



SERENDIB FINANCE

A Fully Owned Subsidiary of Commercial Bank of Ceylon PLC

SERENDIB FINANCE LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MARCH 2019



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
Internet : www.kpmg.com/lk

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SERENDIB FINANCE LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Serendib Finance Limited ("the Company"), which comprise the statement of financial position as at 31 March 2019, and the statement of profit or loss and other 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.

Other Information

Management is responsible for the other information. These financial statements do not comprise 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.

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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of our auditor's report.

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.

A handwritten signature in black ink, appearing to read 'Kant'.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

26 June 2019

For the year ended 31 March,

	Notes	2019 Rs.	2018 Rs.
Gross Income	10	884,246,507	998,924,651
Interest income		816,789,064	911,206,864
Interest expenses		(470,462,645)	(572,627,069)
Net interest income	11	346,326,419	338,579,795
Fee and commission income		62,075,679	84,535,910
Fee and commission expenses		(12,451,457)	(17,275,408)
Net fee and commission income	12	49,624,222	67,260,502
Other operating income	13	5,381,764	3,181,877
Total operating income		401,332,405	409,022,174
Impairment charges for loans and other losses	14	(205,712,726)	(403,072,896)
Net operating income		195,619,679	5,949,278
Operating expenses			
Personnel expenses	15	(74,832,439)	(73,686,663)
Depreciation and amortization		(10,341,714)	(11,342,420)
Other operating expenses	16	(75,737,941)	(76,676,891)
Operating profit / (loss) before value added tax (VAT) and nation building tax (NBT) on financial services		34,707,585	(155,756,696)
Value added tax (VAT) and nation building tax (NBT) on financial services		(14,627,501)	-
Profit / (loss) before taxation		20,080,084	(155,756,696)
Income tax (expense) / reversal	17	(378,244)	33,851,467
Profit / (loss) for the year		19,701,840	(121,905,229)
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation surplus of property, plant and equipment, net of tax			
Deferred tax charge on revaluation surplus of capital asset (land)	17	-	(10,009,617)
		-	(10,009,617)
Actuarial gains / (losses) on defined benefit plans, net of tax			
Actuarial gains / (losses) on defined benefit plans	27	410,169	(516,752)
Deferred tax (charge) / reversal on actuarial gains / (losses)	17	(114,847)	144,691
		295,322	(372,061)
Items that are or may be reclassified to profit or loss			
Net change in fair value of FVOCI / available-for-sale financial assets, net of tax			
Net change in fair value of FVOCI / available-for-sale financial assets		(396,149)	(639,505)
Deferred tax reversal on fair value reserve	17	110,923	179,061
		(285,226)	(460,444)
Other comprehensive income for the year, net of tax		10,096	(10,842,122)
Total comprehensive income for the year		19,711,936	(132,747,351)
Basic earnings/ (loss) per share	18	0.24	(3.36)

Figures in brackets indicate deductions.

The annexed notes to the financial statements form an integral part of these Financial Statements.



As at 31 March,

	Notes	2019 Rs.	2018 Rs.
ASSETS			
Cash and cash equivalents	20	60,922,009	226,998,250
Financial investments	21	332,084,039	275,916,564
Loans and advances	22	5,626,463,911	4,204,782,612
Property, plant and equipment	23	196,582,613	198,531,775
Intangible assets	24	10,443,805	7,627,227
Deferred tax assets	28	157,006,118	-
Other assets	25	22,103,455	18,035,054
Total assets		6,405,605,950	4,931,891,482
LIABILITIES			
Due to banks	26	4,426,027,341	3,668,025,837
Employee benefits	27	5,440,426	5,647,642
Deferred tax liabilities	28	-	1,209,527
Current tax liabilities	29	-	13,660,833
Other liabilities	30	79,770,854	79,592,352
Total liabilities		4,511,238,621	3,768,136,191
EQUITY			
Stated capital	31	2,079,999,975	1,079,999,992
Accumulated losses	32	(294,391,823)	(23,046,820)
Other reserves	33	108,759,177	106,802,119
Total equity		1,894,367,329	1,163,755,291
Total liabilities and equity		6,405,605,950	4,931,891,482

The annexed notes to the financial statements form an integral part of these Financial Statements.

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



.....
C.Y.B. Weerakoon
Chief Financial Officer

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

Approved and signed for and on behalf of the Board,



.....
D.M.U.N. Dissanayake
**Managing Director/
Chief Executive Officer**




.....
S.R. Pushpakumara
Director

26 June 2019
Kandy

SERENDIB FINANCE LIMITED
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	Stated capital		Capital reserve		Revaluation reserve		Other reserves		Fair value reserve		General reserve		Retained earnings / Accumulated losses		Total equity	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01 April 2017	580,000,001	50,000	75,091,239	22,028,859	4,193	20,097,889	114,594,596	811,866,777								
Comprehensive income																
Loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	(121,905,229)	(121,905,229)		
Other comprehensive income for the year net of tax	-	-	(10,009,617)	-	(460,444)	-	-	-	(372,061)	-	-	-	(10,842,122)	(10,842,122)		
Total comprehensive income	-	-	(10,009,617)	-	(460,444)	-	-	-	(122,277,290)	-	-	-	(132,747,351)	(132,747,351)		
Transactions with owners of the Company																
Issue of ordinary shares	499,999,991	-	-	-	-	-	-	-	-	-	-	-	-	-	499,999,991	
Dividends to equity holders - 2016/17	-	-	-	-	-	-	-	-	-	-	-	-	(15,364,126)	(15,364,126)		
Balance as at 31 March 2018	1,079,999,992	50,000	65,081,622	22,028,859	(456,251)	20,097,889	(23,046,820)	1,163,755,291								
Balance as at 01 April 2018	1,079,999,992	50,000	65,081,622	22,028,859	(456,251)	20,097,889	(23,046,820)	1,163,755,291								
Adjustment on initial application of SLFRS 9, net of tax (See Note 3.2.4)	-	-	-	-	1,257,192	-	-	(290,357,073)	(289,099,881)							
Restated balance as at 01 April 2018	1,079,999,992	50,000	65,081,622	22,028,859	800,941	20,097,889	(313,403,893)	874,655,410								
Comprehensive income																
Profit for the year	-	-	-	-	-	-	-	-	19,701,840	19,701,840	-	-	10,096	10,096		
Other comprehensive income for the year net of tax	-	-	-	-	(285,226)	-	-	-	295,322	295,322	-	-	-	-		
Total comprehensive income	-	-	-	-	(285,226)	-	-	-	19,997,162	19,997,162	-	-	-	-		
Transactions recognized directly in Equity																
Transfers during the year	-	-	-	985,092	-	-	-	(985,092)	-	-	-	-	-	-		
Transactions with owners of the Company																
Issue of ordinary shares	999,999,983	-	-	-	-	-	-	-	-	-	-	-	-	-	999,999,983	
Balance as at 31 March 2019	2,079,999,975	50,000	65,081,622	23,013,951	515,715	20,097,889	(294,391,823)	1,894,367,329								

Figures in brackets indicate deductions.

The annexed notes to the financial statements form an integral part of these Financial Statements.



For the year ended 31 March,

	Notes	2019 Rs.	2018 Rs.
Cash flows from operating activities			
Profit / (Loss) before taxation		20,080,084	(155,756,696)
Adjustments for,			
Interest expenses		469,060,578	557,919,946
Impairment charges for loans and other losses	14	205,712,726	403,072,896
Interest income from bank deposits and government securities	11	(34,504,600)	(33,516,973)
Dividend income	13	(240,000)	(180,000)
Depreciation	23	8,621,922	10,049,949
Amortization	24	1,719,792	1,292,471
Provision for defined benefit plans	27	1,521,078	1,543,740
(Profit) / loss on sale of property, plants and equipment	13	82,482	(331,870)
Operating profit before working capital changes		<u>672,054,062</u>	<u>784,093,463</u>
Decrease / (increase) in loans and receivables		(2,073,606,237)	823,186,849
Increase in other assets		(4,068,401)	(18,173,019)
Increase / (decrease) in other liabilities		178,502	(7,357,061)
Cash (used in) / generated from operations		<u>(1,405,442,074)</u>	<u>1,581,750,232</u>
Taxes paid	29	(16,892,412)	(7,920,000)
Gratuity paid	27	(1,318,125)	(889,105)
Net cash flows generated from / (used in) operating activities		<u>(1,423,652,611)</u>	<u>1,572,941,127</u>
Cash flows from investing activities			
Net Investment in Financial investments - FVOCI / AFS		(48,868,295)	(122,913,658)
Net Investment in Securities purchased under resale agreements		(5,949,229)	374,219
Interest received from bank deposits and government securities		34,504,600	30,630,040
Acquisition of property, plant and equipment	23	(6,756,238)	(5,308,431)
Acquisition of intangible assets	24	(4,536,370)	(379,960)
Dividend income	13	240,000	180,000
Proceeds from sale of property, plants and equipment		993	721,089
Net cash flows used in investing activities		<u>(31,364,539)</u>	<u>(96,696,701)</u>
Cash flows from financing activities			
Loans obtained during the year	26	2,298,000,000	1,350,000,000
Repayments during the year	26	(2,112,692,897)	(2,939,059,166)
Dividends paid		-	(15,364,126)
Net proceeds from the issue of ordinary shares	31	999,999,983	499,999,991
Net cash flows (used in) / from financing activities		<u>1,185,307,086</u>	<u>(1,104,423,301)</u>
Net increase in cash and cash equivalents		<u>(269,710,064)</u>	<u>371,821,125</u>
Cash and cash equivalents at the beginning of the year		196,291,895	(175,529,230)
Cash and cash equivalents at the end of the year *		<u>(73,418,169)</u>	<u>196,291,895</u>
* Analysis of cash and cash equivalents at the end of the year			
Cash and bank balances	20	60,922,009	226,998,250
Bank overdraft	26	(134,340,178)	(30,706,355)
		<u>(73,418,169)</u>	<u>196,291,895</u>

Figures in brackets indicate deductions.

The annexed notes to the financial statements form an integral part of these Financial Statements.



1. REPORTING ENTITY

1.1 General

Serendib Finance Limited (formerly known as Indra Finance Limited) ('the Company'), regulated under the Finance Business Act No. 42 of 2011, was incorporated in 1987 as a Limited Liability Company domiciled in Sri Lanka under provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No 7 of 2007.

The registered office and the principal place of business of the Company is located at 187, Katugastota Road, Kandy.

1.2 Principal Activities and Nature of Operations

The principal activities of the Company are granting of Lease Facilities, Hire Purchase, Mortgage Loans and other credit facilities. There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.3 Parent Entity and Ultimate Parent Entity

The Company's parent enterprise and the ultimate parent enterprise is Commercial Bank of Ceylon PLC.

1.4 Number of employees

The number of employees as at 31 March 2019 is 120 (2018: 111).



2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company which comprise the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flow and Accounting Policies and Notes, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011.

2.2 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company for the year ended 31st March 2019 were approved and authorized for issue by the Board of Directors in accordance with the resolution of the Directors on 26 June 2019.

2.3 Basis of Measurement

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

- Financial Assets classified as Fair Value through Other Comprehensive Income (2018: Available-for-Sale financial assets) are measured at fair value.
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation.
- Land and buildings measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation.

2.4 Functional and Presentation Currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency.

2.5 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statements of Financial Position are 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 (non-current) is presented in Note 35.

2.6 Materiality and Aggregation

In compliance with Sri Lanka Accounting Standard - LKAS 01, (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 unless they are immaterial.

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 statement of profit or loss and other comprehensive income unless required or permitted by an Accounting Standard.

2.7 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

The Company has not restated the comparative information for 2018 for financial instruments within the scope of Sri Lanka Accounting Standard – SLFRS 9 on “Financial Instruments” (SLFRS 9). Therefore, the comparative information for 2018 is reported under Sri Lanka Accounting Standard – LKAS 39 on “Financial Instruments: Recognition and Measurement” (LKAS 39) and is not comparable to the information presented for 2019. Differences arising from adoption of SLFRS 9 have been recognised directly in equity as of 1 April 2018 and as disclosed in Note 3.

2.8 Use of Judgments and Estimates

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- **Note 4.2.1** - classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding.
- **Note 4.2.7** - establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL.
- **Note 12** – revenue recognition: whether revenue is recognized over time or at a point in time;



b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 31 March 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- **Note 4.2.7** – Impairment of financial and non-financial assets;
- **Note 4.8** – Impairment of non-financial assets;
- **Note 4.6.4** – revaluation of property, plant and equipments;
- **Note 4.10.1.1** – measurement of defined benefit obligations: key actuarial assumptions;
- **Note 4.11 and 4.12** – provisions and contingencies;
- **Note 6.1** – recognition of current tax expense;
- **Note 6.2** – recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized and
- **Note 8** – Determination of the fair value of financial instruments with significant unobservable inputs

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.

3. CHANGES IN ACCOUNTING POLICIES

The Company has consistently applied the Accounting Policies as set out in Notes 4 to 8 to all periods presented in these Financial Statements, except for the changes arising out of transition to SLFRS 9 and Sri Lanka Accounting Standard – SLFRS 15 “Revenue from Contracts with Customers” (SLFRS 15) as set out below:

3.1 SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced LKAS 18 Revenue, LKAS 11 Construction Contracts and related interpretations. Under SLFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control at a point in time or over time- requires judgement.

The adoption of SLFRS 15 did not have any significant effect on the Company's Financial Statements on adoption on 1 April 2018.

3.2 SLFRS 9 - Financial Instruments

SLFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial items. The standard replaces LKAS 39 Financial Instruments: Recognition and Measurement.

3.2.1 Classification of financial assets and financial liabilities

SLFRS 9 contains three principle classification category for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial asset under SLFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. SLFRS 9 eliminates the previous LKAS 39 categories of held to maturity, loans and advances and available for sale.

Under SLFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, 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 Other Comprehensive Income (OCI); and
- The remaining amount of change in the fair value is presented in profit or loss.

The adoption of SLFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments.

3.2.2 Impairment of Financial Assets

SLFRS 9 replaces the "incurred loss" model in LKAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets that are not measured at FVTPL and also to certain loan commitments and financial guarantee contracts but not to equity investments. Under SLFRS 9, credit losses are recognised earlier than under LKAS 39.

