ANNUAL REPORT 2017/18

Years Together

SENKADAGALA FINANCE PLC

50 Years Together

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ANNUAL REPORT 2017/18

This year, Senkadagala Finance PLC celebrates a key milestone in its history – 50 years of dedicated enterprise as one of the most trusted, respected and largest licensed financial institutions in the country. Innovative products and services, an ever growing branch network, constant upgrades to IT and system regimes together help deliver sustainable financial options to our loyal customers – one of the Company's greatest assets, whilst delivering optimal value to all stakeholders.

50 years together...

SENKADAGALA FINANCE PLC

About this Report

Report Structure

This is the Company's second Integrated Report in which its value creation story is exemplified with attention paid to performance, strategy, the Company's business model and future outlook. In the Integrated Annual Report 2016/17, the process of stakeholder identification led to an examination of areas material to the Company and those that need to be reported on. This year, the framework of reporting is taken forward. The Integrated Annual Report 2017/18 will examine the Company's value creation story in greater depth and in turn indicate a maturing in reporting and overall Company strategy.

The concepts and principles mentioned in the following guides were used in the preparation of this Report where applicable:

- Global Reporting Initiative (GRI) Sustainability Reporting Guidelines G4 (2013) *[www.globalreporting.org]*
- The International Integrated Reporting Framework (2013) *[www.theiirc.org]*
- The Smart Integrated Reporting Methodology™ *[www.smart.lk]*

Report Boundary

The focal points in this Report are the operations of Senkadagala Finance PLC and its Subsidiaries, Senkadagala Insurance Brokers (Pvt) Ltd. and Newest Capital Ltd. The operations of the parent company and its subsidiaries mentioned above are confined to Sri Lanka. There have not been any significant changes to the scope and aspect of the boundaries from previous reporting periods. There were also no restatements of information provided in previous reports.

Compliance

The operations of Senkadagala Finance PLC from the 1 April 2017 to 31 March 2018 are communicated through this Report. An annual reporting cycle for financial and sustainability reporting is maintained and the sustainability aspects are reported in accordance with the GRI G4 guidelines. The Company also abides by all other applicable laws, rules, regulations, directions and standards while paying attention to other guidelines for voluntary disclosures.

Queries

In the instance that any inquiry and/or further clarification has to be made regarding the information contained in this Report

Please Contact:

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Colombo 3
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Email: *info@senfin.com*

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About Us

Vision

Our Vision is to be a leading financial institution in Sri Lanka that delivers high quality services and achieves excellence in all spheres of activity while being socially conscious, at all times.

Mission

To provide a wide range of diversified financial services and to acquire a portfolio of loanable funds that yields an adequate return to our shareholders, whilst safeguarding the interests of our depositors and other stakeholders.

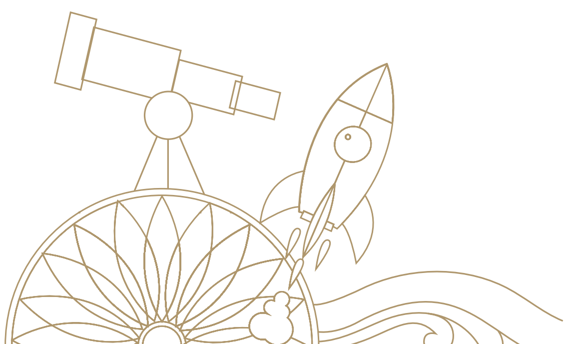
About the Company

2018 marks the 50th Anniversary of Senkadagala Finance PLC, a Company that first commenced operations in the city of Kandy. Half a century since its inception the Company has strategically expanded throughout the country and the hundredth branch will be opened as a celebratory gesture this year.

Since the Company was listed in the *Diri Savi* Board of the Colombo Stock Exchange in March 2011, the Company has also been recognised as one of the largest finance companies in Sri Lanka. Today, Senkadagala Finance provides a gamut of services such as finance leases, commercial loans and hire purchases. The Company also accepts deposits in the form of savings deposits, fixed deposits and certificates of deposit in addition to providing pawn brokering and foreign currency exchange services.

Furthermore, Senkadagala Insurance Brokers (Pvt) Ltd. was incorporated in April 2012 with the view of expanding operations further while Newest Capital Ltd., a specialised leasing company was acquired in 2014. These have helped the parent company widen the scope of its portfolio. As the Company also constantly focuses on maintaining a healthy asset quality while continuing to diversify its products and services, the Company has been recognised by Fitch Ratings Lanka Ltd. which affirmed the BBB+ (lka) credit rating of the Company.

The Registered Office of the Company is situated at 2nd Floor, No. 267, Galle Road, Colombo 03.



Group Structure

Parent Company

Senkadagala Finance PLC

Subsidiaries

Senkadagala Insurance Brokers (Pvt) Ltd.

Relationship	: Subsidiary
Holding	: 100%
Date of incorporation	: 17 April 2012
Joined the Group on	: 17 April 2012
Principal line of business	: Insurance Brokering
Registered address	: 2nd Floor, No. 267, Galle Road, Colombo 3
Board of Directors	: Mr L Balasuriya Dr A Balasuriya Dr M Balasuriya Ms L Fernando Mr W A T Fernando Mr S D Bandaranayake

Financials (Rs. '000)	2017/18	2016/17	2015/16
Total assets	100,025	48,711	54,864
Total liabilities	76,764	24,525	36,015
Net assets	23,261	24,185	18,849
Total revenue	143,979	119,947	98,780
Profit before tax	140,176	116,982	95,516
Profit after tax	100,575	84,336	68,538

Newest Capital Ltd.

Relationship	: Subsidiary
Holding	: 100%
Date of incorporation	: 27 December 2011
Joined the Group on	: 25 August 2014
Principal line of business	: Investment Activities
Registered address	: No. 267, Galle Road, Colombo 3
Board of Directors	: Mr L Balasuriya Dr A Balasuriya Ms L Fernando Dr P Ramanujam Mr S D Bandaranayake

Financials (Rs. '000)	2017/18	2016/17	2015/16
Total assets	291,810	194,941	197,612
Total liabilities	9,925	9,196	14,487
Net assets	281,885	185,745	183,124
Total revenue	113,352	14,832	9,953
Profit before tax	102,057	3,610	3,199
Profit after tax	96,140	2,621	452

Highlights

	2018	2017	Change %
Financial Results of the Year (Rs. Mn.)			
Total income	6,770	5,138	31.77
Interest income	6,472	4,826	34.12
Net interest income	3,062	2,423	26.35
Profit before VAT on financial services and taxation	1,573	1,280	22.82
Profit before taxation	1,357	1,119	21.29
Profit for the year	1,005	861	16.69
Dividends paid	213	186	14.62
Earnings retained during the year	787	668	17.91
Financial Position (Rs. Mn.)			
Loans and advances	27,802	23,758	17.02
Total assets	36,104	30,919	16.77
Deposit base	9,507	7,231	31.48
Borrowings	15,376	13,744	11.88
Debentures	4,400	4,993	(11.87)
Shareholders' funds	5,031	3,662	37.41
Operational Results of the Year (Rs. Mn.)			
New advances disbursed	17,600	17,290	1.79
Net flow of deposits	2,276	721	215.67
Debt instruments issued	–	3,000	(100.00)
Borrowings obtained	6,740	7,800	(13.59)
Capital expenditure incurred	359	641	(43.96)
Information per Ordinary Share (Rs.)			
Earnings per share	13.97	13.05	7.00
Dividends per share	3.00	2.85	5.26
Net assets per share	69.42	56.14	23.67

	2018	2017	Change %
Key Performance Indicators			
Return on average total assets (%)	3.00	3.24	(0.24)
Return on average shareholders' funds (%)	23.11	25.87	(2.76)
Net interest margin (%)	9.93	9.87	0.06
Gross non-performing assets ratio (%)	2.28	1.64	0.64
Interest cost to interest earned ratio (%)	52.69	49.78	2.91
Interest cover (times)	1.29	1.36	(4.69)
Equity to assets ratio (%)	13.94	11.84	2.09
Debt to equity ratio (times)	3.93	5.12	(23.24)
Price earnings ratio (times)	6.44	6.90	(6.67)
Dividends yield (%)	3.33	3.17	0.17
Statutory Regulated Ratios			
Core capital ratio (%)	16.86	14.19	2.67
– Minimum statutory requirement 5%			
Total capital ratio (%)	17.65	16.08	1.57
– Minimum statutory requirement 10%			
Non-financial indicators			
Branches	54	49	10.20
Service centres	41	41	–
Staff strength	745	690	7.97
Customers served	73,105	62,565	16.84
New branches opened	5	10	(50.00)
Credit rating			
Fitch Ratings Lanka Ltd.	BBB+ (lka)	BBB+ (lka)	

Milestones

1968

- The Company was incorporated

1969

- Opened the first branch at No. 12, Kotugodella Veediya, Kandy and launched its operations
- Introduced the hire-purchase product

1980

- Registered under the Finance Companies Act No. 27 of 1979

1981

- Introduced the non-hire purchase loans

1983

- Introduced the finance leasing business

1997

- Total assets surpassed Rs. 250 Mn. mark

1999

- Opened its doors in Colombo at 267, Galle road, Colombo 03 which later became the head office of the Company

2001

- IT partnering with KBSL

2002

- 3rd Branch in Kurunegala
- Signing of the 1st Securitisation loan agreement
- 1st finance company to get a rating from an international rating agency, BBB by Fitch Ratings Lanka Ltd.

2003

- Credit rating upgraded BBB+
- Launched the SFC website

2004

- Received the Gold award at the CA Sri Lanka Annual report competition 2003/04 – Winner – Finance Companies sector

2005

- 1st listed debenture issue, opening date 31/08/2005.
- 10th branch in Anuradhapura

2007

- Launched the SFC Savings accounts. The first account was opened in March 2007
- Received the Silver award at the CA Sri Lanka Annual report competition – Finance Companies sector

2008

- 25th Branch opened in Maharagama
- Received the Silver award at the CA Sri Lanka Annual report competition – Finance Companies sector

2010

- Opened a dedicated deposit department in Colombo

2011

- Total advances surpassed the Rs. 5Bn mark
- Listed in *Diri Savi* board of the CSE

2012

- Opened 15 branches/ servicecentres during the year around the country
- Introduced the pawning business
- Incorporated the Senkadagala Insurance Brokers (Pvt.) Ltd., the insurance brokering arm of the group

2013

- 50th branch in Jaffna
- Launched the chip driven VISA debit card
- Listed subordinated debenture – fully subscribed within the first date

2014

- Partnered with Lanka Clear to transact through SLIP system
- Obtained a USD 7 Mn. loan from IFC
- Acquired Newest Capital Ltd.
- Signed as a strategic level training partner with CA Sri Lanka

2017

- Received the Bronze award at the CA Sri Lanka Annual report competition – Finance Companies and Leasing Companies (Total assets above LKR 20 Bn.)
- Asset base surpassed Rs. 30 Bn. mark

2018

- USD 15 Mn. loan from IFC
- Re-launched the Company website

Chairman's Message

Strategy always governed our decisions. We continued to expand our customer value proposition in terms of products and services, reach, service standards and internal processes while pro-actively responding to the emerging developments in the operating environment.

Dear Shareholders,

At this momentous juncture when your Company celebrates fifty years of operation, I present you with the Annual Report for the financial year 2017/18 and welcome you to the 49th Annual General Meeting. It is an opportune moment for me to recollect the past, ponder on the present and envision the future of Senkadagala Finance PLC.

An illustrious past, an unblemished track record...

When we opened our doors half a century ago, we had modest expectations, but were strategy driven throughout. Today, your Company has opened 95 branches around the country and has built a loyal customer base. During the financial year, we opened five more branches and intend to achieve our target of establishing hundred branches on or before our 50th birthday which will be celebrated on 29 December 2018.

Strategy always governed our decisions. We continued to expand our customer value proposition in terms of products and services, reach, service standards and internal processes while pro-actively responding to the emerging developments in the operating environment.

Moreover, from the very beginning, effective risk management and sound corporate governance have been at the core of our operations. We ensured that our business activities secured greater market share and higher profitability while always keeping in mind that we mitigate exposure to risk in order to ensure optimum trade-off between risk and return. All these were done on a foundation of sound corporate governance practices.

A momentous present, creating intrinsic value...

As in the past, this year too we are pleased with the Company's overall performance in terms of business volume growth, profitability, asset quality, operational efficiency and stability as reflected by the key indicators. The Company achieved a milestone when the profit after tax surpassed the Rs. 1 Bn. mark for the first time with a salient growth of 17%. The deposit base too recorded a remarkable growth of 31% in comparison to the previous financial year.

While we take pride in these performance indicators, we are resolved in our focus on enhancing the quality of the asset base and strengthening our governance framework to further augment and create sustainable value for all our stakeholders. Unprecedented developments are also taking place in the operating environment. In these circumstances, the better we understand our stakeholders, customers in particular, the greater the value we can create for them. Hence, we are making a genuine effort to thoroughly understand our stakeholders who sustain the operations of the Company.

It is a mutually rewarding relationship that is best sustained. We make great effort to provide a personalised service to our customers and also provide our employees opportunities for their growth and development. Moreover all our operations are conducted in a socially responsible and environmentally-friendly manner. We will carry these best practices into the future and they will serve as pointers for future plans and strategies.

In order to strengthen capital adequacy and thereby create leeway for future business expansion, the Company made a rights issue of 7,247,506 new ordinary voting shares at Rs. 80/- per share increasing the capital by Rs. 579.8 Mn. in April 2017. With Rs. 5 Bn. in capital funds and a total capital ratio of 17.65% as at 31 March 2018, the Company comfortably exceeds the new capital requirements that will be phased in from 1 January 2018 to be fully implemented by 1 January 2021.

A prosperous future, bolder aspirations...

Our value creation story is indicative of our future. Very recently, we received a loan of USD 15 Mn. from the International Finance Corporation of the World Bank Group in partnership with Goldman Sachs. We hope to utilise the proceeds thereof to uplift the lives of Sri Lankan women entrepreneurs, empowering and encouraging them to take the lead in their chosen fields.

It is going to be a digitalised world as never witnessed before and your Company is geared to keep pace with the rapid changes taking place in this regard. We are also equally cognisant of underlying security threats and have taken the necessary steps to address them.

Thank you, fifty times and over...

We have arrived at our 50th anniversary, thanks to the sustained efforts of our specialised teams. Dispersed around the country are also our customers who have stood with us through the years and have always seen value in the strategic decisions we made. I am immensely grateful for your efforts and sustained presence and will continue to keep your best interests at heart in the years to come.

My appreciation must be also extended to my colleagues on the Board for their continued support and cooperation. I especially thank our Managing Director/CEO, Mr Lakshman Balasuriya, Additional CEO/Director, Mr Sanath Bandaranayake and all the other staff members for their dedication and commitment during the year. I appreciate the continued support and guidance extended by the Director and the staff of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka. I also deeply appreciate the loyalty and confidence of our shareholders.

As we journey forward, I foresee continued success for Senkadagala Finance PLC.

W M R S Dias
Chairman

31 May 2018

Managing Director/ CEO's Review

The year leading up to the Company's 50th Anniversary was marked with noteworthy achievements. Accomplishing a significant milestone, the profit after tax reached Rs. 1,005 Mn., the highest ever reported so far, on a profit before tax of Rs. 1,357 Mn. Total assets grew to Rs. 36 Bn., a 17% growth compared to the last year.

The year leading up to the Company's 50th Anniversary was marked with noteworthy achievements. Accomplishing a significant milestone, the profit after tax reached Rs. 1,005 Mn., the highest ever reported so far, on a profit before tax of Rs. 1,357 Mn. Total assets grew to Rs. 36 Bn., a 17% growth compared to the last year. Contributing to the asset growth, the loans and advances portfolio reached Rs. 27.8 Bn. despite the challenging conditions that prevailed in the market.

Sector and industry performance

Despite the improved performance in the financial sector as a whole with contributions from the banking and other deposit taking financial institutions, only moderate growth was reported by the Licensed Finance Companies (LFCs) and the Specialised Leasing Companies (SLCs).

The growth of the NBFI sector was stifled primarily due to macroprudential policy measures taken to reduce the imports and restrict lending for motor vehicles through stringent loan to value (LTV) ratios. Increased LTV ratios improved the risk profile of motor vehicle leases, leading the banks to aggressively market the product. Furthermore, the demand for core lending products was also impacted by the increasing trend of lending rates, adverse weather conditions and the lacklustre economic growth. The impact of these developments is seen in the low credit growth and the deteriorating asset quality.

Impact and measures adopted

Stemming from the developments in the sector, the Company's NPL ratio increased to 2.28% during the financial year from 1.64% last year. In order to meet challenges that were presented throughout the year, the Company strengthened its risk management framework further. Processes and controls relating to the customer appraisals were strengthened through the introduction of a new system that maintains detailed records of the appraisal process, thereby enhancing accountability and transparency.

The pawning arm of the business continued to grow successfully. During the financial year, it experienced a growth of 81% expanding the portfolio to Rs. 994 Mn. compared to Rs. 548 Mn. last year. Despite the negativity that surrounds the fluctuating prices of gold, the Company strengthened its pawning business through localised promotions and targeted campaigns. While keenly observing the market developments, stringent LTV ratios were maintained to mitigate the risk of price fluctuations to maintain the quality of the portfolio.

Growing network

The Company rapidly yet strategically expanded its reach over the past five years, opening 65 new branches and service centres in strategic locations across the country. During the financial year, Senkadagala Finance PLC opened its doors in Bandaragama, Deniyaya, Mathugama, Wattegama and Welimada. The branches opened in the recent past have managed to break even. The operations in each of the branches are handled by talented professionals who lead the teams to achieve the targets set for them.

As the Company celebrates its 50th Anniversary, we have taken measures to achieve the goal of expanding the network to 100 branches. While continuing to strengthen alternative channels further, we intend to expand our presence in strategic locations in the coming years.

A digital age

From its modest beginnings with a localised network and a few PCs, the Company has now developed a cutting-edge ICT system that is specially tailored to the operations of the Company and the requirements of its wide and diverse customer base.

Online banking facilities and utility bill payment facilities were made available to the Company's savings customers while SMS notifications have also been enabled for transactions that are made with the use of debit cards. This year, the Company also introduced a new VISA debit card with chip and PIN authentication along with the PayWave facility. The new card enhances security while enriching the customer experience. It is also an initiative that creates additional value for customers as the Company's products are now coupled with facilities that are in line with global developments.

Journeying together

In its fifty-year-long journey, the Company sustained operations and ensured the retention of a trusted customer base most of whom do repeat business. As mentioned before, the Company consistently innovates products and services that suit the diverse needs of its customers.

Similarly, employees are recruited from the localities in which the branches are established. This has created employment opportunities for many. The Company also provides career development opportunities for talented staff members to ensure their professional growth within the Organisation.

Taking these long-established values further into the future, Senkadagala Finance PLC will continue to grow strategically in the years to come, capitalising on the core business of the Company while preserving its asset quality.

A note of thanks

As the Company journeys towards a new era, appreciation must be extended to customers and employees who have been with the Company in the past and many who continue to place their trust in Senkadagala Finance PLC. Gratitude is extended to the Chairman, Mr. Ravi Dias and the Board of Directors for their continuous support and guidance. I must also thank the Senior Management team some of whom count a long stint with the Company for their ongoing dedication and significant efforts towards the success of the Company. The continued support and guidance provided by the Director and the staff of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka are appreciated. A special note of thanks must also be extended to the investors for their trust and support.

Lakshman Balasuriya
Managing Director/CEO

31 May 2018

Business Model

Our Business Model

Senkadagala

From Stakeholders

Inputs

Financial Capital
Rs. 5,031 Mn. in shareholders' funds

Rs. 19,776 Mn. borrowings from other investors

Property, plant and equipment

Financial covenants

Institutional Capital
Institutionalised knowledge

Internally developed tailor made IT system

Corporate governance framework

System of internal control

Social and Environmental Management System

Customer data and insights

Best practice

Business collaborations and alliances

Customers
Rs. 9,507 Mn. in customer deposits

Findings from customer satisfaction survey

Employees
745 employees with a cumulative service of 3,246 years

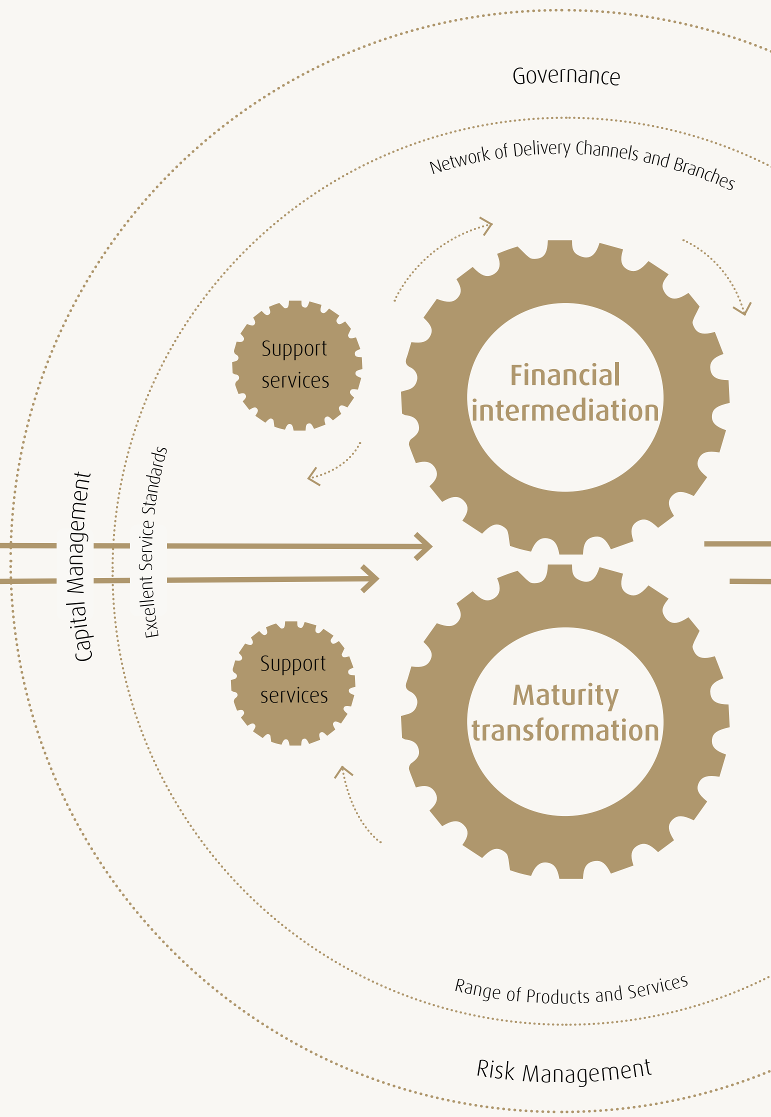
Competencies

Findings from employee satisfaction survey

Society and environment
Land, water, energy, paper

Process

(Augmenting/transforming the value of input capitals for the benefit of stakeholders)



Vision | Mission | Values

Operating Environment

Finance PLC

To Stakeholders

Outputs

Shareholders and other investors
Lending and investment portfolio
Deposit base
Sustainable growth
Profits and profitability

Institutional Capital
Enhanced productivity
Optimum risk - return trade-off
Benchmarked service standards
New products developed
Assurances and confirmations

Customers
Interest income for depositors
Funding for borrowers
Financial advice
Value added services

Employees
Remuneration
Training & development
Career prospects
Creativity and innovativeness

Society and environment
Taxes and levies to Government
Contribution to Popham Arboretum Project
Rs. 3.7 Mn. spent on other CSR activities
166 new staff recruitments from localities

Outcomes

Shareholders and other investors
Dividends, interest and capital gains
Higher Price to Book Value
Stability
A loyal investor base with a long-term view

Institutional Capital
Brand value and brand equity
Unblemished track record
Competitive advantage
Asset quality
BBB+(lka) rating from Fitch
Innovation

Customers
Safety and security for deposits
Realised growth opportunities
Unparelleled convenience
A satisfied and growing customer base

Employees
Career development
Job satisfaction
High employee retention
Occupational health and safety

Society and environment
Responsible financing
Financial inclusion
Facilitating economic growth and community development
"Social License" to operate

Support services

Support services

Streamlined Internal Processes

Funding & Liquidity Management

Strategy

Operating Environment

The Global Setting

Despite negative forecasts stemming from political turmoil and situations of unrest, the global economy grew by 3.7% in 2017. The growth is broad based while notable contributions from Europe and Asia have been reported. This trend will be sustained in the future as the growth forecasts for both 2018 and 2019 have been revised up to 3.9%.

Moreover, around 120 economies which account for three quarters of the world GDP have also experienced marked improvements in terms of growth in year on year terms within 2017. This is also the broadest harmonised global growth since 2010. These encouraging developments have particularly impacted the economies of Brazil, China and South Africa.

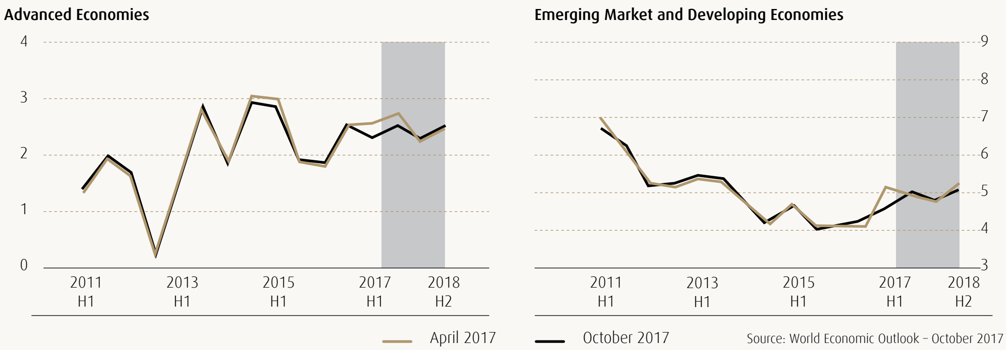
Capital flows to emerging markets remained strong during the third quarter of 2017. Moreover, the currencies of these market economies also appreciated during the latter part of 2017 and early 2018 resulting in stronger commodity prices. However, there is a possibility that growth can be dampened as rich asset valuations and very compressed term premiums raise the possibility of a financial market correction. Growth could be further hampered by an increase in the core inflation and interest rates as demand accelerates in advanced economies.

The increase in fuel prices also contributed towards the raising of headline inflation in developed economies while in emerging market economies inflation has increased slightly towards the start of 2018 after having dropped at the latter part of 2017. Moreover, in the third quarter of 2017, capital flows to emerging markets remained resilient with continued strength in non-resident portfolio inflows.

The monetary policy changes made in certain emerging markets also contributed towards the progression in their economies. In terms of the future of fiscal policy in commodity-dependent emerging markets and developing economies, it is advised that policy makers guard against the temptation to defer reforms and budgetary adjustments later.

If this growth momentum is maintained, steady economic developments will be made in 2018 and 2019 as well. Growth in Asian economies is expected, particularly those that are looking to engage in global trade and investment.

GDP Growth
(Annualised semiannual percent change)



Source: World Economic Outlook - October 2017

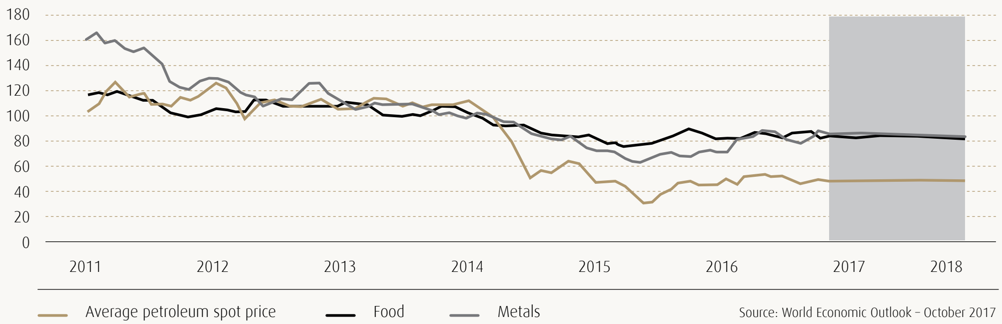
World economic outlook

	Estimated		Projected	
	2016	2017	**2018**	2019
World output	3.2	3.7	**3.9**	3.9
Advanced economies	1.7	2.3	**2.3**	2.2
United States	1.5	2.3	**2.7**	2.5
Euro area	1.8	2.4	**2.2**	2.0
Japan	0.9	1.8	**1.2**	0.9
United Kingdom	1.9	1.7	**1.5**	1.5
Canada	1.4	3.0	**2.3**	2.0
Other advanced economies	2.3	2.7	**2.6**	2.6
Emerging market and developing economies	4.4	4.7	**4.9**	5.0
Commonwealth of independent states	0.4	2.2	**2.2**	2.1
Emerging and developing Asia	6.4	6.5	**6.5**	6.6
China	6.7	6.8	**6.6**	6.4
India	7.1	6.7	**7.4**	7.8
Emerging and developing Europe	3.2	5.2	**4.0**	3.8
Latin America and the Caribbean	–0.7	1.3	**1.9**	2.6
Middle East, North Africa, Afghanistan and Pakistan	4.9	2.5	**3.6**	3.5
Sub-Saharan Africa	1.4	2.7	**3.3**	3.5
Low-Income Developing Countries	3.6	4.7	**5.2**	5.3
World growth based on market exchange rates	2.5	3.2	**3.3**	3.2
World Trade Volume (goods and services)	2.5	4.7	**4.6**	4.4
Advanced Economies	2.6	4.1	**4.3**	4.2
Emerging Market and Developing Economies	2.3	5.9	**5.1**	4.8
Commodity Prices (USD)				
Oil	–15.7	23.1	**11.7**	–4.3
Non-fuel (average based on world commodity export weights)	–1.6	6.5	**–0.5**	1.0
Consumer Prices				
Advanced economies	0.8	1.7	**1.9**	2.1
Emerging market developing economies	4.3	4.1	**4.5**	4.3
London Interbank Offered Rate (%)				
On US Dollar deposits (six months)	1.1	1.5	**2.3**	3.4
On Euro deposits (three months)	–0.3	–0.3	**–0.3**	–0.1
On Japanese Yen deposits (six months)	0.0	0.0	**0.0**	0.1

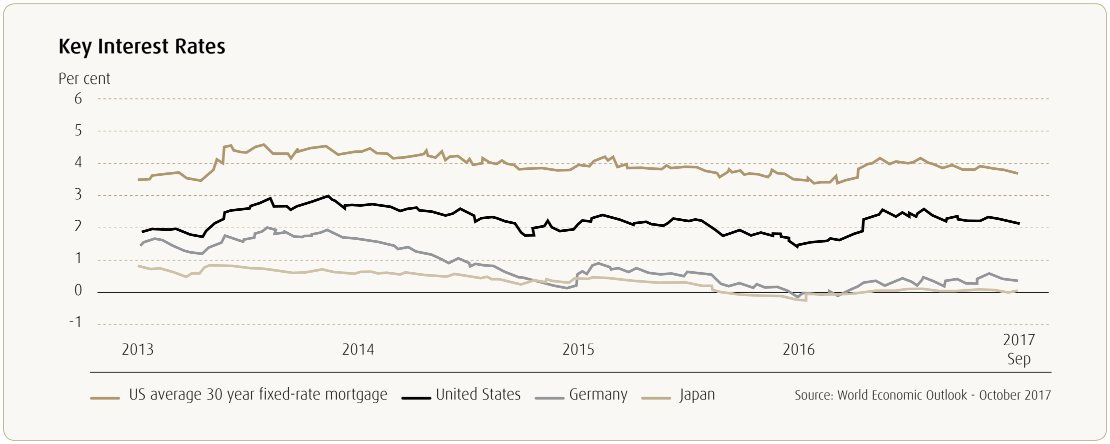
Source: World economic outlook – January 2018

Commodity Prices
(Deflated using US Consumer Index; index, 2014=100)

Commodity prices softened during the first half of 2017



Source: World Economic Outlook – October 2017



Local Developments

Many areas in the island experienced adverse weather conditions throughout the year. These conditions had a spillover effect that in turn hampered economic activity to a great extent. Economic growth was reported at 3.1% in real terms. This was significantly below the expectations of Sri Lankan authorities and international agencies.

