



Refining our
focus





Refining our focus

With our strong commitment to delivering value to all stakeholders, we remain steadfast and focused on our business strategy. We continue our journey ahead with a refined focus amidst the challenging dynamics of the business environment.

We strive to expand the realms of our service parameters to enhance our relationship with our customers to a partnership. Rising with confidence we remain committed to adding value with our experience and trust that we have earned over the years. Backed by the strong support of our parent Company we forge ahead with a strong commitment to delivering value across all spheres.



Goal

“To become a premier finance company in Sri Lanka.”

Vision

“Empowering people transforming lives.”

Mission

Towards the Customers

The solutions we provide for our customers financial needs would be unconventional, innovative and relevant for their needs to improve their quality of life whilst maintaining superior levels of customer service which would go well beyond their expectations.

Towards the Shareholders

Build shareholder value and provide substantial shareholder returns through relentlessly improving our performance and operations with sustainable effective strategies.

Towards our Family of Employees

A Company that fosters and harnesses equality amongst employees along with personnel development and to create the perfect work-life balance in the organization.

Towards Society

To be an ethical financial service provider, promoting the betterment of the societies we work and live in while maintaining transparent financial records and practices. We aim to provide financial solutions to all segments in our society and eliminate financial exclusion in our society.

Towards the Values of our Company

- Honesty and Integrity
- Flexibility
- Innovation
- Passion for Excellence
- People Oriented
- Genuine Concern for the Client

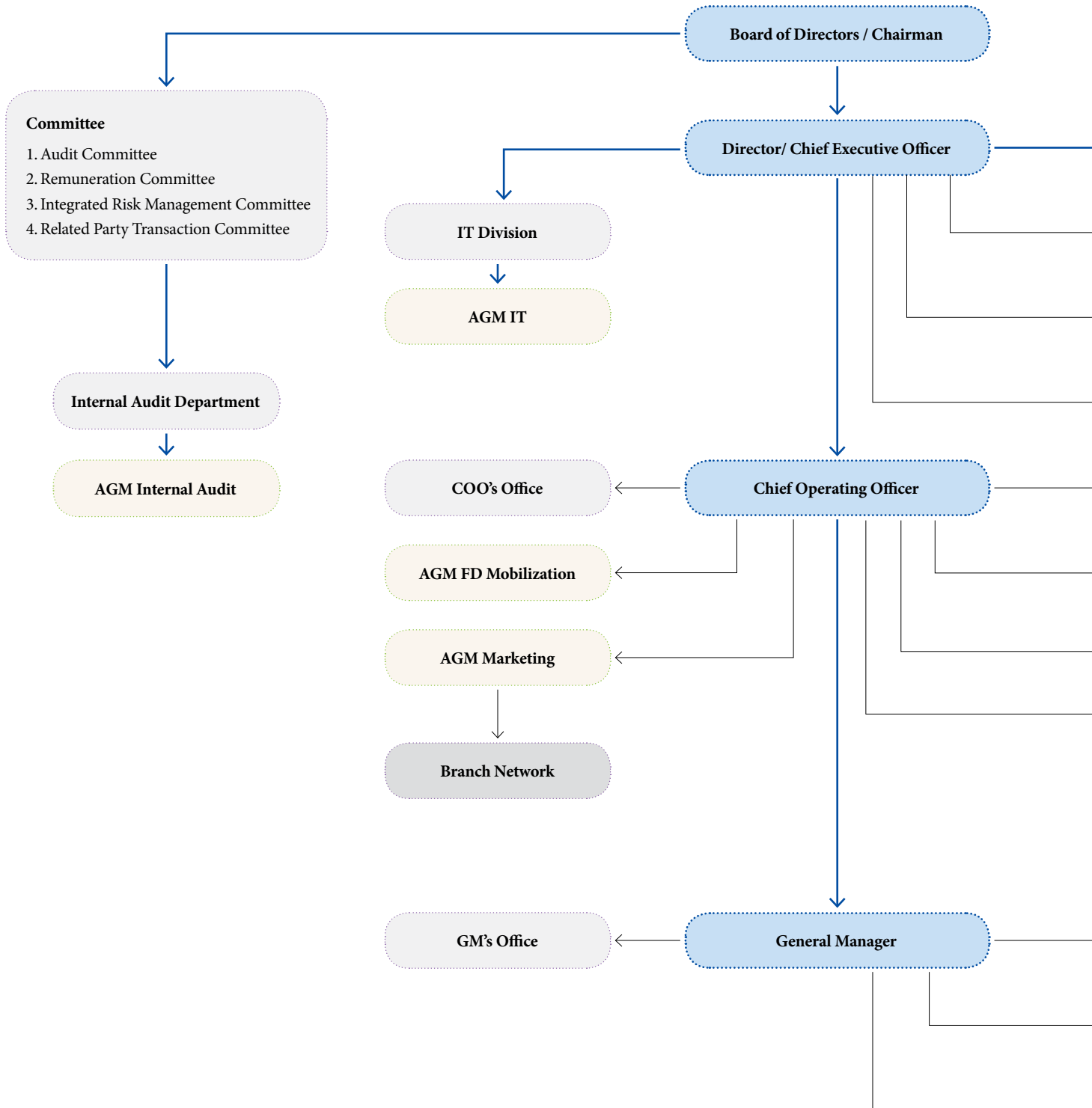
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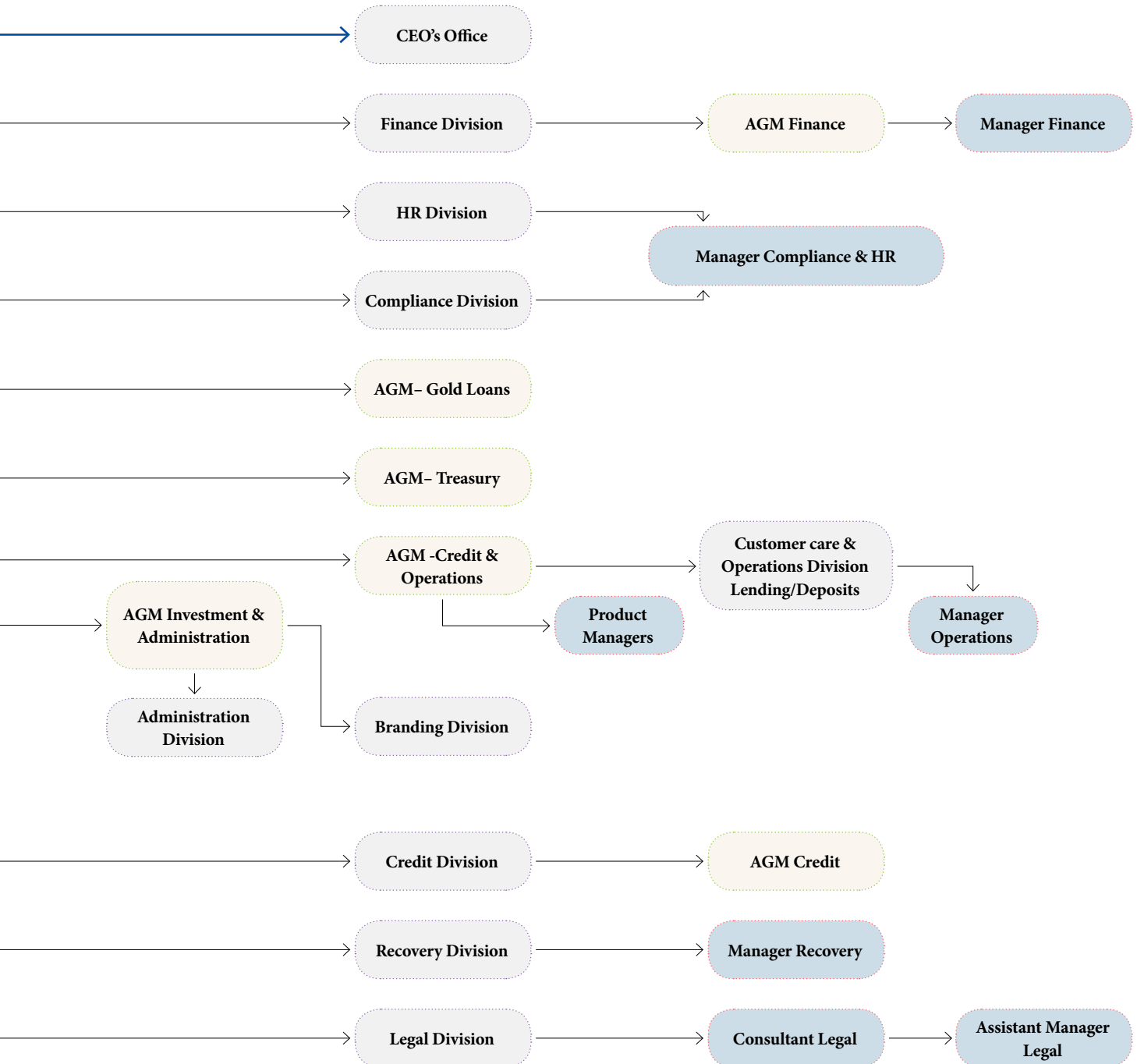
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Organizational Chart

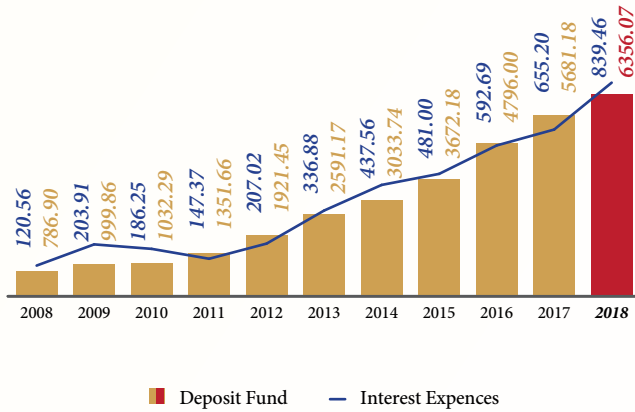




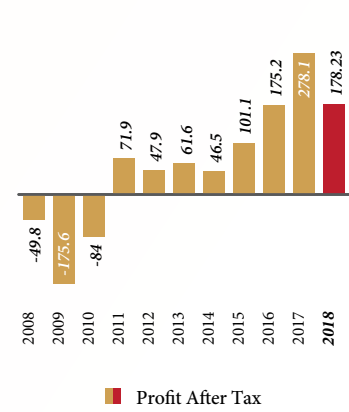
Financial Highlights

	2017/2018	2016/2017	% Change
Finance Performance (Rs Mn)			
Gross Revenue	2,443	2,021	20.91
Net Interest Income	1,210	1,101	9.90
Profit Before Tax	222	315	(29.52)
Taxation	44	58	(24.05)
Profit After Tax	178	278	(35.99)
Position as at the year end (Rs Mn)			
Cash and Cash Equivalents	660	602	9.67
Loans and Receivables	9,529	8,263	15.33
Total assets	11,727	10,027	16.96
Fixed Deposit	6,356	5,681	11.88
Financial ratios (%)			
Profitability Perspective			
Operating Profit	11.70	18.50	
Net Interest Margin	15.12	13.76	
Return on Assets (ROA)	2.77	2.75	
Equity Holders			
Earnings per share (Rs)	0.21	0.33	
Net Asset Value per share (Rs)	2.22	2.07	
Price to book value (Times)	6.19	3.94	
Return on equity (%)	9.59	16.01	
Earning yield%	16.15	25.38	
Debt Holders			
Debt to Equity ratio (Times)	5.03	4.70	
Interest Cover (Times)	1.18	1.34	
Statutory Ratio			
Tier 1 (Minimum requirement 5%)	19.81	18.99	
Statutory liquidity ratio (Times)	17.89	16.65	
Non Performing Ratio	7.76	6.45	

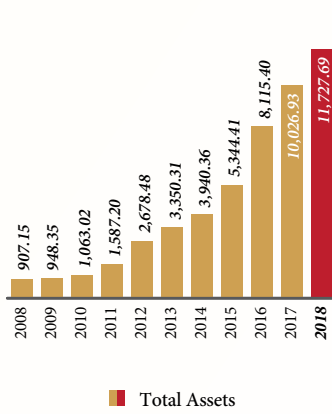
Fixed Deposit Vs Interest Expenses



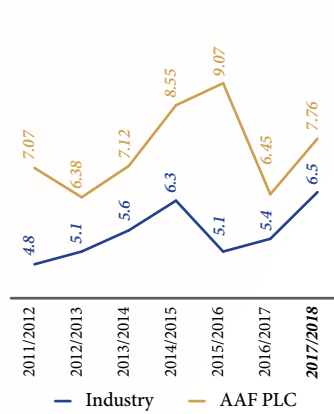
Profit After Tax (Rs Mn)



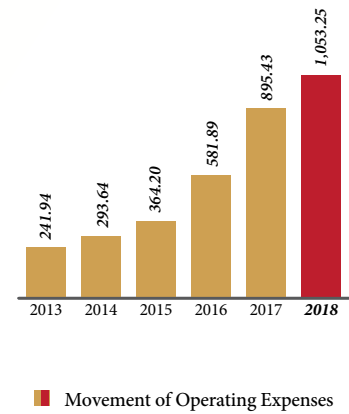
Total Assets (Rs Mn)



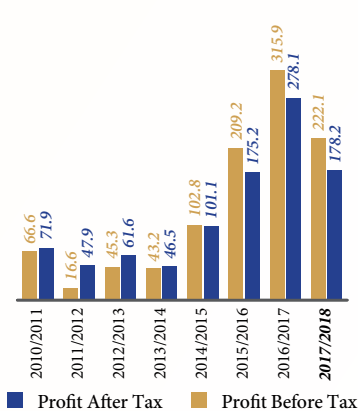
NPA Movement



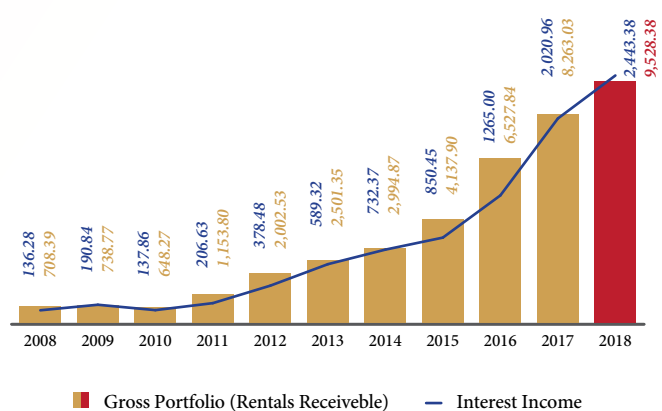
Movement of Operating Expenses (Rs Mn)



Profitability (Rs Mn)



Portfolio Vs Interest Income





Group Managing Director's Message

The country poised for sustained economic growth cannot afford failure of small players in the financial sector who are more exposed to internal and external shocks. In the process, such players in the fragmented financial sector may cease to exist, which will open up opportunities for stronger players like Asia Asset Finance.

The consolidation in the financial sector being undertaken by the Central Bank of Sri Lanka with the objective of setting up a stable financial system capable of supporting accelerated economic and financial growth of the country will confer higher responsibilities on Asia Asset Finance (AAF). The country poised for sustained economic growth cannot afford failure of small players in the financial sector who are more exposed to internal and external shocks. In the process such players in the fragmented financial sector may cease to exist, which will open up opportunities for stronger players like Asia Asset Finance

Muthoot Finance Ltd, the flagship Company of the Muthoot Group, parenting and nurturing AAF since its association in 2014, is committed to stand by the Company for facing all the challenges it may encounter during the phase of consolidation; whether it be long term funding or technology upgradation. Our aim would be to provide full support to AAF to position itself as a Company which delivers cost effective services with focus on improved productivity.

The comparatively subdued asset growth of the Company during the Financial year at 17%, which is 2% less than last year's growth, is attributable to the fact that more attention was paid to consolidation and improving the quality of advances. Interest income registered a healthy growth of 21% during the year and other operating income increased by 20%. Concerted efforts made by the Company in earning non-fund based income by selling other products like Insurance products, has started paying dividends.

The synergy with Muthoot Group, the pioneers in gold loan in India has helped the Company reach a business level of 1.7 billion in gold loan. Branch expansion will be the focus area for improving the gold loan portfolio during the coming years. While 4 Branches were opened during the year, the Company has obtained Central Bank's approval for opening another 10 more Branches in the coming year.

We are sure that AAF, with its commitment to high standards of customer services, will soon become the first choice of the people in the Non Bank Financial industry and be the leader among the NBFCs. (Non Bank Finance Companies)

Wishing the team all the very best.



George Alexander Muthoot
Managing Director
Muthoot Finance Ltd

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Chairman's Message

Despite the limitations the Asset Base of the Company grew by 17 % compared to the sector increase of 11 %.

It is with pleasure that I invite you to the 07th Annual General Meeting of Asia Asset Finance PLC and present to you the Annual Report of the Company containing the financial statements for the year 2017/18. Our Company was originally Finance and Land Sales, with a history dating back to 1970.


I was appointed as the Chairman of the Board on the retirement of Mr Manohan Nanayakkara on the 17th March 2018, having completed the nine year tenure permitted by the regulations of the Central Bank. Mr Nanayakkara took over as Chairman in January 2012 when the Company's Gross Assets amounted to Rs 2.7 billion and its Net Worth was Rs 629 million. Today he leaves a Company whose Gross assets have increased to Rs 11.7 billion and has a Net worth of Rs 1859 million.

Another significant milestone of the Company was when Muthoot Finance Company, the leading Non Banking Institute in India purchased the majority Shareholding of Asia Asset Finance in late 2014.


During the current Financial Year, the net profit of the Company decreased by 36 % compared to the previous year. This is still the second best performance in the Company's history. This decrease was mainly due to the Company increasing its loan loss provisions for the year to Rs.333m from Rs.227 m previously, an increase of 46 % compared to the sector increase of 132 %. This increase in the provisioning was to enhance the quality of the Asset Base and also due to increasing Non Performing loans due to the economic

conditions. The lacklustre economic environment faced by the Company together with natural disasters such as floods and drought impacted the Company's activities adversely both from the demand side and the supply side. Matters were made worse when Government officials visit affected areas and inform the public that a Relief scheme for loan repayment will be formulated for them. Loan repayments immediately dry up pending the implementation of the scheme. Despite this we were able to maintain our BBB+ rating given by Rating Agency ICRA originally in December 2016 due to other positive factors such as the strength of Muthoot Finance behind us.

Portfolio growth was 15 % during the year compared to the sector growth of 10 %. The sector growth declined from 30% in 2015/16 and 18% in 2016/17 due to fiscal and macro prudential policy measures taken to curtail importation of motor vehicles and lending for vehicles, adverse weather conditions and other factors that impacted economic activities. Net interest income declined from 54.5 % to 49.5 % due to the higher interest rate scenario which prevailed during the year and changes to the product mix. This compares favourably with the sector net interest income of 43.5 %. The Gold loan portfolio increased by 48 % and Leases by 60 % as we gradually move more into secured lending with lesser margins. Portfolio quality was pressured during the year, partly due to the moderating economic conditions. As a result the gross Non Performing Loans ratio increased to 7.76% from 6.45% the year before. NPAs net of provisioning increased



... We were able to maintain our BBB+ rating given by Rating Agency ICRA originally in December 2016 due to other positive factors such as the strength of Muthoot Finance behind us.



Chairman's Message

However due to the prevailing circumstances our focus for the next year is to strengthen our core competencies, consolidate our position in the market and gradually reduce our exposure in certain segments which are more subject to risk. For the purpose of continued growth, equity finance is available from our majority shareholder, who is the largest Non Banking Financial Institution in India.

from 0.77 % to 1.26 %. The Company's deposit base grew by 12% during the year, attesting to the strength of our deposit proposition and the trust we have nurtured with customers.

On the demand side, Government regulations regarding lending for transportation inhibited the growth of our loan book. With the greatest of perseverance we were able to open 4 branches after applying and waiting for more than an year due to the reluctance of the Monetary Board to authorise the opening of new branches for Finance Companies. As we have only 19 branches, we have applied for new branches to spread our geographical risk. Despite these limitations the Asset Base of the Company grew by 17 % compared to the sector increase of 11 %.

The Company hopes to further improve its credit rating in the coming year; its goal is to improve its credit rating by a further two notches.

The Company's performance should be set out in the context of the prevalent operating environment; The country's economic growth slowed to 3.1% in 2017, reflecting a relatively tight fiscal and monetary policy stance and a weak agriculture sector which continued to feel the implications of climate change. The CBSL raised the standing deposit facility rate to 7.25% in September 2017 compared to 7% in 2016 and the standing lending rate increased to 8.75% in September 2017 compared to 8.5% in 2016. This resulted in a gradual increase in market interest rates for most part of the year. Inflation also increased gradually during the year reflecting

VAT revisions in 2016, rising international commodity prices and supply constraints of agricultural produce.

Finally, the branch network of the Company is still relatively small with only 19 branches of which 4 were opened in the current financial year. The company has a significant geographical scope for growth and market development. Our parent Company has 4500 branches in India. The potential for greater market penetration is present and market development provides great growth potential in the future. However, due to the prevailing circumstances our focus for the next year is to strengthen our core competencies, consolidate our position in the market and gradually reduce our exposure in certain segments which are more subject to risk. For the purpose of continued growth, equity finance is available from our majority shareholder, who is the largest Non Banking Financial Institution in India. The Company is likely to shed some of its old products and enter into new innovative areas of activity and continuously balance and reinvigorate the product line. We see the future of AAF to being the largest Gold loan company in Sri Lanka.

The Net Assets Value as at the end of the Financial Year was Rs. 1,858,932,271/- which amounts to Rs.2.22 per share. The Company was trading at only Rs.1.10 per share as at the time of writing, which is disappointing. This is one of the most traded shares with buying and selling for very small returns.

It is the intention of the management to further tighten the provisioning policy during the coming years. During the course of the year the Treasury Department took further steps to diversify the funding sources of AAF. Over the last two years AAF has moved away from exclusively being financed, by depositors funds to a combination of bank funding and securitization. It has obtained funding lines with a number of local private banks operating in the country.

In conclusion, I wish to take this opportunity to place on record my appreciation for the commitment and hard work done by the Asia Asset team , under the able leadership of the CEO Rajiv Gunawardena and thank my fellow members of the Board for supporting me during the current year. I wish to also thank the members of the Board from the Parent Company, Muthoot Group, and in particular Mr. George Alexander, Managing Director of Muthoot Group, who counseled us with his cautious, well thought through wise and perceptive comments. I also thank our Shareholders and other stakeholders for the continued trust and confidence placed in me.



Chandrakumar Ramachandra
Chairman



Chief Executive Officer's Message

The Company remained positive during the year with its performance, despite many challenges posed due to economic volatility, geographical risk and inadvertent political policies which affected the Micro Finance sector.

The year 2017/18 was one of the most challenging financial years for the Company, with the economic downturn and the overall business confidence dropping due to various factors as a result of which we were faced with many challenges. Despite the volatile economic conditions, the Company managed to improve its overall asset base by 17%. The Company continued to increase Shareholder value by 7% bringing the overall value per share to Rs 2.22. As a result, Shareholder funds have increased to Rs. 1,859 Million further giving confidence to our valued shareholders.

Due to the weak economic conditions the Management took prudent steps to safeguard the interests of all our stakeholders, by steering the Company to clear waters, where the Company focused more on secured lending, rather than focusing on the high yielding products which were generating higher returns in the previous year. Whilst we believe our strategy to be short term, the decision has safeguarded the interests of our shareholders during this challenging period and on the downside, has affected the Company's overall profitability with a drop of 34%, resulting in an overall profitability of Rs 180 Million. We believe these effects to be short term.

The Company Performance

The Company remained positive during the year with its performance, despite many challenges posed due to economic volatility, geographical risk and inadvertent political policies which affected the Micro Finance sector.

The following table depicts the shift of our product portfolio during the year. Gold Loans which boasts a 0% NPA led from the front and showed an increase of Rs 569 million. The Leasing portfolio also contributed significantly during the year with a total increase of Rs 1208 million and improving the NPA of portfolio to 2.4%

The following table depicts the shift of our product portfolio during the year. Gold Loans which boasts a 0% NPA led from the front and showed an increase of Rs 569 million. The Leasing portfolio also contributed significantly during the year with a total increase of Rs 1208 million and improving the NPA of portfolio to 2.4%

Product	31.03.2018	31.03.2017	Growth
Lease rentals receivables	2,920,094,868	1,712,966,551	70%
Personal and corporate loans	2,430,573,313	2,302,368,522	6%
Gold loans	1,757,356,525	1,188,284,906	48%
Micro finance loans	1,640,927,931	1,646,640,262	0%
Group personal loans	924,703,569	994,822,902	-7%
Mortgage loans	414,210,707	441,082,523	-6%
Pledge loans	388,141,349	357,993,323	8%
Project financing loans	116,140,599	118,751,261	-2%
Hire purchase receivables	94,356,345	246,473,625	-62%
Cheque and invoice discounting	49,648,832	66,072,959	-25%
Sale and lease back loans	1,000,001	1,000,001	0%

During the year the Company took steps to reduce the Micro Finance Portfolio, which was previously one of the biggest contributors to the Company's profitability. The Government policies coupled with the adverse weather conditions deteriorated the asset quality of the portfolio which resulted in the increase of the NPA and the deterioration of our profitability. Furthermore the SME Sector has also faced challenging circumstances due to the adverse weather conditions and the weakening economic conditions. As a result the Company took steps to reduce the exposure on the above portfolios, despite earning high returns in the past.

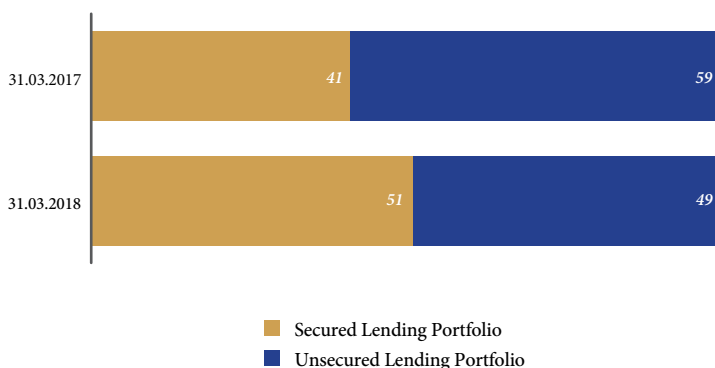
The above shift in the Company's product mix caused a stagnation in the growth of our income. Simultaneously the interest expenses grew substantially due to the policy rate increases. The combination led to a drop in our overall profitability, coupled with higher taxes and increased impairment. The Net Interest Margin dropped to 13.60% in 2017/18 compared to previous years 14.89%

The Management being aware of the challenges at hand continued to control the personnel expenses of the Company, by keeping it to an increase of 5.7%.

Chief Executive Officer's Message

The Company during the year opened 4 new branches and increased our geographical penetration where the Company could focus more on secured lending and specialise in Gold loans. However, the expansion of our branch network coupled with the relocation of our existing branches contributed to the increase in our administration expenses by 27%.

Despite the challenging circumstances the Company however managed to strengthen the AAF foundation by having a significant shift towards a secured portfolio, increasing our secured portfolio to 51% from 41%. This will pave the way for greater stability in the years to come.



Good Governance and Risks

The key focus during the year was consolidation of our operations in order to allow a stable and consistent business model for the future. In order to achieve these goals the Company's key objectives were to strengthen our governance policies and to implement strategies to anticipate possible

risks and prevent such instances from taking place. As a start, the Company continued to increase its training and awareness programs during the year to better educate its valuable staff. The Company extended its reach to its customers in creating awareness with regard to financial operations and importance of money management.

The Company ensured that honesty, integrity and transparency will be at the core of our foundation in setting standards for the future. With the support of our Regulators we will ensure the message we send to our stakeholders will be clear and precise.

The most relevant risks currently faced by the Finance companies is the political, geographical and credit risks. The inconsistent policy decisions coupled with volatile economic conditions have raised the risks of our business. As a result, the Management has taken steps to address the concerns and the business plan has been revised and

Despite the challenging circumstances the Company however managed to strengthen the AAF foundation by having a significant shift towards a secured portfolio, increasing our secured portfolio to 51% from 41%. This will pave the way for greater stability in the years to come.

shared with the Regulators to provide greater transparency.

We believe majority of our risks will be contained with the policies we have implemented during the year, as we anticipate an even more challenging year going forward.

The Present & Future

Asia Asset Finance PLC is privileged to have the Muthoot Group as our Parent Company. The Company's strength and stability, combined with its strong financial performance gives the Company confidence of longevity and stability. The knowledge and diversity in the Muthoot Groups helps AAF to introduce new and innovative products to our customers, which will be certain to complement their financial needs.

AAF Gold loan product will be our key product for the future, and in order to maintain the product mix we will mainly focus on the Secured lending products.

AAF is in the process of implementing a new core system to the Company, which will make AAF operations more efficient and effective. The Company believes that the future lies on sound technology and reliable information in order to make effective decisions to better our operations for the future.

Appreciation

To our parent Company Muthoot, we are extremely grateful for their patience shown during the period of the investment. The contribution by Muthoot is not limited by monetary value, but in terms of knowledge sharing and innovative ideas their contribution has been invaluable. We are fortunate to be part of the Muthoot Family.


Despite the challenging environment, my staff did not falter, they just focused more on their duties and committed everything to ensure the interest of our shareholders and depositors were secured. The staff of Asia Asset Finance PLC continues to be one of the main assets of the Company.

I also wish to thank all my Board Members and my Chairman for their understanding and support given during this challenging period. The Company is indeed fortunate to have such an experienced and knowledgeable Board of Directors.

I wish to mention a special appreciation to our outgoing Chairman Mr Manohan Nanayakkara for his invaluable service to the Company. He has been a pillar of strength to the Company and the staff. His strategies and ideas continue to live in the business of Asia Asset Finance PLC.

I also welcome our new Chairman Mr C. Ramachandra, who has been a member of the Board of Asia Asset Finance for the last 7 years. His contribution to the Company has always been invaluable and with his leadership of the Board we are confident that we will be able to face many challenges successfully in the years to come.

Finally I wish to thank our shareholders for their patience and understanding. We assure you the decisions we have made during the year have been successful and will only help to improve our operations further.



Rajiv Gunawardena

Director/Chief Executive Officer

Board of Directors





1. **C Ramachandra** - *Chairman*
2. **Rajiv Gunawardena** - *Director/Chief Executive Officer*
3. **Dayangani Priyanthi Pieris** - *Non-Executive Director*
4. **Thusitha Perera** - *Independent Non-Executive Director*
5. **George Alexander** - *Non-Executive Director*
6. **K R Bijimon** - *Non Executive Director*
7. **Kiran G** - *Non-executive Director*
8. **Rajitha Ananda Bandara Basnayake** - *Senior Independent Non-Executive Director*
9. **J P D R Jayasekara** - *Independent Non-Executive Director*

Board of Directors

Mr. C Ramachandra

Chairman

Mr. Ramachandra, a Fellow of the Institute of Chartered Accountants of Sri Lanka (ICASL), is presently the Competent Authority of Hotel Developers PLC, the owning company of the Colombo Hilton.

Having qualified as a Chartered Accountant in 1975, with distinction in winning two accountancy prizes, he counts forty three years experience in the fields of Accounting, Auditing, Consulting, having served as Partner of Hulugalle, Samarasinghe & Co, a long and well established firm of Chartered Accountants, in public practice, as well as in Financial Services, and the Tea and Packaging Industry.

He has served in senior managerial positions in Lipton Ceylon Ltd, during which time he was seconded to the UK Head Office of Lipton, and has attended Unilever PLC Management courses in the United Kingdom, India and Malaysia. He has also served at Commercial Fund Management Ltd, Varna Ltd and Uni-Walker Packaging Ltd.

He has also served as a non executive Director of Capital Reach Finance Ltd (now Softlogic Finance) for 3 years and was on the Board of Sathosa Retail Ltd, the privatised arm of the CWE.

He also currently serves on the Boards of UB Finance Co Ltd, N.Vaitilingam & Co (Pvt) Ltd and Ceylon Galvanising Industries Ltd.

Rajiv Gunawardena

Director/Chief Executive Officer

Mr. Rajiv Gunawardena is the Chief Executive Officer / Director of Asia Asset Finance PLC. He was appointed to the Board in December 2009. He is responsible for setting and implementing the organisation's vision and strategy and for the management of the entire organisation's operations. He has a Bachelor of Science in Business and Information Systems from the United Kingdom and has completed his Masters of Professional Accounting at Monash University Australia. Prior to joining Asia Asset Finance he has worked in the capacity of Senior Investment Analyst at Asia Capital PLC. He was a lecturer in Accounting at the Australian College of Business and Technology.

Dayangani Priyanthi Pieris

Non-Executive Director

Mrs. Priyanthi Pieris is an Attorney-at-Law of the Supreme Court of Sri Lanka and has over 36 years of experience in Corporate and Financial Law. She is also a solicitor of England & Wales. She is presently engaged in active practice. She served on the Boards of Forbes & Walker Ltd., Forbes Ceylon Ltd., Forbes Stock Brokers Ltd., Forbes Air Services Ltd. (General Sales Agent for Emirates), Vanik Corporate Services Ltd., Office Network (Pvt) Ltd., Capital Reach (Holdings) Ltd. and Associated Motorways Ltd. Mrs. Pieris currently serves on the Boards of Associated Electrical Corporation Ltd., Abans Electricals PLC, Asia Asset Finance PLC, Lanka Orix Finance PLC, PW Corporate Secretarial (Pvt) Ltd., MTN Corporate Consultants (Pvt) Ltd., and Sithijaya Fund (Pvt) Ltd. She is also a member of the Committees set up by the SEC to recommend amendments to the Takeovers & Mergers Code 1995 (as amended) and the Rule for Corporate Governance.

Thusitha Perera

Independent Non-Executive Director

Thusitha Perera was appointed to the board of Asia Asset Finance PLC on 17th December 2013 as a Non-Executive Director.

Mr Perera presently serves as the Group Chief Financial Officer of Asia Capital PLC and also serves on the boards of Asia Leisure Holdings (Pvt) Ltd, Asia Leisure Travels (Pvt) Ltd, Galle Beach CC Trust (Pvt) Ltd, Asia Tea Packaging (Pvt) Ltd, River House Estate (Pvt) Ltd, Asia Capital Technologies (Pvt) Ltd and Dickwella Hotels & Resorts (Pvt) Ltd.

He started his career at Kreston M.N.S. & Co, Correspondent Firm of Grant Thornton International – Sri Lanka Division, a firm of Chartered Accountants and counts over 25 years of professional and commercial experience in the fields of auditing, finance and management consultancy both locally and internationally.

Mr. Perera is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and Associate Member of the Institute of Certified Management Accountants of Sri Lanka.

George Alexander

Non-Executive Director

George Alexander is currently serving as the Executive Director of Muthoot Finance, taking care of operations in the States of Karnataka, Goa & south of Telangana, he also has the additional responsibility of monitoring the global operations of The Muthoot Group in U.S.A. He is presently serving on the board of other group companies namely Muthoot Insurance Brokers, Belstar Finance & Investments, Asia Asset Finance & Muthoot Securities. Muthoot Finance is the Gold Loan (NBFC) Finance Company and is the flagship company of The Muthoot Group. It was listed in 2011 and is traded in BSE & NSE. It is the largest Gold Loan Company in the country. Apart from Muthoot Finance, The Muthoot Group has 16 other divisions, to name a few are Hospitality, Health Care, Equity Trading, Insurance broking etc. The group is four generations old and George Alexander represents the fourth generation. Prior to joining his family business George had worked for ING & Kotak Mahindra Bank in India.

He was the Chair of Confederation of Indian Industries – Young Indians Bangalore Chapter in 2015. He also served on the Board of Entrepreneur's Organisation Bangalore as Finance Chair from 2016 to 2018. George was one among the ten Indians chosen to represent India for AIYD (Australia India Youth Dialogue) at Sydney and Melbourne in 2013.

George Alexander earned his Bachelor's degree in Mechanical Engineering from University of Kerala TKM College of Engineering in 2004 and he subsequently received his Master's in Business Administration from University of North Carolina's – Kenan & Flagler Business School in 2011.

Board of Directors

K R Bijimon

Non-Executive Director

Mr. K R Bijimon started his career as Manager (Finance) with Muthoot Bankers in the year 1996. During 21 years of his service he led the transformation of Muthoot Bankers to the present day Muthoot Finance Ltd and over the years he rose to the position of Chief General Manager of the company. Under his leadership, the company grew manifold and today has become the largest lender of Gold Loans in the country and perhaps the largest in the world too.

As Chief General Manager, he is also responsible for driving growth across the diversified business portfolios of the Group such as Money Transfer division, International Remittance & Foreign Exchange, ATM division and is also responsible for expansion of business globally. Muthoot Group today has a global presence with successful businesses in countries like USA, UK, UAE, Singapore and Sri Lanka. The group is planning to start its operations in Italy shortly. Mr. Bijimon also assumes the role of Chief Operating Officer for Global Operations of the Muthoot Group. Presently, he also holds Directorship in companies like Muthoot Forex Ltd, Muthoot Securities Ltd, Muthoot Commodities Ltd, Muthoot Homefin (India) Ltd, Muthoot Royalex Services Pvt. Ltd, Belstar Investment and Finance Pvt. Ltd (subsidiary of Muthoot Finance) and Asia Asset Finance PLC (Sri Lanka). Mr. Bijimon holds a Bachelor's Degree in Law (LLB), a Bachelor's Degree in Science (BSc) and a Master's Degree in Business Administration (MBA). He is also a Fellow Member of the Institute of Chartered Accountants of India, a Certified Associate of the Indian Institute of Bankers (CAIIB) and a Fellow Member of Certified Management Accountants (FCMA), Institute of Sri Lanka.

Kiran G

Non- Executive Director

Kiran G presently functions as the Head of the Internal Audit & Inspection Department of Muthoot Finance Limited. He graduated from the Kerala University with a Bachelor of Science Degree in Mathematics. He is also a Chartered Accountant from the Institute of Chartered Accountants, India. He presently functions as the Head of the Internal Audit & Inspection Department, which employs a team of 1000 auditors.

He possesses over 13 years of specialist experience in auditing with expertise in operational, financial, and regulatory compliance. He has a proven track record and experience in strategic reporting on internal control to the Audit Committee, including providing expertise and advice on risk management techniques.

Further, he has experience in coordinating work with risk, legal, surveillance & vigilance departments.

He provides his expertise to act as a resource person for other departments in their design, implementation and monitoring of activities across the organization.

Rajitha Ananda Bandara Basnayake

Senior Independent Non-Executive Director

Rajitha possess 30+ years of extensive experience in ICT, out of which 19 years has been in Senior Management providing leadership to mission critical ICT projects enabling business strategies of a wide variety of industry sectors predominantly encompassing Financial services, Hospitality, FMCG/ consumer durables Retailing / Distribution and Food & Beverage manufacturing /Distribution and Information Technology solution delivery. He is currently an independent information technology professional working as an external consultant to the clients of leading professional service firms in Sri Lanka.

During his career he has spearheaded ICT operations of Asia Capital Group a highly diversified conglomerate into capital markets, non banking finance, insurance, digital entertainment, tea packaging, Leisure, Technology as Group Chief Information Officer for 3 years, The Lion Brewery Ceylon Ltd (4 years as Head of IT), as Manager Information Systems of Richard Pieris Distributors Ltd. for 5 years and as a key member of the strategic leadership teams of these companies. Further he brings more than 5 years experience in Consultancy services as

Director Advisory services of Ernst & Young Sri Lanka providing Business Advisory and ICT Advisory solutions for mission critical private and public sector projects. He was also a visiting lecturer for MSc in Information Technology study program conducted by Informatics Institute of Technology in collaboration with Keele University UK.

Rajitha holds a Master Degree with Distinction from Keele University UK, on Executive Diploma in Business Administration with Distinction from University of Colombo and British and Australian Professional IT qualifications.

J P D R Jayasekera

Independent Non-Executive Director

Mr Danasiri Rupakumara Jayasekera holds a BA (Special) Degree in Economics with a second class upper division. He possesses over 33 years of progressive experience in taxation, ICT and banking and finance.

He assumed office as an Assessor to the Department of Inland Revenue in 1984 and was promoted to the position of Senior Assessor in 1994. In the year 2005, he was promoted as Deputy Commissioner, thereafter he was promoted as Commissioner and also to Senior Commissioner. Since 2014 July, he has performed duties as Senior Additional Project Director of Revenue Administration Management Information System (RAMIS) which is an IT project designed to automate the entire IRD Taxes. Presently, he functions as the Deputy Commissioner General of the Department of Inland Revenue.

Mr Jayasekera has gained considerable overseas exposure through training programs and international conferences attended during his career at the IRD. He had the opportunity undergo training programs in various aspects of taxation in Austria, India and UK. He has also received valued exposure in double taxation treaty negotiations through programs conducted in Seychelles and Saudi Arabia.

He has participated in strategic level forums as a delegate to conferences such as 'OECD Global Forum on VAT' held in France and the 'Fourth IMF – Japan High Level Tax Conference for Asian Countries' in Tokyo, Japan. As a sought after advisor on taxation he has advised Malaysian IRD officers on automated taxation systems. He has presented Due Diligence Reports to countries such as Singapore and Angola.

Mr Jayasekera is an active social worker holding positions and memberships in several societies and associations. He is an active member of the Sri Lanka China Society.