For assets in the scope of the SLFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of SLFRS 9's impairment requirements at 1 April 2018 results in an additional allowance for impairment as follows:

<i>Loss allowance as at 31 March 2018 under LKAS 39</i>	<i>Rs.</i> 841,936,332
Additional impairment recognised at 1 April 2018 on:	
- Finance Leases	84,438,450
- Hire purchases	28,578,764
- Loans	<u>333,195,001</u>
Total of additional impairment recognised as at 1 April 2018	<u>446,212,215</u>
<i>Loss allowance as at 1 April 2018 under SLFRS 9</i>	1,288,148,547

3.2.3 Transition

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except for comparative periods have not been restated.

In order to recognise the impact on transition the Company has adopted the modified retrospective approach in line with "SLFRS 9 – Financial instruments".

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1 April 2018. Accordingly, the information presented for 2018 does not reflect the requirements of SLFRS 9 and therefore is not comparable to the information presented for 2019 under SLFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

If a debt security had low credit risk at the date of initial application of SLFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.



3.2.4 Impact on adoption of SLFRS 9 “Financial Instruments” to the Financial Statements

The following table summarises the impact, net of tax, of transition to SLFRS 9 on the opening balance retained earnings, mainly from transition to expected credit loss concept from incurred loss.

As at 1 April 2018

	Fair value reserve Rs.	Retained Earnings Rs.	Total Rs.
Balance as per LKAS 39 as at 1 April 2018	(456,251)	(23,046,820)	(23,503,071)
Recognition of additional impairment due to expected credit losses under SLFRS 9 (Note 3.2.4.1)	-	(446,212,215)	(446,212,215)
Fair valuation of investment on unquoted shares classified as FVOCI	1,746,100	-	1,746,100
Related tax	(488,908)	155,855,142	155,366,234
Impact at 1 April 2018	1,257,192	(290,357,073)	(289,099,881)
As reported currently under SLFRS 9	800,941	(313,403,893)	(312,602,952)

3.2.4.1 Recognition of additional impairment due to expected credit losses under SLFRS 9

Category	As at 1 April 2018 Rs.
Finance Leases	84,438,450
Hire purchase	28,578,764
Loans	333,195,001
Total	446,212,215



3.2.5 Classification and measurement of financial assets and financial liabilities

The following table and the accompanying notes below explain the original measurement categories under LKAS 39 and the new measurement categories under SLFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 April 2018.

Financial Assets	Note	Original classification under LKAS 39	New classification under SLFRS 9	Original carrying amount under LKAS 39 Rs.	Remeasurement Rs.	New carrying amount under SLFRS 9 Rs.
Loans and advances	22	Loans and Receivable	At amortised cost	4,204,782,612	(446,212,215)	3,758,570,397
Cash and cash equivalents	20	Loans and Receivable	At amortised cost	226,998,250	-	226,998,250
Investments in unquoted equities	21	AFS	FVOCI	123,700	1,746,100	1,869,800
Investments in government securities	21	AFS	FVOCI	194,038,669	-	194,038,669
Securities purchase under resale agreements	21	Loans and Receivable	At amortised cost	81,754,195	-	81,754,195
Other assets	25	Loans and Receivable	At amortised cost	2,090,100	-	2,090,100
Total Financial Assets				4,709,787,526	(444,466,115)	4,265,321,411

Financial Liabilities	Note	Original classification under LKAS 39	New classification under SLFRS 9	Original carrying amount under LKAS 39 Rs.	Remeasurement Rs.	New carrying amount under SLFRS 9 Rs.
Due to banks	26	Other financial liabilities	Other financial liabilities	3,668,025,837	-	3,668,025,837
Trade payables	30	Other financial liabilities	Other financial liabilities	42,330,486	-	42,330,486
Total Financial Liabilities				3,710,356,323	-	3,710,356,323

4. SIGNIFICANT ACCOUNTING POLICIES - STATEMENT OF FINANCIAL POSITION

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

4.1 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Company at the spot exchange rates at the date of the transactions.

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments (before 1 January 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from 1 January 2018) are recognised in OCI:

4.2 Financial Instruments

4.2.1 POLICY APPLICABLE FROM 1 APRIL 2018.

Recognition and initial measurement

Loans and advances are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI (Fair value through OCI) - debt investment; FVOCI - equity investment; or FVTPL (Fair value through profit or loss).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.



A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets classified as measured at FVOCI and amortised cost and financial liabilities classified as measured at amortised cost are presented in Notes 19.

Financial assets - Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;



- leverage features;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets - Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial Asset Classification Change

Measurement	SLFRS 9	LKAS 39
Fair Value	FVTPL/ FVOCI	FVTPL/ AFS
Amortised cost	Amortised cost	HTM/ Loans and Receivables

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model.

4.2.2 POLICY APPLICABLE BEFORE TO 1 APRIL 2018.

Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

Date of Recognition

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

Classification and Initial Measurement of Financial Instruments

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

All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instruments except in the case of financial assets and financial liabilities at fair value through profit and loss as per the Sri Lanka Accounting Standard - LKAS 39 (Financial Instruments: Recognition and Measurement). Transaction cost in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through Statement of profit or loss and other comprehensive income.



'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 immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss. 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 profit or loss when the inputs become observable, or when the instrument is derecognised.

Classification and Subsequent Measurement of Financial Assets

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

- a. Financial assets at fair value through profit or loss
 - i. Financial assets held for trading
 - ii. Financial assets designated at fair value through profit or loss
- b. Financial assets available-for-sale
- c. Held-to-maturity financial investments
- d. Loans and advances



The subsequent measurement of financial assets depends on their classification.

Loans and Receivables

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

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates at fair value through profit or loss
- Those that the Company, upon initial recognition, designates as available for sale
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration

Loans and receivable includes Deposits with licensed banks, Securities purchased under re-sale agreements, Lease rentals receivable and Hire purchase receivable, Amounts due from related parties and other trade receivables.

Assets leased to customers which transfer substantially all the risk and rewards associated with ownership other than legal title, are classified as finance leases.

Assets sold to customers under fixed rate hire agreements, which transfer all the risk and rewards as well as the legal title at the end of such contractual period are classified as hire purchase receivable.

Amounts receivable under finance leases and hire purchases are included under 'Loans and advances' in the statement of financial position after deduction of rental received in advance, unearned income and the allowance for impairment.

After initial measurement, Loans and advances are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Statement of Profit or Loss and Other Comprehensive income. The losses arising from impairment are recognised in 'impairment (charge) /reversal on loans and other losses' in the Statement of Profit or Loss and Other Comprehensive income.

Reclassification of Financial Instruments

The Company reclassifies non derivative financial assets out of the 'held for trading' category and into the 'available for sale', 'loans and advances', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standards - LKAS 39 (Financial Instruments: Recognition and Measurement). In certain circumstances the Company is also permitted to reclassify financial assets out of the 'available for sale' category and into the 'loans and advances', 'held for trading' or 'held-to-maturity' category.

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

For a financial asset reclassified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to profit or loss over the remaining life of the investment using the effective



interest rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to profit or loss.

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

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

4.2.3 Classification and Subsequent Measurement of Financial Liabilities

At the inception the Company determines the classification of its financial liabilities. Accordingly all financial liabilities are classified as financial liabilities at amortised cost:

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 liabilities under 'Due to Banks' and 'Other Liabilities' 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 asset for a fixed number of own equity shares at amortised cost using the 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 an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss and Other Comprehensive Income. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

4.2.4 Derecognition of Financial Instruments

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transferred nor retained substantially all the risk and rewards of ownership and it does not retain control of the financial asset.

On derecognition of 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 recognized in OCI is recognized in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

From 1 April 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities as per SLFRS 9.

The Company enters into transactions whereby it transfers assets recognised on its SOFP, but retains either all or substantially all risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Company retains all or substantially all risks and rewards of ownership of such assets.

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

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

4.2.5 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKASs.

4.2.6 Modifications of financial assets and financial liabilities

POLICY APPLICABLE FROM 1 APRIL 2018

Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.



POLICY APPLICABLE BEFORE TO 1 APRIL 2018

Financial assets

If the terms of a financial asset were modified, then the Company evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified, then the Company evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

Financial liabilities

The Company derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

4.2.7 Identification and Measurement of Impairment of Financial Assets

4.2.7.1 POLICY APPLICABLE FROM 1 APRIL 2018.

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost; and
- debt investments measured at FVOCI.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.



The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-Off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.



Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4.2.7.2 POLICY APPLICABLE BEFORE TO 1 APRIL 2018.

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Company of financial assets that can be reliably estimated.

Impairment of Financial Assets carried at Amortised Cost

Collectively Assessed Financial Assets

Impairment is assessed on a collective basis on two circumstances:

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

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 reporting date is likely to be greater or less than that suggested by historical experience.

Reversals of Impairment

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

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, letters of guarantees, real estate, receivables, inventories, other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers.

Collateral Repossessed

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

Impairment of Financial Assets - Available for Sale

For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.



If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss; otherwise any increase in fair value is recognized through OCI.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. In general the Company considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. Where there is evidence of impairment, the cumulative loss on that investment previously recognised in Equity through OCI is removed from equity and charged to profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is always recognised in OCI.

The Company writes-off certain Financial Investments - Available for Sale either partially or in full and any related provision for impairment losses, when the Company determines that there is no realistic prospect of recovery.

4.2.7.3 Write-off of Financial Assets

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. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

4.3 Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition 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.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

4.4 Loans and advances

Policy applicable from 1 April 2018

'Loans and advances' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- finance lease receivables.

When the Company purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Company's financial statements.

Policy applicable before 1 April 2018

'Loans and advances' were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Company did not intend to sell immediately or in the near term.

Loans and advances to banks were classified as loans and receivables. Loans and advances to customers included:

- those classified as loans and receivables; and
- finance lease receivables.

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loans and advances also included finance lease receivables in which the Company was the lessor.

When the Company purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement was accounted for as a loan or advance, and the underlying asset was not recognised in the Company's financial statements.



4.5 Financial investments

Policy applicable from 1 April 2018

The 'financial investments' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Company elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable before 1 April 2018

Financial Assets at Fair Value through Profit or Loss

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

Financial Assets Held for Trading

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

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income is recorded in 'Net trading income' according to the terms of the contract, or when the right to receive the payment has been established.

The Company evaluates its held for trading asset portfolio, to determine whether the intention to sell them in the near future is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may select to reclassify these financial assets.

The Company has not classified any financial assets as Held for Trading.

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

Financial assets at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'net gain or loss on financial instrument designated at fair value through profit or loss.' Interest earned is accrued in 'interest income', using the effective interest rate (EIR) method, while dividend income is recorded in 'other operating income' when the right to the payment has been established.

The Company has not designated any financial assets upon initial recognition as designated at fair value through profit or loss or Company has not used fair value hedge or credit derivative instruments.

Available for Sale Financial Assets

Available for sale investments include equity and debt securities. Equity investments classified as 'available for sale' are those which are neither classified as 'held for trading' nor 'designated at fair value through profit or loss'. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity



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or in response to changes in the market conditions. The Company has not designated any loans or receivables as available for sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in Equity through 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 Statement of Profit or Loss and Other Comprehensive Income under 'other operating income'. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a weighted average 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 Statement of Profit or Loss and Other Comprehensive Income as 'other operating income' when the right of payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss and Other Comprehensive Income in 'Impairment charge/ (reversal) for loans and other losses' and removed from the 'available for sale reserve'.

Held to Maturity Financial Assets

Held to maturity financial investments are financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After the initial recognition, held to maturity financial investments are subsequently measured at amortised cost using the effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'interest income' in the Statement of Profit or Loss and Other Comprehensive Income. The losses arising from impairment of such investments are recognised in 'Impairment (charge)/reversal for loans and other losses' in the Statement of Profit or Loss and Other Comprehensive Income.

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 permitted in the Sri Lanka Accounting Standards - LKAS 39 (Financial Instruments: Recognition and Measurement)], the entire category would be tainted and would have to be reclassified as 'available for sale'. Furthermore, the Company would be prohibited from classifying any financial asset as 'held to maturity' during the following two years.

The Company has not classified any financial assets as Held to Maturity.

Loans and Receivables

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

- Those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates at fair value through profit or loss
- Those that the Company, upon initial recognition, designates as available for sale
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration

Securities Purchased Under Resale Agreements

When Company purchases a financial asset and simultaneously enters in to an agreement to resell the asset (or a similar asset) at a fixed price in future date, the agreement is accounted for as a financial asset in the Statement of Financial Position reflecting the transaction's economic substance as a loan granted by the Company. Subsequent to initial recognition, these securities issued are measured at their amortised cost using the EIR method with the corresponding interest receivable being recognised.

4.6 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets.

4.6.1 Recognition

Property, plant & equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

4.6.2 Measurement

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

4.6.3 Cost Model

The Company applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

4.6.4 Revaluation Model

The Company applies the Revaluation Model for the entire class of freehold land and buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the Company are revalued by independent professional valuers every three years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the Reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged profit or loss. In this circumstance, the increase is recognised as income only to extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in profit or loss or charged to Revaluation Reserve in equity through OCI, only to the extent of any credit balances existing in the Revaluation Reserve in respect of that asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

4.6.5 Subsequent Cost

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

4.6.6 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from de-recognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised.

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

4.6.7 Depreciation

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

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The periods of depreciations based on the estimated useful lives are as follows:

Class of asset	Period
Buildings	30 - 35 years
Furniture and Fittings	8 years



Office Equipment	8 years
Motor Vehicles	5 years
Computers & Accessories	5 years
Telephone System	4 years
Electrical Equipment	8 years
Sign Boards	8 years
Fixtures and Fittings	8 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at the end of each reporting period.

4.6.8 Changes in Estimates

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

4.7 Intangible Assets

An intangible asset is an identifiable monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

4.7.1 Basis of Recognition

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

4.7.2 Computer Software

Cost of all computer software licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category Intangible Assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

4.7.3 Subsequent Expenditure

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

4.7.4 Derecognition of Intangible Assets

The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in profit or loss when the item is derecognised.

4.7.5 Amortisation of Intangible Assets

Intangible assets, except for goodwill, are amortised on a straight line basis in profit or loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Company. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. The Company assumes that there is no residual value for its intangible assets.

Class of asset	Period
Computer software	10 years



4.8 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's) 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.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

4.9 Share Capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with LKAS 12.

Repurchase and reissue of ordinary shares (treasury shares)

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

Dividends Payable

Provision for final dividends is recognized at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividends payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 7 of 2007.