The growth of expenditure was supported by the expansion of both the consumption and the investment expenditure in 2017. However, net external demand had a negative impact on growth. In addition, both the services and industry-related activities that together account for 92.4% of the gross value, recorded growth rates of below 4%. Nevertheless, the unemployment rate was reduced to 4.2% during the year.

Headline inflation remained consistently high throughout the year while it was reported that the core inflation moderated gradually during the year as monetary policy measures were taken to contain inflation. There were twin peaks in March 2017 and October 2017 when headline inflation remained above the mid single digit levels. However, there was a significant deceleration of the headline inflation during the first quarter of 2018.

Regardless of the depreciation pressure exerted on the Sri Lankan Rupee during the first two months of 2017, the value stabilised subsequent to the market-based exchange rate policy implemented by the Central Bank. The stabilisation of the Rupee was also caused by increased foreign investment to the Government Securities market and the CSE in addition to the increase in the conversion of export proceeds.

The Central Bank adopted tighter monetary policies this year as opposed to 2015 and 2016. The key policy interest rates of the Central Bank were raised by 25 basis points. However, improvements made to the Government Securities market which rectified issues prevalent in 2015 and 2016 caused a notable decline in yields on Government Securities. This resulted in the downward effect on market interest rates towards the end of the year. The Central Bank also maintained a substantial amount of liquidity levels through active open market operations (OMOs) and reducing Central Bank holdings of Government Securities thereby offsetting the impact of the rapid build-up of net foreign assets (NFAs). Furthermore, measures were taken to develop the domestic foreign exchange market.

However, despite the dampening economic environment, the financial sector performed well with the exception of a few small Non-Bank Financial Institutions.

Macroeconomic performance (2013-2017)

Indicator	Unit	2013	2014	2015	2016 (a)	2017 (b)
Real Sector (c)						
Real GDP Growth	%	3.4	5	5.0 (a)	4.5 (b)	3.1
GDP at Current Market Price	Rs. Bn.	9,592	10,361	10,951 (a)	11,907 (b)	13,289
Per Capita GDP (d)	US $	3,609	3,821	3,842 (a)	3,857 (b)	4,065
External Sector						
Trade Balance (c)	% of GDP	-10.2	-10.4	-10.4	-10.9	-11
Current Account Balance (c)	% of GDP	-3.4	-2.5	-2.3	-2.1	-2.6
Overall Balance	US $ Mn	985	1,369	-1,489	-500	2,068
External Official Reserves	US $ Mn	7,495	8,208	7,304	6,019	7,959
Financial Sector (c) (e)						
Current Account Balance (c)	% of GDP	-0.7	-1.2	-2.3	-0.6	-0.7
Primary Balance	% of GDP	-0.8	-1.5	-2.9	-0.2	0.0
Overall Balance	% of GDP	-5.4	-5.7	-7.6	-5.4	-5.5
Central Government Debt	% of GDP	70.8	71.3	77.7	78.8	77.6
Monetary Sector and Inflation						
Broad Money Growth (M2b) (f)	%	16.7	13.4	17.8	18.4	16.7
Private Sector Credit Growth (in M2b) (f)	%	7.5	8.8	25.1	21.9	14.7
Annual Average Inflation (g)	%	6.9	3.3	2.2	4	6.6

(a) Revised

(b) Provisional

(c) The database in the year 2010 GDP estimates of the Department of Census and Statistics

(d) Estimates updated with the latest population figures

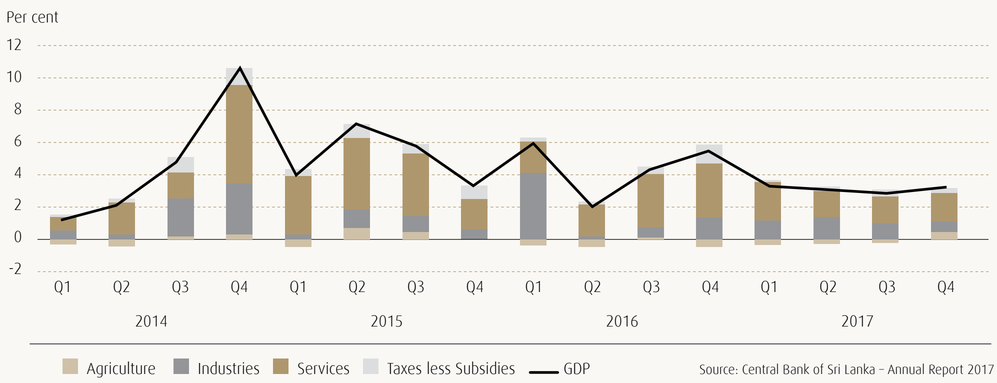
(e) Based on revised GDP estimates for 2015 and 2016 made available on 20 March 2018 by the Department of Census and Statistics

(f) Year-on-year growth based on year-end values

(g) Data up to 2014 is based on CCPI (2006/07=100) while data from 2015 onwards is based on CCPI (2013=100)

Sources: Department of Census and Statistics/Ministry of Finance/Ministry of National Policies and Economic Affairs/Central Bank of Sri Lanka

Activity-wise Contribution to GDP Growth



Source: Central Bank of Sri Lanka – Annual Report 2017

Total assets of the financial system

	Rs. Bn.	Share (%)	Rs. Bn.	Share (%)
Banking Sector	10,575.80	69.5	11,897.40	69.8
Central Bank	1,529.20	10.1	1,604.80	9.4
Licensed Commercial Banks (LCBs)	7,843.30	51.5	8,926.40	52.3
Licensed Specialised Banks (LSBs)	1,203.20	7.9	1,366.20	8
Other Deposit Taking Financial Institutions	1,246.70	8.2	1,370.40	8
Licensed Finance Companies (LFCs)	1,112.10	7.3	1,227.50	7.2
Co-operative Rural Banks	122.2	0.8	132.7	0.8
Thrift and Credit Co-operative Societies	12.4	0.1	10.2	0.1
Specialised Financial Institutions	335.4	2.2	388.9	2.3
Specialised Leasing Companies (SLCs)	99.8	0.7	127.5	0.7
Primary Dealers (c)	77.1	0.5	77.3	0.5
Stock Brokers	10.1	0.1	9.1	0.1
Unit Trusts / Unit Trust Management Companies	106.7	0.7	131.7	0.8
Market Intermediaries (d)	30.8	0.2	28.7	0.2
Venture Capital Companies	11	0.1	14.6	0.1
Contractual Savings Institutions	3,058.10	20.1	3,395.80	19.9
Insurance Companies	521.4	3.4	559.2	3.3
Employees' Provident Fund	1,841.50	12.1	2,066.30	12.1
Employees' Trust Fund	248.9	1.6	279	1.6
Approved Pension and Provident Funds	398.6	2.6	437.3	2.6
Public Service Provident Fund	47.7	0.3	53.9	0.3
Total	15,216.00	100	17,052.50	100

(a) Revised

(b) Provisional

(c) Excluding assets of Bank Primary Dealer units, which are included in assets of LCBs and assets of the Entrust Securities Ltd.

(d) Include Investment Managers, Margin Providers, Underwriters and Credit Rating Agencies

Source: Central Bank of Sri Lanka Annual Report 2017

Performance Summary: The Financial Sector

The financial sector reported a steady and satisfactory growth in 2017. The improved performance of the banking sector and other deposit taking financial institutions contributed towards this growth. Furthermore, timely policies adopted by the Central Bank of Sri Lanka enabled growth and minimised risks within the sector as a whole. However, the performance of Non-Bank Financial Institutions (NBFIs) decelerated during the year, a notable cause being the fiscal and macro-prudential policies taken to reduce the importation of motor vehicles. A detailed analysis of the performances of the banking and NBFI sectors will follow.

The banking sector reported a remarkable performance throughout 2017 as it contributed 60.3% of the total assets of the financial sector. The asset base of the banking sector surpassed Rs. 10 Tn. as at 31 December 2017 thereby recording a 13.8% growth. This contrasts with the 12% growth achieved at the end of 2016. The increase in loans and advances contributed towards this significant growth.

The liability base which comprises deposits and borrowings accounted for 71.9% and 15.6% respectively of the balance sheet of the banking sector. The share of term deposits increased to 63.6% while the share of savings deposits declined to 27.5% of the total deposits at the end of 2017.

A marginal improvement was made in the credit quality of the banking sector as reflected in the slight decline of the gross NPL ratio which was 2.5% at the end of 2017 as opposed to 2.6% at the end of 2016. The total provisions for loan losses increased to Rs.10 Bn. during 2017.

Under these circumstances, the Central Bank made a few changes to further secure the sector. A circular was issued to licensed banks permitting them to charge additional interest and penal interest in order to reduce non-performing loans as it hampered growth within the year. Furthermore, in order to support the implementation of the Basel III Framework, licensed banks were also advised to increase the minimum capital requirements by 31 December 2020. Thereby, incorporated licensed commercial banks are required to maintain Rs. 20 Billion of minimum capital.

Moreover, in order to prevent the smuggling of gold out of the country through the bulk purchase of pawned gold articles at auctions, a determination was issued which mentions that banks have to submit a detailed report on the purchases of gold articles of Rs. 500,000 or more at auctions.

Furthermore, in order to curb import and reduce availability of credit for the purchase of motor vehicles, CBSL prescribed stringent LTV ratios which reduced the risk profile of the leases for motor vehicles and made the product attractive for banks.

Moreover, with a view to further enhance the availability of credit, banks were requested to maintain at least 15% of deposits mobilised by each branch for lending in the area itself and to expedite the loan approval process for small loans. The Central Bank also requested banks to keep at least one branch in each district open on a 24x7 basis, excluding religious holidays.

Performance Summary: Non-Bank Financial Institutions

The overall performance of Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) moderated in 2017. The deceleration of the sector was indicated by the low credit growth, increase in non-performing loans and declining profitability. However, other indicators of performance such as capital, liquidity and profitability were not completely discouraging.

In 2017, the net income of the sector grew by 11.5% to Rs.102.7 Bn. This was consequent to the interest income growing only by 22.6% compared to a 33.1% growth in interest expenses. These resulted in the decline of the profit after tax to Rs. 25.8 Bn. which is an 18% decline as opposed to the Rs. 31.5 Bn. reported in 2016.

However, the total asset base of the sector grew marginally, reaching Rs. 1,355 Bn. at the end of 2017. Customer deposits contributed towards a major portion of the liabilities in 2017, accounting for 50.7% of the total liabilities of the sector. The gross non-performing loans (NPLs) was a primary indicator of the subdued growth of the sector. The portfolio increased to Rs. 65.9 Bn., an increment of Rs. 12.9 Bn. A predominant cause for this increase was the floods and drought conditions that affected many parts of the island. The total loan provisions allocated for this purpose also increased significantly since the previous year and amounted to Rs. 42.2 Bn.

The Central Bank implemented timely policies to fortify the sector. The capital requirements and other regulatory provisions have been made more stringent while regulatory action will also be taken to strengthen the governance framework of players in the sector. Many other regulatory measures have been mapped by the Central Bank. These will be primarily used to mitigate risks in the sector and provide early warning signals of calamities that could befall it.

It was also heartening to note that the Central Bank issued a circular in May 2017 that allowed LFCs and SLCs to grant concessions to borrowers who were affected by the floods. This helped many businesses and borrowers in their rehabilitation process.

Composition of assets and liabilities of the LFCs/SLCs sector

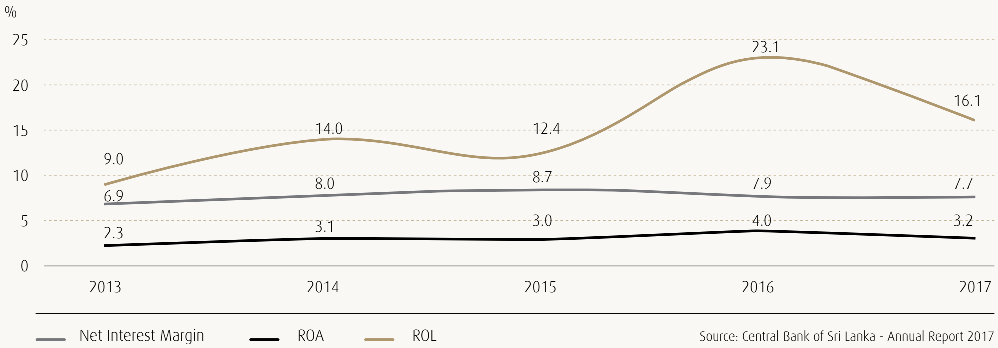
Item	2016 (a)		2017 (b)		Change (%)	
	Rs. Bn.	Share (%)	Rs. Bn.	Share (%)	2016 (a)	2017 (b)
Assets						
Loans and advances (net)	962.7	79.4	1,057.1	78.0	21.0	9.8
Investments	111.7	9.2	118.1	8.7	12.1	5.7
Other	137.5	11.3	179.8	13.3	36.6	30.8
Liabilities						
Total deposits	530.7	43.8	686.7	50.7	10.4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

(a) Revised

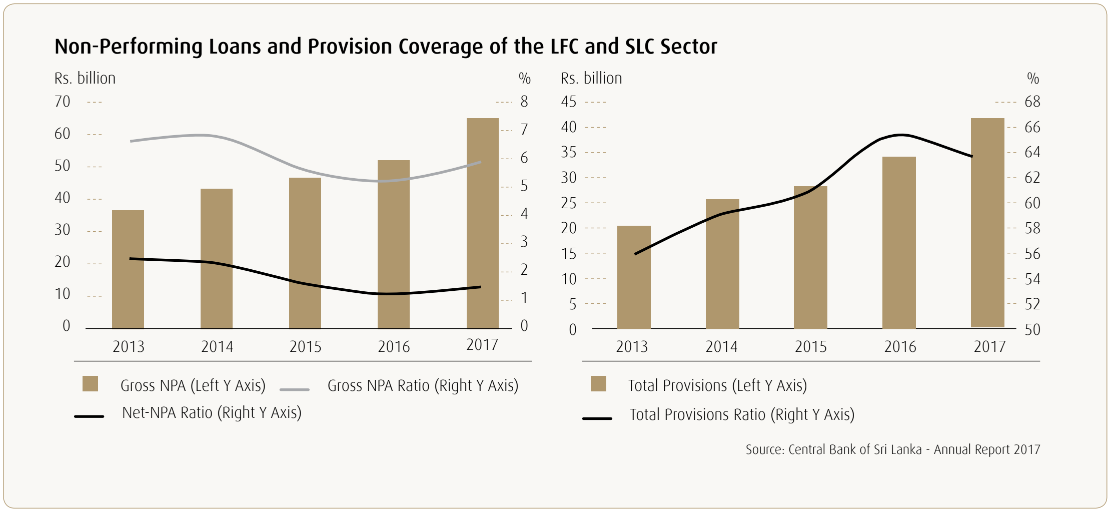
(b) Provisional

Source: Central Bank of Sri Lanka – Annual Report 2017

Profitability Indicators of the LFC and SLC sector



Source: Central Bank of Sri Lanka - Annual Report 2017



Impact on us

Your Company made strategic moves to lessen the impact of the deceleration of the sector and the economy at large. It continued to focus on the quality of its asset base while reporting a commendable performance in terms of business volume growth, operational efficiency, productivity, asset quality and stability. This year, Senkadagala Finance PLC surpassed the Rs. 1 Bn. mark in profit after tax.

However, as demonstrated in the performance of the sector, your Company too reported an increase in its NPL ratio. It is noted to have increased from 1.64% in 2017 to 2.28% during the financial year. However, your Company continued to strengthen its deposit base while its pawning portfolio also performed incredibly well during the year. It marked a growth of Rs. 445 Mn. which is noteworthy when compared to the Rs. 368 Mn. growth made last year.

Your Company was also not deterred from reaching its target of opening five branches in strategic locations during the year. Accordingly, it focused on the digitalisation of its services as well. Today, your Company is equipped to provide its customers with the safest and most technologically upgraded conveniences.

A KPI comparison with the industry averages

KPI	Senkadagala Finance %	Industry %
Growth of total assets	16.77	11.8
Growth of deposits	31.48	29.4
Net interest margin	9.93	7.7
ROA	3.00	3.2
ROE	23.11	16.1
Gross NPA	2.28	5.9
Net NPA	0.71	1.5
Provision cover ratio	68.71	64.0
Core capital ratio (minimum requirement 5%)	16.86	12.4
Total capital ratio (minimum requirement 10%)	17.65	13.1
Regulatory liquid assets to external funds	17.83	11.7

Leveraging strengths
to create value

Strengths

- Nearly 50 years of operational expertise
- Skilled, well trained and experienced human capital
- Robust risk management system
- Healthy capital adequacy ratios
- Healthy liquid asset levels
- Strategically located network of branches and service centres
- Internally developed IT system replete with a solid database, an MIS system and an online banking platform tailor-made to our specific needs
- Loyal customer base and high customer retention

How strengths were leveraged/built upon to create value

- Built a loyal customer base capitalising on the unblemished operational record of the Company
- Continuous training and development programs to enhance technical skills of the work force
- Proactive risk management to optimise risk return tradeoff
- Raised Rs. 579.8 Mn. via a rights issue to further strengthen the capital adequacy position
- Facilitated business growth with smooth business functions
- Widening the reach to tap into customers in segments that were unexplored
- Meeting customer expectations with speedy service while retaining centralised controls to ensure a healthy financial position
- Enabled repeat business and improving cross sell ratio
- 38.8% of the existing fixed deposit customers have been with the Company for 5 years or more.

Overcoming weaknesses
to create value

Weaknesses

- Rapid expansion of the branch network pressurising profitability
- Challenges in maintaining operational efficiency
- High emphasis and concentration on traditional product lines
- High emphasis and concentration on borrowings to finance new business growth
- Slow growth in the deposit base

How weaknesses were overcome/ converted to create value

- Limited the number of new branches/centres opened during the year to 5, giving emphasis to breaking even in these branches
- High turnover from recent business growth improved the Cost to Income ratio to 51.6%
- Setting KPIs in relation to the cost to income ratio
- Promoting new product lines such as savings, pawning, and foreign currency operations
- Procuring low cost borrowings to finance the growth during the year
- Issuing listed debentures to balance the encumbered to unencumbered portfolio mix
- Promoted deposits as a cost effective funding tool
- Introducing 15 and 18 months tenure fixed deposits to attract price sensitive customers
- Introduced KPIs and performance incentives to promote deposit growth

Responding to threats
to create value

Threats

- Increasing trend in market interest rates
- Improved customer awareness and increasing price sensitivity
- Intense competition due to increased number of participants in leasing business
- Exposure to the high risk segments of the market
- Increasing job opportunities to skilled and trained staff and changing demographics
- Various regulatory restrictions
- Deteriorating asset quality

How we responded/mitigated the impact to create value

- Procured long term low cost funding to fix the cost of borrowing at a lower rate
- Streamlined the funding structure to exploit the increasing trend in customer deposits
- Introduced new value added services coupled with products to stand out from the crowd
- Product differentiation and identified niche market segments for business
- Maintained stringent customer screening processes
- Strengthened recovery process
- Developed customer relations to identify potential defaults in advances
- Provided growth opportunities to skilled staff members within the Company
- Mapped career progression lines for employees with potential within the Company
- Internal skilled staff were promoted to fill the vacancies in the new branches/centres opened
- Strengthened the compliance function
- Promoted business on registered vehicles as opposed to the unregistered segment

Capitalising on opportunities
to create value

Opportunities

- Boom in certain economic sectors
- Future economic growth
- Infrastructure developments
- Growth in the financial services sector
- Changes in investor preference to regular income products as opposed to high risk equity investments
- Technological developments and substantial use of ICT in businesses

How opportunities were capitalised/built upon to create value

- Emphasis was given to promote business in identified economic sectors such as construction and tourism to reap the benefits of growth
- Identified untapped markets and opened new branches/centres in various locations to capitalise on the economic developments
- Focused business promotions to support services and related industries
- Promoted business growth to capitalise on the developments in the industry
- Promoted fixed deposit products
- Introduced new tenures for FD products
- System developments are ongoing to introduce latest developments in ICT to enhance the customer experience and operational efficiency
- New technologically-driven products are developed to tap in to the tech savvy customer segments
- Streamlined the interest rates offered for FDs to better match market trends and customer demand

Strategic focuses

The Company's intention has always been to identify needs that are material to its shareholders and ensure that by delivering value to them, the Company too will yield value. This in turn propels the Company forward and ensures sustainable operations. The following are the strategies that are currently being pursued.

Achieving sustainable growth

Early in the year, the Company concluded a Rights issue of 7,247,506 shares for a value of Rs. 579.8 Mn. This issue helped maintain the Core Capital ratio at 16.86% as opposed to 14.19% of last year. This ensured that capital ratios well above the regulatory requirement were maintained.

The management hopes to establish its 100th branch within the first few months of the financial year 2018/19. Thereby expanding the reach of the Company by exploiting untapped market segments.

In March 2018, the Company secured a USD 15 Mn. funding line from the IFC. This is the second time the member of the World Bank Group extended funding to Senkadagala Finance PLC. This is one among many efforts the Company has made to gain better access to institutional credit and low cost customer deposits to acquire a cost efficient funding base.

Upholding stakeholder primacy

During the year, the Company made the noteworthy achievement of increasing its deposit base by 31.5%. This accomplishment exceeds the objective set at the outset of the year. Hence, the Company has been able to secure a loyal customer base by promoting customer satisfaction.

Internal promotions were granted to high performing employees when new branches were opened during the year. This helped the management establish internal controls and promote corporate culture. This also helped retain teams of loyal employees.

This year, around 21% of new advances have been granted towards promoting women and women entrepreneurs. By 2020, the Company also plans to increase the credit dedicated for women to Rs. 7 Bn. Thereby improving banking for women and women-owned SMEs.

Tech forward

The Company introduced its new corporate website during the year which is equipped with a user-friendly interface and online banking facilities. Development is underway to launch a mobile app, equipped with further value addition, within the next financial year. These initiatives will reduce operational costs, increase efficiency and enhance the customer experience.

Stakeholder Engagement

Identification

The Company's value creation story is primarily sustained through the identification of its key stakeholders. Senkadagala Finance PLC places significant value in the needs of its stakeholders and this plays an important role in establishing its strategic initiatives and reporting goals.

Stakeholder	Impact of the stakeholder	Influence of stakeholder on SFPLC	Influence of SFPLC on the stakeholders
Shareholders and other investors	Shareholders and other investors remain key stakeholders of the Company having invested capital/funding for the Company. On a periodic basis investors are provided with information on various covenants, information on Company performance and corporate governance.	High	High
Customers	Customers play a vital role in the success of SFPLCs business. The Company provides financial support to the customers while customer retention, sustained business and growth in business directly impact the profitability of the Company.	High	High
Employees	Employees drive the business forward. They grow and develop hand-in-hand with the Company.	High	High
Suppliers and business partners	Suppliers have become increasingly important to SFPLC with the expansion of its branch network and increasing requirement for supplies such as stationery.	Medium	High
Government and regulatory authorities	As a listed finance company and a holder of public deposits, the Company has to conduct its operations in accordance with the rules set by various regulators.	High	Medium
Society and environment	The society and environment are closely interlinked with the operations of the Company.	Medium	Low

Below are the details of various stakeholder engagement activities carried out by the Company and their frequency, areas of concern and the ways in which they were addressed.

Stakeholder	Engagement activity	Frequency	Areas of concern	How these concerns were addressed
Shareholders and other investors	Annual General Meetings	Annually	Financial performance, governance, transparency and other disclosures	The Company maintains a close relationship with its key shareholders. A constructive dialogue is maintained between the management and the shareholders during the AGM.
	Annual Reports	Annually	Financial performance, governance, transparency and other disclosures	Comprehensive disclosures are presented within the Annual Report.

Stakeholder	Engagement activity	Frequency	Areas of concern	How these concerns were addressed
	Extraordinary General Meetings	As required	Governance, transparency and other disclosures	The rights issue of the Company was duly adopted by the shareholders at the EGM held on 30 March 2017.
	Interim financial statements and investor presentations	Quarterly	Financial performance and shareholder communication	A detailed analysis of the Company performance caters to investor requirements.
	Press conferences and releases	As required	Business expansion, strategies and transparency	
	Announcements made to the Colombo Stock Exchange	As required	Investor relations, financial information, transparency and customer services	
	One-to-one discussions	As required	Financial inclusion	
		As required	Corporate governance risk management	
	Corporate website	Continuous	Sustainable growth	The re-launched Company website is equipped with a "Contact us" page which will direct inquiries to the relevant managers online.
Customers	Touch points	Continuous	Financial inclusion	SFPLC provides a wide array of services that cater to customer requirements. A speedy service is offered with the help of the ICT system.
	Town storming, leaflet campaigns, street promotions and banners	As required	Customer service, financial inclusion, affordability of services and convenience	The pricing and repayment is tailored to the income and repayment capacity of individual customers.
	Relationship Managers	As required	Service quality, customer satisfaction and information security	The system security is enhanced to address developments and risks in the IT arena.
	Media advertisements	As required	Affordability of services and convenience	
	Corporate website	Continuous	Customer service, financial inclusion, affordability of services, convenience and dispute resolution	Detailed information of the products and latest developments in the Company are continuously updated.
	Customer workshops	As required	Financial education and literacy	
Employees	Executive meetings	Quarterly	Performance management and business developments	A lively dialogue is sustained between the management and the rest of the staff regarding new business developments, macroeconomic developments and other areas of concern.
	Managers conference	As required	Performance, reward management, business developments and other risk-related issues	Frequent communiqué on performance evaluation mechanisms and business developments.
	Regional review meetings	Quarterly	Local business developments and regional performance	The MIS is developed to provide detailed analysis of performance on a continuous basis
	Memorandums	As required	Inclusion	
	Emails	As required	Recruitment, retention and attrition	
	Training programmes	As required	Value driven corporate culture	

Stakeholder	Engagement activity	Frequency	Areas of concern	How these concerns were addressed
	Special events for staff engagement	As required	Diversity and inclusion Future plans Career progression	
	Open door policy	Continuous	Career progression, performance management and grievances	
	Operational guidelines	Continuous	Business know-how	
	Code of conduct	Continuous	Best practices and business value creation	
	Performance evaluations	On going	Performance management	
Suppliers and business partners	Supplier relationship management	As required	Contractual performance and ongoing business development	An ongoing dialogue with key banks and major suppliers to provide periodic performance reviews and identify optimal funding sources
	On-site visits and meetings	As required	Responsible sourcing and future business opportunities	
Government and regulatory authorities	On-site and off-site surveillance	As required	Compliance with regulations, directives and codes	SFPLC ensures timely submission of periodic financial returns
	Directives and circulars	As required	Corporate governance, expansion, business growth etc.	A compliance process is in place to ensure adherence to all directives and circulars which are enacted within the specified time frame.
	Meetings and consultations	As required	Compliance	
	Press releases	As required	Business trends and financial inclusion	
	Periodic returns	As specified	Financial performance	
Society and environment	Delivery channels	Continuous	Responsible financing ethics and business conduct	The Company continued to expand its reach by opening five new branches that are strategically situated around the country
	Press releases, conferences and media briefings	As required	Community investments	
	Informal briefings and communications	As required	Financial inclusion	
	Public events	As required	Recruitment	
	Call centre and information centre	Continuous	Information pertaining to products and environmental impact	Grievances and concerns are directed to the relevant officer for immediate remedial action
	Corporate website	Continuous	Environmental performance	Latest developments within the Company are regularly updated on the website.

Commitments to external initiatives

In addition to making sustained efforts to meet stakeholder needs and satisfying their information requirements, Senkadagala Finance PLC was also a member of the following associations,

- Finance House Consortium
- Leasing House Association
- Strategic level training partner with CA Sri Lanka from October 2014

Materiality

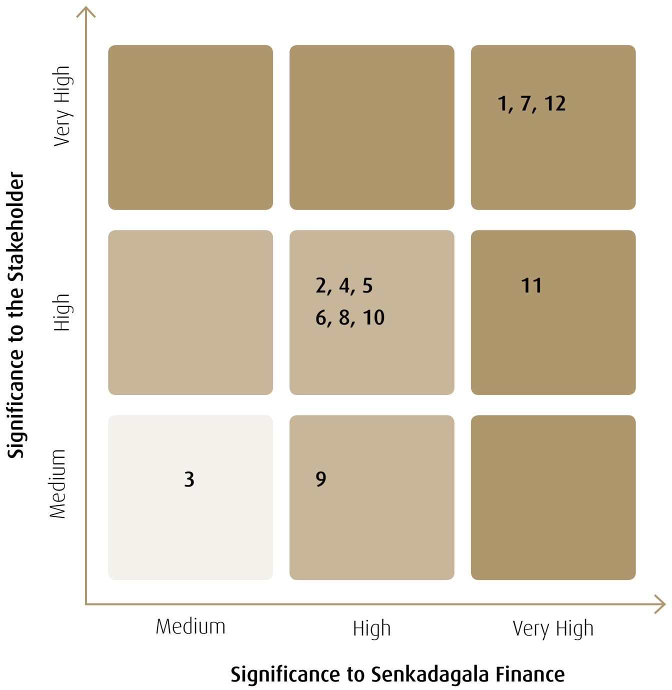
The process of deciding aspects that are material to the operations and strategy of the Company requires the consideration of economic, environmental and social concerns. An aspect is considered material if it substantively affects the Company's ability to create value over the short, medium and long term. The selection of these aspects are based on the Company's operations and engagement with primary stakeholders such as shareholders, business partners, customers, employees, and the community.

Aspects Material to Senkadagala Finance PLC

	Aspect	Indicators	Significance To SFPLC	Significance To Stakeholder
	Economic			
1	Economic performance	G4-EC1 G4-EC3	V	V
	Environmental			
2	Energy	G4-EN6	H	H
3	Effluents and waste	G4-EN23	M	M
4	Compliance	G4-EN29	H	H
	Social			
	Labour practices and decent work			
5	Employment	G4-LA1 G4-LA2	H	H
6	Occupational health and safety	G4-LA8	H	H
7	Training and education	G4-LA9 G4-LA10 G4-LA11	V	V
8	Labour practices/grievance mechanisms	G4-LA16	H	H
	Society			
9	Local communities	G4-SO1	H	M
10	Anti-corruption	G4-SO3	H	H
	Product Responsibility			
11	Product and service labeling	G4-PR5	V	H
12	Customer privacy	G4-PR5	V	V

V – Very high   H – High   M – Medium

Materiality Matrix



Management approach

The Company manages its material facets throughout its strategic planning stage. The responsibility of managing and achieving the respective objectives are assigned to line managers and department heads. Required resources are also allocated to these managers while key performance objectives and tolerance limits are set to align the outcome with the corporate strategic direction.

