PEOPLE'S MERCHANT FINANCE PLC

FINANCIAL STATEMENTS
MARCH 31, 2019

KPMG
(Chartered Accountants)
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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PEOPLE'S MERCHANT FINANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of People's Merchant Finance PLC ("the Company") and the consolidated financials of the Company and its subsidiary ('the Group'), which comprise the statement of financial position as at March 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Key Audit Matters

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

Impairment allowance for loans and advances including the transition to SLFRS 9.	
Risk description	**Our response**
As disclosed in Note 18 to the financial statements, the Group and the Company has recorded Rs. 2,504Mn as loans and advances net of Rs. 394Mn expected credit losses as at 31 March 2019. Further, as permitted by the transitional provision of SLFRS 9, the impact of initially adopting SLFRS 9 is considered as an	Our audit procedures to assess impairment of loans and advances to customers included, • Assessment of the methodology inherent within the models against the requirements of SLFRS 9;

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adjustment to equity as at 1 April 2018, without restating the comparative information. SLFRS 9 "Financial Instruments" introduces an expected credit loss (ECL) model which takes into account judgements in setting the assumptions such as forward looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgements over the use of data inputs required. As at reporting date 86% of total assets of the Group consisted of loans and advances. We identified the impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved in ECL model including the transition adjusted and disclosed and the materiality of the reported amounts for loans and advances and impairment allowance. Refer to Note 5, Note 18 and Note 34 to the financial statements and the accounting policies in the Note 4.17.	• Challenging the key assumptions in the ECL models, including. staging, PD and LGD and evaluating the reasonableness of Management's key judgements and estimates with the assistance of our own specialist; • Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and the ECL model and assessment of economic information used within, and weightings applied to, forward looking scenarios; • Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD; • Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development; Our audit procedures for transition to the SLFRS 9 included the following: • Assessing the design, implementation and operating effectiveness of key controls over the transition adjustments and new processes, data and controls that have not been subject to testing previously; • Evaluating management's process for identifying contracts to be assessed based on the selected transition approach and any practical expedients applied; • Evaluating the appropriateness of the accounting policies based on the requirements of the new accounting standards, our business understanding and industry practice; • Understanding the transition approach and practical expedients applied and assessing whether transition gives rise to any specific fraud risks; • Challenging the key assumptions and evaluating the reasonableness of management's key judgements and estimates made in preparing the transition adjustments; • Assessing the completeness, accuracy and relevance of data used in preparing the transition adjustments;

	• Assessing the adequacy of the disclosures made in the Consolidated Financial Statements as required by the prevailing accounting standards.

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 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- 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,

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as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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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.

Further, as described in Note 35 to the financial statements, the Company does not comply with the requirements of the directions issued by the Central Bank of Sri Lanka to Licensed Finance Companies for the Capital Adequacy Requirements (Direction No 03 of 2018), Minimum Core Capital Requirement (Direction No. 02 of 2017), and Single Borrower Limit (Direction No. 04 of 2006) as at the reporting date.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1224.

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CHARTERED ACCOUNTANTS
Colombo, Sri Lanka

28 June 2019

PEOPLE'S MERCHANT FINANCE PLC
STATEMENT OF PROFIT OR LOSS

For the year ended 31 March		Company		Group	
In thousands of rupee	**Note**	**2019**	2018	**2019**	2018
Gross Income	**7**	**616,671**	467,005	**616,671**	467,181
Interest income	**8.1**	**546,759**	431,790	**546,759**	431,790
Interest expense	**8.2**	**(357,067)**	(339,682)	**(357,067)**	(339,682)
Net interest income	**8**	**189,692**	92,108	**189,692**	92,108
Fee and commission income	**9**	**7,260**	6,562	**7,260**	6,562
Net fair value gain/ (loss) from financial assets at FVTPL	**10**	**(461)**	18	**(461)**	18
Other operating income	**11**	**63,113**	28,635	**63,113**	28,811
Total operating income		**259,603**	127,323	**259,603**	127,499
Impairment charges for loans, advances and other receivables	**12**	**(85,389)**	(94,900)	**(85,389)**	(94,900)
Net operating income		**174,215**	32,423	**174,215**	32,599
Personnel expenses	**13**	**(127,248)**	(96,543)	**(127,248)**	(96,543)
Depreciation of property, plant and equipment		**(3,703)**	(2,319)	**(3,703)**	(2,319)
Amortisation of intangible assets		**(3,083)**	(2,721)	**(3,083)**	(2,721)
Other operating expenses	**14**	**(122,794)**	(79,364)	**(121,869)**	(78,706)
Operating loss before VAT, NBT and DRL on financial services		**(82,614)**	(148,525)	**(81,689)**	(147,691)
VAT, NBT, DRL on financial services		**(9,328)**	-	**(9,328)**	-
Loss before tax		**(91,942)**	(148,525)	**(91,017)**	(147,691)
Income tax expense	**15**	**(1,742)**	213	**(1,742)**	213
Loss for the year		**(93,684)**	(148,312)	**(92,759)**	(147,478)
Basic loss per share (Rs.)	**16**	**(1.38)**	(2.20)	**(1.37)**	(2.18)
Diluted loss per share (Rs.)	**16**	**(1.38)**	(2.20)	**(1.37)**	(2.18)

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

PEOPLE'S MERCHANT FINANCE PLC
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Company		Group	
For the year ended 31 March		**2019**	2018	**2019**	2018
In thousands of rupee	**Note**				
Loss for the year		**(93,684)**	(148,312)	**(92,759)**	(147,478)
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains/(loss) on retirement benefit obligation	28.1	**(6,222)**	762	**(6,222)**	762
Deferred tax effect on actuarial gain/ (loss)		**1,742**	(213)	**1,742**	(213)
Other comprehensive income for the year, net of tax		**(4,480)**	549	**(4,480)**	549
Total comprehensive loss for the year		**(98,164)**	(147,763)	**(97,239)**	(146,929)

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

PEOPLE'S MERCHANT FINANCE PLC
STATEMENT OF FINANCIAL POSITION

As at 31st March		Company		Group	
In thousands of rupee	**Note**	**2019**	2018	**2019**	2018
Assets					
Cash and cash equivalents	17	**226,281**	289,945	**226,537**	290,214
Balances with banks and financial institutions		**56,747**	46,048	**56,747**	46,048
Financial assets measured at amortised cost - Loans and advances	18	**2,504,264**	2,488,467	**2,504,264**	2,488,467
Investments in securities	19	**2,142**	2,603	**2,142**	2,603
Investments in subsidiaries	20	-	-	-	-
Property, plant and equipment	21	**13,568**	11,303	**13,568**	11,303
Intangible assets	22	**5,125**	6,371	**5,125**	6,371
Other assets	23	**85,256**	83,202	**85,256**	83,202
Total assets		**2,893,383**	2,927,939	**2,893,639**	2,928,208
Liabilities					
Due to banks	24	**219,144**	96,556	**219,144**	96,556
Financial liabilities at amortised cost - due to depositors	25	**2,434,733**	2,455,586	**2,434,733**	2,455,586
Debt securities issued	26	**15,400**	14,800	**15,400**	14,800
Deferred tax liabilities	27	-	-	-	-
Other liabilities	28	**81,147**	145,306	**81,425**	146,522
Total liabilities		**2,750,424**	2,712,248	**2,750,702**	2,713,464
Equity					
Stated capital	29	**1,238,302**	1,078,227	**1,238,302**	1,078,227
Statutory reserve fund	30	**7,259**	7,259	**7,259**	7,259
Accumulated losses	31	**(1,102,602)**	(869,795)	**(1,102,624)**	(870,742)
Total equity		**142,959**	215,691	**142,937**	214,744
Total liabilities and equity		**2,893,383**	2,927,939	**2,893,639**	2,928,208
Contingent liabilities and commitments	32	**47,431**	64,820	**47,431**	64,820
Net assets value per share (Rs.)		**1.69**	3.20	**1.69**	3.18

We certify that these financial statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.

....
Aloka Hewawasam
Manager Finance

....
Nishantha Gunasekera
CEO

The Board of Directors is responsible for the preparation and presentation of these financial statements.
Approved and signed for and on behalf of the Board by;

....
Chandula Abeywickrema
Chairman

....
Channa Manoharan
Director

28-Jun-19
Colombo, Sri Lanka

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

PEOPLE'S MERCHANT FINANCE PLC
STATEMENT OF CHANGES IN EQUITY

COMPANY	Stated capital	Reserve fund	Revaluation reserve	Available for sale reserve	Retained earnings	Total equity
Balance at 1 April 2017	1,078,227	7,259	573,598	-	(1,295,630)	363,454
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(148,312)	(148,312)
Other comprehensive income						
Remeasurement of defined benefit liability	-	-	-	-	762	762
Tax on other comprehensive income	-	-	-	-	(213)	(213)
Total other comprehensive income	-	-	-	-	549	549
Total comprehensive income	-	-	-	-	(147,763)	(147,763)
Revaluation transfer to retained earnings on disposal	-	-	(573,598)	-	573,598	-
Balance at 31 March 2018	1,078,227	7,259	-	-	(869,795)	215,691
Balance at 31 March 2018	**1,078,227**	**7,259**	**-**	**-**	**(869,795)**	**215,691**
Adjustment on initial application of SLFRS 9	**-**	**-**	**-**	**-**	**(134,644)**	**(134,644)**
Restated balance at 1 April 2018	**1,078,227**	**7,259**	**-**	**-**	**(1,004,439)**	**81,047**
Total comprehensive income						
Loss for the year	**-**	**-**	**-**	**-**	**(93,684)**	**(93,684)**
Other comprehensive income						
Remeasurement of defined benefit liability	**-**	**-**	**-**	**-**	**(6,222)**	**(6,222)**
Tax on other comprehensive income	**-**	**-**	**-**	**-**	**1,742**	**1,742**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(4,480)**	**(4,480)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(98,164)**	**(98,164)**
Transactions with owners of the Company						
Contributions and distributions						
Issue of ordinary shares through private placement	**160,075**	**-**	**-**	**-**	**-**	**160,075**
Total contribution and distribution	**160,075**	**-**	**-**	**-**	**-**	**160,075**
Total transactions with owners of the Company	**160,075**	**-**	**-**	**-**	**-**	**160,075**
Balance at 31 March 2019	**1,238,302**	**7,259**	**-**	**-**	**(1,102,602)**	**142,959**

Figures in brackets indicate deductions.
The notes to the Financial Statements form an integral part of these Financial Statements.

PEOPLE'S MERCHANT FINANCE PLC
STATEMENT OF CHANGES IN EQUITY

GROUP	Stated capital	Reserve fund	Revaluation reserve	Available for sale reserve	Retained earnings	Total equity
Balance at 1 April 2017	1,078,227	7,259	573,598	-	(1,297,411)	361,673
Total comprehensive income for the year						
Loss for the year	-	-	-	-	(147,478)	(147,478)
Other comprehensive income						
Remeasurement of defined benefit liability	-	-	-	-	762	762
Tax on other comprehensive income	-	-	-	-	(213)	(213)
Total other comprehensive income	-	-	-	-	549	549
Total comprehensive income	-	-	-	-	(146,929)	(146,929)
Revaluation transfer to retained earnings on disposal	-	-	(573,598)	-	573,598	-
Balance at 31 March 2018	1,078,227	7,259	-	-	(870,742)	214,744
Balance at 31 March 2018	**1,078,227**	**7,259**	**-**	**-**	**(870,742)**	**214,744**
Adjustment on initial application of SLFRS 9	**-**	**-**	**-**	**-**	**(134,644)**	**(134,644)**
Restated balance at 1 April 2018	**1,078,227**	**7,259**	**-**	**-**	**(1,005,385)**	**80,101**
Total comprehensive income						
Loss for the year	**-**	**-**	**-**	**-**	**(92,759)**	**(92,759)**
Other comprehensive income						
Remeasurement of defined benefit liability	**-**	**-**	**-**	**-**	**(6,222)**	**(6,222)**
Tax on other comprehensive income	**-**	**-**	**-**	**-**	**1,742**	**1,742**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(4,480)**	**(4,480)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(97,239)**	**(97,239)**
Transactions with owners of the Company						
Contributions and distributions						
Issue of ordinary shares through private placement	**160,075**	**-**	**-**	**-**	**-**	**160,075**
Total contribution and distribution	**160,075**	**-**	**-**	**-**	**-**	**160,075**
Total transactions with owners of the Company	**160,075**	**-**	**-**	**-**	**-**	**160,075**
Balance at 31 March 2019	**1,238,302**	**7,259**	**-**	**-**	**(1,102,624)**	**142,937**

Figures in brackets indicate deductions.
The notes to the Financial Statements form an integral part of these Financial Statements.