Dividends for the year that are declared after the reporting date are disclosed in Notes to the Financial Statements as an event after the Reporting Period in accordance with the Sri Lanka Accounting Standard - LKAS 10 (Events after the Reporting Period).

4.10 Employee Benefits

4.10.1 Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan' as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits). Refer 3.7.2 for the definition of defined contribution plan.

4.10.1.1 Defined Benefit Plan - Gratuity

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

Employees those who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month of the reporting period 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 defined benefits obligation is calculated annually by Independent actuary using Projected Unit Credit Method as recommended by LKAS 19 (Employee Benefits).

The assumptions based on which the results of actuarial valuation was determined, are included in Note 27 to the financial statements.

Recognition of Actuarial Gains or Losses

Actuarial gains or losses are recognised in the OCI in the period in which they arise.

Funding Arrangements

The Gratuity liability is not externally funded.



4.10.2 Defined Contribution Plans

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

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

4.10.2.1 Employees' Provident Fund

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

4.10.2.2 Employees' Trust Fund

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

4.11 Provisions

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

4.12 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 the probability of settlement is remote.

4.13 Earnings per Share (EPS)

The Company presents Basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

4.14 Segment Reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Chief Operating Decision Maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Company has identified four operating segments based on products and services, as follows:

- Leasing and Hire Purchases
- Mortgage Loans
- Personal, Business and Other Unsecured Loans
- Investments and Others



Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses. Income taxes are managed on a Company basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2018 or 2019.

5. SIGNIFICANT ACCOUNTING POLICIES - RECOGNITION OF INCOME AND EXPENSES

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

5.1 Interest Income and Interest Expense

Policy applicable from 1 April 2018



Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost; and

- interest on debt instruments measured at FVOCI.

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI include financial liabilities measured at amortised cost.

Policy applicable before 1 April 2018

Effective interest rate

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

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost; and
- interest on debt instruments measured at FVOCI.

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

5.2 Fee and Commission

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

Other fee and commission income – including sales commission, placement fees and syndication fees – 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.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Company first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

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

5.3 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in other revenue based on the underlying classification of the equity investment.

From 1 April 2018, dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

5.4 Expenditure Recognition

Expenses are recognized in the Statement of Profit or Loss and Other Comprehensive Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.





5.5 Leases

Company acting as a lessee – Finance leases

Assets held by the Company under leases that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Company acting as a lessee – Operating leases

Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Company acting as a lessor – Finance leases

Where the Company is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

6 SIGNIFICANT ACCOUNTING POLICIES - INCOME TAX EXPENSE

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

6.1 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year and any adjustment to tax payable in respect of prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Reporting date.

Accordingly, Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No 24 of 2017 and the amendments thereto.

6.2 Deferred Taxation

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each Reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognised deferred tax assets are reassessed at each Reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rate enacted or substantively enacted at the Reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the Reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

6.3 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 computed on prescribed rate.

The VAT on Financial service is recognized as expense in the period it becomes due.

6.4 Nations Building Tax on Financial Services

As per provisions of the Nations Building Tax Act (NBT) Act No 9 of 2009 and amendments thereto, NBT is payable at 2% on Company's value additions attributable to financial services with effect from 01st January 2014. The value addition attributable to financial service is same as the value used to calculate VAT on financial services.

The NBT on Financial service is recognized as expense in the period it becomes due.

6.5 Economic Service Charges (ESC)

As per provisions of the Economic Service Charge (ESC) Act No 13 of 2006 and amendments thereto, ESC is payable at 0.5% on Company's total turnover and is deductible from income tax payable.

Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three to five subsequent years.

6.6 Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax (before the deferred tax charge/ (reversal).

The CIL is recognized as expense in the period it becomes due.



7. STATEMENT OF CASH FLOWS

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 activities, finance activities and investing activities have been recognised. Cash and cash equivalents comprise 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. The cash and cash equivalent include cash in hand and balances with banks.

8. FAIR VALUE MEASUREMENT

8.1 Fair Value Measurement

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

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

Fair Value Hierarchy

The Company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

Level 1

Inputs that are unadjusted quoted market prices in an active market for identical instruments.

When available, the Company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Inputs other than quoted prices included within Level that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

- (a) quoted market prices in active markets for similar instruments,
- (b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
- (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

Level 3

Inputs that are unobservable

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's value.

Valuation techniques include net present value and discounted cash flow models comparison with similar instruments for which observable market prices exists and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect cost to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.



9. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

Sri Lanka Accounting Standard 16 – Leases (SLFRS 16) has been issued but not yet effective as at the Reporting date. Accordingly, this Standard has not been applied in preparing these financial statements. An analysis of the possible effect of the standard on adoption are given below.

9.1 SLFRS 16 Leases

The Company is required to adopt SLFRS 16 Leases from April 1, 2019. The Company has assessed the estimated impact that initial application of SLFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on April 1, 2019 may change.

SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

SLFRS 16 replaces existing leases guidance, including LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

9.1.1 Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its operating leases of office buildings. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Company will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Company will include the payments due under the lease in its lease liability.

The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16. No significant impact is expected for the Company's finance leases.

9.1.2 Leases in which the Company is a lessor

The Company will reassess the classification of sub-leases in which the Company is a lessor, with reference to the right-of-use asset, not the underlying asset. Based on the information currently available, the Company expects that it will reclassify one sub-lease as a finance lease, resulting in recognition of a finance lease receivable as at April 1, 2019.

No significant impact is expected for other leases in which the Company is a lessor.

9.1.3 Transition

The Company plans to apply SLFRS 16 initially on April 1, 2019, using the 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 April 1, 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the assessment of which transactions are leases. This means that the Company will apply the definition of a lease under SLFRS 16 to contracts entered into or changed on or after April 1, 2019.

The new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.



For the year ended 31 March,

	Notes	2019 Rs.	2018 Rs.
10 GROSS INCOME			
Interest income	(Note 11.1)	816,789,064	911,206,864
Fee and commission income	(Note 12.1)	62,075,679	84,535,910
Other operating income	(Note 13)	5,381,764	3,181,877
Total income		884,246,507	998,924,651
11 NET INTEREST INCOME			
11.1 Interest income			
Lease rentals receivable and stock out on hire		436,281,597	413,603,476
Loans and advances		346,002,867	464,086,415
Interest income from bank deposits and government securities		34,504,600	33,516,973
Total interest income		816,789,064	911,206,864
11.2 Interest expenses			
Interest on overdraft		1,402,067	14,707,123
Interest on long term borrowings		469,060,578	557,919,946
Total interest expenses		470,462,645	572,627,069
Net interest income		346,326,419	338,579,795

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

Financial assets measured at amortised cost	794,747,365	894,283,504
Financial assets measured at FVOCI (2018: available-for-sale)	22,041,699	16,923,360
Total	816,789,064	911,206,864
Financial liabilities measured at amortised cost	470,462,645	572,627,069

12 NET FEE AND COMMISSION INCOME

12.1 Disaggregation of fee and commission income

In the following table, fee and commission income from contracts with customers in the scope of SLFRS 15 is disaggregated by major type of services. The table also includes a reconciliation of the disaggregated fee and commission income.

Fee and commission income		
Service charge	10,063,643	11,046,395
Insurance commission	5,095,323	5,284,518
Other fees recovered	46,916,713	68,204,997
Total fee and commission income	62,075,679	84,535,910
Fee and commission expenses		
Sales commission	1,708,060	2,616,682
Introducer commission	10,524,112	11,965,323
Recovery agent commission	219,285	2,693,403
Total fee and commission expenses	12,451,457	17,275,408
Net fee and commission income	49,624,222	67,260,502

The fees and commission presented in this note include income of Rs.62 million (2018: Rs.85 million) and expense of Rs.12 million (2018: Rs.17 million) relating to financial assets and financial liabilities not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

12.2 Contract balances

There were no contract balances outstanding as at the reporting date.



For the year ended 31 March 2019

12 NET FEE AND COMMISSION INCOME (CONT.)

12.3 Performance obligations and revenue recognition policy

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15 (applicable from 1 April 2018)
Retail and corporate finance service	The Company provides lending services to retail and corporate customers, including provision other loan facilities. Transaction-based fees for interchange and loans are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

For the year ended 31 March,

	Notes	2019 Rs.	2018 Rs.
13 OTHER OPERATING INCOME			
Profit/ (loss) on disposal of property, plant and equipment		(82,482)	331,870
Dividend income		240,000	180,000
Recoveries of bad debts		4,017,354	1,614,830
Other income		1,206,892	1,055,177
Total		5,381,764	3,181,877
14 IMPAIRMENT CHARGES FOR LOANS AND OTHER LOSSES			
Lease rentals receivable		35,986,709	11,335,829
Loans and Hire Purchases receivable		169,726,017	391,737,067
Total	(Note 22.1)	205,712,726	403,072,896
15 PERSONNEL EXPENSES			
Salaries and other related expenses		54,186,618	53,966,695
Employer's contribution to Employees' Provident Fund		5,250,549	5,602,280
Employer's contribution to Employees' Trust Fund		1,318,971	1,400,589
Gratuity charge for the year	(Note 27.2.1)	1,521,078	1,543,740
Other staff related expenses		12,555,223	11,173,359
Total		74,832,439	73,686,663
16 OTHER OPERATING EXPENSES			
Directors' emoluments		3,960,000	3,630,000
Auditors' remuneration - Audit & audit related services		1,632,350	1,334,400
- Non audit fee		-	-
Professional and legal expenses		529,118	723,501
General insurance expenses		417,307	351,581
Office administration and establishment expenses		48,257,900	50,371,049
Sales, marketing and business promotional expenses		20,941,266	20,266,360
Total		75,737,941	76,676,891
17 INCOME TAX CHARGE / (REVERSAL)			
17.1 Amounts recognized in profit or loss			
Current tax expense			
Provision for the year		-	34,157,806
Under provision in relation to prior years		3,231,579	-
		3,231,579	34,157,806
Deferred tax reversal			
(Reversal) / origination of deferred tax liability	(Note 28)	(8,701,038)	30,517,018
Reversal/(origination) of deferred tax asset	(Note 28)	5,847,703	(98,526,291)
		(2,853,335)	(68,009,273)
Total		378,244	(33,851,467)



For the year ended 31 March,

		2019 Rs.	2018 Rs.
17 INCOME TAX CHARGE / (REVERSAL) (CONT.)			
17.2 Amount recognized in OCI	Note		
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation surplus of capital asset (land)	28	-	(10,009,617)
Remeasurement of defined benefit liability	28	(114,847)	144,691
		<u>(114,847)</u>	<u>(9,864,926)</u>
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Movement in fair value reserve (debt instruments)	28	110,923	179,061
		<u>(3,924)</u>	<u>(9,685,865)</u>

17.3 Reconciliation of effective tax rate

For the year ended 31 March,

		2019 Rs.	2018 Rs.
Profit / (loss) for the year		19,701,840	(121,905,229)
Income tax charge / (reversal)		<u>378,244</u>	<u>(33,851,467)</u>
Profit / (loss) before taxation		20,080,084	(155,756,696)
Tax using the domestic corporation tax rate of 28%	28%	5,622,424	28% (43,611,875)
Tax effect of aggregate disallowed items	327%	65,696,112	-75% 117,105,324
Tax effect of aggregate allowable expenses	-1173%	(235,502,480)	132% (205,564,265)
Tax effect of capital portion of rentals	697%	140,018,395	-108% 168,211,010
Tax effect of tax loss set off- Leasing Business	0%	-	1% (1,982,388)
Tax effect on tax losses during the year	120%	24,165,549	0% -
Adjustment for prior years	16%	3,231,579	0% -
Deferred tax reversal	-14%	(2,853,335)	44% (68,009,273)
	2%	<u>378,244</u>	22% <u>(33,851,467)</u>

17.4 Amounts recognized directly in equity

There were no items recognized directly in equity during the year ended 31 March 2019.

For the year ended 31 March,

	2019 Rs.	2018 Rs.
17.5 Tax losses carried forward		
Tax loss brought forward	-	7,079,952
Tax loss for the year of assessment	86,305,533	-
Set off against the current taxable income	-	(7,079,952)
Tax loss carried forward	<u>86,305,533</u>	<u>-</u>

18 BASIC EARNINGS/ (LOSS) PER SHARE

Basic earnings / (loss) per share is calculated by dividing the net profit / (loss) for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

For the year ended 31 March,

	2019	2018
Profit/ (Loss) attributable to ordinary shareholders for basic earnings/(loss) per share (Rs.)	19,701,840	(121,905,229)
Weighted average number of ordinary shares in issue for basic earnings/(loss) per share (Note 18.1)	81,435,461	36,306,880
Basic earnings/ (loss) per ordinary share	<u>0.24</u>	<u>(3.36)</u>

18.1 Weighted average number of ordinary shares in issue

Issued ordinary shares as at 1 April	53,352,686	30,728,252
Effect on shares issued on 29 December 2017 (22,624,434 ordinary shares)	-	5,578,628
Effect on shares issued on 29 June 2018 (11,689,070 ordinary shares)	8,838,858	-
Effect on shares issued on 27 December 2018 (73,937,153 ordinary shares)	19,243,917	-
	<u>81,435,461</u>	<u>36,306,880</u>



As at 31 March 2019

19 ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

As at 31 March 2019	At amortized cost	Fair value through OCI	Other financial liabilities at amortized cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	60,922,009	-	-	60,922,009
Loans and advances	5,626,463,911	-	-	5,626,463,911
Financial investments	87,703,424	244,380,615	-	332,084,039
Other assets (Note 25)	2,030,100	-	-	2,030,100
Total financial assets	5,777,119,444	244,380,615	-	6,021,500,059
Liabilities				
Due to banks	-	-	4,426,027,341	4,426,027,341
Other liabilities (Note 30)	-	-	29,391,991	29,391,991
Total financial liabilities	-	-	4,455,419,332	4,455,419,332

As at 31 March 2018

	Loans & Receivables at amortized cost	Available for Sale at fair value	Other financial liabilities at amortized cost	Total
	Rs.	Rs.	Rs.	Rs.
Assets				
Cash and cash equivalents	226,998,250	-	-	226,998,250
Loans and advances	4,204,782,612	-	-	4,204,782,612
Financial investments	81,754,195	194,162,369	-	275,916,564
Other assets (Note 25)	2,090,100	-	-	2,090,100
Total financial assets	4,515,625,157	194,162,369	-	4,709,787,526
Liabilities				
Due to banks	-	-	3,668,025,837	3,668,025,837
Other liabilities (Note 30)	-	-	42,330,486	42,330,486
Total financial liabilities	-	-	3,710,356,323	3,710,356,323

As at 31 March,

	Notes	2019 Rs.	2018 Rs.
20 CASH AND CASH EQUIVALENTS			
Cash in hand held in local currency		9,609,581	20,985,244
Balances with licensed commercial banks		51,312,428	206,013,006
Total		60,922,009	226,998,250

21 FINANCIAL INVESTMENTS

As explained in Note 3.2, the Company has adopted SLFRS 9 for financial instruments. Due to the method of transition selected on first time adoption of SLFRS 9, the comparative information has not been restated.