When handling material concerns, policies, procedures and internal controls are set to ensure individual conduct is responsible, transparent and ethical. Such procedures are also regularly reviewed by the management to incorporate the requirements of the changing environment.

Grievance procedures and information lines are also in place in order to assign responsibility to senior managers who address and resolve grievances as they arise. Continuous environmental screening is in place to identify material events in all material topics.

Ongoing external assurance process is also in place with co-sources of Messrs. Ernst & Young advisory services to ensure the effective internal control process. Annual external audit also ascertain the materiality of impact on financial performance in great detail. The Company is rated by Fitch Ratings Lanka Limited, and was affirmed BBB+ (lka) in July 2017.

Page 30 details the strategic initiatives undertaken by the Company during the year.

Value Creation and Capital Formation

Financial Capital

Review of financial performance

Overview of the year

Senkadagala Finance recorded a 16.7% year-on-year growth in profit after tax surpassing the Rs. 1 Bn. mark for the first time in the history of the Company. Total assets experienced a similar growth of 16.8% reaching Rs. 36.1 Bn. by the end of the 2017/18 financial year. Key performance indicators portrayed moderate growth in line with the slowdown of the sector caused by stringent fiscal policies and macro prudential policy measures taken to curtail the growth of the sector.

Despite the increasing trend in market interest rates, the Company managed to record a marginal improvement in its Net Interest Margin (NIM) from 9.87% in year 2017 to 9.93% by March 2018. This was achieved by strategic initiatives to promote low cost deposit products and meticulous funding strategies adopted throughout.

Senkadagala Finance now carries out its operations through 95 branches and service centres spread across the country. Since incorporation in December 1968, the Company has experienced a steady yet sustainable growth providing its stakeholders with rewarding returns.

Financial highlights in brief

Financial results	2017/18 Rs. '000	2016/17 Rs. '000	Change %
Total assets	**36,103,763**	30,918,827	16.77
Loans and advances	**27,801,785**	23,757,588	17.02
Customer deposits	**9,507,134**	7,230,873	31.48
Total equity	**5,031,486**	3,661,618	37.41
Total income	**6,770,330**	5,138,136	31.77
PBT	**1,357,416**	1,119,133	21.29
PAT	**1,004,671**	860,971	16.69

Growth over five decades...

Senkadagala Finance is celebrating its 50th anniversary in year 2018. This milestone has been the ideal opportunity to reflect on our past performance, achievements, failures and successes. From inception the Management engaged in the business with a well-defined strategy, achieving a sustainable growth was one of the key objectives therein. The steady growth the Company demonstrated in the key financial indicators as given below is a good indication of the achievement of the envisaged growth trajectory.

Financial indicator	2018 Rs. '000	2008 Rs. '000	1998 Rs. '000	1988 Rs. '000	1978 Rs. '000
Total assets	**36,103,763**	5,865,754	384,886	21,385	3,430
Loans and advances	**27,801,785**	4,844,907	190,990	11,493	2,199
Customer deposits	**9,507,134**	937,315	212,179	21,942	2,632
Total equity	**5,031,486**	900,556	60,908	3,960	346
Total income	**6,770,330**	1,392,302	196,941	4,128	403
PBT	**1,357,416**	302,251	34,129	718	46
PAT	**1,004,671**	285,754	32,573	328	30
Customer touch-points	**95**	25	2	1	1

Delighted by the achievements of the past, the Management is enthusiastic about the future and has a positive outlook on facing an increasingly competitive financial services industry.

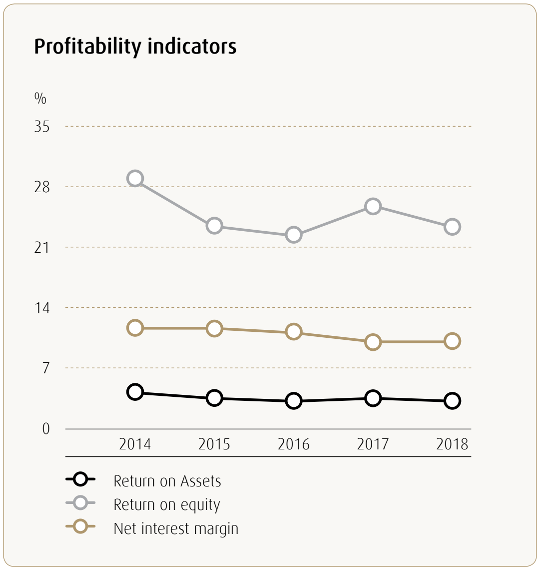
Financial performance in detail

Profitability

During the year, the Company generated Rs. 1,357 Mn. profit before tax with a growth of 21.29% from Rs. 1,119 Mn. of the previous year. In tandem, profit after tax too recorded a growth of 16.69% to reach Rs. 1,005 Mn. as opposed to Rs. 861 Mn. of the year before. This growth was primarily driven by the augmented business volumes in the recent past as well as by thorough control over the related expenses.

Profit for the year	2018 Rs. '000	2017 Rs. '000	Change %
Operating profit before value added tax on financial services	**1,572,504**	1,280,293	22.82
Profit before income tax	**1,357,416**	1,119,133	21.29
Profit for the year	**1.004,671**	860,971	16.69

The high growth in the asset base moderated the growth depicted in the Return on Assets (ROA) and Return on Equity (ROE) to 3.0% and 23.1% respectively. The macroeconomic forces also contributed to this moderation resulting in a drop of industry average ROA and ROE to 3.2% and 16.1% from 4.0% and 23.1% of previous year respectively.



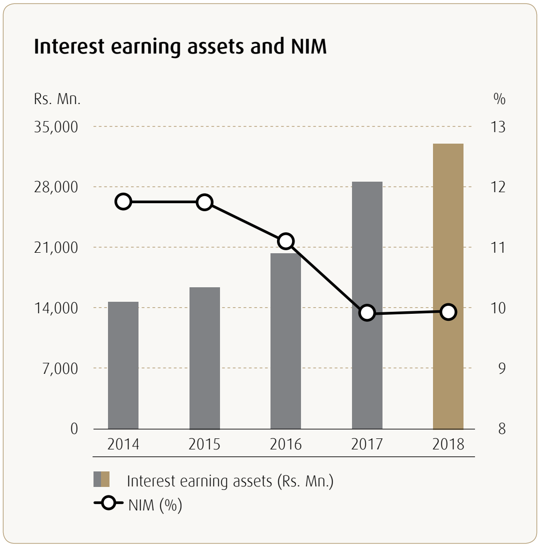
A key contribution for the growth in profits over the year was the notable improvement in net interest income, recording a year on year growth of 26.4% in an environment of increasing interest rates. The Management took rigorous measures to maintain the profitability in light of the deteriorating asset quality and operational efficiencies.

The consolidated profits for the Group also depicted similar growth rates. The Group post-tax profit was Rs. 1,002 Mn. a growth of 15.4% from the previous year. The pre-tax profit of Rs. 1,411 Mn. recorded a growth of 20.7%. The contribution from the two subsidiaries continues to be marginal compared to the profit of the Company. However, the insurance brokering arm generated Rs. 101 Mn. post tax profits with a growth of 19.2% from Rs. 84 Mn. of the previous year.

Net interest income

Adverse macroeconomic trends together with falling liquidity in the market pushed the market interest rates up. However, the Company managed to record commendable growth in its net interest income. The net interest income for the year was Rs. 3,062 Mn., this was a growth of 26.4% from Rs. 2,423 Mn. of the year before. As mentioned earlier this is a notable year on year growth compared to 18.5% of the previous year.

High business volumes in the recent past facilitated the growth of 34.1% in interest income to reach Rs. 6,472 Mn. during the year. Finance leases contributed Rs. 1.1 Bn. to the year on year growth of Rs. 1.6 Bn. of interest income. A notable growth was evident in interest from commercial loans and pawning advances. Both these are relatively new products for the Company; the growth experienced in these income streams signals greater prospects for the years to come.



Market interest rates were on the rise from the beginning of the year. Shifts in the funding mix also instigated changes in the composition of interest expenses. During the year, the total interest expenses increased to Rs. 3,410 Mn. compared to Rs. 2,402 Mn., a growth of 41.9%. Interest on bank and other securitised borrowings continued to be a key element of this expense category. However despite the sharp increase on customer deposits, the respective interest expense only increased by Rs. 295 Mn. This demonstrates the cost-effectiveness of deposits as a funding instrument.

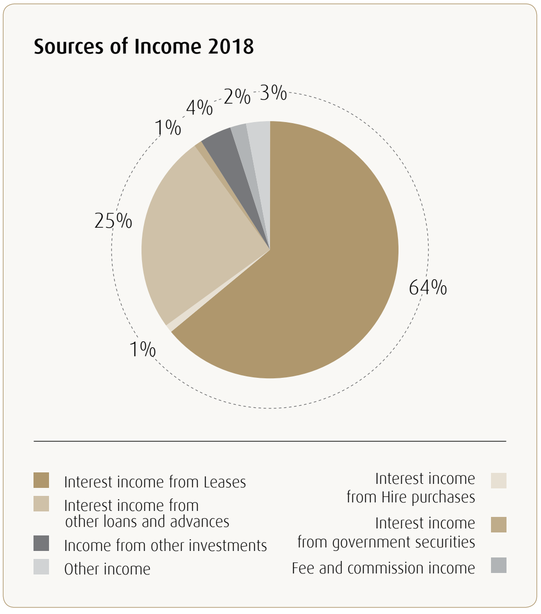
Income

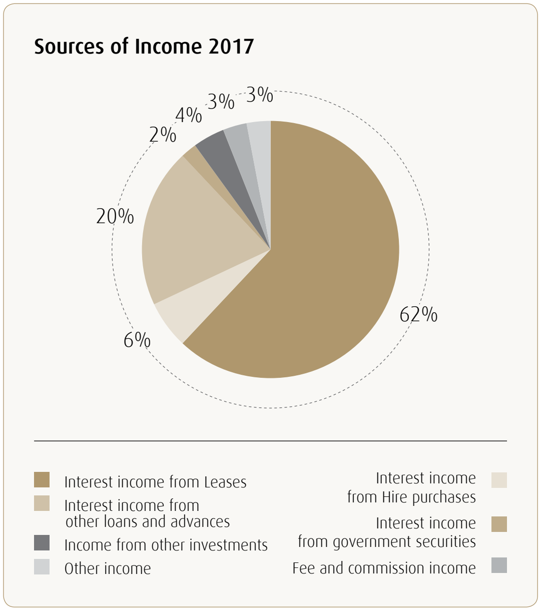
The total income of the Company increased to Rs. 6,770 Mn. a growth of 31.8% compared to Rs. 5,138 Mn. of the previous year. The fund-based income remained the key contributing factor to the notable growth. Other income categories showed a drop of 4.6%. With the slowdown of business during the year, the fee-based income dropped by 27.7% to Rs. 100 Mn. compared to Rs. 139 Mn. of the year before.

The Company managed to record a growth in income from trading activities. Due to lackluster performance of equity market, gains from equity trading saw a drop of Rs. 1.2 Mn. Mark to market of tradable equity instruments generated a gain of Rs. 2 Mn. as opposed to a loss of Rs. 6 Mn. of the year before. The Company managed investment in units and money market instruments to compensate for the drop-in income from equity instruments, and thereby generated a gain of Rs. 5.5 Mn. This helped to record the growth in return from trading activities.

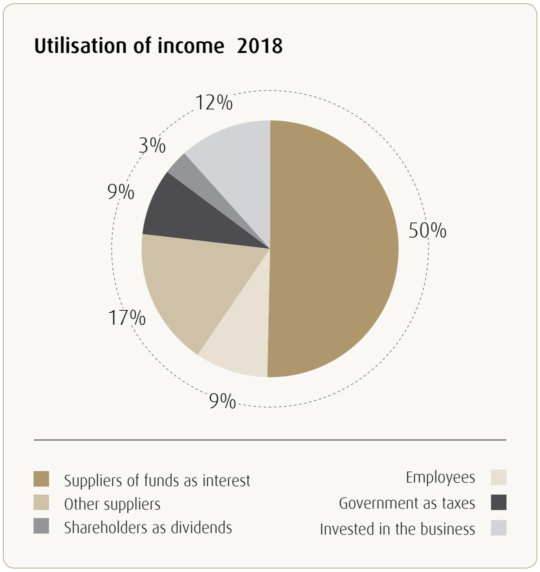
Sources and Utilisation of Income

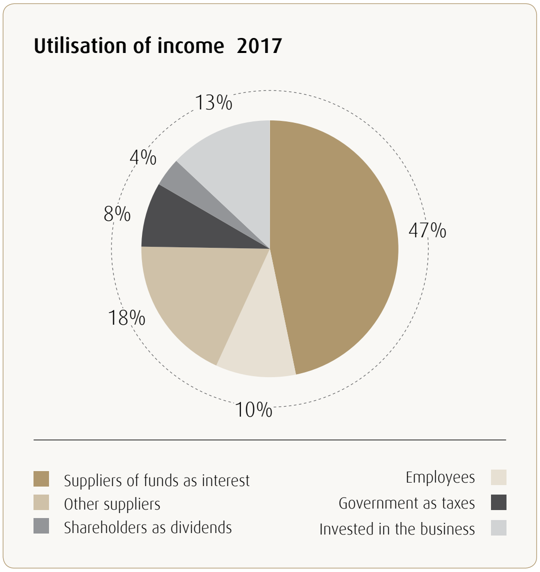
	2018 Rs. '000	%	2017 Rs. '000	%
Sources of income				
Interest income from leases	4,320,975	63.82	3,205,693	62.39
Interest income from hire purchases	85,438	1.26	295,474	5.75
Interest income from other loans and advances	1,721,297	25.42	1,031,665	20.08
Interest income from Government Securities	99,981	1.48	88,819	1.73
Income from other investments	244,423	3.61	204,062	3.97
Fee and commission income	100,250	1.48	138,664	2.70
Other income	197,966	2.93	173,759	3.38
Total	6,770,330		5,138,136	





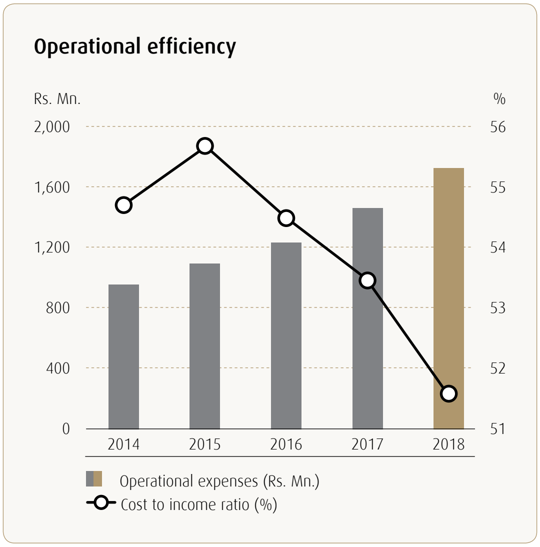
	2018 Rs. '000	%	2017 Rs. '000	%
Utilisation of income				
Suppliers of funds as interest	3,410,064	50.36	2,402,305	46.75
Employees	621,444	9.18	518,573	10.09
Other suppliers	1,172,718	17.32	946,785	18.43
Government as taxes	565,769	8.37	416,902	8.11
Shareholders as dividends	213,077	3.14	185,899	3.63
Invested in the business	787,258	11.63	667,672	12.99
Total	6,770,330		5,138,136	





Expenses

Operational expenses of the Company increased in-line with the increased operations. The Company opened its doors in five new locations over the year, increase in number of staff coupled with salary increments and incentives inflated the personnel expenses by 19.8% to reach Rs. 621 Mn. compared to Rs. 519 Mn. of the previous year. Other expenses also increased during the year, especially driven by establishment expenses to accommodate the new branches in operation. Various sales promotion activities undertaken during the year to accelerate the business growth increased the selling and promotional expenses by Rs. 20 Mn. However, due to such promotional activities the Company managed to maintain a positive growth rate in the midst of dampening economic conditions.



Taxation

The Company upholds its responsibilities as a tax payer. While meeting all its tax obligations on a timely and prudent manner, the Company strategises to mitigate any adverse, unexpected financial losses by managing its operations and risk perspectives in line with tax regulations.

Taxes consist of direct taxes such as income tax, value added tax on financial services, crop insurance levy and economic service charge as well as indirect taxes, which are collected and remitted to the relevant authorities. During the year the tax charge increased to Rs. 352.7 Mn., a growth of 36.6% compared to Rs. 258.2 Mn. of previous year. The Value Added Tax on financial services also increased by 33.5% compared to Rs. 161 Mn. of the previous year to reach Rs. 215.1 Mn. by 2018. The effective tax rate increased to 11.13% compared to 7.34% of the previous year, primarily driven by the changes in applicable tax regulations.

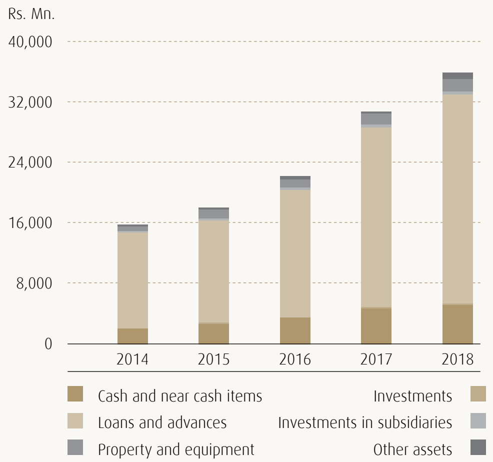
Assets

Total assets of the Company increased by 16.8% to reach Rs. 36,104 Mn. compared to Rs. 30,919 Mn. of the previous year. The growth was primarily driven by the growth of loans and advances which experienced a year on year increase of 17%.

Asset type	2018 Rs. '000	2017 Rs. '000	Change %
Cash and near cash items	5,220,436	4,923,750	6.03
Loans and advances	27,801,785	23,757,588	17.02
Investments	520,486	479,733	8.50
Other assets	2,561,055	1,757,756	45.70

A notable growth is evident in other assets, which was prompt by the increased investments in property, plant and equipment to facilitate the growth of the branch network and other system developments. The Company maintained healthy liquid assets throughout; during the year the cash and cash equivalent held increased by 6% and these funds helped to finance the working capital requirements of the Company with the augmented level of operations in the subsequent months.

Composition of Total Assets



Liquid assets and cash flows

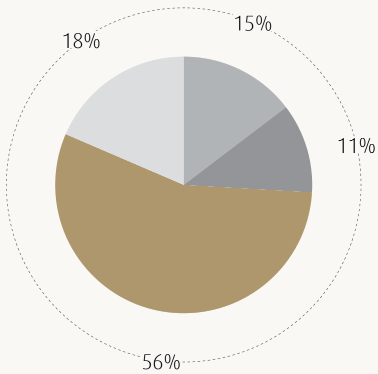
Senkadagala Finance primarily depends on large scale funding for its business needs, hence is compelled to maintain relatively high levels of liquid assets. However, the Management has devised mechanisms to realise a higher return by investing such excess liquidity strategically. During the year, the Company generated Rs. 2,276 Mn. as deposits from customers as opposed to the Rs. 721 Mn. of the previous year. This greatly helped to finance the operational funding requirements during the year. This coupled with the slowdown of operations, decreased the new fund requirement for operating activities by 82.7% to reach Rs. 1,023 Mn. compared to Rs. 5,916 Mn. of previous year.

During the year the Company commissioned only five new branches as opposed to the ten of last year. Hence the capital expenditure dropped by 43.9% to Rs. 359 Mn. against Rs. 640.9 Mn. of the year before. The total cash used in investing activities decreased by 67% to reach Rs. 169 Mn. for the year.

In April 2017, the Company concluded its rights issue, generating Rs. 579.8 Mn. funds inflow. In addition, bank and other borrowings to the value of Rs. 6,740 Mn. was infused to the business during the year. Company redeemed Rs. 586 Mn. debentures as well. The cumulative generation of funds via financing activities was Rs. 1,440 Mn. compared to Rs. 6,567 Mn. of the year before. The drop of 78% was primarily due to improved operational cashflows that reduced the financing requirement for the year under review.

The cash and other liquid assets grew by 6% over the year. High volumes of liquid assets were held to finance the increased level of operations. The Government Securities held by the Company increased by Rs. 1,972 Mn. to accommodate the regulatory requirements for the rising customer deposits. Additional liquid assets were invested in commercial banks and other short-term investments to maximise the return during the year.

Composition of liquid assets



Loans and advances

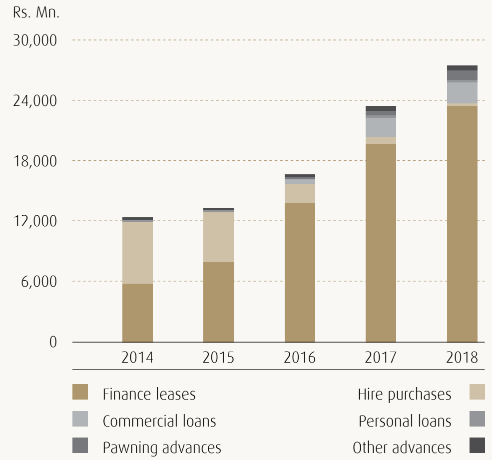
Loan type	2018 Rs. '000	2017 Rs. '000	Change %
Finance leases	**23,887,237**	20,014,694	19.35
Hire purchase	**162,468**	645,872	(74.85)
Commercial loans	**2,145,243**	2,059,388	4.17
Pawning advances	**993,680**	548,403	81.20
Other advances	**613,157**	489,231	25.33

The total loans and advances grew by 17% over the year reaching Rs. 27,802 Mn. against Rs. 23,758 Mn. of the previous year. This is a commendable growth as it was recorded amidst stringent adverse macroprudential policy measures. During the calendar year, the LFC and SLC sector only achieved a 9.8% growth in loans and advances.

The key loan product, finance leases achieved a growth of 19.4% to reach Rs. 23,887 Mn. net of impairment. This is a slowdown from the 43.2% growth achieved in the previous year. During the year Rs. 14.9 Bn. was granted as new finance leases and the average loan to value (LTV) of such loans was to 61.79%. The Company primarily finances registered vehicles, hence Senkadagala Finance managed to withstand the crippling effects of the stringent LTV ratios imposed by the regulator.

The commercial loans experienced a notable slowdown compared to its Rs. 1.7 Bn. growth of the previous year, primarily due to the higher interest rates that prevailed and the general economic downturn. During the year, the commercial loans only recorded a growth of 4.17%. However, the return on the existing portfolio, 28.6% significantly contributed to the growth in the profitability for the year.

Growth of loans advances



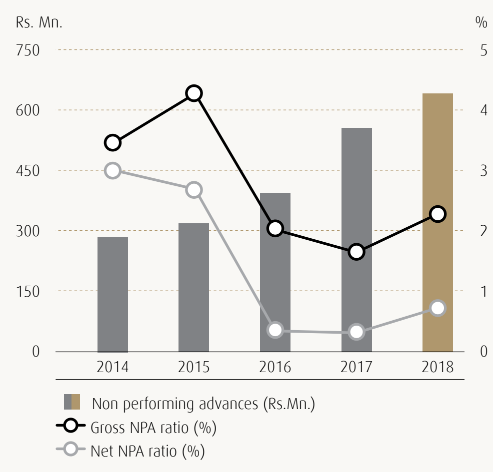
Pawning, the latest addition to the loan portfolio of the Company recorded a growth of 81.2% to reach Rs. 993.7 Mn. over Rs. 548.4 Mn. of previous year. Regardless of the speculations of price fluctuations, the Company promoted the pawning business. Stringent LTV ratios were maintained to safeguard against any such price fluctuations in the immediate future. The return on pawning portfolio for the year was 17.8%.

Asset quality

From inception of business, the Management has considered maintaining the quality of the loan portfolio a strategic imperative since this has been considered a key aspect in achieving sustainable business growth. With continuous upgrade of credit appraisal systems, post sanction monitoring mechanisms, policies and procedures, the Company has managed to maintain one of the lowest NPA ratios in the industry.

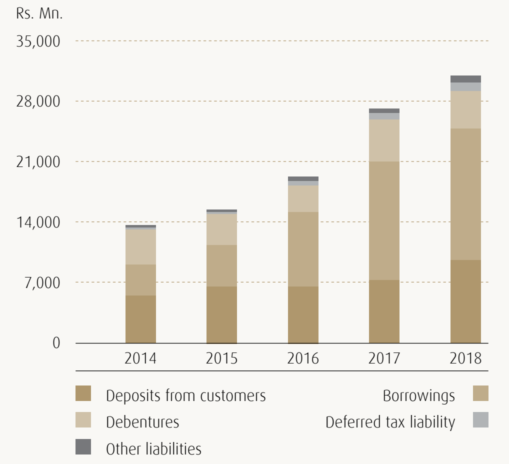
During the year, due to adverse weather conditions and the general downturn of the economic conditions increased the gross NPA ratio of the industry to 5.9% from 5.3% of the previous year. The Company's Gross NPL, which is gross non-performing assets as a percentage of total advances, increased to 2.28% compared to 1.64% of the previous year. The net NPL ratio too followed a similar trend to reach 0.71% compared to 0.29% of the year before.

The Company maintained high provisions to remedy the increase in non-performing loans over the year. The total impairment provision for loans and advances increased by 30.4% to reach Rs. 448.5 Mn. for the year compared to Rs. 343.8 Mn. of the previous year. Major increase in provision was recorded in individually significant loans, which recorded a growth of Rs. 83.9 Mn. Rs. 104.7 Mn. was charged to the profit and loss account as impairment on loans and advances as opposed to Rs. 25.6 Mn. of the year before. However, Rs. 49 Mn. worth of other loan losses were reversed as opposed to Rs. 33 Mn. of previous year, an improvement of 49.5%.



Changes in impairment methodology

From the ensuing financial year, the Company will adopt LKRS 9, Financial Instruments to account for loans and advances. Accordingly, the impairment is expected to increase as the new standard requires providing for loan losses based on expected loss model as opposed to the incurred loss model followed now. Preliminary calculations are been carried out to assess the impact on the bottom-line. The Management is committed to maintain the capital ratios and other key indicators at optimal levels despite the outcome of the exercise.



Liabilities

The total liabilities of the Company grew by 14% to reach Rs. 31,072 Mn. compared to Rs. 27,257 Mn. of 2017. Mid to long term securitised loans account for Rs. 8,309 Mn. compared to Rs. 4,845 Mn. of the year before, a growth of 71.5%. Mid to long-term bank borrowings decreased by 14% to reach Rs. 6,009 Mn. by the year end. The short term commercial paper financing also reduced by 45% and dropped to Rs. 1,058 Mn., to better match the maturities of the asset base of the Company. The volatile market conditions that prevailed throughout the year prompted the move-away form short-term funding avenues.

In March 2018, the Company entered into a second loan agreement with the International Finance Corporations (IFC), for USD 15 Mn. equivalent in rupees. The fund flow at the end of the year inflated the liquid assets at the balance sheet date. However, the rupee denominated disbursement eliminated any stress on the balance sheet due to adverse movement of exchange rates.

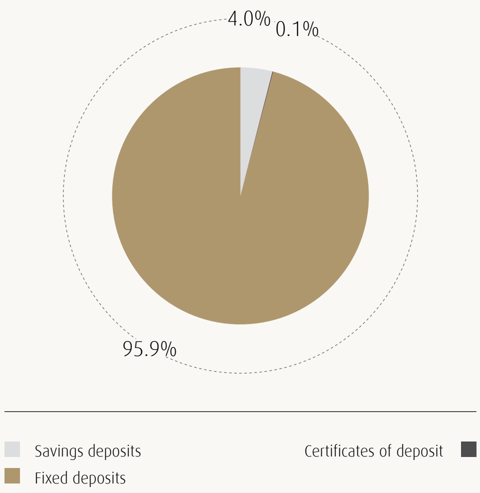
During the year, the Company redeemed Rs. 585.7 Mn. worth of listed debentures. This caused a 11.9% drop in debt securities issued to reach Rs. 4,400 Mn. by the end of the year. The market was saturated with debt instruments issued by various financial institutions, hence the Company did not issue any new debt instruments in the year under review.

Deposits from customers

Deposits from customers consist of fixed deposits, certificates of deposit and savings deposits, totaling Rs. 9,507 Mn. by March 2018 recording a 31.5% growth from Rs. 7,231 Mn. of the previous year. The Company started the year with the expectation of improving deposits as a funding source to facilitate business growth; the Rs. 2.3 Bn. growth is the result of the strategies adopted to realise that objective.

The fixed deposit base and the savings deposits recorded Rs. 9,117 Mn. and Rs. 382 Mn. with a growth of 32.5% and 11.9% respectively. Deposit customers are provided many value added services; the savings product is equipped with services equivalent to a bank deposit, and with higher return to the customers.

Composition of Deposits



Shareholders' funds

The total shareholders' funds recorded a growth of 37.4% over the financial year to reach Rs. 5,031 Mn. The growth surpasses the 22.3% growth recorded in the previous year driven by the high profitability and the infusion of capital at the beginning of the year via a rights issue. The Company issued 7,247,506 shares through the said issue and raised Rs. 579.8 Mn. as stated capital.

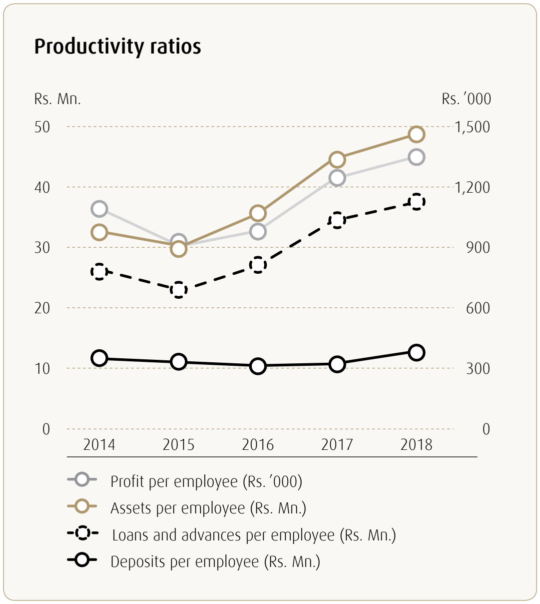
In compliance with the Finance Companies (Capital Funds) Direction No. 1 of 2003, the Company transferred Rs. 55 Mn. out of profits for the year to the Statutory Reserve Fund, resulting in a growth of the fund by 17.7% to reach Rs. 365 Mn. by March 2018.

Retained earnings and available-for-sale reserves recorded a growth of 31% and 64% to reach Rs. 3,071 Mn. and Rs. 7 Mn. respectively.

The capital adequacy position of the Company improved as a result of the increase in capital position. Both core capital ratio and the total capital ratio increased to 16.86% and 17.65% compared to 14.19% and 16.08% of the previous year, respectively. This growth provides comfortable leeway for future business growth. The Management is committed to maintain a healthy capital position to enable future development.

Improved productivity

The strategic initiatives adopted by the Management from the inception of the Company has created sustainable growth. The improved productivity in all aspects of the Company is a testimony to these achievements. For the year under review the Company has generated Rs. 1.3 Mn. profits per employee in service. The assets per employee improved to Rs. 48 Mn. compared to Rs. 44 Mn. of previous year. The most prominent growth is recorded in deposits per employee, which improved to Rs. 12.7 Mn. from Rs. 10.4 Mn., a growth of 21.7% over the year.



