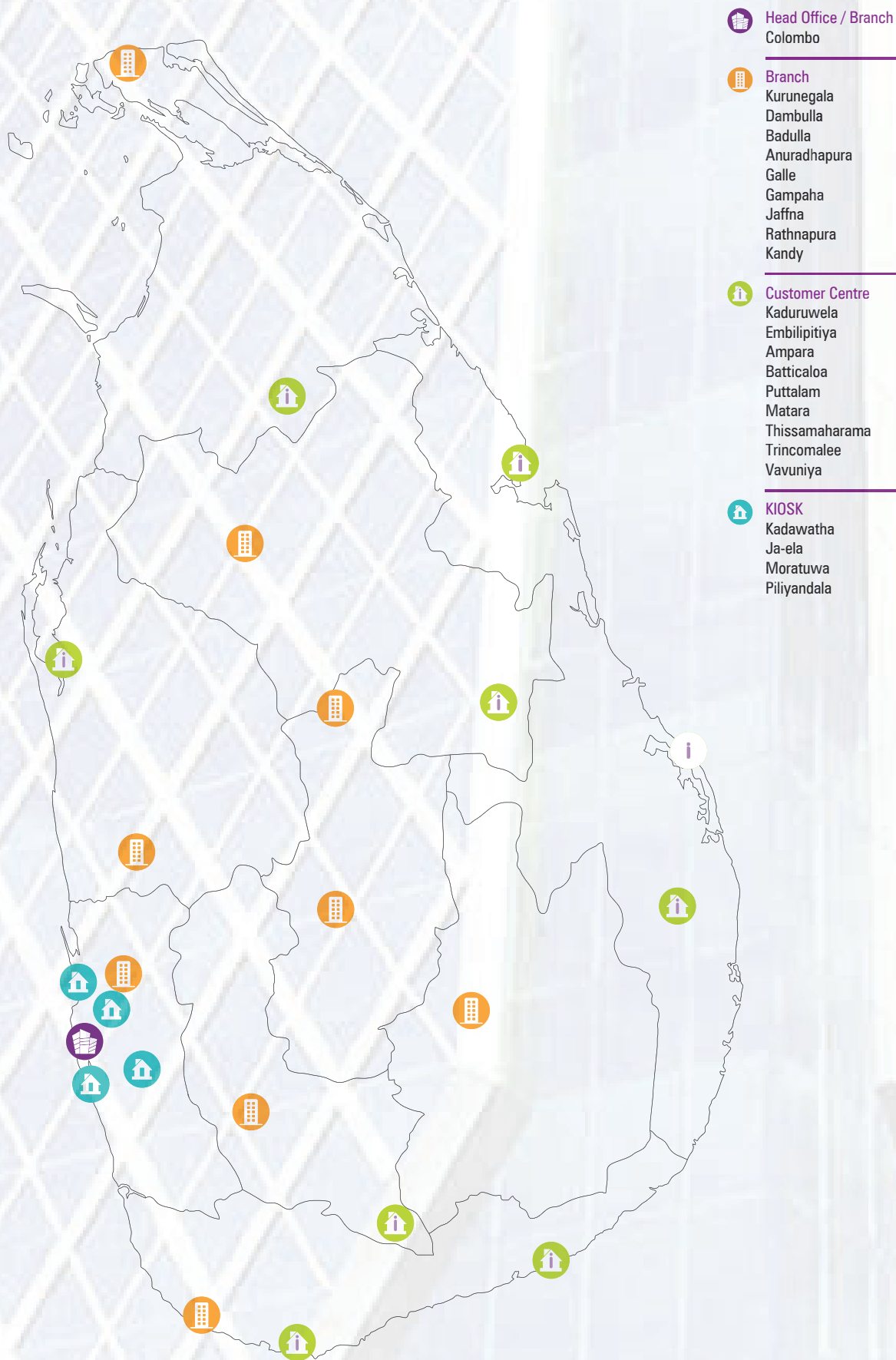
Assets	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cash and Bank Balances	263,517,884	405,474,541	376,968,804	73,385,295	68,497,383	105,135,491	33,802,530	24,020,124	12,497,605	7,771,603
Placements with Banks	249,659,017	550,601,090	384,100,772	224,098,165	283,645,333	127,536,938	125,140,325	25,480,046	65,103,633	42,401,609
Investment in Government Securities	517,451,563	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
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	2,127,780,588	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
Lease Rentals Receivable & Stock Out on Hire	5,261,624,352	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
Financial Investments-Available for Sale	80,400	80,400	80,400	80,400	100,210,655	80,400	80,400	80,400	80,400	80,400
Real Estate and Vehicle Stock	50,793,213	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
Other Assets	235,590,140	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
Tax Recoverable	-	19,422,858	20,800,270	-	-	-	-	6,602,175	6,468,996	13,345,635
Intangible Assets	32,758,835	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	85,287,696	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
Deferred Tax Assets	35,767,246	52,586,166	57,800,324	61,419,536	18,448,150	155,429	-	81,683	20,557,523	32,969,828
Total Assets	8,860,310,735	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
Liabilities										
Due to Banks & Other Financial Institutions	530,502,240	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
Due to Customers	5,792,966,524	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
Debt Instruments Issued and Other										
Borrowed Funds	420,593,845	-	-	31,110,631	-	122,265,623	174,325,059	99,374,620	24,999,996	-
Other Liabilities	555,894,435	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
Retirement Benefit Liability	17,471,181	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
Current Tax Liabilities	8,822,247	-	-	56,345,826	26,491,603	5,876,796	3,376,089	-	-	-
Deferred Tax Liability		-	-	-	-	-	2,589,526	-	-	-
Total Liabilities	7,326,250,471	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
Shareholders' Funds										
Stated Capital	1,121,412,955	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
Statutory Reserve	112,983,832	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
Investment Fund		-	-	-	-	18,454,242	14,723,671	7,833,381	-	-
Reserve on Available for Sale		-	-	-	130,255	-	-	-	-	-
Financial Instruments		-	-	-	-	-	-	-	-	-
Retained Earnings	299,663,476	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
Total Shareholders' Funds	1,534,060,263	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
Total Liabilities and Shareholders' Funds	8,860,310,734	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