Senior Management



Rajiv Gunawardena
Director/Chief Executive Officer



Roshan De Silva Gunasekera
Chief Operating Officer



M. Thiruneelakandan
General Manager



Mahesh Kumara
*Assistant General Manager -
Credit*



Hantley Babapulle
*Assistant General Manager -
Investments and Administration*



Sajith Atapattu
*Assistant General Manager -
Credit & Operations*



Praveen Peiris
*Assistant General Manager -
Treasury*



Sisira Mudalige
*Assistant General Manager - Gold
Loans*



Deshapriya Liyanage
*Assistant General Manager -
Internal Audit*



Geethika Elwalage
*Assistant General Manager -
Finance*



Samira Weveldeniya
*Assistant General Manager - Fixed
Deposits*



Jayantha Weerapullige
*Assistant General Manager -
Marketing*



Inditha Jayathilaka
*Assistant General Manager -
Information Technology*



Padmakumara Bandara Herath
Regional Manager



Priyantha Wijesinghe
Regional Manager



Suminda Hettige
Regional Manager

Senior Management

Rajiv Gunawardena

Director/Chief Executive Officer

Mr. Rajiv Gunawardena is the Chief Executive Officer / Director of Asia Asset Finance PLC. He was appointed to the Board in December 2009. He is responsible for setting and implementing the organisation's vision and strategy and for the management of the entire organisation's operations. He has a Bachelor of Science in Business and Information Systems from the United Kingdom and has completed his Masters of Professional Accounting at Monash University Australia. Prior to joining Asia Asset Finance he has worked in the capacity of Senior Investment Analyst at Asia Capital PLC. He was a lecturer in Accounting at the Australian College of Business and Technology.

Roshan De Silva Gunasekera

Chief Operating Officer

Mr. Gunasekera joined Asia Asset Finance PLC in April 2010. Mr. Gunasekera carries more than 24 years of post-qualifying experience in the Finance Sector having commenced his career as a Credit Officer at Commercial Leasing Company Limited in 1994. Mr. Gunasekera is a graduate from the University of Sri Jayewardenepura and holds an MBA from the University of Colombo. He is also part-qualified at Chartered Institute of Management Accountants (CIMA) UK. Mr. Gunasekera is a member of the Association for Overseas Technical Scholarship (AOTS) - Japan and is a visiting lecturer in Financial Services Marketing at the University of Colombo - Sri Lanka.

M. Thiruneelakandan

General Manager

Mr. Thiruneelakandan began his career in the Banking sector in 1976. While in the private Bank he read for Institute of Bankers, London and Institute of Cost and Management Accountants, London. He has spent most of his life in the financial field in banking and non-banking financial institutions as Chief Foreign Exchange Dealer, Chief Financial Controller and Financial consultant before joining AAF PLC, 15 years ago. He brings a wealth of experience gained in this field for more than four decades. His successful tenure as Deputy General Manager and his teamwork extensively plays a leading role in implementing the organization's Policy implementations, while making customer relationships successful. He was appointed in March 2017 as General Manager.

Mr. Thiruneelakandan has given the following comment when asked about his experience at AAF plc. so far. "I am pleased our journey has been remarkable, touching many lives and being part of their growth as a trusted partner with the collective effort with MUTHOOT Group, India. We are encouraged with the growth and intends to focus on relatively unexplored areas of customers along with competitive edge.

Mahesh Kumara

Assistant General Manager - Credit

Mr. Mahesh Kumara received his BBA (Accounting) Degree from the University of Colombo in 2001 while working in the industry from 1999 as an Assistant Accountant. Subsequently, throughout his career, he gained experience in key finance sectors after working in several leading

finance companies as a member of the Senior Management. Mr. Kumara joined Asia Asset Finance PLC in December 2009 and presently holds the position of Assistant General Manager - Credit with an industrial experience of over 19 years.

Deshapriya Liyanage

Assistant General Manager - Internal Audit

Mr. Deshapriya K. H. Liyanage joined AAF in November 2010 as the Chief Manager Operations and the Head of Recoveries since the 1st of January 2013 to 31st March 2016. Presently he is the Head of Internal Audit. He is responsible for implementing, assuring the Internal Controls, procedures and policies of the company and reporting to the Audit Committee. Mr. Liyanage brings a wealth of experience in Finance, Auditing, Merchant Banking, Branch operations and in Islamic Finance gained from his experience of over 33 years in the finance industry. Mr. Liyanage received his MBA from the Wayamba University of Sri Lanka, an Executive Diploma in Business Administration from the University of Colombo, and a Diploma in Management from Open University of Sri Lanka and is an Associate of the Institute of Cost & Executive Accountants -UK. Member of the Institute of Certified Management Accountants of Australia. Licentiate level of Institute of Chartered Accountants of Sri Lanka. Further, He holds a Diploma in Credit Management from the Institute of Bankers of Sri Lanka.

Geethika Elwalage

Assistant General Manager - Finance

Geethika Elwalage has varied exposure of Over 10 years in the financial services sector. She is a Fellow Member of the Institute of

Chartered Accountants of Sri Lanka. She has additional experience of three years in the audit sector having worked at BDO Partners. Further, she holds a Master Degree in Business Administration from the University of Sri Jayawardenapura.

Samira Weveldeniya

Assistant General Manager- Fixed Deposit

Mr. Samira Weveldeniya joined AAF in June 2006 as the Negombo Branch Manager and was appointed to the post of Regional Manager - Fixed Deposit in 2009 followed by a subsequent appointment as the Senior Manager - Fixed Deposits in 2011. Then, again he was promoted as Assistant General Manager- Marketing in 2014. He has over 16 years of experience in Deposit Marketing in the Finance Sector and is currently working in the capacity of AGM-Fixed Deposits and contributes to the fund mobilisation and branch development of the company. Prior to joining AAF, Mr. Weveldeniya worked at the Ceylinco Development Bank where he was awarded many times for his achievements in marketing. Mr. Weveldeniya holds a MBA from Buckinghamshire New University in UK and was conferred the Postgraduate professional status of Certified Professional Marketer-Asia (CPM - Asia) by The Asia Marketing Federation (AMF). He also an Associate Member of The Certified Management Accountants- Australia (AMA-Australia). Apart from that he is also a Certified Member of Sri Lanka Institute of Marketing (SLIM). He holds the Preliminary Certificate in Marketing from the Sri Lanka Institute of Marketing and is partly qualified in Chartered Institute of Marketing (CIM-UK).

Mr. Jayantha Weerapullige

Assistant General Manager- Marketing

Mr. Jayantha Weerapullige joined Asia Asset Finance PLC in 2008. Currently he serves as the AGM – Marketing and he served as Senior Manager Lending for 3 years prior to being promoted as AGM.

Mr. Jayantha Weerapullige holds a B.Com (Special) degree in Business Administration and MBA from University of Colombo. He counts over 18 years of working experience in Marketing, Credit & Accounts of which 15 years were spent in Finance sector and he also has the experience in banking sector in his previous employment with Peoples Merchant Bank during the period 2003 to 2008. He holds more than 9 years of experience in the top management of Asia Asset Finance PLC.

He is responsible for overlooking branch network as well as overall operations of the branches which comprises of Marketing, Credit, Administrations & Recoveries. He is further responsible for product & business development, strategic planning & implementation.

Hantley Babapulle

Assistant General Manager - Investments and Administration

Mr. Hantley Babapulle has a career spanning 44 years in which he has amassed a wealth of theoretical and practical experience both locally and internationally in the Banking, Real Estate and Tea industries. It has always been his vision to be a guiding light to the younger generation by imparting his vast knowledge in the areas of fund mobilization and portfolio management, private banking, dealing in properties both residential and

agricultural, while advising them in the various methods of spreading risk and accumulating assets successfully for a better and brighter future.

Sajith Atapattu

Assistant General Manager-Credit & Operations

Mr. Sajith Atapattu joined Asia Asset Finance in April 2010. At Asia Asset Finance Mr. Atapattu has worked with the Credit, Recovery, and Administration and Operations departments. Prior to working at Asia Asset Finance he has worked in the UK financial sector where he was involved in projects to improve financial inclusion within the non-banking population in the society. He holds a Bachelor's degree from University of Keele - UK.

Praveen Peiris

Assistant General Manager – Treasury

Praveen Peiris joined Asia Asset Finance PLC in January 2014 and has over 14 years of Financial and Treasury experience. He started his career at a Global Audit Firm in 2004 and joined the Non-Banking Financial Sector in 2008. Prior to joining Asia Asset Finance PLC, he worked as Manager – Treasury of a listed finance company. He has the expertise in Treasury Management including Strategic Risk Management, Asset –Liability Management and Cash Management. He is Competent in Operational Management and has the capacity of handling financing of high value projects. He is a Finalist at the Chartered Institute of Management Accountants, U.K.

Senior Management

Sisira Mudalige

Assistant General Manager - Gold Loans

Sisira Mudalige brings in diverse and a rich portfolio of experience while his skill sets include portfolio and Operation management. He began his career as the Deputy Manager at BP Airport Connect specializing and being directly involved in the central ordering system which was piloted at Airport Connect in 2009 .

Subsequently, he moved to Asia Asset Finance PLC, where he pioneered the development and implementation of Gold loan, a strategy in retail asset portfolio management. He was instrumental in promoting and expanding gold loan product via the entire branch network. Further he was responsible for setting up and implementing effective control procedures for gold loans.

He holds a B.A. in Marketing and Finance – Keele University, Staffordshire UK (2009) and has successfully completed certificate & lower managerial levels in CIMA.

Inditha Jayathilaka

Assistant General Manager - Information Technology

Inditha Jayathilaka joined Asia Asset Finance PLC as AGM -IT. He has more than 12 years of experience in banking and finance solution development and implementation. He received his BSc in MIS from University College of Dublin. During his career, he gained his experience from various sectors, specialized in financial sector by providing mission critical software and infrastructure solutions.

Presently, he is in charge of the Information Technology department by proving IT-related infrastructure, software and security services.

Mr. Padmakumara Bandara Herath

Regional Manager

Mr. Bandara Herath holds over 15 years of experience in Marketing & Financial services sector. He joined Asia Asset Finance PLC in 2008 as a Senior Marketing Executive. Currently he serves as a Regional Manager of the company. Prior to his promotion as a Regional Manager, he served as an Assistant Branch Manager, a Branch Manager and a Senior Branch Manager taking the responsibility to grow Moratuwa Branch of AAF from its inception to make it a key contributor to the overall business of the company.

He commenced his career in 2003 as a Marketing Executive at Bianco (Pvt) Ltd and subsequently changed his field to financial services industry in 2004 as a Marketing Executive at Cey-Lease Financial Services Ltd. Prior to joining Asia Asset Finance PLC, Mr. Bandara worked at People's Merchant Bank as a Credit Executive.

Mr. Bandara Herath holds a Bachelors of Business Management degree specialized in Marketing from the University of Kelaniya and he is currently reading for a MBA in the University of Colombo.

Priyantha Wijesinghe

Regional Manager

Mr. Priyantha Wijesinghe joined AAF in October 2010 as a Branch Manager and he was promoted as Senior Branch Manager in 2016. Currently Mr. Wijesinghe serves as a Regional Manager of the Company. He holds over 13 years experience in the finance sector.

He has commenced his carrier in 1999 as a cashier at People's Bank before entering the

University. Prior to joining Asia Asset Finance PLC Mr. Wijesinghe worked at Sampath Leasing & Factoring Ltd. At the time of leaving Sampath Leasing Limited Mr. Wijesinghe was the Assistant Branch Manager- Kurunegala & Project Manager Micro Finance. He was instrumental in introducing Two Wheel Tractors to the product portfolio of Sampath Leasing and Factoring Ltd in 2007.

Mr. Wijesinghe also worked at SEEDS (GTE) Ltd as a Project Marketing Manager – EM Technology and Senior Training Officer of North Central Region till March 2005.

Mr. Wijesinghe holds a B. Sc. (Special) Degree in Agriculture (Specialized in Agricultural Extension). He also holds part qualification at The Chartered Institute of Marketing (CIM-UK). He is currently reading for his MBA at the Wayamba University of Sri Lanka.

Suminda Hettige

Regional Manager

Mr. Suminda Hettige graduated from the University of Sri Jayewardenepura in 2006 with a Bachelor of Science (Specialized in State Management and Valuation) He is currently reading for his MBA at the University of Ruhuna of Sri Lanka.

Mr. Suminda Hettige Joint AAF in January 2011 as a Branch Manager and he was promoted as a Senior Branch Manager in 2015. Currently Mr. Suminda Serves as a Regional Manager of the company.

He has commenced his career in 2006 at Samapth Leasing and Factoring (currently known as Siyapath Finance plc). He was Joint with Orient Finance in 2008 as a Branch Manager. He holds over 12 years' Experience in the Finance Sector.

Consultants



Shiranthi Gunawardena

Legal Consultant

Mrs. Shiranthi Gunawardena was enrolled as an Attorney-at-Law in the year 1975. She served as a Law Officer at the People's Bank up to the year 1986 and thereafter joined Mercantile Credit Limited as the Deputy General Manager - Legal. In the year 1992, a Partnership was formed under the name Gunawardena and Ranasinghe Associates, wherein she is the senior partner and presently she is practicing under the name and style of Shiranthi Gunawardena Associates.

Mrs. Gunawardena is also the Legal Consultant to the Finance House Association where all registered Finance Companies are members.



Miriam Weerasooriya

Consultant

Ms. Miriam Weerasooriya joined AAF in October 2012 after working for 34 years in the Banking industry. It is her intention to use her banking experience to enhance and finetune the operations and credit control in the Finance Services Sector.



*The year 2017/2018 has seen
Leasing, Gold loans and
Mortgage loans providing
the biggest contribution to
business volumes.*

A highlight of the year is the Company recording an increase in its Leasing portfolio to LKR 2.280 Bn which is a 60% increase from LKR 1.424 Bn. recorded in 2016/17.

LKR **2.3Bn**

Management Discussion and Analysis

Operations Review

Financial Year 2016/ 2017 was a very challenging year for the Financial sector and overall economy of the country. With the economy continuing to perform at a downward trend it has already given signals for the year 2017/2018 to be a very challenging year with regards to business operations key changes were identified to make sure Asia Asset Finance tweaked its business operations to withstand the negative impact of the downward economy. 2017/2018 saw AAF changing its business operations, policies and procedures to face the new challenges.

Business Operations.

The main challenge in a slow economy is the room to expand business operations to reach a bigger demographic. One of the strengths of AAF for the past five years is how the product mix has been achieved. With the far sighted strategy of having a range of products it has helped AAF make changes in the portfolio to suit the economy without having a big impact on the Asset Base and Profitability. The range of products offered, target the individual as well as corporate level customers and goes from micro enterprises to national level projects. Hence AAF offers a product that suits everyone in Sri Lanka. The core product portfolio revolves around the main products of Leasing, Business Loans and Corporate

Financing, Personal Loans, Gold Loans, Micro Finance and Mortgage Loans.

AAF has a specially selected team for each product, making sure AAF continues to have a competitive advantage. These highly qualified teams make sure AAF is equipped to give the staff a better platform to serve the customer and give the customer the best value and hassle free experience. Each product team will look at Market research for the product, Risk review of products, training and development, implementation of policy and procedure, Marketing and sales, After sales services and product recovery. This approach has helped AAF identify risks involved and makes product reviews to take the best decisions for the company where high risk products are extracted from the product portfolio and better products encouraged are in the market. This level of controlling has been the key for AAF to be in the forefront of serving the customers effectively and efficiently.

The year 2017/2018 has seen Leasing, Gold loans and Mortgage loans giving the biggest contribution to business volumes. This move for the year was identified early and the ground work was already put in place before the commencement of the financial year with the Marketing, Operational, Credit and Recovery training given. This has led to a much smoother transition for more secured based lending. Other core products continue to support the business volume while supporting to maintain a healthy product base.

Leasing

Asia Asset offers a wide array of Leasing and products that are customized to meet the diverse needs of our customers and help them achieve their dreams of owning the vehicle they always wanted. The Company has always ensured to uplift rural communities through products we offer. We have pioneered a two wheeler and three wheeler lease product which we made accessible to everyone in all walks of life and it has been well-received by our customer base and resulted in continued success for the organisation. This product has been the major contributor to the increase of our Loan portfolio during the last financial year. With the increased demand for this product we have further increased our marketing force to capture the market and serve our clients better. Highlights of the Years Company Leasing portfolio, is the record increase to LKR 2.280 Bn. in 2017/18, a 60% increase from LKR 1.424 Bn. recorded in 2016/17. With our continued focus on asset backed products, we are slowly progressing towards four wheelers this financial year again tailored towards our customers' requirements. We have also started an Extensive training programme which we conduct once a quarter for all our marketing officers throughout the year so that each marketing officer is better equipped with practical and field knowledge which helps them to make quick and accurate decisions on the field. This practice will further enable our marketing officers into providing a faster and a superior service and to adapt in the ever changing business environment.

Management Discussion and Analysis

Gold Loans

Through strategic initiatives, we are laying the foundation of a differentiated leader in specialty lending risks, achieving intelligent growth in selected markets, optimising our portfolios, matching risks with the right capital, and delivering solid and stable profitability.

Muthoot Finance's acquisition of Asia Asset Finance has infused a strong competitive advantage in the latter's Gold loan product category since Muthoot is the largest gold financing company in the world. Asia Asset Finance has benefited by way of technical inputs in Gold loan financing products and a strong risk management framework, which secures the Company from inherent risks of this product.

We are focused on delivering the best solutions for our clients. To do this, we foster a culture of collaboration between our people and our clients. We focus on engaging consumers and putting them at the heart of what we do, and help our clients do the same with their customers.

Asia Asset Finance placed emphasis on Gold Loan business during the year under review to enhance the secured advances portfolio whilst contributing a great deal to the Company profit.

The Company grants the maximum amount per sovereign among all finance companies and charges comparatively low interest rates which have been our strategy in developing this product. NPLs in our Gold Loan portfolio is zero presently and the amount fallen to auction due to non-redemption is less than 2%.

With the goodwill carried by AAF in the market coupled with AAF rating of BBB+ has opened up funding avenues to reach more depositors in the market.

Asia Asset Finance placed emphasis on Gold Loan business during the year under review to enhance the secured advances portfolio whilst contributing a great deal to the Company profit.

The portfolio has been increased by 54% to make it 1.69 billion. We plan a business growth of 48% to make it 5.5 billion by the end of 2017/18.

Within a mere three and half year's operations of Gold Loans, the Company is poised to stake a claim as a market leader in this category amongst the competition. One of the main reasons for our success is knowledge transfer from Muthoot Finance which has enhanced the dedication and diligence of our Gold Loan teams.

Going ahead, we will remain focused on fine-tuning the product and training our staff further to deter acceptance of fake and stolen articles as is one of the major threats faced by the gold loan lenders. In order to facilitate the same, our company had prepared training

programs containing the operational process in detail which will provide an insight into the processes to be followed by staff right from identification of potential customers.

Funding Business Operations.

AAF has been working closely with business partners in opening funding lines in the market. With the goodwill carried by AAF in the market coupled with AAF rating of BBB+ has opened up funding avenues to reach more depositors in the market. AAF has seen the individual deposit contributions continue to flow, while the wealth managers, financial institutions have increased their funding lines and opportunities with AAF which has given AAF strength to have multiple sources of funding for continued strong business operations.



Fixed Deposits.

This is one of our main products in our portfolio as Fixed Deposits cater to a segment of the investor class that looks for safety and accepts a fixed return. We recorded a growth of 12.1% in the year under review. This helped us to increase our base from Rs. 5.5 Billion to Rs. 6.18 Billion. Asia Asset Finance has always been a trusted investment partner for our valued clients over the years.

The product continues to perform well despite challenges in the industry. Despite the fact that banks are able to offer equally competitive interest rates for fixed deposits as mandated by the regulator, the Company has successfully consolidated its customer base by differentiating its service from competition, which has helped retain and build its customer base. Periodic interest rate fluctuations tend to place obstacles in the way of higher growth, but the Company has demonstrated resilience and the ability to innovate in a way that enables it to power its

growth while ensuring full compliance with rules and regulations.

Information Technology

As an agile and responsive company, we understand the value of leveraging technology to meet the expectations of an increasingly savvy customer base and to keep abreast of evolving technology advances in the world of banking. By using technology backed systems and processes, we are delivering greater value to our customers by way of speed and efficiency to ensure they receive world-class service for their Investment. With the Central Bank of Sri Lanka regulations stipulating interest rate caps, it becomes necessary to resort to optimal automation which will help lower expenses and to cater to the operational and reporting requirements. Constant upgradation of technology is also done to bring in higher operational efficiency and superior customer service which is above the industry norms for fixed deposit customers.

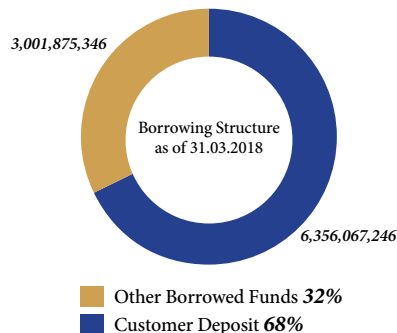
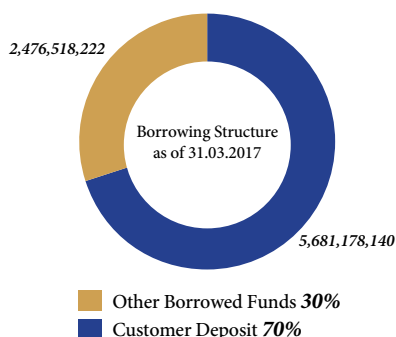
We recorded a growth of 12.1% in the year under review. This helped us to increase our base from Rs. 5.5 Billion to Rs. 6.18 Billion. Asia Asset Finance has always been a trusted investment partner for our valued clients over the years.

Management Discussion and Analysis

Funding Composition

The company's main funding sources are Time Deposits & other borrowings from financial institutions. The time deposits would mainly consist of public deposits and other borrowings would be term loans from Banks, securitizations and other syndicated finance facilities.

There was a distinct trend in funding mix as the growth was largely driven through Other Borrowings. The Other Borrowings and Public Deposits grew by 21% and 12 % respectively. Further It could be seen that the company's debt structure had being changed significantly, where the company would strive to position the composition of 60:40 ratio (Other borrowings : Time Deposits). However the company was solely depending upon time deposits until 2014, and it could be seen that the company would seek to achieve towards the said ratio on a distinct manner. The current composition is as follows.



Back office and Branch Operations.

A vital part of the success of business planning depends on successful execution of policies and procedures. An integral part of product success lies within the support services including the Head office customer care unit, Branch customer care units, Accounting, IT, Administration and HR function contribute to successful execution of the business plan. 2017/2018 has seen these functions to be more cost effective and efficient to absorb the increase demand from business operations at the same time maintaining the same cost structures and staff structures. With the challenges faced in the 2017/2018 financial year it was very important that AAF reviews and implements working structures where cost structures reduce while maintaining the same level of services. It was important that the back office operation has one goal in mind and work towards that one goal with a team effort. In the coordinated effort AAF has taken steps to decentralize some functions

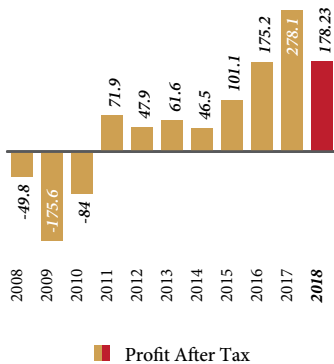
which has enabled faster services to the customers while some functions have been centralized to maintain control. With the branches and Head Office working hand in hand, last year has seen a smooth flow in its business operations. 2017/2018 has seen a record number of files being processed which has enabled AAF to place itself as a leading financial institution in the financial sector.

Insurance Services

AAF has set up a fully fledged insurance department which was initially set up as a service unit only. However, over the years the unit has transformed itself to contributing with additional income to the company, at the same time ensuring AAF Assets are covered for any loss or damages. Further the insurance department has been successful in negotiating many benefits to its customers through insurance providers. While working with the best insurance companies in Sri Lanka, AAF has been successful in providing the best covers and additional covers and benefits which are eligible for AAF customers only. Discussing with the TOP insurers of Sri Lanka. We have been able to develop products customized to the AAF customers which really brings out value for money to the customer as well as the company.

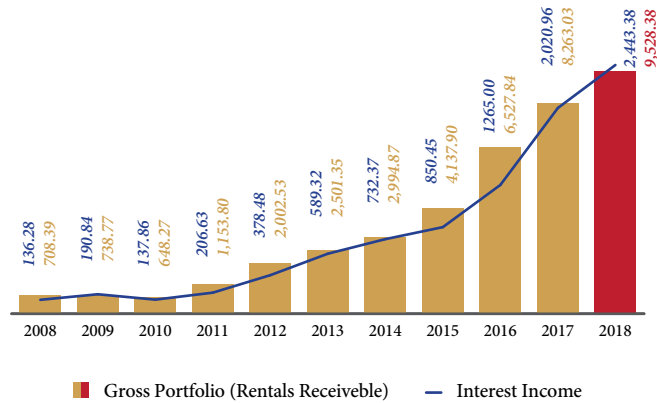
Financial Review

AAF PLC performed commendably well in a challenging year and continued to deliver its commitments to Shareholders. The Company achieved Rs180Mn after tax profit while reaching Rs 11.7 billion worth of Total assets. AAF PLC was in a continuous growth momentum in disbursements during the financial year. However, due to the volatile business environment the Company's net interest income increased at a slower rate. AAF PLC was challenged by the upward movement in interest rates which increased the cost of funds substantially during the year. Operating cost increased substantially in the year 2017/18 over the preceding financial year mainly due to the business expansion and increased employee remuneration. The Company's profit after tax in the reporting year decreased compared to the previous year. Other borrowings of the company were recorded as growth during the financial year in line with our funding strategy which was to promote deposits. We also maintained healthy capital and liquidity positions during the financial year ended 31 March 2018.



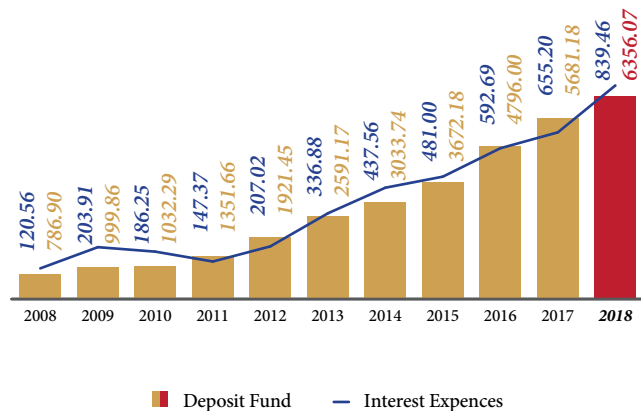
Net Interest Income

Net Interest Income margin was recorded at a 9.9 % change for the year 2017/2018 when compared to 2016/2017. The company net interest income margin had dropped due to volatility of interest rate changes during the period. Increase in market interest rates, government policies that continued the credit contraction to the non-bank financial sector combined with restrictions on vehicle imports, impact of adverse weather conditions and relatively high levels of inflation during the period were the key challenges the Company faced.



Interest Expenses

Interest expense of the Company recorded an increase of 34% compared to 2016/17, consequent to an increase in interest bearing liabilities during the latter part of the financial year, sourced to finance the increased levels of disbursements.



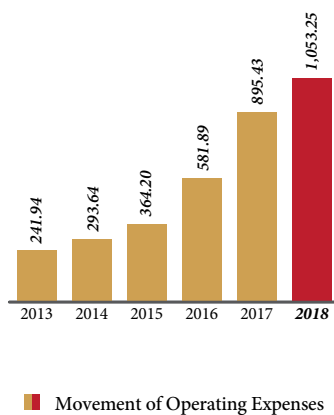
Management Discussion and Analysis

Operating Income

Fee and Commission income was at to LKR 85Mn. Other operating income normalized to LKR 129 Mn, compared to LKR 107 Mn the year before. Overall, the Company's operating income increased by 21 % to LKR 22 Mn.

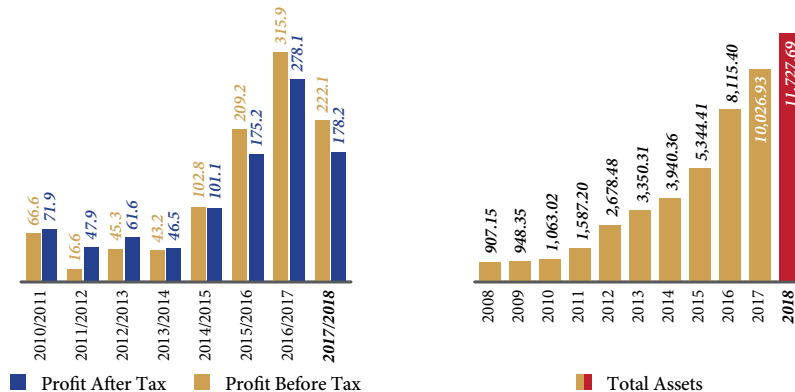
Operating Expenses

During the year under review, an increase in operating expenses was experienced with a 26 % YoY increase. The increase was LKR 1,053 Mn from LKR 835 Mn was mainly attributable to the increase in impairment expenses which was at 47%.



Profitability

Profit before tax for the period LKR 222 Mn was 29% percent below compared to the previous financial year. Profit after tax was recorded at LKR 178 Mn during 2017/18 dropped by 36 % when compared to the previous financial year, largely due to the expansion of our business operations and also the steep increase in taxes during the year.



Assets

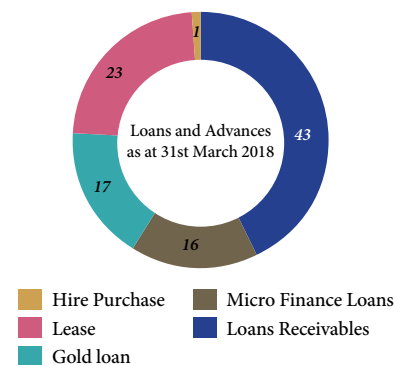
The growth momentum in the lending portfolio was supported by the increase in customer deposits and the growth in total assets. The Company's total assets grew by 17% to reach LKR 11.727 Bn during the year. Growth was fuelled by the robust expansion of our loan portfolio, funded through the liquidation of market securities and a strong growth in customer deposits. Funds were also channelled towards financial investments during the year comprising primarily of unit trusts, dealing securities and government securities. That said we have increasingly sought to diversify our loan book through expanding the SME sector product offering. The push towards these loans was facilitated by increased focus on term loans and empowering branch level staff to offer loan products to our customers.

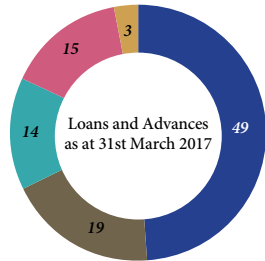
Asset Quality

The Company's gross NPLs increase by 1.31 % during the year. Asset quality, as measured by the gross NPL ratio however company has strategically managed to keep it in one digit ratio even with negative growth of the economy preceding year. We also continued to focus on strengthening our recovery efforts to maintain acceptable level of NPA ratio.

Loans and Receivables Portfolio

During the year loans and receivables portfolio topped the Rs 10 billion up by 17% compared to 2016/ 2017 March. The major contributor for the loan portfolio is leases and gold loans .Gold loan portfolio increased 47 % compared to 2016/2017 and Leases had reached 74 % increase when compared to 2016/ 2017.





Funding & Capitalization

Shareholders' Funds increased by LKR 103 million, during the year by converting profit in to the share holder fund. Equity funds accounted for around 16% of the Company's total asset base. The Company's deposit base increased by 10.61 % to LKR 6.3 Bn as we pursued a deposit drive through marketing and promotion initiatives. Capitalisation ratios remain comfortably above the regulatory minimum providing ample room for expansion in the Tier 1 Capital. This was mainly achieved through focused lending and the business development strategies of the Company. Thereby through growth in loans & advances achieved through the strategic initiatives of the Company. The Company was able to drive volume growth by leveraging opportunities in other lucrative business segments.

Liquidity

During the year under review, AAF PLC complied with all statutory liquidity requirements and exceeded the basic requirements. Liquidity position was healthy during the year with liquid assets accounting for 13% of the Company's total asset base. Liquidity levels were strengthened by the strong deposit inflow to the Company; the statutory liquid asset ratio clocked in at 16.65 % by end-March 2018, compared to 14.45% the year before. Adequate liquidity to meet foreseeable events is always maintained while managing adverse effects on profitability arising from excess liquidity. Net Asset Value Per Share at 2.22 has been on a sustainable growth trend over the past four years. The trend continued during the year under review. This indicates that the Company's ability to effectively convert its investments into net income is gradually improving.

Share Holder Return

We continue to generate sustainable value to our shareholders and during the year under review, Earnings per share increased by 57 % to 0.33 times while dividends per share amounted to Rs 0.05.

Management Discussion and Analysis

Credit Review

Exposure to credit risk arises primarily from lending activities and, to a lesser extent, in sales and trading activities, derivatives activities and from participation in payment transactions and securities settlement on our own behalf and as agent for our clients. Managing credit risk has both qualitative and quantitative aspects. Experienced credit officers at AAF PLC evaluate the credit quality of the firm's obligors and counter-parties and assign internal credit ratings based upon this evaluation. Credit limits for individual clients and counter-parties are established by credit officers with direct knowledge of the client's creditworthiness. Established limits and actual levels of exposure are reviewed regularly by the Risk Management Committee.

The volatile environment in the financial sector in Sri Lanka has also created a challenging situation for companies in the sector. Most banks entered the market by offering customers a more flexible range of credit, mainly co-financed by the finance companies. Because of this situation, there is a balance in competition between banks and financial companies with their existing market share and existing growth. In addition, the financial lease market also indicated low growth as a result of LTV instructions from the CBSL. However, investment companies that are not CBSL-registered and not covered by the CBSL have entered the credit market because of this gap and are steadily increasing their portfolio. In this vibrant environment, AAF PLC can steadily expand its loan portfolio and earned LKR 180 million after completing all necessary provisions and

adjustments according to the CBSL guidelines for the year.

As a recovery mechanism and in support of payment arrears, AAF PLC has provided flexible repayment structures by re-planning assets. The commercial loan portfolio increased by 17% compared to the previous fiscal year, and this increase was mainly caused by gold loans. The basis of the gold loan shows a net increase of 47%, which indicates the high volume of gross loans and the efficiency and effectiveness of the credit recovery process that was carried out in the year under review. As a summary, the net credit base has increased, while the quality of the loan portfolio has improved in a very challenging business environment. AAF PLC also encouraged safer credit products, such as mortgage loans and leasing, as a strategic measure to meet the volatile business environment that supports the sustainable growth of the business.

The risk appetite of the company is reasonable and overall lending is limited by sound credit standards, which are updated through periodic assessments. The Credit Committee of the Company is responsible for monitoring the credit risk and regular meetings of the Credit Committee are held to discuss extraordinary facilities and quality facilities or policy changes. In addition, there is also a separate approval process for debt restructuring facilities with a separate lending policy.

Credit exposure includes current as well as potential credit exposure. We also estimate the potential credit exposure over the remaining term of transactions through statistical analysis. In determining our

exposure, we consider collateral and market netting agreements, which we utilize to reduce individual counter-party exposure, primarily in connection with off-balance sheet items. In managing our credit risk, we also estimate potential losses associated with credit exposures. This process involves some judgment and considers a number of variables including the credit quality of counter-parties; tenor of our credit exposure; default probabilities and their volatilities; collateral values; and expected recovery rates in the event of default, as well as the diversification across counter-parties, industries, and geographic regions.

Once identified, individual exposures are carefully monitored by the Credit Committee. In assessing the adequacy of our provisions for credit losses, the Credit Committee recommends the portion of credit exposures that should be classified as non-performing, the portion that should be charged off, and further actions to be taken to minimize credit losses, maximize recoveries and ensure adequacy of the aggregate provision for credit losses. High value facilities are forwarded to Board Credit Committee for final evaluation and approval once it is approved by the Integrated Risk Management Committee. Regular reviews are carried out to monitor and improve the quality of the portfolio.

Human Resource Review

AAF has always acknowledged the ability of its staff as the key towards the Organization's success. As anticipated, AAF continued to show enormous growth for the 2017/2018 financial year, giving the management greater motivation to provide ample opportunity for enhancing the potential and investing in the growth and development of its people. In accordance with the geographical expansion of the organization, streamlining processes across the strategic locations of the Island while maintaining transparency were the key focus areas for the year 2017/2018.

Our HR team firmly abides by the organization's vision of having professionalism, respect, integrity, dedication, and Excellence. Our HR practices have created a platform to encourage employee feedback on additional training requirements or further education which will create the path for them to become future leaders by enhancing their capabilities through training, education and internal job postings. We always strive to work harder to address staff's concerns on time so that the working environment is always best for the team's creativity and output.

AAF has a workforce strength of 489 employees working in the Corporate Office, Regional Offices, and Branch Offices Island wide. We continue our efforts in workforce addition while ensuring the quality of the same and dedicatedly work to support its vision through talent acquisition for the next financial year. We have attracted talent

for various management and leadership positions, adding to the team like-minded and enthusiastic individuals through head hunting. An equal emphasis has been laid on developing leadership among existing middle-level management so that they can successfully implement and drive the expansion and growth of the Company on different levels. We have planned our social objectives with the consent of our staff work towards those goals while encouraging a family culture.

Empowering our employees establishes a resourceful human capital. Our field staff members, in particular, are mobilized with motor vehicles, fuel, uniforms, mobile phone facilities, and adequate training. HR team keeps itself updated with regulatory changes, Latest HR technology to help the Management being abreast with the changes in the industry. HR policy/process is revised periodically to be in sync with the industry practices. Human Resource is the most important fact that we all depend on their talents and skills; in fact, the company achieved goals and objective through their talent. Therefore AAF main Asset is our employee.

Our HR Policy

We have an HR policy in place that specifically mentions employee benefits as well as rights related to their wages, working conditions, safety at work, non-discrimination, etc. At AAF Human Resources Management is an integral part of our business strategy and an important line responsibility. The company conducts its diversified activities through branches which report directly to the Senior Management. It is the responsibility of the Senior Management and Board of Director to establish corporate

HR policies and to make sure these corporate policies are properly executed.

The primary objective of our HR policy is to create a winning match between individual needs and organizational demands. We continuously aim to have the right person, with the right experience, at the right time, in the right place, offering the right compensation. The company fosters leadership, individual accountability and teamwork. Moreover, there are no any material issues pertaining to employees and industrial relations of the entity.

Our employees are professionals who strive for the success of their own units, in the interest of the whole of the company. In return, our employees can count on opportunities for individual and professional development, in a multicultural working environment based on the view that individual and professional development motivates people and contributes to a flexible organization in which all positions are staffed by capable, accountable and committed employees.

Training & Development

In this current competitive market, staff training has been essential. Asia Asset Finance spent approximately 1 million Rupees for Training and Development in the 2017/2018 financial year, and 280 employees were trained. Additionally, different training was given to staff. We conduct training product wise on a monthly basis and quarterly basis depending on the training requirements. AAF values its employees as the most important stakeholders of the organization and hence is committed to train and develop all employees to enhance individual as well as organizational productivity. Accordingly,

Management Discussion and Analysis

training and development initiatives are driven by strategic plans and designed to work towards meeting the overall goals. Training & Awareness programs at whichever level of employment is a vital component of staff development, service delivery, quality assurance and customer satisfaction. As a growing company seeking to attract, develop and retain the best talent at all levels, AAF emphasizes the importance of talent sourcing, training & development and managing performance. We invest in improving quality, skills, attitude and the capacity of all employees through systematic training and development programs. We are market-driven, and technology-based, serving customers with financial products, and services. Our ambition is to be the first choice of customers, employees, and shareholders and to be a respected member of society.

Our education & training is based on the view that the knowledge, attitude and skills of our employees are among the most valuable assets to realize our ambitions. We use training programs to create meeting places for the exchange of experiences and networks for managers from different Business Units, disciplines and cultural backgrounds, and to offer opportunities for benchmarking to the outside world. Hence, the Company invested in carrying out the following training programmes during the year under review.

Recruitments

AAF has recruited new staff of 204 during the year, and all these people have spread out through our branch network and the departments.

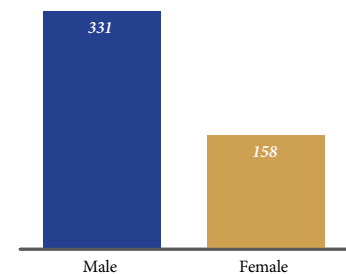
Staff Recreation

Every year company has been organizing three major events for staff gathering focusing on the Sinhala and Tamil New year Festival, Annual Trip and Christmas Party. This year Kaluthara and Moratuwa Branch staff had organized the Sinhala and Tamil New year event; which was held at “Pahalage Reception Hall” Payagala on 21st April 2018. In the month of June our Welfare Club organised the Annual staff trip to hotel “Cinnamon Lodge and Cinnamon Village” Habarana, around 352 staff members joined the staff trip this year. Also the, Christmas party was held at Access South Tower, Colombo 02 on 16th December 2018. Further, Asia Asset Finance became the Winner at the E Division tournament organized by Mercantile Cricket Association.

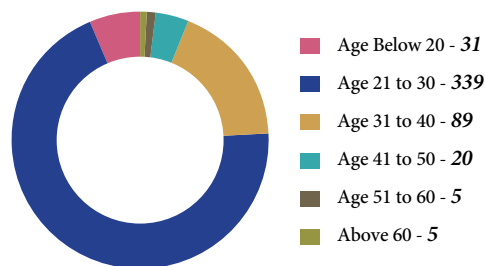
Staff Performance

AAF conducts performance evaluations on an annual basis; Employees are evaluated by their immediate superiors and respective department heads. Finally, the Human Resources department does the evaluation depending on disciplinary matters. The high performing staff members will be recognized based on this.