Group performance

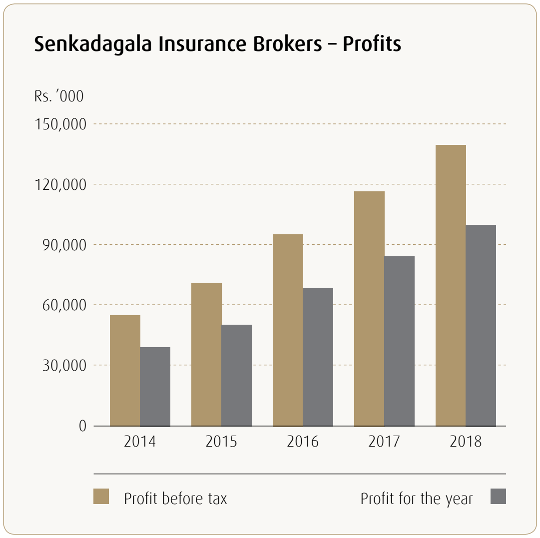
Senkadagala Finance Group performance shows a growth in parallel to that of the Company over the year. The post-tax profit saw a growth of 15.3% to reach Rs. 1,002.3 Mn. in the year under review compared to Rs. 868.9 Mn. of previous year. The total assets grew to Rs. 35,779 Mn. recording a growth of 15.9% over Rs. 30,863 Mn. of the year before.

Both Subsidiaries, namely Senkadagala Insurance Brokers and Newest Capital Limited recorded growth in post-tax profits to reach Rs. 101 Mn. and Rs. 96 Mn. respectively. The Insurance brokering arm has been extending its services to customers outside the Group and managed to improve its revenue by 20% to reach Rs. 143.9 Mn. for the year under review.

The Company acquired Newest Capital Ltd under the consolidation of the finance sector programme in 2014. In line with the said programme the assets of Newest Capital is being absorbed in to Senkadagala Finance and the subsidiary will be wound-up within the following financial year.

Value creation and distribution

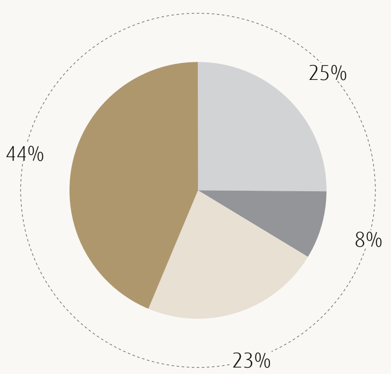
The value addition and distribution calculation provides an understanding of the financial benefits of each stakeholder group receives due to business activities of the Company. Investors, shareholders, employees, and the Government is considered as key stakeholders for the purpose of this computation.



Value Added and Distributed

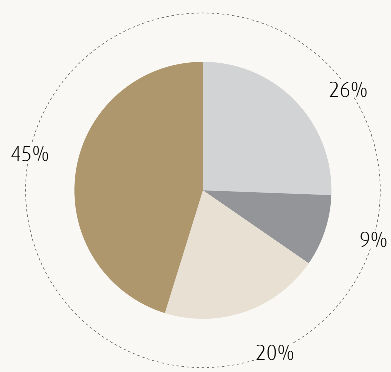
	2018 Rs. '000	% share	2017 Rs. '000	% share	Change %
Value added					
Gross Income	**6,770,330**		5,138,136		32
Less					
Cost of borrowings	**(3,410,064)**		(2,402,305)		42
Payments towards support services	**(806,548)**		(678,548)		19
(Provisions)/reversals for Loan losses	**(55,510)**		7,317		-859
	2,498,208		2,064,600		21
Distribution of value additions		**% share**		% share	
To employees					
as salaries and wages	**425,942**	**17.05**	363,480	17.60	17
as other benefits	**201,903**	**8.08**	164,914	7.99	22
To shareholders as dividends	**213,077**	**8.53**	185,899	9.00	15
To government					
as Income taxation	**350,681**	**14.04**	255,741	12.39	37
as VAT on financial services	**215,088**	**8.61**	161,160	7.81	33
Retained within the business					
as depreciation for replenishment of assets	**304,261**	**12.18**	265,734	12.87	14
as reserves	**787,258**	**31.51**	667,672	32.34	18
	2,498,208		2,064,600		21

Distribution of value additions 2018



To employees
To government
To providers of capital
Retained within the business

Distribution of value additions 2017



To employees
To government
To providers of capital
Retained within the business

Sustainability to the fore

Acknowledging all external factors that contribute towards the operations of the Company is one that has sustained its growth. It will propel the Company to greater heights.

Throughout fifty years of operation, Senkadagala Finance PLC built a sound institutional capital structure. These intangible assets have enhanced stakeholder engagement while creating a corporate culture and identity that is unique to the Company.

As in the past, this year too the Company focused on upgrading its ICT systems while carrying out plans to establish the brand name and develop brand equity and corporate culture.

System and Service Upgrades

The tailor-made ICT system continues to improve the operations of the Company while providing customers ease of access to information and services. The system was developed internally and is equipped with a tailor-made management information system unique to the Company. It quickens the operations of both the front and back office and it is estimated that its carrying value of licenses as indicated in the balance sheet is Rs. 57 Mn. while the intrinsic value of the system is immeasurable.

The system promptly addresses the operational needs of employees while enhancing the customer experience. In addition, it supports the finance division in carrying out payments, receipting, and managing repossessed assets, the general ledger and more importantly, Management Information System (MIS) to meet internal and external reporting needs. Through the automation of basic functions, the Company is able to minimise user interactions and non-value adding expenditure. It is also continuously upgraded to be in line with technological changes and the needs of customers and employees.

Senkadagala Finance PLC first launched its corporate website in December 2003. During the year, under review the Company revamped its website, in time to usher a new era of growth. The present upgrades provide customers with a user-friendly interface through which they can make online, realtime fund transfers, utility bill payments etc., while also getting additional information about products and services.

Revamped the Company web-site for an improved customer experience

The Company also introduced its new debit card during the financial year. It is equipped with security features, such as the chip and pin authentication, preventing the use of the card for POS transactions, if the card is stolen. Moreover, contactless transactions are allowed up to the value of Rs.3,000.

New VISA debit card with enhanced security features and contactless transaction facilities

Establishing the Brand

The Company's logo, the registered trademark of the Company, depicts the four leaf clover - a symbol of prosperity and good fortune. It has accompanied Senkadagala Finance PLC's corporate brand and identity since its inception and is now symbolic of the Company's ethos which is one that gives priority to maintaining lasting relationships with all its stakeholders.

Corporate culture

Stemming from its brand identity the Company has also established a corporate culture that encourages cooperation, diligence and ethical business practices. These values are communicated to all stakeholder groups thereby encouraging professionalism at all levels of the business. The management also adopts an open approach to communication between superiors and subordinates.

This approach has helped the management identify talented individuals who are then promoted within the Company. The five branches that were opened during the financial year are headed by managers who have been promoted internally. These individuals have grown with the Company and have acquired a holistic understanding of its systems and processes. This will always be an integral component of the succession planning process of the Company.

Moreover, the Company encourages team development and team learning. Every branch is equipped with a small group of employees who learns from each other. They are encouraged to achieve team goals and are assessed on their ability to reach targets collectively, with and understanding of the vision for the specific branch. This method has proved to be very successful as it has encouraged healthy levels of competition but more importantly it has initiated team learning and stimulated professional growth.

Risk management also plays a pivotal role in the operations of the Company. Line managers and all employees are trained to be vigilant about impending risks and are equipped to tackle situations in a strategic manner. The cornerstone of the business is customer satisfaction and every effort is made to ensure the highest quality of service.

Institutional Capital

Procuring relationships

In order to maintain high service standards, the Company encourages its regional and branch managers to maintain close ties with vendors, brokers and vehicle dealers in the locality. These are crucial aspects of the leasing and hire purchase business and these solid relationships will result in the ability to provide customers with improved service standards.

The Company also enters into agreements with various vehicle dealers to organise centralised promotions (as pictured below). Agreements of this kind ensure customer satisfaction while at the same time exploiting economies of scale.

Given that Senkadagala Finance PLC is a financial services provider, it depends minimally on suppliers for the provision of materials. Nevertheless, given that the Company has been expanding significantly over the years, supply chain management is important. Today, the procurement of stationery, day-to-day consumables and related equipment are done through a supply chain.

It is the responsibility of the administrative department to undertake sourcing and establish purchasing policies and procedures. Presently, the Company has a pool of suppliers that provide for its various requirements. By maintaining close ties with the suppliers, both parties benefit vastly.

The Company also adopts a centralised system for purchasing stationery and other equipment. A lean procurement process has been established to minimise inventory holding. Small stocks of stationery are held at central branches and dispersed locally. Branch officials place orders with administrative staff who would in turn consult a supplier. The timely delivery of these goods are also ensured as the Company seeks the assistance of courier companies. This process minimises the requirement of holding stationery and other consumable stocks.

Moreover as the Company gradually expands throughout the country it understands the importance of maintaining uniformity in the construction of its branches. Senkadagala Finance PLC has a selected pool of construction companies that are consulted when a location for a new branch is identified. A representative from the administrative department will closely supervise the construction process while a pool of interior designers and constructors ensure that uniformity is maintained. By securing relationships with these individuals and companies the Company has been able to sustain valuable relationships that have in turn positively impacted the overall performance of the Company.

Customer Capital

Senkadagala Finance PLC has gathered a wide and steadfast customer base resulting from its extensive reach within the island. The Company takes great pride in its customers; some have journeyed with the Company for decades.

Customer satisfaction is also a significant aspect of the decision making process of the Company. At this significant juncture, when the Company celebrates its 50th anniversary, it renews its commitment to ensuring the satisfaction of its customers.

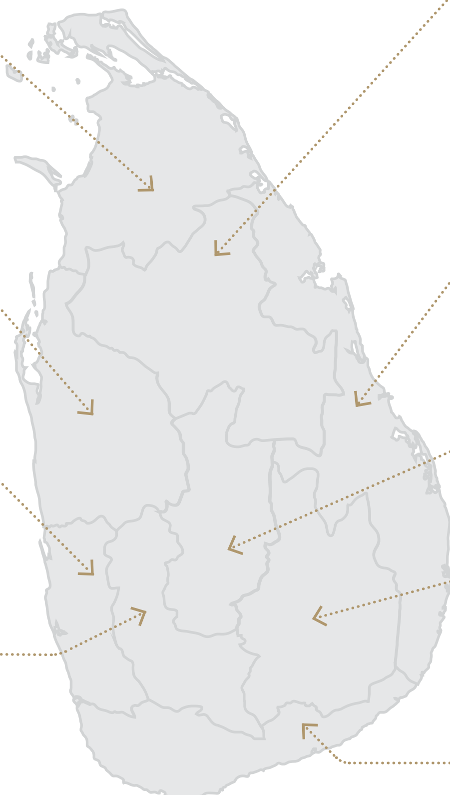
Geographic spread

Northern Province
2
3

North Western Province
8
4

Western Province
22
14

Sabaragamuwa Province
4
4



North Central Province
3
2

Eastern Province
2
3

Central Province
7
3

Uva Province
2
4

Sourthern Province
4
4

Branches   Service Centres

Strategic expansion has been a key focus of the Company. When new locations are identified for branches, the management conducts a close analysis of the existing portfolio to identify customer hotspots.

Deniyaya Branch Opening.

Wattegama Branch opening.

The Company has opened 54 branches and 41 service centres so far, and during the course of the year five new branches were opened in Bandaragama, Mathugama, Deniyaya, Welimada and Wattegama.

Primary brands, products and services

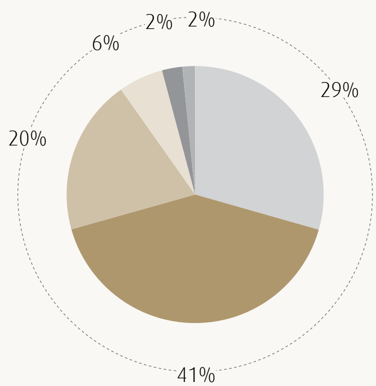
Senkadagala Finance PLC offers financial services primarily in the form of lending and accommodating deposits while the main lending products are finance leases and hire purchases. Given that favourable changes were made in taxation regulations in the recent past, the Company gave priority to the development of the finance leasing business resulting in a notable increase in the lease portfolio. However, this resulted in the decline of the hire purchase business.

Loan portfolio

Technological developments incorporated into the system resulted in the ability to rapidly disburse loaned funds to potential customers. Those who approach the Company with a satisfactory credit history can obtain loaned funds for their commercial or personal needs within one to two business days. This has given the Company a competitive advantage.

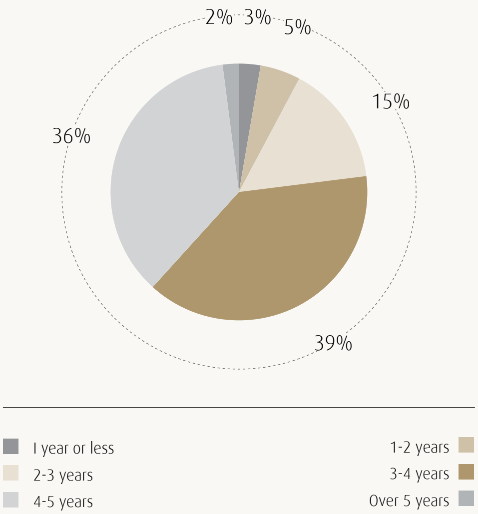
The pawning arm of the Company is the latest addition to the advances product portfolio and one that complements the primary loan products. Since 2012 the pawning portfolio has grown significantly with 26 pawning windows being established in carefully identified locations with a higher customer density. The growth of the pawning arm of the business has been generating good returns for the Company over the years.

Loan portfolio analysed by size

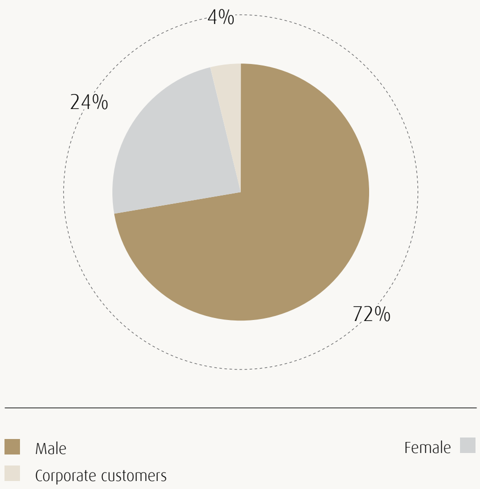


As at 31 March	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000
Finance leases	23,887,237	20,014,694	13,975,552	8,151,414	6,001,776
Hire purchase	162,468	645,872	2,024,520	4,925,415	6,167,958
Commercial loans	2,145,243	2,059,388	333,071	65,758	46,197
Personal loans	113,333	98,907	93,644	88,098	88,001
Pawning advances	993,680	548,403	180,227	101,408	102,885
Other advances	499,824	390,324	301,125	250,834	268,726
Total	27,801,785	23,757,588	16,908,139	13,582,927	12,675,543

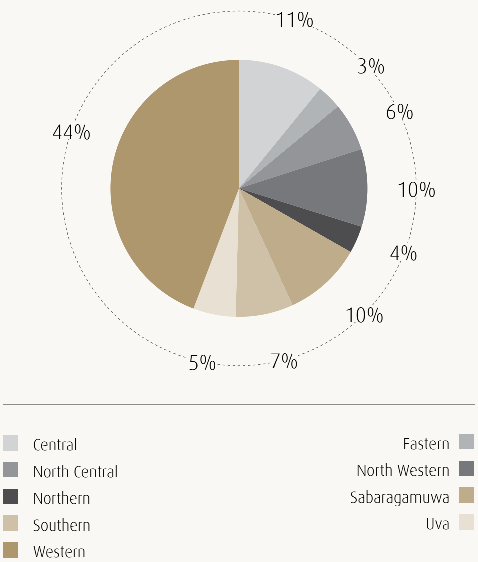
Loan portfolio analysed by tenure



Loan portfolio analysed by customer type



Geographical analysis of loans and advances



Deposit portfolio

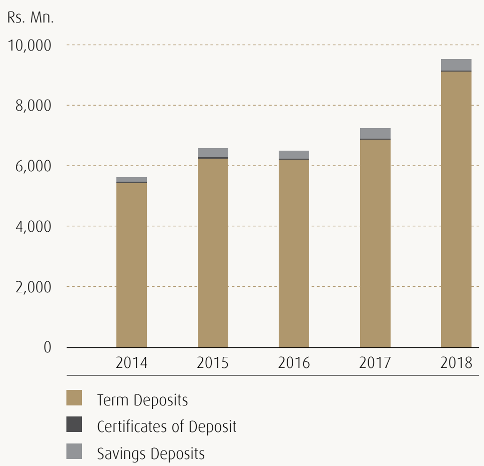
Deposits are primarily accommodated through fixed deposits. Sub-products of the category also exist to accommodate the savings habits of different customer groups. Attractive interest rates are also offered within the CBSL regulated rates. Moreover, given that the Company revamped its website, customers are able to use online facilities to check their deposit balance, find out latest interest rates, transfer funds, withdraw deposits and create new deposits. In addition, the Company grants loans depending on the status of a customer's fixed deposits. This enables customers to utilise funds in emergency cases without compromising the interest at maturity.

Value of deposit base

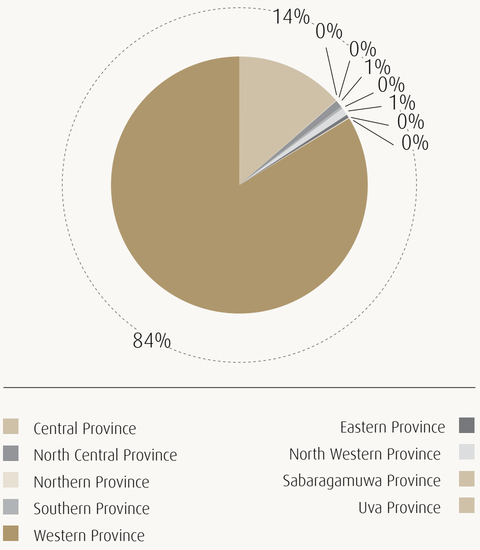
As at 31 March	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000
Term deposits	**9,117,127**	6,878,553	6,217,221	6,237,346	5,439,663
Certificates of deposit	**7,730**	10,548	11,102	11,745	2,792
Savings deposits	**382,277**	341,771	281,711	292,805	181,944
Total	**9,507,134**	7,230,873	6,510,033	6,541,896	5,624,399

Certain statistical data gathered in 2017/18 based on the portfolio provides some heartening information. It is reported that 47% of the fixed deposit portfolio is accounted for by institutions while 32% of the individual depositors were women. Moreover, a majority of deposits have been made by the customers in the Western and the Central provinces while a major component of deposits has been placed for one to two years. In addition, 45% of the deposits were yielding between 12% – 14% p.a. to the depositor.

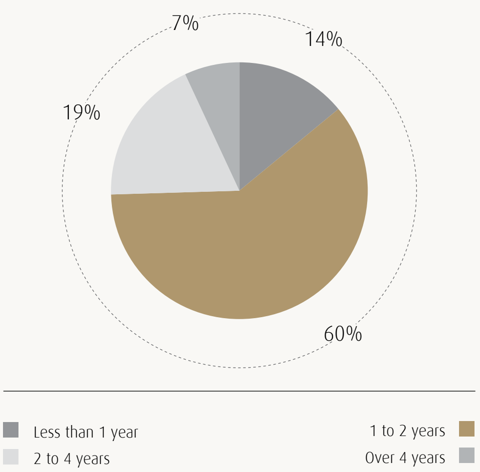
Deposit base



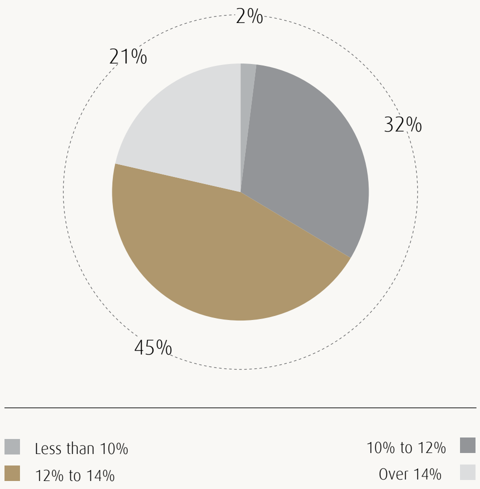
Geographical analysis of fixed deposit base



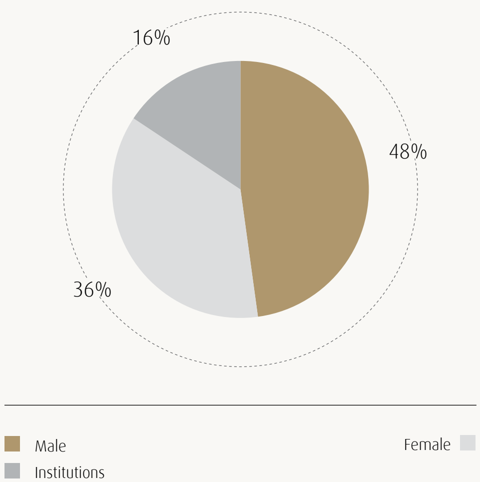
Analysis of fixed deposits based on tenure



Analysis of fixed deposits based on interest rate



Fixed deposits analysed by gender



The Company has also focused on strengthening its savings deposit product by introducing value-added features such as Visa debit cards, online access, real-time fund transfer facilities and payment of credit card and other utility bill expenses through the online portal. Moreover, the Company provides services such as foreign currency exchange, insurance brokering activities and Western Union fund transfers.

Senkadagala Finance PLC continues to maintain a balanced product portfolio. It is reported that certain products are at the maturity stage of its product life cycle while many other new products display potential to grow. Both types of products contribute towards bringing a healthy flow of returns to the Company while meeting the growing needs of customers on a timely basis.

Number of customers

	2018	2017	Growth	Growth rate (%)
Loans and advances	**39,813**	35,413	4,400	12.42
Deposits	**33,292**	27,152	6,140	22.61
Total	**73,105**	62,565	10,540	16.84

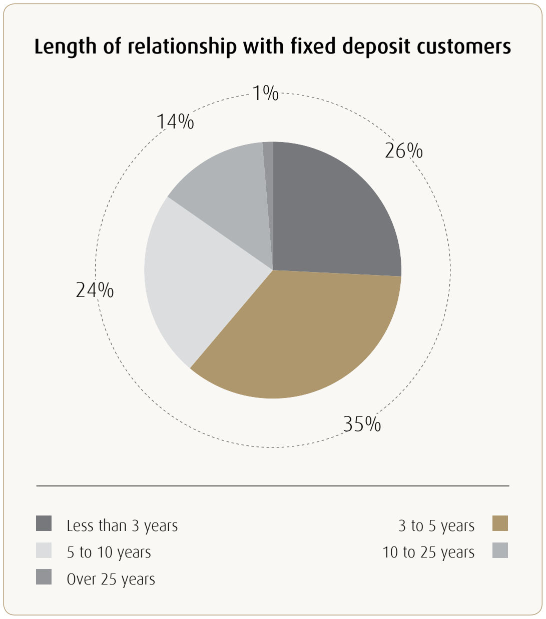
Developing customer relations

The Company maintains a steadfast relationship with its customers to ensure their satisfaction. Each customer is assigned a relationship manager who can be directly contacted when inquiries need to be made regarding products and services. If complaints have to be lodged, customers are advised to seek the assistance of their relationship manager.

The centralised ICT system also allows customers to request information about their loan facilities and deposits at any of its branches or service centres while the revamped Company website has a customer portal that allows customers to directly make inquiries about products and services.

Customer relations are further fortified through town storming and leaflet campaigns. Street promotions and banners are also used for this purpose. Furthermore, customer satisfaction surveys are also carried out periodically in order to assess areas that need to be addressed and complaints that need to be rectified.

The Company also handles customers' information with care, ensuring that security breaches do not take place.
The high rate of return customers and the loyal deposit customer base indicate that the Company has been giving its customers pride of place.



Depositor Indicators

	2018	2017	2016	2015	2014
Deposit interest expenses (Rs. '000)					
Term deposits	990,915	700,729	563,887	668,309	542,635
Certificates of deposit	1,079	1,015	894	1,012	469
Savings deposits	33,684	29,043	19,095	14,218	14,460
Total deposit interest paid	1,025,679	730,787	583,876	683,540	557,565
Ratios					
Deposit interest cover (times)	2.37	2.14	2.51	1.95	2.12
Liquid assets as a percentage of term and certificate of deposit (%)	57	71	56	45	38
CBSL minimum requirement (%)	10	10	10	10	10
Liquid assets as a percentage of savings deposits (%)	1,366	1,441	1,241	955	1,139
CBSL minimum requirement (%)	15	15	15	15	15

Unwavering trust

Trust is interwoven into the very fabric of the Company. It is a value that has secured the loyalty of all its stakeholders.

Employee Capital

On arriving at its 50th anniversary, Senkadagala Finance PLC looks back on the critical role its employees have played throughout the years. The well being of the Company's employees has continuously played a significant role in the decision making processes of the Company and will continue to influence its mission and vision in the future.

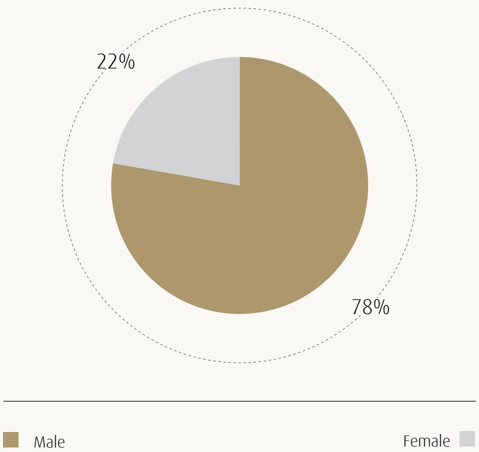
The Company also ensures that all employee rights are secure by adopting policies mentioned in the Wages Boards Ordinance and Shop and Office Employees Act. It also adds value to these compliance aspects by adopting an all-inclusive approach, paying equal attention to its employees regardless of gender, ethnicity, race, religion and disability.

Workforce analysis

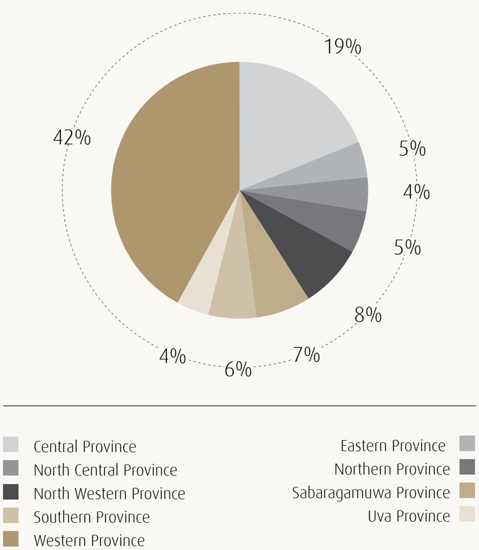
Statistical analysis: geography, gender and age

It has been heartening to note the gradual increase of female employees over the years. The 2% growth since last year, is one that the Company hopes to build on in the coming years as well. As in the past financial year, the most amount of employees were from the Western and the Central Provinces. However, as the Company continues to recruit from areas in which it establishes new branches, growth has been reported in the Eastern and the North Western provinces this year. The statistics that indicate the ages of the employees remain unchanged since last year while a higher number of those recruited were qualified as diploma holders and graduates. This has resulted in a growing number of senior executives, executives and branch managers.

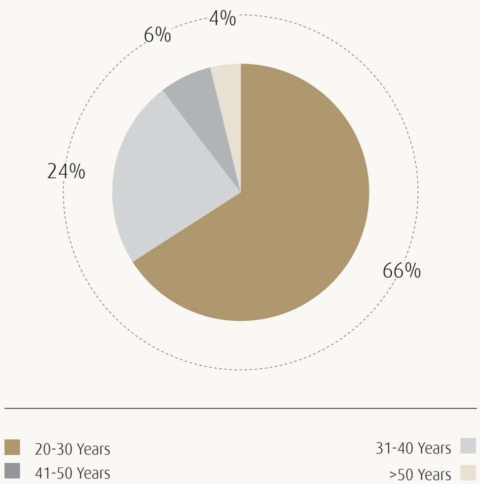
Gender analysis



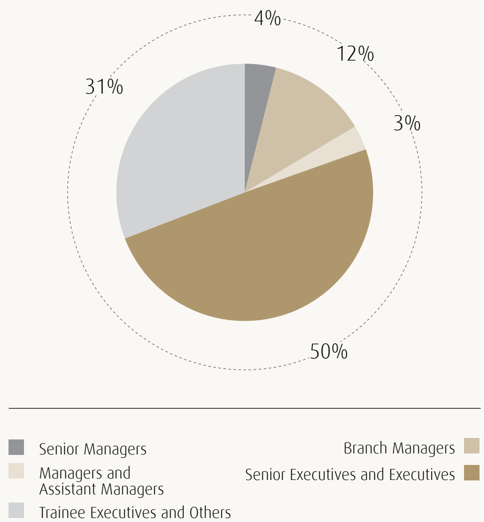
Geographical analysis



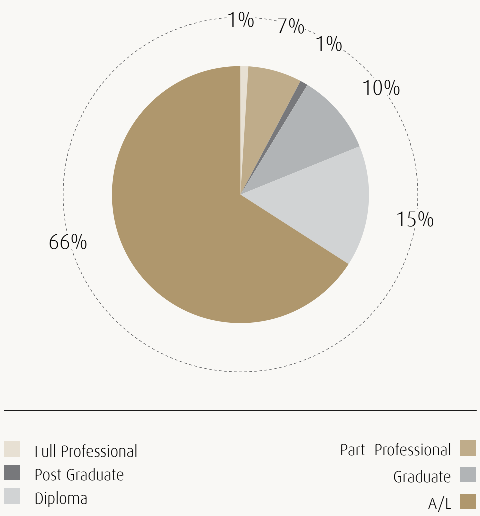
Age – wise analysis



Grade – wise analysis



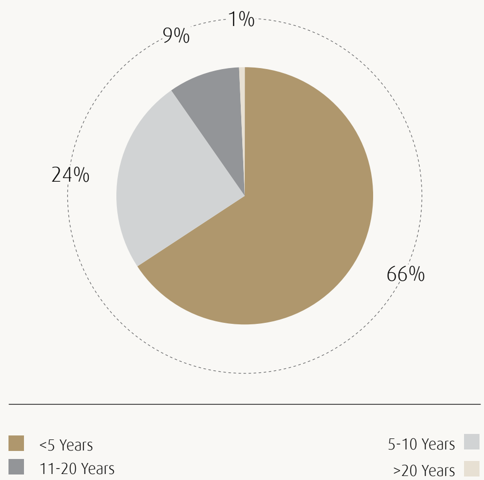
Qualifications analysis



Statistical analysis: qualifications and service

There have also been marked improvements in the statistics that indicate the years of service. The categories of those who dedicated 5-10 years of service and 11-20 years of service have grown in comparison to the previous financial year. This indicates that the Company has been successful in the strategies used to retain employees with over five years of experience with the Company. Employee retention has been discussed in greater detail on page 65.

Length of service analysis



Training and development

In the past, the Company conducted training sessions to ensure the professional growth of its employees. During the financial year, it allocated more resources and focused more energies on giving more value to these sessions.