Financial Investments - FVOCI/ AFS	(Note 21.1)	244,380,615	194,162,369
Financial Investments - At Amortised Cost/ L&R	(Note 21.2)	87,703,424	81,754,195
Total		332,084,039	275,916,564

21.1 Financial Investments - FVOCI/ AFS

Investments in unquoted equities	(Note 21.1.1)	1,869,800	123,700
Investments in government securities		242,510,815	194,038,669
Total		244,380,615	194,162,369

21.1.1 Unquoted equities

	31 March 2019			31 March 2018		
	Number of shares	Cost	Carrying value/ fair value	Number of shares	Cost	Carrying value/ fair value
		Rs.	Rs.		Rs.	Rs.
Credit Information Bureau	100	123,700	1,869,800	100	123,700	123,700
Total		123,700	1,869,800		123,700	123,700

These are investments held for regulatory purposes.

As at 31 March,

	2019 Rs.	2018 Rs.
21.2 Financial Investments - At Amortised Cost/ L&R		
Securities purchased under resale agreements	87,703,424	81,754,195



As at 31 March,

	Notes	2019 Rs.	2018 Rs.
22 LOANS AND ADVANCES			
As explained in Note 3.2, the Company has adopted SLFRS 9 for financial instruments. Due to the method of transition selected on first time adoption of SLFRS 9, the comparative information has not been restated.			
Loans and advances		8,368,171,797	6,391,456,445
Less: Unearned income		1,741,193,345	1,344,737,501
Gross Loans and advances		6,626,978,452	5,046,718,944
Less: Allowance for impairment losses	(Note 22.1)	1,000,514,541	841,936,332
Net Loans and advances		<u>5,626,463,911</u>	<u>4,204,782,612</u>
22.1 Allowance for impairment losses			
Collective impairment			
As at 01 April under LKAS 39		841,936,332	439,762,475
Adjustment on initial application of SLFRS 9	(Note 3.2.4)	446,212,215	-
As at 01 April under SLFRS 9		1,288,148,547	439,762,475
Charge for the year	(Note 14)	205,712,726	403,072,896
Write off for the year		(493,346,732)	(899,039)
As at 31 March		<u>1,000,514,541</u>	<u>841,936,332</u>
22.1.1 Analysis of allowance for impairment losses by Product			
Leases	(Note 22.2.1)	154,990,522	319,490,814
Hire Purchase	(Note 22.2.2)	3,768,715	74,904,048
Mortgage Loans	(Note 22.2.3)	402,917,380	136,845,980
Other Loans	(Note 22.2.4)	438,837,924	310,695,490
		<u>1,000,514,541</u>	<u>841,936,332</u>
The Company assesses impairment based on collective models developed for specific products. Impairment has not been assessed based on any individually significant loans and advances.			
22.2 Analysis by Product			
Leases	22.2.1	2,284,813,874	2,493,675,396
Hire Purchase	22.2.2	1,829,435	43,552,048
Mortgage Loans	22.2.3	1,556,483,230	914,472,221
Other Loans	22.2.4	1,783,337,372	753,082,947
		<u>5,626,463,911</u>	<u>4,204,782,612</u>
22.2.1 Leases			
Gross Lease receivable			
Within one year	22.2.1 (a)	785,652,631	805,428,102
One to five years	22.2.1 (b)	1,585,670,734	1,749,549,930
Over five years	22.2.1 (c)	68,481,031	258,188,178
		2,439,804,396	2,813,166,210
Less: Allowance for impairment losses		154,990,522	319,490,814
Net Lease receivable		<u>2,284,813,874</u>	<u>2,493,675,396</u>
22.2.1 (a) Gross Lease receivable within one year			
Total Lease receivable within one year		1,128,513,644	1,157,714,284
Less: Unearned income		342,861,013	352,286,182
		<u>785,652,631</u>	<u>805,428,102</u>
22.2.1 (b) Gross Lease receivable within one to five years			
Total Lease receivable within one to five years		2,001,544,199	2,229,166,691
Less: Unearned income		415,873,465	479,616,761
		<u>1,585,670,734</u>	<u>1,749,549,930</u>
22.2.1 (c) Gross Lease receivable over five years			
Total Lease receivable over five years		69,082,140	260,712,037
Less: Unearned income		601,109	2,523,859
		<u>68,481,031</u>	<u>258,188,178</u>
22.2.2 Hire Purchase			
Gross Hire Purchase receivable			
Within one year	22.2.2 (a)	4,237,625	56,857,627
One to five years	22.2.2 (b)	1,266,159	7,392,012
Over five years	22.2.2 (c)	94,366	54,206,457
		5,598,150	118,456,096
Less: Allowance for impairment losses		3,768,715	74,904,048
Net Hire Purchase receivable		<u>1,829,435</u>	<u>43,552,048</u>



As at 31 March,

	Notes	2019 Rs.	2018 Rs.
22 LOANS AND ADVANCES (CONT.)			
22.2 Analysis by Product (Cont.)			
22.2.2 Hire Purchase (Cont.)			
22.2.2 (a) Gross Hire Purchase receivable within one year			
Total Hire Purchase rentals receivable		4,518,319	58,576,886
Less: Unearned income		280,694	1,719,259
		<u>4,237,625</u>	<u>56,857,627</u>
22.2.2 (b) Gross Hire Purchase receivable within one to five years			
Total Hire Purchase rentals receivable		1,332,760	7,806,376
Less: Unearned income		66,601	414,364
		<u>1,266,159</u>	<u>7,392,012</u>
22.2.2 (c) Gross Hire Purchase receivable over five years			
Total Hire Purchase rentals receivable		94,366	54,206,457
Less: Unearned income		-	-
		<u>94,366</u>	<u>54,206,457</u>
22.2.3 Mortgage Loans			
Gross Mortgage Loans receivable			
Within one year	22.2.3 (a)	735,772,098	412,171,846
One to five years	22.2.3 (b)	1,083,119,025	625,848,139
Over five years	22.2.3 (c)	140,509,487	13,298,216
		1,959,400,610	1,051,318,201
Less: Allowance for impairment losses		402,917,380	136,845,980
Net Other Loans receivable		<u>1,556,483,230</u>	<u>914,472,221</u>
22.2.3 (a) Gross Mortgage Loans receivable within one year			
Total Mortgage Loans receivable		1,003,570,754	565,122,145
Less: Unearned income		267,798,656	152,950,299
		<u>735,772,098</u>	<u>412,171,846</u>
22.2.3 (b) Gross Mortgage Loans receivable within one to five years			
Total Mortgage Loans receivable		1,536,890,081	840,755,635
Less: Unearned income		453,771,056	214,907,496
		<u>1,083,119,025</u>	<u>625,848,139</u>
22.2.3 (c) Gross Mortgage Loans receivable over five years			
Total Mortgage Loans receivable		162,364,648	14,137,848
Less: Unearned income		21,855,161	839,632
		<u>140,509,487</u>	<u>13,298,216</u>
22.2.4 Other Loans			
Gross Other Loans receivable			
Within one year	22.2.4 (a)	1,747,696,883	804,881,451
One to five years	22.2.4 (b)	474,478,413	258,896,986
Over five years		-	-
		2,222,175,296	1,063,778,437
Less: Allowance for impairment losses		438,837,924	310,695,490
Net Other Loans receivable		<u>1,783,337,372</u>	<u>753,082,947</u>
22.2.4 (a) Gross Other Loans receivable within one year			
Total Other Loans receivable		1,935,950,071	892,970,778
Less: Unearned income		188,253,188	88,089,327
		<u>1,747,696,883</u>	<u>804,881,451</u>
22.2.4 (b) Gross Other Loans receivable within one to five years			
Total Other Loans receivable		524,310,815	310,287,308
Less: Unearned income		49,832,402	51,390,322
		<u>474,478,413</u>	<u>258,896,986</u>



For the year ended 31 March 2019

23 PROPERTY, PLANT AND EQUIPMENT

	Rs.	Buildings	Furniture and fittings	Office equipment	Computer and accessories	Sign boards	Telephone system	Electrical equipment	Motor vehicles	Fixtures and fittings	Total 2019	Total 2018
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
At cost/ valuation												
Balance as at 01 April	76,062,500	103,800,000	7,510,460	9,798,630	17,823,584	1,375,605	727,725	2,969,480	12,535,501	2,233,924	234,837,409	234,206,088
Additions	-	-	125,593	718,085	4,871,087	565,150	72,379	39,600	-	364,344	6,756,238	5,308,431
Disposals	-	-	-	-	(298,300)	(144,439)	-	-	-	-	(442,739)	(4,677,110)
Balance as at 31 March	76,062,500	103,800,000	7,636,053	10,516,715	22,396,371	1,796,316	800,104	3,009,080	12,535,501	2,598,268	241,150,908	234,837,409
Depreciation												
Balance as at 01 April	-	2,256,522	4,292,886	4,800,362	11,700,265	325,959	562,173	1,366,806	10,529,991	470,670	36,305,634	30,543,576
Charge for the year	-	2,256,522	828,674	1,146,123	2,298,800	203,021	90,347	343,124	1,146,000	309,311	8,621,922	10,049,949
Disposals	-	-	-	-	(298,300)	(60,961)	-	-	-	-	(359,261)	(4,287,891)
Balance as at 31 March	-	4,513,044	5,121,560	5,946,485	13,700,765	468,019	652,520	1,709,930	11,675,991	779,981	44,568,295	36,305,634
Carrying value												
As at 31 March 2019	76,062,500	99,286,956	2,514,493	4,570,230	8,695,606	1,328,297	147,584	1,299,150	859,510	1,818,287	196,582,613	198,531,775
As at 31 March 2018	76,062,500	101,543,478	3,217,574	4,998,268	6,123,319	1,049,646	165,552	1,602,674	2,005,510	1,763,254	196,582,613	198,531,775

23.1 Acquisition of property, plant and equipment during the year

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs.6,756,238/- (2018 - Rs.5,308,431/-) . Cash payments amounting to Rs.6,756,238/- (2018 - Rs.5,308,431/-) was paid during the year for purchases of property, plant and equipment.

23.2 Title restriction on property, plant and equipment

There are no restrictions that existed on the title of the property, plant and equipment of the Company as at the reporting date.

23.3 Capitalisation of borrowing costs

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year ended 31 March 2019 (2018: Nil).

23.4 Amount of contractual commitments for the acquisition of property, plant and equipment

The Company had no contractual commitments for the acquisition of property, plant and equipment as at the reporting date. (2018: Nil)



SERENDIB FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2019

23 PROPERTY, PLANT AND EQUIPMENT (Cont.)

23.5 Measurement of fair values

The fair value of land and buildings was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's land and buildings every 3 years.

The fair value measurement of all of the land and buildings has been categorized as a Level 3 fair value based on the inputs to the valuation techniques used.

23.5.1 Information on valuation of freehold Land and Buildings of the Company.

Date of valuation: 30th March 2017

Name of the professional valuer/Location and Address	Location of the property	Extent (Perches)	Method of valuation and significant unobservable inputs	Range of estimation for unobservable inputs	Carrying value before valuation of		Revaluation amount of		Revaluation gain Recognized on	
					Land Rs.	Buildings Rs.	Land Rs.	Buildings Rs.	Land Rs.	Buildings Rs.
Sarath G. Fernando G.M.I.V. Incorporated Valuer, Wattagama, Sri Lanka.	No.187, Katugastota Road, Kandy.	13.31	<ul style="list-style-type: none"> Valuation on Comparative Method. Useful life period of the Building. Price per perch for land Price per square foot for building 	<ul style="list-style-type: none"> Useful life period of the Building is 35 years Price per perch Rs.5,000,000/- Price per sq.foot Rs.8,750/- 	59,139,495	67,329,077	59,662,500	78,800,000	523,005	11,470,923
					16,441,670	19,226,867	16,400,000	25,000,000	(41,670)	5,773,133
					75,581,165	86,555,944	76,062,500	103,800,000	481,335	17,244,056

23.6 The carrying amount of Company's revalued assets that would have been included in these Financial Statements had these assets been carried at cost less accumulated depreciation is as follows:

	2019		2018	
	Cost	Accumulated depreciation	Carrying value	Accumulated depreciation
Land	40,313,868	-	40,313,868	40,313,868
Buildings	49,485,023	7,529,886	41,955,137	5,795,024
Total	89,798,891	7,529,886	82,269,005	5,795,024
			Cost	Carrying value
			89,798,891	84,003,867



As at 31 March,

23.7 Impairment of property, plant and equipment

The Board of Directors has assessed the potential impairment loss of property, plant and equipment as at 31 March 2019. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment.

23.8 Property, plant and equipment pledged as security

Details of property, plant and equipment which have been pledged as securities as at the reporting date are disclosed in Note 26.2.

For the year ended 31 March 2019

23 PROPERTY, PLANT AND EQUIPMENT (Cont.)

23.9 Temporarily idle property, plant and equipment

There are no temporarily idle property, plant and equipment as at the reporting date.

23.10 Compensation from third parties for items of property, plant and equipment

There were no compensation received / receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

As at 31 March,

24 INTANGIBLE ASSETS

Computer software

Cost

As at 01 April

Additions during the year

As at 31 March

Amortization

As at 01 April

Amortization for the year

As at 31 March

Carrying value as at 31 March

Notes

2019

Rs.

2018

Rs.