Gender



Age



Information Technology Review

Our IT strategies are continuously evaluated on implications stemming from Digital disruption, industry forces and trends with a view to refine our way forward strategies and IT initiatives. We have been witnessing the impact of technology in transforming business model, capabilities of our people and in differentiating value delivered to the customer in financial service industry. As the emerging innovative digital technologies continue to evolve, information technology becomes an indispensable catalyst in AAF's journey as the company is now poised to move strongly to grow market, strengthen our operations and brand.

Our IT roadmap follows a fourfold strategy focussing the strengthening of core business system, digitising of customer experience and providing tools and platforms to decision makers to gain insights from our data. With a continued commitment to delivering superior customer service through digital transformation, AAF Information Technology division strives to improve quality of service, speed of service delivery and decision-making processes, by enabling business processes of all key business functions of the company.

During the period year under review, AAF continued to invest in the use of digital technologies to add value to the business model in creating new revenue and value-producing opportunities.

As identified in our strategies, it is imperative that IT has to be fully aligned to business strategies and direction, key risks have to be identified and controlled, and legislative and regulatory compliance demonstrated. A well-managed Information & Technology (IT) organisation is key to successful implementation of organisation's IT initiatives. Our information technology division therefore during the year performed detailed assessment of all IT policies and procedures to ensure the completeness and also to ensure risks are identified and mitigated.

AAF launched number of other initiative focusing productivity improvements to company internal business processes. Electronic Document Management and Archiving (EDA) solution brought significant benefits to the our key business processes covering all functional areas of our business.

We further invested our efforts in AAF successfully deploying Business Intelligence (BI) platform and MIS reporting platform bringing tools and information required for the all levels of management improving the quality of our decision making process. As our core business system is imperative to provide the nucleus required to drive our business processes, our quest to improve our core business system continued this year as well.

During the period under review, the company successfully implemented mobile phone-based Point of Sale solution to improve the effectiveness of the Micro Finance business process. Based on the key learnings from our first implementation, we intend to enhance the solution with new features to improve the productivity of our operations and implement the solution before the end of 2018.

In line with our vision in delivering superior customer experience using mobile based solutions, AAF is in the process of developing cutting -edge solutions to bring innovative products and services to our customers during the 3rd quarter of 2018. With this initiative AAF will expand its digital footprint in mobile- based solutions and will provide customers with a new and complete mobile experience in obtaining our services and financial solutions.

Management Discussion and Analysis

Corporate Social Responsibility

We have always believed that our long-term success is reliant on our commitment to fulfilling the needs of our society. We put our effort to create long-term value by balancing the need of the organization with the need of future generations. Community within which we operate our business and conduct business activities is a vital important stakeholder. The Company believes in engaging in a positive manner and building long term relationships that will benefit all parties concerned.

We have built strong relationships with different community groups with whom we interact frequently over the years. We strongly believe the value we create for ourselves is linked with the value we create for others. We understand that sustainable national development is achieved by social development and the empowerment of communities and individuals.

AAF PLC has been taking the challenge that develops the strategies that brings all the developments together, to integrate thinking about social and environmental accountability for nearly and formulating business processes and framework of practices that makes good business sense. AAF PLC has believed in achieving sustainable growth by being socially responsible and acting as a good corporate citizen.

Empowering Communities

AAF PLC has a portfolio of sustainable CSR activities to deliver a meaningful value and uplift the people and communities across the country. These are conducted with the participation of the employees who are encouraged to be generous with their time, effort and talent in serving the community.

Ethics and Values

A robust ethics & values mechanism is in place to oversee the CSR agenda of our company. We have infused governance principles, accountability, transparency, ethics and values into our operations. We have put in place controls and an appropriate structure to monitor that the operating and business units strictly comply with regulatory and internal guidelines.

Environment Protection & Conservation

As a financial service provider, the Environmental impact of our operations is limited; however as a responsible corporate citizen we take every effort to minimize our environmental footprint. Our efforts in managing our environmental impacts also help us meet the expectations of our stakeholders, increase the long-term sustainability of our company, reduce business risks and operating costs.

Blood donation at the head office

The National Blood Bank assisted in organizing a blood campaign at our Head office during the financial year. Our employees actively participated in donating blood and helped to make the valuable cause a great success. The company donated 75 pints of blood to the hospital.



Kurunegala blood donation

However, a blood donation campaign was organized in the Kurunegala branch a joint project with Rotary Kurunegala and the Kurunegala Teaching Hospital, on the day 68 pints of blood were donated.

Staff Welfare

We offer staff financial support for those who are not eligible to obtain loans from the company as a welfare activity. It is undertaken

in order to motivate employees and raise the productivity levels. Among all the resources of an organization, employees are by far the most valuable resource, as they are the driving force behind any organization. It is our people who ensure that other resources will be utilized for the benefit of the organization. An employee who feels appreciated will be more fulfilled, satisfied and more productive. This will not only lead to higher productivity but also satisfied customers and hence profitability for the company.



Corporate Governance

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

- The Companies Act No. 7 of 2007
- The Listing Rules of the Colombo Stock Exchange (CSE)

- "Code of Best Practice on Corporate Governance" issued by the Institute of Chartered Accountants of Sri Lanka (ICASL)

- Securities and Exchange Commission of Sri Lanka Rules – 2001

The Finance Companies (Corporate Governance) Direction No.3 of 2008 is tabulated below.

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Board of Directors				
The Board should direct, lead and control the Company	A.1	7.10.3 (a)&(c)	Compliant	The Board of Directors currently comprises of seven members including the Chairman. The day-to-day monitoring of operations of the Company has been delegated to the CEO and the Executive Committee governed by policies, procedures, and authority by the Board of Directors. They bring a wide range of business, financial, legal, engineering, and entrepreneurial knowledge, skills and experiences.
Board Meetings				
Frequency of Board meetings	A.1.1		Compliant	Board meetings were held twelve (12) times during a year to review financial performance and consider other matters such as strategic and operational plans, to review and evaluate the performance of the Company. The individual attendance by each member of the Board is presented on page 90 of this Annual Report.
Board Responsibilities				
Formulation and implementation and monitoring of business strategies	A.1.2		Complied	The Board is collectively responsible for formulation, implementation and monitoring of business strategies. In order to do so, the Board appoints sub-committees to assist the Board in fulfilling its stewardship function by reviewing systems of internal control, internal and external audit, risk management, credit management and financial reporting to shareholders.

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Competence of the CEO and Senior Management in implementing business strategies	A.1.2		Compliant	<p>The CEO is responsible for the management of the Company in accordance with the mandate defined by the Board and he is accountable for the achievement of the financial and non-financial objectives as stipulated in the Company's plan.</p> <p>The Senior Management / Management Committee consist of competent members who have skills, knowledge and experience and qualifications to carry out their respective functions effectively.</p> <p>The profiles of the Senior Management and the Management Committee are presented on pages 24 to 28 of this Annual Report.</p>
Effective succession planning for the CEO and Senior Management	A.1.2		Compliant	Continuous training programmes are put in place to ensure that the staff is up to the required standard in filling a vacant position.
Effective systems to secure integrity of information, internal controls and risk management	A.1.2		Compliant	To secure integrity of information, internal controls, risk management policies and effective systems have been implemented by the Company. The effectiveness of such systems is continuously monitored by the management, internal and external auditors.
Independent Non-Executive Directors		7.10.2(b)	Compliant	Each Non-Executive Director submits a signed and dated declaration annually of his independence or non-independence against a specified criteria as set out in Appendix 7A of Colombo Stock Exchange listing rule Section 7.10.2(b).
Provision of relevant, quality and timely information			Compliant	Board papers, agenda and previous Board minutes to be tabled one week prior to Board meeting.
Compliance with laws, regulations, and ethical standards	A.1.2		Compliant	The Company has been taking steps to follow ethical standards in carrying out operations. The Company has taken relevant measures to comply with the laws and regulations applicable to ethical business practices wherever possible.
Consideration of all stakeholders' interest in corporate decisions	A.1.2		Compliant	The Chairman ensures the effective communication with the shareholders and that their interests are taken into consideration in making decisions. The Board always makes an effort to minimize negative aspects towards any stakeholder in the corporate decision making process.

Corporate Governance

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Adoption of appropriate accounting policies and fostering compliance with financial regulations	A.1.2		Compliant	The Company's Accounting Policies are reviewed annually and updated accordingly to reflect the true and fair financial position of the Company. Financial statements of the Company are prepared and presented in compliance with the Sri Lanka Accounting Standards (SLAS) and also comply with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011 and the directions issued there under. The Independent Auditor's Report is given on page 20 of this Report.
Independent professional advice	A.1.3		Compliant	The Board members are permitted to obtain independent professional advice from third parties as deemed necessary, which includes the Company's external lawyers and auditors at the expense of the Company.
Company Secretary	A.1.4		Compliant	The Company Secretary possesses the required qualifications and expertise, and advises the Board on matters concerning the Companies Act and other relevant rules, regulations and regulatory guidelines. All governance activities are coordinated on behalf of the Board by the Company Secretary, who is accountable to the Board.
Independent judgment	A.1.5		Compliant	Each Director has independent judgments on issues of strategy, performance, resources and standards of business conduct. Non-Executive Directors have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.
Dedication of adequate time and effort to matters of the Board and the Company	A.1.6			The Board Members dedicate adequate time for the affairs of the Company by attending Board Meetings, Board sub-committee meetings and by making decisions via circular resolutions. The number of meetings attended to by each Director is presented on page 90 of this Annual Report.
Training for Directors	A.1.7		Compliant	The Chairman is responsible to ensure that the Directors possess sound knowledge to carry out their duties in an effective manner.
Division of responsibilities between the Chairman and CEO	A. 2		Compliant	The roles of Chairman and Chief Executive Officer are separated, and are not performed by the one and the same person.

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Chairman's role	A.3 & A.3.1		Compliant	The Chairman is responsible for the leadership of the Board, managing Board meetings and the business undertaken thereat. The Chairman together with the Company Secretary is responsible to ensure all relevant issues are on the Board Agenda and Directors receive all appropriate information and documentation in a timely manner, thus facilitating the Directors to contribute at the deliberations.
Financial acumen				
Availability of sufficient financial acumen and knowledge	A.4		Compliant	<p>AAF Director Board is equipped with qualified Directors in the field of Finance and Accountancy and possesses the necessary financial wisdom. AAF is fortunate to have highly-qualified Directors to advise the Board on financial matters.</p> <p>The Assistant General Manager - Finance possesses vast experience in financial management together with necessary qualifications in finance being an Associate Member of the Institute of Chartered Accountants of Sri Lanka and possesses a Master's degree specialized in Finance.</p> <p>The Directors and AGM - Finance hold the required qualifications and experience in the financial service sector as set out in their profiles given on pages 18 to 28 of this Annual Report and provide the Company with the necessary financial guidance in conducting its business.</p>
Board balance				
Composition of the Board	A.5 & A.5.1	7.10.1	Compliant	The Board of Directors of the Company comprise of Eight Non-Executive Directors and one Executive Director.
Independent Directors	A.5.2	7.10.2 & 7.10.3.(c)	Compliant	There are three Independent Non-Executive Directors and they are free of any business or other relationship with the Company
Criteria for evaluating Independence of Non-Executive Directors	A.5.3	7.10.2	Compliant	Independent Non-Executive Directors remained distant from management and free from any other business relationships that could impair independency in decision making. The Independent Non – Executive Directors complied with independency criteria stipulated by the CBSL, SEC and ICASL guidelines during financial year 2014/2015.

Corporate Governance

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Signed independence declaration by the Non-Executive Directors	A.5.4		Compliant	Each Non-Executive Director is responsible to submit assigned and dated declaration on an annual basis of his/her independency/ non-independency. At present, three Directors of the Company are Independent and the other six Directors are Non-Independent.
Determination of independence of Non-Executive Directors	A.5.5		Compliant	Based on the written submissions made by the following Non-Executive Directors and taking into account the criteria specified in Section 4.4 of the Corporate Governance Direction issued by CBSL, the Board deems them as "Independent".
Requirement to appoint a Senior Independent Director	A.5.6		Compliant	The Company is having one Senior Independent Director to the Board of Directors of AAF.
Supply of information	A.6		Compliant	As a practice the agenda together with high-quality information is circulated seven days prior to the Board meeting to discharge the Board obligations effectively.
Information to the Board by management	A.6.1		Compliant	<p>The Board receives regular reports and presentations on strategies and developments in relation to its business lines and geographical areas and overall plans and performance. Regular reports also provide the Board and Board sub-committees information on risk appetite profile, emerging risks, risk management aspects, credit exposures, asset and liability management including liquidity, compliance and other vital matters. The agenda and supporting papers are distributed in advance to the Board and sub-committees meetings to allow time for appropriately review and to facilitate full discussion at the meetings. All Directors have full and timely access to all relevant information.</p> <p>The Executive Director briefs the Board on the functional areas of Credit, Finance and Recoveries that they oversee. The Board on other functional matters deals with the Managing Director or the heads of those respective departments when necessary. The Directors have free and open contact with management of all levels.</p>

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Adequate time for effective meetings	A.6.2		Compliant	The Company Secretary ensures that the required notice of meeting, agenda and information documents including Board papers are circulated to all Directors at least seven days prior to holding of Board meetings. This ensures that the Board members have adequate time to study and analyze the related papers and prepare thoroughly for board meetings.
Appointments to the Board				
Assessment of Board Composition			Compliant	The Board as a whole assesses its own composition to ascertain whether the combined knowledge and experience of the Board matches when the Company is faced with strategic demands facing the Company. The findings of such assessments are taken into account when making new appointments to the Board. This financial year, one new appointments were made to the Board by considering their industry experience and knowledge.
Disclosure of profiles of the newly-appointed Director	A.7.3	7.10.3. (d)	Compliant	The Company has two new appointments to the Board during the year under review. A brief profile of each Director is presented on pages 18 to 23 and the Company is forthwith disclosing to shareholders.
Resignation of a Director			Compliant	There are two resignation of Directors during the financial year. It is stated on page 99 of this Annual Report.
Period of Service			Compliant	No Director has exceeded the period of nine years of holding the office of Director.
Appraisal of Board performance				
Board appraisal	A.9 & A.9.1		Compliant	The Board periodically appraises their own performance and self-assessment to be undertaken by each Director in order to ensure that Board responsibilities are satisfactorily discharged. A self-assessment was carried out by each Director at the end of the financial year based on a specified evaluation checklist.
Fitness and Propriety of Directors			Compliant	None of the Directors of the Company are above the age of 70 years and they do not hold office as a Director or any other equivalent position in more than 20 companies/societies/ corporate bodies.

Corporate Governance

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Disclosure of Information in relation to each Director				
Information in relation to each Director	A.10	7.10.3 (c)	Compliant	<p>The following information in relation to Directors is disclosed in the Annual Report.</p> <ol style="list-style-type: none"> 1. Profiles of Directors - Pages 18 to 23. 2. Corporate Governance Report – Pages 44 to 90. 3. Details of Related Party Transactions - Page 170 Details of Directors including names, transactions with a finance Company. 4. Board Meeting Attendance - Page 90. <p>In terms of the Articles of Association of the Company, Directors abstain from voting on any Board resolution on a matter in which he or any of his relatives has substantial interest and are not counted in the quorum for relevant agenda item at the Board meeting.</p>
Appraisal of CEO	A.11		Compliant	The Board annually assesses the performance of the CEO.
Targets for Managing Director	A.11.1		Compliant	The Managing Director, being the apex chief executive of the Company, is entrusted by the Board to conduct day-to-day operations effectively to attain broad strategic targets/goals after giving necessary consideration to market reality and changes in relevant variables. The Board upon approving the Strategic Plan of the Company in 2012 specified its corporate objectives and annual forecasted targets and expects to attain these aspirations through the MD and corporate management team. Performance of the Managing Director is reviewed on an ongoing basis by the Board, evaluating the extent to which organizational objectives have been achieved overall, from an overall perspective.
Directors' Remuneration				
The level and make up of Remuneration	B.2		Compliant	The Remuneration Committee in deciding the remuneration of the Directors.
Executive Share Options	B.2.5		Compliant	At present the Company does not have any executive share options.
Disclosure of remuneration	B.3		Compliant	The remuneration paid to the Directors is disclosed on page 147 of this Annual Report.

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Relations with Shareholders				
Constructive use of AGM and conduct of General Meetings	C.1		Compliant	The AGM is held in a participative way with the presence of the shareholders. The Board is responsible for encouraging all the shareholders to be present at AGM's of the Company.
Consideration of proxy votes	C.1.1		Compliant	The Company counts all proxy votes and indicates the level of proxies lodged on each resolutions and the balance for and against resolution.
Separate resolution for separate issues	C.1.2		Compliant	The Company proposes a separate resolution on each substantially separate issue and the adoption of the Annual Report and accounts is proposed as a separate resolution.
Circulation of Notice of AGM and other documents	C.1.4		Compliant	The Annual Report, Financial Statements, copies of proposed resolutions to be passed at the AGM and the notice are sent to shareholders with a notice period of at least 15 working days in compliance with the Companies Act.
Summary of procedure governing voting at General Meetings	C.1.5		Compliant	Instructions on appointing a Proxy with regard to representing the shareholder at the General Meeting to ensure the voting right are sent to each shareholder.
Major Transactions				
Disclosure of major transactions	C.2		Compliant	Board of Directors disclose to all shareholders all proposed corporate transactions which if entered in to would materially alter the Companies net assets base.
Accountability and Audit				
Financial Reporting	D.1		Compliant	The Board ensures annual audited Financial Statements and periodically financial statements are prepared and published in accordance with the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011 and the directions issued there-under and the Financial Statements are presented in conformity with the Sri Lanka Accounting Standards. The Company has also complied with the requirements of the regulatory authorities such as the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.

Corporate Governance

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Interim accounts, price sensitive public reports, reports to regulators and information required by statute	D.1.1		Compliant	<p>Interim and Annual Financial Statements and other price sensitive information are disclosed to the CSE duly on a timely basis. All other regulatory reports are also submitted by the due dates.</p> <p>AAF's interim accounts have been published in a timely manner in three languages and conform to state language policy and the regulatory interim publication format and the applicable accounting standards and requirements specified in all other regulations mentioned in the previous paragraph.</p>
Directors' Report	D.1.2		Compliant	Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are presented on page 106 of this Annual Report.
Responsibilities of the Board and Auditors for the preparation of Financial Statements	D.1.3		Compliant	The statements of Directors' Responsibility for Financial Reporting and Independent Auditors' Report are presented on page 120 of this Annual Report.
Management Discussion and Analysis	D.1.4		Compliant	"Management Discussion and Analysis" discussing the above issues, industry structure and development, risk and concerns, financial performance and prospects of the future are presented on pages 30 to 117 of this Annual Report.
Declaration of Going Concern by Directors Internal Control	D.1.5		Compliant	The Board of Directors provides disclosure confirming the going concern of the Company on page 99 of the Annual Report.
Maintain a sound system of Internal Controls	D.2		Compliant	A Risk Management Report is presented on pages 91 to 96 of this Annual Report. Review of the effectiveness of the group's system of internal controls to safe-guard shareholders' investment and the Company's assets.
Review of the effectiveness of the group's system internal control	D.2.1		Compliant	<p>The Audit Committee periodically assesses the effectiveness of the internal control systems.</p> <p>The Auditor Committee Report on internal controls is given on pages 108 to 109 on the Annual report.</p>

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Internal Audit function	D.2.2		Compliant	AAF has entrusted its separate Internal Audit Division, with members who are well-qualified and experienced officers, to conduct independent audits in areas involving high risk, especially at branch level in keeping to the annual audit plan. Monthly/quarterly full audit/spot audits are conducted by both sets of internal auditors based on approved annual audit programmes.
Board Committees				
Board Committees	D.3	7.10.5 & 7.10.6	Compliant	<p>The Company consists of the following Board Committees as required by the relevant statutory provisions:</p> <ul style="list-style-type: none"> • Audit Committee • Integrated Risk Management Committee • Remuneration Committee • Related Party Transaction Review Committee • Credit Committee <p>Each of the above Committees directly report to the Board and is responsible to present a report on performance, duties and functions at the AGM.</p>
Sub Committees				
Audit Committee	D.3	7.10.6 (a), (b) & (c)	Compliant	<p>An Audit Committee is appointed by the Board of Directors. This Committee consists of five members of the Board, out of the five members; three of them is a non-Independent Non-Executive Director. The Chairman of the Committee is an Independent Non-Executive Director who possesses qualifications and experience in accountancy. The composition and functions carried out by the Audit Committee is presented on pages 108 to 109 of the Annual Report.</p> <p>The Committees met 09 times during the year.</p>

Corporate Governance


Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Remuneration Committee		7.10.5	Compliant	A Remuneration Committee was appointed by the Board of Directors. The Chairman of the Committee is a Non-Executive Director. The composition and functions carried out by the Remuneration Committee is presented on page 107 of this Annual Report.
Integrated Risk Management Committee			Compliant	The Committee consists of five members. The committee periodically reviews the adequacy and the effectiveness of the risk management decisions taken by the Management.
Independence and objectivity of the Auditors			Compliant	<p>The Audit Committee, in keeping to its terms of reference, monitors the objectivity, effectiveness and independence of the External Auditor of the Company. Audit Committee recommended Messrs BDO Partners as the External Auditor of the Company in 2014, in accordance with CBSL regulations on selecting regulatory approved External Auditors for the sector.</p> <p>Audit Committee's selection and review of external auditor was based on capability, resource availability of the firm and their level of independence from AAF and its Board of Directors.</p> <p>The duties of the Audit Committees are given in the Audit committee's report which is set out on pages 108 to 109 of this Annual Report.</p>
Adoption of a Code of Business Conduct	D.4		Compliant	The Company adopts a Code of Business Conduct and Ethics for Directors and members of the senior management team.
Confidential Information	D.4.1		Compliant	If the Company has a Code of Business Conduct & Ethics for directors and members of the senior management team, make affirmative declaration in the Annual Report that all directors and members of the senior management team have complied with such code. If unable to make that declaration state why you are unable to do so.
Affirmation from the Board regarding not violating the provisions of the code	D.4.2		Compliant	There were no violations of the Company's Code of Ethics during the year.

Corporate Governance Principle	Reference to Code of Best Practice Issued by ICASL	Reference to the Listing Rules of CSE	Status of Compliance	Level of Compliance
Practice of good Corporate Governance	D.5		Compliant	The Company is adhered to the Corporate Governance directions issued by the Central Bank of Sri Lanka. Further, the Company has taken steps to be compliant with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for listed companies issued by the CSE.
Inclusion of a Corporate Governance Report in the Annual Report	D.5.1		Compliant	The Corporate Governance Statement states to what extent the Company is compliant with the Corporate Governance guidelines.
Shareholders				
Institutional Investors				
Ensure institutional shareholders' voting intentions are translated into practice	E.1		Compliant	All shareholders are encouraged to participate and vote at the AGM. The names and the number of shares held by the 20 largest shareholders and percentage of such shares are presented on page 102 of this Annual Report along with other shareholder information.
Regular and structured dialogue with shareholders	E.1.1		Compliant	The Company conducts a regular and structured dialogue with shareholders based on a mutual understanding of objectives. The primary mode of communication between the Company and the shareholders is through the Annual General Meeting. The Chairman ensures the views of shareholders are communicated to the Board as a whole.
Other Investors				
Investing/ Divesting Decisions	F.1		Compliant	The Annual Report is circulated to all shareholders in a timely manner and includes adequate information to enable the shareholders to make decisions relevant to their investment in the Company.
Encourage individual shareholders to participate in general meetings and exercise voting rights	F.2		Compliant	All shareholders are encouraged to participate and vote at the AGM.



Corporate Governance


AAF's compliance status to Finance Companies (Corporate Governance) Direction, No.03 of 2008 & No. 6 of 2013 amendment issued by the Central Bank of Sri Lanka.

Direction requirement (with section number of the Direction)	Complied	Not	N/A	Extent of adoption
	complied			
<p>2.1 Responsibilities of the Board of Directors</p> <p>a) Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company.</p>	✓			<p>In November 2014, Board of AAF approved strategic objectives and corporate values that were derived from AAF's vision and mission statements.</p> <p>In keeping with the plan, AAF's Key corporate objectives revolved around becoming a premier Finance Company in Sri Lanka. In working towards this primary objective, the Board laid a sound platform</p> <p>By having a risk management framework and internal control mechanism in place.</p> <p>Communication</p> <p>The Board communicated elements of the strategic plan to the corporate management which represents all key divisions through a presentation. The strategic plan document has been made available in all divisions for Heads/ Managers to pass down organizational expectations to their subordinates. Key goals of the strategic plan are reminded and reinforced to key officers through regular briefing sessions of the Corporate Management Team.</p>
<p>b) Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, at least for immediate next three years;</p>	✓			<p>Business Strategy</p> <p>The company is in the stage of finalizing the AAF overall business strategic plan with measurable goals for next three years incorporated in Company's medium term strategic plan. Formulating separate strategies for branch expansion, Lending, Fund Mobilization, Advertising and Marketing were the main focus of strategic development process to achieve overall objectives of AAF.</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
				<p>Implementing the Approved Risk Policy</p> <p>Strong risk governance reflects the importance placed by the Board on shaping AAF's risk strategy, to effectively manage risks. The risk policy adopted identified key risks associated with AAF's business operation, laying down a formal structure to manage risks. The risk policy was developed within AAF's successful strategic framework keeping intact ultimate corporate objectives within sight.</p> <p>Salient features of the policy document include,</p> <ul style="list-style-type: none"> • Separation of the duties in relation to risk management for various levels of the hierarchy. • Aligning corporate plan strategic business objectives with risks objectives. • Accountability of staff for the identification, assessing and managing of risks within, their scope of assigned responsibilities/ job functions. • The Boards role in the management of risks and corporate management duties towards risk management.
<p>c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;</p>				<p>Risk Management</p> <p>In keeping with the approved risk policy, each division is entrusted with assessing risk related to their work functions and to apply systems and controls to manage risks.</p> <p>Already a formal risk management document has been developed which would demarcate as to who would handle what in terms of managing risk, to counter key risks. The risk function is responsible for reporting to the board in relation to the company's IRM framework via the risk committee, including risk appetite and strategy, policies, methodologies and risk reporting.</p> <p>It is an independent, objective oversight and challenge activity designed to add value and improve the operations of the company.</p>


Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>d) approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;</p>				<p>Communication policy document</p> <p>A Board approved communication policy in August 2016 in place which specifies AAF's policy of communication with key stakeholders of the company.</p> <p>The policy specifies the communication approach and methods of communication to be adopted when dealing with AAF's stakeholders.</p> <p>The AGM is used as the main communication method to interact with AAF shareholders, to obtain their views and pass down important aspects related to the company. Other communication methods are specified to deal with AAF's broad based stakeholder list that includes its customers, suppliers, borrowers and society.</p>
<p>e) reviewing the adequacy and integrity of the finance company's internal control systems and management information systems;</p>				<p>Internal Control system</p> <p>AAF Board has established a system of internal control to manage risks associated with finance business and to monitor its effectiveness on a continuous basis. There is a clear demarcation of duties and functions across the organization based on a formal organizational structure which is supported by allocation of responsibilities to managers and their subordinates in handling routine operations with clear communication of envisaged internal controls that should be followed at all times. A comprehensive "Manual" that is revolving is in place for all key business functions of the company.</p> <p>Review of Internal Control</p> <p>Quarterly internal audit review reports are provided to the Audit Committees specifying the matters related to internal approved strategic objectives and corporate values based on an approved annual internal audit plan. With reference to the approved annual internal audit plan internal audit department conducting the branches audits and departmental audits at annually, by annually and quarterly to verify the internal controls implement by the management. The Audit Committees updates the Board on material concerns and lapses in internal controls and recommend solutions on an ongoing basis.</p>



Direction requirement (with section number of the Direction)	Complied	Not	N/A	Extent of adoption
		complied		
				<p>Management information systems (AAFS) Review</p> <p>To safeguard the accuracy, reliability and confidentiality of management information stored and generated by the IT system, AAF Board approved Information technology Policy document on 20th January 2017.</p> <p>Internal Audit has been entrusted to review and report lapses pertaining to IT operations including effectiveness of AAF information generation process. In keeping with CBSL requirements, a thorough independent System Audit is carried out and as a result, an assessment on the integrity of info system of the AAF Will be covered from that.</p>
<p>f) identifying and designating key management personnel, who are in a position to:</p> <p>(i) significantly influence policy;</p> <p>(ii) direct activities; and</p> <p>(iii) exercise control over business activities, operations and risk management;</p>				<p>High profile Board</p> <p>The Board of AAF comprises highly qualified individuals who possess vast experience, qualifications and knowledge to effectively direct company's affairs in a prudent manner.</p> <p>The Company has designated members to the board of directors including CEO as the Company's key management personnel.</p> <p>Identification, Recruitment and Retention of Officers in Key Positions</p> <p>Recruitment or promotion to next grade, for top corporate positions is decided after careful scrutiny of individuals' capabilities against the job role at hand. Selecting only high caliber individuals for these key roles with experience in the relevant field is considered a vital requirement for top positions.</p> <p>AAF's organizational chart which clearly specifies the top positions and reporting structure gives an indication of career path and future succession planned for top officers' grades. There are clear job roles and tasks specified for all top positions.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
g) defining the areas of authority and key responsibilities for the Board and for the key management personnel;	✓			<p>Boards responsibility document</p> <p>The Boards responsibilities have been defined through a formal “Boards Responsibility” document which specifies job responsibilities of the Chairman, Executive Director [CEO] as well as the role of Non- Executive Directors.</p> <p>Role of key management</p> <p>All officers of the corporate management understand their job scope, authority and responsibilities based on the positions they hold. Key responsibilities of each member of the corporate management are prescribed in their job descriptions.</p>
h) ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, in consistent with the finance company’s policy;	✓			<p>The top down oversight process</p> <p>Affairs of AAF are closely reviewed by the Directors through Board meetings held at monthly intervals which enable them to review the company’s progress and monitor vital elements of business. Based on the task delegated, Board sub-committees closely oversee specific aspects of finance business operation and provide feedback to the Board on any concerns.</p> <p>They make due representations to the Board tabling Board papers and meeting the Board in person. Key business functions including Credit, Recoveries, Deposits, Finance and Legal are headed by either Executive Director or very senior officer of the company who interact with the CEO, other members of the corporate management and their subordinates on an ongoing basis.</p> <p>Laying down Clear “Procedures and Processors”</p> <p>A comprehensive “Procedure Manual” has been made available to all departments so that a consistent and professional approach can be sustained when carrying out daily operational activities. By having set clear operational instructions and setting forth procedures and practices in handling routine operations, sets the tone for all.</p> <p>Managing Employees</p> <p>AAF’s “Human Resource Policy Manual” clearly specifies HR policies and organizational values that all employees need to follow. These policies set the right platform and culture to implement the operational framework.</p>

Direction requirement (with section number of the Direction)	Complied	Not	N/A	Extent of adoption
	complied			
<p>i) periodically assessing the effectiveness of its governance practices, including:</p> <p>(i) the selection, nomination and election of directors and appointment of key management personnel;</p> <p>(ii) the management of conflicts of interests; and</p> <p>(iii) the determination of weaknesses and implementation of changes where necessary;</p>				<p>AAF has put in place a strong corporate governance framework as explained in this supplement.</p> <p>AAF's Board carries out an independent review of the effectiveness of the governance framework periodically through compliance officer and Company Secretary, an assessment is carried out as per CBSL format on corporate governance requirements, and a final submission is made through the CEO.</p> <p>The company since 2013 has restructured the Board itself and its sub-committees to set the best governance standards to comply with prevailing regulations.</p> <p>Mr. C Ramachandra is the non executive director of the board.</p> <p>Mr. Kiran Gopala Krishna Pillai has been resigned from the Board of directors of the company and has been appointed as the Alternate Director to Mr. Kuttikattu Rajappan bijimon with effect from 02nd October 2017 and Mr. Jayasekara Pathirannahalage Danasiri Rupakumara jayasekara has been appointed to the Board with effect from 26th January 2018 as an Independent Non – Executive Director. Thereafter Mr. Kiran Gopala Krishna Pillai re appointed to the board of AAF with effect from 22 March 2018 as a Non-Independent Non-Executive director.</p> <p>Company's Article Sec 94 describes selections, nominations and election of directors while Sec 111 governs management of conflicts of interest.</p> <p>A self-assessment form is circulated by the Company secretaries on timely basis for periodic assessment.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
j) ensuring that the finance company has an appropriate succession plan for key management personnel;				<p>There is adequate planning for identified key management personnel with a clear career path within departments. As per the approved organization chart of the company, internal promotion goes through in accordance with the hierarchy.</p> <p>Human Resource Division is in the process of revamping the grading and career path structure of the organization which would further assist in streamlining succession planning across departments and grades.</p>
k) meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;				<p>AAF holds Board Meeting at least once a month, Hence, Directors meet with fellow Directors regularly. Directors communicate with other line management frequently on routine matters and operational issues.</p> <p>Key management personnel are invited for board meetings in order to communicate policies and decisions and monitor progress towards corporate objectives</p> <p>Corporate management together with the Executive Director meet on a weekly basis to assess divisional and overall progress of the company , in terms of goals set and broad corporate objectives. Variety of information is presented at the meeting to evaluate performance and distinguish gaps, to decide on suitable course of action.</p> <p>Separately, marketing meetings are held by AGM Marketing and AGM Credit with all Credit and Marketing staff on a monthly basis to review credit related aspects. Recovery Division meetings are also held on a monthly basis headed by Executive Director and all recoveries staff to discuss recovery progress covering recovery targets, formulating strategies to maintain lower NPL levels and taking decisions on recovery related processes.</p>






Direction requirement (with section number of the Direction)	Complied	Not	N/A	Extent of adoption
		complied		
l) understanding the regulatory environment;	✓			<p>Board of Directors are briefed on a continuous basis about the latest developments in the regulatory environment at Board meetings by fellow Directors and members of the corporate management via circulars and presentations. Directors, corporate management and other key officers are sent on training on a continuous basis so that they are kept abreast of regulatory requirements pertaining to their functions.</p> <p>Compliance officer follows up on adherence to regulations related to money laundering and updates the Board of Directors monthly through the CEO on compliance status of AAF to CBSL directions, rules and other requirements.</p>
m) Exercising due diligence in hiring and oversight of external auditors.	✓			<p>The Board of Directors directs the company to comply with applicable laws and regulations while guarantee in to exercise due diligence in hiring of the External Auditors, Further, the Compliance officer educates the senior management personnel on the regulatory background.</p>
<p>2.2 The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with paragraph 7 of the Direction.</p>	✓			<p>The company is the Chairman's and the CEO's functions and responsibilities separate subject to approve by the Board of Directors immediately.</p> <p>As Chairman, he is required to provide leadership to the Board to ensure that the Board effectively discharges its responsibilities. The CEO on the other hand being an Executive Director is responsible for effective running of day- to- day operations of the company.</p>
<p>2.3 There shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge their duties to the finance company.</p>	✓			<p>The Board has obtained independent professional advice where required.</p>



Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
2.4 A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.				In accordance with Articles Sec 111, directors abstain from voting in respect of any contract or arrangement in which he or any of his relatives or a concern, in which he has substantial interest, is interested or for the purpose of any resolution regarding the same shall not be counted in the quorum present at the meeting. (However no such a matter has arisen during the year)
2.5 The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.				The Board has adopted a formal schedule of matters specifically reserved for the Board as indicated in Section B of the Terms of Reference of Board of Directors to fulfil its responsibilities and stewardship of the Company.
2.6 The Board shall, if it considers that the finance company is, or is likely to be unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.				Not required as company fulfilled its obligations to its depositors and creditors. The board is aware of the need to inform Director of the Department of Supervision of Non-Bank Financial Institutions and no such situations have arisen during the year. The company is solvent and is a going concern as declared in the "Annual Report of the Board of Directors" on page 103 & 130 of the 2016/17 annual report.
2.7 The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.				A comprehensive checklist of disclosures given in the corporate governance report provides AAF's compliance status to the corporate governance Direction. Comprehensive corporate governance report is included on page 60 on the 2016/2017 annual report.
2.8 The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.				Company has adopted a scheme of self-assessment for board of directors and the board has provided self-assessment forms to the Company secretaries for the year of 2017/2018.

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>3 Meetings of the Board</p> <p>3.1 The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.</p>	✔			<p>Twelve Board Meetings were held for the financial period 2017/2018.</p> <p>As a general rule, Board papers and other matters needing Board consent are taken up directly at Board meetings, only very urgent matters are sent on circulation for Board's approval.</p>
<p>3.2 The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.</p>	✔			<p>Schedule of items and matters to be discussed at the Board Meeting are included in the agenda, prepared by the secretary under the consent and guidance of the CEO and board.</p>
<p>3.3 A notice of at least 7 days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.</p>	✔			<p>Sufficient notice has been given to the Board, to ensure all directors have been given an opportunity to attend the meeting and 7 days' notice will be further complied with in future.</p> <p>Reasonable notice is given through the Company Secretary for any other meetings held by the Board other than regular Board meetings.</p>
<p>3.4 A director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternative director shall, however, be acceptable as attendance.</p>	✔			<p>All Directors have participated over the minimum participation requirement of at least attending two-thirds of the meetings held in financial year 2017/2018 and any of director has not absented the immediately preceding three consecutive meetings held during the period.</p> <p>All Directors have attended two-thirds of the meeting during period.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
3.5 The Board shall appoint a company secretary whose primary responsibilities shall be to handle the Secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.				P.R. Secretary has been initially appointed on 19th August 2004 as the Company Secretary in line with the stipulated requirements and annually reappointed at the AGM. The Company Secretary is responsible for preparing the agenda with the assistance of Compliance for Board meetings, maintaining minutes of the meetings and ensuring that the proceedings at the Board Meetings are recorded in sufficient details.
3.6 If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.				Schedule of items and matters to be discussed in the Board Meeting are included in the agenda prepared by the secretary under the consent and guidance of the CEO and board.
3.7 All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.				All Directors have access to the advice and services of the Company Secretaries. The Secretaries ensure that Board procedures are followed and the provisions of the Companies Act No. 07 of 2007 and other applicable rules and regulations are complied with.
3.8 The company secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time, on a reasonable notice by any director.				P.R. Secretary has been appointed on 19th August 2004 as the Company Secretary in line with the stipulated requirements. The Company Secretary is responsible for preparing the agenda for Board meetings, maintaining minutes of the Board meetings and ensuring that the proceedings at the Board Meetings are recorded in sufficient details. The Minutes of the previous Board Meetings are adopted in the ensuing Board Meeting. Directors can inspect the Board Minutes as and when required.
3.9 Minutes of Board meetings shall be recorded in sufficient details.				All Board meeting Minutes are duly recorded in sufficient details and retained by the Company Secretary under the supervision of the Chairman.

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption																														
4 Composition of the Board				<p>AAF Board comprised nine Directors in keeping with the provisions of this section, and did not fall below 5 or go over 13 Directors due to Directors resignation or appointment during the year.</p> <p>In keeping with section, no Non-Executive Director holds his/her position exceeding nine years as given below;</p> <table border="1"> <thead> <tr> <th>Name of Director</th> <th>Directorship status</th> <th>Number of years in position as at 31st March 2018</th> </tr> </thead> <tbody> <tr> <td>Mr. C. Ramachandra</td> <td>Non-Independent Non- Executive Director</td> <td>06 years and 09 Months</td> </tr> <tr> <td>Mr. R.J.A. Gunawardena</td> <td>Non-Independent Executive Director</td> <td>08 years and 03 months</td> </tr> <tr> <td>Mr. R.A.T.P. Perera</td> <td>Independent Non- Executive Director</td> <td>04 year and 03 months</td> </tr> <tr> <td>Mrs. D.P. Pieris</td> <td>Non-Independent Non- Executive Director</td> <td>06 years and 02 months</td> </tr> <tr> <td>Mr. G. Alexander</td> <td>Non Independent Non- Executive Director</td> <td>03 year and 01 month</td> </tr> <tr> <td>Mr. K.R. Bijimon</td> <td>Non Independent Non- Executive Director</td> <td>03 year and 01 month</td> </tr> <tr> <td>Mr. J.P.D.R. Jayasaekara</td> <td>Independent Non- Executive Director</td> <td>03 Months</td> </tr> <tr> <td>Mr. R.A.B. Basnayake</td> <td>Independent Non- Executive Director</td> <td>01 year and 07 months</td> </tr> <tr> <td>Mr. K.G.K. Pillai</td> <td>Non Independent Non- Executive Director</td> <td>01 Months</td> </tr> </tbody> </table>	Name of Director	Directorship status	Number of years in position as at 31st March 2018	Mr. C. Ramachandra	Non-Independent Non- Executive Director	06 years and 09 Months	Mr. R.J.A. Gunawardena	Non-Independent Executive Director	08 years and 03 months	Mr. R.A.T.P. Perera	Independent Non- Executive Director	04 year and 03 months	Mrs. D.P. Pieris	Non-Independent Non- Executive Director	06 years and 02 months	Mr. G. Alexander	Non Independent Non- Executive Director	03 year and 01 month	Mr. K.R. Bijimon	Non Independent Non- Executive Director	03 year and 01 month	Mr. J.P.D.R. Jayasaekara	Independent Non- Executive Director	03 Months	Mr. R.A.B. Basnayake	Independent Non- Executive Director	01 year and 07 months	Mr. K.G.K. Pillai	Non Independent Non- Executive Director	01 Months
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Mr. J.P.D.R. Jayasaekara	Independent Non- Executive Director	03 Months																																
Mr. R.A.B. Basnayake	Independent Non- Executive Director	01 year and 07 months																																
Mr. K.G.K. Pillai	Non Independent Non- Executive Director	01 Months																																
4.1 Subject to the transitional provisions contained herein, the number of directors on the Board shall not be less than 5 and not more than 13.																																		
4.2 Subject to transitional provisions contained herein and subject to paragraph 5(1) of this Direction, the total period of service of a director other than a director who holds the position of a chief executive officer or an executive director shall not exceed nine years. The total period in office of a non-executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.																																		