The Company also makes sure equal training opportunities are provided for all employees regardless of gender. This is an element that is carried through to all aspects of the business. Details of training sessions conducted, key areas of focus and attendance.

Date	Programme	Participation	Number of Employees Participated
*18-19.04.2017	Programme on enhancing awareness on SLFRS 9 for financial institutions [Conducted by the Central Bank of Sri Lanka (CBS)]	Chief Finance Officer, Senior Manager (internal audit), managers (accounts), senior executives (accounts)	8
*06.05.2017	Environmental training and workshop [Organised by Dambulla Arboretum]	Senior managers (treasury and internal audit), regional manager, managers (treasury, vehicle yard, marketing, administrative and deposits), senior executives (marketing and administrative), executives (treasury and marketing)	19
*16-17.05.2017	Programme on pawn broking [conducted by Centre for Banking Studies (CBS) of the Central Bank of Sri Lanka]	Pawning officers, executive (pawning)	4
*17.06.2017	Training and interactive workshop on sales excellence [conducted by PrimeGear corporate business]	Managers (marketing), senior executive (marketing)	4
*05.07.2017	Seminar on overview of exchange control regulations [conducted by the CBS]	Executives	3
15.07.2017	Staff training (analysing CRIB and credit evaluation/new computer system/vehicle insurance/reporting details to CRIB and its errors/valuation of vehicles)	Senior executives and executives (marketing)	27
*03.08.2017	Seminar on money laundering [conducted by Asian Pathfinder Legal Consultancy Services]	Senior managers (treasury and internal audit)	2
*25.08.2017	Programme on emerging trends in Electronic Fund Transfers (EFT) Fraud Mitigation [conducted by the CBS]	Senior executive (Accounts)	1
20.09.2018	Awareness programme for documentation unit – Commercial loans	Senior executives and executives (documentation)	11
*27.09.2018	Seminar on new Inland Revenue Act [Conducted by The Institute of Chartered Accountants of Sri Lanka]	Chief Finance Officer and manager (accounts)	2
*13.10.2017	Programme on Financing Small and Medium Scale Enterprises [conducted by the CBS]	Managers (Marketing), senior executive (marketing)	2
*25-27.10.2017	DYNAMISM, 38th National Conference of Chartered Accountants [conducted by The Institute of Chartered Accountants of Sri Lanka]	Chief Finance Officer, Chief Manager (internal audit)	2
*10.11.2017	Programme on KYC/AML, security features of genuine currency notes and identification of counterfeit currency notes [conducted by the CBS]	Senior executives, executives (marketing) and deposit executives	40
*17.11.2017	Awareness programme on handling non-performing customers [conducted by the CBS]	Senior managers and managers (marketing)	7

Date	Programme	Participation	Number of Employees Participated
17.11.2017	Training programme on deposits (new computer system)	Managers, senior executive, executives (marketing) and deposit executives	37
*06.12.2017	Seminar on New Inland Revenue Act No.24 of 2017 [Conducted by Income Tax Payers Association]	Manager and senior executives (accounts)	4
09.12.2017	Training programme on deposits (new computer system)	Senior executives, executives (marketing) and deposit executives	25
*11-13.12.2017	Three-day workshop on upcoming SLFRSs [conducted by The Institute of Chartered Accountants of Sri Lanka]	Managers (accounts)	2
*12.12.2017	Seminar on the New Foreign Exchange Act No.12 of 2017 [conducted by UTO EduConsult (Pvt.) Ltd.	Manager (foreign currency)	1
16.12.2017	Training programme on deposits (new computer system)	Senior manager, senior executives, executives (marketing) and deposit executives	38
*20.12.2017	Inaugural research conference [conducted by The Institute of Chartered Accountants of Sri Lanka]	Chief Manager – Internal audit	1
*19.01.2018	Seminar on prevention of money laundering and application of KYC procedures for risk-free day-to-day financial transactions in the NBFI sector [Organised by the Finance Houses Association of Sri Lanka]	Senior executives, executives (marketing) and deposit executives	10
06-07.02.2018	Training on fixed deposits	Executives	4
15-16.02.2018	Training on fixed deposits	Executives	2
08-09.02.2018	Training on fixed deposits	Executives	3
*23.03.2018	Programme on lending against pawn broking [Conducted by the CBS]	Pawning officer	1

* *External training programmes, seminars and workshops*

Training: Challenges faced

- Due to operational issues, not more than one member from each branch could attend the training sessions.
- Given that branches are dispersed throughout the country, employees working in branches far from the training centre encounter difficulties in travelling.

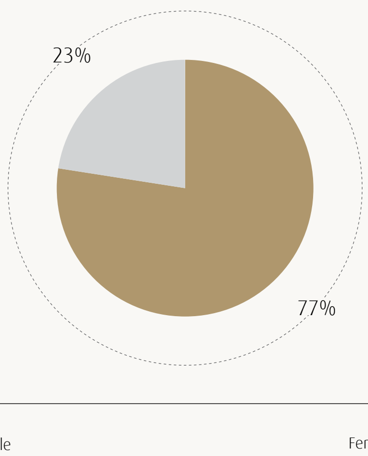
Training session in progress at the Company training centre in Wattala.

Recruitment

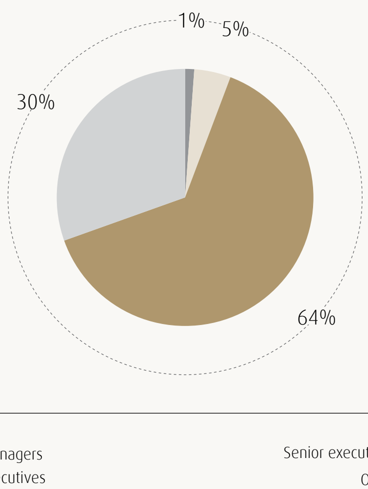
Statistical analysis

During the financial year, recruitments were carried out to meet staff requirements in new and old branches. The total number of recruits amounted to 174, with a majority of them being from the Western Province. More than hundred of the new recruits were designated the role of executive officers. A vast majority of them were males.

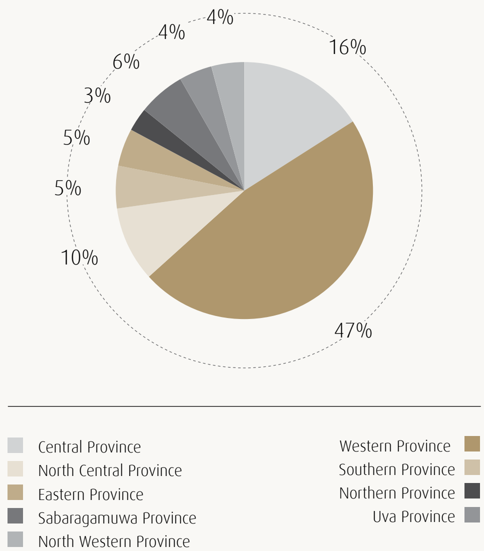
Recruitments during the year by gender



Recruitments during the year by employment grade



Recruitments during the year by geographical region



Recruitment procedure

The following procedure is followed when positions are vacant as a result of resignation, promotion or the requirement of new manpower.

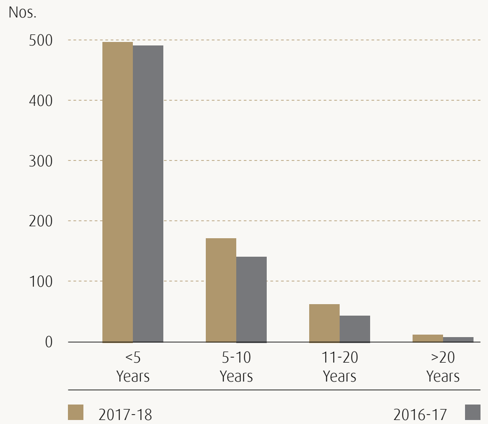
1. The position is advertised in a widely read week-end newspaper.
2. Applications are processed.
3. A short list is prepared and suitable applicants are called for interviews at least two days in advance for the first interview.
4. Applicants are interviewed by the Chief Manager Personnel at their first interview.
5. Shortlisted candidates are interviewed by a panel of interviewers including the line managers, section heads, GM, Deputy CEO and Additional CEO, as required.
6. A suitable candidate is selected.

Subsequent to the interview procedure, the panel marks their comments in the interview guide form which is attached to the application form. The HR Department issues the offer letter and thereafter the letter of appointment.

Moreover, other relevant departments will be informed about the recruitment to facilitate other related documents, formats, passwords, etc. in order to initiate the induction process. Requests for reference letters are sent to the referees mentioned in the CV and employment verifications are done, if required.

Employee turnover

Comparison of length of service of employees



Based on the statistical analysis above, it was noted that employees who dedicate over five years of service have increased during the financial year. While the statistics are very encouraging, Senkadagala Finance PLC will enhance the measures adopted to retain its employees.

Retention: Methods adopted

Annual promotions as per the staff career path policy, annual increments and fringe benefits are a few methods adopted to ensure employee retention. Moreover, geographical recruitments ensure that employees live in close proximity to their place of work while performance-based annual bonuses, staff training and exit interviews also ensure that the employee turnover rate gradually decreases.

Retention: Challenges faced

Given that the finance industry is very competitive, it presents a number of challenges for employee retention. The new generation also sees many other employment opportunities opening up and are reluctant to dedicate a number of years to a single place of work.

Benefits and rewards

- Medical leave
- Nursing intervals
- Performance incentives

Employees are paid an annual bonus depending on the profitability of the Company and the employee's performance. The payment of a bonus is subject to achieving key performance indicators or at the discretion of the Management.

Medical benefits

Hospitalisation expenses can be claimed and are subject to the maximum amount specified in the hospital and surgical expenses insurance policy.

Personal accident cover

All employees are covered by personal accident insurance.

Staff loans

Employees with a long service record are eligible for a loan subjected to a maximum of 60 months repayment period.

Salary advance

Employees who have been confirmed are eligible to apply for a salary advance equal to one month's salary which is subject to a maximum of six month's repayment period.

Festival advance

Employees who have been confirmed are eligible to apply for a festival advance equal to one month's salary subject to a maximum of ten months repayment period. Festival advances are granted to employees during their respective cultural and religious festive seasons. All advances are subject to total deductions not exceeding 40% of their salary.

Company vehicle

Cars or motor bikes are assigned to specific employees.

Mobile SIM

A mobile connection with an allowance is provided to all employees.

Parental leave

Maternity leave

The Company is sensitive to the needs of its employees, especially the care of newborns. In line with labour regulations, all female employees are entitled to fully paid leave up to 84 working days at the birth of their first two children. For subsequent births, they would be entitled to 42 working days. Saturday is counted as half a day in both instances. Also, regardless of the number of children, all new mothers are allowed to avail one hour every working day to care for the baby for one year since the birth of the child.

Work life balance

With a view to ensure employee well-being, the Company focuses on maintaining a work life balance. A key initiative taken to promote this is localised recruitments. During the year, 96% of recruitments were from the respective localities. This ensures that employees commute to work is shorter, and would allow more time for personal and family commitments. Transfers are also provided to staff to facilitate their personal needs. The Company encourages its employees to manage their personal and work life to ensure life fulfilment.

Performance evaluation

The Company has in place an internally developed performance evaluation framework, that allows the management to assess the performance of individuals and branches/centers collectively in line with key performance indicators of the Company. Collective assessment criteria include profitability of the branch/centre, performance during the year, portfolio quality, deposit mobilisation, etc. The individual assessment criteria consist of knowledge of work, initiative, quality of work done, personality, dependability and quantity of work carried out during the period of appraisal. The evaluation framework ensures aligning personal objectives with the corporate strategies and objectives. Hence, the framework is adaptive to changing business needs from time to time.

Employee satisfaction survey

An employee satisfaction survey was not carried out during the year under review.

Occupational health and safety

Security

The Company has adopted various measures to ensure the safety and security of all persons and property through the hiring of security officers, fixing CCTV cameras, use of security alarms and the like.

Health and safety

The Company is committed to providing a safe working environment to its employees. However, it is also the responsibility of the employees to follow certain procedures and measures.

- Co-operate with the "life and fire safety officer" in the case of a fire or disaster-related evacuation.
- Take responsibility for the health and safety of oneself and others at work.
- Notify a supervisor, manager, assistant manager administration or department personnel when encountering discomfort at a work station which could lead to injury.
- Inform a supervisor, manager, assistant manager administration or department personnel if any damage has been caused to the fire fighting equipment, blockage of fire exits and the like.
- Personal work spaces have to be tidy to ensure the comfort of all employees.
- Employees have to be up-to-date with the contact numbers of service providers in case of an emergency.

Fire protection

The Company also gives priority to protecting its properties in the case of a fire.

- Complies with rules, regulations and requirements specified by the local authorities when establishing a new branch or department.
- Designs and arranges buildings and premises abiding by stipulated fire safety measures (emergency exits, symbols, etc.).
- Provides required fire fighting equipment and fire extinguishers and arranges periodical testing.
- Conducts required training and awareness programmes for staff.
- Trains selected staff members from each department and branch and appoints them as "life and fire safety officers".

Employee grievance handling

Senkadagala Finance PLC fosters a work culture that encourages open communication between senior and junior staff members. Given this foundation, all employee grievances are also treated with seriousness and sensitivity. The Company believes in taking immediate remedial action for issues that cause discomfort to one or more employees. A grievance should be first conveyed to the immediate officer before it is brought to the notice of a higher officer unless the immediate officer is the cause of it. Instances of this nature are well documented and will help in decision making processes in the future.

Procedure:

- Grievances must first be conveyed to the immediate officer.
- In the event that the immediate officer does not take adequate action, the employee may convey the grievance to the line manager.
- If the manager fails to take action, the employee may convey the grievance to the Head of HR.
- In the instance that the Head of HR also does not address the issue, it may be conveyed to the Deputy CEO.
- If the Deputy CEO does not take adequate action the grievance may be conveyed to the Additional CEO or Managing Director.
- As indicated above, every effort is taken to resolve the grievance at the point of origin or to bring it to the notice of a senior officer within three working days.
- The grievance handling process should ideally be completed within five working days and a maximum of ten working days.

A vision for the future

Maintaining a strategic focus has benefited the Company in a multiplicity of ways. It continues to enable the Company to create value in the short, medium and long term.

Social and Environmental Capital

Social Capital

Social awareness is central to the mission of Senkadagala Finance PLC. Its consciousness is rooted in its responsibility towards customers, employees and the communities in which it operates. However, it also broadens its awareness to encompass society as a whole. The Company maintains a culture of sharing, that in turn benefits it in the short, medium and long term.

Localised recruitments

The expansion of the Company has been both strategic and responsible. During the financial year, five branches were established. The staff employed to handle the operations of these branches were recruited from the localities while 98% of the senior staff live in the respective area as well. The centralised ICT system also helps facilitate and coordinate the overall operations of the Company.

Internship programme

Similarly, the Company also continued its internship programme. During the financial year, 10 students interned at the Company while six completed their tenure and one was recruited as part of the permanent cadres. The programme was initially launched with the aim of giving youngsters adequate training to enter the workforce with particular attention on the corporate sector. The interns are given the opportunity to engage with aspects of the business such as marketing, customer handling, credit, accounting and finance, HR functions, treasury activities and the deposit operations of the Company. As mentioned before, at the end of the six-month internship period, one intern was absorbed into the business while it is reported that all others have found employment in other established organisations.

Commitment to external initiatives and memberships

Senkadagala Finance PLC is a strategic level training partner of The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). The Company provides the students of the Institute with managerial and strategic level training.

Donation of medical equipment at Dompe hospital.

Donation in support of the maintenance work at Kandy General Hospital.

During the year the Company also participated in a training programme on credit evaluations. It was conducted by the Finance Houses Association of Sri Lanka.

Moreover, the Company is a member of the Leasing Association of Sri Lanka and has been a member of the Finance Houses Association of Sri Lanka from its inception.

Donations: Kandy General Hospital

During the financial year, the Company made a donation of paint and relevant equipment to the Kandy General Hospital. Relevant maintenance work has been subsequently carried out. This is the third time the Company made donations to the hospital. On prior occasions donations of catheters and colostomy bags were made by the Company. When providing donations, it makes a point to identify the needs of the hospital and make donations accordingly.

Donations: Dompe Hospital

The Company also made a donation of medical equipment worth Rs. 100,000 to the district hospital of Dompe.

As it was identified that the hospital lacks functional equipment required to monitor, treat, and rehabilitate patients, medical equipment such as scissors, forceps, regulators, jars and trays were provided. The DMO of the hospital also remarked that it was the first time the hospital received such a large quantity of equipment and that the donation arrived at a time of great need.

Environmental Capital

The Company is aware of its commitment to the environment. By integrating green initiatives to the systems and processes of the Company, it has been able to carry its mission forward.

The Environment and Social Management System (ESMS)

The ESMS was formulated as a prerequisite to the loan agreement with the IFC and is intended to integrate environmental and social risk management to the business processes of the Company. Following this initiation in April 2014, the Company included an addendum to its loan agreement that communicates the Company policy on environment and social risk management to the customers and emphasises the necessity to conduct business activities in line with it.

Following are the objectives of the policy:

- To develop a system that screens lending against the exclusion list and one that tallies with the applicable national, environmental and legislative best practices.
- To assist clients in identifying, mitigating and managing environmental and social risks.
- To monitor the system and ensure that its integration into the business is both smooth and efficient.

While the ESMS is one of the primary ways the Company communicates its stance on environmental consciousness, it also ensures that all products and services are in line with national and international environmental best practices. All other Company activities are also reviewed against these policies. Moreover, the Company's risk management policies are also aligned with these best practices.

Online document retrieval system

This system has helped the Company reduce the reproduction of documents in the form of hard copies. The system is also used for the loan approval process of the Company and in turn has helped reduce the amount of time taken to approve a loan facility.

Conserving energy and resources

When new branches are established, the Company now makes it a point to install LED panel lights. Even though this has moderately increased the procurement and installation costs, it has vastly helped to reduce the energy consumption of the entity. Energy saving inverter air conditioners are installed in all new branches as well as when replacing existing ones to ensure energy conservation throughout.

Spending on utilities

	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000
Electricity expenses	45,110	43,263	43,030	42,265	38,910
Water expenses	962	1,017	944	994	961

Moreover, the management also promotes the re-use of materials such as paper and envelopes which minimises costs while also promoting environmentally friendly trends among the staff.

Popham Arboretum project

As it did in the past, the Company continued to extend its support to the Popham Arboretum project in Dambulla which has expanded its mission beyond Chena cultivation to include naturally grown indigenous dry zone trees.
The Arboretum also educates the public on the importance of natural forestation and warns them of the danger of clearing lands for cultivation. During the year, a team of 20 Company employees participated in a programme conducted at the Arboretum. The feedback received from the employees was positive and has motivated employees to lead more environmentally conscious lives. It is certain that with the assistance provided by Senkadagala Finance PLC, the Arboretum will continue to grow and diversify.

Programme conducted at Popham Arboretum.

Shareholder and Investor Capital

At its inception in 1968, Senkadagala Finance PLC had three shareholders who were the Directors of the Company at the time. Since then, the Company has grown significantly, understanding that shareholder trust is a key reason for the success and stability of the Company in the short, medium and long term. It relies on investors for equity and on individuals and institutions for debt capital. Today, the Company maintains an optimal level of equity to debt capital giving it the degree of stability a financial services institution requires and also enabling it to increase the returns to all investors and other stakeholders.

As demonstrated with the rights issue of shares during the year, today, the Company has a loyal base of shareholders who are ever willing to support the Company with any further capital requirements to support expansion.

During the financial year, there were several developments in relation to the capital of the NBFIs. The Department of Supervision of Non-Bank Financial Institutions (DSNBFI) issued a consultation paper on the implementation of the new capital adequacy framework for Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) The proposed framework requires NBFIs to maintain capital for credit risk under The Standardised Approach and for operational risk under The Basic Indicator Approach of the third BASEL Accord, as opposed to the existing requirement which focuses solely on credit risk.

New regulation will be phased in, increasing the minimum requirement of the Tier 1 ratio up to 7% and the total capital ratio to 12% by 2020. It would also affect the capital instruments that could be considered for the calculation of Tier 1 and Tier 2 Capital. The risk weighting for different asset categories have also been changed drastically. Off balance sheet items are considered for the purpose of risk weighting. Given this development, sourcing capital funds would be a challenge for NBFIs.

Nevertheless, presently the Company maintains healthy capital ratios while providing its shareholders with a steady flow of dividends.

In March 2011, Senkadagala Finance PLC was listed in the Diri Savi Board of the Colombo Stock Exchange, providing shareholders with a liquid form of investment. The Company only has equity in the form of voting shares in issue.

The Company has issued several Debentures to exploit the favourable market conditions. During the financial year, one such debenture was redeemed at maturity. Several debenture holders opted to convert their holding in to deposits with the Company, at the point of redemption.

Dividend policy

The Company takes into consideration a number of factors such as earnings after tax, current capital ratios, capital requirements to support future growth, strategies and industry practices when deciding dividend payouts.

During the year under review, the Company distributed 21.21% of its earnings compared to 21.59% of the previous year. Details of dividends paid to shareholders during the year are as follows:

	2018			2017		
Dividend payment	Amount (Rs.)	DPS (Rs.)	Paid date	Amount (Rs.)	DPS (Rs.)	Paid date
1st interim dividend paid	36,237,531	0.50	01.11.2017	39,136,533	0.60	24.11.2016
2nd interim dividend paid	68,851,308	0.95	21.02.2018	58,704,800	0.90	26.01.2017
3rd interim dividend paid	72,475,061	1.00	03.05.2018	39,136,533	0.60	07.04.2017
Final dividend proposed/paid	68,851,308	0.95	Subject to AGM approval	68,851,308	0.95	11.07.2017
Total dividends proposed	246,415,208			205,829,173		
Dividends paid during the year	213,076,679			185,898,532		
Earnings during the year	1,004,671,318			860,971,242		
Dividends pay-out ratio (%)	21.21			21.59		
Earnings retention ratio (%)	78.79			78.41		

Rights issue – April 2017

The Board of Directors proposed, and approval was obtained from the Colombo Stock Exchange and the Central Bank of Sri Lanka to issue and list 7,247,506 shares at an issue price of Rs. 80/- per share to raise Rs. 579,800,480 by way of a rights issue. The resolution pertaining to this issue was duly adopted by the shareholders at the Extraordinary General Meeting held on 30 March 2017. The Rights were fully subscribed and the issue was completed by 24 April 2017. The shares were listed in the Colombo Stock Exchange on 2 May 2017. The primary objective of the issue was to maintain a higher capital adequacy. The funds raised were proposed to be utilised in the ordinary course of the business to increase the loan book of the entity.

Details of utilisation of funds raised via the Rights Issue are as follows:

Objective No.	Objective as in circular	Amount allocated as in circular in Rs.	Proposed date of utilisation as in circular	Amount allocated from proceeds in Rs. (A)	Percentage of total proceeds	Amount utilised in Rs. (B)	Percentage of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
1	Maintain a higher capital adequacy	579,800,480	31 March 2017	579,800,480	100	579,800,480	100	N/A
2	Increase the loan book	579,800,480	One month from receipt (i.e. 24 May 2017)	579,800,480	100	579,800,480	100	N/A

Shareholder Information

Twenty largest shareholders

As at 31st March	2018		2017	
	Number of shares	% of holding	Number of shares	% of holding
E W Balasuriya & Co. (Pvt) Limited	40,774,460	56.26	36,697,014	56.26
Hallsville Trading Group Inc.	5,954,393	8.22	5,308,517	8.14
Dr M Balasuriya	4,172,046	5.76	3,754,842	5.76
Mr R Balasuriya	4,172,045	5.76	3,754,842	5.76
Dr (Mrs) G Madan Mohan	4,172,045	5.76	3,754,841	5.76
Dr A Balasuriya & Mr D Balasuriya	2,086,023	2.88	3,858	0.01
Mr. L. Balasuriya & Mr S K Balasuriya	2,086,023	2.88	1,877,421	2.88
Dr A Balasuriya & Mr S Balasuriya	2,086,022	2.88	3,857	0.01
Mr L Balasuriya & Ms A S Balasuriya	2,086,022	2.88	1,877,420	2.88
Mrs L Fernando & Ms S A Fernando	1,166,232	1.61	2,572	0.00
Mrs L Fernando & Mr A R Fernando	1,166,231	1.61	2,571	0.00
Mrs L Fernando & Ms A L Fernando	1,166,231	1.61	2,571	0.00
Mr D K C R Fernando	673,348	0.93	606,014	0.93
Mrs C Fernando	172,888	0.24	172,888	0.27
Estate of the late Mr D G K Hewamallika	172,888	0.24	172,888	0.27
Mrs S Thaha	158,483	0.22	158,483	0.24
Mr I M Thaha	144,073	0.20	129,666	0.20
Mr M M Ariyaratne	31,653	0.04	28,488	0.04
Mr P P K Ikiriwatte	16,977	0.02	15,280	0.02
Mr J K Jayatileke	16,963	0.02	15,267	0.02
Dr A Balasuriya	–	0.00	3,747,127	5.74
Mrs L Fernando	–	0.00	3,141,113	4.82
Total shares	72,475,046	100.00	65,227,540	100.00

The percentage of shares held by the public on 31 March 2018 was 21.60% (2017 – 21.60%) and was distributed among nine (2017 – nine) shareholders.

The Company has 72,475,061 (2017 – 65,227,555) number of voting shares in issue, with right to vote allocated at one vote per share as at 31 March 2018.

Directors' Shareholdings

As at 31 March	2018		2017	
	Number of shares	% of holding	Number of shares	% of holding
Dr A Balasuriya	–	0.00	3,747,127	5.74
Dr A Balasuriya & Mr D Balasuriya	2,086,023	3.20	3,858	0.01
Dr A Balasuriya & Mr S Balasuriya	2,086,022	3.20	3,857	0.01
Dr M Balasuriya	4,172,046	6.40	3,754,842	5.76
Mrs L Fernando	–	0.00	3,141,113	4.82
Mrs L Fernando & Ms S A Fernando	1,166,232	1.79	2,572	0.00
Mrs L Fernando & Mr A R Fernando	1,166,231	1.79	2,571	0.00
Mrs L Fernando & Mr A L Fernando	1,166,231	1.7%	2,571	0.00
Mr L Balasuriya & Mr S K Balasuriya	2,086,023	3.20	1,877,421	2.88
Mr L Balasuriya & Ms A S Balasuriya	2,086,022	3.20	1,877,420	2.88
Mr L Balasuriya – The Trustee of the capitalisation issue	15	0.00	15	0.00
Mr W A T Fernando	–	0.00	–	0.00
Dr P Ramanujam	–	0.00	–	0.00
Mr. S D Bandaranayake	–	0.00	–	0.00
Mr D T P Collure	–	0.00	–	0.00
Mr W M R S Dias	–	0.00	–	0.00
Mr Senanayakege R Pushpakumara	–	0.00	–	0.00

Distribution of Shareholding

Shareholding as at 31 March	2018			2017		
	Number of holders	Number of shares	%	Number of holders	Number of shares	%
1 – 1,000	1	15	0.00	1	15	0.00
1,001 – 10,000	0	–	0.00	5	15,429	0.02
10,001 – 100,000	3	65,593	0.09	3	59,035	0.09
100,001 – 1,000,000	5	1,321,680	1.82	6	1,239,939	1.90
1,000,001 – 10,000,000	11	30,313,313	41.83	8	27,216,123	41.72
Over 10,000,001 shares	1	40,774,460	56.26	1	36,697,014	56.26
		72,475,061	100.00		65,227,555	100.00

Residential and non-residential shareholders

As at 31 March	2018			2017		
	Number of holders	Number of shares	%	Number of holders	Number of shares	%
Resident shareholders	20	66,520,668	91.78	23	59,919,038	91.86
Non-resident shareholders	1	5,954,393	8.22	1	5,308,517	8.14
		72,475,061			65,227,555	

Information on market prices and other ratios

As at 31 March	2018	2017	2016	2015	2014
Earnings per share (Rs.)	13.97	13.05	9.40	8.27	8.63
Dividends per share (Rs.)	3.00	2.85	2.55	1.65	3.66
Net assets per share (Rs.)	69.42	56.14	45.89	38.85	35.80
Price earning ratio (times)	6.44	6.90	6.38	7.25	5.79
Price to book value ratio (times)	1.30	1.60	1.31	1.54	1.40
Dividends yield (times)	3.33	3.17	4.25	2.75	7.32

Market price and trade information

As at 31 March	2018	2017
Market Prices		
Highest price (Rs.)	Not traded	90.00
Lowest price (Rs.)	Not traded	90.00
Last traded price (Rs.)	Not traded	90.00
Last traded date	–	20.12.2016
Number of trades	–	1
Number of shares traded	–	144,073
Value of shares traded (Rs.)	–	12,966,570

Institutional and individual shareholdings

As at 31 March	2018			2017		
	Number of holders	Number of shares	%	Number of holders	Number of shares	%
Institutional	3	46,728,868	64.48	3	42,005,546	64.40
Individual	18	25,746,193	35.52	21	23,222,009	35.60
		72,475,061			65,227,555	

Information on Listed Debentures

The listed debentures provide a reliable source of funding for corporates. It also allows the investors to reap benefits of favourable market movements and realised the gains when required. Senkadagala Finance has following listed debentures in issue:

Debenture	December 2013
Instrument	Subordinated, Unsecured, Redeemable, Rated
Listing	Main Board of the Colombo Stock Exchange
Redemption	Redeemable
Number of debentures	12,500,000
Issue price	Rs. 100.00
Tenure	5 years
Date of issue	December 2013
Date of maturity	December 2018
Interest rate	Fixed coupon of 15.00% p.a.
Frequency of interest	Quarterly
Effective annual yield (%)	15.87
Interest of comparable Government Securities (%)	10.40
Rating	BBB by Fitch Ratings Lanka Ltd.
Total amount	Rs. 1,250,000,000
Market information	
Highest traded value (Rs.)	102.00
Lowest traded value (Rs.)	99.94
Last traded value (Rs.)	102.00
Current yield (%)	14.71
Yield to maturity (%)	3.21

	November 2016				
	Type A	Type B	Type C	Type D	Type E
	Senior, Unsecured, Redeemable, Rated				
	Main Board of the Colombo Stock Exchange				
	Redeemable	Redeemable	Redeemable	Redeemable	Redeemable
	3,972,700	100	1,895,100	622,700	23,509,400
	Rs. 100.00	Rs. 100.00	Rs. 100.00	Rs. 100.00	Rs. 100.00
	2 years	3 years	3 years	4 years	4 years
	November 2016	November 2016	November 2016	November 2016	November 2016
	November 2018	November 2019	November 2019	November 2020	November 2020
	Fixed coupon of 12.50% p.a.	6-Month Gross T Bill + 1.50%	Fixed coupon of 13.25% p.a.	6-Month Gross T Bill + 1.75%	Fixed coupon of 13.75% p.a.
	Semi-annually	Semi-annually	Semi-annually	Semi-annually	Semi-annually
	12.89	–	13.69	–	14.22
	10.00	10.05	10.05	10.20	10.20
	BBB+ by Fitch Ratings Lanka Ltd.				
	Rs. 397,270,000	Rs. 10,000	Rs. 189,510,000	Rs. 62,270,000	Rs. 2,350,940,000
	99.70	Not traded	Not traded	Not traded	100.00
	97.00	Not traded	Not traded	Not traded	100.00
	99.00	Not traded	Not traded	Not traded	100.00
	12.63	–	–	–	13.75
	6.80	–	–	–	6.88

The Company redeemed the senior unsecured redeemable listed debentures to the value of Rs. 585,753,500 during the year.