PEOPLE'S MERCHANT FINANCE PLC
STATEMENT OF CASH FLOWS

		Company		Group	
For the year ended 31 March		**2019**	2018	**2019**	2018
In thousands of rupee					
Cash flows from operating activities					
Loss before tax		**(91,942)**	(148,525)	**(91,017)**	(147,691)
Adjustment for:					
- Depreciation and amortisation		**6,786**	5,040	**6,786**	5,040
- Net gain on investment securities at FVPTL		**461**	(18)	**461**	(18)
- Net impairment loss on loans and advances		**94,414**	94,900	**94,414**	94,900
- Interest expense on preference shares		**600**	-	**600**	-
- Dividend on equity securities at FVPTL (2018- held-for-trading)		**(298)**	(307)	**(298)**	(307)
- Interest income		**(22,625)**	(67,948)	**(22,625)**	(67,948)
- Provision for retirement benefit obligation		**3,755**	3,134	**3,755**	3,134
- Gain on disposal of property, plant and equipment		**(277)**	(1,460)	**(277)**	(1,460)
		(9,126)	(115,183)	**(8,201)**	(114,350)
Changes in					
Financial assets measured at amortised cost - Loans and advances		**(244,855)**	(578,273)	**(244,855)**	(578,273)
Other assets		**(2,053)**	(4,271)	**(2,052)**	(4,271)
Due to customers		**(20,853)**	59,410	**(20,853)**	59,410
Other liabilities		**(72,490)**	17,768	**(73,429)**	16,849
		(349,377)	(620,549)	**(349,390)**	(620,635)
Retiring gratuity paid	28.1	**(1,646)**	(456)	**(1,646)**	(456)
Income tax paid		**-**	-	**-**	-
Net cash from/ (used in) operating activities		**(351,023)**	(621,005)	**(351,036)**	(621,091)
Cash flows from investing activities					
Interest income on short term investment	8.1	**22,625**	67,948	**22,625**	67,948
Investments in fixed deposits		**(10,698)**	(42,277)	**(10,698)**	(42,277)
Acquisition of property, plant and equipment		**(5,968)**	(4,242)	**(5,968)**	(4,242)
Purchase of intangible assets		**(1,837)**	(657)	**(1,837)**	(657)
Proceeds from disposal of assets held for sale		**-**	1,040,000	**-**	1,040,000
Proceeds from the sale of property, plant and equipment		**277**	2,710	**277**	2,710
Dividends received from investments	11	**298**	307	**298**	307
Net cash from investing activities		**4,697**	1,063,789	**4,697**	1,063,789
Cash flows from financing activities					
Proceeds from issue of new shares		**160,075**	-	**160,075**	-
Net proceeds from loans and borrowings		**-**	(354,465)	**-**	(354,465)
Net cash from / (used in) financing activities		**160,075**	(354,465)	**160,075**	(354,465)
Net increase / (decrease) in cash and cash equivalents		**(186,252)**	88,318	**(186,265)**	88,233
Cash and cash equivalents at beginning of the year		**193,389**	105,071	**193,658**	105,425
Cash and cash equivalents at the end of the year		**7,137**	193,389	**7,393**	193,658
Cash and cash equivalents at the end of the year					
Cash and cash equivalents	17	**226,281**	289,945	**226,537**	290,214
Bank overdraft	17	**(219,144)**	(96,556)	**(219,144)**	(96,556)
		7,137	193,389	**7,393**	193,658

The notes to the financial statements are an integral part of these financial statements.

Figures in brackets indicate deductions.

1 CORPORATE AND GROUP INFORMATION

1.1 Corporate Information

People's Merchant Finance PLC ("the Company"), regulated under the Finance Business Act No. 42 of 2011, is a Public Limited Liability Company incorporated on 26th January 1983 and domiciled in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007. The Company has a primary listing on the Colombo Stock Exchange on 11th July 1994.

The company has obtained a credit rating of [SL]B; rating put on watch with developing implications by ICRA Lanka Limited

The registered office and the principal place of the business is at No.21, Nawam Mawatha, Colombo 02.

Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31st March 2019 include People's Merchant Finance PLC (Parent Company) and its Subsidiary (together referred to as the "Group" and individually as "Group entities").

Parent Entity and Ultimate Parent Entity

The Company’s parent entity is People’s Bank which is a Government owned entity.

Number of Employees

The staff strength of the Group as at 31st March 2019 was 123 (124 as at 31st March 2018).

1.2 Group Information

Principal Activities and Nature of Operations

1.2.1 Company

People's Merchant Finance PLC

The principal business activities of the Company are providing finance leases, hire purchase assets financing, gold loans, term loans, real estate developments, margin trading, short-term investments and mobilisation of public deposits.

1.2.2 Subsidiary

The Company’s only subsidiary is PMB Services Limited (Limited liability company incorporated and domiciled in Sri Lanka under the Companies Act No. 7 of 2007)

PMB Services Limited

The principal activity of PMB Services Limited was operation of credit cards and to undertake all ancillary activities in connection there with. However, the subsidiary is not involved in any business operations at present.

2 BASIS OF PREPARATION

2.1 Statement of Compliance

The consolidated financial statements of the Group and separate financial statements of the Company comprising the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows together with notes ("the Financial Statements"), as at 31st March 2019 and for the year then ended are prepared and presented in accordance with Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (LKASs) (hereafter "SLFRS/LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL). The presentation of the financial statements is also in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 (except for as disclosed in Note 35 to these Financial Statements.) and the listing rules of the Colombo Stock Exchange.

This is the first set of the Group's annual financial statements in which SLFRS 09 Financial Instruments and SLFRS 15 Revenue from Contract with Customers have been applied. Changes to significant accounting policies are described in Note 3.

2.2 Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with new Sri Lanka Accounting Standards and as per the provisions of the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2.2.1 Approval of the Financial Statements by the Management

The Financial Statements of the Company and the Group for the year ended 31st March 2019 (including comparatives) were approved and authorised for issue by the Management on 28 June 2019.

2.3 Basis of Measurement

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

2 BASIS OF PREPARATION (CONTINUED)

2.3 Basis of Measurement (continued)

Item	Basis of measurement
Financial instruments at FVPTL	Fair value
Financial assets at FVOCI (applicable from 1 April 2018)	Fair value
Available-for-sale financial assets (applicable before 1 April 2018)	Fair value
Defined benefit obligations	Projected unit credit method of the defined benefit obligations
Assets held for sale	Measured at the lower of the carrying amount and fair value, less costs to sell

2.4 Presentation of Financial Statements

The assets and liabilities of the Company and the Group in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the financial statements. Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.5 Functional and Presentation Currency

The financial statements are presented in Sri Lankan Rupees, which is the Group's functional currency. All financial information presented in Rupees has been rounded to the nearest thousand unless indicated otherwise. The functional currency is the currency of the primary economic environment in which the Group operates.

2.6 Materiality and Aggregation

In complying with 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 function are presented separately unless they are immaterial.

2 BASIS OF PREPARATION (CONTINUED)

2.7 Rounding

The amounts in the Financial Statements have been rounded – off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 01 on 'Presentation of Financial Statements'.

2.8 Statement of Cash Flows

The statement of cash flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flows'. Whereby operating activities, investing activities and financing activities are separately recognized. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the statement of cash flows are comprised of those items as explained in Note 17 and Note 24.

2.9 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements of the Company and the Group in conformity with SLFRSs and LKAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively. The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on amounts recognised in the Financial Statements of the Group are as follows:

2.9.1 Judgments

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

Applicable to 2018/19 only:

- Note 5.2: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 4.17: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

2 BASIS OF PREPARATION (CONTINUED)

2.9 Significant Accounting Judgments, Estimates and Assumptions (continued)

2.9.1 Judgments (continued)

Applicable to 2018/19 and 2017/18:

- Note 4.1: determination of control over investees.

2.9.2 Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 March 2019 is included in the following notes.

Applicable to 2018/19 only:

- Note 4.17: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Applicable to 2018/19 and 2017/18:

- Determination of the fair value of financial instruments with significant unobservable inputs.
- Measurement of defined benefit obligations: key actuarial assumptions.
- Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.
- Impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts.
- Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.
- **Going Concern:** the management has made as assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES

The Group has initially adopted SLFRS 9 (see 3.1) and SLFRS 15 (see 3.2) from 1 April 2018.

A number of other new standards are also effective from 1 April 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition method chosen by the Group in applying SLFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 5);
- additional disclosures related to SLFRS 9 (see Note 5); and
- additional disclosures related to SLFRS 15.

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 4 to all periods presented in these consolidated financial statements.

3.1 SLFRS 9 Financial Instruments

SLFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of SLFRS 9 represent a significant change from LKAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of SLFRS 9, the Group has adopted consequential amendments to LKAS 1 *Presentation of Financial Statements*, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method.

Additionally, the Group has adopted consequential amendments to SLFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018/19, but have not been applied to the comparative information.

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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.1 SLFRS 9 Financial Instruments (continued)

3.1.1 Classification of financial assets and financial liabilities

SLFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous LKAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under SLFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under SLFRS 9, see Note 4.17.2.

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

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

For an explanation of how the Group classifies financial liabilities under SLFRS 9, see note 4.17.2.

3.1.2 Impairment of financial assets

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under SLFRS 9, credit losses are recognised earlier than under LKAS 39. For an explanation of how the Group applies the impairment requirements of SLFRS 9, see Note 4.17.9.

3.1.3 Transition

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1 April 2018. Accordingly, the information presented for 2017/18 does not reflect the requirements of SLFRS 9 and therefore is not comparable to the information presented for 2018/19 under SLFRS 9.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.1 SLFRS 9 Financial Instruments (continued)

3.1.3 Transition

The Group used the exemption not to restate comparative periods.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of SLFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of SLFRS 9, see Note 5.

3.2 SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced LKAS 18 *Revenue*, LKAS 11 *Construction Contracts* and related interpretations.

The Group initially applied SLFRS 15 on 1 April 2018 retrospectively in accordance with LKAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of SLFRS 15.

4 SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 3, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

4.1 Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its Subsidiary over which it has control in terms of SLFRS 10 *Consolidated Financial Statements*.

4.1.1 Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'Controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The group reassesses whether it has control if there are changes to one or more of the elements of the control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

An investment in Subsidiary is treated as long-term investments and is valued at cost less any impairment losses.

The financial statements of the Subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

These consolidated financial statements are prepared to a common financial year end of 31 March. The accounting policy of Subsidiary has been changed when necessary to align them with the policies adopted by the Group. All the assets and liabilities of the Group and the Subsidiary are included in the consolidated statement of financial position.

4.1.2 Loss of Control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date of control is lost. Subsequently it is accounted for as an equity accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

4.1.3 Transactions Eliminated On Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Foreign Currency Transactions

Transactions in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lankan Rupees at the spot exchange rate at the reporting date. Foreign exchange differences arising on the settlement or reporting of the Group’s monetary items at rates different from those which were initially recorded are dealt with in the Statement of Comprehensive Income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost at the statement of financial position date are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of initial transaction.

Non-monetary assets and liabilities that are stated at fair value, denominated in foreign currencies are translated to Sri Lanka Rupees at the exchange rate ruling at the dates that the value were determined.

Foreign exchange differences arising on translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- available-for-sale equity instruments (before 1 April 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from 1 April 2018);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedge is effective.

4.3 Offsetting

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

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

4.4 Non-Financial Assets

4.4.1 Property, Plant and Equipment

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 period.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Non-Financial Assets (continued)

4.4.1 Property, Plant and Equipment (continued)

4.4.1.1 Recognition and measurement

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

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

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

4.4.1.2 Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group, Ongoing repairs and maintenance are expensed as incurred.

4.4.1.3 Derecognition

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

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

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Non-Financial Assets (continued)

4.4.1 Property, Plant and Equipment (continued)

4.4.1.4 Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

Category	Rate (per annum)
Buildings	10%
Motor vehicles	20%
Computers	25%
Office equipment, furniture, fittings	15%

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

Depreciation of an asset begins 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 of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal Group that is classified as held for sale) and the date that the asset is derecognised.

4.4.2 Intangible Assets

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

4.4.2.1 Recognition and Measurement

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Non-Financial Assets (continued)

4.4.2 Intangible Assets (continued)

4.4.2.2 Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software 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.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is four years.

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

4.4.2.3 Derecognition

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

4.4.3 Inventory – Real Estate

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

Properties under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads. Net realizable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

Completed properties held for sale

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Non-Financial Assets (continued)

4.4.3 Inventory – Real Estate (continued)

Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories is recognised as an increase in inventories and recognised as an income in the period in which the reversal occurs.

4.4.4 Deposits from Customers

Deposits include saving deposits, term deposits and deposits payable at call. They are stated in the statement of financial position at amount payable. Interest paid / payable on these deposits based on effective interest rate is charged to the Income Statement.

4.5 Non-Financial Liabilities

4.5.1 Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with LKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

4.5.2 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Interest

Policy applicable from 1 April 2018

Effective Interest Rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Interest (continued)

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

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

For information on when financial assets are credit-impaired, see Note 34.

Presentation

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

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Interest (continued)

Policy applicable before 1 April 2018

Effective interest rate

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

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

4.7 Fee and Commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income - including account servicing fees, investment management fees, sales commission, placement fees and syndication fees - is recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

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

4.8 Profit on Real Estate Sales

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Other Income

4.9.1 Dividend Income

Dividend income is recognized in profit or loss on the date that the Group's right to receive payments is established.

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

4.9.2 Default Interest Income

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

4.10 Expenditure

All expenditure incurred in running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.

For the purpose of presentation of income statement, the Directors are of the opinion that function of expense method present fairly the elements of the enterprise's performance, hence such presentation method is adopted. Expenditure incurred for the purpose of acquiring, expanding or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business has been treated as capital expenditure.

Repairs and renewals are charged to the income statement in the year in which the expenditure is incurred. The profit earned by the Group is before income tax expense and after making provision for all known liabilities and for the depreciation of property, plant & equipment

4.11 Income Tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets" and has recognised the related expenses in 'other expenses'.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11.1 Current Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

4.11.2 Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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

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

Deferred tax assets and liabilities are offset only if certain criteria are met.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Value Added Tax on Financial Services

VAT on Financial Services is calculated in accordance with the amended VAT Act No. 7 of 2003. The base for the computation of Value Added Tax on Financial Services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

4.13 Earnings per Share (EPS)

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

4.14 Segment Reporting

An operating segment is a component of the Group 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 Group's other components, whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results are reported to the Group's CEO (being the CODM) include items that are directly attributable to a segment as well as those that cab be allocated on reasonable basis.

For each of the strategic divisions, the Group's management monitors the operating results separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Financial Statements. Income taxes are managed on a Group basis and are not allocated to operating segments.

4.15 Comparative Figures

Where ever necessary, amounts shown for the previous year have been reclassified to facilitate comparison with the current year's presentation.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Regulatory Provisions

4.16.1 Deposit Insurance Scheme

These Directions shall be cited as the Finance Companies (Insurance of Deposit Liabilities) Direction No. 2 of 2010.