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
4.3 Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an “executive director”) provided that the number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the company.	✓			There is equal 90% representation by Non-Executive Directors (Eight Directors) and Executive Director (One Director) and is within the provisions of this Section.
4.4 With effect from 01.01.2009 for three years, the number of independent non-executive directors of the Board shall be at least one fourth of the total number of directors.	✓			Mr. J.P.D.R. Jayasekara, Mr.R.A.T.P Perera and Mr.R.A.B Basnayaka hold the directorship as independent non-executive directors. Refer 4.2 for further information. Three Directors are independent & non-executive out of total of nine directors. It is complied with the requirement of one fourth of the total number of directors.
4.5 In the event of an alternative director being appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.			✓	Not applicable since no alternative independent non-executive Director appointments were necessitated during this period.
4.6 Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	✓			Non-Executive Directors have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.



Direction requirement (with section number of the Direction)	Complied	Not	N/A	Extent of adoption
	complied			
<p>4.7 With effect from 01.01.2009 for three years, a meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meetings is present, unless at least one half of the number of directors that constitutes the quorum at such meetings is non-executive directors.</p>	✓			Required quorum has been complied with at all Board meetings.
<p>4.8 The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.</p>	✓			<p>The annual report released expressly identifies Independent Non-Executive Directors on the corporate governance report page 72.</p> <p>Following disclosures cover requirements of this section;</p> <ul style="list-style-type: none"> • Composition of Board • Category of Directors
<p>4.9 There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.</p>	✓			New appointments and re-election of Directors to the Board are based on their industry knowledge and experience.
<p>4.10 All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.</p>	✓			All Directors appointed to fill a casual vacancy were subjected to the election by shareholders at the Annual General Meeting in 2018.

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>4.11 If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.</p>	✓			<p>All Director resignations are informed to the Department of Supervision of Non- Bank Financial Institutions and also to the Colombo Stock Exchange by the Company Secretary to comply with this section and related provisions as per Colombo Stock Exchange rules.</p> <p>From 2nd October 2017 Mr. Kiran Gopala Krishna Pillai who was a Non-independent non-executive director has resigned from the board and accordingly in terms of paragraph No. 4(2) Mr. Hiniduma Liyanage Lakpriya Manohan Nanayakkara ceased to be a director/Chairman of the company effective from 17th March 2018.</p>
<p>5 Criteria to assess the fitness and propriety of Directors</p> <p>5.1 Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a finance company.</p>	✓			<p>No Director of the AAF Board is over the age of 70 years as at 31st March 2018.</p>
<p>5.2 A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/ societies/bodies corporate, including associate companies and subsidiaries of the finance company.</p>	✓			<p>No any Director of AAF Board holds office in over 20 companies contravening the provisions of this section.</p> <p>According to the Company Secretary Confirmation provided that no any director held office in over 20 companies contravening the provisions of this section as at 31.03.2018.</p>
<p>6 Delegation of functions</p> <p>6.1 The Board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its function</p>	✓			<p>All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions.</p>




Direction requirement (with section number of the Direction)	Complied	Not	N/A	Extent of adoption
	complied			
<p>6.2 The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.</p>	✔			<p>Please refer comments given on 6. (1) Above.</p> <p>The delegated powers vested with Directors, corporate management and other employees are reviewed periodically to ensure that they remain relevant to the needs of AAF.</p>
<p>7 The Chairman and the Chief Executive Officer</p> <p>7.1 The roles of the chairman and chief executive officer shall be separated and shall not be performed by the one and the same person after 3 years commencing from January 1, 2009.</p>	✔			<p>The company is the Chairman's and the CEO's functions and responsibilities separate subject to approve by the Board of Directors immediately.</p>
<p>7.2 The chairman shall be a non-executive Director. In case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.</p>	✔			<p>The Chairman of AAF Board, Mr. C Ramachandra is a Non-Independent Non-Executive Director, who appointed to the Board in March 2018. As per the approval of Central Bank, Mr. R.A.B Basnayake has been appointed as the Senior Independent director on 9th September 2017.</p>




Corporate Governance

Direction requirement (with section number of the Direction)	Complied Not N/A complied	Extent of adoption																		
<p>7.3 The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the names of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the Board.</p>		<p>The names of the Chairman and the Chief Executive Officer and the nature of any relationship has properly disclosed in page 77 in the annual report for the year ended 2016/17.</p> <p>The disclosure related for the year 2016/17 as follows,</p> <table border="1" data-bbox="836 668 1441 1379"> <tbody> <tr> <td>Mr. Rajiv Gunawardena</td> <td>Related to the Mrs Peiris</td> </tr> <tr> <td>Mr. C. Ramachandra</td> <td>No any Relationship</td> </tr> <tr> <td>Mr. Thusitha Perera</td> <td>No any Relationship</td> </tr> <tr> <td>Mrs. Dayangani Priyanthi Pieris</td> <td>Related to the the Mr. Rajiv</td> </tr> <tr> <td>Mr. Kuttikattu Rajappan Bijimon</td> <td>No any Relationship with CEO and chairman but Mr. George & Mr.K.G.K.Pillai who are his colleagues from Muthoot Finance.</td> </tr> <tr> <td>Mr. George M. Alexander</td> <td>No any Relationship with CEO and Chairman but Mr. Bijimon & Mr.K.G.K.Pillai who are his Colleagues from Muthoot Finance.</td> </tr> <tr> <td>Mr. Rajitha Ananda Bandara Basnayake</td> <td>No any Relationship</td> </tr> <tr> <td>Mr. J.P.D.R Jayaskara</td> <td>No any Relationship</td> </tr> <tr> <td>Mr. K.G.K pillai</td> <td>No any Relationship with CEO and Chairman but Mr. Bijimon & Mr.K.G.K.Pillai who are his Colleagues from Muthoot Finance.</td> </tr> </tbody> </table>	Mr. Rajiv Gunawardena	Related to the Mrs Peiris	Mr. C. Ramachandra	No any Relationship	Mr. Thusitha Perera	No any Relationship	Mrs. Dayangani Priyanthi Pieris	Related to the the Mr. Rajiv	Mr. Kuttikattu Rajappan Bijimon	No any Relationship with CEO and chairman but Mr. George & Mr.K.G.K.Pillai who are his colleagues from Muthoot Finance.	Mr. George M. Alexander	No any Relationship with CEO and Chairman but Mr. Bijimon & Mr.K.G.K.Pillai who are his Colleagues from Muthoot Finance.	Mr. Rajitha Ananda Bandara Basnayake	No any Relationship	Mr. J.P.D.R Jayaskara	No any Relationship	Mr. K.G.K pillai	No any Relationship with CEO and Chairman but Mr. Bijimon & Mr.K.G.K.Pillai who are his Colleagues from Muthoot Finance.
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<p>7.4 The chairman shall:</p> <p>(a) Provide leadership to the Board;</p> <p>(b) Ensure that the Board works effectively and discharges its responsibilities.</p> <p>(c) Ensure that all key issues are discussed by the Board in a timely manner.</p>		<p>The Chairman is the leader of the Board who ensures the active contribution of each director to the dealings of the company and the self-evaluation process will be implemented.</p>																		




Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
7.5 The chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The chairman may delegate the function of preparing the agenda to the company secretary.	✓			The Company secretary prepares the formal agenda which is then circulated to the Board Meeting. This agenda is approved by the CEO and Chairman of the Board.
7.6 The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	✓			Board Papers are sent with sufficient period prior to the meetings in order for Directors to request any other information, if necessary.
7.7 The chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the finance company.	✓			The term of reference of Board of Directors clearly communicates that the board will actively participate in determining and setting the long and short term goals in the interest of the Company.
7.8 The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between the executive and non-executive directors.	✓			<p>The Non- Executive Directors including Chairman himself effectively contribute to the Board, through their immense experience and wide knowledge base that they possess within the finance industry as well as experience gained from their professional fields.</p> <p>There is a constructive relationship among all categories of Directors. Apart from Board meetings, Directors meet at other company events that enable them to keep close rapport amongst one another.</p> <p>All Directors of AAF attended majority of Board meetings providing them due opportunities to raise their concerns and contribute to matters brought up at meetings.</p>
7.9 Subject to the transitional provisions contained herein, the chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	✓			<p>The Chairman being non Independent Non-Executive does involve himself with direct supervision of key management personnel or handles executive duties.</p> <p>The duties of the Chairman have been defined and approved by the Board. This does not involve executive duties whatsoever.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption										
7.10 The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.				<p>At Annual General Meetings, shareholders are given the opportunity to express views so that they can take up their concerns and make recommendations.</p> <p>All matters deemed material raised at the AGM are taken up subsequently and followed up by the Board.</p> <p>A Board approved communication policy is in place which specifies AAF's policy of communication with key stakeholders of the company.</p>										
7.11 The chief executive officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.				The Chief Executive Officer functions as the apex executive-in-charge of the day to day- management of the company's operations and business.										
<p>8 Board appointed Committees</p> <p>8.1 Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain Minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committees. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.</p>				<p>The Board has established an Audit Committee, Integrated Risk Management Committee. Board Committees will ensure timely submission of minutes to the Board.</p> <p>A report on the scope, duties and progress made by each Committee has been made available in the 2016/17 annual report as follows,</p> <table border="1" data-bbox="836 1250 1437 1438"> <thead> <tr> <th>Name of the Committees</th> <th>Reference page</th> </tr> </thead> <tbody> <tr> <td>Integrated Risk Management Committee Report</td> <td>116</td> </tr> <tr> <td>Remuneration Committees' Report</td> <td>111</td> </tr> <tr> <td>Audit Committees' Report</td> <td>112</td> </tr> <tr> <td>Related Party Transaction Review Committee Report</td> <td>114</td> </tr> </tbody> </table>	Name of the Committees	Reference page	Integrated Risk Management Committee Report	116	Remuneration Committees' Report	111	Audit Committees' Report	112	Related Party Transaction Review Committee Report	114
Name of the Committees	Reference page													
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Direction requirement (with section number of the Direction)		Complied	Not complied	N/A	Extent of adoption
8.2	Audit Committees The following shall apply in relation to the Audit Committees:				Mr. R.A.T.P.Perera, Chairman of the Audit committees, is a qualified Chartered Accountant and an Independent Non-Executive Director of the company. He started his career at Kreston M.N.S. & Co. (Correspondent Firm of Grand Thornton International) in 1991 in the field of auditing and management consultancy and thereafter joined several leading mercantile companies and has held many senior positions in finance and general management. He is an Associate Member of the Institute of Chartered Accountants of Sri Lanka and Certified Management Accountants of Sri Lanka with over 22 years of experience in finance and auditing, both locally and internationally. He is presently the Group Chief Financial Officer of Asia Capital PLC.
8.2.a	The chairman of the committees shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.				
8.2.b	The Board members appointed to the committees shall be non-executive directors.			All five Directors appointed to the Audit Committees are Non-Executive Directors.	
8.2.c	The committees shall make recommendations on matters in connection with: (i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes. (ii) The implementation of the Central Bank guidelines issued to auditors from time to time (iii) The application of the relevant accounting standards. (iv) The service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.				Summary of the functions has been disclosed in the Audit Committee report on page 112 of the 2016/17 Annual Report.

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
8.2.d The committees shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.				The Committee has obtained representations from the external auditors on their independence through a letter of Engagement, and that the audit is carried out in accordance with Sri Lanka Auditing Standards.
8.2.e The committees shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines.				<p>The external auditors (Messrs. BDO Partners) engage in the following engagements with the company other than the annual financial audit.</p> <ul style="list-style-type: none"> • The internal control and corporate governance review • Review Engagement of Financial statements • Special Information system audit <p>Above non-audit services do not harm the independence of external auditors according to the terms of reference of the audit committees as well as applicable standards.</p>
8.2.f The committees shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit.				The nature and scope of the audit have been discussed and finalized, with the external auditors in accordance with Sri Lanka Auditing Standard.
8.2.g The committees shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein.				<p>The Committees reviewed the financial statements and the Annual report to ascertain the quality and integrity of the information contained therein.</p> <p>Based on the review of the Committees, necessary changes were made by the Finance Department to the financial statements and other information contained in the Annual report.</p>

Direction requirement (with section number of the Direction)	Complied	Not	N/A	Extent of adoption
		complied		
<p>8.2.h The committees shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	✔			<p>The Committees met the External Auditors, Messrs. BDO partners this financial period without the presence of the corporate management to discuss matters arising from the management letter issued for the past audit period and to discuss other concerns.</p>
<p>8.2.i The committees shall review the external auditor's management letter and the management's response thereto.</p>	✔			<p>The external auditor's management letter and the management response have been reviewed by the Board of Audit Committee.</p>
<p>8.2.j The committees shall take the following steps on an internal audit:</p> <p>(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</p>	✔			<p>Internal Audit scope, functions and resources of the department were ascertained for AAF's own Internal Audit division. It was concluded that, AAF's own Internal Audit would be strengthened in the next few years to handle growing branch operation review.</p>
<p>(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</p>	✔			<p>The Audit Committees were submitted separate Audit Programs by Internal Audit division of the company for the financial year 2017/2018 which was affirmed by the Committees.</p> <p>Board of Audit Committee reviewed the Internal audit reports and made recommendation on therein.</p>
<p>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</p>	✔			<p>Performance of Internal auditors was reviewed this period by the Committees. Concluded that all required audit deadlines were met and qualities of reports were satisfactory.</p>



Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;			✓	There is no any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function.
(v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resignation.	✓			The changes of the senior staff members of the internal audit function have been made under the review of the Audit Committee members.
(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	✓			<p>The Internal Audit Division functions independent from other divisions and reports directly to the Audit Committees. The Audit Division comprises officers who are either part or fully qualified Chartered Accountants.</p> <p>Assistant General Manager Internal Audit – Mr. D.K.H.Liyanage (Master of Business Administration (MBA) from Wayamba University of Sri Lanka, is an associate member of Institute of Cost and Executive Accountants (ACEA) of United Kingdom and holds an Executive Diploma in Business Administration (EDBA) from the University of Colombo, Part qualified Chartered Accountant).</p>
8.2.k The committees shall consider the major findings of internal investigations and management's responses thereto;	✓			<p>There were no special investigations carried out by Internal audit or any other party in 2017/2018 period.</p> <p>However, Board of Audit Committee has considered the findings of internal investigations and management's response thereto at the meeting.</p>


Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.2.1 The chief finance officer, chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the chief executive officer may also attend meetings upon the invitation of the committees. However, at least once in six months, the committees shall meet with the external auditors without the executive directors being present.</p>		✓		<p>The Assistant General Manager Finance or Chief Operational Officer and Chief Executive Officer attended meetings on invitation in addition to AAF's own Internal Audit officers.</p> <p>The External Auditors were invited in March 2018 only. To the purpose of meet the committees and discuss matters arising from their statutory audit. The frequency of meeting the external auditors would be increased in the next period.</p>
<p>8.2.m The committees shall have:</p> <p>(i) explicit authority to investigate into any matter within its terms of reference</p> <p>(ii) The resources it needs to do so</p> <p>(iii) Full access to Information</p> <p>(iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.</p>		✓		<p>Audit Committees' Terms</p> <p>The Board approved terms of reference of the Audit Committees, allow the Committees to investigate into any matter that it deems necessary within its wide powers. The committees operate under following terms;</p> <ul style="list-style-type: none"> • Examine any matter relating to the financial and other connected affairs of the Company. • Monitor all Internal and External Audit inspection programs. • Review Internal and External Audit Reports and follow up on recommendations. • Review the efficiency of Internal Control Systems and Procedures, in place. • Review the quality of Accounting Policies and their adherence to statutory and regulatory compliance. • Ensure that a well-managed, sound financial reporting system is in place to provide timely and reliable information to the Board of Directors, Regulatory Authorities, Management and all other stakeholders. • Ensure Company's policies are firmly committed to the highest standards of good corporate governance practices and operations conforming to the highest ethical standards.

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
8.2.n The committees shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	✓			<p>The Committees has met nine times during the 2017/18 financial year.</p> <p>The Secretary to the Audit Committees kept duly perfected Minutes in a manner that captures the essence of the meeting discussions and conclusions.</p> <p>Section on “Audit Committees “given on the page 112 of the 2016/2017 annual report provides specific details on meetings held, matters discussed and how the Committee record its decisions.</p>
8.2.o The Board shall, in the Annual Report, disclose in an informative way, <ul style="list-style-type: none"> (i) details of the activities of The audit committees (ii) The number of audit committees meetings held in the year (iii) Details of attendance of each individual member at such meetings. 	✓			<p>Details of activities carried out by the Audit Committees and Meetings held this period with the participation status have been disclosed on page 112 of the 2016/2017 Annual report.</p>
8.2.p The secretary to the committees (who may be the company secretary or the head of the internal audit function) shall record and keep detailed Minutes of the committee meetings.	✓			<p>The Company Secretary, P R Secretary acts as the secretary to the audit committees keeping record of meeting proceedings.</p> <p>Please refer 8. 2 (n) above for further information on keeping Minutes.</p>

Direction requirement (with section number of the Direction)	Complied	Not	N/A	Extent of adoption
	complied			
<p>8.2.q The committees shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committees shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditors.</p>				<p>Open door policy</p> <p>The Open door policy of the Company allows employees to approach any member of the corporate management, human resource department or failing to which to meet the CEO and express their views and concerns at any given moment.</p> <p>Based on formal staff communicates to Human Resource Division informal information gathered, management would decide and initiate investigation. The investigation process is laid down in "Fraud Policy" document issued in 2013.</p> <p>No material matters were reported to the Human Resource Division necessitating investigation this period.</p> <p>Whistle blowing mechanism</p> <p>The Audit Committees approved the "Fraud Policy" developed by the Internal Auditors that formalize the process of "whistle blowing and investigation". A clear formal process is laid down by which employees could raise concerns of a possible fraud and how the investigation process would take place.</p> <p>Relationship with External Auditors</p> <p>The External Auditors have direct access to the Audit Committees to raise any concerns so that any such matter could be followed upon independently without hindrance or distortion. The Committees keep rapport with the External Auditors annually meeting them at least once to discuss matters.</p>
<p>8.3 Integrated Risk Management Committees (IRMC)</p> <p>The following shall apply in relation to the Integrated Risk Management Committees:</p>				<p>Integrated Risk Management Committees (IRMC)</p> <p>In keeping with the requirements of this section, IRMC was established under clear terms of reference. The board shall appoint the committee from time to time and its composition shall be reviewed at least once in every 2 years. The Committee comprises three Non-Executive directors, CEO & COO where the AGM - Finance and Compliance Officer attend by invitation.</p>


Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.3.a The committees shall consist of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committees shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committees.</p>				<p>The Committees met Six times during the 2017/2018 financial year to expedite its obligations based on the scope specified;</p> <ul style="list-style-type: none"> • Consider any proposed changes to the IRM framework, including any proposed changes to risk appetite, and make recommendations to the board. • Agree key risk strategies and key risk policies to be adopted by the group and recommend for approval by the board. • Consider on behalf of the board reports that assess the nature and extent of the risk facing the group, including consideration of risk issues arising in connection with the companies of annual business plan, prior to final discussion of that plan by the board. • Review and recommend to the board for approval the statement to be included in the annual report concerning risk management. • Consider on behalf of the board the methods and assumption used to prepare the company's individual capital assessment (ICA) and the AAF internal capital adequacy assessment process (ICAAP) and the outputs and make recommendations to the board. • Consider the company's capital in respect of risk and capital adequacy and make recommendations to the board. • Review, monitor and consider on behalf of the board material issues arising in relation to the internal model, the own risk and solvency assessment (ORSA) and the capital management strategy; make recommendations to the board as required. • Consider significant new business initiatives / proposals from a risk viewpoint and make recommendations to the board. • Provide input to the remuneration committee to ensure that risk is properly considered in the sitting of remuneration. • Monitor the IRM framework and ensure its effectiveness, soundness and integrity.



Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.3.b The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.</p>	✓			<p>In accordance with the terms and reference, the IRMC committees normally meets on a quarterly basis and monitor key risks covering credit risk, interest rate risk, and market risk, operational and other risk deemed necessary.</p> <p>Please refer section 8.3 (a) above on tasks handled by the Committees.</p>
<p>8.3.c The committees shall review the adequacy and effectiveness of all management level committees such as the credit committees and the asset-liability committees to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committees.</p>	✓			<p>The Committees reviewed the effectiveness of the Management Committees, studying management information presented at weekly forums.</p> <p>Next period, the Committees plan to review the effectiveness of the Assets and Liabilities Management Committees and the Credit Committees.</p>
<p>8.3.d The committees shall take prompt corrective action to mitigate the effects of specific risks in case, such risks are at levels beyond the prudent levels decided by the committees on the basis of the finance company's policies and regulatory and supervisory requirements.</p>	✓			<p>The Board reviews the areas of risk limits for management level committees.</p> <p>The Committees did not come across risks that went beyond the prudent levels of risks. However, immediate action was specified whenever risk material in nature was brought to committees' attention.</p>
<p>8.3.e The committees shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.</p>	✓			<p>The Committees only met six times on a quarterly basis during this financial year.</p> <p>Section 8.3 (a) provides key risk management aspects overseen by the Committees.</p>



Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>8.3.f The committees shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committees, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.</p>			✓	The Committee already implemented the process of drawing up a formal disciplinary action procedure for the IRMC.
<p>8.3.g The committees shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.</p>	✓			The Minutes of the committee are circulated by the Secretary to the committee members with the approval of the chairman of the committee and, if requested, would be submitted to the Board.
<p>8.3.h The committees shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committees periodically.</p>	✓			<p>A dedicated compliance officer at senior level oversees compliance function of the company. She provides feedback to the IRMC and the Board of status on AAF's adherence to key regulation specifying CBSL and FIU and FTRA requirements. Accordingly, a compliance checklist was prepared and tabled through Executive Director for the information and necessary attention of the Committees.</p> <p>The compliance with prudential requirements, regulations and laws is [disclosed in the "Annual Report of the Board of Directors" on page no.113 of the 2016/17 annual report.</p>
<p>9 Related party transactions</p> <p>9.1 The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.</p>		✓		<p>Directions relating to the Finance Companies (Lending) No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 have been complied with.</p> <p>No lending's have been made to Directors of the company/ to its holding company/ as per above Direction.</p>





Direction requirement (with section number of the Direction)	Complied	Not	N/A	Extent of adoption
	complied			
<p>9.2 The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with who shall be considered as “related parties” for the purposes of this Direction.</p>				<p>Transactions with related parties are carried out only with due diligence. Any transaction entered into by the Company with any such related party has been carried out on an arms-length basis at prices that were applicable to similar other unrelated customers of the company depending on the risk profile of the entity and AAF’s pricing structure.</p> <p>No favourable treatment has been given to related parties for transactions effected by the company directly with such parties. Related party transaction information is captured and is reported in accordance with the provisions of this section and Sri Lanka Accounting Standards (LKAS – 24) on “Related Party Transactions”.</p> <p>Director’s interest with contract of the company is disclosed on page 175 of the 2016/17 annual report.</p> <p>Further, all directors have made directors’ interest declaration for the financial year 2017/18.</p> <p>Further, AAF has disclosed related party transactions under the notes to the financial statements on pages 174 of the 2016/17 annual report.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>9.3 The transactions with a related party that are covered in this Direction shall be the following:</p> <p>(a) Granting accommodation,</p> <p>(b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,</p> <p>(c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company,</p> <p>(d) Creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.</p>				<p>Necessary disclosures in relation to all related party transactions entered by AAF have been disclosed on pages 174 of the 2016/17 annual report under notes to the financial statements. Disclosures pertaining to Directors' interest in contracts are given from page 175 of the 2016/17 annual report.</p> <p>All related party transactions mentioned therein have been carried out on an arms-length basis as per provisions of this section.</p>
<p>9.4 The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents of the finance company.</p>				<p>The company has not entered into any transaction in a manner that would grant the related party "more favorable treatment" than, if dealt with an unrelated customer.</p> <p>Please see section 9 (3) above which specifies "related party transactions" and "Directors' interest in contracts" and related disclosures and AAF's policy in this regard.</p>

Direction requirement (with section number of the Direction)	Complied	Not	N/A	Extent of adoption
		complied		
10 Disclosures				The company complied with applicable accounting standards including the IFRS requirements introduced since 2012/13 by CA Sri Lanka. The financial statements also conform to other regulatory requirements including the Finance Business Act, the Companies Act and rules specified by Colombo Stock Exchange.
10.1 The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that				Quarterly publications of interim results for the period ended 30th September 2017 have been published in following newspapers, Sinhala - Lankadeepa on 21st December 2017 English - Daily Mirror on 21st December 2017 Tamil - Werakesari on 21st December 2017
(b) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.				
10.2 The Board shall ensure that at least the following disclosures are made in the Annual Report:				The Directors' Responsibility Statement given on page 108 of the 2016/17 annual report provides an affirmation that the annual audited financial statements have been prepared in line with applicable accounting standards and applicable regulatory requirements.
a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.				

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
<p>b) A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</p>				<p>The Boards report on the effectiveness of the company's internal control mechanism over financial reporting given under the "Directors Statement on Internal Control over Financial Reporting" given on pages 110 in the 2016/17 Annual report, provides required disclosure to comply with this section.</p>
<p>c) The external auditor's certification on the effectiveness of the internal control mechanism referred to in subparagraph (2) (b) above, in respect of any statements prepared or published from the date of this Direction.</p>				<p>The External Auditors certification on the effectiveness of the internal control mechanism over financial reporting has been disclosed on Page 110 of the 2016/17 annual report.</p>
<p>d) Details of Directors, including names, transactions with the finance company.</p>				<p>Directors' information including their names and other details are provided on page 21 to 25 of the 2016/17 annual, report while their transaction details are disclosed under the "Directors' Interest In Contracts" on page 105 of the 2016/17 annual report and in the "related party disclosure" note in the financial statements on page 174 of the 2016/17 annual report.</p>
<p>e) Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010</p>				<p>Details of Directors' remuneration in aggregate are disclosed on page 174 to 175 of the 2016/17 annual report in "Notes to the financial statements".</p>

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
f) Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	✓			<p>Total accommodation to related parties of AAF has been disclosed on Page 174 to 175 in the notes to the financial statements of 2016/17 annual report.</p> <p>There have not been related party transactions exceeding 10% of the equity during the 2016/2017 financial year.</p>
g) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	✓			<p>Aggregate values of remuneration paid and transaction carried out by Key Management personnel are disclosed under “Directors’ interest in contracts” on page 105 and in the “related party disclosure” in the notes to the financial statements on page 174 to 175 of the 2016/17 annual report. As per the company’s classification, Directors solely come under the definition of Key Management Personnel for the provisions of this section.</p>
h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	✓			<p>A compliance checklist on AAF’s adherence status to CBSL regulations is given on page 115 of the 2016/17 annual report.</p> <p>“The Annual Report of the Board of Directors” signed by the Directors given on page 21 to 25 of the 2016/17 annual report gives a collective confirmation on AAF’s compliance with applicable laws and regulations.</p> <p>In addition, the statement of “Directors Statement on Internal Control over Financial Reporting” given on page 110 of the 2016/17 annual report confirms AAF’s compliance to regulations on financial reporting.</p>

Corporate Governance

Direction requirement (with section number of the Direction)	Complied	Not complied	N/A	Extent of adoption
i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public with the measures.			✓	There were no significant lapses in Company's risk management or non-compliances to be included in the corporate governance report.
j) The external auditor's certification of the compliance with the Corporate Governance Directions in the annual corporate governance reports published from the date of this Direction.	✓			The Company has obtained a certificate from external auditors over the compliance of corporate governance directions issued by the Director, Department of Non-Bank Supervision of the Central Bank of Sri Lanka. Further the Company is in the process of strengthening certain procedures based on the recommendations made by them.

	Name of the Director	Attendance at Board Meetings												
		23/04/2017	20/05/2017	23/06/2017	19/07/2017	31/08/2017	31/08/2017	26/09/2017	28/10/2017	27/11/2017	19/12/2017	26/01/2018	09/02/2018	16/03/2018
1	Mr. H.L.L.M. Nanayakkara	√	√	√	√	√	√	√	√	√	√	√	√	√
2	Mr. R.J.A. Gunawardena	√	√	√	√	√	√	√	√	√	√	√	√	√
3	Mr. C. Ramachandra	√	√	√	√	√	√	√	√	√	√	√	√	√
4	Mrs. D.P. Pieris	x	√	√	√	√	√	√	√	√	√	√	√	√
5	Mr. R.A.T.P. Perera	√	√	√	√	√	√	√	√	√	x	√	√	√
6	Mr. G. Alexander	√	√	√	√	√	√	√	√	√	√	√	√	√
7	Mr. K.R. Bijimon	√	√	√	√	√	√	√	√	√	√	√	√	√
8	Mr. R. A. B. Basnayake	√	√	√	√	√	√	√	√	√	√	√	√	√
9	Mr. K. G. K. Pillai	√	√	√	√	√	√	√						
10	Mr. J.P.D.R. Jayasekara											√	√	√

Risk Management Review

Introduction:

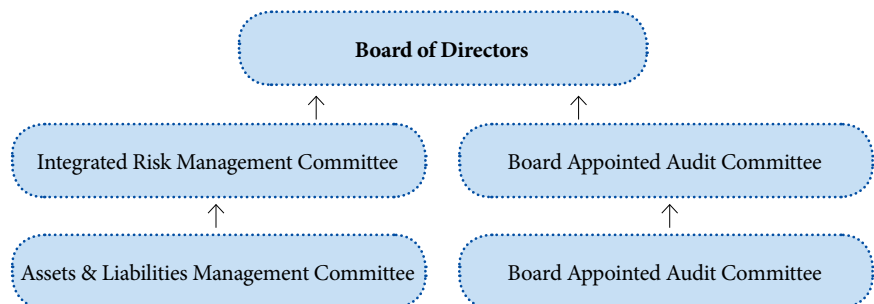
Effective risk management is fundamental to being able to generate sustainable profits and is thus an important aspect of the financial and operational management of Asia Asset Finance PLC [AAF]. The level of risk across our business and uncertainties we face are key areas of focus for the Board. Financial strength and resilience are at the heart of our strategic intent. We are committed to achieving the highest standards of corporate governance in every aspect of the business, including risk management. In discharging the governance responsibility, the Board of AAF is conscious of the need to manage risk within the preset parameters, which ensures that risk oversight is a critical focus for our Board. The overall adequacy and effectiveness of the risk management framework is managed through the Integrated Risk Management Committee (IRMC) which comprises of the three Directors and senior level staff member, the Board Audit Committee (BAC), which comprises solely of five Directors and the Assets and Liabilities Management Committee (ALCO) which comprises of the Executive Director and senior level staff members in charge of key business functions. This process is also supported by the Internal Audit Department. Acting within the authority delegated by the Board with clear Terms of References, these committees review specific risk areas and receive regular reports on internal controls, risk management, portfolio trends, policies, limits and standards. We focus on setting clear risk parameters and embedding a strong culture of risk management and control designed to ensure the proactive identification of risks which in turn will enable the company to be resilient and respond effectively to any unforeseen shocks. We continue to build on

the company's culture of risk management discipline. Our risk management framework is designed for the continuous monitoring of the environment and an integrated evaluation of risks and their impact to AAF. A formal governance structure, with a clear, well designed framework of risk ownership, standards and policies is in place. Beyond credit risk, we are also exposed to a range of other risk types such as liquidity risks, market risk which includes interest rate risk, operational, strategic and other risks which are inherent in our business strategy, product range and geographical coverage. In 2017/18, we continued to strengthen our approach to risk management amidst a challenging external environment. We have responded to changing market conditions by re-deploying risk capacity towards sectors offering better returns on risk.

Organization of Risk Management

Risk management at AAF is conducted through a mosaic of interlocking controls by the Board members and officers as detailed above. There are four Committees that have the principal responsibility of risk management of the Company.

Risk Management Framework.



i) Integrated Risk management Committee

The risk management Committee is a Sub Committee of the Board, staffed with a full time risk manager and several other key members of the management. It assesses the medium term risks of the Company and reports to the Main Board.

ii) Board Appointed Audit Committee

Organizational policies and procedures are supervised by the designated management and reviewed by the Internal Auditor. The Internal Audit Committee is a Sub Committee of the Board, assisted by the Internal Auditor and his staff, who submit their observations to the Committee.

iii) Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) consisting of several key managers and Executive Director meet monthly to assess short term liquidity and other risks.

Risk Management Review

iv) Internal Audit department.

Organizational policies and procedures are supervised by the designated management and reviewed by the Internal Audit department. The department consist of qualified AGM and Ten staff members.

Credit Risk:

Credit risk is the potential for loss due to the failure of a counter-party to meet its obligations to pay AAF in accordance with agreed terms. Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. A well-defined hierarchy of delegated approval supported by high ethical standards and well established policies and procedures provide a robust framework for the management of credit risk. There is a clear segregation of duties between transaction originators [Marketing Department] in the business units and approvers in the credit function [Credit Department]. All credit exposure limits are approved within a delegated credit approval authority framework approved by the Board of Directors. Risk indicators are also set by the company and monitored through the Board of Directors and IRMC on a monthly and quarterly basis.

Credit Policies

Company-wide credit policies and procedures are considered and approved by the Board of Directors, with inputs from Credit and Recoveries Departments. The Board of Directors also oversees the delegation of credit approvals and the loan impairment assessment processes through regular reviews. These policies are adequate to reflect the different risk environments and portfolio

characteristics of the company. The Board approves changes to the delegated authority levels pertaining to credit as and when considered necessary.

Credit Concentration

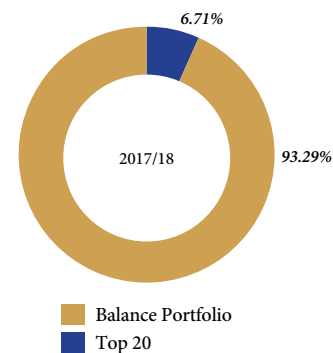
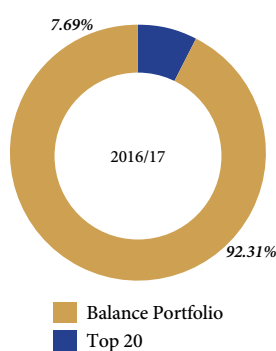
The risk of loss due to the concentration of credit risk to a specific product, asset class, sector, geographical area or counter party. Credit concentration risk is managed within limits set for counter party or groups of connected counter parties, asset type, industry sectors, etc. Credit concentrations are monitored by Credit Committee and IRMC in each of the product type categories and such limits as material to the company are reviewed accordingly. Diversification is an important aspect of our management of risk to ensure that we are not overly dependent upon a particular geographical area/region or asset/product type. The IRMC also reviews the top 20 lending exposures at its' quarterly meetings. Performance of large lending exposures and customers considered as risky too is reviewed periodically through a customer watch list.

Credit Monitoring and Measurement

We regularly monitor credit exposures, portfolio performance and external trends which may impact risk management outcomes. Internal management reports are presented to various committees, containing information on key industry and economic trends. Portfolio delinquency and loan impairments as well as portfolio quality are constantly monitored by the Recoveries Department. The principal objective of credit risk measurement is to produce the most accurate possible quantitative assessment of credit risk to which AAF is exposed, from the level of individual facilities up to the total portfolio. Integral to this is the use of a model.

Secured vs Unsecured Portfolio

The company was concentrating mostly on unsecured portfolio with high yielding products such as Micro Finance, Group Personal Loans and Business Loans. However with the changes in the Macro Economic factors the company has changed its strategy and is moving towards more secured lending portfolio with products such as Gold Loans, Leasing and Mortgage Loans.



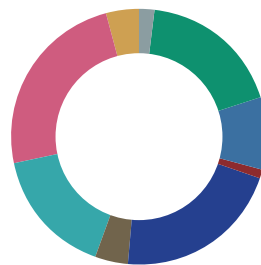
The company has learned over the years that whilst having a diversified portfolio will disperse the risks among many products; having too many products too will pose a risk as it will divert the focus, resources and the attention to many areas weakening overall management of portfolio. Thus the company has adopted a policy of concentrating on core products and curtailing/ discontinuing risky or low yielding products. In this regard we have completely discontinued the Factoring operation successfully closing the facility of our last remaining customer this year.

Portfolio Diversification.

The Company uses several criteria to measure the degree of the portfolio diversification in assessing risks. The below chart depicts the current status of the portfolio diversification. AAF may have a large loss despite the loans being distributed in small quantities among a large numbers of borrowers despite the portfolio consisting of agglomeration of small loans. Despite the portfolio diversification; due to excessive industry products or geographical of risks and concentration, it is my considered judgment the Company has acceptable levels to minimize the risk of excessive concentration in addition to the portfolio consisting of agglomeration of a large number of small loans.

Another measure of this diversification of the product wise distribution of the portfolio is presented in the accompanying pie chart. The degree of diversification is important as for example a particular single product group may be impacted deferentially due to economic conditions. A measure of which indicates project dispersion indicating very low risks to the portfolio by a single default. The accompanying pie chart demonstrates 61% of the loans portfolio consisting of Micro

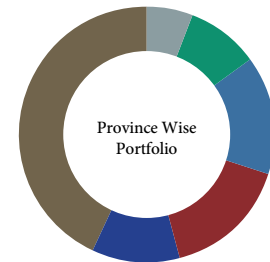
Finance, Group Personal Loans, Business Loans and Gold Loans. Of these loan types high yielding and product growth is expected to be in Business Loans, Micro Finance and Gold Loans, as these remain the primary strategic of the Company.



- Loans Against Deposits - 4%
- Business and Corporate Loans - 24%
- Micro Finance - 16%
- Mortgage Loans - 4%
- Leases - 21%
- Hire Purchase - 1%
- Group personal loans - 9%
- Gold Loans - 18%
- Cheque Discounting - 2%

regional political uncertainties and regional ethnic tensions.

The following chart depicts the current geographical distribution of the portfolio. It may be noted that 10% of the loans originate in Head office branch and a further 10% in Kurunagala and 9% in Moratuwa.

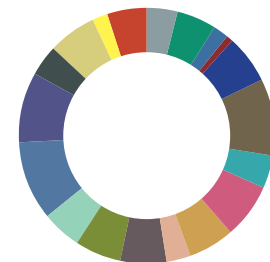


- Western - 43%
- Southern - 11%
- Northern - 16%
- North Western - 15%
- Eastern - 9%
- Central - 6%

The IRMC periodically review in detail the exposure and status of the top 20 customers in of rank order. The top ten in size represent 4% of the total accommodations, which in turn forms 20% of the shareholders equity. While the top ten accounts for the 4% of the total accommodations, the other measures of risks attempts to assess the remaining 90%.

Geographical Concentration Risk.

Tracking geographical distribution of portfolio is important to avoid risks associated in location concentrations of accommodation. The goal is to avoid having excessive concentrate of risks in a single geographical area due to weather conditions, natural disaster, regional economic conditions,



- Wennapuwa - 5%
- Point Pedro - 2%
- Negombo - 6%
- Matara - 4%
- Moratuwa - 9%
- Kurunagala - 10%
- Kilinochchi - 5%
- Kaluthara - 6%
- Jaffna - 6%
- Hatton - 3%
- Gampaha - 6%
- Galle - 7%
- Digana - 4%
- Head office - 10%
- City office - 6%
- Chilaw - 1%
- Chavakachcheri - 2%
- Chenkalady - 5%
- Batticaloa - 4%

Risk Management Review

Market Risk

Market risk is the potential for loss of economic value due to adverse changes in financial market rates or prices. The risk arising from fluctuations in interest rates, foreign currency, credit spreads, equity prices, commodity prices and risk related factors such as market volatilities are considered under this. The objective of our market risk management is to obtain the best balance of risk and return whilst meeting customer requirements.

Managing market risk is a key priority given the volatile nature of the market and frequent policy changes that can have an adverse impact on the Company's line of businesses. This is the risk that the value of the portfolio will decrease due to change in value of the market risk factors. These are due to changes in interest rates, exchange rates, equity prices, commodity prices and so on. An effective pricing policy is in place to monitor and fix the lending rates to maintain a minimum spread in order to maintain company's profitability in line with the budget.

Commodity Risk of the Underlined Security

1. Commodity risk of the underlying.
2. Moral hazard in the transaction due to asymmetry of information.

AAF officials may be unable to detect that the gold being mortgaged is of the right quality and/or the borrower does not have the proper legal title to the asset. Some of these risks are covered through insurance. Innovative measures to hedge gold prices.

Gold is a hedging product that is available in the international commodity exchange. It is an important feature of the financial landscape of the country, with many individuals holding gold as a form of savings, having the ability to convert these savings into liquid cash is important.

Therefore we are in the process of making representations with investment advisory company.

Our experience, we believe that Gold Loans are used to finance both for consumption and production activities e.g. along the coastal belt Gold Loans are utilized by the fishing community. This is also the experience of our parent company. As we anticipate our presence in the Gold Loan Market to increase in the coming years. We believe continued presence in gold lending is an important social activity and hope to improve by utilizing modern techniques to manage risks which will transform the industry practices in Sri Lanka.

Manage Gold Loans Exposure

The Company has in place a comprehensive set of a list of mitigation processes to manage gold loans risk. Principals secured together with accrued interest secured on gold, Consist of approximately 86% of the portfolio. The control system consists of:

- i) The organizational and administrative controls.
- ii) Regular systematic audits.
- iii) Training and Technology transfer.