The subordinated debenture issue in December 2013 was primarily utilised to strengthen the capital structure of the Company. The approved subordinated debenture helped to improve the total capital ratio of the Company. The proceeds of this issue were also used to finance the growth of the lending portfolio at the time. Exposure to interest rate risk reduced subsequent to the issue of this debenture, as the five-year fixed-rated funds raised helped to reduce the interest mismatch between assets and liabilities at the time.

Inclusion of the subordinated debt helped to greatly improve the total capital ratio of the Company at the time. The amount included was discounted by 20% every year. In March 2018, only Rs. 250 Mn. was included in the said computation.

Please refer the following section for information on the capital adequacy position of the Company. Proceeds from the debenture issue in November 2016 were primarily utilised to finance leasing and other lending of the Company.

Details of utilisation of funding – listed debenture November 2016

Objective number	Objective as per prospectus	Amount allocated as per prospectus	Proposed date of utilisation as per prospectus	Amount allocated from proceeds in Rs. (A)	Percentage of total proceeds	Amount utilised in Rs. (B)	Percentage of utilisation against allocation (B/A)	Clarification if not fully-utilised including whether the funds are invested
1.	Leasing	Rs. 2,700 Mn.	Within 6 months from the date of allotment	Rs. 2,700 Mn	90%	Rs. 2,700 Mn.	100%	N/A
2.	Loans and advances	Rs. 300 Mn.	Within 6 months from the date of allotment	Rs. 300 Mn	10%	Rs. 300 Mn.	100%	N/A

Other financial information

As at 31 March	2018	2017
Debt to equity ratio (times)	3.93	5.12
Interest cover (times)	1.29	1.36

Capital Adequacy

The maintenance of adequate capital funds is essential to be stable in volatile economic conditions. The Central Bank of Sri Lanka has issued several directives to strengthen the capital position of NBFIs. In early 2017, a Direction was issued specifying the minimum core capital required by an LFC, with the view of encouraging consolidation of LFCs. Following are the Directives governing the capital position of LFCs and the requirements therein,

- Finance Companies (Capital Funds) Direction No. 1 of 2003; specifies that every finance company shall maintain capital funds which shall at all time be more than 10% of its total deposit liabilities also every finance company shall maintain a Statutory Reserve Fund, transferring a specified fraction of its net profit for the year based on the ratio of capital funds to total deposit liabilities.
- Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 2 of 2006; specifies that every finance company shall, at all times maintain its core capital at a level not less than 5% of its risk weighted assets, with the total capital constituting not less than 10% of its risk weighted assets.

  Tier 1 – Core capital: comprising paid up ordinary share capital, statutory reserves and or any other reserves created or increased by transferring of retained earnings excluding special purpose reserves.

  Tier 2 – Supplementary capital: comprising revaluation reserves, general provisions and other capital instruments which combine characteristics of equity and debt instruments and unsecured subordinated term debts.

  Risk weighted assets – The Central Bank defines weightages based on the risk inherent in each category of assets. Cash and cash equivalent items as well as government securities are 0% weighted, securitised assets are weighted in accordance with risk exposure of the security, etc.

- Finance Companies (Minimum Core Capital) Direction No. 02 of 2017; specifies, that every finance company shall at all times maintain an unimpaired core capital not less than Rs. 1 Bn. until 1 January 2018 and thereafter maintain an unimpaired core capital at levels stipulated therein by the specified dates.

At Senkadagala Finance PLC

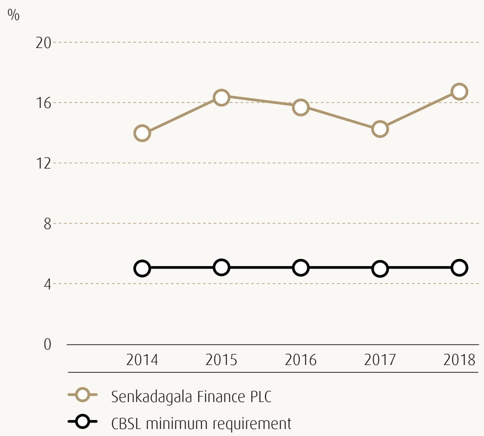
As at 31 March 2018, the Company recorded a core capital ratio of 16.86% and a total capital ratio of 17.65%. Moreover, the Company maintained a Statutory Reserve Fund, amounting to Rs. 365,036,033 as at 31 March 2018. Additionally, Rs. 55 Mn. out of the profits were transferred to the said fund during the year. Out of profits for the year, Rs. 787 Mn. was retained within the Company to support future growth and to strengthen the capital base of the Company.

In April 2017, the Company issued 7,247,506 shares by way of a Rights Issue, infusing Rs. 579.8 Mn. with the primary objective of enhancing the capital position of the Company. Subsequent to the issue, the core capital ratio and the total capital ratio increased to 16.44% and 18.33% respectively.

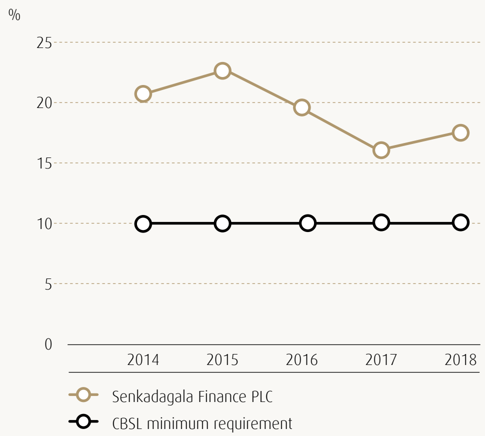
Core capital ratio	2018 %	2017 %	2016 %	2015 %	2014 %
Senkadagala Finance PLC	**16.86**	14.19	15.82	16.54	14.00
CBSL minimum requirement	**5.00**	5.00	5.00	5.00	5.00

Total capital ratio	2018 %	2017 %	2016 %	2015 %	2014 %
Senkadagala Finance PLC	**17.65**	16.08	19.69	22.97	20.93
CBSL minimum requirement	**10.00**	10.00	10.00	10.00	10.00

Core capital ratio



Total capital ratio

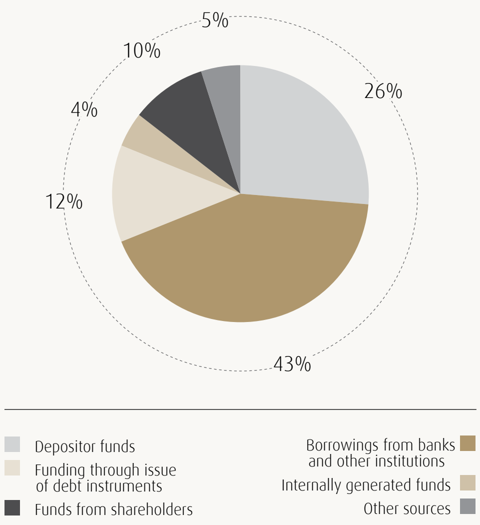


Sources and Distribution of Funds

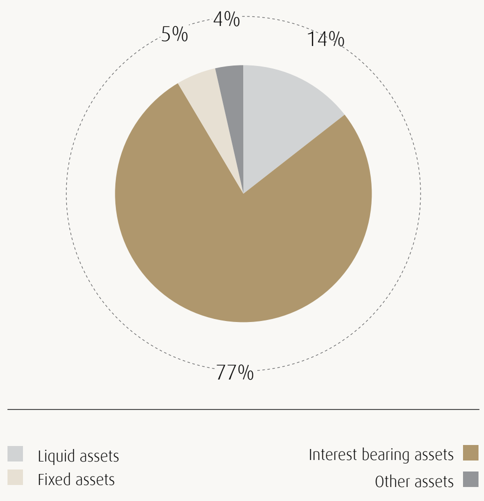
	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000
Sources of funds						
Depositor funds	9,507,134	7,230,873	6,510,033	6,541,896	5,624,399	3,412,464
Borrowings from banks and other institutions	15,376,359	13,743,732	8,691,685	4,787,693	3,423,011	6,136,152
Funding through issue of debt instruments	4,399,896	4,992,786	3,059,849	3,579,737	4,157,346	2,618,281
Funds from shareholders	1,587,863	1,008,062	1,008,062	1,008,062	747,152	533,680
Internally-generated funds	3,443,624	2,653,555	1,985,297	1,525,785	1,354,631	1,040,367
Other sources	1,788,888	1,289,819	1,015,019	629,846	563,137	528,634
Total	36,103,763	30,918,827	22,269,945	18,073,018	15,869,676	14,269,579

	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000
Distribution of funds						
Liquid assets	5,220,436	4,923,705	3,496,397	2,796,849	2,073,101	1,860,837
Interest-bearing assets	27,801,785	23,757,588	16,908,140	13,582,928	12,675,542	11,559,936
Fixed assets	1,803,150	1,516,891	1,194,663	1,122,864	857,732	629,823
Other assets	1,278,392	720,598	670,744	570,378	263,301	218,982
Total	36,103,763	30,918,827	22,269,945	18,073,018	15,869,676	14,269,579

Sources of funds



Distribution of funds



Stewardship

Board of Directors' Profiles

Mr W M R S Dias

FCIBC (London), LLB, Hubert H Humphrey Fellow

Chairman

Mr Ravi Dias, a banker by profession, retired as the Managing Director/Chief Executive Officer of Commercial Bank of Ceylon PLC after long years of service. He is a Fellow of the Chartered Institute of Bankers – UK, holds a Degree in Law (LL.B) and is a Hubert H Humphrey Fellow.

Mr Dias serves on the Boards of Seylan Bank PLC (Chairman), Carson Cumberbatch PLC, Tokyo Cement (Lanka) PLC, Ceylon Tea Marketing (Pvt) Ltd (Deputy Chairman) and South Asia Textile Industries Lanka (Pvt) Ltd. He is the Co-Chair of the National Advisory Committee on Finance and Capital of the Ceylon Chamber of Commerce.

He previously served on the Boards of Lanka Clear (Pvt) Ltd., Lanka Financial Services Bureau Ltd., and was a Council Member of the Employers' Federation of Ceylon.

Dr Prathap Ramanujam

BSc (Hons), MSc (UK), PhD (Aus)

Deputy Chairman

Dr Ramanujam holds a first class BSc (Hons) Degree from the University of Peradeniya and a MSc Degree in Economics from the University of Bristol (UK). He obtained his PhD in Economics from the Australian National University, Canberra, Australia. He retired after 38 years of distinguished service in the public sector. He was also the Permanent Secretary to several key ministries including Tourism, Livestock Development and Estate Infrastructure, Civil Aviation and Urban Development during the last 14 years of his career in the public sector. He served as a Director of the National Savings Bank and the State Mortgage and Investment Bank during his career in the public sector.

In recognition of his service in the public sector Dr Ramanujam was appointed as a member of the independent Public Service Commission by the Constitutional Council.

Dr Ramanujam is currently Chairman of Panasian Power PLC, Chairman and Director of Manelwela Hydropower (Pvt) Ltd., and Padiyapelella Hydropower (Pvt) Ltd. He is also a Director of Panasian Investments (Pvt) Ltd., and a Director of Ceylon Agro Industries Ltd. He functions as an Advisor to the Director General of the International Water Management Institute.

Mr Lakshman Balasuriya

BSc (London), MSc (Lancaster)

Managing Director/Chief Executive Officer

Mr Lakshman Balasuriya is a Director of Senkadagala Hotels Ltd., E. W. Balasuriya & Co. (Pvt) Ltd. and Thompsons Beach Hotels Ltd. He holds a BSc (London) and MSc (Lancaster) and has 37 years of experience in finance, hotels and other commercial fields. He is the Managing Director and Chief Executive Officer of Senkadagala Finance PLC.

Dr Asoka Balasuriya

BSc (London), PhD (London)

Executive Director

Dr Balasuriya holds a BSc (Lon) and a PhD (Lon) and has over 34 years of experience in the field of gems and jewellery. He is also a Director of Senkadagala Hotels Ltd., Thompsons Beach Hotels Ltd., and is the Chairman of E W Balasuriya & Co. (Pvt) Ltd.

Ms Lakshmi Fernando

BSc (Hons)

Executive Director

Ms Fernando holds a BSc (Hons) and has over 22 years of experience in the field of finance as well as in hotel management. She is a Director of Thompsons Beach Hotels Ltd., Senkadagala Hotels Ltd., and E W Balasuriya & Co. (Pvt) Ltd.

Dr Mahendra Balasuriya

BVSc

Executive Director

Dr Balasuriya is a Director of Senkadagala Hotels Ltd., E W Balasuriya & Co. (Pvt) Ltd., and Thompsons Beach Hotels Ltd. He holds a Bachelor's Degree in Veterinary Science and has over 34 years of experience in the hotel industry and other related fields.

Mr Widanalage Ajith Terence Fernando

FCMA, MA (Colombo)

Independent Non-Executive Director

Mr Fernando is a Fellow of the Chartered Institute of Management Accountants of the United Kingdom (FCMA) and has a MA in Financial Economics from the University of Colombo.

He has over 27 years of experience in the capital markets of Sri Lanka. He founded Capital Alliance in 2000 and currently serves as the Group CEO. The Capital Alliance Group includes Capital Alliance Ltd. (a primary dealer for Government Securities, appointed by the Central Bank of Sri Lanka), Capital Alliance Securities (Pvt) Ltd. (which is a trading member of the Colombo Stock Exchange), Capital Alliance Investments Ltd. (a licensed unit trust manager), and Capital Alliance Partners Ltd., the leading Investment banking firm.

In addition, he serves on the Boards of many listed and unlisted companies including ADZ Insurance Brokers (Pvt) Ltd., Ashthi Holdings (Pvt) Ltd. and Ceylon Tea Brokers PLC.

Mr Sanath Divale Bandaranayake

BSc (University of Sri Lanka)

Executive Director/Additional CEO

Mr. Bandaranayake joined the Company after his retirement from Commercial Bank of Ceylon PLC, the largest and the most awarded bank in Sri Lanka, having completed 36 years of service.

He has served the Bank in various capacities such as Branch Manager (Kandy, City Office), Chief Manager, Assistant General Manager and Deputy General Manager (Operations) and was a core member of the Management teams which led the Bank to important milestones such as introducing Banking Software to improve the bank's operations (which is used even today), Holiday Banking and Supermarket Banking.

During his career at the Bank he was appointed as Director of LankaClear. He also served as the Director of Commex Sri Lanka S.R.L. (a subsidiary of Commercial Bank located in Italy) and OneZero Company Ltd. (a subsidiary of Commercial Bank that engages in the business of Information Technology). Mr. Bandaranayake holds a Bachelor's Degree in Physical Sciences from the University of Sri Lanka, Vidyodaya Campus.

Mr Tilak Collure

BSc (Colombo) MPA (USJ)

Independent Non-Executive Director

Mr Collure is a former public servant from the Sri Lanka Administrative Service Special Grade who held a number of senior positions during 35 years in Government service mainly in the areas of trade, commerce and logistics.

He has served as the Secretary of the Ministries of Industry and Commerce, Transport and Ports, Shipping and Aviation. During his career, he has also headed several major public sector corporate institutions.

At present, he serves as a Member of the National Police Commission. Mr Collure holds a BSc in Natural Sciences (Colombo) and a Masters in Public Administration with a Merit Award (PIM/University of Sri Jayewardenepura).

Mr Senanayakege Raja Pushpakumara

FCA, BCo (Special) (USJ), PGDip (BMgt)

Independent Non-Executive Director

Mr Senanayakege completed his articles at M/s. Ernst & Young qualifying as a Chartered Accountant and joined Singer Industries (Ceylon) PLC in 1991 as a Financial Accountant. In 1994, he joined Commercial Bank of Ceylon PLC as the Senior Manager Finance where he worked for 13 years. He also held the position of Assistant General Manager (Finance and Planning). Thereafter he resigned to join Nations Trust Bank PLC as the Chief Financial Officer. Subsequent to resigning from NTB, he commenced working for Smart Media – The Annual Report Company helping the Company in all aspects of annual report production.

Mr Senanayakege also serves as an independent non-executive Director of Serendib Finance Ltd., a fully-owned subsidiary of Commercial Bank of Ceylon PLC and a Director of Virtual Capital Technologies (Pvt.) Ltd., a start-up IT company.

A solid base

Founded on stability, throughout half a century, Senkadagala Finance PLC has molded and remolded its systems and processes to ensure a secure future.

Corporate Governance

The Company's corporate governance framework is built on the cornerstones of collaborative culture, independent structure, ethical behaviour and the focused approach and ensures good governance within the Company. The Board has laid down a strong foundation through its governance philosophy which has been discussed in detail in this section. Further, it addresses how the Company will conduct business in responding to the numerous opportunities and threats presented by the business environment whilst maintaining the right balance between the rights and responsibilities of stakeholders.

As per the concept of Corporate Governance which has been defined as a system by which companies are directed, managed and controlled; the effective, transparent and accountable governance of affairs of a company by its management, including the conduct of the Board, ensures good corporate governance. Therefore, we at Senkadagala Finance PLC, place a strong emphasis on adopting and implementing sound principles and practices of good corporate governance derived over its foundation. The Company's policy of employing principles and practices of good governance ensures that its affairs are conducted in an effective and transparent manner and is well communicated to all branches, service centres and departments within the Organisation.

Moreover, governance of financial institutions should aim at protecting the interests of all stakeholders such as shareholders, other investors, customers, employees, suppliers, regulators, depositors and the general public. Therefore, to that effect, the overall responsibility for governing the Company has been initiated by the Board of Directors followed by the Management Committee who takes leadership and a supervisory role in ensuring that the business is conducted in a transparent, sound and prudent manner. In governing the operations of the Company, the Board ascertains its core objectives and devises strategic plans in keeping with its corporate vision, mission and corporate values. The Board as part of its duties establishes policies, procedures and practices for the smooth conduct of operations while providing financial, human and other resources for the attainment of its corporate objectives. The Company continues to excel in the area of financial reporting which enhances transparency, one of the key features of an enterprise practicing sound corporate governance practices.

The framework including policies, procedures, structures and processes are reviewed regularly with the view of identifying gaps, if any and areas for improvement to ensure that all elements of the Company's governance framework are fit for the purpose and up-to-date enabling value creation and growth.

The Governance environment of the Company

Finance Business Act No. 42 of 2011

Finance Leasing Act No. 56 of 2000

Directions and Guidelines Issued for LFCs and SLCs by CBSL

Continuing Listing Requirements of CSE

Companies Act No. 07 of 2007

Inland Revenue Act No. 24 of 2017

Articles of Association of the Company

Organisational Structure

Terms of Reference and Charters of Board and Management Committees

Risk Management Framework

Manuals of Operations

Code of Ethics for Employees

Board Approved Policies on Operational Aspects

EPF Act No. 15 of 1958

ETF Act No. 46 of 1980

Financial Transactions Reporting Act No. 06 of 2006 Shop and Office Employees Act No. 19 of 1954 CRIB Act No. 18 of 1990

Termination of Employment Act No. 45 of 1971

Gratuity Act No. 12 of 1983

Code of Best Practice on corporate governance Issued Jointly by CA Sri Lanka & SEC

Code of Best Practice on Related Party Transactions Issued by the SEC & CSE

IFC Covenants

The Company's corporate governance structure has been designed based on recommended best practices, regulatory requirements and industry standards. It has been further developed in the recent past in order to accommodate the additional requirements of regulators.

Corporate Governance Structure of the Company

CHAIRMAN
Key Objective
Governance of the Board
Independent Non-Executive Director

BOARD OF DIRECTORS
Key Objective
Overall conduct of the business and strategy setting
Five independent Non-Executive Directors and Five Non-Executive Directors

Management Committee
Key Objectives
Implementation of strategy and actions in respect of financial planning and performance; day-to-day management of operations
Five Executive Directors from different disciplines

Audit Committee
Key Objectives
Effective governance of financial reporting, internal controls and risk management systems, review of significant accounting judgements, assumptions and estimates, management of the relationship and appointment of the External Auditor, monitoring and review of the effectiveness of the internal audit function
Four Independent Non-Executive Directors with accounting and auditing background

Integrated Risk Management Committee
Key Objectives
Development and implementation of policy on risk management including corporate compliance, review, assess and monitor all the risks faced by the Company and compliance with policies, procedures and other regulatory requirements
One Independent Non-Executive Director and two Executive Directors with the Senior Management

Remuneration Committee
Key Objectives
Development and implementation of the Company's remuneration framework and policies for Directors and the management including all incentives, bonuses and retirement benefits
Three Independent Non-Executive Directors

Related Party Transactions Review Committee
Key Objectives
To have guidelines for identification of related parties and the proper conduct, documentation and disclosure of all related party transactions of the Company
Two Independent Non-Executive Directors and one Executive Director

The Company, during the year, has committed to comply with all corporate governance requirements including the following:

- The Direction on Corporate Governance for Licensed Finance Companies issued by the Central Bank of Sri Lanka (CBSL) under Direction No. 3 of 2008 and amendments thereto which is effective from 1 January 2009.
- The Continuing Listing Requirements, Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange (CSE).
- The Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (SEC) of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Finance Companies Direction No. 03 of 2008 (and Subsequent Amendments thereto) on corporate governance for Licensed Finance Companies in Sri Lanka

This Direction which comprises nine fundamental principles, namely the responsibilities of the Board of Directors, meetings of the Board, composition of the Board, criteria to assess the fitness and propriety of Directors, delegation of functions, the Chairman and the Chief Executive Officer, Board appointed Committees, related party transactions and disclosures. The established structures in place and the conformance to the requirements are tabulated below under each fundamental principle.

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
2. The Responsibilities of the Board of Directors			
2 (1)	Strengthening the safety and soundness of the operations of the Finance Company	Complied	The Board is responsible for overseeing the strategic direction, ensuring adequacy of risk management procedures, maintaining effective communication with all stakeholders, reviewing internal control systems and management information systems for their effectiveness, identifying and defining the responsibilities of Key Management Personnel including succession planning, understanding the regulatory environment and exercising due diligence in hiring and oversight of External Auditors.
2 (2)	Chairman and CEO	Complied	The functions and the responsibilities of the Non-Executive Chairman and the Managing Director/CEO have been in line with Section 7 of the Direction. The Chairman is required to provide leadership to the Board to ensure that the Board effectively discharges its responsibilities. The Managing Director/CEO on the other hand being an Executive Director is responsible for effective running of day-to-day operations of the Company.
2 (3)	Independent professional advice	Complied	Independent professional advice could be obtained by the Directors as and when required, at the Company's expense.
2 (4)	Voting for resolutions in matters of interest	Complied	There had been no such circumstances that arose during the year and procedure is in place to avoid conflicts of interest in relation to matters of interest. There is proper identification and disclosure of Directors' Interest in Contracts and Related Party Transactions through proper recording and disclosure in Financial Statements.
2 (5)	Formal schedule of matters	Complied	The Board ensures direction and the control of the Finance Company is under its authority through decisions made by way of a formal schedule of matters reserved for it, which has been approved by the Board.
2 (6)	Situation of Insolvency	Complied	Such situation has not arisen as Company fulfilled all its obligations accordingly. The Company makes payment of interest and capital on due maturity dates to its depositors and its borrowers, when they fall due.
2 (7)	Corporate Governance Report	Complied	This Report satisfies the stipulated requirement.
2 (8)	Scheme of self-assessment	Complied	Annual self-assessment by each Director on Board Performance has been done accordingly.
3 Meetings of the Board			
3 (1)	No. of meetings	Complied	Please refer table of Directors attendance for the Board meetings given later in this section. Board papers and other matters which require the Board's consent had been taken up directly at Board meetings as much as possible.
3 (2)	Inclusion of proposals by all Directors in the agenda	Complied	All Directors are able to submit proposals for discussion on matters pertaining to promotion of business and the risk management of the Company.
3 (3)	Notice of Meetings	Complied	Directors are given adequate time and minimum notice period for all Board meetings.
3 (4)	Attendance of Directors	Complied	All Directors have attended the Board meetings as stipulated by the Direction. Attendance of Directors at Board Meetings is given later on in this Annual Report.
3 (5)	Board Secretary	Complied	A Board Secretary has been appointed by the Board to handle secretarial services of the Board and other functions specified by the statutes.

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
3 (6)	Agenda for Board Meetings	Complied	Board Secretary prepares the agenda for Board meetings under direct supervision of the Chairman. Prior to circulation, Board Secretary obtains Chairman's approval for the Notice of Meeting and the agenda.
3 (7)	Access to the Company Secretary	Complied	All Directors have the opportunity to obtain advice and services of the Company Secretary without any restriction.
3 (8)	Minutes of Board Meetings	Complied	Duly perfected minutes of the Board meetings are available with the Board Secretary and those are accessible by any Director at any point in time.
3 (9)	Details of Minutes	Complied	Minutes of all Board meetings are duly recorded in sufficient details and retained by the Board Secretary under the direct supervision of the Chairman.

4. Composition of the Board

4 (1)	Number of Directors	Complied	There were ten Directors in the Board as at the end of the financial year.
4 (2)	Period of Service of a Director	Complied	Period of service of Non-Executive Directors has not exceeded nine years.

Name of Director	Directorship Status	Number of Months/ Years in Position as at 31 March 2018
Mr W M R S Dias	Chairman – Independent Non-Executive Director	Completed three years and seven months
Dr P Ramanujam	Independent Non-Executive Director	Completed five years and seven months
Mr W A T Fernando	Independent Non-Executive Director	Completed seven years and eight months
Mr T Collure	Independent Non-Executive Director	Completed three years and ten months
Mr Raja Senanayake	Independent Non-Executive Director	Completed one year

4 (3)	Appointment of an employee as a Director	Complied	No such situation has arisen during the year.
4 (4)	Number of Independent Non-Executive Directors	Complied	Board comprised five Independent Non-Executive Directors out of total of ten Directors in the Board as at the end of the financial year.
4 (5)	Alternate Director	Complied	No such situation has arisen during the year.
4 (6)	Skills and Experience of Non-Executive Directors	Complied	All five Non-Executive Directors of the Board possess adequate skills and experience to contribute to the Board in effectively discharging its obligations. The details of qualifications and experience of each Non-Executive Director have been set out on pages 82 and 83 in this Report.
4 (7)	Non-Executive Directors in the Quorum of the Meetings	Complied	Required quorum was maintained at the Board Meetings convened during the year and the satisfactory proportion of Non-Executive Directors was present at these meetings.
4 (8)	Directors Information	Complied	Composition of the Board by category of Directors, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors has been disclosed in this Report in pages 82 and 83.
4 (9)	Appointment of new Directors	Complied	There has been a formal and transparent procedure for the appointment of new Directors to the Board.

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
4 (10)	Filling a casual vacancy of a Director	Complied	No such situation has arisen during the year.
4 (11)	Resignation/Removal of a Director	Complied	All new appointments and resignations are informed to the Director, Department of Supervision of Non-Bank Financial Institutions and also to the Colombo Stock Exchange in a timely manner.
5. Criteria to Assess the Fitness and Propriety of Directors			
5 (1)	Directors over 70 years of age	Complied	As at the end of the financial year, all Directors of the Company were below the age of 70 years.
5 (2)	Holding of office in companies	Complied	Holding of office by the Directors of Senkadagala Finance PLC has been in accordance with this corporate governance requirement.
6. Delegation of Functions			
6 (1)	Delegating work	Complied	The Board ensures delegation of authority at various levels does not hinder or reduce its ability as a whole to discharge its functions.
6 (2)	Reviewing of delegation process	Complied	Delegation of authority is being reviewed by the Board as and when necessary.
7. The Chairman and the Chief Executive Officer			
7 (1)	Roles of Chairman and CEO	Complied	The roles of Chairman and CEO are segregated and are not performed by the same person.
7 (2)	Chairman is an Independent Non-Executive Director, if not appointing a Senior Director	Complied	The Chairman of Senkadagala Finance PLC, Mr W M R S Dias is an Independent Non-Executive Director.
7 (3)	Relationship between Chairman and CEO and other Directors	Complied	There are no material relationships, including financial, business or family between the Chairman and CEO and other members of the Board which impair their respective roles and functions as members of the Board.
7 (4) – 7 (11)	Role of the Chairman	Complied	Chairman provides leadership to the Board and ensures the Board works effectively and discharges its responsibilities. He also ensures that all key issues are discussed by the Board in a timely manner. Board Secretary prepares the agenda for Board meetings under direct supervision of the Chairman. The agenda with Notice of Meeting is duly circulated to the Directors at least seven days prior to the meeting. All Directors are informed adequately and in a timely manner of the issues arising at each Board meeting. Chairman ensures full and active contribution of all members of the Board and also ensures the Board acts in the best interests of the Company. Chairman does not engage in activities involving direct supervision of Key Management Personnel.
8. Board Appointed Committees			
8 (1)	Board Committees	Complied	There are four Board appointed Subcommittees namely Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Related Party Transactions Review Committee. Minutes are kept for each of the above committees under the supervision of the Chairman relating to each committee. A report on the performance, duties and functions of each committee has been made available in this Annual Report.

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
8 (2)	Audit Committee	Complied	Mr W A T Fernando, a qualified Chartered Management Accountant and an Independent Non-Executive Director of the Company acts as the Chairman of the Audit Committee. Other members of the committee are also Independent Non-Executive Directors and possess multifaceted experience including finance background. The details of the Audit Committee are set out in the Audit Committee Report on page 102.
8 (3)	Integrated Risk Management Committee	Complied	IRMC consists of one Independent Non-Executive Director, two Executive Directors including CEO and Key Management Personnel. All key business risks are addressed and assessed on a continuous basis by the IRMC through its periodical meetings.
9. Related Party Transactions			
9 (1)	Avoiding conflict of interest in Related Party Transactions and favourable treatments	Complied	There were no such transactions reported during the year. The Board has taken steps to avoid conflict of interest due to related party transactions as well as favourable treatments to related parties. Particulars relating to related party transactions, if any, are disclosed in the Notes to the Financial Statements. The Company has not entered into any transaction in a manner that would grant the related party "more favourable treatment" than if dealt with an unrelated customer. Also a related party transactions review committee has been set up and the details of the same is given on page 105 of this annual report.
10. Disclosures			
10 (1)	Disclosures in the Annual Report	Complied	(a) A Statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures is given on page 126. (b) Statement of Internal Control by the Board is given on page 133. (c) The Statement referred to in Section (b) above has been certified by Messrs KPMG, External Auditor of the Company. (d) Names and other information of Directors are provided on pages 82 and 83 (e) Fees and remuneration paid by the Company to the Directors in aggregate is given on page 131. (f) There were no accommodations granted to related parties during the year. (g) The details of aggregate values of remuneration paid by the Company to its Key Management Personnel are disclosed on page 127 and 198. (h) There were no non-compliances to prudential requirements, regulations, laws and internal controls. (i) There were no regulatory and supervisory concerns on lapses in the finance Company's risk management, non-compliance with the Act, and Rules and Directions that have been communicated by the Director of NBFI and directed by the Monetary Board to be disclosed to the public. (j) The External Auditor of the Company has submitted a factual finding report on the corporate governance status and its compliance with Directions issued by the Director, Department of Non-Bank Supervision of the Central Bank of Sri Lanka.