		13,049,048	12,669,088
		4,536,370	379,960
		<u>17,585,418</u>	<u>13,049,048</u>
		5,421,821	4,129,350
		1,719,792	1,292,471
		<u>7,141,613</u>	<u>5,421,821</u>
		<u>10,443,805</u>	<u>7,627,227</u>
24.1 Impairment of intangible assets			
	The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 March 2019. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of intangible assets.		
24.2 Title restriction on intangible assets			
	There are no restrictions that existed on the title of the intangible assets of the Company as at the reporting date.		
24.3 Capitalisation of borrowing costs			
	There were no capitalised borrowing costs related to the acquisition of intangible assets during the year ended 31 March 2019 (2018: Nil).		
24.4 Amount of contractual commitments for the acquisition of intangible assets			
	The Company had no contractual commitments for the acquisition of intangible assets as at the reporting date. (2018: Nil)		
25 OTHER ASSETS			
Financial			
Refundable deposits		2,030,100	2,090,100
Debtors		1,783,178	1,783,178
		3,813,278	3,873,278
Less: Allowance for impairment losses - debtors	(Note 25.1)	(1,783,178)	(1,783,178)
		<u>2,030,100</u>	<u>2,090,100</u>
Non-financial			
Prepayments		5,186,799	5,517,480
Other receivables		5,848,600	5,991,376
Value added tax recoverable		-	3,914,204
Nation building tax recoverable		-	521,894
Economic service charge recoverable		9,037,956	-
		<u>20,073,355</u>	<u>15,944,954</u>
		<u>22,103,455</u>	<u>18,035,054</u>
Total			
25.1 Allowance for impairment losses - debtors			
As at 01 April		1,783,178	1,783,178
As at 31 March		<u>1,783,178</u>	<u>1,783,178</u>



As at 31 March,

		2019 Rs.	2018 Rs.
26 DUE TO BANKS			
Bank overdrafts		134,340,178	30,706,355
Securitized borrowings	(Note 26.1)	4,291,687,163	3,637,319,482
Total		4,426,027,341	3,668,025,837

26.1 Securitized borrowings

For the year ended 31 March 2019

	As at 01.04.2018 Rs.	Loans obtained during the year Rs.	Interest expense for the year Rs.	Repayments during the year Rs.	As at 31.03.2019 Rs.
Direct bank borrowings					
Term loans					
Commercial Bank of Ceylon PLC	757,850,215	1,998,000,000	134,577,434	(890,840,925)	1,999,586,724
Sampath Bank PLC	2,160,985,612	300,000,000	248,797,163	(935,772,869)	1,774,009,906
Bank Of Ceylon	718,483,655	-	85,685,981	(286,079,103)	518,090,533
Total	3,637,319,482	2,298,000,000	469,060,578	(2,112,692,897)	4,291,687,163

For the year ended 31 March 2018

	As at 01.04.2017 Rs.	Loans obtained during the year Rs.	Interest expense for the year Rs.	Repayments during the year Rs.	As at 31.03.2018 Rs.
Direct bank borrowings					
Term loans					
Commercial Bank of Ceylon PLC	1,101,089,098	530,000,000	135,459,760	(1,008,698,643)	757,850,215
Sampath Bank PLC	2,648,354,263	820,000,000	310,995,826	(1,618,364,477)	2,160,985,612
Bank Of Ceylon	919,015,341	-	111,464,360	(311,996,046)	718,483,655
Total	4,668,458,702	1,350,000,000	557,919,946	(2,939,059,166)	3,637,319,482

26.2 Assets pledged

The following assets have been pledged as security for liabilities.

Nature of Assets	Facility	2019 Rs.	2018 Rs.
Leasing Receivable	Commercial Bank of Ceylon PLC- Term loan and bank overdraft	2,631,962,741	1,111,600,000
Property at No. 182 & 187, Katugastota Road, Kandy	Commercial Bank of Ceylon PLC- Term loan and bank overdraft	75,000,000	75,000,000
Letter of Comfort from Commercial Bank of Ceylon PLC	Sampath Bank PLC - Term loans and bank overdraft	3,534,590,173	3,534,590,173
Letter of Comfort from Commercial Bank of Ceylon PLC	Bank Of Ceylon - Term loans	1,000,000,000	1,000,000,000
		7,241,552,914	5,721,190,173



For the year ended 31 March,

	Notes	2019 Rs.	2018 Rs.
27 EMPLOYEE BENEFITS			
27.1 Defined contribution plans			
Employees' Provident Fund			
Employer's contribution		5,250,549	5,602,280
Employees' contribution		3,500,366	3,734,853
Employees' Trust Fund		1,318,971	1,400,589
27.2 Defined benefit plans			
Movement in the present value of the defined benefit obligations			
As at 01 April		5,647,642	4,476,255
Included in profit or loss			
Current service cost		928,075	1,028,971
Interest cost	(Note 27.2.1)	593,003	514,769
		<u>1,521,078</u>	<u>1,543,740</u>
Included in OCI			
Actuarial (gain)/ losses during the year	(Note 27.2.2)	(410,169)	516,752
Payments made during the year		(1,318,125)	(889,105)
As at 31 March		<u>5,440,426</u>	<u>5,647,642</u>
27.2.1 Expense recognized in profit or loss			
Current service cost for the year		928,075	1,028,971
Interest cost for the year		593,003	514,769
Total		<u>1,521,078</u>	<u>1,543,740</u>
27.2.2 Amount recognized for defined benefit obligation in other comprehensive income			
Cumulative loss as at 1 April		1,181,239	664,487
Actuarial (gain)/ loss recognized during the year		(410,169)	516,752
Cumulative loss as at 31 March		<u>771,070</u>	<u>1,181,239</u>
27.2.3 Actuarial assumptions		2019	2018
Discount rate		11.5% p.a.	10.5% p.a.
Salary increment rate		6% p.a.	5% p.a.
Staff turnover		27%	26%
Mortality	- A 1967/70 Mortality Table		
Disability	- Standard		
Retirement age	- Normal retirement Age , The employees who are aged over the specified retirement age have been assumed to retire on their respective next birthday.		

An actuarial valuation of the gratuity was carried out as at 31 March 2019 by Mr. M. Poopalanathan, AIA, of Actuarial and Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuary to value the Fund is the "Projected Unit Credit Method", recommended by LKAS 19.

27.2.4 Sensitivity Analysis

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

	As at 31 March 2019		As at 31 March 2018	
	Increase (Rs.)	Decrease (Rs.)	Increase (Rs.)	Decrease (Rs.)
Discount rate (1% movement)	(145,845)	154,769	(132,762)	140,683
Salary increment rate (1% movement)	182,328	(174,406)	168,847	(161,848)



As at 31 March,

	Notes	2019 Rs.	2018 Rs.
28 DEFERRED TAX (ASSETS) / LIABILITIES			
As at 01 April under LKAS 39		1,209,527	59,532,935
Adjustment on initial application of SLFRS 9	(Note 3.2.4)	(155,366,234)	-
As at 01 April under SLFRS 9		(154,156,707)	59,532,935
Origination/ (reversal) of temporary differences			
- Recognized in profit or loss	} (Note 28.2)	(2,853,335)	(68,009,273)
- Recognized in other comprehensive income		3,924	9,685,865
As at 31 March		<u>(157,006,118)</u>	<u>1,209,527</u>

28.1 Summary of net deferred tax liabilities

	As at 31 March 2019		As at 31 March 2018	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
Deferred tax liabilities				
Accelerated depreciation for tax purposes - Lease Assets (Note 28.4)	469,128,455	131,355,968	501,335,232	140,373,865
Accelerated depreciation for tax purposes - Own Assets	40,653,863	11,383,082	38,338,168	10,734,687
Revaluation surplus on buildings	56,555,111	15,835,431	57,739,168	16,166,967
Tax on capital asset (land) (Note 28.3)	35,748,632	10,009,617	35,748,632	10,009,617
Unrealized gain on FVOCI	716,269	200,555	-	-
	<u>602,802,330</u>	<u>168,784,653</u>	<u>633,161,200</u>	<u>177,285,136</u>
Deferred tax assets				
Defined benefit plans	5,440,426	1,523,319	5,647,642	1,581,340
Carried forward tax losses	86,305,533	24,165,549	-	-
Carried forward unclaimed impairment losses	1,071,792,511	300,101,903	622,560,139	174,316,839
Unrealized loss on AFS	-	-	633,679	177,430
	<u>1,163,538,470</u>	<u>325,790,771</u>	<u>628,841,460</u>	<u>176,075,609</u>
Net deferred tax liability as at	<u>(560,736,140)</u>	<u>(157,006,118)</u>	<u>4,319,740</u>	<u>1,209,527</u>



28.2 Deferred tax assets and liabilities are attributable to the following:

	Recognized in Profit or Loss		Recognized in Other Comprehensive Income		Adjustment on initial application of SLFRS 9	Statement of Financial Position	
	2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.	2019 Rs.	2019 Rs.	2018 Rs.
Deferred tax liabilities							
Accelerated depreciation for tax purposes - Lease Assets (Note 28.4)	(9,017,897)	30,044,584	-	-	-	131,355,968	140,373,865
Accelerated depreciation for tax purposes - Own Assets	648,395	803,971	-	-	-	11,383,082	10,734,687
Revaluation surplus on buildings	(331,536)	(331,537)	-	-	-	15,835,431	16,166,967
Revaluation surplus on lands (Note 28.3)	-	-	-	10,009,617	-	10,009,617	10,009,617
Unrealized loss on FVOCI	-	-	(288,353)	-	488,908	200,555	-
	<u>(8,701,038)</u>	<u>30,517,018</u>	<u>(288,353)</u>	<u>10,009,617</u>	<u>488,908</u>	<u>168,784,653</u>	<u>177,285,136</u>
Deferred tax assets							
Defined benefit plans	(56,826)	(183,298)	114,847	(144,691)	-	1,523,319	1,581,340
Carried forward tax losses	(24,165,549)	1,982,387	-	-	-	24,165,549	-
Carried forward unclaimed impairment losses	30,070,078	(100,325,380)	-	-	(155,855,142)	300,101,903	174,316,839
Unrealized loss on AFS	-	-	177,430	(179,061)	-	-	177,430
	<u>5,847,703</u>	<u>(98,526,291)</u>	<u>292,277</u>	<u>(323,752)</u>	<u>(155,855,142)</u>	<u>325,790,771</u>	<u>176,075,609</u>
Deferred tax effect on statement of profit or loss and other comprehensive income	<u>(2,853,335)</u>	<u>(68,009,273)</u>	<u>3,924</u>	<u>9,685,865</u>	<u>(155,366,234)</u>		
Net deferred tax liabilities as at 31 March						<u>(157,006,118)</u>	<u>1,209,527</u>

For the year ended 31 March 2019

28 DEFERRED TAX LIABILITIES (CONT.)

28.3 As per the Inland Revenue Act No. 24 of 2017, which is effective from 1 April 2018, Capital Assets attract tax at applicable corporate tax rate on the gains at the time of disposal. Accordingly, deferred tax liability has been recognised at 28% on the revaluation surplus relating to freehold land in these Financial Statements.

28.4 As per the Inland Revenue Act No. 24 of 2017, which is effective from 1 April 2018, Finance Lease agreements need to be considered as a loan granted by the lessor to the lessee. Accordingly, the previous method of calculating the profits from the business of finance lease has been changed and the leasing business would be subject to tax on profits derived from such operations being the lease interest less expenses.

However, any profit, loss, receipt or payment in respect of any finance lease agreement entered into, prior to 1 April 2018, will be computed in accordance with the respective provisions of the Inland Revenue Act, No. 10 of 2006. Therefore, a deferred tax liability has been recognised on accelerated depreciation for tax purposes on lease assets as at 31 March 2019 which were entered prior to 1 April 2018.

With the introduction of the Inland Revenue Act No. 24 of 2017 which became effective from 1 April 2018, the Company will be eligible to claim its brought forward tax losses against its future taxable income within a period of 6 years.

As at 31 March,

	2019 Rs.	2018 Rs.
29 CURRENT TAX LIABILITIES		
As at 01 April		
Provision for the year	13,660,833	69,420
Under provision in relation to prior years	-	34,157,806
Set-off against ESC receivables	3,231,579	-
Notional tax credits	-	(9,759,460)
Withholding tax credits	-	(2,532,108)
Payments made during year	-	(354,825)
As at 31 March	<u>(16,892,412)</u>	<u>(7,920,000)</u>
	<u>-</u>	<u>13,660,833</u>
30 OTHER LIABILITIES		
<i>Financial</i>		
Trade payables	29,391,991	42,330,486
	<u>29,391,991</u>	<u>42,330,486</u>
<i>Non-financial</i>		
Accrued expenses	47,920,388	31,703,060
Direct deposits from customers	1,212,168	1,172,139
Value added tax payable	483,547	740,242
Stamp duty payable	762,760	3,646,425
	<u>50,378,863</u>	<u>37,261,866</u>
Total	<u>79,770,854</u>	<u>79,592,352</u>
31 STATED CAPITAL		



	2019		2018	
	Number of shares	Value of shares Rs.	Number of shares	Value of shares Rs.
Fully paid ordinary shares				
As at 01 April	53,352,686	1,079,999,992	30,728,252	580,000,001
Issue of ordinary shares	85,626,223	999,999,983	22,624,434	499,999,991
As at 31 March	<u>138,978,909</u>	<u>2,079,999,975</u>	<u>53,352,686</u>	<u>1,079,999,992</u>

31.1 Shareholders as at 31 March,

	2019 Holding %	2019 No of shares	2018 No of shares
Commercial Bank of Ceylon PLC	100	138,978,909	53,352,686
Total	<u>100</u>	<u>138,978,909</u>	<u>53,352,686</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per individual present at meetings of the share holders or one vote per share in the case of a poll.

As at 31 March,

	Notes	2019 Rs.	2018 Rs.
32 ACCUMULATED LOSSES			
As at 01 April		(23,046,820)	114,594,596
Adjustment on initial application of SLFRS 9, net of tax (Note 3.2.4)		(290,357,073)	-
Restated balance at 1 April 2018		(313,403,893)	114,594,596
Profit / (Loss) for the year		19,701,840	(121,905,229)
Actuarial gains / (losses) on defined benefits plans, after tax		295,322	(372,061)
Transferred to statutory reserve fund (Note 33.1)		(985,092)	-
Dividends to equity holders - 2016/17		-	(15,364,126)
As at 31 March		<u>(294,391,823)</u>	<u>(23,046,820)</u>
33 OTHER RESERVES			
Capital reserve		50,000	50,000
Statutory reserve fund	(Note 33.1)	23,013,951	22,028,859
Revaluation reserve	(Note 33.2)	65,081,622	65,081,622
Fair value reserve	(Note 33.3)	515,715	(456,251)
General reserve	(Note 33.4)	20,097,889	20,097,889
Total		<u>108,759,177</u>	<u>106,802,119</u>
33.1 Statutory reserve fund			
As at 01 April		22,028,859	22,028,859
Transferred from retained earnings		985,092	-
As at 31 March		<u>23,013,951</u>	<u>22,028,859</u>

'Statutory reserve fund' is a capital reserve which contains profits transferred as required by Department of Supervision of Non Bank Financial Institutions of Central Bank of Sri Lanka, under the Finance Companies (Capital Funds) Direction No. 01 of 2003. Accordingly, 5% of the net profit for the year is transferred to the Statutory reserve fund during the financial year.