The technical support from Muthoot Finance comes in many forms, including classroom training; onsite training of management; and training of management staff in India and adoption of audit and other processes practiced by Muthoot Finance in India.

Muthoot audit staff also makes 'on site' visits in Sri Lanka to train and develop our staff and conduct physical verification of gold items, including checks based on statistical Risk Management techniques.

Gold Loan Provisioning Policy

AAF conducts an automated process of reviewing each and every accommodation, on the basis of the total amount lent accumulated interest, value of security based on current market prices; value at risk; to accommodate impact of a potential drop in the value of any of the security due to a drop in commodity price.

The process is carried out on a monthly basis. This provides information to the management to rapidly respond to a potential of defaulters, and to create adequate buffer for losses via a provision; and by speedy disposal and auction of gold and prompt disposal of the security of defaulting clients.

As at 31st March 2018, the Gold Loan portfolio did not require any provisions. The provisioning policy is based on the market value of secured gold at current market prices, less potential of fall in gold on commodity price volatility computed on the basis of 50 years data at a 95%, certainty level for a period of one month; a technique based on the concept of value at risk.

AAF conducts prompt auctions of mortgaged gold of defaulters, and to date several auctions have been conducted without any losses to AAF. One of the principal tools of managing Gold Loan risks is the loan to value ratio. AAF does not provide loans at the full value of the Gold Mortgage. Currently AAF lends only 80% of the value of gold. This portion is reviewed from time to time based on expert opinion on commodity price. This in effect creates a buffer for the paid interest in case of default and a buffer for a drop in value of the underlined security due to a drop in commodity price.

Operational Risk:

The risks of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events comprise Operational Risks. We seek to minimise exposure to operational risk, subject to cost trade-offs. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring. The Board appointed Audit and Integrated Risk Management Committees oversee the management of operational risks including information technology and legal, across the network and at the centre, with the support of the Internal Audit Department which is separate from the business functions. In addition, the Audit Committee also receives and reviews the management letter of the external auditor. This formal structure of governance provides the Board with assurance that operational risks are being proactively identified and effectively managed. All business units are responsible for maintaining key performance standards for operational risk management. Possible losses to the company's assets due

to unforeseen events have been covered with comprehensive insurance policies.

Liquidity Risk:

Liquidity and funding risk is the potential that the company does not have sufficient financial resources or stable sources of funding in the medium or long term, to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

Policy, Framework and Governance

The company has in place a robust and comprehensive set of policies and procedures for assessing, measuring and controlling the liquidity risk. This ensures that the company always maintains sufficient, eligible and appropriate financial resources to meet its future financial commitments as they fall due. Our Statement of Financial Position and liquidity have remained strong and we surpass the regulatory liquidity thresholds comfortably. It is our policy to maintain adequate liquidity at all times and be in a position to meet all obligations as they fall due.

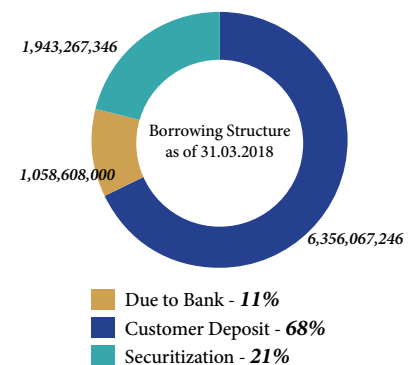
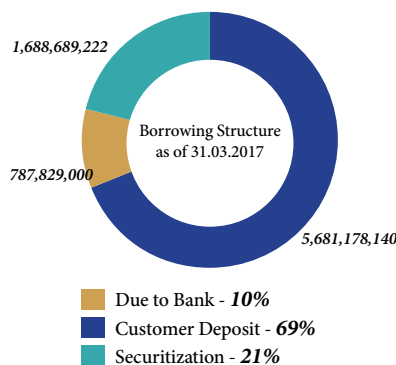
Diversification of the company's funding base is central to our management strategy.

Customer deposits provide stable funding to support majority of our lending. We access a diversified funding base by way of debt instruments such as Securitization and Bank Loans on an unsecured and secured basis as part of our diversification strategy. These sources of funding are complementary to the company's customer deposit mobilizing activities. We maintain a contingency funding plan by way of undrawn approved bank lines.

Liquidity Measurement and Monitoring

Liquidity risk is monitored regularly by the Asset and Liability Committee (ALCO) of the Company. Which meets once a month to discuss future cash flows and to do a maturity analysis of Assets and Liabilities which are reviewed accordingly. In order to maintain the required liquidity the committee has introduced sound policies to minimize the risk.

During the year, the Company altered its borrowing structure by greater utilization of securitization of receivables and direct borrowings from the banks. The attached pie chart illustrates the shift in the borrowing structure, which also allows the Company to better keep the duration of its assets and liabilities.



Risk Management Review

Liquidity risk is measured and assessed on a regular basis at the Head Office level. The company uses a set of internal and regulatory metrics and analysis to assess liquidity risk. We manage liquidity risk, taking both short and medium-term requirements into consideration. In the short-term, our focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and bank funding where required. In the medium-term, the focus is on ensuring a structurally sound statement of financial position. ALCO is the responsible monitoring body that oversees our liquidity management policies. The Treasury Department receives direction from ALCO and is responsible for managing liquidity limits. Liquidity risk is a standing agenda item at our monthly ALCO meetings. The pricing of deposit maturities are done in a way to curb the maturity mismatches between our lending and borrowing portfolios.

Maturity Mismatch

Maturity mismatch is one of the most significant risks with financial institutions, particularly as they lend long and borrow short. This risk is measured on a monthly basis by the ALCO and reviewed quarterly by the IRMC.

In addition to the above, the ALCO also considers environmental shocks due to economic and other changes in the environment, e.g. issues relating to other changes in the environment, weather conditions, such as drought or flooding. Consequent to the Central Bank decision to change the standing lending facility rate by 25 basis points in Apr 2018, hence the management reviewed the budgetary impact of including collection and disbursement activities for review of the Board

Capital Risk

Our approach to capital management is driven by our strategic and organizational requirements, taking into account the regulatory, economic and commercial environment in which we operate. We aim to maintain a strong capital base to support the risks inherent in our business. For regulatory purposes, our capital base is divided into two main categories, namely Core Capital (Tier 1) and Total Risk Weighted Capital.

Capital Adequacy is one of the critical aspects of risks inherent in a Finance Institution. Capital Adequacy provides the investors with a confidence of the capacity of the Financial Institute to raise more debt funding; and the ability to absorb a shock in case of default. The Capital Adequacy Ratio of AAF is 21.25%, which is very high compared to the Central Bank mandated level of 10%. It appears that AAF's has a robust capacity to absorb significant external shocks and to raise significant amounts of debt capital; and enhance its profitability and improve its growth trajectory and continue to exploit its lending opportunities and improve its rate to the shareholders in the future.

Strategic Risk

Strategic risk is the potential for opportunity losses from failure to optimize the earning potential of the company. The company continuously follows developments taking place in the business environment and formulates its strategies to optimize the opportunities available whilst attempting to manage risks associated with such strategies. Business strategies are adopted after evaluating the overall risks associated with such strategies. A comprehensive strategic

plan for the next three years is in place with quantitative targets. Risks in achieving such targets have also been mapped and are monitored continuously.

Reputational Risk:

Reputational risk is the potential damage to the company, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the company or its actions. Reputational risk could arise from the failure of the company to effectively mitigate the risks in its businesses including credit, liquidity, market, regulatory, legal or other operational risks.

Asia Asset Finance prides itself of its unblemished reputation. The Company ensures that all steps are taken to mitigate any actions which could affect the reputation of the Company. Company priorities on its good governance practices and educates its staff members of the importance of responsible and reliable functioning of its operations. These practices are further monitored by strong policies, procedures and an effective compliance department.

Asia Asset Finance is further guided by its parent company muthoot Finance to ensure our reputational risk is controlled and remains top of our minds during the course of our operations.

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

The Directors of Asia Asset Finance PLC have the pleasure in submitting their Report together with the Audited Financial Statements of the Company for the year ended 31st March 2018.

Principal Activities

During the year the principal activities of the Company was

- i) to carry on the finance business, finance leasing business, Operational leasing, lease purchasing, leasing of all kind of plant, machinery, factories, warehouse, equipment, furniture, and fittings, tools, apparatus, utensils, materials, stock – in – trade and things for any purpose whatsoever.
- ii) To advance or lend money with or without security, upon such terms as may be arranged
- iii) To enter in to Contracts and arrangements with other Companies, firms or persons for the sale or purchase of any goods, vehicles or services,
- iv) To accept time deposit and opening, maintaining and managing deposit.
- v) To guarantee. Indemnity, or become liable for the payment of money or for the performance of any obligation by such other company, firm or person
- vi) To carry on the business of borrowing, raising or taking up of money, the lending or advancing of money either upon or without security.
- vii) To purchase or otherwise acquire, sell, exchange, exploit, develop, turn to account and deal in all kinds of real and personal property in any part of Sri Lanka and any interests therein
- viii) To enter into contracts and arrangements with other Companies, Corporations, Firms, or persons, Government Institutions for promoting and increasing the manufacture, production, sale, purchase and maintenance of all or any movable or immovable properties.
- ix) Subject to the applicable Statutory Regulations, to carry on business as pawnbrokers and moneylenders and as dealers in jewellers and precious stones, gold, silver and plated articles, articles of virtue, coins and medals, and as commission agents and general merchants.
- x) To carry on any other business which is capable of being conveniently carried on in connection with any of these objects
- xi) Subject to the applicable Statutory Regulation, to carry on the business of factors.
- xii) Subject to the applicable Statutory Regulation, to carry on the business of Margin Trading
- xiii) To buy, sell and exchange foreign currency notes and coins, and to encash travellers' cheques subject to the terms and conditions mentioned in permit No. ECD/MC/1015 dated 24.05.2016 issued by the Controller of Exchange as may be altered from time to time"

Review of Operations

The chairman's review on pages 10 to 13 which forms an integral part of this report provides an overall assessment of the financial performance of the Company and describes its affairs and the important events of the year.

A detailed analysis of the operations and financial results are provided in the management discussion and Analysis on pages 30 to 43 of this annual report.

Financial Statements

The completed financial statements of the Company has been duly certified by the person responsible for the preparation of the financial statements of the Company have been signed by two Directors on behalf of the Board of Directors and the Auditors and confirm the Company is in compliance with the requirements of the Companies Act No. 07 of 2007. Details are given on pages 123 to 174.

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

Auditors Report

The Auditor's Report on the Financial Statements is given in pages 120 to 122.

Accounting Policies

The accounting policies adopted in the preparation of Financial Statements are given in pages 128 to 145.

Financial Results

Description	2018/17	2017/16
	Rs.	Rs.
Total Income	2,572,365,569	2,130,607,576
Net Interest Income	1,210,175,103	1,101,259,302
Profit before Taxation	222,139,969	315,876,417
Income Tax Reversal/(expense)	(43,914,542)	(37,827,608)
Profit after Taxation	178,225,427	278,048,809
Loans and Advances	7,247,899,368	6,838,366,400
Lease rentals receivable and Hire purchase	2,280,489,222	1,424,679,822
Total Assets	11,727,694,421	10,026,935,439
Deposits from Customers	6,356,067,246	5,681,178,140
Total Equity	1,858,932,271	1,736,891,866

Dividends

Company has paid dividend Rs.0.07 per share as final dividend from the profit of 2016.17 financial year on 24th July 2017.

Property, Plant and Equipment

An analysis of the Property, Plant and Equipment of the Company is disclosed in note 21 of the Financial Statements on page 155.

Stated Capital

The stated Capital of the Company as at 31st March 2018 was Rs.1,388,935,273/-

CSR Expenses

The Company has made CSR expenses of Rs.2,269,275/- during the financial year under review.

Capital Commitments

Capital commitment is zero for software as at 31st March 2018.

Provisions

Impairment Provision is Rs 576,503,773 and Provision for Depreciation is Rs 42,161,928/- and Amortization is Rs 2,999,452/- as at 31st March 2018.

Provision for the Taxation

The provision for Taxation is Rs 43,914,542/-

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory dues have been paid up to date, or have been provided for in the Financial Statements.

Contingent Liabilities

Details of contingent liabilities and capital commitments as at 31st March 2018 are set out in notes 33 and on page 164 of the Financial Statements.

Post Balance Sheet Events

There have been no material events occurring after the reporting date that require adjustments to or disclosures in the Financial Statements.

Risk Management and Internal Control

The Board confirms that there is an ongoing process for identifying, evaluating and managing any significant risk faced by the Company. The Directors review this process through the Audit Committee.

Going Concern

The Board of Directors is satisfied that the Company has adequate resources to continue its operation in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

Directors who held office during the Year

The Directors of the Company during the year were as follows.

Mr. H.L.L.M. Nanayakkara - Non-Executive Director

Mr. R.J.A. Gunawardena - Chief Executive Officer

Mr. C. Ramachandra - Non-Independent Non – Executive

Ms. D. P. Pieris - Non- Executive Director

Mr. R.A.T.P. Perera - Independent Non-Executive Director

Mr. G.M. Alexander -Non-Executive Director

Mr. K.R. Bijimon - Non-Executive Director

Mr.K.G.K.Pillai - Non-Independent Non-Executive

Mr.R.A.B.Basnayake - Senior Independent Non-Executive Director

Mr. J. P. D. R. Jayasekara - Independent Non-Executive Director

Alternate Directors

Mr.K.G.K.Pillai - Non-Independent Non-Executive
(Alternate Director to Mr.K.R.Bijimon)

Appointments during the year

Mr.K.G.K.Pillai - Non- Independent Non-Executive
(Appointed w.e.f (22.03.2018))

Mr. J. P. D. R. Jayasekara - Independent Non-Executive Director
(Appointed w.e.f. (26.01.2018)

Alternate Directors

Mr.K.G.K.Pillai - Non- Independent Non-Executive
(Alternate Director to Mr.K.R.Bijimon)
(Appointed w.e.f.02.10.2017)

Resignations during the year

Mr. H.L.L.M. Nanayakkara - Non-Executive Director
(Ceased as per Articles of Association section 86 (viii))

Mr.K.G.K.Pillai - Non-Independent Non-Executive
(Resigned w.e.f.02.10.2017)

Appointments after the conclusion of the year

Nil

Resignations after the conclusion of the year

Nil

Directors who held office as at the end of the Accounting period

Mr. C. Ramachandra - Chairman

Mr. R.J.A. Gunawardena – Chief Executive Officer

Mr. R.A.T.P. Perera - Independent Non-Executive Director

Ms. D. P. Pieris - Non- Executive Director

Mr. G. M.Alexander - Non- Executive Director

Mr. K.R. Bijimon - Non-Executive Director

Mr.K.G.K.Pillai -Non – Executive

Mr.R.A.B.Basnayake - Senior Independent Non-Executive Director

Mr. J. P. D. R. Jayasekara - Independent Non-Executive Director

Alternate Directors

Mr.K.G.K.Pillai - Non-Independent Non-Executive
(Alternate Director to Mr.K.R.Bijimon)
of the 9 Directors, Mr.R.A.B.Basnayake is non-executive, independent Director and is the Senior Director of the Board.

Directors retiring (at the Annual General Meeting)

- 1) Mrs. D.P.Pieris retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself for re-election in terms of Article 88 of the Articles of Association.

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

- 2) Mr. R.A.B. Basanayake retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself for re-election in terms of Article 88 of the Articles of Association.
- 3) Mr. J.P.D.R. Jayasekara who was appointed to office on 26th January 2018 will cease to be a Director and will be eligible for re-election under to Article 94 of the Articles of Association of the Company.
- 4) Mr. K.G.K. Pillai who was appointed to office on 22nd March 2018 will cease to be a Director and will be eligible for re-election under to Article 94 of the Articles of Association of the Company.

Corporate Governance

The Board of Directors confirm that the Company is compliant with the Finance Companies Direction (Corporate Governance) No.03 of 2008 and section 7.10 of the Listing Rules of the Colombo Stock Exchange.

An Audit Committee, an Integrated Risk Management Committee, a Related Party Transactions Committee and a Remuneration Committee function as Board sub committees with Directors who possess the requisite qualifications and experience. The composition of the said committees is as follows;

Audit Committee as at 31st March 2018

- Mr. R.A.T.P. Perera - (Independent Non-Executive Director) - Chairman
- Mr. C. Ramachandra - (Non-Independent Non-Executive)
- Mr. K.R. Bijimon - (Non-Executive Director)
- Mr. R.A.B.Basanayake - (Senior Independent Non-Executive Director)
- Mr. J.P.D.R. Jayasekara - (Independent Non-Executive Director)

Integrated Risk Management Committee as at 31st March 2018

- Mr. C. Ramachandra - (Non-Independent Non - Executive) - Chairman
- Mr. R.J.A. Gunawardena - (Chief Executive officer)
- Mr. R.A.T.P. Perera - (Independent Non-Executive Director)
- Mr. R.D.S.Gunasekara - (Chief Operating Officer)

Related Party Transaction Review Committee as at 31st March 2018

- Ms. D.P. Pieris - (Non-Executive Director) - Chairperson
- Mr. K.R. Bijimon - (Non-Executive Director)
- Mr. J.P.D.R. Jayasekara - (Independent Non-Executive Director)
- Mr. R.A.B. Basanayake - (Senior Independent Non-Executive Director)

Remuneration Committee as at 31st March 2018

- Mr. C. Ramachandra - (Non-Independent Non-Executive) - Chairman
- Mr. . R.A.T.P. Perera - (Independent Non-Executive Director)
- Mr. G.M. Alexander - (Non-Executive Director)
- Mr. R.A.B. Basanayake - (Senior Independent Non-Executive Director)
- Mr. J.P.D.R. Jayasekara - (Independent Non-Executive Director)

IT Committee as at 31st March 2018

- Mr. R.A.B. Basanayake - (Senior Independent Non-Executive Director) - Chairman
- Mr. C. Ramachandra - (Non-Independent Non-Executive)
- Mr. R.J.A. Gunawardena - (Chief Executive officer)
- Ms. D.P. Pieris - (Non-Executive Director)
- Mr. J.P.D.R. Jayasekara - (Independent Non-Executive Director)

Directors' Interest Register

In terms of the Companies Act No.07 of 2007 an Interest Register is maintained during the accounting period under review. This Annual Report also contains particulars of entries made in the Interest Register.

Directors Remuneration and Other Benefits of Directors

Directors' remuneration and other benefits of directors are stated in the Note 40 on page 170 of the Financial Statements.

Directors' Interest In Shares

Name	No. of Shares as at 31st March 2018		No. of Shares as at 31st March 2017	
		%		%
Pan Asia Banking Corporation PLC/Mr. H. L. L. M Nanayakkara	-	-	22,655,845	2.700%
Mr. R.J.A. Gunawardena	NIL	NIL	NIL	NIL
Ms. D.P Pieris	600,000	0.071%	600,000	0.071%
Mr. R.A.T.P Perera	NIL	NIL	NIL	NIL
Mr. C. Ramachandra	800,000	0.095%	800,000	0.095%
Mr. G.M. Alexander	NIL	NIL	NIL	NIL
Mr. K.R. Bijimon	NIL	NIL	NIL	NIL
Mr. K.G.K.Pillai	NIL	NIL	NIL	NIL
Mr. R.A.B.Basnayake	NIL	NIL	NIL	NIL

Directors' Interest In Contracts

None of the Directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed in note 40 on page 170 of the Financial Statements.

Shareholders Information

The distribution and analysis of shareholdings were as follows;

	As at 31st of March 2018			As at 31st of March 2017		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1-1,000	919	324,316	0.04	908	340,886	0.04
1,001-10,000	760	3,420,750	0.41	774	3,583,273	0.43
10,001-100,000	585	23,971,887	2.86	617	25,046,418	2.98
100,001-1,000,000	209	69,148,207	8.24	234	77,295,207	9.21
1,000,001 & over	29	742,342,673	88.45	37	732,942,049	87.34
Total	2502	839,207,833	100.00	2,570	839,207,833	100.00

	As at 31st March 2018			As at 31st March 2017		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	2485	332,438,733	39.61	2,548	323,417,792	38.54
Non-Resident	17	506,769,100	60.39	22	515,790,041	61.46
Total	2502	839,207,833	100	2570	839,207,833	100

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

	As at 31st March 2018			As at 31st March 2017		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	2,420	176,907,429	21.08	2,475	186,403,052	22.21
Institutional	82	662,300,404	78.92	95	652,804,781	77.79
Total	2502	839,207,833	100	2,570	839,207,833	100

20 Largest holders of equity

Asia Asset Finance PLC Twenty Major Shareholders of the Company as at 31st March 2018			
Name		No. of Shares	(%)
1	Muthoot Finance Limited	503,524,700	60.000
2	Seylan Bank PLC/Dr.thirugnanasambandar Senthilverl	68,326,145	8.142
3	J.B. Cocoshell (PVT) LTD	42,429,508	5.056
4	Mr. S.D.R. Arudpragasam	24,606,384	2.932
5	Mrs. G.I. Vasunthara	19,044,044	2.269
6	People'S Leasing & Finance PLC/MR.W.K.R.Jayakody	15,012,800	1.789
7	Mr. P.A.D.R.U. Pushpakumara	13,065,000	1.557
8	Mr. K.M.S.M. Razeek & Mr. K.S.M. Rajubdeen & Mr. S.M.R. Mohamed	7,400,000	0.882
9	DFCC Bank PLC/P.S.R.Casie Chitty	5,500,000	0.655
10	Code-Gen International PVT LTD	4,241,188	0.505
11	Mr. C.W. Gunasekara	4,155,000	0.495
12	Ceylon Biscuits Limited	3,750,000	0.447
13	DFCC Bank PLC/Mr.K.S.D. Senaweera	3,400,000	0.406
14	Dr. T. Senthilverl	3,399,299	0.405
15	Mr. P.P. Subasinghe	2,781,608	0.332
16	Mr. C.R. Perera	2,589,987	0.309
17	Mr. R.H.M.S.K. Rajakaruna	2,333,309	0.278
18	Mr. S. Abishek	2,193,892	0.261
19	Mr. U.C. Bandaranayake & Mrs. L. Bandaranayake	2,000,000	0.238
20	Fast Gain Internationl Limited	1,590,000	0.189
		731,342,864	87.146
	Other	107,864,969	12.854
	Total	839,207,833	100.000

Share Prices for the Year

	As at 31/03/2018	As at 31/03/2017
Highest during the year	Rs.1.70 (30-06-2017) Rs.1.70 (01-08-2017)	Rs. 1.70 (03-11-2016)
Lowest during the year	Rs.1.20 (28-03-2017)	Rs. 1.20 (28-03-2017)
As at end of the year	Rs.1.40	Rs.1.30

Public Shareholding

Public Holding Percentage as at 31st March 2017 being 39.83% comprising of 2,499 shareholders

Share value as at 31st March 2018	=	1.40
Total number of shares	=	839,207,833
Total Market Capitalization	=	1,174,890,966.20
Float adjusted market capitalization	=	467,966,386.20

The Float adjusted market capitalization of the Company falls under option 4 of rule 7.13.1 (a) of the Listing rules of the Colombo Stock Exchange and the Company has complied with the minimum public holding requirement applicable under the said option.

Annual General Meeting

The notice of the Annual General Meeting is on page 180.

Auditors

The Financial Statements for the year ended 31st March 2017 have been audited by Messrs. BDO Partners (Chartered Accountants) who offer themselves for reappointment. As far as the Directors are aware, the Auditors do not have any relationship (other than that of an Auditor) with the Company other than those disclosed above. The Auditors also do not have any interest in the Company.

The Auditors Messrs.BDO Partners, Chartered Accountants were paid Rs.1,452,000/- as Audit fees by the Company.

A resolution relating to their reappointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



Mr. C. Ramachandra
Chairman/ Director



Mr. Thusitha Perera
Director/Chairman Audit Committee



P.R. Secretarial Service (Private) Limited
Secretaries

15th August 2018

Responsibility of the Directors of the Company

The responsibility of the Directors in relation to the financial statements of the company is set out in the following statement. The responsibility of the Auditors, in relation to the financial statements, prepared in accordance with the provision of the Companies Act No.07 of 2007, is set out in the independent Auditors' Report appearing on page 120. The Directors are required by the Companies Act No.07 of 2007 to prepare financial statements for each financial year, which give a true and fair view of the statements of affairs of the Company as at the end of the financial year and the profit and loss and cash flows of the Company for the financial year.

The Directors confirm that the financial statements of the Company for the year ended 31st of March 2018 have been prepared and presented in accordance with Sri Lanka Accounting Standards and Companies Act No. 07 of 2007. In preparing the financial statements appropriate accounting policies have been selected and applied consistently, whilst reasonable and prudent judgements and estimates have been made.

The Board of Directors of Asia Asset Finance PLC ("Board") holds the responsibility of approving and monitoring the strategic objectives and corporate values of the Company. Further they ensure that these strategies are communicated within the organisation, stakeholders, lenders and creditors. This strategic responsibility extends to cover the overall risk policy and risk management procedures for at least the subsequent three years. The obligations of the Board also extend to reviewing

internal structure and management of the organisation.

The hierarchy of the organisation must be monitored and continually assessed resulting in the identification of capable and qualified personnel whose position must be defined so as to review and oversee the policies, management and the strategic objectives of the business. This periodic assessment of the organisation would result in selection and nomination of Directors to the Board and other personnel to different positions in the hierarchy. The interests of all personnel are brought to notice and lead to lesser conflicts of interests between such persons, their benefits and the Company. This assessment would result in a diverse hierarchy spanning personnel from different fields of expertise representing a wide range of operational and business aspects.

The Board must also draft and implement a succession plan for key management personnel. Communication of such plans, risk policies and other strategic objectives requires regular meetings of the Board. The hiring of Auditors is a duty of the Board so as to ensure that a third party without vested interest in the Company, reviews its operations or assets and examines the conduct of the personnel and the Company in detail, on a regular basis. Such a review must be communicated to all stakeholders with an interest in the operations of the Company so as to improve transparency and trust between the Company and such persons.

The Board has the power to appoint a Chairman and a Chief Executive Officer

in accordance with the Financing Leasing (Corporate Governance) Direction No. 04 of 2009. The Board could seek for independent advice and assistance to supplement the Board in discharging their duties. However, the procedure to receive such assistance could be resolved by the Board. Independency of the Directors could be maintained by ensuring that a Director who has a direct or indirect interest, whether monetarily or personal could abstain from voting for a Board resolution of such a matter and such a Director would not be considered to constitute the quorum. Certain matters could be formally recognised by the Board to lie within their parameters of decision making.

The Board shall, if it considers that the relevant establishment is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to lenders and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the relevant establishment prior to taking any decision or action. The Board shall include in the relevant establishment's Annual Report, an annual corporate governance report setting out the compliance with this Direction. The Board is responsible for ensuring that the Company maintains proper books of accounts of all transactions and prepares financial statements for each financial year which gives a true and fair view of the Company's state of affairs for that time period which is a statutory obligation under Section 150 of the Companies Act No.07 of 2007. The Board shall adopt a scheme of self-assessment to be undertaken by each director annually and maintain records of such assessments.

The Directors have adopted the “going concern basis” in preparing the Financial Statements. Having reviewed the Company’s business plans, the Directors are satisfied that the Company has adequate resources to continue in operation.

The Directors also confirm that to the best of their knowledge all taxes and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees and all other statutory obligations including retirement gratuities as were due as at the Reporting date have been either duly paid or have been appropriately provided for in the Financial Statements.

On behalf of the Board of Directors;



Mr. R.J.A. Gunawardena
Director /CEO



Mr. R.A.T.P. Perera
Director

15th August 2018

Directors' Statement on Internal Control over Financial Reporting

This report on internal control has been presented in accordance with section 10.2.b of the Finance Companies (Corporate Governance) Direction, No 03 of 2008 and the Corporate Governance – Amendment Direction No 06 of 2013.

The Board of Directors (“Board”) is responsible for the adequacy and effectiveness of the Internal Control mechanism in place at Asia Asset Finance PLC (“Company”).

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

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

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting.

The Company has appointed its own Internal Audit team which reviews the Company's compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis. The annual audit

and the internal audit reports are approved by the Board Audit Committee at periodic meetings. The Internal Audit team has been strengthened subsequent to the end of the financial year.

In assessing the internal control over financial reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit team of the Company for suitability of design and effectiveness on an on-going basis. In adopting Sri Lanka Accounting Standards comprising LKAS and SLFRS, progressive improvements on processes to comply with new requirements of recognition, measurement, classification and disclosure are being made whilst some processes as at reporting date were not fully completed.

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

External Auditor's review of the statement

The External Auditor has reviewed the above “Report of the Board on Internal Control” for the year ended 31st March, 2018 included in the annual report of the company. They reported to the Board that nothing had come to their attention that caused them to believe that the statement was inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Company over financial reporting.

By order of the Board



C. Ramachandra
Chairman



Rajiv Gunawardena
Director/Chief Executive Officer



Thusitha Perera
Director/Chairman Audit Committee

15th August 2018

Remuneration Committee Report

Composition

The Remuneration Committee appointed by the Board of Directors includes the following Directors:

- ▶ Mr. C. Ramachandra (Chairman)
- ▶ Mr. R.A.T.P. Perera
- ▶ Mr. H.L.L.M. Nanayakkara (Resigned on 17th March)
- ▶ Mr. G.M. Alexander
- ▶ Mr. R.A.B. Basnayake
- ▶ Mr. J.P.D.R. Jayasekara (Appointed on 20th March)

The Chairman of the Committee, Mr. C. Ramachandra, Mr R.A.T.P Perera, Mr R.A.B Basnayake and Mr. J.P.D.R . Jayasekara are Independent Non-Executive Directors.

Remuneration Policy

The Asia Asset Finance Remuneration Policy aims to draw, motivate and retain talent in a competitive environment. The policy aims to ensure that the total remuneration package is adequately competitive to attract the best talent from the industry.

The Company's remuneration framework for the Chief Executive Officer, Directors and Corporate Management Team is structured to identify the contributions made by them and to remunerate appropriately. The policy further takes into consideration both short-term and long-term objectives of the Company when finalizing incentives.

Scope

The Remuneration Committee evaluates and recommends to the Board of Directors the remuneration packages, annual increments and bonuses of the Chief Executive Officer and the members of the Senior Management in addition to recommending the Directors fees payable to Non Executive Directors.

The Chief Executive Officer, who is responsible for the overall management of the Company, attends meetings by invitation and participates in evaluations except in instances where his own interest, performance and compensation packages are discussed.

The Committee also evaluates and recommends the bonuses and special performance allowances pertaining to the Management level against key performance indicators and goals set out at the beginning of the year. The succession plan in the Company is also evaluated by the Committee.

Fees

All Non-Executive Directors receive a fee for attendance at Board meetings and for serving on sub-committees.

Committee Meetings

A formal meeting of the Committee takes place whenever necessary. During the financial year 2017/18, the Committee met on 3 occasions.



C. Ramachandra
Chairman - Remuneration Committee

15th August 2018

Audit Committee Report 2017-2018

Role of the Audit Committee

The role of the Audit Committee is to assist Board of Directors to oversee the financial reporting system, internal control, internal audit and external audit related affairs of the Company, with a view to safeguarding the interest of the shareholders and all other stakeholders.

Committee Composition

In accordance with the currently accepted Best Practice and Corporate Governance Guidelines, the Board-appointed Audit Committee as at 31st March 2018 comprises five Non Executive Directors of whom two are Independent Directors. The Chairman of the Committee is Mr. Thusitha Perera who is a fellow member of the Institute of Chartered Accountants of Sri Lanka. A brief profile of the members of the Audit Committee is given in the page 75.

The members of the Board appointed audit committee are:

- ▶ Mr. Thusitha Perera (Chairman) - INED
- ▶ Mr. C. Ramachandra - NED
- ▶ Mr. K.R. Bijimon - NED
- ▶ Mr. R.A.B. Basnayake - INED
- ▶ Mr. H.L.L.M. Nanayakkara – NED - (Retired 16th March 2018)

*INED - Independent Non Executive Director
**NED - Non Executive Director

Mr. H.L.L.M. Nanayakkara who was a member of the Audit Committee retired from the Company with effect from 16th March

2018 as per section 4(2) of the direction of the Finance Companies (Corporate Governance) Direction No 3 of 2008 the regulations stipulated by the Central Bank of Sri Lanka.

The Committee's composition met the requirements of the rule 7.10.6 of listing Rules of the Colombo Stock Exchange.

Terms of Reference

The Audit Committee has terms of reference, dealing with its authority and duties, which is established for the purpose of assisting the Board of Directors to effectively carry out its responsibilities relating to financial and other connected affairs of the Company.

The Committee is responsible and reports to the Board of Directors.

The Committee is empowered to:

- Examine any matter relating to the financial and other connected affairs of the Company.
- Monitor all Internal and External Audit inspection programmes.
- Review Internal and External Audit Reports and follow up on recommendations.
- Review the efficiency of internal control systems and procedures, in place.
- Review the quality of Accounting Policies and their adherence to statutory and regulatory compliance.

- Ensure that a well-managed and sound financial reporting system is in place to provide timely, reliable information to the Board of Directors, Regulatory Authorities, Management and all other stakeholders.
- Ensure Company policies are firmly committed to the highest standards of good corporate governance practices and that operations conform to the highest ethical standards, in the best interests of all stakeholders.

Rules on Corporate Governance under “Listing rules of the Colombo Stock Exchange” and “Code of Best Practice on Corporate Governance” issued jointly by The Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka further regulate the composition, role and functions of the Audit Committee.

Meetings

The Committee held nine meetings during the year to discuss the matters coming under their review.

The formalized minutes of the Committee meetings with details of matters discussed are regularly tabled at Board meetings.

The Director/CEO, COO and AGM Internal Audit are invited to attend all meetings. The Committee also invited members of the Senior Management of the Company to participate in the meetings as and when required.

The engagement partner of the Company's external auditors attends meetings when matters pertaining to their functions come up for consideration.

The Company Secretary functions as the Secretary to the Audit Committee.

Financial Reporting

The Committee reviewed the effectiveness of the financial reporting system in place to ensure that the information provided to the stakeholders is reliable and is in strict adherence and compliance with the requirements of the Sri Lanka Accounting Standards and disclosure requirements. Having assessed the internal financial controls, the Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Company's assets are safeguarded and that the financial position of the Company is well monitored.

Independence and objectivity of the external auditors

The external auditors were given adequate access by the Committee to ensure they had no cause to compromise their independence and objectivity. The Committee has also received a declaration from the external auditors as required by the Companies Act No 07 of 2007, confirming that they do not have any relationship or interests in the Company, which may have a bearing on their independence.

Prior to commencement of the annual audit, the Committee discussed with the external auditors their audit plan, audit approach and procedures and matters relating to the scope of audit. The Audit Committee also approved

the fees of the external auditors. The audit results were discussed at the conclusion of the audit, where the Committee reviewed and approved the annual financial statements.

The Audit Committee also reviewed the external auditor's management letter of the previous year with the management's responses thereto.

Regulatory Compliance

The Company's procedures in place to ensure compliance with mandatory Finance Company and other statutory requirements were under close scrutiny.

Internal Audit

The Audit Committee exercises oversight over the internal audit function. The Committee approves the annual internal audit programme and follows up on the progress during the year. Internal audit reports are presented and reviewed on a regular basis. Issues are raised with a risk rating to ensure more attention is given to high risk areas. These reviews examine Management's responses to the issues raised and recommendations to overcome the issues and the implementation plans. The processes and the frequency of audits are dependent on the risk level, with higher risk areas being audited more frequently with greater focus.

Internal Controls

The Audit Committee assessed the effectiveness of the internal controls and procedures for controlling business risk including the controls relating to the use of information technology and is of the view that adequate controls and procedures are in place to provide a reasonable assurance to the Board that the assets of the Company are safeguarded and the financial position of the Company is well monitored.

The Committee also regularly reviews the Internal Control Procedures in place to ensure that the necessary controls and mitigating measures are available in respect of the newly identified risks.



Thusitha Perera
Chairman
Audit Committee

15th August 2018

Related Party Transactions Review Committee Report

The Committee Comprises of the following Directors

- ▶ Mrs D.P. Pieris (Chairperson with effect from 20th March 2018)
- ▶ Mr. C. Ramachandra (Resigned on 20th March 2018)
- ▶ Mr. H.L.L.M. Nanayakkara (Resigned on 17th March 2018)
- ▶ Mr. K.R. Bijimon
- ▶ Mr. R.A.B. Basnayake (Appointed on 20th March 2018)
- ▶ Mr. J.P.D.R. Jayasekara (Appointed on 20th March 2018)

The Role of the Committee

The Committee is entrusted with the responsibility

* To ensure that any related party transaction is conducted in a manner that will protect the Company from conflict of interest which may arise between the Company and its Related Parties.

* To ensure proper review and approval is carried out by the Committee either prior to the transaction being entered into or if the transaction is expressed to be conditional on such approval, prior to the completion of the transaction.

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

*To monitor financial accommodations granted to Key Management Personnel, major shareholders and Related parties.

*To monitor business transactions with institutions where the Directors of the Company have an interest either as Directors or major shareholders.

*To monitor that all related party transactions are transactions on normal commercial terms and not prejudicial to the interests of the Company or its minority shareholders.

Meetings

The Committee met three times during the year to review and discuss related party transactions. The minutes of the meetings were submitted to the Board of Directors.

Activities of the Committee During the Financial Year

The Committee discussed existing transactions with related parties, and recommended the procedure to be followed for future transactions. The Committee is in the process of developing policies and procedures to identify related parties prior to transactions, seek approval where necessary and to report in compliance with regulatory and / or legal requirements.



Ms. D.P. Pieris

Chairperson

Related Party Transactions Review Committee

15th August 2018

Compliance Report

Compliance forms an important part of governance and risk management.

As a well-established Company, we have a responsibility to the people of the nation and all our stakeholders to comply with laws of the land and rules and regulations laid out by the government and various regulators. Our relationships with the Government of Sri Lanka and the relevant regulators—such as the Central Bank of Sri Lanka, the Colombo Stock Exchange, and the Securities and Exchange Commission have always been cordial and spontaneous.

The Company leadership ensures that the employees who are entrusted with the task of engaging with regulators are well trained and competent in their areas of work. They are expected to work closely, accommodate regulatory requirements, and furnish details as sought and to work with utmost care, sensitivity and urgency. The Company remains in close touch with the Central Bank of Sri Lanka, Securities and Exchange Commission and the Colombo Stock Exchange as well as other national regulatory bodies and provide necessary information when requested whilst maintaining high standards of financial reporting.

The Company and its business activities are examined for possible compliance risks that may arise from, among other things, their structures, processes and market conditions. In carrying out its duties, the Compliance Department is guided by the Companies Compliance procedures and guidelines, clearly set out in the Board approved Compliance Policy which is reviewed periodically, and updated as and

when necessary. The Compliance Officer is an integral part of the internal control structure, whose duties include the development of compliance policies and procedures (including best practices);

- Ensuring the practice of the guidelines of Central bank of Sri Lanka and other regulatory bodies and enhance the Corporate Governance of the company.
- Developing compliance policies and procedures (including best practices);
- Monitoring and reporting on compliance related activities across the Company;
- Assisting in the conduct of internal investigations, where required;
- Observing that employees are given adequate training on compliance related activities Further the followings are the status of the level of overall compliance of Asia Asset Finance PLC with regards to the directions and guidelines issued by the key regulatory bodies

The Central Bank of Sri Lanka (CBSL)

AAF has fully complied with the CBSL direction No. 02 of 2011 (Reporting requirements). Currently we have fully complied with the regulations imposed by “Financial Intelligence Unit (FIU)” at Central Bank of Sri Lanka.

Securities and Exchange Commission (SEC)

AAF has fully complied with the directions of Securities and Exchange Commission.

Colombo Stock Exchange (CSE)

AAF has fully complied with the directions of Colombo Stock Exchange (CSE)

The Compliance Unit plays a vital role in mitigating the compliance risk arising out of day-to-day operations, thereby preserving the integrity and reputation of AAF PLC in the eyes of its stakeholders.

Additionally, the approach adopted by AAF towards compliance is a preventive approach which aims to create a corporate culture that stops potential breaches before they occur by raising awareness and educating employees. To this end, the Internal Audit regularly performs the necessary investigative activities, monitor compliance and carry out random checks. Recommendations pursuant to these activities are implemented by the head of the respective division. Recommendations leading to disciplinary action are dealt with by the HR Department. These processes are closely interrelated, in line with the concept of a comprehensive compliance management system.

These steps proved successful with all statutory and regulatory compliance requirements for 2018 being fulfilled. Furthermore, the diligent efforts of the Compliance Department ensured that a high level of compliance was observed across AAF PLC, yielding real results that would protect stakeholders now and in the future.

Integrated Risk Management Committee Report

The Composition of the Committee

The Integrated Risk Management Committee (IRMC) functions as a Board Sub-Committee in compliance with Sections 8 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 with board approved terms of reference.

The IRMC is entrusted with the responsibility to assist the Board to oversee the Risk Management framework of the Company, set the risk appetite and to determine the appropriate tolerable limits, monitor the limits continuously for effective risk management and to overlook the Compliance Function of the Company.

The Committee comprised of the following members,

- ▶ Mr. C. Ramachandra (Chairman from 17th March)
- ▶ Mr. H.L.L.M. Nanayakkara (Resigned on 17th March)
- ▶ Mr. Thusitha Perera
- ▶ Mr. Rajiv Gunawardena (Director/CEO)
- ▶ Mr. Roshan De Silva Gunasekera (Chief Operating Officer)

The Committee is responsible and reports to the Board of Directors. Mr C. Ramachandra and Mr. Thusitha Perera, are Independent Non Executive Directors.