Under Section 27 of the Finance Companies Act, the Central Bank of Sri Lanka may establish, maintain, manage and control a scheme for the insurance of deposits held by finance companies registered under the Act or require such companies to insure such deposits under any scheme established by any institution as is specified by the Monetary Board.

As such, all Registered Finance Companies shall insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No.1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 01 October, 2010.

4.16.2 Reserve Fund

The Company is maintaining a reserve fund and transfer reserves out of the net profits of each year, after due provision has been made for taxation and bad and doubtful debts on following basis,

So long as the capital funds are not less than twenty five (25) per cent of total deposit liabilities, a sum equal to not less than five (5) per cent of the net profits;

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

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

4.17 Financial assets and liabilities

4.17.1 Recognition and measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments including regular-way purchases and sales of financial assets, are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17.2 Classification

Financial assets - Policy applicable from 1 April 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales1, in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest.

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and features that modify consideration of the time value of money (e,g, periodical reset of

interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates, These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion, The Group typically considers the following information when making this judgment:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Contractually linked instruments

The Group has some investments in securitisations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI); or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17.3 Reclassifications

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

Financial assets - Policy applicable before 1 April 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
  - held-for-trading; or
  - designated as at FVTPL

4.17.4 Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

4.17.5 Derecognition

4.17.5.1 Financial assets

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

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

From 1 April 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of-such transactions are securities lending and sale-and-repurchase transactions.

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

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, or other residual interests (retained interests). Retained interests are recognised as investment securities and measured as explained. Before 1 April 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

4.17.5.2 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17.6 Modifications of financial assets and financial liabilities

Policy applicable from 1 April 2018

4.17.6.1 Financial assets

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17.6.2 Financial liabilities

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

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

Policy applicable before 1 April 2018

4.17.6.3 Financial assets

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

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

4.17.6.4 Financial liabilities

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17.7 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

4.17.8 Fair value measurement

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

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

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

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at' an ask price.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

4.17.9 Impairment

Policy applicable from 1 April 2018

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

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

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for EGL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
  loan commitments and financial guarantee contracts: generally, as a provision;

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Write-off

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

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

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

Non-integral financial guarantee contracts

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Group presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

The key inputs used for measurement of ECL is likely to be the term structures of the following variables:

Probability of Default (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using various categories based on homogeneous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Group forecast PD by incorporating forward looking economic variables (Unemployment, GDP growth, inflation, interest rate and using lag effect of these variables).

Loss Given Default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

Group has used these parameters from internally–developed statistical models using historical data. All inputs were adjusted to reflect forward-looking information and future economic scenarios.

Policy applicable before 1 April 2018

Objective evidence of impairment

At each reporting date, the Group assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the assets and that the loss event had an impact on the future cash flows of the assets that could be estimated reliably.

In addition, a retail loan that was overdue for 180 days or more was considered impaired.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- the disappearance of an active market for a security; or
- observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

The Group considered evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified (IBNR). Loans and advances and held-to-maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

In making an assessment of whether an investment in sovereign debt was impaired, the Group considered the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This included an assessment of the depth of those mechanisms and, irrespective of the political intent whether there was the capacity to fulfil the required criteria.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgments about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the credit risk function.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

Measurement of impairment

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

Reversal of impairment

- For assets measured at amortised cost: If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.
- For available-for-sale debt security: If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI.

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

Write-off

The Group wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group credit determined that there was no realistic prospect of recovery.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

4.17.10 Designation at fair value through profit or loss

4.17.10.1 Financial assets

At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Before 1 April 2018, the Group also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

4.17.10.2 Financial liabilities

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

5 TRANSITION TO SLFRS 9 *FINANCIAL INSTRUMENTS*

5.1 Impact on Adoption of SLFRS 9 "Financial Instruments" to the Financial Statements

	Company Accumulated Losses Rs.'000	**Group Accumulated Losses Rs.'000**
Balance as per LKAS 39 as at 31 March 2018	(869,795)	(870,742)
Impact on recognition of expected credit losses: Expected credit losses under SLFRS 9 for Loans and Receivables	(134,644)	(134,644)
Deferred tax impact on expected credit loss	-	-
Adjustment on initial application of SLFRS 9, net of tax	(134,644)	(134,644)
Restated balance as at 01 April 2018	(1,004,439)	(1,004,439)

The following table reconciles to the closing impairment allowance for financial assets under SLFRS 09 to the opening ECL allowance determined under SLFRS 09 as at 01st April 2018.

	Rs.'000
Closing impairment provision as at 31st March 2018 based on LKAS 39	165,116
Recognition of expected credit loss under SLFRS 09 for financial assets at amortised cost	134,644
Opening impairment provision under SLFRS 09 as at 01st April 2019	299,760

For the purpose of calculating Capital Adequacy Ratio, Company has considered the day 1 impact arising from the adoption of SLFRS 9 at the transition date, 1 April 2018. Accordingly, the Tier 1 Capital Adequacy Ratios as at 31 March 2019 of the Company and Group have decreased.

5.2 Classification of financial assets and financial liabilities on the date of initial application of SLFRS 09

The following table shows the original measurement categories in accordance with LKAS 39 and the new measurement categories under SLFRS 9 for the Group's financial assets and financial liabilities as at 1 April 2018.

In thousands of Rs.	Note	Original classification under LKAS 39	New classification under SLFRS 9	Original carrying amount under LKAS 39	New carrying amount under SLFRS 9
Financial assets					
Cash and cash equivalents		Loans and receivables	Amortised cost	290,214	290,214
Balances with bank and financial institutions		Loans and receivables	Amortised cost	46,048	46,048
Investment securities – equity (quoted)		Held for trading	FVTPL	2,580	2,580
Loans and advances to customers		Loans and receivables	Amortised cost	2,488,467	2,353,823
Investment securities – equity (unquoted)		Available-for-sale	FVOCI	23	23
Investment securities – debt		Available-for-sale	FVOCI	-	-
Total financial assets					

Financial liabilities				
Due to banks	Amortised cost	Amortised cost	96,556	96,566
Due to customers	Amortised cost	Amortised cost	2,455,586	2,455,586
Debt securities issued	Amortised cost	Amortised cost	14,800	14,800
Other financial liabilities	Amortised cost	Amortised cost	90,108	90,108
Total financial liabilities				

	SLFRS 9	
Financial Instrument	**Business Model**	**Measurement**
Quoted Equity- Trading	Held for trading	FVTPL
Quoted Equity	Not for trading (Other)	FVOCI
Investment in Debt securities	Held to collect contractual cash flows and sell	FVOCI
Cash and Cash Equivalent	Held to collect contractual cash flows	Amortised cost
Hire Purchases	Held to collect contractual cash flows	Amortised cost
Finance Lease Receivables	Held to collect contractual cash flows	Amortised cost
Term Loans	Held to collect contractual cash flows	Amortised cost
Margin trading receivables	Held to collect contractual cash flows	Amortised cost
Pawning	Held to collect contractual cash flows	Amortised cost
Staff Loan	Held to collect contractual cash flows	Amortised cost
Bill of exchange	Held to collect contractual cash flows	Amortised cost
Loans against Fixed Deposits	Held to collect contractual cash flows	Amortised cost

5.3 Hedge accounting

Hedge accounting guidelines prescribed by SLFRS 9 do not have any impact to the company as hedge accounting is not applied currently.

5.4 Impact of Adopting SLFRS 9 – Financial Instruments

The following table reconciles the carrying amounts under LKAS 39 to the carrying amounts under SLFRS 9 on transition to SLFRS 9 on 1 April 2018.

In thousands of rupee	IAS 39 carrying amount at 31.03.2018	Reclassifications	Remeasurements	SLFRS 9 carrying amount at 01.04.2018
Financial Assets				
Amortised cost				
Cash and cash equivalents				
Opening balance	290,214			
Closing balance				290,214
Balances with banks and financial institutions				
Opening balance	46,048			
Closing balance				46,048
Investment securities - quoted				
Opening balance	2,580			
Closing balance				2,580
Loans and advances to customers				
Hire purchase				
Opening balance	16,644		-	
Remeasurement			1,191	
Closing balance				17,835
Finance lease				
Opening balance	1,597,584			
Remeasurement			(91,565)	
Closing balance				1,506,019
Term loan				
Opening balance	591,979			
Remeasurement			(44,270)	
Closing balance				547,709
Pawning				
Opening balance	45,684			

Closing balance			45,684
Margin trading			
Opening balance	236,576		
Closing balance			236,576
Available for sale			
To FVOCI – equity		(23)	
To FVOCI – debt		-	
Closing balance			-
FVOCI - equity			
Investment securities - equity			
Opening balance	-		
From available for sale		23	
Closing balance			23
FVOCI - debt			
Investment securities - equity			
Opening balance	-		
From available for sale		-	
Closing balance			-
Financial liabilities			
Due to banks			
Opening balance	96,556		
Closing balance			96,556
Due to customers			
Opening balance	2,455,586		
Closing balance			2,455,586
Debt securities issued			
Opening balance	14,800		
Closing balance			14,800
Other financial liabilities			
Opening balance	90,108		
Closing balance			90,108

The following table summarises the impact, of transition to SLFRS 9 – "Financial Instruments" on reserves and retained earnings as at 1 April 2018.

	Acculumated Losses
	Rs. '000
Closing balance as per LKAS – 39 (31 March 2018)	**(869,795)**
Impact on reclassification and remeasurements	
- none -	
Impact on recognition of expected credit losses:	
Expected credit losses under SLFRS 9 for Loans and receivable to customers	(134,644)
Opening balance as per SLFRS – 9 (1 April 2018)	**(1,004,439)**

6 NEW ACCOUNTING STANDARDS NOT EFFECTIVE AT THE REPORTING DATE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements, with the exception of the amendment to SLFRS 9 affecting prepayment features with negative compensation issued in October 2017.

Of those standards that are not yet effective, SLFRS 16 is expected to have a significant impact on the Group's consolidated financial statements in the period of initial application.

6.1 SLFRS 16 Leases

The Group is required to adopt SLFRS 16 Leases from 1 January 2019. The Group is assessing the impact that the initial application of SLFRS 16 will have on its financial statements.

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

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

Transition

The Group plans to apply SLFRS 16 initially on 1 April 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting SLFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 April 2018, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply SLFRS 16 to all contracts entered into before 1 April 2019 and identified as leases in accordance with LKAS 17 and IFRIC 4.

6.2 Other standards

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Long-term Interests in Associates and Joint Ventures (Amendments to LKAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to LKAS 19)
- IFRIC 23 Uncertainty over lncome Tax Treatments
- Amendments to References to Conceptual Framework in SLFRS Standards
- SLFRS 17 Insurance Contracts.

		Company		Group	
	For the year ended 31 March	**2019**	2018	**2019**	2018
	In thousands of rupee				
7	**Gross income**				
	Interest income (Note 8.1)	**546,759**	431,790	**546,759**	431,790
	Fee and commission income (Note 9)	**7,260**	6,562	**7,260**	6,562
	Net fair value gains /(losses) from financial assets at FVTPL (Note 10)	**(461)**	18	**(461)**	18
	Other operating income (Note 11)	**63,113**	28,635	**63,113**	28,811
		616,671	467,005	**616,671**	467,181
8	**Net interest income**				
8.1	**Interest income**				
	Term loans and other advances	**144,844**	116,572	**144,844**	116,572
	Cash and cash equivalents	**17,498**	23,191	**17,498**	23,191
	Balances with banks and financial institutions	**5,127**	44,757	**5,127**	44,757
	Finance lease and hire - purchase	**343,354**	222,205	**343,354**	222,205
	Interest on overdue rentals	**35,936**	25,065	**35,936**	25,065
	Total interest income	**546,759**	431,790	**546,759**	431,790
8.2	**Interest expense**				
	Interest on overdrafts and charges	**60,117**	5,183	**60,117**	5,183
	Interest on borrowings	**1,494**	7,105	**1,494**	7,105
	Interest on fixed and savings deposits	**294,856**	326,794	**294,856**	326,794
	Interest on preference shares	**600**	600	**600**	600
	Total interest expenses	**357,067**	339,682	**357,067**	339,682
	Net interest income	**189,692**	92,108	**189,692**	92,108

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

	2019	2018	2019	2018
Financial assets measured at amortised cost	**167,469**	184,520	**167,469**	184,520
Financial liabilities measured at amortised cost	**357,067**	339,682	**357,067**	339,682

9 Fee and commission income

In the following table, fee and commission income from contract with customers in the scope of SLFRS 15 is disaggregated by major types of services .