As at 31 March,

		2019 Rs.	2018 Rs.
33.2 Revaluation reserve			
As at 01 April		65,081,622	75,091,239
Revaluation surplus of property plant and equipment		-	-
Revaluation surplus of Land transferred to retained earnings on disposal		-	-
Deferred tax charge on revaluation surplus	(Note 28.3)	-	(10,009,617)
As at 31 March		<u>65,081,622</u>	<u>65,081,622</u>

33.3 Fair value reserve

The fair value reserve comprises;

- the cumulative net change in the fair value of equity securities designated at FVOCI (2018: available-for-sale financial assets); and
- the cumulative net change in fair value of debt securities at FVOCI (2018: available-for-sale financial assets) until the assets are derecognised or reclassified. This amount is reduced by the amount of loss allowance.

33.4 General reserve

The purpose of the transfer to General Reserve is to increase Tier 1 Core Capital as per sec 2 (ii) of Finance Companies (Minimum Core Capital) Direction 01 of 2011 in order to fulfil requirements to obtain the License to carry out Finance Business from the Monetary Board of the Central Bank of Sri Lanka.





For the year ended 31 March 2019

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has an established control framework with respect to the measurement of fair values of investments. The Asset and Liability Committee (ALCO) has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements are carried out by the finance division, which include :

- * Verification of observable pricing;
 - * Re-performance of model valuations;
 - * Quarterly calibration and back-testing of models against observed market transactions;
 - * Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 as explained below

When third party information, such as broker quotes or pricing services, is used to measure fair value, documents of evidence are obtained from third parties to support the conclusion that such valuations meet the requirements of SLFRS/LKAS.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

31 March 2019	Classification	Carrying amount	Fair value			Total
		Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	
Financial Assets measured at Fair value						
Investment in Unquoted Shares	Fair value	1,869,800	-	-	1,869,800	1,869,800
Investments in government securities	through OCI	242,510,815	242,510,815	-	-	242,510,815
		244,380,615	242,510,815	-	1,869,800	244,380,615
Financial assets not measured at fair value						
Cash and cash equivalents		60,922,009	-	60,922,009	-	60,922,009
Securities purchased under resale agreements	Amortized cost	87,703,424	-	87,703,424	-	87,703,424
Loans and advances		5,626,463,911	-	-	5,277,891,018	5,277,891,018
Other Assets (Note 25)		2,030,100	-	-	2,030,100	2,030,100
		5,777,119,444	-	148,625,433	5,279,921,118	5,428,546,551
Financial Liabilities not measured at Fair value						
Due to banks	Other financial	4,426,027,341	-	4,426,027,341	-	4,426,027,341
Other liabilities (Note 30)	liabilities	29,391,991	-	-	29,391,991	29,391,991
		4,455,419,332	-	4,426,027,341	29,391,991	4,455,419,332
31 March 2018						
	Classification	Carrying amount	Level 1	Level 2	Level 3	Total
		Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets measured at Fair value						
Investment in Unquoted Shares	Fair value	123,700	-	-	123,700	123,700
Investments in government securities	through OCI	194,038,669	194,038,669	-	-	194,038,669
		194,162,369	194,038,669	-	123,700	194,162,369
Financial assets not measured at fair value						
Cash and cash equivalents		226,998,250	-	226,998,250	-	226,998,250
Securities purchased under resale agreements	Amortized cost	81,754,195	-	81,754,195	-	81,754,195
Loans and advances		4,204,782,612	-	-	4,671,553,852	4,671,553,852
Other Assets (Note 25)		2,090,100	-	-	2,090,100	2,090,100
		4,515,625,157	-	308,752,445	4,673,643,952	4,982,396,397
Financial Liabilities not measured at Fair value						
Due to banks	Other financial	3,668,025,837	-	3,668,025,837	-	3,668,025,837
Other liabilities (Note 30)	liabilities	42,330,486	-	-	42,330,486	42,330,486
		3,710,356,323	-	3,668,025,837	42,330,486	3,710,356,323

For the year ended 31 March 2019

34 FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont.)

34.1 Financial Assets measured at Fair value

Methodologies and assumptions used to determine fair value of financial instruments which are already recorded at fair value in the Statement of Financial Position are as follows.

a. Investments in government securities

As Treasury Bills/ Treasury Bonds are valued using Central Bank published rates, investments in government securities are classified under Level 1.

b. Unquoted Shares

The unquoted shares, which are held for regulatory purposes, are valued based on internal management information derived from the audited financial statements based on the net asset value of the investee, which is a significant unobservable input in measuring the fair value and hence it is categorized under level 3 in the fair value hierarchy.

c. Level 3 fair values

Reconciliation of Level 3 fair value

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Unquoted Equity securities Rs.
Balance as at 1 April 2017	123,700
Gain included in OCI	123,700
- Net change in fair value (unrealized)	-
Purchases	-
Balance as at 31 March 2018	<u>123,700</u>
Balance as at 1 April 2018	123,700
Gain included in OCI	123,700
- Net change in fair value (unrealised)	-
Purchases	1,746,100
Balance as at 31 March 2019	<u>1,869,800</u>

34.2 Financial assets not measured at fair value

Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows.

Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (e.g. fixed rate loans and receivables, fixed rate borrowings) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

Assets for which Fair Value Approximates Carrying Value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value.

34.3 Transfers between Level 1 and Level 2

There were no transfers between Level 1 and Level 2 during the year ended 31 March 2019.



For the year ended 31 March 2019

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Remaining contractual period to maturity as at the date of Statement of Financial Position of the liabilities and shareholders' funds employed by the Company is detailed below:

	2019			2018		
	Within	After	Total as at	Within	After	Total as at
	12 Months	12 Months	31/03/2019	12 Months	12 Months	31/03/2018
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets						
Cash and cash equivalents	60,922,009	-	60,922,009	226,998,250	-	226,998,250
Financial investments - FVOCI/ AFS	242,510,815	1,869,800	244,380,615	194,038,669	123,700	194,162,369
Securities purchased under resale agreements	87,703,424	-	87,703,424	81,754,195	-	81,754,195
Loans and advances	2,779,160,632	2,847,303,279	5,626,463,911	1,457,849,872	2,746,932,740	4,204,782,612
Property, plant and equipment	-	196,582,613	196,582,613	-	198,531,775	198,531,775
Intangible assets	-	10,443,805	10,443,805	-	7,627,227	7,627,227
Deferred tax assets	-	157,006,118	157,006,118	-	-	-
Other assets	20,073,355	2,030,100	22,103,455	15,000,884	3,034,170	18,035,054
Total assets	3,190,370,235	3,215,235,715	6,405,605,950	1,975,641,870	2,956,249,612	4,931,891,482
Percentage	50%	50%	100%	40%	60%	100%
Liabilities						
Due to banks	2,850,758,330	1,575,269,011	4,426,027,341	1,126,898,058	2,541,127,779	3,668,025,837
Employee benefits	-	5,440,426	5,440,426	-	5,647,642	5,647,642
Income Tax Liabilities	-	-	-	13,660,833	-	13,660,833
Deferred tax liabilities	-	-	-	-	1,209,527	1,209,527
Other liabilities	61,438,800	18,332,054	79,770,854	44,959,259	34,633,093	79,592,352
Total liabilities	2,912,197,130	1,599,041,491	4,511,238,621	1,185,518,150	2,582,618,041	3,768,136,191
Equity						
Stated capital	-	2,079,999,975	2,079,999,975	-	1,079,999,992	1,079,999,992
Retained earnings	-	(294,391,823)	(294,391,823)	-	(23,046,820)	(23,046,820)
Other reserves	-	108,759,177	108,759,177	-	106,802,119	106,802,119
Total equity	-	1,894,367,329	1,894,367,329	-	1,163,755,291	1,163,755,291
Total equity and liabilities	2,912,197,130	3,493,408,820	6,405,605,950	1,185,518,150	3,746,373,332	4,931,891,482
Percentage	45%	55%	100%	24%	76%	100%



For the year ended 31 March 2019

36 RELATED PARTY TRANSACTIONS

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard -LKAS 24 - "Related party disclosures", the details of which are reported below.

36.1 Parent and ultimate controlling party

On 1 September 2014, Commercial Bank of Ceylon PLC fully acquired the Serendib Finance Limited (formerly known as Indra Finance Limited) and accordingly the ownership of the Company was transferred to the Commercial Bank of Ceylon PLC. Therefore in the opinion of Directors, Commercial Bank of Ceylon PLC became the parent and ultimate controlling party of the Serendib Finance Limited from 1 September 2014 to as of date.

36.2 Transactions with Key Management Personnel (KMP)

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly, the KMP include members of the Board of Directors of the Company and selected key employees who meet the criteria for KMP.

As Commercial Bank of Ceylon PLC is the ultimate parent of the Company and the Board of Directors of Commercial Bank of Ceylon PLC has the authority and responsibility of planning, directing and controlling the activities of the Company, the Directors of Commercial Bank of Ceylon PLC have also been identified as KMP of the Company.

36.2.1 Compensation of Key Management Personnel

Short term employee benefits
 Post employment benefits



	2019	2018
	Rs.	Rs.
Short term employee benefits	5,255,000	3,630,000
Post employment benefits	Nil	Nil

36.2.2 Transactions with KMP

There were no transactions with the KMPs during the year.

36.2.3 Transactions, Arrangements and Agreements Involving Close Family Members (CFMs) of KMP

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMP's domestic partner and children, children of the KMP's domestic partner and dependents of the KMP or the KMP's domestic partner.

There were no transactions with the CFMs of KMP during the year.

36.2.4 Transactions with the Parent and Related Entities

Name of the Company	Nature of transactions	Value of transactions		Balance as at 31 March	
		2019 Rs.	2018 Rs.	2019 Rs.	2018 Rs.
Commercial Bank of Ceylon PLC	Loan/Bank overdraft balance as at end of the year	-	-	2,031,999,091	785,497,926
(Parent from 01 Sep 2014)	Loan interest charged	(135,040,698)	(136,749,111)	-	-
	Loan repayment made during the year	(890,840,925)	(135,459,760)	-	-
	Deposits/Advances held at the end of the year	-	-	49,186,096	200,205,562
<i>Names of the common Directors/ KMPs</i>	Interest on Deposits/Advances	4,928,685	8,201,671	-	-
	Bank Charges	-	(606,423)	-	-
K.G.D.D. Dheerasinghe	Building Rent received	918,360	918,360	-	-
N. Sooriyarachchi	Dividend paid	-	(15,364,126)	-	-
	Ordinary shares issued	999,999,983	499,999,991	2,079,999,975	1,079,999,992

Commercial Bank of Ceylon PLC has provided letters of Comfort to Sampath Bank PLC and Bank of Ceylon as security against the term loans obtained amounting to Rs.3.5Bn and Rs.1Bn respectively. (refer Note 26.2)

37 RISK MANAGEMENT

INTRODUCTION

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The company has exposure to the following risks arising from financial instruments.

- 1 Credit Risk
- 2 Liquidity Risk
- 3 Market Risk
- 4 Operational Risk



Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC) which is responsible for developing and monitoring Company's risk management policies. The Committee is headed by a non-executive director and comprises executive and non-executive directors. Meetings of BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor adherence to established limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

Senior Management involvement in Risk Management

The Business units (i.e. Credit Departments, Collection & Recovery Departments, Branches/Centers and Finance etc.) have primary responsibility for Risk Management. The Senior management team comprising CEO, General Manager, Deputy General Manager and Assistant General Manager, provide an independent oversight function, acts as the 2nd line of defence.

Risk Measurement & Reporting

The Company's Risks are measured using appropriate techniques based on the type of risk, and industry best practices. The Company also carries out procedures to identify the effect of extreme events/worst case scenarios in most of the major type of risks and the results are reported to BIRMC on a periodic basis. Monitoring and controlling risks is primarily performed based on policies, limits & thresholds established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept. The Senior Management team meets every week and deliberate on matters of interest in risk management arising from operations. The monthly risk management meeting is held to shortlist matters to be forwarded to BIRMC.

Board Credit Committee

Board Credit Committee is chaired by the Chairman of the Company's Board and comprises non-executive directors. The Committee meets regularly to monitor and manage the Company's lending portfolio, asset quality and recovery actions. The Committee also periodically reviews company's credit policy and lending rates to different business segments, in light of prevailing market conditions and industry dynamics.

A separate Executive credit Committee chaired by the Managing Director/ CEO reports to the Board Credit Committee and is responsible for managing the Company's credit risk.

Board Audit Committee Oversight

The Board Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Board Audit Committee is assisted in its oversight role by the Risk Officer. Risk Officer undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

For the year ended 31 March 2019

37 RISK MANAGEMENT (Contd.)

37.1 CREDIT RISK

Credit risk is the risk of financial loss to the Company if a borrower or counterparty to a financial instrument, fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers and investments in debt securities. Credit risk constitutes the Company's largest risk exposure category. This can be broadly categorized into two types; default and concentration risk.

Default risk as the risk of the potential financial loss resulting from the failure of customer or counterparty to meet its debt or contractual obligations and arises principally from the company's loans and advances to customers.

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

37.1.1 Management of Credit Risk

The Board of Directors created the Board Credit Committee for the oversight of credit risk. A separate Executive Credit Committee, reporting to the Board Credit Committee, is responsible for managing the Company's credit risk, including the following.

- * Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- * Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Company's Executive Credit Committee, Board Credit Committee or the Board of Directors, as appropriate.
- * Reviewing and assessing credit risk: the Company's Executive Credit Committee and Board Credit Committee assess all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- * Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities)
- * Developing and maintaining the Company's processes for measuring ECL: This includes processes for:
 - initial approval, regular validation and back-testing of the models used;
 - determining and monitoring significant increase in credit risk; and
 - incorporation of forward-looking information.
- * Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of portfolios are provided to Board Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- * Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

Each business unit is required to implement the Company's credit policies and procedures, with credit approval authorities delegated from the Board Credit Committee. The Executive Credit Committee reports on all credit-related matters to local management and the Board Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and the Company's Credit processes are undertaken by Internal Audit.