Terms of Reference

The main objective of the IRM Committee is to assist the Board of Directors to effectively carry out its responsibilities relating to financial and other connected affairs of the Company.

The main responsibility of the Committee is to assess risks faced by the company such as credit risk, market risk, liquidity risk, operational risk and strategic risk. In fulfilling its duties, the Committee covers the following areas,

The Committee is empowered to:

- Review the quality of the credit portfolio including delinquency monitoring and adequacy of the allowances for impairment.
- Review the Credit and Funding Concentrations Risks.
- Review financial performance and the Capital Adequacy of the Company
- Review the Asset and Liability Management Policy including the specific risk limits and monitoring the compliance.
- Review progress on operational risk throughout the Company.
- Review of Business Continuity and Disaster Recovery Plan related issues.

- Assess adequacy and effectiveness of Management Committees, namely Credit Committee and Asset and Liability Committee (ALCO)
- Review the Company's Compliance with laws and regulations
- Propose appropriate measures for corrective action as part of the risk mitigation process.

Meetings

The Committee held five meetings during the year under review.

Senior Management staff also attend meetings as and when required. The proceedings of the IRM Committee meetings are regularly reported to the Board of Directors.

Regulatory Compliance

The Company's procedures in place to ensure compliance with mandatory Finance Company and other statutory requirements were under close scrutiny.



C. Ramachandra
Chairman
IRM Committee

15th August 2018

Information Technology Committee Report

The Composition of the Committee

The Information Technology Committee (ITC) functions as a Board Sub-committee with Board approved Terms of Reference.

The Information Technology Committee (ITC) has been established to advise the Board and Management on current and future information technology related issues. It assists the Board in governing and overseeing Company's information technology related matters.

The Committee comprised of the following members,

- ▶ Mr. Rajitha Basnayake (Chairman)
- ▶ Mr. C. Ramachandra
- ▶ Mr. H.L.L.M. Nanayakkara (Resigned on 17th March)
- ▶ Mrs D P Pieris
- ▶ Mr. J.D.P.R Jayasekara (Appointed on 20th March)
- ▶ Mr. Rajiv Gunawardena (Director/CEO)

The Committee is responsible and reports to the Board of Directors. Mr. Rajitha Basnayake, Mr C. Ramachandra, Mr. J.D.P.R. Jayasekara and Mrs D.P. Pieris are Independent Non Executive Directors.

Terms of Reference

The Committee, by providing insight and timely advice and discussion, assists the Board of Directors to effectively carry out its responsibilities in relation to Information technology matters of the company.

ITC monitors formulation and implementation of company's IT strategy and assess strategic alignment, value delivery, resource management, risk management and performance management of company's IT function in enabling the business strategies and functions of the company.

The Committee has been empowered to:

1. Provide guidance on the overall IT strategy and monitor progress
2. Review IT capital and annual expenditure budgets and significant IT investment decisions, prior to them being sent to the Board of Directors for approval
3. Review formulations and amendments to IT policies and procedures and periodically assess the effectiveness of implementation and adherence
4. Scan emerging technology and its potential use for competitive advantage and risk mitigation.

Meetings

The Committee held two meetings during the year under review.

Assistant General Manager – Information Technology attends these meetings as an invitee. Senior Management staff are also invited to attend IT meetings as and when required. The proceedings of the IT Committee meetings are reported to the Board of Directors. A summary of the

Committee's meeting is attached to the agenda of the subsequent meeting of the Board of Directors and the Chair of the Committee makes an oral report to the Board on the deliberations of that meeting.

Key Activities during the period under review

The committee reviewed the progress of the implementation of Information Technology strategy and provided guidance on key IT strategic initiatives enabling key business operations and addressing IT risks. The Committee also reviewed significant IT capital and recurring expenditure items proposed for procurement and recommended them for approval by the Board of Directors.



Rajitha Basnayake
Chairman
Information Technology Committee

15th August 2018

Insight into the Business Operations of AAF

Roshan De Silva Gunasekara
Chief Operating Officer



As you know the country's economy is on a recession. What are the challenges posed to you due to the current economic environment?

In economics, a recession is a business cycle contraction which results in a general slowdown in economic activity. Macroeconomic indicators such as GDP (gross domestic product), investment spending, capacity utilization, household income, business profits, and inflation fall, while bankruptcies and the unemployment rate rise. It can also be seen as a negative economic growth/slow economic growth for two or more consecutive quarters.

Recessions generally occur when there is a widespread drop in spending. This may be triggered by various events, such as a financial crisis, an external trade shock, an adverse supply shock or the bursting of an economic bubble.

In Sri Lanka a recession/ Economic down turn is noted during the last two years mainly triggered by the floods followed by droughts in many parts of the country which has resulted in loss of crops and / or loss of Income by farmers who constitute a major sector of employment loosing their purchasing capacity. This had a cascading effect on all other areas such as manufacturing wholesale and retail trading and other service sectors.

The main challenge faced by a finance company during such a scenario is increasing in ability of the customers to repay the loans. This is particularly true for micro finance (Bottom of the pyramid) and retail customers in the SME sector who has seen an increasing trend of cheque returns and bad debts from their own customers.

What are the strategies implement to face the situation?

Asia Asset Finance being an unconventional finance solutions provider has reached the market with proactive solutions to customers who were effected due to the situation. The solutions provided includes reschedulement of loans with flexible repayment terms based on customers ability to pay and his cash flows and loans granted on constitutionally terms with the a special board approval for the SME sector.

A company has also taken initiative to provide reschedulement and consistory loans to micro finance sector for selected customers who are identified as distressed customers.

All this is done whiles maintaining the NPA ratios and collection ratios in par with the predetermined para meters which is a challenging task. Therefore the management and staff of Asia Asset Finance has put on extra effort on recovery of bad loans and providing amicable solutions to customers who are facing difficulties during this period.



Jayantha Weerapullige
Assistant General Manager- Marketing

What are the branch expansion strategies of the company ?

What are the challenges you face to implement to the challenges ?

Branch expansion is a challenge in view of the current circumstance in the country whereas branch expansion is indispensable for a long-term stability of the company. Mainly geographical risk being identified. In mitigating the risk over the current portfolio the company will focus more in expansion in central province which will mitigate the portfolio risk. In depth analysis of performance of the current product range is pivotal as well as marketing strategies in strengthening main products further that will enable the company more stable in long term. We always believe future potential of expansion on the location being identified is vital in gaining competitive advantage.

Obstacles are being current economic conditions as existing branches are striving hard to maintain quality portfolio hence consistency of financial performance being a key predicament.



Sajith Atapattu
Assistant General Manager-Credit & Operations

We see a drastic growth in the business volume during the last year.

How do you improve operations efficiency to face the increase traffic?

Business Volume and Efficiency are two forces that pull in different directions. It is very easy to loose track of operation efficiency and effectiveness when business is processing big volumes. If you compare the number of loans processed, last financial year saw the highest number of loans processed for a financial year. The key to maintaining a healthy balance between efficiency and volume was team work. Branches and each departments worked hand in hand dividing daily targets and make sure these targets were met. Achieving these smaller targets with team work has transpired to maintaining healthy levels of operational efficiencies. Further the increase of business volumes was identified early and prudently, management has taken proactive measures to make the processes much more efficient. Making branch authority levels much stronger has helped in decentralization of certain process while maintaining high levels of internal controls. This has further helped to maintain operations efficiencies during this dynamic growth period.



Samira Weveldeniya
Assistant General Manager- Fixed Deposit

As you know there is a crisis in the industry with the collapse of some finance of institutions. How do you face the situation created due to the crisis in the financial sector, specially in FD mobilization?

“The future of the Finance industry looks challenging but we at Asia Asset Finance PLC are confident of our ability to adapt to challenging environments and exceed the expectations of our valued customers. We have a very loyal customer base and we have honored all our FD withdrawals on time even in the past crisis situations in the country. We are one of the most unconventional customer friendly companies in the country, bringing multiple, often unique products and services with long experienced and well sound financial skills to all we do. AAF has stayed focus on building on the trust placed upon us by our valued customers as well as general public while portraying transparency in all our marketing and operational activities. On the other hand company has demonstrated resilience and ability to innovate in a way that enables it to power its growth while ensuring full compliance with rules and regulations of Central Bank of Srilanka. Hence, the past experience and confidence of our valued customers have with AAF will always encourage to continue their FD’s with AAF even in a challenging environment.”



Inditha Jayathilaka
Assistant General Manager - Information Technology

As you know IT is a key element in the customer experience delivery which is vital to improve customer service and efficiency to the company. What are the new IT strategies that the company is planning to adopt to the situation?

AAF identified its importance in adopting digital platforms to improve customer experience, service and efficiently. We have formulated a set of guiding principles to our customer experience strategy first of all identifying customer experience vision, target customer segments and processes required to create an emotional connection with customer feedback captured real time. From internal process perspective systems are in place to act on regular feedback from customer and a quality framework to continuously improve our services.

We implemented a mobile phone-based solution for targeting our Micro Finance solutions and customer segment bringing significant improvements customer service process and our internal processes. This gave us the impetus to develop prototype to launch a new Asia Asset App extending coverage to new financial products and our current products bringing a whole new experience to our customers. We intend to launch this app around 3 rd quarter this year.

2017/2018 වාර්ෂික මූල්‍යමය වාර්තා සාරාංශය

විවිධත්වයෙන් යුතු මූල්‍යමය සේවාවන් රැසක් සමගින් ඒමියා ඇසෙට් ගයින්හි පිළිස්සී ශ්‍රී ලංකාවේ මූල්‍යමය ක්ෂේත්‍රය තුළ සුවිශේෂී සමාගමක් වශයෙන් ගනුදෙනුකරුවන් ස්වකීය මෙහෙවර ඉටුකරනු ලබන්නේ කීර්තිමත් ඉතිහාසයක් නිර්මාණය කරගනිමිනි. 2018 මාර්තු මස 31 දිනෙන් අවසන් වූ මූල්‍යමය වර්ෂය සඳහා සමාගමෙහි කාර්යසාධනය පිළිබඳ සංකීර්ණ විස්තරයක් මෙහිදී ඉදිරිපත් කෙරේ.

ශ්‍රී ලංකා මහ බැංකුවේ ලියාපදිංචි බලපත්‍රලාභී මූල්‍ය සමාගමක් වන ඒමියා ඇසෙට් ගයින්හි පිළිස්සී කොළඹ කොටස් වෙළඳපලෙහි ලැයිස්තුගත සමාගමකි.

මූල්‍යමය වර්ෂ 2017/2018 තුළ සමාගම රු. මිලියන 178ක ලාභයක් වාර්තා කරන ලදී. සමාගමෙහි මෙම ලාභ වර්ධනය කෙරෙහි ක්ෂුද්‍ර මූල්‍ය ණය ආදායම, සාමූහික පුද්ගල රන් ණය ආදායම සහ පුද්ගල ණය ආදායම යන කරුණු ඉවහල් විය.

වසර තුළ සමාගම මගින් අත්පත් කරගනු ලැබූ විශිෂ්ට වර්ධනය හේතුවෙන් වසර සඳහා කොටසක ඉපැයුම රු. 0.21 ක් වශයෙන් ප්‍රකාශයට පත් කෙරිණි. පෙර වසරෙහි එම අගය රු.0.33 ක් විය.

මූල්‍යමය වර්ෂ 2017/2018 සඳහා සමාගමෙහි ආදායම රු. බිලියන 2 ක් වශයෙන් වාර්තා වූ අතර එය පෙර වසරට සාපේක්ෂව 21% ක වර්ධනයකි. සැලකිල්ලට භාජනය වන කාලපරිච්ඡේදය

තුළ සමාගමෙහි ශුද්ධ පොලී ආදායම පෙර වසරෙහි පැවති රු. බිලියන 1.1 සිට රු. බිලියන 1.2 දක්වා වර්ධනය විය.

පෙර වසරේ වාර්තා වූ රු. මිලියන 373.7 ට සාපේක්ෂව 2017/2018 මූල්‍ය වර්ෂය සඳහා බදු වලට පෙර මෙහෙයුම් ලාභය රු. මිලියන 285.9 වශයෙන් වර්ධනයක් වාර්තා කළේය.

සැලකිල්ලට භාජනය වන කාලපරිච්ඡේදය තුළ සමාගම රු. මිලියන 178 ක බදු වලට පසු ලාභයක් වාර්තා කළේය.

සමාගමෙහි තැන්පතු පදනම ඉහළයාම සහ නව අරමුදල් සම්පාදන මාධ්‍යයන් ඇතුළත් කිරීම හේතුවෙන් සැලකිල්ලට භාජනය වන කාලපරිච්ඡේදය තුළ සමාගමෙහි පොලී වියදම 34% කින් ඉහළ ගියේය.

අභ්‍යන්තර හා බාහිර අරමුදල් සම්පාදනය හේතුවෙන් වසර තුළ සමාගමෙහි මුද්‍ර වත්කම් රු. බිලියන 11 දක්වා වර්ධනය විය.

සැලකිල්ලට භාජනය වන කාලපරිච්ඡේදය තුළ සමාගමෙහි ණය ප්‍රමාණය කැපී පෙනෙන අයුරින් ඉහළ ගිය අතර ඒ සඳහා ක්ෂුද්‍ර මූල්‍ය ණය, කල්බදු, ආයතනික ණය සහ රන් ණය අංශයන්හි සිදුවූ වර්ධනය ඉවහල් විය.

විවිධාංගීකරණය මූල්‍යමය කළමනාකරණයෙහි ප්‍රතිපලයක් වශයෙන් සමාගම මගින් මූල්‍යමය වර්ෂ 2017/2018 වසර තුළ ගනුදෙනුකරුවන් වෙත ශ්‍රී ලංකා මහ බැංකුවේ මාර්ගෝපදේශ ආකෘතික රාමුව තුළ ඉහළ පොලී අනුපාත පිරිනමන ලදී.

අභියෝගාත්මක මූල්‍යමය වටපිටාවක් තුළ මූල්‍යමය වර්ෂ 2017/2018 සඳහා ඒමියා ඇසෙට් ගයින්හි පිළිස්සී ආදායම් වර්ධනය සහ ලාභ වර්ධනය අතින් විශිෂ්ට වර්ධනයක් වාර්තා කිරීමට සමත් විය.



- Frames
- Disc Brakes, Front
- Caliper Brakes, Front
- Caliper Brakes, Rear
- Disc Brakes, Rear
- Saddles
- Forks
- Brake Cables
- Shift Cables
- Rear Sprocket
- Front Sprocket

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Independent Auditor's Report



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TO THE SHAREHOLDERS OF ASIA ASSET FINANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Asia Asset Finance PLC (the "Company"), which comprise the statement of financial position as at 31st March 2018, 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, as set out on pages 128 to 174.

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

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA

Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Impairment of loans and receivables

The assessment of impairment of loans and receivables requires significant judgement by the Company and may have a significant impact on the financial statements. Given the subjectivity and reliance on estimates and judgements inherent in the determination of the provision for impairment, we determined this to be a matter of most significance to our audit.

In determining the required impairment provision on loans and receivables, the Company calculates the impairment

allowances on individual and collective basis.

For all loans that are considered individually significant, the Company assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. In identifying loans and advances to be considered for individual impairment, the Company considers known cash flow difficulties experienced by the borrower; number of instalments overdue; breaches of debt covenants; the probability that the borrower will enter bankruptcy or other financial realization; and a significant downgrading in credit rating by an external credit rating agency. In assessing the quantum of impairment to be provided, the Company takes into consideration; company's aggregate exposure to the customer; the amount and timing of expected receipts and recoveries; valuation of the securities held as collateral and the time estimated to realize the value of such securities.

Loans and receivables that have been assessed individually and found to be not impaired and all individually insignificant loans and receivables are assessed collectively, in groups of assets with similar characteristics, to determine whether provision should be made based on incurred loss events. Loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various

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stages of delinquency, and ultimately prove irrecoverable.

The disclosures associated with impairment of loans and receivables are set out in the financial statements in the following notes:

- Note 16.1 – Impairment allowance for loans and advances to customers
- Note 17.3 – Allowance for impairment losses: Lease rentals receivable and Hire purchase
- Note 41.2 - Credit risk

How our audit addressed the key audit matter

Our audit of accounting for the credit risk related to outstanding customer loans and receivables included the following procedures:

For loans and receivables where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans.

We also tested a sample of loans and receivables to ascertain whether the loss event (that is the point at which impairment is recognized) had been identified in a timely manner.

For a sample of loans and advances, we checked the valuation of securities to support the calculation of the impairment by comparing estimates to external evidence available, checked mathematical calculations and tested the time estimated to realize the value of securities based on past experience.

We tested controls over impairment data and calculations. These controls included those

over the identification of loans and advances that were impaired, the transfer of data (credit systems to impairment models and model output to the general ledger) and the calculation of the impairment provisions.

We performed testing on the models used to calculate the collective impairment. This testing varied by portfolio, but typically included some combination of re-performance of the calculation, testing the extraction of data used in the models including the analysis of loans into groupings displaying the same delinquency characteristics, and testing the underlying critical assumptions.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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



expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures, are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 3890.

BDO Partners

CHARTERED ACCOUNTANTS

Colombo

25th June, 2018

VR/dm

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31st March, 2018

	Note	2017/2018 Rs.	2016/2017 (Reclassified) Rs.
Interest income	5	2,443,389,400	2,020,556,957
<i>Less: Interest expenses</i>	6	(1,233,214,297)	(919,297,655)
Net Interest income		1,210,175,103	1,101,259,302
Net trading gain/(loss) on held for trading securities		(31,406)	2,326,220
Other operating income	7	129,007,575	107,724,399
<i>Less: Operating expenses</i>			
Personnel expenses		(264,465,472)	(250,113,858)
Provision for staff retirement benefits		(5,754,935)	(4,906,571)
General and administration expenses		(449,633,183)	(355,223,573)
Impairment charge for lease rentals receivable, hire purchase, loans and advances	8	(333,396,606)	(227,348,081)
Operating profit before value added tax on financial services		285,901,076	373,717,838
Value added tax on financial services		(63,761,107)	(57,841,421)
Operating profit before income tax	9	222,139,969	315,876,417
Income tax expenses	10	(43,914,542)	(37,827,608)
Profit for the year		178,225,427	278,048,809
<i>Other comprehensive income not to be re-classified to profit or loss in subsequent periods (net of tax)</i>			
Actuarial gain/(loss) on retirement benefit liability		3,554,897	(2,100,296)
Deferred tax effect on components of other comprehensive income	10	(995,371)	(588,083)
Other comprehensive income for the year net of tax		2,559,526	(2,688,379)
Total comprehensive income for the year		180,784,953	275,360,430
Earnings per share - basic	32	0.21	0.33

Figures in brackets indicate deductions.

The accounting policies and notes on pages 128 to 174 form an integral part of these financial statements.

Colombo
25th June, 2018

Statement of Financial Position


As at 31st March, 2018

	Note	31.03.2018 Rs.	31.03.2017 Rs.
ASSETS			
Cash and cash equivalents	12	660,159,119	601,891,827
Investment in reverse repurchase agreements against the treasury bills and bonds	13	622,975,267	433,333,648
Other financial assets	14	207,244,747	-
Financial assets - held for trading	15	213,734	50,204,691
Loans and advances	16	7,247,899,368	6,838,366,400
Lease rentals receivable and hire purchase	17	2,280,489,222	1,424,679,822
Vehicle stock		262,088	-
Other assets	18	15,587,389	15,626,098
Income Tax Receivable	26	362,927	-
Advances, deposits and prepayments	19	67,948,443	64,760,286
Financial assets - available for sale	20	506,659	506,659
Property, plant and equipment	21	150,037,783	161,931,102
Investment property	22	352,385,530	306,253,164
Deferred tax assets		112,814,714	118,202,709
Intangible assets	23	8,807,431	11,179,033
Total assets		11,727,694,421	10,026,935,439
LIABILITIES			
Due to banks	24	454,920,306	36,031,902
Other liabilities	25	36,650,813	46,791,280
Current tax liabilities	26	-	30,749,073
Other borrowed funds	27	3,001,078,792	2,476,518,223
Due to customers	28	6,356,067,246	5,681,178,140
Retirement benefit obligation	29	20,044,993	18,774,955
Total liabilities		9,868,762,150	8,290,043,573
EQUITY			
Stated capital	30	1,388,935,273	1,388,935,273
Retained earnings		401,610,081	288,608,924
Statutory reserve fund and other reserves	31	68,386,917	59,347,669
Total equity		1,858,932,271	1,736,891,866
Total equity and liabilities		11,727,694,421	10,026,935,439
Contingent liabilities and commitments	33		
Net assets value per share		2.22	2.07

Figures in brackets indicate deductions.

The accounting policies and notes on pages 128 to 174 form an integral part of these financial statements.

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




Geethika Elwalage

Assistant General Manager - Finance

The Board of Directors is responsible for the preparation and presentation of the financial statements.

Approved and signed for and on behalf of the Board.



R.J.A Gunawardena

Director/Chief Executive Officer



C. Ramachandra

Chairman

Colombo

25th June, 2018

VR/dm

Statement of Changes in Equity

For the period ended 31st March, 2018

	Stated capital	General reserve	Statutory reserve fund	Retained earnings	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31st March, 2016	1,388,935,273	3,000,000	42,579,648	27,016,515	1,461,531,436
Total comprehensive income for the year					
Profit for the year	-	-	-	278,048,809	278,048,809
Other comprehensive income (net of tax)	-	-	-	(2,688,379)	(2,688,379)
Total comprehensive income for the year	-	-	-	275,360,430	275,360,430
Transaction with equity holders recognized directly in equity					
Transfers to reserves	-	-	13,768,021	(13,768,021)	-
Total transactions with equity holders	-	-	13,768,021	(13,768,021)	-
Balance as at 31st March, 2017	1,388,935,273	3,000,000	56,347,669	288,608,924	1,736,891,866
Total comprehensive income for the year					
Profit for the year	-	-	-	178,225,427	178,225,427
Other comprehensive income (net of tax)	-	-	-	2,559,526	2,559,526
Total comprehensive income for the year	-	-	-	180,784,953	180,784,953
Transaction with equity holders recognized directly in equity					
Transfers to reserves	-	-	9,039,248	(9,039,248)	-
Total transactions with equity holders	-	-	9,039,248	(9,039,248)	-
Final dividend for 2016/2017	-	-	-	(58,744,548)	(58,744,548)
Balance as at 31st March, 2018	1,388,935,273	3,000,000	65,386,917	401,610,081	1,858,932,271

Figures in brackets indicate deductions.

The accounting policies and notes on pages 128 to 174 form an integral part of these financial statements.

Colombo
25th June, 2018

Statement of Cash Flows

For the ended 31st March, 2018

	Note	2017/2018 Rs.	2016/2017 Rs.
Cash flows from operating activities			
Profit before income tax		222,139,969	315,876,417
Adjustments for			
Depreciation and amortization	21 & 23	45,161,381	33,953,124
Impairment of lease hire purchase, loans and advances	8	333,396,606	227,348,081
Early termination of loans, leases and hire purchase		(36,107,333)	(9,030,429)
Non-cash items included in profit before tax (WHT and Notional tax)		(13,323,227)	-
Interest income on commercial papers		(28,949,821)	-
Profit on sale of held for trading securities		40,449	(542,266)
Gain/loss on fair valuation of held for trading securities		(9,044)	(1,723,007)
Gains from sale of property, plant and equipment, investment property and real estate inventories		(5,035,502)	194,150
Provision for retirement benefit liability	29	5,754,935	4,906,571
Interest expense on other borrowings		393,757,139	263,993,473
Cash generated from operations before working capital changes		916,825,552	834,976,114
(Increase)/decrease in lease rentals receivable and hire purchase		(936,179,413)	147,505,181
(Increase)/decrease in loans and advances		(673,111,281)	(2,269,746,499)
(Increase)/decrease in other receivables		38,711	(667,273)
(Increase)/decrease in deposits and prepayments		(3,450,246)	(4,581,536)
(Increase)/decrease in financial assets - loans and receivables		49,959,551	-
Increase in deposits from customers		674,889,106	884,878,241
Increase/(decrease) in other liabilities		(10,140,467)	(6,380,496)
Net cash from operating activities before income tax payments		18,831,513	(414,016,268)
Taxes paid		(57,310,691)	(45,254,677)
Gratuity paid		(930,000)	(587,500)
Net cash used in operating activities		(39,409,178)	(459,858,445)
Cash flows from/(used in) investing activities			
Acquisition of property, plant and equipment		(51,718,268)	(55,426,269)
Acquisition of intangible assets		(627,851)	(2,200,000)
Acquisition of investment property		(15,000,000)	(195,000)
Proceeds from sale of investment property		16,350,000	9,500,000
Proceeds from sale of real estate inventories		-	32,450,000
Investments in commercial papers		(505,857,691)	-
Proceeds from commercial papers		327,562,766	-
Purchases of held for trading securities		-	(150,000,000)
Proceeds from sale of held for trading securities		-	159,122,879
Proceeds from sale of property, plant and equipment		24,782,254	10,370,000

	Note	2017/2018 Rs.	2016/2017 Rs.
Net cash from investing activities		(204,508,790)	3,621,610
Cash flows from/(used in) financing activities			
Repayment of other borrowed funds	27	(2,497,136,427)	(1,239,515,235)
Proceeds from other borrowed funds	27	2,627,939,860	1,842,206,810
Dividends paid		(57,864,958)	-
Net cash generated from financing activities		72,938,475	602,691,575
Net increase in cash and cash equivalents		(170,979,493)	146,454,740
Cash and cash equivalents at the beginning of the year	A	999,193,573	852,738,833
Cash and cash equivalents at the end of the year	B	828,214,080	999,193,573
At the beginning of the year			
Note A			
Cash and cash equivalents		601,891,827	690,797,870
Investment in reverse repurchase agreements against treasury bills and bonds		433,333,648	328,866,266
Bank overdraft		(36,031,902)	(166,925,303)
		999,193,573	852,738,833
At the end of the year			
Note B			
Cash and cash equivalents		660,159,119	601,891,827
Investment in reverse repurchase agreements against treasury bills and bonds		622,975,267	433,333,648
Bank overdraft		(454,920,306)	(36,031,902)
		828,214,080	999,193,573

Figures in brackets indicate deductions.

The accounting policies and notes on pages 128 to 174 form an integral part of these financial statements.

Colombo
25th June, 2018

Significant Accounting Policies

1. CORPORATE INFORMATION

This section provides general information about Asia Asset Finance PLC.

1.1 General

Asia Asset Finance PLC is a Public Limited Liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The company has been registered with the Central Bank of Sri Lanka as a Finance Company under the provisions of the Finance Business Act No. 42 of 2011 (formerly the Finance Companies Act No.78 of 1988). The company was re-registered under the Companies Act No. 07 of 2007. The registered office of the company and the principal place of business is located at No 76/1, Dharmapala Mawatha, Colombo 03.

1.2 Principal activities and nature of operations

The principal activities of the company comprise granting leases, hire purchase, mortgage loans, personal loans, group personal loans, gold loans, micro finance loans, pledge loans, cheque and invoice discounting and mobilization of public deposits.

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 immediate and ultimate parent entity as at 31st March, 2018 is Muthoot Finance Limited which was incorporated in India.

1.4 Number of employees

The staff strength of the company as at 31st March, 2018 was 489 (448 as at 31st March, 2017).

2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

This section which provides additional information about the overall basis of preparation that the directors consider, is useful and relevant in understanding these financial statements:

- A summary of other significant accounting policies affecting the results and financial position of the company, including changes in accounting policies and disclosures during the year.
- Standards that have been issued for which the company has not adopted.

2.1 Basis of measurement

The financial statements of the company have been prepared on the historical cost basis except for the following items in the statement of financial position:

Item	Basis of measurement
Financial assets held for trading	Fair value
Financial assets available for sale	Fair value
Retirement benefit obligation	Liability is recognized as the present value of the retirement obligation plus unrecognized actuarial gains less unrecognized past service cost and unrecognized actuarial losses.

2.2 Statement of compliance

The financial statements of the company as at 31st March, 2018 and for the year ended have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

These financial statements include the following components:

- A statement of profit or loss and other comprehensive income providing the information on the financial performance of the company for the year under review.
- A statement of financial position providing the information on the financial position of the company as at the year end.

- A statement of changes in equity depicting all changes in shareholders' equity during the year under review of the company.
- A statement of cash flow providing the information to the users, on the ability of the company to generate cash and cash equivalents and the needs of entity to utilise those cash flow and
- Notes to the financial statements comprising accounting policies and other explanatory information.

2.3 Responsibility for financial statements

The Board of Directors is responsible for the preparation and presentation of these financial statements as per the provision of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

2.4 Approval of financial statements by the Board of Directors

The financial statements of Asia Asset Finance PLC for the year ended 31st March, 2018 (including comparatives) were approved and authorized for issue on 25th June, 2018 in accordance with a resolution of the Board of Directors on 25th June, 2018.

2.5 Presentation of financial statements

The assets and liabilities in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) has been presented in note 36 (current/non-current analysis). No adjustments have been made for inflationary factors affecting the financial statements.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless it is required or permitted by any accounting standard or interpretation.

2.6 Comparative information

The accounting policies have been consistently applied by the company with those of the previous financial year in accordance with the Sri Lanka Accounting Standard - LKAS 01 on 'Presentation of Financial Statements'. Comparative information has been re-classified wherever necessary to comply with the current year's presentation.

2.7 Functional and presentation currency

The financial statements have been presented in Sri Lankan Rupees (Rs.), which is the company's functional and presentation currency.

2.8 Materiality and aggregation

In compliance with the Sri Lanka Accounting Standard - LKAS 01 on 'Presentation of Financial Statements', each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or functions too are presented separately, unless they are immaterial.

2.9 Rounding

The amounts in the financial statements have been rounded-off to the nearest Rupee, except where it is otherwise indicated as permitted by the Sri Lanka Accounting Standard- LKAS 01 on 'Presentation of Financial Statements'.

2.10 Significant accounting judgements, estimates and assumptions

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

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

Significant Accounting Policies

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

2.10.1 Going concern

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

2.10.2 Impairment losses on lease, hire purchase and loans and advances

The company reviews its individually significant lease, hire purchase and loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive Income. In particular, the management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on the assumptions about a number of factors and the actual results may differ, resulting in future changes to the allowance.

Lease, hire purchase, loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are assessed collectively, in groups of assets with similar characteristics, to determine whether provision should be made based on incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks.

The impairment loss on loans and advances, lease rentals receivable and hire purchase is disclosed in more details in note 16.1 and note 17.3 to the financial statements.

2.10.3 Impairment of available for sale financial assets

The company reviews its financial assets classified as available for sale at each reporting date to assess whether they are impaired.

The company records impairment charges on available for sale assets when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgements.

The impairment charges for available for sale financial assets are disclosed in more detail in note 20 to the financial statements.

2.10.4 Taxation

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

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

2.10.5 Deferred tax assets

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

2.10.6 Retirement benefit obligation

The cost of the retirement benefit obligation of employees is determined using an actuarial valuation. The actuarial valuation is based on assumptions concerning the rate of interest, rate of salary increase, staff turnover, and retirement age and going concern of the company. Due to the long-term nature of such obligation, these estimates are subject to

significant uncertainty. Further details are given in note 29 to the financial statements.

2.10.7 Useful lives of property, plant and equipment and intangible assets

The company depreciates the property plant and equipment, using the straight line method over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects the management's estimate of the period that the company intends to derive future economic benefits from the use of the property, plant and equipment. The residual value reflects the management's estimated amount that the company would currently obtain from the disposal of the asset, after deducting the estimated disposal, as if the asset were already of the age and in the conditions expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economic useful lives and the residual values of these assets which could then consequentially impact future depreciation charges.

3. GENERAL ACCOUNTING POLICIES

3.1 Foreign currency transactions and balances

All foreign currency transactions are translated into the functional currency which is Sri Lanka Rupee (Rs.) at the spot exchange rate prevailing at the date of the transactions being effected. In this regard, the company's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the spot rate of exchange ruling 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 foreign currency translated at the exchange rate at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

3.2 Financial instruments - initial recognition and subsequent measurement

3.2.1. Date of recognition

All financial assets and liabilities except 'regular way trades' are initially recognised on the trade date, i.e., the date on which the company becomes a party to the contractual provisions of the instrument. '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. Those trades are initially recognised on the settlement date.

3.2.2. Classification and initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per the Sri Lanka Accounting Standard- LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

3.2.3. Classification and subsequent measurement of financial assets

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

- i) Financial Assets at Fair Value through profit or loss (FVTPL);
 - Financial Investments – Held for trading or
 - Financial Investments – Designated as fair value through profit or loss
- ii) Loans and receivables (L&R);
- iii) Financial Investments - Held to maturity (HTM); or
- iv) Available-for-sale (AFS) financial assets.

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

Significant Accounting Policies

The subsequent measurement of financial assets depends on their classification.

3.2.3.1. Financial assets at fair value through profit or loss (FVTPL)

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

Financial investments – designated at fair value through profit or loss

The company designates financial assets at fair value through profit or loss in the following circumstances;

- The assets are managed, evaluated and reported internally at fair value;
- The designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or
- The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise have been required under the contract.

Financial assets designated at fair value through profit or loss is recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'interest income' using EIR while dividend income is recorded in 'other operating income' when the right to receive the payment has been established.

3.2.4. Classification and subsequent measurement of financial liabilities

At the inception, the company determines the classification of its financial liabilities. Accordingly, financial liabilities are classified as:

- i) Financial liabilities at fair value through profit or loss (FVTPL);

- Financial liabilities – Held for trading or
- Financial liabilities – Designated as fair value through profit or loss.

- ii) Financial liabilities at amortized cost.

The subsequent measurement of financial liabilities depends on their classification.

3.2.4.1. Financial liabilities at fair value through profit or loss

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

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

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

3.2.4.2. 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', 'due to customers' and 'Other financial 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 amortized cost using the EIR method.

After initial recognition, such financial liabilities are substantially measured at amortized cost using the EIR method. Amortized 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 amortization is included in 'interest expenses' in the statement of profit or loss. Gains and losses are recognized in the statement of profit or loss when the liabilities are de-recognized as well as through the EIR amortization process.

The details of the company's financial liabilities at amortized cost are shown in note 11 to the financial statements.

3.2.5. Re-classification of financial instruments

The company does not re-classify any financial instrument into the 'fair value through profit or loss' category after initial recognition. Also the company does not re-classify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition, it was designated as at fair value through profit or loss.

The company re-classifies non-derivative financial assets out of the 'held for trading' category and into the 'available for sale', 'loans and receivables', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standard - LKAS 39 on Financial Instruments: Recognition and Measurement. In certain circumstances, the company is also permitted to re-classify financial assets out of the 'available for sale' category and into the 'loans and receivables', 'held for trading' or 'held-to maturity' category.

Re-classifications are recorded at fair value at the date of re-classification, which becomes the new amortized cost. For a financial asset re-classified out of the 'available for sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized 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 re-cycled to the statement of profit or loss.

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

Re-classification is at the election of management, and is determined on an instrument by instrument basis.

3.2.6. De-recognition of financial assets and financial liabilities

3.2.6.1. Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised when;

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

On de-recognition of a financial asset, the difference between the carrying amount of the asset and consideration received and any cumulative gain or loss that has been recognized is recognized in profit or loss.

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

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

Significant Accounting Policies

3.2.6.2. Financial liabilities

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

3.2.7. Offsetting financial instruments

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

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

3.3. Fair value measurement

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

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

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

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

their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The company uses various valuation methodologies that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The use of observable and unobservable inputs and their significance in measuring fair value is reflected in our fair value hierarchy assessment.

Level 1 : Inputs include quoted prices for identical instruments and are the most observable.

Level 2 : Inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates and yield curves.

Level 3 : Inputs include data not observable in the market and reflect management judgement about the assumptions market participants would use in pricing the instruments.

The company reviews the inputs to the fair value measurements to ensure that they are appropriately categorised within the fair value hierarchy. Transfers into and transfer out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

3.4. Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, other than deferred tax assets are reviewed at each reporting date to assess whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing of 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 fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash – generating unit 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 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 price for publicly traded subsidiaries or other available fair value indicators.

3.5. Provisions

Provisions are recognized in the statement of financial position 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 in accordance with the Sri Lanka Accounting Standard – LKAS 37 on ‘Provision, Contingent Liabilities and Contingent Assets’. The amount recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

3.6. Fiduciary assets

The company provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in these financial statements as they do not belong to the company.

3.7. Standards issued but not yet effective

The following Sri Lanka Accounting Standards were issued by the Institute of Chartered Accountants of Sri Lanka and is effective for the periods after the reporting date.

SLFRS 9 - Financial instruments: classification and measurement

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39, Financial instruments: Recognition and Measurement.

SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model to calculating impairment on financial assets. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 09 will become effective on 01st January, 2018. The impact on the implementation of the above standard will be taken into the financial statements from the year ending 31st March, 2019.

SLFRS 15 - Revenue from contracts with customers

SLFRS establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 on “Revenue” and LKAS 11 on “Construction Contracts”.

SLFRS 15 will become effective on 01st January, 2018. The impact on the implementation of the above standard will be taken into the financial statements from the year ending 31st March, 2019.

SLFRS 16 – Leases

SLFRS 16 eliminates the classification of leases as either operating or finance for lessees and instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying LKAS 17.

The new standard SLFRS 16, supersedes the requirement in LKAS 17 leases and will become effective on 01st January, 2019.

Significant Accounting Policies

4. SPECIFIC ACCOUNTING POLICIES

4.1. Income

Income is recognized to the extent that it is probable that the economic benefits will flow to the company and revenue can be reliably measured. The specific recognition criteria, for each type of gross income, are as follows;

4.1.1. Net interest income

4.1.1.1. Interest income and interest expense

For all financial instruments measured at amortized cost, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income' for financial assets and 'Interest expense' for financial liabilities. However, for a re-classified financial asset for which the company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

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

4.1.1.2. Interest on overdue rentals

Interests from overdue rentals have been accounted for on a cash received basis.

4.1.2. Net trading gain/(loss) on held for trading securities

Results arising from trading activities include all gains and losses from changes in fair value for financial assets 'held for trading'.

4.1.3. Other operating income

Other Operating income includes gains on property, plant and equipment, hiring income, rent income, dividend income and capital gains/(losses).

4.1.3.1. Dividend income

Dividend income is recognized when the company's right to receive the income is established.

4.1.3.2. Gain or losses on disposal of property, plant and equipment, investment properties and real estates

Gains or losses resulting from the disposal of property, plant and equipment, investment properties and real estates are accounted for on cash basis in the statement of profit or loss, in the period in which the sale occurs.

4.1.3.3. Other income

Other income is recognized on an accrual basis.

4.2. Personnel expenses

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses. The provision for bonus is recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

Employees are eligible for Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions in accordance with the respective statutes and regulations.

4.3. General and administration expenses

General and administration expenses are recognized in the statement of profit or loss 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 and in maintaining the property, plant and equipment

in a state of efficiency have been charged to the statement of profit or loss in arriving at the profit for the year.

Nation Building Tax (NBT) on financial services

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

4.4. Income tax expense

Current tax

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

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto at the rate of 28%.

4.5. Earnings Per Share (EPS) - basic

Basic earnings per share is calculated by dividing the net profit for the year attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the year, as per LKAS 33 - Earnings per share.

4.6. Cash and cash equivalents

Cash and cash equivalents include cash in hand, placements with banks and loans at call and at short notice that are subject to an insignificant risk of changes in their fair value, and are used by the company in the management of its short-term commitments. They are brought to the financial statements at their face values or the gross values, where appropriate.

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

4.7. Investment in reverse repurchase agreements against treasury bills and bonds

This includes treasury bills and bonds under repurchase agreements. These investments are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the receivable amount (including interest income) is recognised in the statement of profit or loss over the period of the assets using effective interest method.

4.8. Other financial assets

This includes investments in debentures. Other financial assets are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the receivable amount (including interest income) is recognised in the statement of profit or loss over the period of the assets using effective interest method.

4.9. Financial investments - held for trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. Financial investments held for trading are recorded in the statement of financial position at fair value. Changes in fair value are recognised in 'net trading gain. Dividend income is recorded in 'other operating income' according to the terms of the contract, or when the right to receive the income has been established.

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

4.10. Loans and receivables

Lease rentals receivables, Hire Purchase, Loans and Advances

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

- Those that the company intends to sell immediately or

Significant Accounting Policies

in the near term and those that, upon initial recognition, designates as at fair value through profit or loss

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

After initial measurement, 'loans and receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in 'impairment charges for lease rental receivable, hire purchase, loans and advances'.

4.10.1. Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

4.10.2. Company as a lessor

Leases where the company does not transfer substantially all of the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

4.10.3. Write-off of loans and advances

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

4.10.4. Re-negotiated loans

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

4.10.5. Reversals of impairment

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

4.10.6. Impairment allowance for loans and receivables

The company assesses at each reporting date, to ascertain whether there is any objective evidence that a financial asset or a company of financial assets are 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) have an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

4.10.7. Loans and receivables

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of loan or portfolio of loans has occurred. Impairment allowances are calculated on individual and collective basis. Impairment losses are recorded as charges to the statement of profit or loss. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment

allowance accounts. Losses expected from future events are not recognized.