	Company		Group	
For the year ended 31 March	**2019**	2018	**2019**	2018
In thousands of rupee				
Fee and commission income	**7,260**	6,562	**7,260**	6,562
Comprising				
Guarantee fees	**23**	49	**23**	49
Insurance commission	**4,304**	2,778	**4,304**	2,778
Service charges	**2,933**	3,735	**2,933**	3,735
Total fee and commission income from contract with customers	**7,260**	6,562	**7,260**	6,562

10 Net fair value gains /(losses) from financial assets at FVTPL

Fair value gain (loss) on financial assets at FVTPL	**(461)**	18	**(461)**	18
Net fair value gains /(losses) from financial assets at FVTPL	**(461)**	18	**(461)**	18

		Company		Group	
	For the year ended 31 March	**2019**	2018	**2019**	2018
	In thousands of rupee				
11	**Other operating income**				
	Dividend on held-for-trading equity securities	**-**	307	**-**	307
	Dividend on equity securities measured at FVTPL	**298**	-	**298**	-
	Net gain from foreign exchange	**103**	44	**103**	44
	Profit on real estate sales	**-**	7,405	**-**	7,405
	Staff loan income	**523**	1,304	**523**	1,304
	Bad debt recovered	**57,453**	14,512	**57,453**	14,512
	Gain on disposal of property, plant and equipment	**277**	1,460	**277**	1,460
	Other	**4,458**	3,602	**4,458**	3,778
		63,113	28,635	**63,113**	28,811
12	**Impairment charges for loans and receivables and other losses**				
	Lease receivables	**18,499**	29,511	**18,499**	29,511
	Loans and advances	**60,359**	9,531	**60,359**	9,531
	Hire purchase receivables	**(1,255)**	19,246	**(1,255)**	19,246
	Margin trading	**(3,842)**	24,435	**(3,842)**	24,435
	Pawning & other	**(558)**	(1,649)	**(558)**	(1,649)
	Losses on disposal of collaterals	**12,186**	13,827	**12,186**	13,827
	Net impairment charges on loans and receivables	**85,389**	94,900	**85,389**	94,900
13	**Personnel expenses**				
	Remuneration	**111,495**	83,977	**111,495**	83,977
	Employee benefit - Retirement benefit obligation (Gratuity) (Note 29.1)	**3,755**	3,134	**3,755**	3,134
	Employee benefit - Defined contribution plans (EPF/ETF)	**11,475**	8,128	**11,475**	8,128
	Amortisation of prepaid staff loans	**523**	1,304	**523**	1,304
	Total personnel expenses	**127,248**	96,543	**127,248**	96,543
14	**Other operating expenses**				
	Directors’ fees and emoluments	**2,357**	967	**2,357**	967
	Auditor's remunerations				
	Audit fees	**1,100**	1,900	**1,100**	1,900
	Audit related services and expenses	**928**	500	**928**	500
	Non audit services and expenses	**1,402**	988	**1,402**	988
	Professional and legal fees	**4,542**	2,531	**4,542**	2,531
	Reversal for provision for litigation	**-**	(25,544)	**-**	(25,544)
	Reversal of Impairment of Real Estate	**(17)**	(1,400)	**(17)**	(1,400)
	Office administration and establishment expenses	**112,482**	99,422	**111,557**	98,764
	Total other operating expenses	**122,794**	79,364	**121,869**	78,706
15	**Income tax expense**				
	Current income tax expense	**-**	-	**-**	-
	Prior years' under provision	**-**	-	**-**	-
	Deferred tax charge/(reversal) for the year	**(1,742)**	(213)	**(1,742)**	(213)
	Total income tax expenses	**(1,742)**	(213)	**(1,742)**	(213)
15.2	**Deferred tax expense**				
	Deferred tax recognised in other comprehensive income	**1,742**	213	**1,742**	213
	Deferred tax recognised in profit or loss	**(1,742)**	(213)	**(1,742)**	(213)
		-	-	**-**	-

For the year ended 31 March	Company 2019	Company 2018	Group 2019	Group 2018
In thousands of rupee				

15 Income tax expense (continued)

15.3 Reconciliation of tax expenses

	Company 2019	Company 2018	Group 2019	Group 2018
Loss before tax	**(91,942)**	(148,525)	**(91,017)**	(147,691)
Tax at domestic rate of 28%	**(25,744)**	(41,587)	**(25,485)**	(41,353)
Tax effect on exempted income	**(88)**	(91)	**(88)**	(91)
Tax effect on disallowable expenses	**18,450**	(57,769)	**18,192**	(57,769)
Tax effect on capital allowances	**(92,915)**	(121,727)	**(92,915)**	(121,727)
Tax effect on leasing activities	**125,425**	85,052	**125,425**	85,052
Effect of taxable losses	**(25,128)**	136,121	**(25,128)**	135,888
Tax expenses	**-**	-	**-**	-
Effective tax rate	**0%**	0%	**0%**	0%

15.4 Analysis of tax losses

	Company 2019	Company 2018
Balance at 1 April	**1,248,259**	762,113
Adjustments	**(64,745)**	-
Loss incurred during the year	**211,767**	486,146
Loss claimed during the year	**(301,511)**	-
Closing tax loss	**1,093,770**	1,248,259

16 Loss per share

Loss per ordinary share has been calculated based on the loss attributable to the ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.

There were no potentially dilutive ordinary shares outstanding at any time during the year, hence diluted loss per share is equal to the loss per share.

	Company 2019	Company 2018	Group 2019	Group 2018
Loss for the year attributable to ordinary shareholders (Rs.000)	**(93,684)**	(148,312)	**(92,759)**	(147,478)
Weighted average number of shares at 31 March ('000)	**67,731**	67,500	**67,731**	67,500
Loss per ordinary share (Rs.)	**(1.38)**	(2.20)	**(1.37)**	(2.18)

16.1 Weighted average number of shares

	Company 2019	Company 2018	Group 2019	Group 2018
Brought forward number of shares	**67,500**	67,500	**67,500**	67,500
Effect of shares issued during the year	**231**	-	**231**	-
Weighted average number of shares	**67,731**	67,500	**67,731**	67,500

17 Cash and cash equivalents

As at 31 March *In thousands of rupee*	Company 2019	Company 2018	Group 2019	Group 2018
Cash in hand	**10,519**	10,633	**10,775**	10,902
Cash and cash equivalents with other financial institutions	**29,951**	40,616	**29,951**	40,616
Securities under reverse repurchase agreements	**185,810**	238,696	**185,810**	238,696
Cash and cash equivalents in the statement of financial position	**226,281**	289,945	**226,537**	290,214
Bank overdrafts repayable on demand and used for cash management purposes (note 24)	**(219,144)**	(96,556)	**(219,144)**	(96,556)
Cash and cash equivalents in the statement of cash flows	**7,137**	193,389	**7,393**	193,658

		Company		Group	
	As at 31 March	**2019**	2018	**2019**	2018
	In thousands of rupee				
18	**Financial assets measured at amortised cost - Loans and advances**				
	Loans	**1,016,694**	1,420,469	**1,016,694**	1,420,469
	Finance leases	**1,881,744**	1,744,445	**1,881,744**	1,744,445
	Gross loans and receivables	**2,898,438**	3,164,914	**2,898,438**	3,164,914
	Write off	**-**	(511,331)	**-**	(511,331)
		2,898,438	2,653,583	**2,898,438**	2,653,583
	Less: Impairment loss allowance	**(394,174)**	(165,116)	**(394,174)**	(165,116)
		2,504,264	2,488,467	**2,504,264**	2,488,467
18.1	**Analysis by product**				
	Pawning	**86,442**	46,658	**86,442**	46,658
	Hire Purchase	**7,461**	20,263	**7,461**	20,263
	Margin trading receivable	**238,264**	304,243	**238,264**	304,243
	Staff leases/ Loans	**18,481**	19,208	**18,481**	19,208
	Bills of Exchange	**170**	170	**170**	170
	Term loans	**489,411**	537,225	**489,411**	537,225
	Ikman Draft	**76,423**	-	**76,423**	-
	Group Sale	**6,517**	-	**6,517**	-
	Loans against fixed deposits	**93,526**	72,473	**93,526**	72,473
	Loans	**1,016,694**	1,000,240	**1,016,694**	1,000,240
	Leasing	**1,881,744**	1,653,343	**1,881,744**	1,653,343
	Gross total	**2,898,438**	2,653,583	**2,898,438**	2,653,583
	Analysis by currency				
	Sri Lankan Rupee	**2,898,438**	2,653,583	**2,898,438**	2,653,583
	Gross total	**2,898,438**	2,653,583	**2,898,438**	2,653,583

18.2 Impairment loss allowance

		2019			2018		
		Gross carrying amount	**ECL allowance**	**Carrying amount**	Gross amount	Impairment allowance	Carrying amount
Hire purchase	18.2.1	**7,461**	**1,037**	**6,424**	20,263	3,619	16,644
Loans	18.2.2	**684,357**	**149,855**	**534,502**	628,906	37,097	591,809
Margin trading	18.2.3	**238,264**	**80,378**	**157,886**	304,243	67,667	236,576
Pawning and other	18.2.4	**86,612**	**171**	**86,441**	46,828	974	45,854
Lease	18.2.5	**1,881,744**	**162,734**	**1,719,010**	1,653,343	55,758	1,597,585
		2,898,438	**394,174**	**2,504,263**	2,653,583	165,116	2,488,467

18.2.1 Hire purchase

As at 31 March	**2019**	2018
In thousands of Rs		
Gross investment in hire purchase		
Less than one year	**3,168**	19,259
Between one and five years	**5,600**	2,046
More than five years	**-**	-
	8,768	21,305
Unearned income	**1,307**	1,042
	7,461	20,263
Impairment allowance for hire purchase - individual	**65**	-
Impairment allowance for hire purchase - collective	**972**	3,619
Net investment in hire purchase	**6,424**	16,644

18 Loans and advances to customers (continued)
18.2 Loans and advances to customers at amortised cost (continued)

18.2.2 Loans

As at 31 March *In thousands of Rs*	**2019**	2018
Gross investment in loan receivables		
Less than one year	**360,579**	347,470
Between one and five years	**419,495**	344,626
More than five years	**26,060**	72,859
	806,134	764,955
Unearned income	**121,776**	136,050
	684,358	628,906
Impairment allowance for loan receivables - individual	**106,106**	18,148
Impairment allowance for loan receivables - collective	**43,748**	18,949
Net investment in loan receivables	**534,503**	591,809

18.2.3 Margin trading receivables

As at 31 March *In thousands of Rs*	**2019**	2018
Gross investment in margin trading receivables		
Less than one year	**238,264**	304,243
Between one and five years	**-**	-
More than five years	**-**	-
	238,264	304,243
Unearned income	**-**	-
	238,264	304,243
Impairment allowance for margin trading receivables - individual	**80,378**	67,667
Impairment allowance for margin trading receivables - collective	**-**	-
Net investment in margin trading receivables	**157,886**	236,576

18.2.4 Pawning and other receivables

As at 31 March *In thousands of Rs*	**2019**	2018
Gross investment in pawning and other receivables		
Less than one year	**86,612**	46,828
Between one and five years	**-**	-
More than five years	**-**	-
	86,612	46,828
Unearned income	**-**	-
	86,612	46,828
Impairment allowance for pawning and other receivables - individual	**171**	974
Impairment allowance for pawning and other receivables - collective	**-**	-
Net investment in loan receivables	**86,441**	45,854

18.2.5 Finance lease receivables

The following table provides an analysis of finance lease receivables for leases of certain property, plant and equipment in which the Company is the lessor.

As at 31 March *In thousands of Rs*	**2019**	2018
Gross investment in finance lease receivables		
Less than one year	**157,661**	134,355
Between one and five years	**2,296,161**	2,028,053
More than five years	**5,862**	890
	2,459,685	2,163,298
Unearned finance income	**577,942**	509,955
	1,881,743	1,653,343
Impairment allowance for finance lease receivables - individual	**85,390**	21,527
Impairment allowance for finance lease receivables - collective	**77,343**	34,231
Net investment in finance lease receivables	**1,719,010**	1,597,585

As at 31st March *In thousands of rupee*			Company 2019	Company 2018	Group 2019	Group 2018
19	**Investments in securities**					
	Investment securities measured at FVTPL	19.1	**2,119**	2,580	**2,119**	2,580
	Investment securities measured at FVOCI - debt instruments		**48**	-	**48**	-
	Investment securities measured at FVOCI - equity instruments		**23**	-	**23**	-
	Available for sale investment securities		**-**	71	**-**	71
			2,190	2,651	**2,190**	2,651
	Less: Impairment charges on debt securities	19.2	**(48)**	(48)	**(48)**	(48)
			2,142	2,603	**2,142**	2,603
19.1	**Financial assets measured at FVTPL**					
	Investment in equity securities					
	Cost (Note 19.1.2)		**3,386**	3,386	**3,386**	3,386
	Fair value changes (Note 19.1.1)		**(1,267)**	(806)	**(1,267)**	(806)
	Total		**2,119**	2,580	**2,119**	2,580
19.1.1	**Movements in fair value changes**					
	Balance at 1 April		**(806)**	(824)	**(806)**	(824)
	Gain / (Reversal) during the year		**(461)**	18	**(461)**	18
	Balance at 31 March		**(1,267)**	(806)	**(1,267)**	(806)

19.1.2 Quoted equity securities held by the - Company/ Group

	2019			2018		
Sector	**No of Shares**	**Total cost Rs.000**	**Market value Rs.000**	No of shares	Total cost Rs.000	Market value Rs.000
Bank, finance and insurance						
Nations Trust Bank PLC	**3,077**	**214**	**277**	3,077	214	249
Vanik Incorporation PLC	**61**	**3**	**-**	61	3	-
People's Leasing & Finance PLC	**69,000**	**1,242**	**924**	69,000	1,242	1,090
Sampath Bank PLC	**24**	**6**	**4**	24	6	7
		1,465	**1,205**		1,465	1,346
Sector Percentage			**57%**			52%
Hotel and travels						
Keels Hotels PLC	**7,085**	**150**	**53**	7,085	150	66
Hotel Services Ceylon PLC	**43,500**	**1,320**	**557**	43,500	1,320	783
		1,470	**610**		1,470	849
Sector Percentage			**29%**			33%
Manufacturing						
ACL Cables PLC	**9,400**	**451**	**304**	9,400	451	385
		451	**304**		451	385
Sector Percentage			**14%**			15%
Total		**3,386**	**2,119**		3,386	2,580

As at 31st March *In thousands of rupee*		Company 2019	Company 2018	Group 2019	Group 2018
19.2	**Movements in impairment charges during the year**				
	Balance at 1 April	**48**	48	**48**	48
	Charge/(Write back) to statement of profit or loss	**-**	-	**-**	-
	Balance at 31 March	**48**	48	**48**	48
20	**Investments in subsidiaries**				
	Unquoted equity share (Note 20.1)	**175,000**	175,000	**-**	-
	Less: Impairment charges	**(175,000)**	(175,000)	**-**	-
	Net total	**-**	-	**-**	-