The Continuing Listing Requirements, Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange (CSE)

Section 7.10 of the CSE Listing Rules requires a listed entity to publish in the Annual Report relating to the financial year commencing on or after 1 April 2007 a statement confirming that as at the date of the Annual Report they are in compliance with the Corporate Governance Rules and if they are unable to confirm compliance, set out the reasons for its inability to comply. The rule addresses the areas such as Non-Executive Directors, Independent Directors, Disclosures relating to Directors, Criteria for defining Independence, Remuneration and Audit Committees. Following table depicts the level of compliance of the Company under each area:

CSE Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
7.10.1	Non-Executive Directors	Complied	There were five Non-Executive Directors and it was more than one-third of the Board of Directors.
7.10.2	Independent Directors	Complied	All five Non-Executive Directors were Independent Directors as well. Non-Executive Directors have submitted the signed declarations of their independence.
7.10.3	Disclosures relating to Directors	Complied	Annual determinations as to the independence of Directors have been made and disclosed in the Annual Report. (Refer Directorship status under Board and Committee meetings attendance on page 101) Brief resume of each Director has been set out on pages 82 and 83. Information relating to new appointments to the Board is disclosed to the CSE, when appointments are made to the Board.
7.10.4	Criteria for defining independence	Complied	All criteria given for determining the independence of Directors have been taken into consideration for the determination of independence status of the Company's Independent Directors.
7.10.5	Remuneration Committee	Complied	The Remuneration Committee solely consists of Independent Non-Executive Directors and the MD/CEO attends the meeting by invitation. The Report of the Remuneration Committee including its policy and scope has been set out on page 104 of this Annual Report.
7.10.6	Audit Committee	Complied	The Audit Committee consists of four Independent Non-Executive Directors. The Report of the Audit Committee including its composition, policy and scope has been set out on page 102 of this Annual Report.

Code of Best Practice on Corporate Governance issued jointly by The Securities and Exchange Commission (SEC) of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

This voluntary code consists of seven fundamental principles, namely Directors, Directors' Remuneration, Relations with Shareholders, Accountability and Audit, Institutional Investors, Other Investors and Sustainability Reporting. The level of adoption of the best practices mentioned under each fundamental principle is depicted below:

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
A Directors			
A.1 The Board			
Senkadagala Finance is headed by an effective Board which direct, lead and control the Company.			
A.1.1	Board Meetings	Adopted	Board met 12 times during the year, at approximately monthly intervals. Details of the meetings and individual attendance are given on page 101.
A.1.2	Board responsibilities	Adopted	The Board of Directors of Senkadagala Finance is responsible for the following: – Formulating, implementing and executing a sound business strategy. – Ensuring CEO and the management team possesses the skills, experience and knowledge to device the strategy. – Having a proper succession plan for the Key Management Personnel including CEO. – Securing integrity of information, prudent management of risks, designing effective internal controls, and ensuring business continuity. – Ensuring compliance with laws and regulations. – Considering all stakeholder interests in the corporate decision-making process. – Recognising sustainable business development in Company's strategy, decisions and other activities. – Company's values and standards are set with emphasis on adopting appropriate accounting policies.
A.1.3	Independent professional advice	Adopted	Independent professional advice could be obtained by the Directors as and when required at the Company's expense.
A.1.4	Access to the Company Secretary	Adopted	All Directors have the opportunity to obtain advice and services of the Company Secretary without any restriction. There has not been any instance where there is a requirement to remove the Secretaries of the Company.
A.1.5	Independent judgement of Directors	Adopted	Directors bring independent judgement and scrutiny on decisions taken by the Board on issues of strategy, performance, resources and standard of its business conduct.
A.1.6	Directors' dedication of adequate time and efforts	Adopted	Board of Directors of the Company dedicates sufficient time to review Board papers and call for additional information and clarifications if required. And also follows up on actions taken for issues discussed at the meetings.
A.1.7	Training for Directors	Adopted	All Directors are given the opportunity to get trained. Specific training on financial services industry is also available by way of presentations to the Board and attending seminars such as Director's symposium at CBSL, etc.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption

A.2 Chairman and Chief Executive Officer

In Senkadagala Finance PLC, Chairman is responsible for conducting the business of the Board while MD/CEO of the Company is responsible for conducting the business of the Company.

A.2.1	Key tasks of Chairman and CEO	Adopted	The roles of the Chairman and MD/CEO have been separated to ensure that no individual has unfettered powers of decision-making.

A.3 Chairman's Role

Chairman of the Company is responsible for effective conduct of the Board as to preserve the order and good corporate governance.

A.3.1	Role of the Chairman	Adopted	The Chairman who is an Independent Non-Executive Director ensures effective discharge of Board functions through: – Having monthly Board meetings with adequate notice preserving the agenda prepared by the Company Secretary under his close supervision. – Ensuring effective participation of both Executive and Non-Executive Directors in the decision-making process while maintaining the balance of power among them. – Encouraging effective contribution of all the Directors' respective capabilities towards benefit of the Company. – Obtaining views of all Directors for issues under consideration. – Ensuring that the Board is in complete control of the Company's affairs and alerts to its obligations to shareholders while maintaining proper communication with all the stakeholders.

A.4 Financial Acumen

The Board of the Company consists of members with sufficient financial acumen and knowledge to offer guidance on matters of finance.

A.4.1	Availability of sufficient financial acumen and knowledge	Adopted	The Board includes fellow members of both local and international professional accounting bodies. (The details of qualifications of Directors are given on pages 82 and 83). These Directors are having sufficient financial acumen and knowledge to offer guidance on matters of finance to the Board.

A.5 Board Balance

The Board of the Company consists of five Non-Executive Directors and five Executive Directors.

A.5.1	Ratio of Executive and Non-Executive Directors	Adopted	The Company has a 1:1 ratio and it ensures that the Board decisions are taken impartially. The roles of the Chairman and the MD/CEO are not vested in one person.
A.5.2	Independent Directors	Adopted	All the Non-Executive Directors are independent and within the requirements of the Code.
A.5.3	Mode of Independent	Adopted	All Independent Directors are Independent of Management and free of business relationships so that they could exercise their unfettered and independent judgement over decisions without any material interference.
A.5.4	Declaration of Independence	Adopted	All Independent Non-Executive Directors submit their annual declarations as to their independence against the specified criteria.
A.5.5	Determination of independence of the Directors by the Board	Adopted	The Board determines that the submission of declaration by the Independent Directors as to their independence is a fair representation and continues to evaluate it annually.
A.5.6	Alternate Director	Not Applicable	The requirement for appointing an Alternate Director has not arisen during the year.
A.5.7 & A.5.8	Senior Independent Director	Not Applicable	Such situation has not arisen as roles of the Chairman and the MD/CEO have been clearly separated.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
A.5.9	Meetings with Non-Executive Directors	Adopted	The Chairman can meet with Non-Executive Directors without the presence of Executive Directors if necessary twice a year when Non-Executive Directors meet the External Auditor without Executive Directors being present as per the requirement under CBSL Direction on Corporate Governance.
A.5.10	Recording of concerns in Board minutes	Not Applicable	There have been no concerns about the matters of the Company which could not be resolved unanimously. All matters taken up for discussion were resolved through unanimity at Board Meetings.

A.6 Supply of Information

Company has provided appropriate timely information to the Board enabling it to discharge its duties effectively.

A.6.1	Information to the Board by Management	Adopted	Management provides appropriate and timely information to the Board and the Board calls for further information where necessary. The Chairman ensures all Directors are provided with all necessary information pertaining to the issues discussed at Board meetings.
A.6.2	Notice of Board meetings	Adopted	The Board Papers including previous meeting minutes and agenda are sent to the Directors at minimum seven days before the respective Board meeting. This would give adequate time for Directors to study the related matters and get ready for effective discussion at Board meetings.

A.7 Appointments to the Board

There should be a formal and transparent procedure on new appointments to the Board.

A.7.1	Nomination Committee	Not Adopted	The Board as a whole decides on the selection of new Directors.
A.7.2	Assessment of Board Composition	Adopted	The Board as a whole annually assesses the Board composition, to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. Findings of the assessment of the Board are considered for new Board appointments and re-election of Directors.
A.7.3	Disclosure of details of new Directors to Shareholders	Adopted	When appointing a new Director to the Board, a brief resume of the Director, experience and skills, other directorships, status of independence, etc. are disclosed not only to the shareholders but also to the general public as per the requirements under CSE Listing Rules.

A.8 Re-election

All Directors should be required to submit for re-election at regular intervals and at least once in every three years.

A.8.1	Appointment of Non-Executive Directors	Adopted	Non-Executive Directors are only appointed for a period of nine years with the age limit of seventy.
A.8.2	Election of Directors	Adopted	Appointment and reappointment of all Directors including the Chairman of the Board is subject to election by shareholders.

A.9 Appraisal of Board Performance

Board performance is evaluated annually in order to ensure satisfactory discharge of its responsibilities.

A.9.1 & A.9.2	Appraisal of Board Performance and annual self-evaluation of Board performance and its committees	Adopted	A formal Board performance evaluation process has been implemented and it is carried out annually. A check list has been introduced for this purpose and it is filed with minutes of the Board meetings by the Secretary.
A.9.3	Mode of Board performance appraisal	Adopted	Board performance evaluation is being carried out as detailed in above Sections A.9.1 & A.9.2 above.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption

A.10 Disclosure of Information in Respect of Directors

Details of Directors should be made available for the shareholders.

A.10.1	Disclosure of details of Directors in the Annual Report	Adopted	The Name, qualifications and the brief profiles including nature of expertise of all the Directors have been set out on pages 82 and 83 in this Report. Please refer the table given in page 101 for directorship status, Board meeting and other Committee meeting attendance by the Directors of the Company.

A.11 Appraisal of Chief Executive Officer (CEO)

Performance of CEO is to be assessed at least annually to see whether the Company has achieved the objectives set by the Board.

A.11.1	Financial and non-financial targets for the CEO	Adopted	At the commencement of the financial year, reasonable financial and non-financial targets for the CEO are set by the Board in consultation with the CEO in line with the short, medium and long-term objectives of the Company.
A.11.2	Evaluation of the performance of CEO	Adopted	The Board periodically assesses the performance of the Company to ensure its short, medium and long-term objectives are achieved against its targets set and approved by the Board.

B. Directors' Remuneration

B.1 Remuneration Procedure

Company should have a well-established, formal and transparent procedure for developing an effective policy on Executive remuneration and remuneration packages for individual Directors where no Director is involved in deciding his/her own remuneration.

B.1.1	Remuneration Committee	Adopted	A Remuneration Committee has been set-up to make recommendations to the Board on the Company's remuneration framework. Details have been given on page 104 in the Report of the Remuneration Committee.
B.1.2	Composition of the Remuneration Committee	Adopted	All the members of the Remuneration Committee are Independent Non-Executive Directors.
B.1.3	Disclosures in the Annual Report	Adopted	Details of the members and the Chairman of the Remuneration Committee have been given on page 104 of this Annual Report under Report of the Remuneration Committee.
B.1.4	Remuneration of the Non-Executive Directors	Adopted	The Board as a whole decide on the remuneration of the Non-Executive Directors.
B.1.5	Consultation of the Chairman or the CEO and access to professional advice	Adopted	Remuneration Committee consults the Chairman about its proposals where necessary. CEO attends the Remuneration Committee meetings by invitation. External professional advice is obtained where necessary in determining the remuneration of the Directors and senior level staff members.

B.2 The Level and Make-Up of Remuneration

The Code requires the Board to establish the levels of remuneration for both Executive and Non-Executive Directors which should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of the Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.

B.2.1	Remuneration of Executive Directors	Adopted	The remuneration framework of the Executive Directors has been designed to attract, retain and motivate them of the quality required and avoid paying more than what is necessary for the purpose.
B.2.2	Positioning remuneration levels of the Company	Adopted	The Remuneration Committee in deciding the remuneration levels of the Company takes account of such levels in comparable companies while paying attention to its relative performance.
B.2.3	Comparison of Remuneration with other companies in the Group	Not Applicable	This is not applicable as there are no units comparable for this purpose within the Group.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
B.2.4	Inclusion of performance-related elements in the remuneration	Adopted	Performance-related elements have been included in the design of remuneration packages of the Company at all levels.
B.2.5	Executive share options	Not Applicable	There are no share option plans for Executives.
B.2.6	Designing the remuneration	Adopted	The Remuneration Committee has considered the provisions given in Schedule E to this Code in designing the remuneration schemes of the Company.
B.2.7	Early termination of Directors	Adopted	Such situation has not arisen during the year. However, Remuneration Committee is aware that it should consider the compensation commitments given in the contracts of employment of Executive Directors, if any, in case of early termination, other than in the case of removal for misconduct.
B.2.8	Early termination where compensation commitment not included in the initial contract	Adopted	Such situation has not arisen during the year. However, Remuneration Committee is aware that in case of an early termination, it should tailor their approach with the aim of fair dealing with regard to compensation commitments for those who have performed well, if the initial contract does not explicitly provide for such commitments.
B.2.9	Remuneration for Non-Executive Directors	Adopted	Non-Executive Directors' remuneration has been calculated to reflect time commitment, responsibilities of their role and market practices. No share options available for Non-Executive Directors.

B.3 Disclosure of Remuneration

The Company should disclose the remuneration policy and the details of remuneration of the Board as a whole in the Annual Report.

B.3.1	Disclosure of remuneration	Adopted	The Remuneration Committee's Report setting out the policy and scope of the Committee is given on page 104. The remuneration paid to the Board of Directors is disclosed in aggregate in Note 45.1 to the Financial Statements on page 198.

C Relations with Shareholders

C.1 Constructive use of the Annual General Meeting and Conduct of General Meetings

Board should use the Annual General Meeting to communicate with shareholders and encourage their participation.

C.1.1	Use of proxy votes	Adopted	The Company has adopted a methodology to count all proxy votes and to indicate the level of proxies lodged on each resolution if any.
C.1.2	Separate resolutions for separate issues	Adopted	A separate resolution is proposed for the adoption of Financial Statements and the shareholders are given the opportunity to vote separately for each substantially separate issue by having separate resolutions, if any.
C.1.3	Availability of Board Subcommittee Chairmen at the AGM	Adopted	The Chairman of the Board ensures that Chairmen of all Subcommittees namely, Audit Committee, Remuneration Committee, Integrated Risk Management Committee and Related Party Transactions Review Committee are present at the AGM to answer questions raised at the AGM.
C.1.4	Adequate Notice of the AGM	Adopted	Notice of the AGM is given as per the requirements of the Companies Act No. 07 of 2007.
C.1.5	Procedure of voting at General Meetings	Adopted	Notice and the summary of the procedures governing voting at the meeting including any other business to be transacted at the meeting are circulated to the shareholders along with the Annual Report.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption

C.2 Communication with Shareholders

Board should implement effective communication with shareholders.

C.2.1	Channel to reach all shareholders of the Company	Adopted	The Annual Report and the AGM form the primary channel of communication. Shareholders are given the Annual Report with adequate time to raise any issues at AGM based on the information published therein. Moreover, interim reports, stock exchange announcements, etc. also form part of effective communication as those are available in the respective websites and in the Company website.
C.2.2	Policy and Methodology for communication with shareholders	Adopted	The Company has adopted an open communication policy with its shareholders by making them available timely, relevant and accurate information with fair disclosures.
C.2.3	Disclosure of Implementation of the above Policy and Methodology	Adopted	Printed Annual Reports are sent along with the Notice of the AGM. Annual Report, Interim Financial Statements and CSE announcements are published in respective institution's website and the Company website.
C.2.4	Contact person for communication	Adopted	The Directors and the Senior Management could be contacted by the shareholders. The contact details are available in the Company's website and for any questions, requests and comments, Shareholders may at any time contact the Company Secretary.
C.2.5 & C.2.6	Communication by the shareholders with the Company	Adopted	The Company Secretary receives all the correspondence and delivers to the Board or relevant individual Director at the earliest possible time.
C.2.7	The process for responding to shareholders' matters	Adopted	Through the Company's Board Secretary the Board or individual Director/s will respond to shareholders' matters.

C.3 Major and Material Transactions

Directors should disclose all major and material transactions to shareholders.

C.3.1	Major transactions	Not Applicable	Company did not enter into or committed to any "major transaction" during the financial year.

D Accountability and Audit

D.1 Financial Reporting

The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.

D.1.1	Board's responsibility for statutory and regulatory reporting	Adopted	Interim and Annual Financial Statements, other price sensitive public reports, reports to regulators and reports required as per statutory requirements have been presented as per the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011, Other Regulatory Authorities such as the Central Bank of Sri Lanka, Colombo Stock Exchange and Department of Inland Revenue.
D.1.2	Declarations in the Directors' Report	Adopted	The Directors have made all their declarations in the, "Annual Report of the Board of Directors" given on pages 126 to 132.
D.1.3	Statement of Directors' and Auditors' Responsibility for Financial Statements and Statement on Internal Controls	Adopted	The Statement of "Directors' Responsibility for Financial Reporting" is given on pages 126 and 133 of the Annual Report. Auditors' reporting responsibility is given in their Report on the Financial Statements on pages 134 to 138. The Directors' Statement on Internal Controls is given on page 133 and Auditors' certification on the Directors' Statement on Internal Controls is also given on page 133.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
D.1.4	Management Discussion and Analysis in the Annual Report	Adopted	Pages 10 to 79 of this Annual Report contain the information required therein.
D.1.5	Directors' Report on Going Concern	Adopted	This is addressed in "Annual Report of the Board of Directors" given on pages 126 to 132.
D.1.6	Requirement for calling EGM if the net assets fall below 50% of the shareholders' funds	Not Applicable	Such situation has not arisen during the year. However, should the situation arise, an EGM will be called for and shareholders will be notified.
D.1.7	Disclosure of Related Party Transactions in the Annual Report	Adopted	The Board ensures that the related party transactions are properly captured in to the system of accounts, keep proper records on them and make necessary disclosures in the Financial Statements accordingly.

D.2 Internal Control

The Board should have a process of risk management and a sound system of internal control to safeguard shareholders' investments and Company's assets.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
D.2.1	Annual review of risks and the effectiveness of the internal control system	Adopted	The Board is responsible for establishing a sound framework of risk management and internal controls Further it has to be monitored for its effectiveness on a continuous basis. Integrated Risk Management Committee has been set up by the Board in order to look after the risk aspects of the Company and report any concerns to the Board. IRMC report is given on page 103. The Directors' Statement on Internal Controls is given on page 133.
D.2.2	Internal audit function	Adopted	The Company's internal audit function is outsourced and carried out by Messrs Ernst & Young Advisory Services (Pvt) Ltd. Further, the Company Internal Auditor also has been appointed to coordinate the function.
D.2.3	Review of process and effectiveness of internal controls	Adopted	Internal audit carries out regular reviews on the internal controls and reports to the Audit Committee. Audit Committee once satisfied reports to the Board on the effectiveness of the internal control systems and based on that the Board issues "Directors' Statement on Internal Control" Report which is given on page 133. The External Auditor reviews this statement independently and certifies.
D.2.4	Responsibilities of Directors in maintaining a sound internal control system	Adopted	This has been stated in the "Directors' Statement on Internal Controls" on page 133.

D.3 Audit Committee

The Board should establish formal and transparent arrangements in selecting and applying accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
D.3.1	Composition of the Audit Committee	Adopted	The Audit Committee comprises four Independent Non-Executive Directors including Chairman. Audit Committee Report is given on page 102 of this Annual Report.
D.3.2	Duties of the Audit Committee	Adopted	The Audit Committee monitors and reviews the scope and results of the audits and its effectiveness, independence and objectivity of the Auditors. The Committee has formulated a policy for the engagement of the External Auditor for non-audit services and it was approved by the Board.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
D.3.3	Terms of Reference of the Audit Committee	Adopted	The Audit Committee has been established by the Board of Directors to assist oversight of financial reporting, internal controls, risk management and functions relating to internal and external audit. The Committee holds the responsibility for overseeing the preparation and presentation of the Company's Financial Statements with adequate disclosures in the Financial Statements in accordance with the Companies Act No. 07 of 2007 and applicable Sri Lanka Financial Reporting Standards. The Committee is also responsible for ensuring the adequacy and efficiency of internal controls adopted by the Company in maintaining accounting records and preparing Financial Statements and make recommendations to the Board of Directors on matters regarding the Internal and External Auditors including their independence, performance, terms of engagement and remuneration.
D.3.4	Disclosures of the Audit Committee	Adopted	The names of the members of the Audit Committee are given in the Audit Committee Report on page 102. The Audit Committee has undertaken an annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process and is satisfied as disclosed in the Audit Committee Report on page 102.

D.4 Code of Business Conduct and Ethics

Company must adopt a Code of Business Conduct and Ethics for Directors and Key Management Personnel and must promptly disclosed any deviations from that code.

D.4.1	Code of Business Conduct and Ethics	Adopted	Senkadagala Finance has incorporated in its HR code as well as in other manuals of operations, areas such as addressing of conflict of interests, conditions in receiving gifts or any other benefits, accountability, confidentiality of information, record keeping, corporate opportunities, fair dealing, protection and proper use of the Company's assets and compliance with applicable laws and regulations including insider trading laws and encouraging the reporting of any illegal or unethical behaviour.
D.4.2	Affirmation of the Code of Conduct and Ethics	Adopted	The Chairman, hereby confirms that he is not aware of any material violations of the terms and conditions contained in above mentioned Code of Conduct and Ethics.

D.5 Corporate Governance Disclosures

Company should disclose the extent of adherence to principles and practices of good Corporate Governance.

D.5.1	Corporate Governance Report	Adopted	This Report from pages 80 to 105 satisfies the requirement.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption

E. Institutional Investors

E.1 Shareholder Voting

Institutional shareholders have a responsibility to make considered use of their votes and encouraged to ensure that their voting intentions are translated into practice

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
E.1.1	Communication with Institutional Shareholders	Adopted	Mainly the AGM is used for effective communication with the shareholders. The Chairman communicates the views and queries of the shareholders to the Board and Senior Management.

E.2 Evaluation of Governance Disclosures

Company should encourage institutional investors to give due weightage to all relevant factors drawn to their attention when evaluating the governance arrangements of the Company, particularly those relating to Board structure and composition.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
E.2	Evaluation of the Corporate Governance arrangements	Adopted	When evaluating the Company's Corporate Governance arrangements, institutional investors are encouraged to give due weight to all relevant factors drawn to their attention, particularly the Board structure and composition.

F. Other Investors

F.1 Investing/Divesting Decisions

Individual shareholders should be encouraged to carry out adequate analysis or seek independent advice in investing and divesting decisions.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
F.1	Individual investors investing/divesting decisions	Adopted	By disclosing all required information that would be useful for individual shareholders, the Company encourages them to carry out adequate analysis or seek independent advice on investing or divesting decisions.

F.2 Shareholder Voting

Individual shareholders should be encouraged to participate and exercise their voting rights in General Meetings.

Number	Corporate Governance Principle	Adoption Status	Level of Adoption
F.2	Individual shareholders' voting rights	Adopted	The Company sends adequate notices to all shareholders encouraging them to participate at General Meetings and this adequate time allows them to be prepared to duly exercise their voting rights.

G. Sustainability Reporting

G.1 Principles of Sustainability Reporting

Company is moving towards sustainability reporting since 2013 and the details of how Company is adopting the seven principles under sustainability reporting have been given on pages 38 to 99.

Board and Committee Meetings – Attendance

Name	Directorship Status	Board	Audit Committee	Integrated Risk Management Committee**	Remuneration Committee	Related Party Transactions Review Committee
Number of Meetings Held		**12**	**04**	**11**	**04**	**03**
Mr W M R S Dias	Chairman Independent Non-Executive Director	12/12*	–	–	–	–
Dr P Ramanujam	Deputy Chairman Independent Non-Executive Director	12/12	04/04	–	04/04	03/03
Mr L Balasuriya	Managing Director/ Chief Executive Officer Executive Director	11/12	04/04	–	04/04	–
Dr A Balasuriya	Director – Operations Executive Director	09/12	–	–	–	–
Dr M Balasuriya	Director – Planning Executive Director	11/12	–	–	–	–
Mrs L Fernando	Director – Human Resources Executive Director	10/12	–	–	–	–
Mr W A T Fernando	Independent Non-Executive Director	09/12	04/04	–	–	–
Mr R Senanayake	Independent Non-Executive Director	12/12	03/04	–	03/04	–
Mr T Collure	Independent Non-Executive Director	11/12	04/04	04/11	03/04	03/03
Mr S Bandaranayake	Additional Chief Executive Officer/ Executive Director	12/12	04/04	11/11	04/04	03/03

*Attended/Eligible to attend

**Key Management Personnel have attended the meetings

Report of the Audit Committee

The Audit Committee has been established by the Board of Directors to assist oversight of financial reporting, internal controls and functions relating to internal and external audit. The Committee holds the responsibility for overseeing the preparation and presentation of the Company's Financial Statements with adequate disclosures in the Financial Statements in accordance with the Companies Act No. 07 of 2007 and applicable Sri Lanka Financial Reporting Standards. The Committee is also responsible for ensuring the adequacy and efficiency of internal controls adopted by the Company in maintaining accounting records and preparing Financial Statements and make recommendations to the Board of Directors on matters regarding the Internal and External Auditors including their independence, performance, terms of engagement and remuneration.

Composition

The audit committee comprised following directors;

- Mr W A T Fernando (FCMA) (MA) Colombo, Independent Non-Executive Director – Chairman of the Audit Committee
- Dr P Ramanujam – Independent Non-Executive Director
- Mr T Collure – Independent Non-Executive Director
- Mr Raja Senanayake – Independent Non-Executive Director

(Brief profiles of Directors have been set out on page 82 in this Report)

In addition, the Managing Director/Chief Executive Officer, Executive Director/Additional CEO, AGM-Accounts, Chief Financial Officer, Chief Manager-Risk and Audit and representatives of Internal and External audit firms attend the Audit Committee meetings by invitation to brief the Committee on specific issues.

Other Senior Managers of the Company also attend whenever their presence is requested.

Policy and Scope

The Committee discharges its responsibilities through a series of meetings during the year. At these meetings, the Committee reviews the reports of Internal Auditors and External Auditors of the Company and interim and final Financial Statements of the Company ensuring their compliance with statutory and other requirements. The number of meetings and attendance by the Committee members at each of those meetings are given in the table on page 101 of the Annual Report.

The Committee has reviewed the independence, objectivity and performance of the internal audit function and the adequacy of its resources. The findings of internal audits, their evaluation of Company's internal control systems and level of risks pertaining to those findings, effectiveness of implementation of audit recommendations are being thoroughly discussed at the meetings and accordingly advised the Board on matters of high significance.

The Audit Committee has undertaken the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process. And also the Audit Committee had meetings with the External Auditors without the presence of Executive Directors as per the corporate governance requirements.

W A T Fernando
Chairman
Audit Committee

31 May 2018

Report of the Integrated Risk Management Committee

The Integrated Risk Management Committee was formed in order to assess the overall risk faced by the Company mainly credit, market, liquidity, operational, strategy and other statutory and regulatory risks.

Composition

The Integrated Risk Management Committee comprised following Directors:

- Mr S D Bandaranayake – Executive Director/ Additional CEO – Chairman of the Committee
- Mr L Balasuriya – Executive Director, CEO/Managing Director
- Mr T Collure – Independent Non-Executive Director

Senior Management representatives who attend the meetings are:

- Mr P Ikiriwatte – Deputy CEO
- Mr J Jayatilake – GM-Operations
- Mr T De Silva – DGM – IT
- Mr T K Aturupana – AGM – Accounts
- Mr A D Hettiarachchi – AGM – Credit Control
- Mr N Rasingolla – AGM – IT
- Mr S D R S Fernando – AGM – Personnel and Administration
- Mr N Karunaratne – AGM – Legal/Customer Services
- Mr K Rajapaksa – Chief Financial Officer
- Mr S Supramaniam – Chief Manager – Treasury
- Mr L Perera - Manager – Foreign Currency
- Mr T Ranathunga – Chief Manager – Risk and Audit

Policy and Scope

The Committee meets on a regular basis and minutes are maintained to ensure timely and adequate follow up. Remedial actions are taken to address the areas of high significance. The policies and the scope of activities of the Committee are as follows:

- Assessing all risks, including credit, market, liquidity, operational and strategic risk on a continuous basis using specific risk indicators through the Company's reporting systems.
- Ensuring the level of current risk of the Company is within the prudent levels acceptable to the Management based on the Company's risk appetite and the regulatory and supervisory requirements.
- Taking appropriate remedial actions to mitigate the effects of specific risks in case such risks are beyond the prudent and acceptable levels on the basis of the Company's policies, procedures and regulatory requirements.
- Review of the portfolio on a business line basis such as product, region, sector, etc. to evaluate trends.
- Review of the performance branch-wise, district-wise and region-wise in evaluating the branch expansion criteria.
- Reviewing any compliance related matters with applicable laws and regulations.

S D Bandaranayake
Chairman
Integrated Risk Management Committee

31 May 2018

Report of the Remuneration Committee

The Remuneration Committee has been set-up to determine the human resources and remuneration policies relating to Directors, the Managing Director/CEO and other Key Management Personnel of the Company.

Composition

- Dr P Ramanujam – Independent Non-Executive Director-Chairman of the Remuneration Committee
- Mr T Collure – Independent Non-Executive Director
- Mr Raja Senanayake – Independent Non-Executive Director

Mr L Balasuriya – Managing Director/Chief Executive Officer and Mr S D Bandaranayake – Executive Director/Additional Chief Executive Officer, attend meetings of the Remuneration Committee by invitation.

Brief profiles of the members of the Committee are set out on pages 82 of the Annual Report.

Policy and Scope

The Company's remuneration policy aims to attract, motivate and retain talent in a highly competitive environment with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company. The Company remuneration framework for the Managing Director/CEO and the Corporate Management team is designed to create and enhance value for all stakeholders of the Company and to ensure alignment between short and long-term interests of the Company. The Committee reviews all significant human resource policies and initiatives, salary structures and terms and conditions relating to staff at executive level. The Committee deliberates upon and recommends to the Board of Directors the remuneration packages, annual increments and bonuses of the Managing Director, members of the Corporate Management team and Senior Staff.

Fees

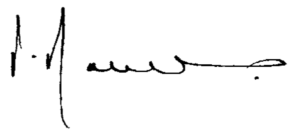
All Non-Executive Directors receive a fee for attendance at Board meetings and for serving on Sub-Committees.

Committee Meetings

Number of meetings and attendance of the members of such meetings are set out in page 101 of this Annual Report.

Access to Professional Advice

The Committee is authorised to seek external professional advice as and when it deems necessary.



Dr P Ramanujam
Chairman
Remuneration Committee

31 May 2018

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee has been set up by the Board of Directors in order to strengthen the process of identifying, recording and reporting of related party transactions which in turn ensure strict compliance with the rules and regulations governing Related Party Transactions of Listed Entities and thus improve its internal control mechanisms.

Composition

- Dr P Ramanujam – Independent Non-Executive Director – Chairman of the Related Party Transactions Review Committee
- Mr T Collure – Independent Non-Executive Director
- Mr S D Bandaranayake – Executive Director/Additional Chief Executive Officer

Mr Kumudu Rajapakshe – Chief Financial Officer and Mr Thushara Ranathunga – Chief Manager Risk and Audit attend the meeting by invitation.

Policy and Scope

With the approval of the Board, Company has adopted a policy on Related Party Transactions of the Company that gives necessary guidelines in recognising, recording and reporting of such transactions. It helps to determine whether Related Party Transactions that are to be entered into by the Company require the approval of the Board or shareholders of the Company. Further the policy ensures that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the Related Party Transaction to the Committee. Also it ensures that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulations are made in a timely and detailed manner.