4.10.8. Individually assessed loans and receivables

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

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.
- For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:
 - company's aggregate exposure to the customer;
 - The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
 - The amount and timing of expected receipts and recoveries;
 - The extent of other creditors' commitments ranking ahead of, or pari-passu with, the company and the likelihood of other creditors continuing to support the company;
 - The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
 - The realisable value of security (or other credit mitigates) and likelihood of successful repossession;
 - The likely deduction of any costs involved in recovery of amounts outstanding;

- The ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- The likely dividend available on liquidation or bankruptcy;

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

4.10.9. Collectively assessed loans and receivables

Impairment is assessed on a collective basis to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

4.10.10. Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the company has incurred as a result of events occurring before the reporting date, which the company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the company, those loans are removed from the company and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account;

- Historical loss experience in portfolios of similar credit risk; and
- Management's experienced judgment as to whether current economic and credit conditions are such that

Significant Accounting Policies

the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

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

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required to cover the inherent loss. These additional macro and portfolio risk factors may include:

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

4.10.11. Impairment charges for loans and receivable

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

Loans and advances including rental receivable that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, characteristic of assets, etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

4.11. Real estate inventories

Real estate inventories represent the purchase value of properties acquired for re-sale. Carrying value of the real estate stocks as at the reporting date represents the purchase value of properties and any subsequent expenditure incurred on developing of such properties.

4.12. Other assets

The company classifies all its other assets as other assets and other non-financial assets. Other assets mainly comprise advance payments, VAT receivable and sundry receivables. Advance payments are carried at historical cost.

4.13. Income tax

The company is subject to income taxes. Significant judgment is required to determine the total provision for current, deferred and other taxes. Uncertainties existed, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

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

Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.25% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the five subsequent years.

4.14. Financial investments-available for sale

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

The 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 (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 in 'Other operating income'.

Where the company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the effective interest rate (EIR).

Dividends earned whilst holding available for sale financial investments are recognised in the statement of profit or loss as 'Other operating income' when the right of the income has been established. The losses arising from impairment of such investments are recognised in the statement of profit or loss in 'Impairment charges for loans and other losses' and removed from the 'Available for sale reserve'.

4.14.1. Impairment of available for sale financial investments

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

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of 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 a credit event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

4.15. Property, plant and equipment

Basis of recognition

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

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

4.15.1. Basis of 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, or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

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

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

4.15.2. Subsequent costs

The cost of replacing a part 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 the part will flow to the company and its cost can be measured reliably. The cost of day today servicing of property, plant and equipment is charged to the statement of profit or loss as incurred.

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4.15.3. Repairs and maintenance

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

4.15.4. De-recognition

Property, plant and equipment are derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of profit or loss in the year the asset is de-recognized.

4.15.5. Depreciation

Depreciation is recognized in the statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives are as follows;

Building	8 years
Plant	8 years
Furniture and fittings	6 years
Office equipment	6 years
Motor vehicles	4 years
Computer hardware	6 years

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commences to depreciate when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation methods, useful lives and residual values are re-assessed at each reporting date and adjusted, if appropriate.

4.16. Intangible assets

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

4.16.1. Basis of recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the company in accordance with the Sri Lanka Accounting Standard- LKAS 38 on 'Intangible Assets.'

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are stated in the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses, if any.

4.16.2. Subsequent expenditure

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

4.16.3. Useful economic lives, amortisation and impairment

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful economic lives at the rates as specified below;

Computer software - 8 years

4.16.4. De-recognition

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

4.17. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are initially recognised at cost. Subsequent to initial recognition, the investment properties are stated at cost.

4.17.1. De-recognition

Investment properties are de-recognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of retirement or disposal.

4.17.2. Subsequent transfers to/from investment property

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the company as an owner occupied property becomes an investment property, the

company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss. When the company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

4.18. Deferred tax assets

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

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

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

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

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4.19. Due to bank

Due to banks include bank overdrafts and long-term and short-term loans obtained from banks. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the statement of profit or loss. Gains and losses are recognized in the statement of profit or loss when the liabilities are de-recognized as well as through the EIR amortisation process.

4.20. Other liabilities

Other liabilities include related party payables, VAT on Financial Services payable, retirement benefit obligation and other amount payable. These liabilities are recorded at amounts expected to be payable at the reporting date.

Value Added Tax (VAT) on Financial Services

Value Added Tax (VAT) on Financial Services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. The base for Value Added Tax 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 rates.

4.21. Other borrowed funds

Debt instruments and other borrowings are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (net of transaction cost) and the repayable amount (including interest) is recognized in the statement of profit or loss over the period of the loan using effective interest rate method.

4.22. Due to customers

Due to customers include fixed deposits and savings deposits. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest

expenses' in the statement of profit or loss. Gains and losses are recognized in the statement of profit or loss when the liabilities are de-recognized as well as through the EIR amortisation process.

4.23. Retirement benefit obligation

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

4.23.1 Recognition of actuarial gains and losses

The company recognises the total actuarial gains and losses that arise in calculating the company's obligation in respect of the plan in other comprehensive income during the period in which it occurs.

4.23.2 Funding arrangements

The gratuity liability is not externally funded.

4.23.3 Defined contribution plans -Employees' Provident Fund

The company and employees contribute to the Employees' Provident Fund managed by the Central Bank of Sri Lanka at 12% and 8% respectively on the gross salary of each employee.

Defined contribution plans -Employees' Trust Fund

The company contributes to the Employees' Trust Fund at 3% on the gross salary of each employee.

4.24. Contingent liabilities and commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard- LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'. Contingent Liabilities are not recognized in the statement of financial position but are disclosed unless its occurrence is remote.

Details of the commitments and contingencies are given in note 33 to the financial statements.

4.25. Statement of cash flows

The statement of cash flows has been prepared by using 'The Indirect Method' in accordance with the Sri Lanka Accounting Standard - 'LKAS 7' - 'Statement of Cash Flows', whereby gross cash receipts and gross cash payments of operating activities, financing activities and investing activities have been recognized. Cash and cash equivalents mainly comprise cash in hand, balances at banks and bank overdrafts.

4.26. 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. All operating segments' operating results are reviewed regularly by the senior management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the senior management personnel and the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The relevant disclosures are given in note 38 to the financial statements.

4.27. Dividends payable

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are recommended by and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the company. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date in accordance with the Sri Lanka Accounting Standard- LKAS 10 on 'Events after the Reporting period'. Withholding Tax on Dividends, distributed by the company are recognized at the time the liability to pay the related dividend is recognized.

Notes to the Financial Statements

	2017/2018	2016/2017
	Rs.	Rs.
5. INTEREST INCOME		
Interest on leases	407,178,686	293,976,605
Interest on hire purchase	10,472,832	39,716,631
Interest on loans	1,551,867,817	1,401,006,332
Overdue interest	54,038,307	26,714,068
Interest on treasury bills in reverse repurchase agreements	63,145,461	37,448,251
Interest on bank deposits	41,253,178	45,089,015
Interest on commercial papers	28,949,821	-
Interest on debentures	-	6,237,909
Interest on gold loans	286,483,298	170,368,146
	2,443,389,400	2,020,556,957

5.1 Notional tax credit on government securities on secondary market transactions

The Inland Revenue Act No.10 of 2006, provides that a company which derives interest income from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the company for that year of assessment.

Accordingly, the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in the financial statements by the resulting notional tax credit which amount to Rs.6,314,546/- (2016/17 - Rs.3,744,825/-)

	2017/2018	2016/2017
	Rs.	Rs.
6. INTEREST EXPENSES		
Interest on fixed deposits	839,457,158	655,199,103
Interest on other borrowings	393,757,139	264,098,552
	1,233,214,297	919,297,655
7. OTHER OPERATING INCOME		
Documentation charges and service charges	74,992,803	75,762,455
Gains from disposal of property, plant and equipment, investment property and real estate inventories	5,035,502	1,824,325
Profit on settled contracts	36,107,333	9,030,428
Dividend income	190,436	631,147
Operating lease income	1,806,600	3,375,987
Rent income	5,830	10,000
Insurance commission income	8,073,030	5,731,427
Sundry income	2,516,332	10,263,493
Cheque discounting administration income	250,704	1,080,963
Money gram income	29,005	14,174
	129,007,575	107,724,399

	2017/2018	2016/2017
	Rs.	Rs.
8. IMPAIRMENT CHARGE FOR LEASE RENTALS RECEIVABLE, HIRE PURCHASE LOANS AND ADVANCES		
Lease rentals receivable and hire purchase	77,111,084	63,229,118
Loans and advances	256,285,522	164,118,963
	333,396,606	227,348,081
9. OPERATING PROFIT BEFORE INCOME TAX		
Stated after charging all expenses including the following :		
<i>Included in personnel cost,</i>		
Directors' remuneration	22,187,002	21,098,420
Salaries and bonus	159,580,750	140,313,954
Defined contribution plan costs - EPF and ETF	21,802,657	17,858,053
Other staff related expenses	60,895,063	70,843,431
<i>Included in general and administration expenses,</i>		
Depreciation and amortization	45,161,382	34,009,748
Auditors' remuneration - external audit current year	1,452,000	1,320,000
- Non-audit	243,371	581,145
Advertising and business promotion	14,815,893	12,278,232
Professional and legal fees	7,452,336	4,508,724
10. INCOME TAX EXPENSES		
Major components of income tax expense for the year ended 31st March are as follows:		
<i>Statement of profit or loss</i>		
<i>Current income tax (note 10.1)</i>		
Current income tax charge	32,734,076	56,155,780
Under/(over) provision of current taxes in respect of prior years	6,787,842	60,276
<i>Deferred tax</i>		
Deferred taxation	4,392,624	(18,388,448)
Income tax expense reported in the profit or loss	43,914,542	37,827,608
<i>Statement of other comprehensive income</i>		
<i>Deferred tax</i>		
Deferred taxation reversal/(expense)	995,371	588,083
Income tax expenses reported in the other comprehensive income	995,371	588,083

Notes to the Financial Statements

10. INCOME TAX EXPENSES (Contd.)

	2017/2018	2016/2017
	Rs.	Rs.
10.1 Reconciliation of accounting profit and taxable income		
Accounting profit (profit before income tax)	222,139,969	315,876,417
Add : Disallowable expenses	469,399,119	339,936,899
Less : Allowable expenses	(461,286,898)	(428,214,797)
Less : Exempt income	(34,175,759)	(11,793,644)
Add : Adjusted business loss/ (profit) from leasing business	(16,218,871)	92,743,369
Statutory income	179,857,561	308,548,244
Tax loss brought forward and utilized (35% of statutory income)	(62,950,146)	(107,991,885)
Taxable income	116,907,415	200,556,359
Income tax @ 28%	32,734,076	56,155,780
Effective income tax rate	15%	18%

10.2 Deferred tax assets and liabilities relate to the followings:

	Statement of financial position		Statement of comprehensive income	
	2017/2018	2016/2017	2017/2018	2016/2017
	Rs.	Rs.	Rs.	Rs.
Deferred tax liability				
Lease rental receivable	(69,629,663)	(25,165,707)	(44,463,956)	(27,024,109)
Property, plant and equipment	27,832,660	22,979,815	4,852,845	5,793,938
	(41,797,003)	(2,185,892)	(39,611,111)	(21,230,171)
Deferred tax assets				
Retirement benefit obligation	5,612,598	5,256,987	355,611	1,797,422
Tax loss *	51,022,531	46,365,449	4,657,082	(44,639,931)
Specific provisions for doubtful debts (LLP)	14,382,582	64,394,381	(50,011,799)	39,412,703
	71,017,711	116,016,817	(44,999,106)	(3,429,806)
Deferred tax reversal			5,387,995	(17,800,365)
Net deferred tax asset	112,814,714	118,202,709		

Deferred tax has been determined based on the effective tax rate of 28%.

* As of 31st March, 2018, the company has a tax loss amounting to Rs.382,313,754/- (2017 - Rs.545,229,551/-) which is available for 6 years for offsetting against future Statutory Income of the company in each year of assessment. A deferred tax asset has been recognized upto a tax loss of Rs.182,223,326/- (2017- Rs.165,590,889/-). However, deferred tax assets have not been recognized for the tax losses amounting to Rs.200,090,429/- arisen from finance lease business as at 31st March, 2018.

The carrying amount of deferred tax assets is reviewed by the management at each reporting date and recognized to the extent of probable taxable profits in 6 years time.

11. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

11.1 As at 31st March, 2018

	<i>AFS</i>	<i>FVTPL</i>	<i>L & R</i>	<i>Total</i>
	Rs.	Rs.	Rs.	Rs.
<i>Assets</i>				
Cash and cash equivalents	-	-	660,159,119	660,159,119
Investment in reverse repurchase agreements against the treasury bills and bonds	-	-	622,975,267	622,975,267
Other financial assets	-	-	207,244,747	207,244,747
Financial assets - held for trading	-	213,734	-	213,734
Loans and advances	-	-	7,247,899,368	7,247,899,368
Lease rentals receivable and hire purchase	-	-	2,280,489,222	2,280,489,222
Financial assets - available for sale	506,659	-	-	506,659
Total financial assets	506,659	213,734	11,018,767,723	11,019,488,116

	<i>Financial liabilities at amortized cost</i>	<i>Total</i>
	Rs.	Rs.
<i>Liabilities</i>		
Due to customers	6,356,067,246	6,356,067,246
Due to banks	454,920,306	454,920,306
Other borrowed funds	3,001,078,792	3,001,078,792
Total financial liabilities	9,812,066,344	9,812,066,344

11.2 As at 31st March, 2017

	<i>AFS</i>	<i>FVTPL</i>	<i>L & R</i>	<i>Total</i>
	Rs.	Rs.	Rs.	Rs.
<i>Assets</i>				
Cash and cash equivalents	-	-	601,891,827	601,891,827
Investment in reverse repurchase agreements against treasury bills and bonds	-	-	433,333,648	433,333,648
Financial assets - held For trading	-	50,204,691	-	50,204,691
Loans and advances	-	-	6,838,366,400	6,838,366,400
Lease rentals receivable and hire purchase	-	-	1,424,679,822	1,424,679,822
Financial assets - available for sale	506,659	-	-	506,659
Total financial assets	506,659	50,204,691	9,298,271,697	9,348,983,047

Notes to the Financial Statements

11. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd.)

11.2 As at 31st March, 2017

	<i>Financial liabilities at amortized cost</i>	<i>Total</i>
	Rs.	Rs.
Liabilities		
Due to customers	5,681,178,140	5,681,178,140
Due to banks	36,031,902	36,031,902
Other borrowed funds	2,476,518,223	2,476,518,223
Total financial liabilities	8,193,728,265	8,193,728,265
AFS Available for sale		
FVTPL Fair value through profit or loss		
L & R Loan and receivables		
	31.03.2018	31.03.2017
	Rs.	Rs.
12. CASH AND CASH EQUIVALENTS		
Cash in hand	84,970,208	35,339,439
Cash at banks	575,188,911	566,552,388
	660,159,119	601,891,827
13. INVESTMENT IN REVERSE REPURCHASE AGREEMENTS AGAINST TREASURY BILLS AND BONDS		
Reverse repurchase agreements against treasury bills and bonds	622,975,267	433,333,648
	622,975,267	433,333,648
14. OTHER FINANCIAL ASSETS		
Commercial Papers	207,244,747	-
	207,244,747	-
15. FINANCIAL ASSETS-HELD FOR TRADING		
Quoted equity securities (note 15.1)	213,734	204,691
Quoted debenture investments (note 15.2)	-	50,000,000
	213,734	50,204,691

	31.03.2018		31.03.2017	
	Number of shares	Market value Rs.	Number of shares	Market value Rs.
15.1 Quoted equity securities				
Bank finance and insurance				
Commercial Bank of Ceylon PLC (Voting)	710	96,418	702	91,541
Chilaw Finance PLC	-	-	50	1,060
Abans Finance PLC	50	1,065	50	1,205
Alliance Finance Company PLC	666	43,756	666	36,630
Associated Motor Finance Company PLC	50	20,000	50	22,995
Arpico Finance Company PLC	50	7,150	50	8,265
Bimpuh Finance PLC	100	4,450	100	5,930
Colombo Trust Finance PLC	50	1,250	50	500
Citizens Development Business Finance PLC	50	4,245	50	3,210
Central Finance Company PLC	103	10,290	103	8,879
Central Investments and Finance PLC	50	40	50	35
Commercial Leasing and Finance PLC	50	135	50	130
Commercial Credit and Finance PLC	50	2,155	50	1,980
Softlogic Finance PLC	50	1,750	50	1,550
Nation Lanka Finance PLC	50	50	50	50
Summit Finance PLC	50	1,145	50	1,450
LB Finance PLC	100	11,890	100	11,840
Lanka Orix Leasing Company PLC	50	195	50	110
Merchant Bank of Sri Lanka & Finance PLC	50	650	50	540
Multi Finance PLC	50	690	50	690
Peoples Leasing Company PLC	50	790	50	780
People's Merchant Finance PLC	50	550	50	695
Singer Finance Lanka PLC	50	770	50	855
Sinhaputhra Finance PLC	50	600	50	575
Swarnamahala Finance PLC	50	120	50	36
The Finance Company PLC	50	230	50	235
Vallibel Finance PLC	50	3,350	50	2,925
Total	2,729	213,734	2,771	204,691

	31.03.2018		31.03.2017	
	Number of debentures	Market value Rs.	Number of debentures	Market value Rs.
15.2 Quoted debenture investments				
Citizen Development Business Finance PLC	-	-	499,990	50,000,000
	-	-	499,990	50,000,000

Notes to the Financial Statements

	Note	31.03.2018 Rs.	31.03.2017 Rs.
16. LOANS AND ADVANCES			
Mortgage loans		414,210,707	441,082,523
Pledge loans		388,141,349	357,993,323
Personal and corporate loans		2,430,573,313	2,302,368,522
Group personal loans		924,703,569	994,822,902
Cheque and invoice discounting		49,648,832	66,072,959
Micro finance loans		1,640,927,931	1,646,640,262
Sale and lease back loans		1,000,001	1,000,001
Project financing loan		116,140,599	118,751,261
Gold loan		1,757,356,525	1,188,284,906
		7,722,702,826	7,117,016,659
Less: Allowance for impairment losses (note 16.1)		(474,803,458)	(278,650,259)
		7,247,899,368	6,838,366,400
16.1 Impairment allowance for loans and advances to customers			
As at the beginning of the year		278,650,259	141,774,313
Net charge for the year		256,285,522	164,118,963
Write off during the year		(60,132,323)	(27,243,017)
As at the end of the year		474,803,458	278,650,259
Individual impairment		139,156,081	46,650,042
Collective impairment		335,647,377	232,000,217
Total impairment		474,803,458	278,650,259
17. LEASE RENTALS RECEIVABLE AND HIRE PURCHASE			
Lease rentals receivables (note 17.1)		2,221,631,846	1,263,638,484
Hire purchases (note 17.2)		58,857,376	161,041,338
		2,280,489,222	1,424,679,822
17.1 Lease rentals receivables			
Gross rentals receivable		2,920,094,868	1,712,966,551
Less: Unearned income		(780,478,847)	(399,920,517)
Pre-paid rentals		(2,179,100)	-
Lease capitalized charges		153,305,821	-
Allowance for impairment losses	17.3.1	(69,110,896)	(49,407,550)
		2,221,631,846	1,263,638,484

	Note	31.03.2018 Rs.	31.03.2017 Rs.
17.2 Hire purchases			
Gross rentals receivable		94,356,345	246,473,625
Less: Unearned income		(1,635,921)	(14,601,724)
Pre-paid rentals		(1,273,629)	(1,940,335)
Allowance for impairment losses	17.3.2	(32,589,419)	(68,890,228)
		58,857,376	161,041,338
17.3 Allowance for impairment losses			
17.3.1 Lease rentals receivable			
As at the beginning of the year		49,407,550	88,463,178
Net charge for the year		49,569,053	31,636,410
Write off during the year		(29,865,707)	(70,692,038)
As at the end of the year		69,110,896	49,407,550
Individual impairment		-	-
Collective impairment		69,110,896	49,407,550
Total allowance for impairment losses		69,110,896	49,407,550
17.3.2 Hire purchase			
As at the beginning of the year		68,890,228	95,948,674
Net charge for the year		27,542,031	31,592,708
Write off during the year		(63,842,840)	(58,651,154)
As at the end of the year		32,589,419	68,890,228
Individual impairment		-	-
Collective impairment		32,589,419	68,890,228
Total allowance for impairment losses		32,589,419	68,890,228
17.4 Age analysis of lease and hire purchase			
17.4.1 Lease and hire purchase receivable not later than 1 year			
Gross rentals receivable		1,505,132,868	967,402,336
Less: Unearned income		(459,789,951)	(164,366,015)
Pre-paid rentals		(3,452,729)	(1,940,335)
Lease capitalized charges		68,680,071	-
Allowance for impairment losses		(47,505,059)	(58,405,226)
		1,063,065,200	742,690,760

Notes to the Financial Statements

17. LEASE RENTALS RECEIVABLE AND HIRE PURCHASE (Contd.)

	Note	31.03.2018 Rs.	31.03.2017 Rs.
17.4.2 Lease and hire purchase receivable later than 1 year and not later than 5 years			
Gross rentals receivable		1,509,318,345	992,037,841
Less: Unearned income		(322,324,816)	(250,156,226)
Pre-paid rentals		-	-
Lease capitalized charges		84,625,750	-
Allowance for impairment losses		(54,195,257)	(59,892,552)
		1,217,424,022	681,989,063
18. OTHER ASSETS			
Other receivables		15,587,389	15,626,098
		15,587,389	15,626,098
19. ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances, deposits and prepayments		67,948,443	64,760,286

	31.03.2018		31.03.2017	
	Number of shares	Directors' valuation* Rs.	Number of shares	Directors' valuation* Rs.
20. FINANCIAL ASSETS - AVAILABLE FOR SALE				
Unquoted cumulative redeemable preference shares				
Platinum Reality Investment Limited	25,000	6,500,000	25,000	6,500,000
Less : Impairment charge		(6,500,000)		(6,500,000)
Unquoted Ordinary shares	45,000	200,000	45,000	200,000
Finance Houses Consortium Private Limited	67	306,659	67	306,659
Credit Information Bureau of SL (CRIB)	45,067	506,659	45,067	506,659

*The Directors' valuation of non-quoted securities based on cost of investment less impairment amounts to Rs.506,659/- (2017 - Rs.506,659/-).

21. PROPERTY, PLANT AND EQUIPMENT

21.1 Gross carrying amounts

	<i>Balance as at 01.04.2017</i>	<i>Additions</i>	<i>Disposals/ transfers</i>	<i>Balance as at 31.03.2018</i>
	Rs.	Rs.	Rs.	Rs.
Freehold assets				
Cost				
Plant	25,930,613	-	-	25,930,613
Building	20,160,000	-	(20,160,000)	-
Motor vehicle	53,232,558	33,615,572	(12,096,469)	74,751,661
Office equipment	89,137,945	12,984,911	(108,900)	102,013,956
Computers	29,109,979	4,698,161	(78,000)	33,730,140
Furniture and fittings	19,300,418	546,492	-	19,846,910
	236,871,513	51,845,136	(32,443,369)	256,273,280

	<i>Balance as at 01.04.2017</i>	<i>Additions</i>	<i>Disposals/ transfers</i>	<i>Balance as at 31.03.2018</i>
	Rs.	Rs.	Rs.	Rs.

21.2 Accumulated depreciation

Plant	4,321,769	3,241,327	-	7,563,096
Building	3,990,000	1,680,000	(5,670,000)	-
Motor vehicle	22,620,728	14,073,070	(5,107,744)	31,586,054
Office equipment	26,063,290	15,551,488	(75,938)	41,538,840
Computers	8,805,115	4,855,471	(13,161)	13,647,425
Furniture and fittings	9,139,509	2,760,573	-	11,900,082
	74,940,411	42,161,929	(10,866,843)	106,235,497

	31.03.2018	31.03.2017
	Rs.	Rs.

Net Book value		
Plant	18,367,517	21,608,844
Building	-	16,170,000
Motor vehicle	43,165,607	30,611,830
Office equipment	60,475,116	63,074,655
Computers	20,082,715	20,304,864
Furniture and fittings	7,946,828	10,160,909
	150,037,783	161,931,102

Notes to the Financial Statements

21. PROPERTY, PLANT AND EQUIPMENT (Contd.)

21.3 During the financial year, the company acquired property, plant and equipment to the aggregate value of Rs.51,845,136/- (2017 - Rs.55,426,269/-). Cash payments amounting to Rs.51,718,268/- (2017 - Rs.55,426,269/-) was paid during the year for the purchases of property, plant and equipment.

21.4 Property, plant and equipment include fully depreciated assets having a gross carrying amount of Rs.17,872,226/- (2017 - Rs.17,182,385/-).

21.5 Temporarily idle property, plant and equipment

There were no property, plant and equipment idling as at 31st March, 2018 and 31st March, 2017.

21.6 Title restriction on property, plant and equipment

There was no restriction on the title of property, plant and equipment as at 31st March, 2018 and 31st March, 2017.

21.7 Property, plant and equipment pledged as security for liabilities

There were no items of property, plant and equipment pledged as securities for liabilities as at 31st March, 2018 and 31st March, 2017.

	31.03.2018	31.03.2017
	Rs.	Rs.
22. INVESTMENT PROPERTY		
Balance at the beginning of the year	306,253,164	143,706,564
Acquisitions during the year	63,652,592	173,282,051
Expenses capitalized during the year	-	195,000
Disposals during the year	(17,520,226)	(10,930,451)
Balance at the end of the year	352,385,530	306,253,164

Fair value of the investment property for the purpose of disclosure in note 22.2 was ascertained by valuations carried out by independent valuers as required by LKAS 40.

22.1 The amounts recognized to profit or loss on investment property is as follows :

	31.03.2018	31.03.2017
	Rs.	Rs.
Direct expenses (including security charges and other utility charges)	1,118,874	616,738
	1,118,874	616,738

22.2 Fair value of the investment property

Location of the land	Valuer's name and report date	Total extent	31.03.2018		31.03.2017	
			Fair value Rs.	Cost Rs.	Fair value Rs.	Cost Rs.
Lot 05, Dangahahena Land, Anamaduwa Road, Andigama.	D. Jayawardene (Incorporated Valuer) - valuation report dated 29th March, 2014.	39.04 P (0.09965 Ha)	9,650,000	1,250,000	9,650,000	1,250,000
Delgahawaththa Land, Walpitamulla, Dewalapola, Naiwala, Gampaha.	D. Jayawardene (Incorporated Valuer) - valuation report dated 28th March, 2014.	24.20 P (0.0612 Ha)	-	-	1,750,000	695,000
No 25/20, Kalyani Mawatha, Mabola, Wattala.	D. Jayawardene (Incorporated Valuer) - valuation report dated 04th May, 2018.	26.93P	14,100,000	12,453,317	17,800,000	15,453,317
Lot no. 21 at Thumbowila West, Piliyandala.	D. Jayawardene (Incorporated Valuer) - valuation report dated 28th March, 2014.	10.04 P (0.0254 Ha)	-	-	3,000,000	1,800,000
Lot no. 01 at Andiambalama, Kimbulapitiya.	D. Jayawardene (Incorporated Valuer) - valuation report dated 29th March, 2014.	14.00 P	5,600,000	3,500,000	5,600,000	3,500,000
Plan no. 377, Navindankandu, Kaddaikadu Thoppukadu.	V. Selvanayakam AIV (Incorporated Valuer) - valuation report dated 16th May, 2014.	10 Lms	-	-	4,000,000	3,160,226
Gonapola Land (No358, Horana-Colombo Road, Kumbuka Gonapola).	D. Jayawardene (Incorporated Valuer) - valuation report dated 30th March, 2015.	02R-01.10 P (0.2051 Ha)	20,250,000	19,500,000	20,250,000	19,500,000
Manipay Land (No 55 Nachchimar Kovil Road, Manipay).	V. Selvanayakam AIV (Incorporated Valuer) - valuation report dated 08th August, 2014.	10.50 Lms	10,000,000	9,000,000	10,000,000	9,000,000
No;21,14th Lane,I.Jothipala Mawatha,Malabe.	D. Jayawardene (Incorporated Valuer) - valuation report dated 20th Feb 2016.	10.00 P (0.0253 Ha)	14,500,000	12,865,866	14,500,000	12,865,866
Lot 1-46 Plan no;3393 at Tembiligaha, Pallegama, Gampola.	D. Jayawardene (Incorporated Valuer) - valuation report dated 10th October, 2015.	02A-02R-15 P	17,700,000	14,964,221	17,700,000	14,964,221
Lot no;1 in Plan no;5644 at Lenadora,Dambulla.	D. Jayawardene (Incorporated Valuer) - valuation report dated 12th October, 2015.	01A-02R-02.60 P (06122 Ha)	33,000,000	16,644,799	33,000,000	16,644,799
Oslo Furnitures Industries (Pvt) Ltd, Welagane, Maspotha,Kurunegala.	D. Jayawardene (Incorporated Valuer) - valuation report dated 05th October, 2015.	01R-35.00 P (0.1897 Ha)	59,000,000	46,137,684	59,000,000	34,137,684

Notes to the Financial Statements

22. INVESTMENT PROPERTY (CONTD.)

22.2 Fair value of the investment property

Location of the land	Valuer's name and report date	Total extent	31.03.2018		31.03.2017	
			Fair value Rs.	Cost Rs.	Fair value Rs.	Cost Rs.
Lot nos A,B,C,D,E & F in Plan no 4361 at Aramanagolla, Horana.	D. Jayawardene (Incorporated Valuer) - valuation report dated 03rd March, 2016.	02R-15.70 P (0.2420 Ha)	14,800,000	12,180,317	14,800,000	12,180,317
Sandiyakalikuda & Mundalamakadu of Puttalam Rd, Mundalama.	D. Jayawardene (Incorporated Valuer) - valuation report dated 20th April, 2017.	05A-03R-30 P	68,000,000	35,000,000	33,500,000	32,000,000
Karukottiheevu, Thamputtai 02, Akkaraipattu.	D. Jayawardene (Incorporated Valuer) - valuation report dated 23rd March, 2016."	10A-01R-05P (4.1602 Ha)	107,000,000	95,236,734	107,000,000	95,236,734
Galapitamillahena, Polarambegama, Kegalle.	D. Jayawardene (Incorporated Valuer) - valuation report dated 18th September, 2016.	6A-01R-00P (2.52928 Ha)	25,000,000	25,000,000	25,000,000	25,000,000
No.20, Church Road, Balangoda	D. Jayawardene (Incorporated Valuer) - valuation report dated 17th February, 2015.	15.90P	-	-	7,355,760	8,865,000
No;95,Mallattawela, Wellawaya	D. Jayawardene (Incorporated Valuer) - valuation report dated 20th July,2015.	11.80 P (0.04346 Ha)	9,000,000	4,200,000	-	-
Lot No;153B in Plan no;4813/99 at Udangawa, Ambanpola.	D. Jayawardene (Incorporated Valuer) - valuation report dated 09th March,2018.	10.00P. (0.325 Ha)	13,000,000	11,584,871	-	-
Lot No;1 in Plan no;1520 & Lot no;1 in Plan no;1522, "EVERTON ESTATE", Pothupitiya Road, Rakwana	D. Jayawardene (Incorporated Valuer) - valuation report dated 29th June 2015.	73A-03R- 17.50P	60,000,000	26,888,721	-	-
No:723/53, "Lake Terrace" Jayasinghe Mawatha, Korathota Road, Athurugiriya.	D. Jayawardene (Incorporated Valuer) - valuation report dated 27th March, 2018.	23.52 P	7,150,000	5,979,000		
			487,750,000	352,385,530	383,905,760	306,253,164

		<i>Balance as at 01.04.2017</i>	<i>Additions</i>	<i>Disposals/ transfers</i>	<i>Balance as at 31.03.2018</i>
		Rs.	Rs.	Rs.	Rs.
23.	INTANGIBLE ASSETS				
23.1	Gross carrying amounts				
	Cost				
	Intangible asset	23,464,030	627,851	-	24,091,881
		23,464,030	627,851	-	24,091,881
		<i>Balance as at 01.04.2017</i>	<i>Charge for the year</i>	<i>Disposals/ transfers</i>	<i>Balance as at 31.03.2018</i>
		Rs.	Rs.	Rs.	Rs.
23.2	Amortization				
	Intangible asset	12,284,997	2,999,453	-	15,284,450
		12,284,997	2,999,453	-	15,284,450
				31.03.2018	31.03.2017
				Rs.	Rs.
	Net book value				
	Intangible asset			8,807,431	11,179,033
				8,807,431	11,179,033
24.	DUE TO BANKS				
	Due to banks- bank overdrafts			454,920,306	36,031,902
				454,920,306	36,031,902
25.	OTHER LIABILITIES				
	Accrued expenses and other payables			36,650,813	46,791,280
				36,650,813	46,791,280
26.	CURRENT TAX LIABILITIES				
	Balance at the beginning of the year			30,749,073	28,044,517
	Income tax expense for the year			32,734,076	56,155,780
	Under provision of previous year			6,787,842	60,276
				70,270,991	84,260,573
	Income tax paid				
	Less: Tax credits			(42,122,470)	(35,776,407)
	WHT and notional tax			(13,323,227)	(8,256,823)
	ESC paid			(15,188,221)	(9,478,270)
	Balance at the end of the year			(362,927)	30,749,073

Notes to the Financial Statements

	31.03.2018	31.03.2017
	Rs.	Rs.
27. OTHER BORROWED FUNDS		
Securitized borrowings	1,905,423,849	1,602,911,979
Bank loans	1,095,654,943	873,606,244
	3,001,078,792	2,476,518,223

27.1 Securitized borrowings

	As at 01.04.2017	Loans obtained	Interest for the period	Repayments	As at 31.03.2018
	Rs.	Rs.	Rs.	Rs.	Rs.
27.1.1 Securitized borrowings					
Securitization Loan 01	51,019,878	-	1,287,814	(52,307,692)	-
Securitization Loan 02	-	-	-	-	-
Securitization Loan 03	237,546,070	-	15,281,206	(204,000,000)	48,827,276
Securitization Loan 04	99,455,602	-	4,294,219	(103,749,821)	-
Securitization Loan 05	111,484,310	-	2,177,254	(113,661,564)	-
Securitization Loan 06	337,096,791	-	16,749,363	(353,846,154)	-
Securitization Loan 07	200,897,686	-	20,242,562	(103,182,961)	117,957,287
Securitization Loan 08	225,728,018	-	13,264,487	(216,719,944)	22,272,561
Securitization Loan 09	268,034,189	-	11,965,811	(280,000,000)	-
Securitization Loan 10	71,649,435	-	9,889,027	(81,538,462)	-
Securitization Loan 11	-	423,392,487	59,048,085	(115,384,616)	367,055,956
Securitization Loan 12	-	500,000,000	55,311,510	(202,563,253)	352,748,257
Securitization Loan 13	-	250,322,321	27,447,564	-	277,769,885
Securitization Loan 14	-	300,000,000	28,328,665	(15,308,097)	313,020,568
Securitization Loan 15	-	200,000,000	13,446,959	(63,603,836)	149,843,123
Securitization Loan 16	-	254,225,051	1,703,885	-	255,928,936
	1,602,911,979	1,927,939,859	280,438,411	(1,905,866,400)	1,905,423,849

	As at 01.04.2017	Loans obtained	Interest for the period	Repayments	As at 31.03.2018
	Rs.	Rs.	Rs.	Rs.	Rs.
27.1.2 Bank loans					
Sampath Bank loan 01	141,760,001	-	16,670,607	(66,590,608)	91,840,000
DFCC Vardhana Bank 01	150,000,000	-	18,411,095	(68,411,103)	99,999,992
DFCC Vardhana Bank 02	200,062,184	-	27,165,899	(64,728,086)	162,499,997
Central Finance Loan 01	85,776,784	-	10,025,839	(58,755,743)	37,046,880
Sampath Bank Loan 02	100,127,068	150,000,000	1,566,274	(101,533,342)	150,160,000
HNB Bank Loan 01	195,880,207	-	25,065,279	(83,677,138)	137,268,348
Nation Trust Bank Loan 01	-	200,000,000	13,987,732	(47,437,732)	166,550,000
DFCC Vardana Bank 03	-	250,000,000	289,726	-	250,289,726
Commercial Leasing & Finance PLC	-	100,000,000	136,276	(100,136,276)	-
	873,606,244	700,000,000	113,318,727	(591,270,028)	1,095,654,943

Bank	Approved facility	Purpose	Term of the loan	Security	Security amount
Rs.					
27.2 Loan details					
BOC - Securitization loan 01	Rs.400 Mn	Working capital requirements	37 monthly instalments	Lease and hire purchase receivable	Nil
BOC - Securitization loan 03	Rs.500 Mn	Working capital requirements	36 monthly instalments	Vehicle mortgage and group personal loan receivable	Rs.65 Mn
BOC - Securitization loan 04	Rs.200 Mn	Working capital requirements	30 monthly instalments	Lease and hire purchase receivable	Nil
BOC - Securitization loan 05	Rs.211 Mn	Working capital requirements	18 monthly instalments	Lease and Hire purchase and vehicle mortgage receivable	Nil
BOC - Securitization loan 06	Rs.447.2 Mn	Working capital requirements	22 monthly instalments	Micro finance loan and group personal loan receivable	Nil
BOC - Securitization loan 07	Rs.200 Mn	Working capital requirements	36 monthly instalments	Lease and hire purchase receivables	Rs.124.4 Mn
First Capital Trustee Services- Securitization loan 08	Rs.275 Mn	Working capital requirements	24 monthly instalments	Lease and group personal loan receivable	Rs.29.6 Mn
BOC - Securitization loan 09	Rs.249 Mn	Working capital requirements	14 monthly instalments	Micro finance receivables	Nil
BOC - Securitization loan 10	Rs.70 Mn	Working capital requirements	14 monthly instalments	Pledged loans receivable	Rs.53 Mn
HNB - Securitization loan 11	Rs.423 Mn	Working capital requirements	15 monthly instalments	Micro receivable backed Loan Structure	Rs.490 Mn
HNB - Securitization loan 12	Rs.500 Mn	Working capital requirements	24 monthly instalments	Micro finance loan and group personal loan receivable	Rs. 502.8 Mn
HNB - Securitization loan 13	Rs.250 Mn	Working capital requirements	15 monthly instalments	"Loans and receivables	Rs. 380 Mn
People's Bank - Securitization loan 14	Rs.300 Mn	Working capital requirements	24 monthly instalments	Micro finance receivables	Rs. 437.5 Mn
First Capital Trustee Services - Securitization loan 15	Rs.200 Mn	Working capital requirements	24 monthly instalments	Group personal loan receivable	Rs. 220 Mn
People's Bank - Securitization loan 16	Rs.254 Mn	Working capital requirements	20 monthly instalments	Lease and hire purchase loan receivable	Rs. 330.5 Mn
Sampath Bank PLC 01	Rs.200 Mn	Working capital requirements	48 monthly instalments	Loan agreement for Rs.200 Mn.	N/A
DFCC Vardhana Bank 01	Rs.200 Mn	Working capital requirements	48 monthly instalments	Promissory note	Rs.200 Mn
DFCC Vardhana Bank 02	Rs.200 Mn	Working capital requirements	48 monthly instalments	Promissory note	Rs.200 Mn
Central Finance loan 01	Rs.100 Mn	Working capital requirements	24 monthly instalments	Lease receivables and promissory note	Lease - Rs. 130 Mn and Promissory note - Rs. 100 Mn
Sampath Bank PLC 02	Rs.150 Mn	Working capital requirements	3 monthly instalments	Loan agreement for Rs.200 Mn.	N/A
Hatton National Bank PLC 01	Rs.200 Mn	Working capital requirements	36 monthly instalments	Mortgage bond over loan recoverable consisting of business loan, corporate loan and mortgage loans	Rs.200 Mn
DFCC Vardhana Bank 03	Rs.250 Mn	Working capital requirements	48 monthly instalments	Promissory note	Rs.250 Mn
Nations Trust Bank 01	Rs.200 Mn	Working capital requirements	36 monthly instalments	Mortgage bond over corporate loans & micro finance loan portfolio	Rs.200 Mn

Notes to the Financial Statements

	31.03.2018	31.03.2017
	Rs.	Rs.
28. DUE TO CUSTOMERS		
Fixed deposits	6,356,067,246	5,681,178,140
	6,356,067,246	5,681,178,140
29. RETIREMENT BENEFIT OBLIGATION		
Retirement benefit obligations - gratuity		
Balance at the beginning of the year	18,774,955	12,355,588
Amount charged for the year	2,200,038	7,006,867
Payments made during the year	(930,000)	(587,500)
Balance at the end of the year	20,044,993	18,774,955
29.1 Amount recognized in the statement of profit or loss		
Current service cost for the year	3,314,191	3,311,720
Interest cost for the year	2,440,744	1,594,851
	5,754,935	4,906,571
29.2 Amount recognised in other comprehensive income		
Actuarial (gain)/loss for the year	(3,554,897)	2,100,296
	(3,554,897)	2,100,296

29.3 Messrs. Actuarial and Management Consultants (Pvt) Ltd, Actuaries, carried out an actuarial valuation of the retirement benefit obligation for Asia Asset Finance PLC as at 31st March, 2018. The valuation method used by the Actuary to value the liability is the 'Projected Unit Credit Actuarial Cost Method' recommended by LKAS 19. Appropriate and compatible assumptions were used in determining the cost of retirement benefits. The principal assumptions used are as follows:

	31.03.2018	31.03.2017
	Rs.	Rs.
Actuarial assumptions		
Discount rate	10%	13%
Salary increment rate	6%	12%
Staff turnover	19%	15%
Retirement age	55 years	55 years
Mortality	67/70 Mortality Table (Institute of Actuaries, London)	

29.4 Sensitivity analysis

In order to illustrate the significance of the salary increment rates and discount rates assumed in the valuation, the sensitivity analysis is as follows:

	31.03.2018	31.03.2017
	Rs.	Rs.
Discount rate		
Effect on retirement benefit obligation due to 1% increase	19,357,822	17,933,521
Effect on retirement benefit obligation due to 1% decrease	20,788,828	19,703,155
Salary increment rate		
Effect on retirement benefit obligation due to 1% increase	20,768,778	19,666,032
Effect on retirement benefit obligation due to 1% decrease	19,365,625	17,953,078

	31.03.2018		31.03.2017	
	Number	Rs.	Number	Rs.
30. STATED CAPITAL				
30.1 Fully paid ordinary shares	839,207,833	1,388,935,273	839,207,833	1,388,935,273
30.1.1 Balance at the beginning of the year	839,207,833	1,388,935,273	839,207,833	1,388,935,273
Balance at the end of the year	839,207,833	1,388,935,273	839,207,833	1,388,935,273

30.2 Rights of shareholders

The holders of ordinary shares confer their rights to receive dividends as declared from time to time and are entitled to one vote per share at the meeting.