20.1 Unquoted equity shares

	2019 Rs.'000	2019 Holding %	2018 Rs.'000	2018 Holding %
PMB Services Ltd.	**175,000**	100	175,000	100
Closing balance	**175,000**	100	175,000	100

The investment on equity shares of PMB Services Ltd. was fully impaired due to the continuous losses incurred by the subsidiary. The subsidiary does not have any operations currently. PMB Services Ltd has incurred loss Rs.98,387/- on financial year 2018/19. (2015/16 -

21 Property, plant and equipment

21.1 Reconciliation of carrying amounts

Property, plant and equipment -Company

In thousands of rupee	Motor vehicle	Furniture and fittings	Computer	Office equipment	Total
Cost					
Balance at 1 April 2017	31,695	18,081	31,128	21,477	102,381
Additions	-	1,556	1,111	1,575	4,242
Disposals	(2,917)	-	-	(110)	(3,027)
Balance at 31 March 2018	28,778	19,637	32,239	22,942	103,596
Balance at 1 April 2018	**28,778**	**19,637**	**32,239**	**22,942**	**103,596**
Additions		**174**	**4,265**	**1,530**	**5,968**
Disposals	**(968)**	**-**	**-**	**-**	**(968)**
Balance at 31 March 2019	**27,810**	**19,811**	**36,504**	**24,472**	**108,596**
Accumulated depreciation and impairment losses					
Balance at 1 April 2017	31,695	15,722	27,134	18,450	93,001
Depreciation for the year	-	454	1,071	793	2,318
Disposals	(2,917)	-	-	(110)	(3,027)
Balance at 31 March 2018	28,778	16,176	28,205	19,133	92,292
Balance at 1 April 2018	**28,778**	**16,176**	**28,205**	**19,133**	**92,292**
Depreciation for the year		**606**	**2,024**	**1,074**	**3,704**
Disposals	**(968)**	**-**	**-**	**-**	**(968)**
Balance at 31 March 2019	**27,810**	**16,782**	**30,229**	**20,207**	**95,028**
Carrying amount					
Balance at 1 April 2017	**-**	2,359	3,994	3,027	9,380
Balance at 31 March 2018	**-**	3,461	4,034	3,809	11,304
Balance at 31 March 2019	**-**	**3,029**	**6,275**	**4,265**	**13,568**

21 Property, plant and equipment

21.1 Reconciliation of carrying amounts

Property, plant and equipment - Group

In thousands of rupee	**Motor vehicle**	**Furniture and fittings**	**Computer**	**Office equipment**	**Total**
Cost					
Balance at 1 April 2017	31,695	20,347	36,944	26,537	115,523
Additions	-	1,556	1,111	1,575	4,242
Disposals	(2,917)	-	-	(110)	(3,027)
Balance at 31 March 2018	28,778	21,903	38,055	28,002	116,738
Balance at 1 April 2018	**28,778**	**21,903**	**38,055**	**28,002**	**116,738**
Additions	**-**	**174**	**4,265**	**1,530**	**5,969**
Disposals	**(968)**	**-**	**-**	**-**	**(968)**
Closing balance	**27,810**	**22,077**	**42,320**	**29,532**	**121,739**
Accumulated depreciation and impairment losses					
Balance at 1 April 2017	31,695	17,988	32,950	23,511	106,144
Depreciation for the year	-	454	1,071	793	2,318
Disposals	(2,917)	-	-	(110)	(3,027)
Balance at 31 March 2018	28,778	18,442	34,021	24,194	105,435
Balance at 1 April 2018	**28,778**	**18,442**	**34,021**	**24,194**	**105,435**
Depreciation for the year	**-**	**606**	**2,024**	**1,074**	**3,704**
Disposals	**(968)**	**-**	**-**	**-**	**(968)**
Balance at 31 March 2019	**27,810**	**19,048**	**36,045**	**25,268**	**108,171**
Carrying amount					
Balance at 1 April 2017	-	2,359	3,994	3,026	9,379
Balance at 31 March 2018	-	3,461	4,034	3,808	11,303
Balance at 31 March 2019	**-**	**3,029**	**6,275**	**4,264**	**13,568**

21.2 There were no capitalised borrowing costs related to the acquisition of equipment during the year 31 March 2019 (31 March 2018: nil).

21.3 Title restriction on property, plant and equipment

There were no restriction existed in the title of the property, plant and equipment of the Group as at reporting date.

21.4 Fully depreciated property, plant and equipment

The Initial cost of fully depreciated property plant and equipment, which are still in use as at reporting date is as follows.

	Company		**Group**	
As at 31st March	**2019**	2018	**2019**	2018
In thousands of rupee				
Motor vehicle	**27,810**	28,778	**27,810**	25,861
Computers	**26,038**	25,971	**31,978**	25,971
Furniture and fitting	**15,690**	15,690	**17,956**	15,690
Office equipment	**16,845**	16,845	**21,905**	16,845
Total	**86,383**	87,284	**99,649**	84,367

22 Intangible assets

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

22.1 Reconciliation of carrying amount

In thousands of rupee	**Company**	**Group**
Cost		
Balance at 1 April 2017	28,426	29,065
Additions	657	657
Balance at 31 March 2018	29,083	29,722
Balance at 1 April 2018	**29,083**	**29,722**
Additions	**1,837**	**1,837**
Balance at 31 March 2019	**30,920**	**31,559**
Accumulated amortization		
Balance at 1 April 2017	19,991	20,630
Amortisation	2,721	2,721
Balance at 31 March 2018	22,712	23,351
Balance at 1 April 2018	**22,712**	**23,351**
Amortisation	**3,083**	**3,083**
Balance at 31 March 2019	**25,795**	**26,434**
Carrying amount		
Balance at 1 April 2017	8,435	8,435
Balance at 31 March 2018	6,371	6,371
Balance at 31 March 2019	**5,125**	**5,125**

Intangible assets include fully amortised softwares which are still in use as at the reporting date as follows.

22.1 Fully depreciated intangible assets

	Company		**Group**	
As at 31st March	**2019**	2018	**2019**	2018
In thousands of rupee				
Computer softwares	**17,957**	17,957	**17,957**	17,957

23 Other assets

	Company		**Group**	
	2019	2018	**2019**	2018
Security deposits	**6,821**	6,608	**6,821**	6,608
Advance payments	**4,987**	5,132	**4,987**	5,132
Real estate inventories (Note 23.1)	**36,407**	36,390	**36,407**	36,390
Prepaid staff cost	**4,946**	5,469	**4,946**	5,469
Stationary stock	**1,288**	1,091	**1,288**	1,091
ESC receivable	**6,395**	7,376	**6,395**	7,376
Recoverable from director (Note 23.2)	**-**	-	**-**	-
VAT recoverable (Note 23.3)	**-**	-	**-**	-
Other receivables	**24,412**	21,136	**24,412**	21,136
Suspense account (Note 23.4)	**-**	-	**-**	-
Total	**85,256**	83,202	**85,256**	83,202

23.1 Real estate inventories

	Company		**Group**	
	2019	2018	**2019**	2018
Balance at 1 April	**36,390**	44,728	**36,390**	44,728
Disposals during the year	**-**	(8,321)	**-**	(8,321)
Balance at 31 March	**36,390**	36,407	**36,390**	36,407
Impairment reversal/ (provision)	**17**	(17)	**17**	(17)
Closing balance	**36,407**	36,390	**36,407**	36,390

As at 31st March	Company		Group	
In thousands of rupee	**2019**	2018	**2019**	2018
23.2 Recoverable from former director				
Recoverable from former director	**11,632**	11,632	**11,632**	11,632
Impairment provision	**(11,632)**	(11,632)	**(11,632)**	(11,632)
Balance at 31 March	**-**	-	**-**	-
23.3 VAT recoverable				
VAT recoverable balance	**18,468**	18,468	**18,468**	18,468
Impairment provision	**(18,468)**	(18,468)	**(18,468)**	(18,468)
Balance at 31 March	**-**	-	**-**	-

23.4 Suspense account balance

The Company had previously recognized a suspense account balance by identifying the cumulative difference between the sub ledger and general ledger as the general ledger did not agree with the sub ledgers, which resulted in differences in relation to assets, liabilities, income and expenses in the statement of financial position and statement of profit or loss and other comprehensive income, in the financial statements for the years ended 31 March 2013 and 2014. Any such un-reconciled differences were transferred to a suspense account to be investigated and reconciled by the Group. However, the new management of the Group after reviewing the situation is of the view that these differences could be due to various errors in the financial reporting process and accordingly had resolved to make full provision for the suspense account balance during the year ended 31 March 2015.

As at 31st March	Company		Group	
In thousands of rupee	**2019**	2018	**2019**	2018
Suspense account balance	**138,552**	138,552	**138,552**	138,552
Impairment provision	**(138,552)**	(138,552)	**(138,552)**	(138,552)
Balance at 31 March	**-**	-	**-**	-

24 Due to banks

As at 31st March *In thousands of rupee*	Company **2019**	Company 2018	Group **2019**	Group 2018
Bank overdraft	**219,144**	96,556	**219,144**	96,556
Total	**219,144**	96,556	**219,144**	96,556

25 Financial liabilities at amortised cost - due to depositors

Fixed deposits	**2,404,582**	2,431,825	**2,404,582**	2,431,825
Savings deposits	**30,151**	23,761	**30,151**	23,761
Total	**2,434,733**	2,455,586	**2,434,733**	2,455,586

25.1 Analysis by currency

Sri Lankan Rupee	**2,434,733**	2,455,586	**2,434,733**	2,455,586
Total	**2,434,733**	2,455,586	**2,434,733**	2,455,586

26 Debt securities issued - Company / Group

As at 31st March *In thousands of rupee*	**2019**	2018
Cumulative preference shares (Note 26.1)	**15,400**	14,800
Total	**15,400**	14,800
Due within 1 year	**-**	-
Due after 1 year	**15,400**	14,800
Total	**15,400**	14,800

26.1 Details of debt securities issued - Company / Group

As at 31st March *In thousands of rupee* **Type**	**Face value**	**2019**	2018
Issued by the Company			
6% cumulative non redeemable preference shares	**10,000**	**10,000**	10,000
Interest Payable	-	**5,400**	4,800
Total	**10,000**	**15,400**	14,800

		Company		Group	
	As at 31st March	**2019**	2018	**2019**	2018
	In thousands of rupee				
27	**Deferred taxation**				
	Deferred tax assets (Note 27.1)	**(329,837)**	(111,688)	**(116,382)**	(111,688)
	Deferred tax liabilities (Note 27.1)	**329,837**	111,688	**116,382**	111,688
		-	-	**-**	-
27.1	**Deferred tax assets**				
	Balance as at 1st April	**111,688**	117,779	**111,688**	117,779
	Originated/(reversal) during the year	**218,149**	(6,091)	**218,149**	(6,091)
	Closing balance	**329,837**	111,688	**329,837**	111,688
	Retiring gratuity	**3,829**	3,829	**3,829**	3,829
	Impairment on loans and advances	**32,541**	-	**32,541**	-
	Tax losses	**293,468**	107,859	**293,468**	107,859
	Closing Balance	**329,837**	111,688	**329,837**	111,688
27.2	**Deferred tax liabilities**				
	Balance at 1 April	**111,688**	117,779	**111,688**	117,779
	(reversal) / originated during the year	**218,149**	(6,091)	**218,149**	(6,091)
	Balance at 31 March	**329,837**	111,688	**329,837**	111,688
	Property plant and equipment	**1,783**	1,149	**1,783**	1,149
	Intangible assets	**1,435**	1,784	**1,435**	1,784
	Lease assets	**326,619**	108,755	**326,619**	108,755
	Balance at 31 March	**329,837**	111,688	**329,837**	111,688

The Group has utilized such tax losses to recognize a deferred tax asset only up to the extent of the deferred tax liability arising from taxable temporary differences.

27.3 Unrecognised deferred tax assets

Deferred tax asset on tax losses has been recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized. The total unrecognized deferred tax asset relating to tax losses as at 31st March 2019 of the Company amounted to Rs. 45Mn/- .

	2019		2018	
In thousands of rupee	**Gross amount**	**Tax effect**	Gross amount	Tax effect
Tax losses	**45,654**	**12,783**	863,048	241,653

		Company		Group	
	As at 31st March	**2019**	2018	**2019**	2018
	In thousands of rupee				
28	**Other liabilities**				
	Employee benefit obligation (Note 28.1)	**22,006**	13,674	**22,006**	13,674
	Real estate advance	**1,000**	-	**1,000**	-
	Other payables	**48,351**	42,490	**48,629**	42,740
	Financial liabilities (Note 28.2)	**9,790**	89,142	**9,790**	90,108
	Total	**81,147**	145,306	**81,425**	146,522
28.1	**Employee benefit obligation**				
	Movement in the present value of defined benefit obligation				
	Balance at the beginning of the year	**13,674**	11,758	**13,674**	11,758
	Amount recognised in profit or loss				
	Interest cost	**1,422**	1665	**1,422**	1665
	Current service cost	**2,333**	1469	**2,333**	1469
		3,755	3,134	**3,755**	3,134
	Amount recognized in the other comprehensive income				
	Actuarial gain	**6,223**	(762)	**6,223**	(762)
	Payment made during the year	**(1,646)**	(456)	**(1,646)**	(456)
	Balance at the end of the year	**22,006**	13,674	**22,006**	13,674

The Company carried out an actuarial valuation of the gratuity liability as at 31 March 2019 by Mr. Pushpakumar Gunasekera (Actuary/ Associate of the Institute of Actuaries of Australia (AIAA)), for and on behalf of Messrs. Smiles Global (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method", the method recommended by the LKAS 19.