For the year ended 31 March 2019

37 RISK MANAGEMENT (Contd.)

37.1 CREDIT RISK (Contd.)

37.1.2 Credit Quality Analysis

The following table sets out information about the overdue status of financial assets measured at amortised cost, FVOCI debt investments (2019) and available-for-sale debt assets (2018). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 4.2.7.1.

As at 31 March	2019				2018
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	Total Rs.
i. Loans and advances					
<i>at amortised cost</i>					
<i>(2018 : loans and receivable)</i>					
<i>- gross carrying amount</i>					
Current	3,490,557,699	-	-	3,490,557,699	1,525,963,127
Overdue less than 30 days	589,319,676	-	-	589,319,676	547,065,899
Overdue 30 to 180 days	-	1,000,924,047	-	1,000,924,047	1,468,178,552
Overdue more than 180 days	-	-	1,546,177,030	1,546,177,030	1,505,511,366
Gross Carrying amount	4,079,877,375	1,000,924,047	1,546,177,030	6,626,978,452	5,046,718,944
Loss allowance	(52,588,211)	(117,376,704)	(830,549,626)	(1,000,514,541)	(841,936,332)
Carrying amount	4,027,289,164	883,547,343	715,627,404	5,626,463,911	4,204,782,612
ii. Debt investment securities					
<i>at amortised cost</i>					
<i>(2018 : loans and receivable)</i>					
Low-fair risk	87,703,424	-	-	87,703,424	81,754,195
Carrying amount	87,703,424	-	-	87,703,424	81,754,195
iii. Debt investment securities					
<i>at FVOCI</i>					
<i>(2018 : available-for-sale)</i>					
Low-fair risk	242,510,815	-	-	242,510,815	194,038,669
Carrying amount - fair value	242,510,815	-	-	242,510,815	194,038,669
iv. Cash and cash equivalents					
<i>at amortised cost</i>					
<i>(2018 : loans and receivable)</i>					
Low-fair risk	60,922,009	-	-	60,922,009	226,998,250
Carrying amount	60,922,009	-	-	60,922,009	226,998,250
iv. Other assets at amortised cost					
<i>(2018 : loans and receivable)</i>					
Current	2,030,100	-	-	2,030,100	2,090,100
Overdue more than 180 days	-	-	1,783,178	1,783,178	1,783,178
Gross Carrying amount	2,030,100	-	1,783,178	3,813,278	3,873,278
Loss allowance	-	-	(1,783,178)	(1,783,178)	(1,783,178)
Carrying amount	2,030,100	-	-	2,030,100	2,090,100



For the year ended 31 March 2019

37 RISK MANAGEMENT (Contd.)

37.1 CREDIT RISK (Contd.)

37.1.3 Collateral held and other credit enhancements

The Company holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	Gross receivable		Percentage of exposure that is subject to collateral		Principal type of collateral Note held
	2019 Rs.	2018 Rs.	2019	2018	
<i>As at 31 March,</i>					
<i>Loans and advances at amortised cost (2018 : loans and receivable)</i>					
Mortgage lending	1,959,400,610	1,051,318,201	97.14%	95.12%	Residential and commercial properties, moveable assets.
Business, personal and other loans	2,222,175,296	1,063,778,437	4.48%	8.27%	Residential and commercial properties, moveable assets.
Finance leases	2,439,804,396	2,813,166,210	98.89%	89.58%	Motor vehicles and equipment
Hire purchase	5,598,150	118,456,096	42.19%	14.52%	Motor vehicles and equipment
	<u>6,626,978,452</u>	<u>5,046,718,944</u>			
<i>Debt investment securities at amortised cost (2018 : loans and receivable)</i>					
Securities purchased under resale agreements	87,703,424	81,754,195	100	100	Government securities
	<u>87,703,424</u>	<u>81,754,195</u>			
<i>Other assets at amortised cost (2018 : loans and receivable)</i>					
Refundable deposits	2,030,100	2,090,100	-	-	None
Debtors	1,783,178	1,783,178	-	-	None
	<u>3,813,278</u>	<u>3,873,278</u>			

Loan-to-value analysis of loans and advances

The following tables stratify credit exposures from loans and advances by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

As at 31 March,

LTV Ratio

Less than 50%

51% - 70%

71% - 90%

91%- 100%

More than 100%

Unsecured



2019
Rs.

2018
Rs.

2,195,808,046	2,024,945,333
1,684,750,049	1,737,582,014
510,856,915	282,979,059
64,711,060	16,339,050
48,889,153	8,686,211
2,121,963,229	976,187,277
<u>6,626,978,452</u>	<u>5,046,718,944</u>

For the year ended 31 March 2019

37 RISK MANAGEMENT (Contd.)

37.1 CREDIT RISK (Contd.)

Credit-impaired loans

	2019 Rs.	2018 Rs.
LTV Ratio		
Less than 50%	246,373,317	516,186,448
51% - 70%	260,639,551	172,528,271
71% - 90%	285,526,583	96,159,120
91%- 100%	29,872,371	11,856,362
More than 100%	-	5,300,289
Unsecured	723,765,208	703,480,876
	<u>1,546,177,030</u>	<u>1,505,511,366</u>

Assets obtained by taking possession of collateral

Details of financial and non-financial assets obtained by the Company during the year by taking possession of collateral held as security against loans and advances and held at the year end are shown below.

	2019 Rs.	2018 Rs.
Motor vehicle	30,490,795	17,502,379
Other	-	-
	<u>30,490,795</u>	<u>17,502,379</u>

The Company's policy is to pursue timely realisation of the collateral in an orderly manner. The Company does not generally use the non-cash collateral for its own operations.

37.1.4 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Refer accounting policy in Note 4.2.7.1.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

Generating the term structure of PD

Days past due are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by type of product and borrower.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economics factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macro-economic indicators include : GDP growth, inflation, interest rate, exchange rate and unemployment. Based on consideration of a variety of external actual and forecast information, the Company formulates a "base case" view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Company then uses these forecast to adjust its estimates of PDs.



For the year ended 31 March 2019

37 RISK MANAGEMENT (Contd.)

37.1 CREDIT RISK (Contd.)

37.1.4 Amounts arising from ECL (Cont.)

Inputs, assumptions and techniques used for estimating impairment (cont.)

Significant increase in credit risk (cont.)



Determining whether credit risk has increased significantly

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant differs for different types of lending.

Using its expert credit judgement and, where possible, relevant historical loss experiences, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held);
- the borrower is more than 180 days past due on any material credit obligation to the Company; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Company for regulatory capital purposes.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment as to whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company formulates three economic scenarios: a base case, which is the median scenario assigned a 68% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 14% and 18% probability of occurring respectively. The base case is aligned with information used by the Company for other purposes such as strategic planning and budgeting.

For the year ended 31 March 2019

37 RISK MANAGEMENT (Contd.)

37.1 CREDIT RISK (Contd.)

37.1.4 Amounts arising from ECL (Cont.)

Inputs, assumptions and techniques used for estimating impairment (cont.)

Incorporation of forward-looking information (cont.)

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The Company has identified and documented key drivers of credit risk both quantitative and qualitative for various portfolio segments. Quantitative economic factors are based on economic data and forecasts published by CBSL and organisations such as IMF.

The economic scenarios used as at 31 March 2019 included the following key indicators for the years ending 31 March 2020 to 2024.

		2020	2021	2022	2023	2024
GDP growth	Base	4.04%	4.50%	4.70%	4.80%	4.90%
	Upside	5.04%	5.50%	5.70%	5.80%	5.90%
	Downside	3.04%	3.50%	3.70%	3.80%	3.90%
Inflation (YoY) (CCPI)	Base	4.85%	4.75%	4.85%	4.90%	4.90%
	Upside	3.85%	3.75%	3.85%	3.90%	3.90%
	Downside	5.85%	5.75%	5.85%	5.90%	5.90%
Interest rate	Base	8.65%	9.36%	9.36%	9.95%	10.12%
	Upside	7.65%	8.36%	8.74%	8.95%	9.12%
	Downside	9.65%	10.36%	10.74%	10.95%	11.12%
Exchange rate	Base	18.25%	5.72%	6.32%	6.60%	6.57%
	Upside	17.25%	4.72%	5.32%	5.60%	5.57%
	Downside	19.25%	6.72%	7.32%	7.60%	7.57%
Unemployment	Base	4.40%	4.40%	4.40%	4.40%	4.40%
	Upside	3.40%	3.40%	3.40%	3.40%	3.40%
	Downside	5.40%	5.40%	5.40%	5.40%	5.40%

Qualitative drivers of credit risk

- Changes in Lending Policies and Procedure
- Changes in Bankruptcy and lending related Legislations
- Credit Growth
- Position of the Portfolio within the Business Cycle

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. Also, the Company uses regulatory LGDs where adequate historical data for recovery rates of claims against defaulted counterparties are not available.



For the year ended 31 March 2019

37 RISK MANAGEMENT (Contd.)

37.1 CREDIT RISK (Contd.)

37.1.4 Amounts arising from ECL (Cont.)

Inputs, assumptions and techniques used for estimating impairment (cont.)

Measurement of ECL (Cont.)

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type; and
- collateral type.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Loss allowance

The following table show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2018 represent the allowance account for credit losses and reflect the measurement basis under LKAS 39.

Loans and advances at amortised cost

As at 31 March,	2019				2018
	Stage 1 Rs.	Stage 2 Rs.	Stage 3 Rs.	Total Rs.	Total Rs.
Balance at 1 April	26,746,560	194,405,070	1,066,996,917	1,288,148,547	439,762,475
Transfer to Stage 1	12,143,069	(10,146,048)	(1,997,021)	-	-
Transfer to Stage 2	(5,587,490)	5,706,369	(118,879)	-	-
Transfer to Stage 3	(1,844,228)	(103,748,002)	105,592,230	-	-
Net remeasurement of loss allowance	(14,922,195)	38,863,306	162,856,556	186,797,667	403,072,896
New financial assets originated or purchased	42,536,912	25,837,408	15,250,600	83,624,920	-
Financial assets that have been derecognised	(6,484,417)	(33,541,399)	(24,684,045)	(64,709,861)	-
Write-offs	-	-	(493,346,732)	(493,346,732)	(899,039)
Balance at 31 March	<u>52,588,211</u>	<u>117,376,704</u>	<u>830,549,626</u>	<u>1,000,514,541</u>	<u>841,936,332</u>



For the year ended 31 March 2019

37 RISK MANAGEMENT (Contd.)

37.1 CREDIT RISK (Contd.)

37.1.5 Impaired financial assets – Comparative information under LKAS 39

Credit quality by class of financial assets

As at 31 March 2018

	Neither past due nor individually impaired Rs.	Past due but not individually impaired Rs.	Individually impaired Rs.	Total Rs.
Assets				
Cash and cash equivalents	226,998,250	-	-	226,998,250
Investment in Government securities	194,038,669	-	-	194,038,669
Securities purchased under resale agreement	81,754,195	-	-	81,754,195
Lease rentals receivable and stock out on hire	2,075,994,834	2,970,724,110	-	5,046,718,944
Other assets	2,090,100	-	1,783,178	3,873,278
Total financial assets	2,580,876,048	2,970,724,110	1,783,178	5,553,383,336

Analysis of credit risk concentration

Industry analysis

The following table shows the credit risk concentration by industry for the components of the Statement of Financial Position.

	Cash and bank balances	Financial investments - FVOCI/ AFS	Loans and Advances **	Securities purchased resale agreements	Other Assets	Total financial assets
31 March 2018	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	275,887,544	-	-	275,887,544
Manufacturing	-	-	59,293,506	-	-	59,293,506
Construction	-	-	169,463,383	-	-	169,463,383
Financial services	226,998,250	-	114,942,782	-	-	341,941,032
Trading	-	-	1,702,363,696	-	-	1,702,363,696
Transport	-	-	125,244,647	-	-	125,244,647
Government	-	194,038,669	-	81,754,195	-	275,792,864
Other	-	-	2,599,523,386	-	3,873,278	2,603,396,664
Total	226,998,250	194,038,669	5,046,718,944	81,754,195	3,873,278	5,553,383,336

Provincial breakdown for loans and advances within Sri Lanka is as follows.

Province	As at 31 March 2018 Rs.
Central	2,279,885,106
Eastern	-
North Central	288,954,242
North Western	380,378,967
Northern	-
Sabaragamuwa	448,586,456
Southern	281,647,006
Uva	109,178,741
Western	1,258,088,426
Total	5,046,718,944



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37 RISK MANAGEMENT (Contd.)

37.2 LIQUIDITY RISK

Liquidity risk refers to the possibility of Company not having sufficient cash to meet its payment obligations. This arises primarily due to mismatches in the maturity profile of Company's assets and liabilities. Adequate liquidity is critical to meet the Company's financial commitment and to accommodate additional funding needs of the growing business volumes.

Management of liquidity risk

The Company's Board of Directors sets the Company's strategy for managing liquidity risk and oversight of the implementation is administered by Asset and Liability Committee (ALCO). ALCO approves the Company's liquidity policies and procedures. Finance department manages the Company's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Company.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key elements of the Company's liquidity strategy are as follows:

- Maintaining a diversified funding and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring maturity mismatches, behavioural characteristics of the Company's financial assets and financial liabilities, and the extent to which the Company's assets are encumbered and so not available as potential collateral for obtaining funding.

Furthermore the company maintains the statutory liquid assets ratio at its required level as a method to measure and control daily liquidity risk.

37.2.1 Maturity analysis for financial liabilities and financial assets

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities.