All shares rank equally with regard to the company's residual assets.

	31.03.2018	31.03.2017
	Rs.	Rs.
31. STATUTORY RESERVE FUND AND OTHER RESERVES		
Statutory reserve fund	65,386,917	56,347,669
General reserve	3,000,000	3,000,000
	68,386,917	59,347,669

31.1 Statutory reserve fund

Statutory reserve fund is a capital reserve which contains profits transferred as required by Section 3 (b) (i) of Finance Companies (Capital Funds) Direction No. 1 of 2003.

Notes to the Financial Statements

31. STATUTORY RESERVE FUND AND OTHER RESERVES (CONTD.)

31.2 General reserve

General Reserve represents the amounts set aside by the directors for general application.

32. EARNINGS PER SHARE

32.1 Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

32.2 The following reflects the income and share data used in the basic earnings per share computation.

	31.03.2018	31.03.2017
	Rs.	Rs.
<i>Amounts used as the numerator:</i>		
Net profit attributable to ordinary shareholders for basic earnings per share	178,225,427	278,048,809
	31.03.2018	31.03.2017
	Number.	Number
<i>Number of ordinary shares used as denominator for basic earnings per share</i>		
Weighted average number of ordinary shares in issue	839,207,833	839,207,833
Basic earnings per share	0.21	0.33

33. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, the company makes various commitments and in course liabilities. No material losses are anticipated as a result of these transactions.

		31.03.2018	31.03.2017
		Rs.	Rs.
33.1 Commitments			
Promissory note to DFCC Bank PLC Loans	33.1.1	650,000,000	400,000,000
Promissory note to Central Finance Loan	33.1.1	100,000,000	100,000,000
Undrawn commitments	33.1.2	5,382,409	5,455,500
Letter of credit commitments	33.1.3	40,000,000	-
		795,382,409	505,455,500

33.1.1 Promissory notes

The related loan balances on issued promissory notes are as follows as at the reporting date.

	Promissory note Value	Loan outstanding as at 31.03.2018
	Rs.	Rs.
Promissory notes to DFCC Bank PLC	650,000,000	512,789,715
Promissory notes to Central Finance	100,000,000	37,046,880
	750,000,000	549,836,595

33.1.2 Undrawn commitments

Undrawn commitments consist of facilities granted to customers where the company reserves the right to unconditionally cancel or recall the facility at its discretion.

33.1.3 Letter of credit commitments

Undrawn letter of credit commitments consist of the import cost of 10 nos of Vehicle units amounting LKR 19,710,000/-.

33.2 Contingent liabilities

The company does not have significant contingent liabilities as at the reporting date.

34. ASSETS PLEDGED

The following assets have been pledged as securities for liabilities.

Nature of assets	Nature of liabilities	Carrying amount pledged		Included under
		31.03.2018	31.03.2017	
		Rs.	Rs.	
Lease and hire purchase receivables	BOC - securitization loan 01	-	51,019,878	Lease rentals receivables and hire purchase
Vehicle mortgaged loans and group personnel loans	BOC - securitization loan 03	48,827,276	237,546,070	Loans and advances
Lease and hire purchase receivable	BOC - securitization loan 04	-	99,455,602	Lease rentals receivables and hire purchase
Lease and Hire purchase and vehicle mortgage receivables	BOC - securitization loan 05	-	111,484,310	Lease rentals receivables and hire purchase, loans and advances
Micro finance loan and group personal loan receivable	BOC - securitization loan 06	-	337,096,791	Loans and advances
Lease and hire purchase receivable	BOC - securitization loan 07	117,957,287	200,897,686	Lease rentals receivables and hire purchase
Lease and group personal loan receivable	First Capital Trustee Services - securitization loan 08	22,272,561	225,728,018	Lease rentals receivable, Loans and advances
Micro finance receivable	BOC - securitization loan 09	-	268,034,189	Loans and advances
Pledge loans receivables	BOC - securitization loan 10	-	71,649,435	Loans and advances
Micro receivable backed Loan Structure	HNB - securitization loan 11	367,055,956	-	Loans and advances
Micro finance loan and group personal loan receivable	HNB - securitization loan 12	352,748,257	-	Loans and advances
Loans and receivables	HNB - securitization loan 13	277,769,885	-	Loans and advances
Micro finance receivables	People's Bank - securitization loan 14	313,020,568	-	Loans and advances
Group personal loan receivables	First Capital Trustee Services - Securitization loan 15	149,843,123	-	Loans and advances
Lease and hire purchase loan receivables	People's Bank - Securitization loan 16	255,928,936	-	Lease rentals receivables and hire purchase
Mortgage bond over loan recoverable consisting of business loan, corporate loan and mortgage loans	Hatton National Bank PLC 01	137,268,348	-	Loans and advances
Mortgage bond over corporate loans & micro finance loan portfolio	Nations Trust Bank 01	166,550,000	-	Loans and advances

Notes to the Financial Statements

35. MATURITY ANALYSIS

An analysis of the total assets employed and the total liabilities at the year end, based on the remaining balance at the reporting date to the respective contractual maturity dates is given below:

	Less than 3 months	3-12 months	1-3 years	Over 3 years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	660,159,119	-	-	-	660,159,119
Investment in reverse repurchase agreements against the treasury bills and bonds	622,975,267	-	-	-	622,975,267
Other financial assets	207,244,747	-	-	-	207,244,747
Financial assets - held for trading	213,734	-	-	-	213,734
Loans and advances	2,987,937,373	1,977,724,795	1,541,133,622	741,103,578	7,247,899,368
Lease rentals receivable and hire purchase	362,001,865	701,047,995	1,027,312,441	190,126,920	2,280,489,222
Vehicle Stock	-	262,088	-	-	262,088
Other assets	15,587,389	-	-	-	15,587,389
Income Tax Receivable	-	362,927	-	-	362,927
Deposits and prepayments	5,979,792	33,722,009	20,731,398	7,515,244	67,948,443
Financial assets - available for sale	-	-	-	506,659	506,659
Property, plant and equipment	-	-	-	150,037,783	150,037,783
Investment property	-	-	-	352,385,530	352,385,530
Deferred tax asset	-	-	112,814,714	-	112,814,714
Intangible assets	-	-	-	8,807,431	8,807,431
As at 31.03.2018	4,862,099,287	2,713,119,814	2,701,992,175	1,450,483,145	11,727,694,421
As at 31.03.2017	3,710,651,821	3,118,921,293	2,393,076,417	804,285,908	10,026,935,439
Liabilities					
Due to banks	454,920,306	-	-	-	454,920,306
Other liabilities	36,650,813	-	-	-	36,650,813
Other borrowed funds	829,908,775	1,478,828,229	624,633,455	67,708,333	3,001,078,792
Due to customers	1,333,227,256	3,128,643,459	1,420,836,166	473,360,365	6,356,067,246
Retirement benefit obligation	-	-	-	20,044,993	20,044,993
As at 31.03.2018	2,654,707,150	4,607,471,688	2,045,469,621	561,113,691	9,868,762,150
As at 31.03.2017	2,383,729,310	3,909,303,730	1,641,608,471	355,402,060	8,290,043,573
Net amount					
As at 31.03.2018	2,207,392,137	(1,894,351,874)	656,522,554	889,369,454	1,858,932,271
As at 31.03.2017	1,326,922,511	(790,382,437)	751,467,946	448,883,848	1,736,891,866

36. CURRENT/NON-CURRENT ANALYSIS

	31.03.2018			31.03.2017		
	Within	After	Total	Within	After	Total
	12 months	12 months		12 months	12 months	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and cash equivalents	660,159,119	-	660,159,119	601,891,827	-	601,891,827
Investment in reverse repurchase agreements against treasury bills and bonds	622,975,267	-	622,975,267	433,333,648	-	433,333,648
Other financial assets	207,244,747	-	207,244,747	-	-	-
Financial assets - held for trading	213,734	-	213,734	50,204,691	-	50,204,691
Loans and advances	4,965,662,168	2,282,237,200	7,247,899,368	4,948,350,022	1,890,016,378	6,838,366,400
Lease rentals receivable and hire purchase	1,063,049,861	1,217,439,361	2,280,489,222	743,134,293	681,545,529	1,424,679,822
Vehicle stock	262,088	-	262,088	-	-	-
Other assets	15,587,389	-	15,587,389	15,626,098	-	15,626,098
Income Tax Receivable	362,927	-	362,927	-	-	-
Advances, deposits and prepayments	39,701,801	28,246,642	67,948,443	37,032,535	27,727,751	64,760,286
Financial assets - available for sale	-	506,659	506,659	-	506,659	506,659
Property, plant and equipment	-	150,037,783	150,037,783	-	161,931,102	161,931,102
Investment property	-	352,385,530	352,385,530	-	306,253,164	306,253,164
Deferred tax asset	-	112,814,714	112,814,714	-	118,202,709	118,202,709
Intangible assets	-	8,807,431	8,807,431	-	11,179,033	11,179,033
Total assets	7,575,219,101	4,152,475,320	11,727,694,421	6,829,573,114	3,197,362,325	10,026,935,439
Liabilities						
Due to banks	454,920,306	-	454,920,306	36,031,902	-	36,031,902
Other liabilities	36,650,813	-	36,650,813	46,791,280	-	46,791,280
Current tax liabilities	-	-	-	30,749,073	-	30,749,073
Other borrowed funds	2,308,737,004	692,341,788	3,001,078,792	1,741,496,804	735,021,419	2,476,518,223
Due to customers	4,461,870,715	1,894,196,531	6,356,067,246	4,437,963,983	1,243,214,157	5,681,178,140
Retirement benefit obligation	-	20,044,993	20,044,993	-	18,774,955	18,774,955
Total liabilities	7,262,178,838	2,606,583,312	9,868,762,150	6,293,033,042	1,997,010,531	8,290,043,573
Net balance	313,040,263	1,545,892,008	1,858,932,271	536,540,072	1,200,351,794	1,736,891,866

Notes to the Financial Statements

37. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AND FAIR VALUE HIERARCHY

37.1 Determination of fair value and fair value hierarchy

As at 31st March, 2018, the company held the following assets carried at fair value on the statement of financial position. The company uses the following hierarchy for determining and disclosing the fair value of those assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

		31.03.2018			
			Level 1	Level 2	Level 3
		Rs.	Rs.	Rs.	Rs.
37.1.1	Assets measured at fair value				
	Financial assets - held for trading	213,734	213,734	-	-
	Financial assets - available for sale	506,659	-	-	506,659
	Total assets at fair value	720,393	213,734	-	506,659

		31.03.2017			
			Level 1	Level 2	Level 3
		Rs.	Rs.	Rs.	Rs.
	Financial assets - held for trading	50,204,691	50,204,691	-	-
	Financial assets - available for sale	506,659	-	-	506,659
	Total assets at fair value	50,711,350	50,204,691	-	506,659

38. FINANCIAL REPORTING BY SEGMENT

	Finance lease		Hire purchase		Loans and advances		Investment		Other		Total	
	31.03.2018	31.03.2017	31.03.2018	31.03.2017	31.03.2018	31.03.2017	31.03.2018	31.03.2017	31.03.2018	31.03.2017	31.03.2018	31.03.2017
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest income	407,178,686	293,976,605	10,472,832	39,716,631	1,892,389,422	1,598,088,546	133,348,460	88,775,175	-	-	2,443,389,400	2,020,556,957
Other income	18,428,964	6,579,036	276,383	923,674	100,718,525	92,186,594	322,530	3,204,360	9,229,769	7,156,955	128,976,171	110,050,619
Total revenue	425,607,650	300,555,641	10,749,215	40,640,305	1,993,107,947	1,690,275,140	133,670,990	91,979,535	9,229,769	7,156,955	2,572,365,571	2,130,607,576
Segmental result	47,303,419	52,718,767	1,194,703	7,128,486	221,520,500	296,481,614	14,856,629	16,133,611	1,025,826	1,255,361	285,901,076	373,717,839
Value added tax on financial services											63,761,107	57,841,421
Profits from operations											222,139,969	315,876,418
Income tax charge for the year											(43,914,542)	(37,827,609)
Net profit for the year											178,225,427	278,048,809
Segment assets	2,221,631,846	1,263,638,484	58,857,376	161,041,338	7,247,899,368	6,838,366,400	830,433,748	483,538,339	-	-	10,358,822,338	8,746,584,561
Unallocated assets	-	-	-	-	-	-	-	-	1,368,872,083	1,280,350,878	1,368,872,083	1,280,350,878
Total assets	2,221,631,846	1,263,638,484	58,857,376	161,041,338	7,247,899,368	6,838,366,400	830,433,748	483,538,339	1,368,872,083	1,280,350,878	11,727,694,421	10,026,935,439
Segment liabilities	2,104,370,396	1,183,766,108	55,750,785	150,862,198	6,865,343,099	6,406,125,233	786,602,064	452,974,727	-	-	9,812,066,344	8,193,728,266
Unallocated liabilities	-	-	-	-	-	-	-	-	56,695,806	96,315,308	56,695,806	96,315,308
Total liabilities	2,104,370,396	1,183,766,108	55,750,785	150,862,198	6,865,343,099	6,406,125,233	786,602,064	452,974,727	56,695,806	96,315,308	9,868,762,150	8,290,043,574

In determining segment results, expenses have been allocated on proportionate basis on interest income and the segment liabilities have been proportionately allocated based on the segment assets.

39. EVENTS OCCURRING AFTER THE REPORTING DATE

There have been no material events occurring after the reporting date that require adjustments to, or disclosures, in the financial statements.

Notes to the Financial Statements

40. RELATED PARTY DISCLOSURES

The company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Details of significant related party disclosures are as follows:

40.1 Parent and ultimate controlling party

The ultimate parent of the company as at 31st March, 2018 is Muthoot Finance Limited.

40.2 Transactions with related entities

40.2.1 Muthoot Finance Limited

Relationship - Ultimate parent

	31.03.2018	31.03.2017
	Rs.	Rs.
Expenses incurred for Muthoot Finance Limited	604,952	1,384,645

40.3 Transactions with key management personnel of the company

The key managerial personnel of the company are the members of its board of directors and the parent company. Following transactions were entered between the company and its key management personnel and their close family members.

	31.03.2018	31.03.2017
	Rs.	Rs.
40.3.1 Key management personnel compensation		
Short-term employment benefits paid	23,521,756	25,146,351
40.3.2 Other transactions with key management personnel		
Fixed deposits held	83,523,013	9,210,000
Uplift of fixed deposits	3,000,000	50,000
Interest expenses	7,383,926	1,179,256
40.3.3 Share transactions with key management personnel		
Number of ordinary shares held at the year end	1,400,000	24,055,845

41. RISK MANAGEMENT

The management of the company considers the risk management as an important factor behind the recent success of the company. The company has developed a culture within the organization, which shapes and influences and the risk decisions taken by the management and the employees. The adequacy and the effectiveness of the risk management decisions taken by the company's management will be reviewed regularly through its committees and reported to the "Integrated risk management committee" for reference and guidance. We believe successful risk management will enable the company to be resilient to any unfavourable event caused by internal or external factors.

41.1 Risk management committees

41.1.1 Assets and liability committee (ALCO)

ALCO is chaired by the chief executive officer and its representatives are, the chief operating officer, general manager, the assistant general manager-finance, the senior manager-treasury and the assistant manager - analyst. The committee meeting is held once a month to monitor and manage the assets and liabilities of the company and also overall liquidity position to keep the company's liquidity at healthy levels whilst satisfying regulatory requirements.

41.1.2 Integrated risk management committee (IRM)

The IRM committee, which has the responsibility to monitor the overall risk process within the company. The IRM committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The IRM committee is responsible for managing risk decisions and monitoring risk levels and reports on periodical basis to the board.

41.2 Credit risk

Credit risk is the likelihood that a borrower or counterparty will not honor its obligations in accordance with the terms of agreement. i.e the risk of default which is one of the most vulnerable risks faced by any financial institution. Credit risk is inherent to all financial institutions where the main business is lending. The main aim of the "credit risk management" is to minimize the risk and to maximize the risk adjusted rate of return of the financial institution.

41.2.1 Impairment assessment

For accounting purposes, the company uses a collective and individual model for the recognition of losses on impaired financial assets.

Individually assessed allowances

The company determines the allowances appropriate for each individually significant leases, hire purchase and loan on an individual basis, including any overdue payments of interests or credit rating downgrades. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty projected receipts and the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date.

Collectively assessed allowances

Allowances are assessed collectively for losses on leases, hire purchase and loans and for held to maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The company generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the company would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends and other consumer data. The company may use the aforementioned factors as appropriate to adjust the impairment allowances.

Notes to the Financial Statements

41. RISK MANAGEMENT (CONTD.)

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, loan to collateral ratios) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time, a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by management to ensure alignment with the company's overall policy.

41.2.2 Company's approach to credit risk

The company caters to mainly the small and medium corporate sector and to the retail sector. Therefore, the company has adopted a process where the credit evaluation is not restricted to its finances but also on qualitative factors, giving the company an opportunity to evaluate customer's operations, product feasibility, management structure etc.

In order to mitigate the risk of exposing into high risk sectors, the company has imposed sector restrictions and exposure ceilings. Effective management of portfolio ensures that the company avoids the risk of concentration of exposures. Further, the company is continuously conducting environment analysis and periodic reviews to monitor credit exposures, portfolio performance and to identify emerging credit risks.

The recoveries department consistently monitors portfolio delinquency and the collections. A monthly report is submitted to the chief executive officer on the performance of individual marketer.

The credit policy of the company recommends an innovative approach in evaluating a borrower without hindering the credit quality. The company has introduced exposure ceilings, delegated authority levels for credit approval, internal risk rating model and risk based pricing through the credit policy.

	<i>Neither past due nor impaired</i>	<i>Past due and not impaired</i>	<i>Individually impaired</i>	<i>31.03.2018 Total</i>
	Rs.	Rs.	Rs.	Rs.
41.2.3 Credit quality by class of financial assets				
Cash and cash equivalents	660,159,119	-	-	660,159,119
Investment in reverse repurchase agreements against treasury bills and bonds	622,975,267	-	-	622,975,267
Financial assets - held for trading	213,734	-	-	213,734
	1,283,348,120	-	-	1,283,348,120
Loans and advances				
Gross loans and advances	3,357,579,422	4,124,194,173	240,929,232	7,722,702,826
Less : Impairment charge	(19,948,349)	(315,699,028)	(139,156,081)	(474,803,458)
	3,337,631,073	3,808,495,145	101,773,151	7,247,899,368
Lease rentals receivable and hire purchase				
Gross lease rentals receivable and hire purchase	1,210,332,155	1,171,857,381	-	2,382,189,537
Less : Impairment charge	(11,964,901)	(89,735,414)	-	(101,700,315)
	1,198,367,254	1,082,121,967	-	2,280,489,222
Financial assets - available for sale				
Financial assets - available for sale	506,659	-	-	506,659
Less : Impairment charge	-	-	-	-
	506,659	-	-	506,659

Note : Neither past due nor impaired lease rental receivables, hire purchase and loans include any facility that is not in arrears as at the reporting date and assessed for impairment on a collective basis. Past due but not impaired lease rental receivable, hire purchase and loans include any facility that is in arrears for more than one day and assessed for impairment on a collective basis.

41.2.4 Concentration of credit risk

The company's concentration of risk in relation to the lending portfolio is managed by the industry sector which is detailed below.

	31.03.2018	31.03.2017
	Rs.	Rs.
Textile and wearing apparel	28,371,187	24,843,447
Manufacturing	631,569,305	788,545,891
Metals, chemicals and engineering	4,027,810	27,947,962
Transport	160,175,659	176,980,583
Services	1,155,463,234	1,264,958,918
Agro-business and fisheries	220,570,233	253,019,642
Construction	226,573,322	218,443,879
Commercial trading	688,255,646	500,720,696
Others	6,989,885,967	5,404,533,241
Total lending portfolio	10,104,892,363	8,659,994,259
Loans and advances		
Lease	7,722,702,826	7,117,016,659
Hire purchase	2,290,742,742	1,313,046,034
Total receivables	91,446,795	229,931,566
	10,104,892,363	8,659,994,259

Notes to the Financial Statements

41. RISK MANAGEMENT (CONTD.)

41.3 Market risk

Market risk is identified by the company as a possibility of loss to the company caused by changes in the market variables. Market risk mainly includes interest rate risk, liquidity risk, foreign exchange risk and country risk.

41.3.1 Interest rate risk

Interest rate risk is the potential negative impact on the net interest income based on rate fluctuations and impact to the profitability of the company. The company does not have variable interest rates and all facilities granted are on fixed interest rates.

When all borrowings and lendings are done on fixed rates the net interest margin is affected due to the following reasons,

Maturity mismatch/GAP

One of the major concerns in financial business is the maturity mismatch, where the average loan period is over 2 years whilst the average deposit period is less than one year. Hence, where the interests are on an increasing trend, the company's net interest margin will reduce.

Please refer note 35 to the financial statements for the maturity analysis.

Re-Investment risk

These are uncertainties with regard to interest rate at which the future cash flows could be re-invested. On an increasing trend, this would be beneficial for Asia Asset Finance PLC.

Net interest position

When the market rates are on a downward trend and the company earning assets are higher than its liabilities, the risk of net interest position falling is high.

Liquidity risk

Liquidity is the ability to efficiently accommodate deposit as also reduction in liabilities and to fund the loan growth and possible funding of the off-balance sheet claims liquidity risk arises through maturity mismatch of loans and deposits.

Foreign exchange (FOREX) and country risk

FOREX is the risk that the finance companies may suffer loss as a result of adverse exchange rate movements. Country risk is the risk that arises due to cross border transactions. Asia Asset Finance PLC does not have any foreign borrowings or foreign transactions overseas except for Oracle financials licensing fee, which does not consist of a substantial impact on the company to conduct in-depth analysis. However, there is a slight impact when budgeting for this cost. The above risks are triggered by the treasury operations.

42. COMPARATIVE INFORMATION

Comparative information has been re-classified as stated below to conform to the current year's presentation.

42.1 Statement of profit or loss and other comprehensive income

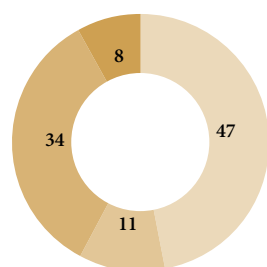
Administration allowances paid to staff which were classified under personnel expenses have been re-classified under general and administration expenses.

	<i>As reported previously in 2016/2017</i>	<i>Re-classification of administration allowances</i>	<i>Current presentation 2016/2017</i>
	Rs.	Rs.	Rs.
Personnel expenses	335,295,267	(85,181,409)	250,113,858
General and administration expenses	270,042,164	85,181,409	355,223,573

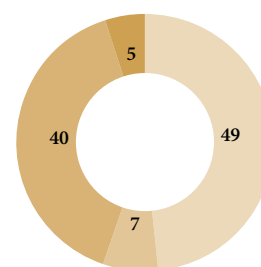
Value Addition

	2017/2018		2016/2017		2015/2016	%
Income	2,443,389,400		2,020,556,957.00		1,265,001,829	
Other Income	128,976,169		110,050,619.00		118,807,674	
Cost of borrowing and services	(1,637,686,099.00)		(1,150,591,381.00)		(766,052,428.00)	
Provisions	(333,396,606.00)		(227,348,081.00)		(83,947,606.00)	
Value Added Tax	(63,761,107.00)		(57,841,421.00)		(47,358,658.00)	
	537,521,757		694,826,693		486,450,811	
Distribution Value Added	As at 31.03.2018		As at 31.03.2017			
To employees						
Remuneration and other benefits	252,993,197	47	340,201,838.00	49	252,993,197	52
To Government						
Taxes	57,310,691	11	45,254,677.00	7	33,411,510.00	6.87
To Expansion and Growth						
Retained Profit	180,784,953	34	275,360,430.00	40	175,821,012.00	36.14
Depreciation and Amortization	45,161,381	8	34,009,748.00	5	24,225,092.00	4.98
	536,250,222	100	694,826,693	100.0	486,450,811	100

Value Added as at 31.03.2018



Value Added as at 31.03.2017



Depreciation and Amortization
 Retained Profit
 Taxes
 Remuneration and other benefits

Ten Year Summary

INCOME STATEMENT

Year ended 31 March

	2009	2010	2011	2012
	LKR	LKR	LKR	LKR
Income	219,513,548	188,651,062	327,593,843	435,341,934
Interest Income	190,844,876	137,860,664	206,628,351	378,483,748
Interest Expenses	(203,910,764)	(186,250,897)	(147,370,897)	(207,019,231)
Net Interest Income	(13,065,888)	(48,390,233)	59,257,454	171,464,517
Net Trading Loss on Equity Securities	(14,058,572)	-	-	(24,957,371)
Other Income	28,668,672	50,790,398	120,965,492	56,858,186
Net Operating Income	1,544,212	2,400,165	180,222,946	203,365,332
Less: Operating Expenses				
Personnel Costs	(25,012,211)	(25,318,637)	(32,329,757)	(76,401,233)
Provision for Staff Retirement Benefits Cost	(606,875)	(428,750)	(981,375)	(489,287)
Other General & Administrative Expenses	(52,540,336)	(48,188,614)	(77,453,688)	(88,292,343)
Reversal / (Provision) of Losses on Loans and Advances	(98,958,943)	(12,500,099)	(2,826,184)	(21,624,545)
Net Profit / (Loss) Before Income Tax Expenses	(175,574,153)	(84,035,935)	66,631,942	16,557,924
Income Tax (Charge)/Reversal	-	-	5,363,331	31,428,577
Net Profit / (Loss) after Taxation	(175,574,153)	(84,035,935)	71,995,273	47,986,501
Actuarial Loss on Retirement Benefit Liability				
Income Tax on Other Comprehensive Income				
Other Comprehensive Income for the Year Net of Tax	-	-	-	-
Total comprehensive Income for the Year	(175,574,153)	(84,035,935)	71,995,273	47,986,501
Earnings per Share	(8.99)	(1.58)	0.28	0.10

Figures in brackets indicate deductions

2013	2014	2015	2016	2017	2018
LKR	LKR	LKR	LKR	LKR	LKR
626,800,329	768,716,521	923,347,861	1,383,809,503	2,130,607,576	2,572,365,569
589,316,038	732,367,042	850,447,095	1,265,001,829	2,020,556,957	2,443,389,400
(336,876,108)	(437,557,304)	(480,997,160)	(592,688,880)	(919,297,655)	(1,233,214,297)
252,439,930	294,809,738	369,449,935	672,312,949	1,101,259,302	1,210,175,103
(2,679,882)	5,684,335	24,610,913	(7,947,048)	2,326,220	(31,406)
37,484,291	36,349,479	72,900,766	126,754,722	107,724,399	129,007,575
287,244,339	336,843,552	466,961,614	791,120,623	1,211,309,921	1,339,151,272
(118,289,225)	(123,044,068)	(178,237,431)	(249,869,486)	(335,295,267)	(264,465,472)
(1,516,681)	(1,947,985)	(2,630,870)	(3,123,711)	(4,906,571)	(5,754,935)
(96,156,535)	(138,765,746)	(158,582,482)	(244,947,298)	(327,883,585)	(513,394,290)
(25,973,097)	(29,886,795)	(24,748,372)	(83,947,606)	(227,348,081)	(333,396,606)
45,308,801	43,198,958	102,762,459	209,232,522	315,876,417	222,139,969
16,382,992	3,318,687	(1,576,656)	(34,014,398)	(37,827,608)	(43,914,542)
61,691,793	46,517,645	101,185,803	175,218,124	278,048,809	178,225,427
(41,739)	(196,156)	(1,049,754)	837,345	(2,100,296)	3,554,897
11,687	54,924	293,931	(234,457)	(588,083)	(995,371)
(30,052)	(141,232)	(755,823)	602,888	(2,688,379)	2,559,526
61,661,741	46,376,413	100,429,980	175,821,012	275,360,430	180,784,953
0.11	0.08	0.15	0.21	0.33	0.21

Ten Year Summary

BALANCE SHEET

Year ended 31 March

	31.03.2009	31.03.2010	31.03.2011
	LKR	LKR	LKR
ASSETS			
Cash & Cash Equivalents	12,445,218	130,989,399	31,979,594
Investment in Reverse Repurchase Agreements against Treasury Bills	23,398,661	139,298,185	94,592,860
Other Financial Assets	78,042,308	-	40,863,010
Financial Asset - Held for Trading		38,972,796	56,210,473
Loans & Advances Including Lease Rentals Receivables and Hirepurchase	738,765,295	648,266,160	1,153,795,633
Financial Asset - Available for Sale		-	7,949,894
Vehicle Stock	-	8,670,650	33,118,250
Real Estate Inventories		-	-
Other Debtors, Deposits & Prepayments	74,108,599	59,963,734	84,428,291
Income Tax Receivable		-	9,175,825
Property, Plant & Equipment	9,563,490	9,818,532	28,264,509
Investment Property	12,023,254	27,039,000	32,934,517
Deffered Tax Asset		-	13,887,934
	948,346,825	1,063,018,456	1,587,200,790
LIABILITIES & EQUITY			
Liabilities			
Customer Deposits	999,860,605	1,032,293,705	1,351,662,050
Bank Overdraft	11,104,498	-	-
Borrowings	13,442,800	-	-
Creditors & Accruals	67,567,009	48,425,024	15,424,726
Retirement Benefits Obligation	1,849,625	1,813,375	2,754,750
	1,093,824,537	1,082,532,104	1,369,841,526
Shareholders' Funds			
Stated Capital	195,342,860	395,342,860	580,538,748
Reserves	(330,820,572)	(414,856,508)	(363,179,484)
Total Equity	(135,477,712)	(19,513,648)	217,359,264
Total Equity and Liability	958,346,825	1,063,018,456	1,587,200,790
Contingent Liabilities and commitments			
Net Asset per Share	(6.94)	(0.37)	0.54

Figures in brackets indicate deductions

Certification

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

31.03.2012	31.03.2013	31.03.2014	31.03.2015	31.03.2016	31.03.2017	31.03.2018
LKR	LKR	LKR	LKR	LKR	LKR	LKR
66,804,910	193,568,463	229,616,166	446,524,236	690,797,870	601,891,827	660,159,119
88,255,490	129,938,359	184,467,915	259,698,505	328,866,266	433,333,648	622,975,267
204,666,796	242,652,390	112,059,685	9,254,835	8,817,330	50,204,691	207,458,481
23,323,863	6,775,855	81,008,250	69,263,955	48,244,689	-	
2,002,530,734	2,501,348,943	2,994,869,411	4,137,897,770	6,527,840,413	8,263,046,222	9,528,388,590
7,771,958	578,617	578,617	578,617	506,659	506,659	506,659
22,935,143	8,755,453	8,928,571	46,797,426	-	-	262,088
-	-	-	41,698,793	34,468,475	-	
108,035,936	92,641,825	84,251,334	71,228,510	75,137,577	80,386,384	83,535,832
6,759,699	6,252,769	3,870,578	3,472,184	-	-	362,927
50,676,540	57,152,755	53,733,373	79,304,388	156,612,515	173,110,135	158,845,214
42,934,517	32,934,517	98,352,117	80,842,794	143,706,564	306,253,164	352,385,530
53,786,050	77,714,479	88,626,969	97,845,584	100,402,344	118,202,709	112,814,714
2,678,481,636	3,350,314,425	3,940,362,986	5,344,407,597	8,115,400,702	10,026,935,439	11,727,694,421
1,921,449,893	2,591,165,554	3,033,741,505	3,672,180,230	4,796,299,899	5,681,178,140	6,356,067,246
20,231,345	1,950	78,787,246	62,326	166,925,303	36,031,902	454,920,306
76,551,117	48,544,214	64,106,983	344,516,666	1,609,833,175	2,476,518,223	3,001,078,792
27,067,942	14,201,207	15,548,199	31,553,729	68,455,301	77,540,353	36,650,813
3,244,037	4,802,457	6,703,598	10,384,222	12,355,588	18,774,955	20,044,993
2,048,544,334	2,658,715,382	3,198,887,531	4,058,697,173	6,653,869,266	8,290,043,573	9,868,762,150
945,130,285	945,130,285	945,130,285	1,388,935,273	1,388,935,273	1,388,935,273	1,388,935,273
(315,192,983)	(253,531,242)	(203,654,830)	(103,224,849)	72,596,163	347,956,593	469,996,998
629,937,302	691,599,043	741,475,455	1,285,710,424	1,461,531,436	1,736,891,866	1,858,932,271
2,678,481,636	3,350,314,425	3,940,362,986	5,344,407,597	8,115,400,702	10,026,935,439	11,727,694,421
1.13	1.24	1.33	1.53	1.74	2.07	2.22

Notice of 07th Annual General Meeting of Asia Asset Finance PLC for the Year Ended 31st March 2017/2018

NOTICE IS HEREBY GIVEN that the 7th Annual General Meeting of Asia Asset Finance PLC will be held on 25th September 2018 at 10.00 a.m at The Club House 324, Havelock City, Colombo 06.

AGENDA

1. To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st March 2018 and the report of the auditors thereon.
2. Mrs. D. P. Pieris retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself in terms of Article 88 of the Articles of Association.
3. Mr. R. A. B. Basanayake retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself in terms of Article 88 of the Articles of Association.
4. Mr. J. P. D. R. Jayasekara who was appointed to office on 26th January 2018 will cease to be a Director and will be eligible under Article 94 of the Articles of Association of the Company.
5. Mr. K. G. K. Pillai who was appointed to office on 22nd March 2018 will cease to be a Director and will be eligible under Article 94 of the Articles of Association of the Company.
6. To re-appoint BDO Partners Chartered Accountants as the Auditors to the Company for the ensuing year and to authorize the Directors to determine their remuneration.

BY ORDER OF THE BOARD



Director/Secretaries

Colombo,

31 st August 2018

Notes:

*A member is entitled to appoint a proxy to attend and vote at this meeting on his/he behalf.

*A proxy need not be a member of the Company.

*A member wishing to vote by proxy may use the Form of Proxy enclosed

*To be valid the completed Form of proxy must be lodged at P. W. Corporate Secretarial Services (Pvt) Ltd, 3/17, Kynsey Road, Colombo 08 , Sri Lanka not less than 48 hours before the time appointed for the holding of the meeting.

*Members/Proxy holders are kindly requested to bring along with them their National Identity Card or a similar form of accepted identity when attending the meeting.

Form of Proxy

I/We of being a Member/Member*
of the above named Company, hereby appoint of
failing him/her.

- | | | | |
|--------------------------------|----------------|----------------------------|----------------|
| (1) Mr. C. Ramachandra | or failing him | (6) Mr. G. Alexander | or failing him |
| (2) Mr. R.J.A. Gunawardena | or failing him | (7) Mr. K.R. Bijimon | or failing him |
| (3) Mrs. D. P. Pieris | or failing her | (8) Mr. K. G. K. Pillai | or failing him |
| (4) Mr. R. A. T. P. Perera | or failing him | (9) Mr. R. A. B. Basnayake | |
| (5) Mr. J. P. D. R. Jayasekara | or failing him | | |

as my/our* proxy to represent me/ us* and speak and vote for me/us* on my/our* behalf at the 07th Annual General Meeting of the Company to be held on2018 at at and at any poll which may be taken in consequence thereof at the aforesaid meeting, and at any adjournment thereof.

I/WE INDICATE MY/OUR VOTE ON THE RESOLUTIONS BELOW AS FOLLOWS;

	<i>For</i>	<i>Against</i>
1. To receive and consider the Report of the Directors on the State of Affairs of the Company and the Statement of Audited Accounts for the year ended 31st March 2018 and the report of the auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Mrs. D. P. Pieris retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers herself in terms of Article 88 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
3. Mr. R. A. B. Basanayake retires by rotation in accordance with Article 87 of the Articles of Association of the Company and being eligible, offers himself in terms of Article 88 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
4. Mr. J. P. D. R. Jayasekara who was appointed to office on 26th January 2018 will cease to be a Director and will be eligible under Article 94 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. Mr. K. G. K. Pillai who was appointed to office on 22nd March 2018 will cease to be a Director and will be eligible under Article 94 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-appoint BDO Partners Chartered Accountants as the Auditors to the Company for the ensuing year and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of 2018

Signature of shareholder N.I.C.No

- Note: 1. A proxy need not be a member of the company.
2. Instruction as to completion appear overleaf

Instructions as to completion

1. Kindly perfect the Form of Proxy by filing in legibly your full name, National Identity Card/ Passport/ Company Registration Number, your address and your instructions as to voting and by signing in the space provided and filing in the date of signature. Please ensure that all details are legible.
2. Please mark "X" in appropriate cages, to indicate your instructions as to voting on each resolution. If no indication is given, the Proxy holder in his/her discretion will vote as he/her thinks fit.
3. To be valid, the completed Form of Proxy must be deposited at P. W. Corporate Secretarial Services (Pvt) Ltd, 3/17, Kynsey Road, Colombo 08, Sri Lanka not less than 48 hours before the time appointed for the holding of the meeting.
4. If you wish to appoint a person other than the Chairman (or failing him, one of the Directors) as your Proxy, please insert the relevant details (1) overleaf and initial against this entry.
5. In the case of a Company/ Corporation, the Proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by Articles of Association/ Act of Incorporation.
6. In the case of a Proxy signed by an Attorney, a certified copy of the Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

Corporate Information

Name of the Company

Asia Asset Finance PLC

Legal Form

Incorporated as a Private Limited Liability Company under the Companies ordinance, no 51 of 1938 (Cap 145) on 23 September 1970 and name changed under the Companies ordinance, no 51 of 1938 (Cap 145) on 03 October 2006 and Re-registered under the companies Act No.07 of 2007 on 23 January 2008 and converted to a public company under the companies Act No.07 of 2007 on 20 March 2012.

Registration Number (Under the Companies Act No.17 of 1982)

PVS/PBS 3266

New Registration Number (Under the Companies Act No.7 of 2007)

PB 139 PQ

Registered Office

No.76/1, Dharmapala Mawatha, Colombo 03.

Telephone

011 5 66 99 22 / 0115 899 300

Fax

011 2 57 74 77

E-mail

info@asiaassetfinance.lk

Website

<http://www.asiaassetfinance.lk/>

Board of Directors of the Company

Mr. Chandrakumar Ramachandra
Mr. Rajiv James Abeywickrema Gunawardena
Ms. Dayangani Priyanthi Pieris
Mr. Thusitha Priyantha Perera
Mr. George Alexander
Mr. Kuttikattu Rajappan Bijimon
Mr. Rajitha Ananda Bandara Basnayake
Mr. Jayasekara Pathirannahalage Danasiri
Rupakumara Jayasekara
Mr. Kiran Gopala Krishna Pillai

Company Secretary

P R Secretarial Services (Pvt) Ltd
59 Gregory Road,
Colombo 07.

Lawyers of the Company

Shiranthi Gunawardena Associates
No.22/1, Elliot Place, Colombo 08.

Company Auditors - External

BDO Partners
65/2, Sir Chiththapalam A Gardiner
Mawatha, Colombo 02.

Bankers of the Company :

Bank of Ceylon
Commercial Bank of Ceylon PLC
DFCC Vardhana Bank PLC
Hatton National Bank PLC
Pan Asia Banking Corporation PLC
People's Bank
Sampath Bank PLC
National Development Bank PLC
Seylan Bank PLC
Indian Bank

Audit Committee

Mr. Thusitha Priyantha Perera
Mr. Chandrakumar Ramachandra
Mr. Rajitha Ananda Bandara Basnayake
Mr. Kuttikattu Rajappan Bijimon
Mr. Jayasekara Pathirannahalage Danasiri
Rupakumara Jayasekara

Integrated Risk Management Committee

Mr. Chandrakumar Ramachandra
Mr. Rajiv James Abeywicrema Gunawardena
Mr. Thusitha Priyantha Perera
Mr. Roshan De Silva Gunasekara (COO)

Remuneration Committee

Mr. Chandrakumar Ramachandra
Mr. Thusitha Priyantha Perera
Mr. George Alexander
Mr. Rajitha Ananda Bandara Basnayake
Mr. Jayasekara Pathirannahalage Danasiri
Rupakumara Jayasekara

Related Party Transactions Review Committee

Ms. Dayangani Priyanthi Pieris
Mr. Rajitha Ananda Bandara Basnayake
Mr. Kuttikattu Rajappan Bijimon
Mr. Jayasekara Pathirannahalage Danasiri
Rupakumara Jayasekara

IT committee

Mr. Rajitha Ananda Bandara Basnayake
Mr. Chandrakumar Ramachandra
Ms. Dayangani Priyanthi Pieris
Mr. Jayasekara Pathirannahalage Danasiri
Rupakumara Jayasekara
Mr. Rajiv James Abeywicrema Gunawardena



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