Company/ Group	**2019**	**2018**
Actuarial assumption		
Discount rate	10.50%	10.40%
Future salary increment rate	10.00%	10.00%
Retirement age	55 Years	55 Years

28.1.2 Sensitivity analysis

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

Discount Rate	Salary Escalation Rate	Present value of defined benefit obligation (Rs'000)
1% point Increase	10.0%	21,438
1% point Decrease	10.0%	22,610
10.5%	1% point Increase	22,654
10.5%	1% point Decrease	21,387

		Company		Group	
	As at 31st March	**2019**	2018	**2019**	2018
	In thousands of rupee				
28.2	**Financial liabilities**				
	Amounts payable to suppliers	**7,042**	87,393	**7,042**	88,359
	Insurance payables	**2,748**	1,750	**2,748**	1,750
		9,790	89,142	**9,790**	90,108

29 Stated capital

As at 31st March	*Number of shares*	Company		Group	
In thousands of rupee	*(thousands)*	**2019**	2018	**2019**	2018
Issued and fully paid ordinary shares	67,500	**1,078,227**	1,078,227	**1,078,227**	1,078,227
Private placement - shares	16,850	**160,075**	-	**160,075**	-
Total	84,350	**1,238,302**	1,078,227	**1,238,302**	1,078,227

Ordinary shares

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

Issue of ordinary shares

In 27 March 2019, the extra ordinary general meeting of shareholders approved the issue of 16,850,000 ordinary shares at an exercise price of Rs. 9.50/- per share (2018: nil) as a private placement.

30 Statutory reserve fund

This represent a reserve fund created in the financial year of 2005/06, as per the directions issued by the Department of Non Banking Financial Institution of Central Bank of Sri Lanka, under the direction No. 06 of 2005 of Finance Leasing Act No. 56 of 2000.

After registering the Company under the Finance Business Act No 42 of 2011 in April 2012, this reserve fund is utilized for building up the reserve fund required under CBSL direction No 01 of 2003 Finance Companies (Capital Fund).

However, due to reporting losses for the year ended 31 March 2019, no transfer were made to the reserve fund.

	Company		Group	
As at 31 March	**2019**	2018	**2019**	2018
In thousands of rupee				
Balance as at 1st April	**7,259**	7,259	**7,259**	7,259
Transfer during the year	**-**	-	**-**	-
Balance as at 31 March	**7,259**	7,259	**7,259**	7,259

31 Accumulated losses

Balance at 1 April	**(869,795)**	(1,295,630)	**(870,742)**	(1,297,411)
Adjustment on initial application of SLFRS 9	**(134,644)**	-	**(134,644)**	-
Adjusted balance at 1 April	**(1,004,438)**	(1,295,630)	**(1,005,385)**	(1,297,411)
Loss for the year	**(93,684)**	(148,312)	**(92,759)**	(147,478)
Other comprehensive income	**(4,480)**	549	**(4,480)**	549
Equity transfers	**-**	573,598	**-**	573,598
Balance at 31 March	**(1,102,602)**	(869,795)	**(1,102,624)**	(870,742)

32 Contingent liabilities and commitments

Contingent liabilities and commitments	**47,431**	64,820	**47,431**	64,820
Total	**47,431**	64,820	**47,431**	64,820
Contingent liabilities				
- Guarantees	**900**	1,998	**900**	1,998
Commitments				
- Un-utilized facilities (Margin Trading)	**46,531**	62,822	**46,531**	62,822
	47,431	**64,820**	**47,431**	**64,820**

33 Related party disclosures

33.1 Parent and ultimate controlling party

The Company's immediate parent and ultimate controlling party is People's Bank, which is a Government owned entity.

On 28 October 2015, People's Bank and People's Leasing & Finance PLC (Subsidiary of People's Bank) jointly acquired up to 87.21% of it's ordinary shares. Accordingly the Company's parent and ultimate controlling party is Peoples Bank.

Further, on 29 March 2019, Sterling Capital Investments (Pvt) Limited acquired a share ownership of 19.98% of the company via a private placement, which ultimately reduced the People's Bank & People's Leasing & Finance PLC share ownership to 67.79% of company's ordinary shares as at 31 March 2019.

33.2 Transactions with key management personnel and their close family members

As per the Sri Lanka Accounting Standard (LKAS -24) - “Related Party Disclosures”, the key management personnel (KMP) and their family members include those who are having authority and responsibility for planning, directing and controlling the activities of the Group. Accordingly, the Board of Directors of the Group, the parent Company - People's Bank and the Management Agent of the Company - People's Leasing & Finance PLC have been identified as KMPs of the Group.

The Group carried out transactions in the ordinary course of its business with KMPs and their close family members on the arms length basis at commercial rates.

		Company		Group	
	As at 31st March	**2019**	2018	**2019**	2018
	In thousands of rupee				
33.1.1	**Remuneration to Board of Directors**				
	Short-term Employee Benefits	**2,357**	967	**2,357**	967
33.2.2	**Share transactions with KMP**				
	No. of Ordinary Shares held;				
	The Parent Company (People's Bank)	**33,856**	33,856	**33,856**	33,856
	& Finance PLC)	**25,014**	25,014	**25,014**	25,014
	Sterling Capital Investments (Pvt) Ltd	**16,850**	-	**16,850**	-
	Board of Directors	**1,000**	1,000	**1,000**	1,000
33.2.3	**Transactions, arrangements and agreements with Board of Directors**				
	(a) Items in statement of profit or loss				
	Interest Income	-	-	-	-
	Interest Expense	-	-	-	-
	(b) Items in statement of financial position				
	Assets - Loans and receivables	-	-	-	-
	Liabilities - Due to customers	-	-	-	-

33.3 Net accommodation as a percentage of capital funds [Related Entities]

	2019	**2018**
People's Bank	-	-
PMB Services Ltd	-	-
People's Leasing & Finance PLC	-	-
Subsidiaries of People's Bank and People's Leasing and Finance PLC [Other Related Entities]	-	-
Board of Directors	-	-

33 Related party disclosures (continued)

33.4 Transactions with related entities
Transactions with the Government of Sri Lanka and the government related entities.

The immediate parent of the Company is People’s Bank which is Government owned entity. The Company enters into transactions, arrangements and agreements with Government of Sri Lanka and its related entities. There were no individual significant transactions with the Government of Sri Lanka and Government related entities during the year, other than on normal day-to-day business operations.

Further, transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities.

- Investments in treasury bills, treasury bonds
- Payments of statutory rates, taxes and other regulatory fees
- Payments for utilities mainly comprising of telephone, electricity and water
- Payments for employment defined benefit plan - EPF / ETF
- Payment of incidentals such as RMV charges and CRIB fees that are paid based on standard rates.

33.4.1 Company

The Company had the under mentioned financial dealings during the financial year with the following related entities.

	Immediate Parent		**Subsidiary**		**Fellow Subsidiaries**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
In thousands of rupee						
(a) Items in statement of profit or loss						
Interest income	**256**	12,984	-	-	**-**	-
Interest expense	**59,123**	4,808	-	-	**-**	-
Fee and commission income	**-**	-	-	-	**1,421**	873
Other operating expenses	**15,428**	14,143	-	-	**2,157**	682
(b) Items in statement of financial position						
Assets						
Cash and cash equivalents	**29,022**	41,148	-	-	**-**	-
Investments in FD / Repo's	**-**	30,300	-	-	**-**	-
Investment securities measured at FVTPL	**-**	1,040,000	-	-	**-**	-
Investments in subsidiaries / affiliates	**-**	-	175,000	175,000	**.**	-
Other assets	**-**	-	19,140	18,906	**-**	-
Provisions made	**-**	-	(194,140)	(193,906)		
Liabilities						
Due to banks	**219,051**	-	-	-	**-**	-
Due to customers	**-**	-	-	-	**-**	-
Debt securities issued	**10,000**	10,000	-	-	**-**	-
Preference shares dividend payable	**5,400**	4,800	-	-	**-**	-
(c) Transactions						
Insurance premium paid in respect of customers introduced by People’s Merchant Finance PLC	**-**	-	-	-	**1,497**	10,863
Margin Trading application software purchasing from People's Leasing & Finance PLC	**-**	-	-	-	**-**	-
Fleet vehicle hiring charges	**-**	-	-	-	**660**	990
(d). Off- Balance Sheet Items						
Guarantees	**-**	-	-	-	**-**	-

33 Related party disclosures (continued)

33.4 Transactions with related entities (continued)

33.4.2 Group

The Group had the under mentioned financial dealings during the financial year with the following related entities.

	Immediate parent		Fellow subsidiaries	
In thousand of rupee	**2019**	2018	**2019**	2018
(a) Items in statement of profit or loss				
Interest income	**256**	12,984	**-**	-
Interest expense	**59,123**	4,808	**-**	-
Fee and commission income	**-**	-	**1,421**	873
Other operating expenses	**15,428**	14,143	**2,157**	682
(b) Items in statement of financial position				
Assets				
Cash and cash equivalents	**29,022**	41,148	**-**	-
Investments in FD / Repo's	**-**	30,300	**-**	-
Investment securities measured at FVTPL (Refer Note 20.1)	**-**	1,040,000	**-**	-
Investments in subsidiaries / affiliates	**-**	-	**-**	-
Other assets	**-**	-	**-**	-
Provision	**-**	-	**-**	-
Liabilities				
Due to banks	**219,051**	-	**-**	-
Due to customers	**-**	-	**-**	-
Debt securities issued	**10,000**	10,000	**-**	-
Preference shares dividend payable	**5,400**	4,800	**-**	-
(c) Transactions				
Insurance premium paid in respect of customers introduced by People’s Merchant Finance PLC	**-**	-	**1,497**	10,863
Margin Trading application software purchasing from People's Leasing & Finance PLC	**-**	-	**-**	-
Fleet vehicle hiring charges	**-**	-	**660**	990
(d). Off- Balance Sheet Items				
Guarantees	**-**	-	**-**	-

34 Financial instrument - Fair values and risk management

34.1 Fair values of financial instruments

The Group/ Company uses the following hierarchy for determining and disclosing the fair value of financial instruments 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

The following table shows an analysis of assets and liabilities recorded/disclosed at fair value by level of the fair value hierarchy :

	31-Mar-19							
	Carrying amount		Fair value					
	Rs' 000		Rs' 000					
			Company			Group		
Financial assets measured at fair value	**Company**	**Group**	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Investment securities measured at FVTPL (Note a)	2,119	2,119	2,119	-	-	2,119	-	-
Investment securities measured at FVOCI - equity instruments (Note b)	23	23	-	-	23	-	-	23
	2,142	2,142	2,119	-	23	2,119	-	23
Financial assets not measured at fair value								
Loans and advances to customers (Note c)	2,504,264	2,504,264	-	-	-	-	-	-
Cash and cash equivalents (Note d)	226,281	226,537	-	-	-	-	-	-
Balances with banks and financial institutions (Note e)	56,747	56,747	-	-	-	-	-	-
Security deposits (Note f)	6,821	6,821	-	-	-	-	-	-
	2,794,113	2,794,369	-	-	-	-	-	-
	2,796,255	2,796,511	2,119	-	23	2,119	-	23
Financial liabilities not measured at fair value								
Due to banks (Note g)	219,144	219,144	-	-	-	-	-	-
Deposits from customers (Note h)	2,434,733	2,434,733	-	-	-	-	-	-
Debt securities issued (Note i)	15,400	14,200	-	-	-	-	-	-
Financial Liabilities (Note j)	9,790	9,790	-	-	-	-	-	-
	2,679,067	2,677,867	-	-	-	-	-	-

34 Financial instrument - Fair values and risk management (continued)
34.1 Fair values of financial instruments (continued)

	31-Mar-18							
	Carrying amount Rs' 000		Fair value Rs' 000					
			Company			Group		
	Company	Group	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets measured at fair value								
Investment securities measured at FVTPL (Note a)	2,580	2,580	2,580	-	-	2,580	-	-
Available for sale investment securities (Note b)	23	23	-	-	23	-	-	23
	2,603	2,603	2,580	-	23	2,580	-	23
Financial assets not measured at fair value								
Loans and advances to customers (Note c)	2,488,467	2,488,467	-	-	-	-	-	-
Cash and cash equivalents (Note d)	289,945	290,214	-	-	-	-	-	-
Balances with banks and financial institutions (Note e)	46,048	46,048	-	-	-	-	-	-
Security deposits (Note f)	6,608	6,608	-	-	-	-	-	-
	2,831,068	2,831,337	-	-	-	-	-	-
	2,833,671	2,833,940	2,580	-	23	2,580	-	23
Financial liabilities not measured at fair value								
Due to banks (Note g)	96,556	96,556	-	-	-	-	-	-
Deposits from customers (Note h)	2,455,586	2,455,586	-	-	-	-	-	-
Debt securities issued (Note i)	14,800	14,800	-	-	-	-	-	-
Financial Liabilities (Note j)	89,142	89,142	-	-	-	-	-	-
	2,656,084	2,656,084	-	-	-	-	-	-

The methodologies and assumptions used to estimate the fair values of the financial instruments, which are not carried at fair value are as follows:

a) Investment securities measured at FVTPL – The carrying amount of these investments reflect last traded price at stock exchange.
b) Investment securities measured at FVOCI - equity instruments/ Available for sale investment securities– The carrying amount of these shows investments in Government Securities and Credit Information Bureau
c) Loans and advances to customers – The carrying amount reflects amortised value of loan and advances. Thus its carrying amount approximates to the fair value.
d) Cash and cash equivalents – The carrying amount of cash and cash equivalents approximate its fair value due to the relatively short maturity of the financial instruments.
e) Balances with banks and financial institutions – The carrying amount of investment in fixed deposits approximate its fair value due to the relatively short maturity of the financial instruments.
f) Security deposits - The carrying value is approximately its fair value of the financial instrument
g) Due to banks - Fair value of these financial instruments with remaining maturity of less than 1 year approximate their carrying amounts due to the relatively short maturity of such instruments.
h) Deposits from customers – The carrying amount reflecting amortised cost of Deposits from customers. Thus its carrying amount approximates to the fair value.
i) Debt securities issued - Fair value of preference shares reflect market value with the consideration of 6% interest rate.
j) Financial liabilities - The carrying value is approximately its fair value of the financial instrument

34 Financial instrument - Fair values and risk management - Continued

34.2 Risk management

Introduction and overview

The forecasting and evaluation of financial risk together with the identification of procedures to eliminate or minimize the business impact to the Company is the key objective of the Financial Risk Management Framework of the Group.