BRANCH NETWORK

Supplementary Information			Financial Information		Corporate Stewardship		Management Discussion and Analysis		Overview	
Branch	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.G.M.D.Silva(HOB)		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. W.M.P.N.D.Wanasinghe		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 Mvw,Anuradhapura	025-2220679/025-2220680 /025-2220681/025-2220683		025-2234557	anuradhapura@abansfinance.lk	Mr. B.M.P.C.I.Basnayaka		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	rathnapura@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	027-3122321/027-3900995		027-2223323	kaduruwela@abansfinance.lk	Mr H.M.R.H.Samarasekara		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	065-2052795		065-2229799	batticaloa@abansfinance.lk	Mr. R Rasalingam		BT	
15 Puttalam	Customer Centre	No. 138/A, Kurunegala Road, Puttalam	032-3295105		032-2267667	puttalam@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 Tissamaharama	Customer Centre	No.18, Pahala Veediya Tissamaharama	047-3220240/047-3220241		047-2237937	tissamaharama@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 Q Jerome		TR	
19 Vavuniya	Customer Centre	No.24,Second Cross Street, Vavuniya	024-2228222/ 024-2228322		024-2228222	vavuniya@abansfinance.lk	Mr. T Sinesa		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	011-2246531		011-2240228	jaela@abansfinance.lk	Mr. Urantha Perera		KS	
22 Moratuwa	KIOSK	No. 495, Rawathawatha, Moratuwa.	011-2644110		011-2649177	moratuwa@abansfinance.lk	Mr. Urantha Perera		KS	
23 Piliyandala	KIOSK	No. 28, Saranapala Mvw, Piliyandala	011-2615780		011-2609310	piliyandala@abansfinance.lk	Mr. Urantha Perera		KS	

BRANCH NETWORK [Contd.]

Overview
Management Discussion and Analysis
Corporate Stewardship
Financial Information
Supplementary Information



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.

Expected Credit Loss (ECL)

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. ECL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

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.

GLOSSARY OF TERMS [Contd.]

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.

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

Impairmet

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.

Lifetime Expected Credit Losses

The Expected Credit Losses that result from all possible default events over the expected life of a Financial Instrument.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

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 its 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 understated.

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 of Meeting

NOTICE IS HEREBY GIVEN that the THIRTEENTH ANNUAL GENERAL MEETING of ABANS FINANCE PLC will be held on 20 September 2019 at 10.30 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 31st March 2019 and the Report of the Auditors thereon.
2. 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.
3. To inform of the non-compliance with the Minimum Public Holding Requirement in terms of Rule 7.13.1 (b) of the Listing Rules of CSE and the adopted/ proposed remedial action.
4. To authorize the Board of Directors to determine contributions to charities and other donations for the financial year ending 31 March 2020.

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.

16 August 2019

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.
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. For reasons of security, it is essential that you bring with you, your National Identity Card / Passport.

Overview

Management Discussion and Analysis

Corporate Stewardship

Financial Information

Supplementary Information

- Notes -

[illegible]

- Notes -

[illegible]

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 3

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 3

SECRETARIES & LAWYERS

Varners International (Pvt) Ltd.,
Level 14, World Trade Centre Building,
Colombo 1

BANKERS

Bank of Ceylon, Seylan Bank ,People's Bank ,Commercial Bank ,
Pan Asia Bank, Union Bank ,Sampath Bank
Hatton National Bank

VAT REGISTRATION NO.

134012439-7000

BOARD OF DIRECTORS

Mr. R. Pestonjee
Chairman

Mr. R. A. Nanayakkara
Managing Director/ Chief Executive Officer

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
(Resigned w. e. f. 08 April 2019)



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

A Finance Company Licensed by the Monetary Board of the
Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011