<i>As at 31 March 2019</i>	On demand	Less than 03 months	3-12 Years	01-05 Years	Over 05 years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and cash equivalents	60,922,009	-	-	-	-	60,922,009
Financial investments - FVOCI	-	-	242,510,815	-	1,869,800	244,380,615
Securities purchased under resale agreement	-	-	87,703,424	-	-	87,703,424
Loans and advances	-	838,033,501	1,941,127,131	2,669,693,447	177,609,832	5,626,463,911
Other assets	-	-	-	2,030,100	-	2,030,100
Total financial assets	60,922,009	838,033,501	2,271,341,370	2,671,723,547	179,479,632	6,021,500,059
Financial Liabilities						
Due to banks	134,340,178	173,054,030	2,543,364,122	1,575,269,011	-	4,426,027,341
Other liabilities	-	26,695,995	2,695,996	-	-	29,391,991
Total financial liabilities	134,340,178	199,750,025	2,546,060,118	1,575,269,011	-	4,455,419,332
Total net financial assets/(liabilities)	(73,418,169)	638,283,476	(274,718,748)	1,096,454,536	179,479,632	1,566,080,727
<i>As at 31 March 2018</i>	On demand	Less than 03 months	03-12 Months	01-05 Years	Over 05 years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets						
Cash and cash equivalents	226,998,250	-	-	-	-	226,998,250
Financial investments - available for sale	-	-	194,038,669	-	123,700	194,162,369
Securities purchased under resale agreement	-	-	81,754,195	-	-	81,754,195
Loans and advances	-	374,188,456	1,083,661,416	2,191,600,299	555,332,441	4,204,782,612
Other assets	-	-	-	2,090,100	-	2,090,100
Total financial assets	226,998,250	374,188,456	1,359,454,280	2,193,690,399	555,456,141	4,709,787,526
Financial Liabilities						
Due to banks	30,706,355	260,871,278	835,320,425	2,541,127,779	-	3,668,025,837
Other liabilities	-	21,165,243	21,165,243	-	-	42,330,486
Total financial liabilities	30,706,355	282,036,521	856,485,668	2,541,127,779	-	3,710,356,323
Total net financial assets/(liabilities)	196,291,895	92,151,935	502,968,612	(347,437,380)	555,456,141	999,431,203

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37 RISK MANAGEMENT (Contd.)
37.2 LIQUIDITY RISK (Cont.)

37.2.1 Maturity analysis for financial liabilities and financial assets (cont.)

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled less than 12 months after the reporting date.

	2019 Rs.	2018 Rs.
Financial assets		
Cash and cash equivalents	60,922,009	226,998,250
Financial investments - FVOCI	242,510,815	194,038,669
Securities purchased under resale agreement	87,703,424	81,754,195
Loans and advances	2,779,160,632	1,457,849,872
	3,170,296,880	1,960,640,986
Financial liabilities		
Due to banks	2,850,758,330	1,126,898,058
Other liabilities	29,391,991	42,330,486
	2,880,150,321	1,169,228,544

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

	2019 Rs.	2018 Rs.
Financial assets		
Financial investments - FVOCI	1,869,800	123,700
Loans and advances	2,847,303,279	2,746,932,740
Other assets	2,030,100	2,090,100
	2,851,203,179	2,749,146,540
Financial liabilities		
Due to banks	1,575,269,011	2,541,127,779
	1,575,269,011	2,541,127,779



37.2.2 Liquidity reserves

The following table sets out the components of the Company's liquidity reserves.

	2019		2018	
	Carrying value Rs.	Fair value Rs.	Carrying value Rs.	Fair value Rs.
Cash and cash equivalents	60,922,009	60,922,009	226,998,250	226,998,250
Unencumbered debt securities issued by sovereigns				
Securities purchased under resale agreement	87,703,424	87,703,424	81,754,195	81,754,195
Investment in government securities	242,510,815	242,510,815	194,038,669	194,038,669
Total liquidity reserves	391,136,248	391,136,248	502,791,114	502,791,114

37.2.3 Financial assets available to support future funding

The following table sets out the availability of the Company's financial assets to support future funding.

	Encumbered		Unencumbered		Total Rs.
	Pledged as collateral Rs.	Other * Rs.	Available as collateral Rs.	Other ** Rs.	
31 March 2019					
Cash and cash equivalents	-	-	60,922,009	-	60,922,009
Financial investments - FVOCI	-	-	242,510,815	1,869,800	244,380,615
Securities purchased under resale agreement	-	-	-	87,703,424	87,703,424
Loans and advances	2,631,962,741	-	3,995,015,711	-	5,626,463,911
Other assets	-	-	-	2,030,100	2,030,100
	2,631,962,741	-	4,298,448,535	91,603,324	6,021,500,059

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37 RISK MANAGEMENT (Contd.)

37.2 LIQUIDITY RISK (Cont.)

37.2.3 Financial assets available to support future funding (cont.)

	Encumbered		Unencumbered		Total Rs.
	Pledged as collateral Rs.	Other * Rs.	Available as collateral Rs.	Other ** Rs.	
31 March 2018					
Cash and cash equivalents	-	-	226,998,250	-	226,998,250
Financial investments - AFS	-	-	194,038,669	123,700	194,162,369
Securities purchased under resale agreer	-	-	-	81,754,195	81,754,195
Loans and advances	1,111,600,000	-	3,093,182,612	-	4,204,782,612
Other assets	-	-	-	2,090,100	2,090,100
	<u>1,111,600,000</u>	<u>-</u>	<u>3,514,219,531</u>	<u>83,967,995</u>	<u>4,709,787,526</u>

* Represents assets that are not pledged but that the Company believes it is restricted from using to secure funding, for legal or other reasons.

** Represents assets that are not restricted for use as collateral, but that the Company would not consider readily available to secure funding in the normal course of business.

37.3 MARKET RISK

Market risk refers to the possible losses to the Company that could arise from changes in market variables like interest rates, and equity prices. Among them, interest rate risk has been identified as the most critical risk given Company's business profile.

Management of market risks

Overall authority for market risk is vested in Board Integrated Risk Management Committee (BIRMC). BIRMC sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for trading portfolios. The Asset and Liability Committee (ALCO) is responsible for the development of detailed risk management policies (subject to review and approval by BIRMC) and for the day-to-day review of their implementation.

Exposure to currency risk

As at the reporting date, there were no significant foreign currency exposure in the non-trading portfolio.

37.3.1 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

Due to the nature of operations of the Company, the impact of interest rate risk is mainly on the earnings of the Company rather than the market value of portfolios. 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.

37.3.1.1 INTEREST RATE EXPOSURE – SENSITIVITY ANALYSIS

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Company's financial assets and financial liabilities to various interest rate scenarios.

The following table demonstrates the sensitivity of the Company's Income Statement as at Reporting date to a reasonable possible change in interest rates, with all other variables held constant.

	2019		2018	
	Increase in 100 bp Rs.	Decrease in 100 bp Rs.	Increase in 100 bp Rs.	Decrease in 100 bp Rs.
Net Interest Income				
As at March 31,	7,743,842	(7,745,391)	3,019,820	(3,020,424)
Average for the period	7,384,576	(7,386,053)	3,424,839	(3,425,524)
Maximum for the period	7,743,842	(7,745,391)	4,374,681	(4,375,556)
Minimum for the period	7,157,845	(7,159,277)	3,019,820	(3,020,424)



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37 RISK MANAGEMENT (Contd.)

37.3 MARKET RISK (Contd.)

37.3.1.2 INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS AND LIABILITIES

The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The company's assets and liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

	Up to 03 months		03-12 Months		01-03 Years		03-05 Years		Over 05 years		Non interest bearing		Total as at 31/03/2019	
	Rs	Percentage	Rs	Percentage	Rs	Percentage	Rs	Percentage	Rs	Percentage	Rs	Percentage	Rs	Percentage
As at 31 March 2019														
Financial Assets														
Cash and cash equivalents	60,922,009		242,510,815		-		-		-		-		60,922,009	
Financial investments - FVOCI	-		87,703,424		-		-		-		1,869,800		244,380,615	
Securities purchased under resale agreement	-		1,941,127,131		1,927,070,024		742,623,423		-		-		87,703,424	
Loans and advances	838,033,501		2,271,341,370		1,927,070,024		742,623,423		177,609,832		-		5,626,463,911	
Total financial assets	898,955,510	15%	2,271,341,370	38%	1,927,070,024	32%	742,623,423	12%	177,609,832	3%	1,869,800	0%	6,019,469,959	100%
Financial liabilities														
Due to banks	307,394,208		2,543,364,122		1,286,255,820		289,013,191		-		-		4,426,027,341	
Total financial liabilities	307,394,208	7%	2,543,364,122	57%	1,286,255,820	29%	289,013,191	7%	-	0%	-	0%	4,426,027,341	100%
INTEREST SENSITIVITY GAP	591,561,302	37%	(272,022,752)	-17%	640,814,204	40%	453,610,232	28%	177,609,832	11%	1,869,800	0%	1,593,442,618	100%
As at 31 March 2018														
Financial Assets														
Cash and cash equivalents	226,998,250		194,038,669		-		-		-		-		226,998,250	
Financial investments - available-for-sale	-		81,754,195		-		-		-		123,700		194,162,369	
Securities purchased under resale agreement	-		1,083,061,416		1,644,576,848		547,023,451		555,332,441		-		81,754,195	
Loans and advances	374,188,456		1,359,454,280		1,644,576,848		547,023,451		555,332,441		-		4,204,782,612	
Total financial assets	601,186,706	13%	1,359,454,280	29%	1,644,576,848	35%	547,023,451	12%	555,332,441	12%	123,700	0%	4,707,697,426	100%
Financial liabilities														
Due to banks	291,577,633		835,320,425		1,447,289,264		1,093,838,515		-		-		3,668,025,837	
Total financial liabilities	291,577,633	8%	835,320,425	23%	1,447,289,264	39%	1,093,838,515	30%	-	0%	-	0%	3,668,025,837	100%
INTEREST SENSITIVITY GAP	309,609,073	30%	524,133,855	50%	197,287,584	19%	(546,815,064)	-53%	555,332,441	53%	123,700	0%	1,039,671,589	100%



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37 RISK MANAGEMENT (Contd.)

37.4 OPERATIONAL RISK

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks – e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and innovation. In all cases, Company policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has established Board Intergrated Risk Management Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- information technology and cyber risks; and
- risk mitigation, including insurance where this is cost-effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Company's Board Integrated Risk Management Committee, with summaries submitted to the Board Audit Committee and senior management of the Company.

37.5 CAPITAL MANAGEMENT

The primary objective of Company's capital management policy is 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.

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' returns is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a stronger capital position.

The Company and its individually regulated operations have complied with all externally imposed capital requirements.

Capital Adequacy

Capital adequacy measures the Company's aggregate capital in relation to the risk, which may arise from its assets and off balance sheet transactions, its dealing operations and its human activities, technology and natural incidents. The Central Bank of Sri Lanka has prescribed the minimum risk sensitive capital with effective from 1 July 2018. This guidelines requires the Company to maintain minimum capital ratio of 6% and minimum risk weighted core capital of 12%.

Capital and risk weighted assets

Capital to risk weighted asset ratio

	Minimum Requirement		Ratio	
	2019	2018	2019	2018
Tier I			23.34%	24.59%
Deduction - Tier I			0.00%	0.00%
Tier I Capital	6%	5%	23.34%	24.59%
Tier II			23.34%	24.59%
Deduction - Tier II			0.00%	0.00%
Total Capital	10%	10%	23.34%	24.59%



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38 SEGMENTAL INFORMATION

38.1 Basis of segmentation

The Company has the following four strategic divisions, which are its reportable segments. These divisions offer different services, and are managed separately because they require different credit risk management strategies.

The following summary describes the operations of each reportable segment

Reportable segments	Operations			
Leasing and Hire Purchase	Finance leases and Hire Purchase related transactions and balances with customers.			
Mortgage Loans	Mortgage Loans related transactions and balances with customers.			
Personal, Business and Other Unsecured Loans	Personal Loans, Business Loans and Other Unsecured Loans related transactions and balances with customers.			
Investments and Others	Financial Investments kept for liquidity requirements and other short term investments related transactions and balances.			

The Company's Board of Directors reviews the internal management reports of each division at least monthly.

38.2 Information about reportable segments

	Leasing and Hire Purchase		Mortgage Loans		Personal, Business and Other Unsecured Loans		Investments and Others		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
External Revenue										
Interest	437,935,631	421,945,731	154,906,165	184,823,500	189,442,668	270,920,660	34,504,600	33,516,973	816,789,064	911,206,864
Fees & Commissions	41,007,070	48,703,497	8,900,533	11,314,356	12,026,466	24,518,057	141,610	-	62,075,679	84,535,910
Dividends	-	-	-	-	-	-	240,000	180,000	240,000	180,000
Other income	-	-	-	-	-	-	5,141,764	3,001,877	5,141,764	3,001,877
Total external revenue	478,942,701	470,649,228	163,806,698	196,137,856	201,469,134	295,438,717	40,027,974	36,698,850	884,246,507	998,924,651
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-
Total revenue	478,942,701	470,649,228	163,806,698	196,137,856	201,469,134	295,438,717	40,027,974	36,698,850	884,246,507	998,924,651
Profit/ (Loss) before tax									20,080,084	(155,756,696)
Income tax (expenses)/ reversal									(378,244)	33,851,467
Profit after tax									19,701,840	(121,905,229)
Segment assets	2,495,789,755	2,642,857,793	1,628,014,937	958,492,500	1,871,315,649	819,389,854	410,485,609	511,151,335	6,405,605,950	4,931,891,482
Segment liabilities	1,757,695,247	2,019,235,041	1,146,552,554	732,321,522	1,317,900,522	626,042,275	289,090,298	390,537,353	4,511,238,621	3,768,136,191



For the year ended 31 March 2019

39. OPERATING LEASES

39.1 Leases as lessee

The Company leases a number of branches under operating leases. The leases typically run for a period of 1-10 years, with an option to renew the leases after that date. Lease payments are renegotiated every five years to reflect market rentals.

Future minimum lease payments

The future minimum lease payments under non-cancellable leases were payable as follows:

	2019	2018
	Rs.	Rs.
Less than one year	6,904,617	6,248,443
Between one to five years	9,684,885	11,825,804
More than five years	1,879,460	-
	<u>18,468,962</u>	<u>18,074,247</u>
 <i>Amount recognised in profit or loss</i>		
Lease expenses	<u>9,500,163</u>	<u>13,118,301</u>

40. CONTINGENCIES

There were no contingent liabilities as at the reporting date, which require adjustments to or disclosures in the Financial Statements.

40.1 LITIGATIONS AND CLAIMS

There have been no material litigations and claims as at the reporting date, which require adjustments or disclosures in the Financial Statements.

41. COMMITMENTS

There were no commitments as at the reporting date, which require adjustments to or disclosures in the Financial Statements.

42. EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the reporting date, which require adjustments to or disclosure in the Financial Statements.

43. RESPONSIBILITY FOR FINANCIAL STATEMENT

The Board of Directors is responsible for the preparation and presentation of the Financial Statements in accordance with Sri Lanka Accounting Standards.