Structure of the risk management framework

The Board of Directors

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors hold the risk retentiveness for the establishment and guardianship for the Group's frame work and manage the risk through Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC). The main role of the Board of Directors in Risk Management is,

• Increasing scrutiny over risk.
• Identification of potential loss areas.
• Finding the balance between taking and managing risk.
• Development of policies, procedures and awareness.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC)

The IRMC has the overall responsibility for developing and monitoring the risk management strategy and implementing principal frame work, policies and limits, managing risk related decisions and monitoring risk levels and report to the Board of Directors with the support of Assets and Liability Committee (ALCO)

Assets and Liability Committee (ALCO)

ALCO is chaired by the Chief Executive Officer and consists of Deputy General Managers (Legal & HR, Business Development and Assets & Credit Finance) with the Heads of Finance, Fixed Deposits, Treasury and Pawning divisions. The committee will meet at least quarterly to manage the Assets and Liabilities of the Group and to keep the liquidity levels under satisfying requirements. The Group has exposure to following risk from financial instruments.

A. Credit Risk
B. Liquidity Risk.
C. Market Risk.
D. Operational Risk

A. Credit Risk

The credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meets its contractual obligations and arises principally from default on a debt that may arise from a borrower failing to make required payments, in the first resort; the risk is that of the lender and includes cost principals and interest, disruption to cash flows and increased collection flows. Company Credit Management process with,

• Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
• Reviewing and assessing credit risk including business feasibility, verifying CRIB status of clients
• Establishing the authorisation structure for the approval and renewal of credit facilities by Deputy General Managers, Company CEO and The Board of Directors depending on the quantum of the financial facilities.
• Reviewing and setting up individual customer and credit exposure levels. (Adherence to the Single Borrower Limits)

With the adoption of SLFRS 9 – Financial Instruments, the Group manages credit quality using a three stage approach which is in-line with the new standard requirements as well. SLFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition

Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

Stage 2: If significant increases in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.

Stage 3: If a financial asset is credit-impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL.

34 Financial instrument - Fair values and risk management - Continued

34.2 Risk management (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows :

	Company	
	As at 31/03/2019	As at 31/03/2018
	Rs.000	Rs.000
Cash and cash equivalents	**226,281**	289,945
Balances with banks and financial institutions	**56,747**	46,048
Investment securities measured at FVTPL	**2,119**	2,580
Loans and advances to customers	**2,504,263**	2,487,677
Investment securities measured at FVOCI/ Available for sale investment securities	**23**	23
Security Deposits	**6,821**	6,608
	2,796,254	2,832,881

Loans and advances to customers

With adoption of SLFRS 9 with effect from 1 April 2018, impairment of loans and advances are assessed based on Expected Credit Loss model. The approach adopted was to classify loans into individually significant exposures and other loans into homogenous portfolios by segment / product for impairment assessment.

	As at 31/03/2019	As at 31/03/2018
	Rs.000	Rs.000
Carrying amount at amortised cost		
Individually significant portfolio	**332,926**	360,839
Individually non significant portfolio	**2,171,338**	2,126,838
	2,504,263	2,487,677

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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

Generating the term structure of PD

PD estimates are estimates at a certain date, which are calculated, based on statistical models, and assessed using various categories based on homogenous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties.

Determining Whether Credit Risk has Increased Significantly

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – Financial instruments. The criteria for determining whether credit risk has increased significantly vary by portfolio and include qualitative factors, including a backstop based on delinquency.

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

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

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

Definition of default

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

-the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or

-the assessment of the external rating agencies indicates a default grading of the borrower; or

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

qualitative – e.g. breaches of covenant;

quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and based on data developed internally and obtained from external sources.

34 Financial instrument - Fair values and risk management - Continued
34.2 Risk management (continued)

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Company for regulatory capital purposes & management decision.

Movement between the stages
Financial assets can be transferred between the different categories depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment.

Incorporation of forward-looking Information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL using a variety of external actual and forecasted information. The Company formulates a base case view of the future direction of relevant economic variables as well as a representative range (Best Case and worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources. The base case represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables credit risk and credit losses. The economic variables used by the Company based on the statistical significance include the followings.

Unemployment Rate
Interest Rate
GDP Growth Rate
Inflation Rate
Exchange Rate

Base case scenario along with two other scenarios has been used (Best Case and Worst Case)

Measurement of ECL
The key inputs into the measurement of ECL are the term structure of the following variables:
* Probability of default (PD);
* Loss given default (LGD);
* Exposure at default (EAD).
ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD
Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD

The methodology of estimating PD is discussed above under the "Generating the term structure of PD". LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, type of product and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

The following table shows a reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for the year ened 31 March 2018 represent the allowance for credit losses and reflect the measurement basis under LKAS 39.

Financial assets at amortised cost – Loans to and receivables from customers

	2019 (Under SLFRS 9)				2018 (Under LKAS 39)		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Individual**	**Collective**	**Total**
	Rs.000	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**
Balance at beginning	**28,867**	**67,306**	**203,589**	**299,762**	108,316	56,800	165,116
Transfer to Stage 1	**(8,368)**	**24,963**	**34,408**	**51,003**	-	-	-
Transfer to Stage 2	**(12,296)**	**(26,314)**	**15,262**	**(23,347)**	-	-	-
Transfer to Stage 3	**(655)**	**(4,429)**	**(9,381)**	**(14,465)**	-	-	-
New financial assets originated	**16,116**	**29,571**	**23,628**	**69,315**	-	-	-
Margin Trading	**-**	**-**	**-**	**12,710**	-	-	-
Pawning & other	**-**	**-**	**-**	**(803)**	-	-	-
Balance as at 31 March	**23,664**	**91,097**	**267,506**	**394,175**	**108,316**	**56,800**	**165,116**

34 Financial instrument - Fair values and risk management - Continued

34.2 Risk management (continued)

Individually significant impairment

	As at 31/03/2019	As at 31/03/2018
	Rs.000	Rs.000
Gross receivable	**605,036**	469,155
Less: Allowance for impairment	**272,111**	108,316
	332,926	360,839

Individually not significant portfolio include loans that are individually significant but not impaired. These loans are assessed for impairment collectively.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over properties and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

Collective impairment

	As at 31/03/2019	As at 31/03/2018
	Rs.000	Rs.000
Gross receivable	**2,293,401**	2,183,637
Less: Allowance for impairment	**122,064**	56,799
	2,171,338	2,126,838

Write- off policy

The Company writes off a loan or an investment debt/equity security balance, and any related allowances for impairment losses, when it determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

Credit concentration risk

Company monitors credit concentration risk under product portfolio.

Product concentration

	As at 31/03/2019		As at 31/03/2018	
	Rs.000	**%**	Rs.000	%
Leasing and hire purchase	**1,725,434**	**69%**	1,614,228	65%
Loans	**534,502**	**21%**	591,809	24%
Margin trading receivable	**157,886**	**6%**	236,576	10%
Pawning and others	**86,441**	**3%**	45,854	2%
	2,504,263	**100%**	**2,488,467**	**100%**

Financial investments

	As at 31/03/2019	As at 31/03/2018
	Rs.000	Rs.000
Balances with bank and financial institutions	**56,747**	46,048
Investment in equity securities	**2,119**	2,580
Investment in FVOCI - equity securities	**23**	23
Security deposits	**6,821**	6,608
	65,709	55,259

B. Liquidity risk

Liquidity risk is the risk, that for a certain period of time, a given financial asset, security or commodity cannot be traded quickly enough in the market without impacting the market price thereby the company will encounter difficulties in meeting obligations associated with its financial liabilities, which are settled by delivering cash or other financial assets.

The Board of directors sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation to ALCO. Group ensures that sufficient liquidity to meet its liabilities when due, under normal and stressed conditions and maintains company reputation. The treasury division manages the liquidity of the company by obtaining information from other divisions with regard to their liquidity situation of the financial operations on regular basis and with estimated cash flows from business activities based on the recommendation of the ALCO. Company liquidity strategy as follows,

• Maintaining a diversified funding base consisting of customer deposits (both retail and corporate).
• Carrying a portfolio of highly liquid assets diversified by maturity.
• Monitoring maturity mismatches, behavioral characteristics of the Company's financial assets and liabilities.

Exposure to liquidity risk	**As at 31/03/2019**	As at 31/03/2018
	Rs.000	Rs.000
Net loans/ Total assets	0.87	0.85
Gross Loans/ Customer deposits	1.19	1.08
Liquid Asset Ratio (LAR)		
Average for the year	2.73	2.4

34 Financial Instrument - Fair value & Risk Management -Continued

34.2 Risk management (continued)

C. Market risk

Market risk is the risk of losses in positions arising from movements in market prices. There is no unique classification as each classification may refer to different aspects of market risk. Interest rate, Exchange rate, equity prices will affect the Group's income or the value of the holdings of financial instruments.

• **Interest rate risk**, the risk that interest rates or their implied volatility will fluctuate will resulting in adverse impact to the future cash flows or the fair values of financial instruments of the Company. The Company holds interest bearing assets and Liabilities such as Investments in Fixed Deposits, loans and advances to customers, financial instruments – held for sale, due to banks, deposits from customers and debt security issued. The Company's exposure to interest rate risk with instruments which have variable interest rates and reprising of interest rates of liabilities which have shorter maturities. Interest risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO of the Company regularly reviews the current interest structure with the market rates, and responsible for setting the overall interest risk management strategy of the Company which is implemented by the treasury unit. The Company's main sources of funding lines are deposits and other debt instruments bearing fixed interest rates for various durations ranging from one month to five (05) years and bank borrowing bearing both fixed and variable interest rates.

• **Currency risk (Foreign Exchange Risk)**, the risk that foreign exchange rates or their implied volatility will change.
Currency risk arises due to change in exchange rates of currencies, The Company mitigates the exposure to exchange risk by matching foreign currency liabilities with corresponding assets in the same currency.

• **Equity price risk**, is subject to regular monitoring by group market risk, but is not currently significant in relation to the Group's overall results and financial position.

Interest rate risk exposure on financial assets and liabilities

Company	Up to 3 Months Rs.'000	03-12 Months Rs.'000	01-05 Years Rs.'000	Non interest Rs.'000	Total as at 31.03.2019 Rs.'000
Assets					
Cash and cash equivalents	11,418	-	184,913	-	**196,331**
Balances with banks and financial institutions	29,950	56,747	-	-	**86,697**
Financial assets measured at amortised cost - Loans and	546,034	543,360	1,414,870	-	**2,504,263**
Investment securities measured at FVTPL	-	-	2,119	-	**2,119**
Investment securities measured at FVOCI - debt instruments	-	-	48	-	**48**
Investment securities measured at FVOCI - equity instruments	-	-	23	-	**23**
	587,402	**600,106**	**1,601,973**	-	**2,789,481**
Liabilities					
Due to banks	219,144	-	-	-	**219,144**
Financial liabilities at amortised cost - due to depositors	508,108	1,233,235	693,390	-	**2,434,733**
Debt securities issued	-	-	15,400	-	**15,400**
	727,252	**1,233,235**	**708,790**	-	**2,669,278**

Group	Up to 3 Months Rs.'000	03-12 Months Rs.'000	01-05 Years Rs.'000	Non interest Rs.'000	Total as at 31.03.2019 Rs.'000
Cash and cash equivalents	11,418	-	184,913	-	**196,331**
Balances with banks and financial institutions	29,950	56,747	-	-	**86,697**
Financial assets measured at amortised cost - Loans and	546,034	543,360	1,414,870	-	**2,504,263**
Investment securities measured at FVTPL	-	-	2,119	-	**2,119**
Investment securities measured at FVOCI - debt instruments	-	-	48	-	**48**
Investment securities measured at FVOCI - equity instruments	-	-	23	-	**23**
	587,402	**600,106**	**1,601,973**	-	**2,789,481**
Liabilities					
Due to banks	219,144	-	-	-	**219,144**
Due to customers	508,108	1,233,235	693,390	-	**2,434,733**
Debt securities issued	-	-	15,400	-	**15,400**
	727,252	**1,233,235**	**708,790**	-	**2,669,278**

34 Financial Instrument - Fair value & Risk Management -Continued

34.2 Risk management (continued)

D. Operational risk

“Operational risk” is the prospect of indirect or direct losses resulting from wide variety of causes associated with the Company’s inadequate or failed procedures, systems or policies and also human errors, systems/technology failures, fraud or other criminal activity which includes any external event that disrupts business processes other than market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group’s operations.

The Group’s objective is to manage operational risk in a cost effective manner for avoiding/ minimizing financial losses and damages to the Group and without imposing restrictions on initiative and creativity. The Board of Directors delegates the responsibility to the of Corporate Management , heads of Operational divisions and branch management through Board sub Committees and CEO to development and implementation of control to address operational risk related to each division and branch. This responsibility is supported by the continuous improvement of overall Group standards for the management of operational risk including,

• Appropriate segregation of duties on requirements, including the independent authorization of transactions;
• Reconciliation and monitoring of transactions on requirements;
• Compliance with regulatory and other legal requirements and keeping up to date with changes;
• Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
• Documentation of control and procedures;
• Requirements for the reporting of operational losses and proposed remedial action;
• Training and professional developments;
• Ethical and business standards;
• Risk mitigation, including insurance where this is cost effective.

Compliance with group stands is supported by a programmed of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with the management of the business line to which they relate, with summaries submitted to the Board Audit Committee and Corporate Management of the Company.

35 Capital management

Capital consist of ordinary shares, retained earnings of the Company. The Board of directors monitor the return on capital as well as the level of dividends to ordianry shareholders.

The Company's main objective is when managing capital are:
01) to safeguarded the Company's ability to continue as going consern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

02) to provide an adequate return to shareholders by pricing products commensurately with the level of risk; and

Further, the Baord seeks to maintain a balance between higher targeted returns that might be possible with higher level of borrowing, and the advantages and security afforded by the strong capital position of the Company.

The Company's net debt to adjusted equity ratio at the reporting date as follows

	As at 31/03/2019 Rs.000	As at 31/03/2018 Rs.000
Total liabilities	**2,750,424**	2,712,248
Less: Cash and cash equivalents	**226,281**	289,945
Net debt	**2,524,143**	2,422,303
Total equity	**142,959**	215,691
Net debt to adjusted equity ratio at 31 March	**18**	11

The Regulatory Capital requirements for the Finance Companies are set by the Central Bank of Sri Lanka.

The details of the computation of risk weighted assets, capital and the ratios of the Company are given below:

35 Capital management (continued)

Capital adequacy

Total risk weighted assets computation

As at 31st March 2019	Amount	Risk Weight Factor %	Risk Weighted Balance	Amount	Risk Weight Factor %	Risk Weighted Balance
	Rs. '000		Rs. '000	Rs. '000		Rs. '000
Claims on Government of Sri Lanka, Public Sector Entities and Central Bank of Sri Lanka						
Central Bank of Sri Lanka	185,834	0%	-	238,719	0%	-
Claims on financial institutions						
Financial Institutions	56,747	50%	28,373	46,048	50%	23,024
Retail claims						
Retail claims in respect of motor vehicles and machinery	1,990,066	100%	1,990,066	1,746,531	100%	1,746,531
Claims Secured by Gold						
Outstanding claim portion up to 70% of the market value	75,548	0%	-	38,446	0%	-
Remaining Outstanding claim portion over 70% of the market value	10,894	100%	10,894	8,213	100%	8,213
Retail claims secured by immovable property						
Retail claims that do not qualify for regulatory capital purposes	111,118	100%	111,118	135,852	100%	135,852
Other retail claims	228,963	125%	286,204	365,694	125%	457,117
Non-Performing Assets (NPAs)						
Specific provisions are equal or more than 20%	19,077	50%	9,539	30,085	50%	15,042
Other Non-Performing Assets						
Specific provisions are equal or more than 20%	75,574	100%	75,574	102,171	100%	102,171
Other claims(assets)						
Notes and Coins	10,519	0%	-	10,633	0%	-
Cash Items in the Process of collection	29,951	20%	5,990	40,616	20%	8,123
Fixed Assets	13,568	100%	13,568	11,304	100%	11,304
Other Assets/Exposures	87,374	100%	87,374	86,572	100%	86,572
Risk Weighted Amount for Operational Risk			210,248			134,195
Total Risk Weighted Amount			2,828,947			2,728,145

35 Capital management (continued)

Total Capital Base Computation		**2019**	2018
As at 31 March 2019		**Amount**	Amount
		Rs. '000	Rs. '000
Tier I capital			
Stated capital		**1,238,302**	1,078,227
Reserve fund		**7,259**	7,259
Audited retained earnings/(losses)		**(1,004,439)**	(722,032)
(less) Revaluation gains/surplus of investment property		**-**	-
General and other disclosed reserves		**-**	-
Current year’s profit(losses)		**(98,164)**	(147,763)
Tier I capital		**142,958**	215,691
Adjustments to Tier I capital		**(5,856)**	(7,102)
Other intangible assets (net)		**(5,125)**	(6,371)
50% of investment in other banking and financial institutions		**(731)**	(731)
Tier I Capital (after adjustments)		**137,102**	208,589
Tier 2 Capital		**-**	-
Instruments qualified as Tier 2 capital		**-**	-
Revaluation gains (50% of eligible revaluation gains)		**-**	-
Eligible Tier 2 Capital		**-**	-
Total Adjustments to eligible Tier 2 Capital		**(731)**	(731)
Eligible Tier 2 Capital after adjustments		**(731)**	(731)
Total Capital		**136,371**	207,858
Core Capital Ratio (Minimum 6%)			
Core Capital Ratio	Core Capital X 100 / Risk Weighted Assets	4.85%	7.65%
Total Risk Weighted Capital Ratio (Minimum 10%)			
Total Risk Weighted Capital Ratio	Capital Base X 100 / Risk Weighted Assets	4.82%	7.62%

Computation of Capital Adequacy Ratios

The previous capital adequacy directions was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking Supervision (BCBS)issued for banks in 1988.Under this direction risks were confined to credit risk and no capital requirements for other risks such as Market and operational risks. The new capital adequacy framework covers both credit risk and operational risk. Since the change in the basis and coverage of risks for capital adequacy impacted the tire one capital and total capital computation drastically, and for the purpose of disclosing the comparable correspondence figures, the below presentation is also noted.

	Based on Direction No. 03 of 2018		**Based on Direction No. 02 of 2006**
As at 31st March	**2019**	**2018**	**2018**
Core Capital Ratio	4.85%	7.65%	8.69%
Total Capital Ratio	4.82%	7.62%	8.68%

36 Maturity Profile of Assets and Liabilities

Allocation of Amounts

Amounts were allocated to respective maturity groupings based on installments falling due as per contract. The amounts therefore represent total amount receivable or payable in each maturity grouping.

36.1 (a) Group

As at 31st March	2019 Less than 1 Year Rs'000	2019 More than 1 Year Rs'000	2019 Total Rs'000	2018 Less than 1 Year Rs'000	2018 More than 1 Year Rs'000	2018 Total Rs'000
Interest bearing assets						
Cash & Cash Equivalent	226,537	-	226,537	290,214	-	290,214
Investment in Fixed Deposits	56,747	-	56,747	46,048	-	46,048
Financial Investments - Held for Trading	2,119	-	2,119	2,580	-	2,580
Financial investments – Available for sale	-	23	23	-	23	23
Loans and advances to customers	1,089,394	1,414,870	2,504,264	1,356,102	1,132,365	2,488,467
Total Interest bearing assets	1,374,797	1,414,894	2,789,691	1,694,944	1,132,388	2,827,332
Total Non - Interest bearing assets	41,613	62,335	103,948	55,497	45,379	100,876
Total assets	**1,416,410**	**1,477,229**	**2,893,639**	**1,750,441**	**1,177,767**	**2,928,208**
Percentage	48.95%	51.05%	100.00%	48.95%	37.18%	100.00%
Interest bearing liabilities						
Due to Banks	219,144	-	219,144	96,556	-	96,556
Due to customers	1,741,344	693,389	2,434,733	1,958,309	497,277	2,455,586
Debt securities issued	-	15,400	15,400	-	14,800	14,800
Total interest bearing liabilities	1,960,488	708,789	2,669,277	2,054,865	512,077	2,566,942
Total Non- Interest bearing Liabilities	41,614	39,812	81,426	127,115	19,408	146,523
Equity	**-**	**142,936**	**142,936**	**-**	**214,744**	**214,744**
Total liabilities & equity	**2,002,102**	**891,537**	**2,893,639**	**2,181,980**	**746,229**	**2,928,208**
Percentage	69.19%	30.81%	100.00%	74.52%	25.48%	100.00%

36.1 (b) Company

As at 31st March	2019 Less than 1 Year Rs'000	2019 More than 1 Year Rs'000	2019 Total Rs'000	2018 Less than 1 Year Rs'000	2018 More than 1 Year Rs'000	2018 Total Rs'000
Interest bearing assets						
Cash & Cash Equivalent	226,281	-	226,281	289,945	-	289,945
Investment in Fixed Deposits	56,747	-	56,747	46,048	-	46,048
Financial Investments - Held for Trading	2,119	-	2,119	2,580	-	2,580
Financial investments – Available for sale	-	23	23	-	23	23
Loans and advances to customers	1,089,394	1,414,870	2,504,264	1,356,102	1,132,365	2,488,467
Total Interest bearing assets	1,374,541	1,414,894	2,789,435	1,694,675	1,132,388	2,827,063
Total Non - Interest bearing assets	41,613	62,336	103,949	55,498	45,378	100,876
Total assets	**1,416,154**	**1,477,229**	**2,893,383**	**1,750,173**	**1,177,766**	**2,927,939**
Percentage	48.94%	51.06%	100.00%	59.77%	40.23%	100.00%
Interest bearing liabilities						
Due to Banks	219,144	-	219,144	96,556	-	96,556
Deposits from customers	1,741,344	693,389	2,434,733	1,958,309	497,278	2,455,587
Debt securities issued	-	15,400	15,400	-	14,800	14,800
Total interest bearing liabilities	1,960,488	708,789	2,669,277	2,054,865	512,078	2,566,943
Total Non- Interest bearing Liabilities	41,614	39,534	81,148	125,898	19,407	145,305
Equity	**-**	**142,959**	**142,959**	**-**	**215,691**	**215,691**
Total liabilities & equity	**2,002,102**	**891,281**	**2,893,383**	**2,180,763**	**747,176**	**2,927,939**
Percentage	69.20%	30.80%	100.00%	74.48%	25.52%	100.00%

37 Segmental analysis - Group

For the year ended 31 March 2019	Leasing & hire purchases	Trade Bills, loans and pawning	Margin trading	Other	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Interest income	373,851	125,050	25,233	22,625	**546,759**
Fee and commission income	7,238	-	-	23	7,260
Net income from other financial instruments at FVTPL	-	-	-	(461)	(461)
Other operating income	24,160	1,226	-	37,727	63,113
Gross revenue	**405,248**	**126,276**	**25,233**	**59,914**	**616,671**
Interest expenses	(213,396)	(87,085)	(26,913)	(29,673)	(357,067)
Total operating income	**191,852**	**39,191**	**(1,680)**	**30,241**	**259,603**
Credit losses	27,763	(156,303)	43,151	-	(85,389)
Net operating income	**219,615**	**(117,112)**	**41,471**	**30,241**	**174,215**
Depreciation and amortisation	(4,055)	(1,655)	(511)	(564)	(6,786)
Staff and other expenses	(148,881)	(60,757)	(18,777)	(20,702)	(249,117)
Segment results	**66,678**	**(179,524)**	**22,182**	**8,975**	**(81,688)**
VAT, NBT, DRL on financial services					(9,328)
Income tax expense					(1,742)
Profit for the year					**(92,759)**
As at 31 March					
Segment assets	1,729,341	705,730	218,102	240,465	**2,893,639**
Segment liabilities	1,643,917	670,869	207,329	228,587	**2,750,702**

37 Segmental analysis - Group (continued)

For the Year ended 31st March 2018	Leasing & hire purchases	Trade Bills, loans and Pawning	Margin trading	Other	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Interest Income	244,708	77,467	41,667	67,948	**431,790**
Fee and commission income	6,513	-	-	49	6,561
Net gain/(loss) from financial assets - Held for trading	-	-	-	18	18
Other operating income	7,884	1,216	-	19,712	28,812
Gross revenue	**259,105**	**78,682**	**41,667**	**87,727**	**467,181**
Interest Expenses	(190,772)	(77,026)	(34,680)	(37,203)	(339,682)
Total operating income	**68,333**	**1,656**	**6,987**	**50,524**	**127,500**
Credit losses	(152,485)	204,234	43,151	-	94,900
Net operating income	**220,818**	**(202,578)**	**(36,164)**	**50,524**	**32,601**
Depreciation and Amortization	(2,831)	(1,143)	(515)	(552)	(5,040)
Staff and other expenses	(98,424)	(39,739)	(17,892)	(19,194)	(175,249)
Segment Results	**119,564**	**(243,461)**	**(54,571)**	**30,777**	**(147,690)**
Income tax expense					213
Profit for the year					**(147,478)**
As at 31 March					
Segment assets	1,644,542	663,999	298,960	320,707	**2,928,209**
Segment liabilities	1,523,938	615,304	277,035	297,188	**2,713,465**

38 Directors responsibility statement

The Board of Directors are responsible for the preparation and presentation of the financial statement.

39 Penalties imposed by the Central Bank

The Company failed to submit the 7th weekly return of 2019 on due date, which is a violation under the Finance Companies (Reporting Requirement) Direction No. 02 of 2011. The Company was imposed with a penalty of Rs: 100,000/- for this violation by CBSL and the Company has paid the same.

40 Subsequent events and going concern

People's Merchant Finance PLC (PMF), entered into an investment agreement with People's Bank, People's Leasing & Finance PLC and Sterling Capital Investments (Private) Limited (SCIL) on the 03rd of October 2018. Based on the provisions of the agreement, SCIL subscribed and fully paid for 16,850,000 Ordinary voting shares representing 19.98% of the stake in the Company by way of a private placement on the 29th of March 2019.

Subsequent to the reporting date, SCIL further subscribed for 126,384,052 ordinary voting shares of the Company for a total consideration of Rs. 1,201 Mn on the 02nd of April 2019, resulting in the total stake of SCIL in PMF to increase upto 67.9%.

The reconstituted board is exploring options to increase the capital during the financial year 2019/20 in order to meet the minimum core capital requirements of Rs.2 Billion by 1 January 2020 in compliance with the Finance Business Act (Minimum Core Capital) Direction No 02 of 2017.

In consideration of the above, the Board of Directors is confident that the Company has the ability to continue as a going concern.