Related Party Transactions During 2017/18

During the year 2017/18, there were no non-recurrent or recurrent related party transactions that exceeded the respective thresholds mentioned in the Listing Rules of the Colombo Stock Exchange.

Details of other related party transactions of the Company during the above period are disclosed in Note 45 to the Financial Statements.

Committee Meetings

The number of meetings and attendance of the members of such meetings are set out on page 101 of this Annual Report

Declaration

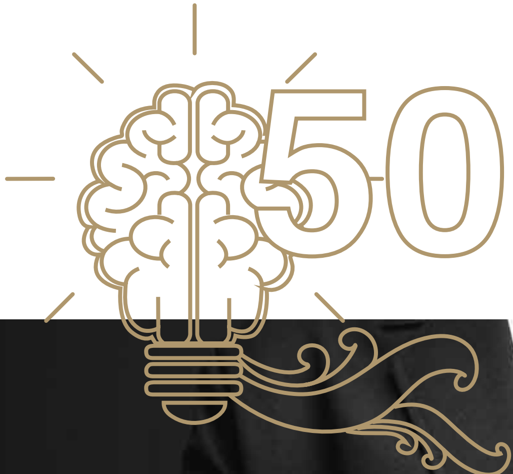
A declaration by the Board of Directors in the Annual Report as a negative statement that no related party transaction which exceeds the threshold levels mentioned in the Listing Rules was entered into by the Company during 2017/18 is given on page 127 of the Annual Report.

Dr P Ramanujam
Chairman
Related Party Transactions Review Committee

31 May 2018

A wealth of knowledge

Fifty years of knowledge has been carefully gathered. Today, it informs the operations of the Company every step of the way.

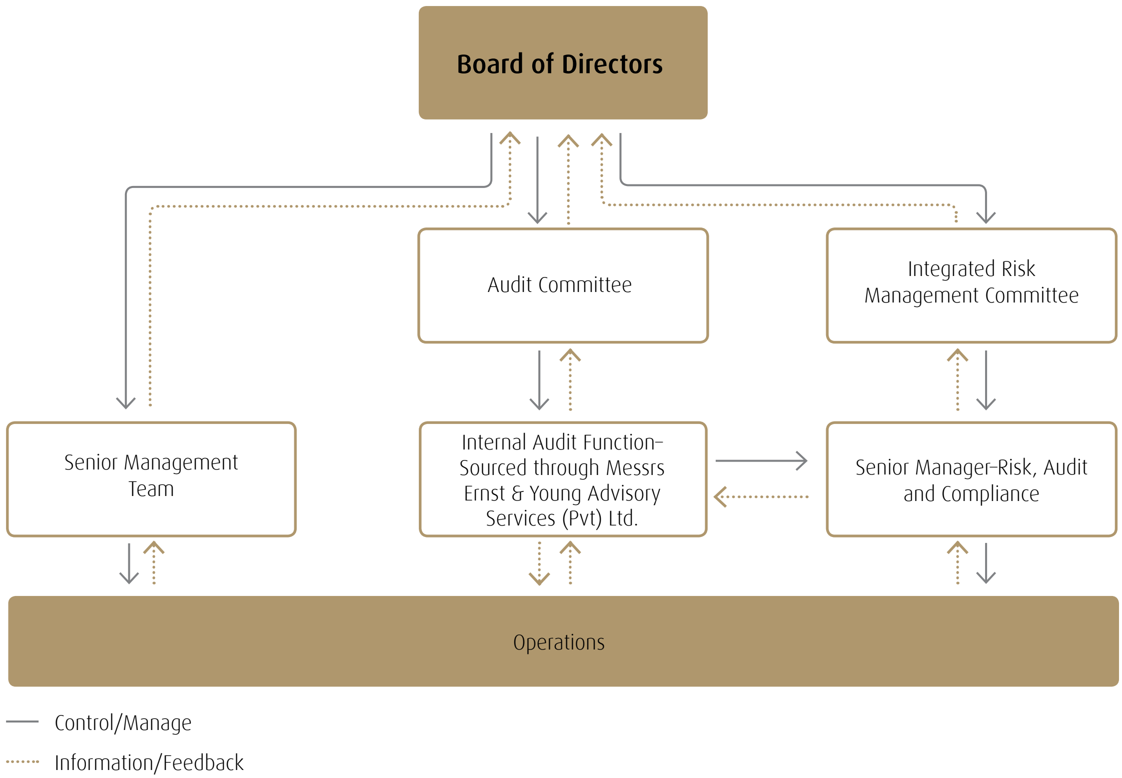


Risk Management

Risk is an integral part of any business and could cause actual results to deviate from the expected results. Severity of risk could even affect business continuity altogether. Hence effective risk management and sound governance play a pivotal role in creating sustainable business growth.

Modern-day dynamic environment continuously gives rise to new risks; proactive risk management measures are vital to mitigate such risks. Potent risks with material losses are inherent to the finance business, as such meticulous risk management is imperative to optimise the risk return trade off. Senkadagala Finance, with this understanding, strive to align risk management objectives with the overall business objectives to optimise business value creation.

Risk Governance at Senkadagala Finance



Senkadagala Finance believes that a holistic approach to risk management is vital for a robust control mechanism. Hence the primary role of risk governance is assumed at the Board level, the Board holds the ultimate responsibility for risk management and therefore overall risk strategy is decided and risk objectives are set at this level. Also the Board ensures that the corporate strategy and the risk strategy are aligned to optimise the risk return tradeoff. As such, the first line of defence on managing risks is the Board of Directors of the Company.

The Integrated Risk Management Committee (IRMC), a Subcommittee of the Board assesses the effectiveness of the overall risk strategy of the Company in the context of changes in the global and the local environment and recommends effective risk management policies to safeguard stakeholder interests. Further, it advises the Board on the course of action to be taken to counter potential and emerging risks.

Operational Integrated Risk Management Committee, consisting of the Senior Managers and department heads gather monthly in conjunction with the IRMC to discuss the effectiveness of the risk management policies and procedures, evaluate current business activities in the context of risk and developments in external and internal environment to identify emerging risks. It also evaluates operations in the context of risk. Periodical reports from each department are submitted to this meeting assessing the risk indicators against the predetermined risk parameters and against the prescribed regulatory risk parameters. Reasons for variances are discussed, while evaluating suggestions to control such deviations.

The dialogue between the operational and executive level managers is the ideal setting to identify the effectiveness of the risk management techniques implemented in the top down approach. The suggestions from this meeting are presented at the Board level to further strengthen the risk management framework of Senkadagala Finance. This forms the second line of defence, bringing in the middle line managers and the operations into the risk management process.

Corporate risk objectives are communicated to the operational level staff by way of risk policies and the risk management framework, which define the risk appetite of the entity and prompts a risk culture in the Organisation. Controls are regularly streamlined to identify and counter day-to-day operational risks. The responsibility to manage these risk criteria within tolerable limits is shared among the risk assuming managers and the higher level management. This collective approach enables the Company to manage risk effectively.

Senkadagala Finance has a continuous internal audit process, utilising the co-sourced services of Messrs Ernst & Young Advisory Services (Pvt) Ltd., reporting directly to the Audit Committee and the Board of Directors. Monthly reports are submitted, communicating deviations from the standard operating procedures, misconducts and lapses in the internal control process, while identifying the severity of impact. This provides an independent assurance for the internal control process of the Company. The presence of continuous monitoring and assurance provides an additional level of defense in the risk management process of the Company. Hence this provides the third line of defence with regard to risk management.

Improved financial performance and the sustainable growth achieved in the recent past reflect the effectiveness of the risk management framework of Senkadagala Finance.

Primary risk management objectives of Senkadagala Finance

- Identify, measure and control potential risks that hinder the profitability of the entity.
- Manage the financial position in order to strike a balance between assets and liabilities to optimise the value creation for the entity.
- Ensure that adequate controls are in place to curtail downside of risk, while maximising returns.

Environmental scanning

Standard risk management approaches are well-honed to mitigate conventional risks, however the accelerated pace of change and deepened interconnectivity have added complexity to risk which requires meticulous environmental scanning to identify.

Global environment

Despite economic growth picking up in year 2017 there are many impending risks brewing in the global arena. Growing global political tension, deteriorating environmental conditions and increasing cyber dependency are a few such critical risk factors.

Spillover effects of UK's decision to exit the European Union, drastic economic reforms and policy decisions in the United States resulted in major economic effects and the North Korean crisis are a few of the major risk factors in the global political arena for year 2017. These risks will continue to be a concern for year 2018 as well and will affect the institutions in varying degrees.

Technological risks continue to intensify every year in the global landscape. Likelihood of cyber-attacks and massive data frauds are increasing with the augmented use of technology in day-to-day life and in organisations as well.

Local environmental risk

During this financial year, a few conventional risks materialised driven mainly by adverse weather conditions and the uncertainty in the Sri Lankan political landscape.

Following are a few key risk events and steps taken by the Company to mitigate such risks during the year:

Risk event	Impact to the Company	Risk mitigation techniques
Adverse weather conditions	Increased NPA due to drop in repayment capacity of customer	• Restructure loans to ease the repayment burden of customers • Amicable settlements • Allow third-party transfer of leased facilities
	Drop in credit demand in certain areas due to deteriorated financial position	• Tailor credit appraisal methods to take into account the repayment capabilities of individuals
Macro Economic down-turn	Decrease of new business demand and fall in repayment capacity of existing customers	• Formulate new product features to attract customers • Value added services to differentiate the products
Increasing trend of market interest rates	Net interest margins coming under stress	• Continuous evaluation of product pricing in light of market trends • Opt for long-term funding to match with income patterns • Explore alternate funding avenues
Regulatory imposition of LTV ratios	Drop in financing of unregistered vehicles	• Promote financing of registered vehicles • Deviate to other loan products as opposed to vehicle financing

These conventional risks are discussed in detail on pages 111 to 123 of this Report.

Assessment of Risk

Prevalent risk sensitive culture of the Company encourages staff at all levels to be mindful of emerging risks. When new risks are identified, they are assessed for the likelihood of occurrence and the severity of impact. Control actions are decided based on these two factors. Risk tolerance levels are set, based on the risk appetite of the entity and generally accepted industry norms.

Control measures are formulated to ensure that the identified risks are within the tolerable levels. Exposures, which exceed the tolerable limits are identified; mitigatory action for such risks are decided, based on the probability of occurrence. Continuous assessment is done to ensure likelihood of occurrence and the severity of impacts are within the risk tolerance levels of the Company.

Collective dialogue amongst different department heads at the Integrated Risk Management Committee meetings, ensure comprehensive assessment of potential risks and their impact. Risks with potent consequences will be monitored regularly; a monthly report is submitted to the IRMC, with identified quantitative ratios, to monitor key risk areas such as credit risk, liquidity risk, market risk and operational risk implications. Following table outlines certain risk tolerance levels against the reported ratios used to control various risks of the entity:

Risk Criteria	Risk indicator	Tolerance level	Actual ratio
Concentration risk			
Vehicle type	Percentage exposure to an individual vehicle type	30%	Motor cars – 26.3% Commercial vehicles – 20.0% (highest exposures)
Registered Vs unregistered vehicles	Percentage exposure to registered vehicles	70%	85%
	Percentage exposure to un-registered vehicles	30%	15.0%
Higher exposure to large borrowers	Facilities over Rs. 10 Mn. Total Portfolio	25%	13.2%
Asset quality			
Region-wise	Gross NPA ratio in each region	3%	Region 9 – 2.42% (Highest reported)
Probable defaults	Infection ratio	3%	1.13%
Liquidity risk			
High deposit withdrawals	Deposit renewal ratio	>70%	78%

This process has allowed the Company to maintain a robust risk management mechanism enabling value creation for stakeholders at all levels.

Risk Policies and Frameworks

Risk objectives are cascaded down to functional levels by way of policies, frameworks and internal controls. Procedure manuals are used to set up the framework for effective risk management, while communicating the risk tolerance levels to functional managers and operational staff.

The Management, with its proactive attitude towards risk management, has created a risk culture within the Organisation. This has put in place a risk management framework effective at all levels of the Organisation. The risk culture helps to improve awareness among employees to identify, assume and manage risks, while aligning them with the entity's risk appetite.

Risk Controls and Review

To optimise the risk return trade-off, it is vital to ensure the adequacy of the risk management process; therefore Senkadagala Finance has stringent reviews and control mechanisms in place.

The Audit Committee, a Subcommittee of the Board, plays a key role in this. The primary purpose of this Committee is to assist the Board of Directors with the general oversight of the financial reporting mechanism; they oversee and advise the Board on affairs with the External and Internal Auditors. The Audit Committee is also responsible to ensure adequacy and efficiency of the internal controls adopted by the Company.

Report of the Audit Committee on page 102 of this report contains a detailed description of the composition, functionality and scope of the Audit Committee.

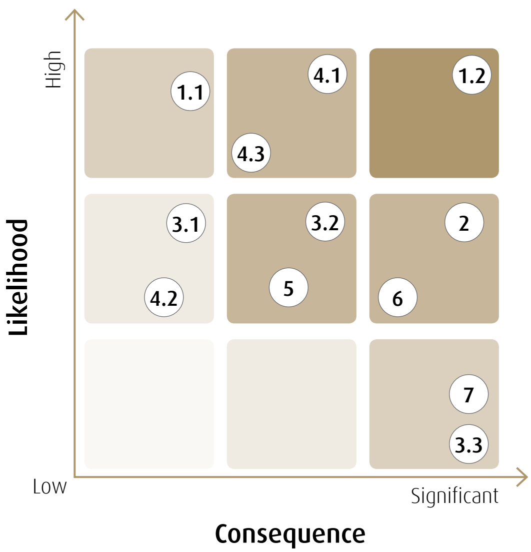
The Integrated Risk Management Committee, another Subcommittee of the Board, plays a pivotal role in the risk management process of the Company. The Manager Risk, Audit and Compliance submits a periodic report assessing predetermined risk parameters to the Integrated Risk Management Committee. During this Committee meeting, there is a dialogue on actual risk indicators against the risk tolerance levels for various risk areas of the entity and on adequacy and the efficiency of control measures taken for risk prone functions. Consequently, a report summarising and recommending feasible course of action regarding emerging risk elements and the effectiveness of the existing risk control mechanisms is submitted to the Board of Directors.

Report of the Integrated Risk Management Committee on page 103 of this Report, contains a detailed description of the composition and the functionality of the Integrated Risk Management Committee.

Continuous internal audit, employing the co-sourced services of Messrs Ernst & Young Advisory Services (Pvt) Ltd., is reporting directly to the Audit Committee and the Board of Directors. Monthly reports are submitted, communicating deviations from the standard operating procedures, misconducts and lapses in the internal control process, while identifying the severity of impact.

Risk mapping at Senkadagala Finance

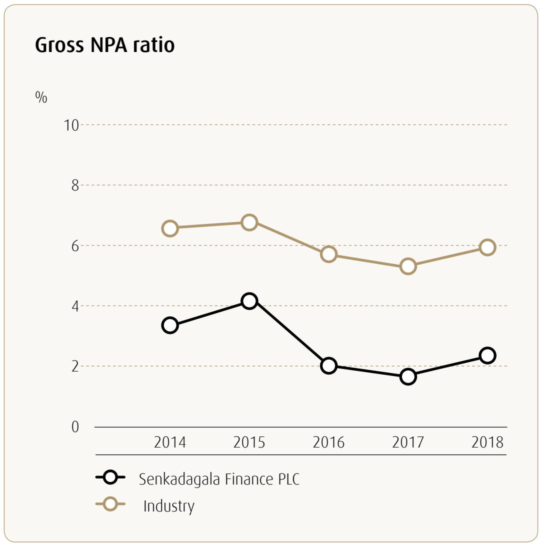
1. Credit Risk
    1.1. Default risk
    1.2. Credit concentration
2. Liquidity Risk
3. Operational Risk
    3.1. Internal controls
    3.2. Technology-related Risk
    3.3. Disasters and contingencies
4. Market Risks
    4.1. Interest rate Risk
    4.2. Equity Risk
    4.3. Foreign exchange Risk
5. Regulatory and Compliance Risk
6. Strategic Risk
7. Reputation Risk



Credit Risk

Credit risk is potential financial losses due to failure of counterparties to discharge the contractual obligations or in simple terms losses arising due to defaults. Financial institutions, engaged in financial intermediation are highly susceptible to credit risk. Materialisation of such risks creates high levels of defaults that will have detrimental effect on the asset quality, profitability and the liquidity position of the entity.

Credit risk could materialise due to deteriorated creditworthiness of borrowers as well as due to adverse fluctuations in the macroeconomic conditions. Credit risk is an integral part of finance business. Therefore, this risk should be meticulously managed to optimise the risk return tradeoff.



Senkadagala Finance has identified credit risk as a key risk segment for the Company and strives to maintain the Non-performing asset ratio within tolerable limits. The Company has one of the lowest NPA ratios among industry players. In March 2018 the gross NPA ratio stood at 2.28% compared to 1.64% of March 2017. The industry average NPA ratio of the LFC/SLC sector was 5.9% for the year 2017.

How we manage credit risk

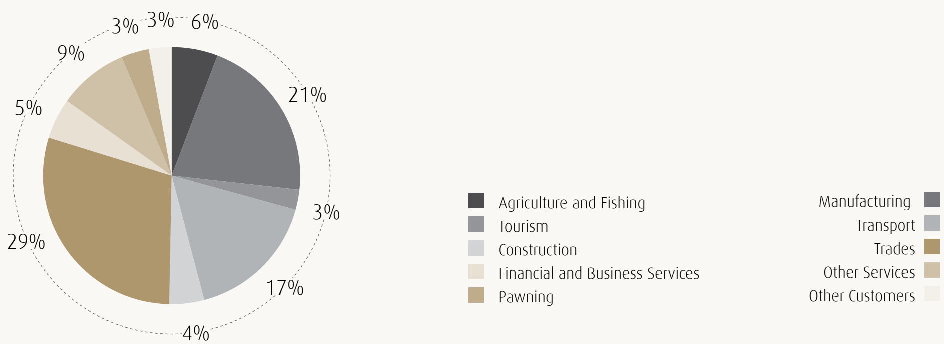
Marketing Staff	Recovery Department	Legal Department
Customer appraisal Credit evaluation Courtesy reminder via SMS Phone calls Relationship management	Payment reminders via mail Site visit by Recovery Officers Follow-up action Restructure facility Letter of Termination	Letter of Demand Repossession of assets Mediation Board to recover the outstandings Instigate legal action

Credit risk at Senkadagala Finance

Risk Type	Likelihood	Consequence	Objectives for risk mitigation	Course of action
Default risk (failure of counterparties to discharge contractual obligations)	High (an inherent risk for the finance business)	Moderate (The size of exposure is a deciding factor)	Attain a sound loan portfolio	• A dynamic credit evaluation process is in place which comprehensively assesses the customers, rating in accordance with the potential default risk • Ongoing training for employees engaged in credit evaluation • Approval hierarchies are set to streamline disbursement of loans with high exposures • Risk tolerance levels are set for identified key risk parameters and strict adherence to such levels • Exposure limits are set for economic sector based on the historical loss experience • Exposure limits are set for asset categories based on historical loss given defaults • Maintain a low LTV ratio in identified high risk sectors and asset categories • Exposure to individuals are restricted for tolerable limits • Ensure that the extended finance is in conformity with the Company's Environmental & Social Management System
			Maintain a low Non-Performing Asset ratio	• Gross NPA ratio targets are set and communicated to employees periodically
			Maintain a low infection ratio	• Create a sense of responsibility with the loan officer by which he/she will be an active participant in the recovery process • Identify potential defaults proactively by maintaining close links with customers and analysing payment patterns • Centralised Recovery Department oversees the recovery process ensuring that exposure to credit risk is within tolerable limits • Set performance objectives in line with the Company's risk objectives

Risk Type	Likelihood	Consequence	Objectives for risk mitigation	Course of action
			Minimise the loss given default	● Comprehensive review of securities undertaken before extending the loan facility ● Obtaining internal as well as external valuation of collaterals to prevent judegemental deviations at loan disbursements ● Strict controls over the loan to value ratio specially in identified high risk asset categories ● Continuous auction sale of seized assets through an online system which enables the Company to dispose repossessed assets for the highest bid ● Loan protection plan in place to prevent losses due to demise of the primary borrower
			Control the movement in arrears buckets	● Centralised review of the portfolio to maintain portfolio quality
Credit concentration risk (risks arising due to significant single exposures)	Moderate	Significant Function of exposure to individual borrowers	Controlled exposures	● Exposure limits are set for economic sector based on the historical loss experience ● Exposure limits are set for asset category based on the loss given default experience ● Scrutinise the LTV ratio for individual contracts ● Exposure to individual customers are restricted to tolerable limits

Economic sector exposure



Risk Type	Likelihood	Consequence	Objectives for risk mitigation	Course of action
			Monitor the movement in arrears buckets	● Strengthen ties with individually significant customers ● Recovery responsibility is held with the loan officer/ relationship manager
			Manage the loss given default	● Insure the underlying collateral for probable losses

Liquidity Risk

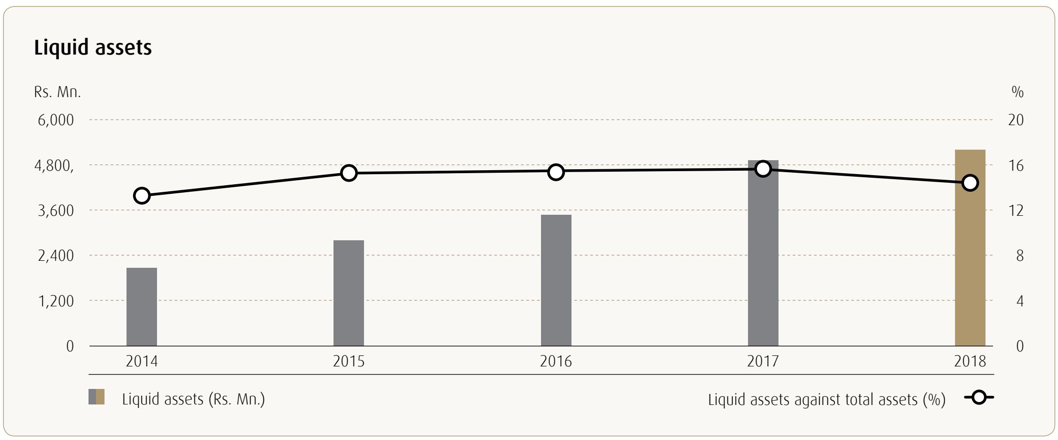
Liquidity risk materialises when an institution fails to honour its financial obligations as they fall due. Crystallisation of liquidity risk is one of the common reasons for insolvency of financial institutions; major players in the finance business fail due to liquidity mismanagement from time to time. Therefore meticulous liquid asset management is vital for a financial institution's success.

Absence of adequate funding could hamper the growth potential for a business while presence of excess liquidity will result in opportunity costs and net margin losses. Hence, it is necessary to maintain the optimum level of liquid assets to maximise profitability.

The Central Bank of Sri Lanka through its Finance Companies (Liquid Assets) Direction No. 04 of 2013 governs the liquid asset management of finance companies directing the mandatory levels.

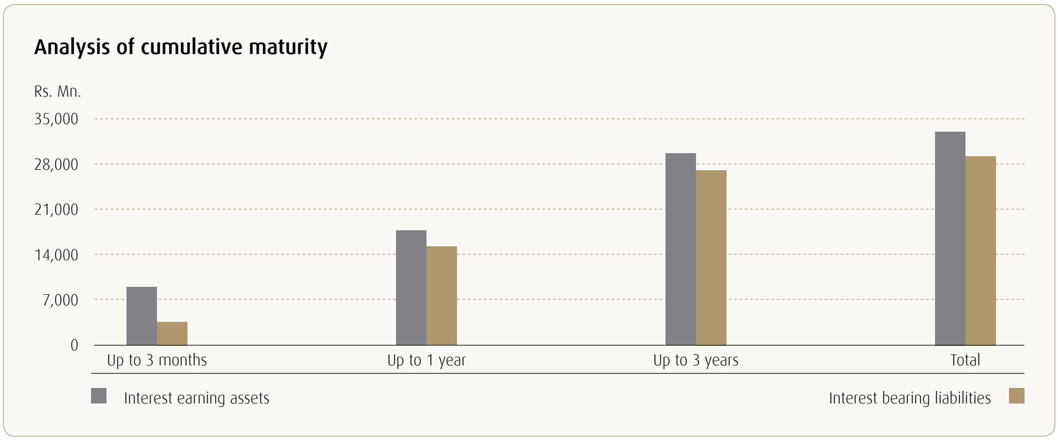
Following are the key objectives set to ensure compliance with CBSL thresholds and to maintain an optimal level of liquid assets by Senkadagala Finance;

Risk Type	Likelihood	Consequence	Risk mitigation objectives	Course of action
Liquidity risk	Medium	Significant (realisation would hamper the continuity of the business)	Maintain adequate levels of liquid assets to facilitate business growth	• Set disbursement targets in line with the expected profitability level for a reporting period • Set target levels and tolerable deviation levels for recovery ratios • Forecast cash flows • Identify potential cash shortages and plan in advance for funding such shortages • Optimise the return from temporary excess liquidity positions
			Plan for major capital repayments in advance	• Analyse the available loans and other borrowings of the entity and strategise methods of refinancing within adequate time • Maintain high collection ratios to facilitate smooth cash flows • Set-up sinking funds as and when required
			Open-up various funding streams to evade any contingencies	• Diversify funding methods and investors to dispense the risks involved • Strengthen ties with local commercial banks and other investors • Open-up foreign funding streams



Risk Type	Likelihood	Consequence	Risk mitigation objectives	Course of action
			Optimise the short to long term funding mix	• Strengthen the deposit base of the Company • Promote deposit retentions and renewals while reducing the deposit withdrawals • Manage the maturity mismatch, set tolerance levels for each maturity bucket • Continuously review and report regarding the tolerance levels • Readjust the tolerance levels in turbulent economic conditions
			Maturity gap and cumulative maturity analysis for assets and liabilities	• Set risk tolerance levels for maturity gap and the cumulative maturity gap ratios • Continuously review and control against the tolerance level

Senkadagala Finance has continuously adhered to Central Bank regulations on liquidity assets. Further, the Company has been able to capitalise on emerging market opportunities due to maintaining healthy liquidity levels. Due to meticulous liquidity management, Senkadagala Finance has been able to maintain a surplus in the short-term cumulative maturity mismatch.



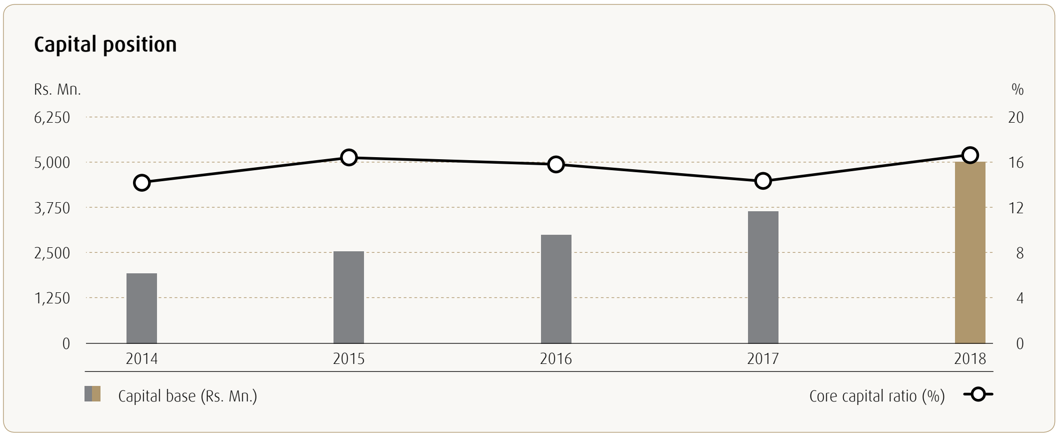
Operational Risk

Losses arising due to inadequate or failed internal processes, people and systems due to internal and/or external events are operational risks. It is difficult to assess the level of operational risk an entity is exposed to as it covers a broad spectrum of activities and functions within an organisation. However, a robust internal control system as well as adequate levels of capital should be in place to mitigate and buffer for losses due to materialisation of operational risk.

The Management of Senkadagala Finance reiterates on the importance of retaining high capital ratios in order to promote balance sheet strength and to provide an adequate buffer in volatile circumstances. The Core Capital base of the Company as at 31 March 2018 stood at Rs. 5,024 Mn. and the total capital at Rs. 5,259 Mn. The core capital ratio of the Company as at 31 March 2018 was 16.86%. The associated industry average by the end of 2017 stood at 12.4%.

In order to further strengthen the capital ratios, the Company made a rights issue of 7,247,506 shares at Rs. 80 each during the year. This increased the stated capital of the company by Rs. 579.8 Mn. and further strengthened the capital position.

Risk Type	Likelihood	Consequence	Risk mitigation objectives	Steps taken to evade operational risk
Internal controls	Medium	Low/Moderate	Eliminate internal fraud	• A robust internal control system is in place with stringent controls over risk prone functional areas • Skilled line managers are held accountable for the risk parameters in the relevant operational segment • Control mechanisms are incorporated in to the information system of the entity to enable good governance • Authority limits are enforced for high exposure transactions • A strong risk culture is instigated within the organisation which strengthens the risk policies and frameworks • The Company continuously reviews and updates its procedure manual to streamline with the developments in different business segments and the information system • A Whistle-blowing Policy is in place to encourage stakeholders to bring unethical conducts and illegal activities to the attention of appropriate authorities of the Company



			Evade external fraud	• Continuously review and upgrade the customer screening process • Regularly update and upgrade information system security to deter fraud
			Enhance employment practices and work place safety	• Comprehensive employee screening policies • Provision of continuous training and development provided to staff internally as well as externally • Issuing circulars and Memos by way of emails to all staff to inform them of various controls and system developments • Continuous development to systems, processes and procedures when necessary to accommodate developing requirements and controls

Risk Type	Likelihood	Consequence	Risk mitigation objectives	Steps taken to evade operational risk
			Improve client, products and business practices	● Senior Management who sets overall management objectives meets at regular intervals to review the progress achieved so far and takes remedial measures for any deviation from the set targets ● Promote localised business practices to streamline controls with customer requirements and environmental conditions ● Managers are encouraged to carry out market surveys and come up with product changes and new viable promotions to capitalise on market changes from time to time
			Develop execution, delivery and process management	● Company has a comprehensive operations manual which is updated accordingly to the environmental and business process changes ● Ongoing education of the operational staff of changes to market conditions and business processes via email
Technology-related risk	Medium	High	Minimise system downtime	● System developments and upgrades are reviewed in the operational risk context ● Well trained systems support team is there to assist staff with IT-related issues
			Improve system and data security	● Regularly update and upgrade information system security ● State-of-the-art system security software is in place ● Ensure adequate controls are in place to ensure accuracy and reliability of Management information ● Continuous system development to ensure security against emerging threats
			Improve hardware functionality and eliminate breakdowns	● Regular maintenance and upkeep of equipment ● Maintenance agreements are in place, co-sourcing through suppliers enables prompt restoration of system breakdowns ● Optimise resources to improve customer experience and satisfaction for the service.
Disasters and contingencies	Low	Significant	Minimise business disruptions and system failures	● We have in place a Disaster Recovery Site which enables us to continue operations with minimal down time ● The Company has in place a Business Continuity Plan ● Maintain data backups and backup servers
			Minimise the loss due to damages to physical assets	● All buildings and assets are comprehensively insured ● All cash within the premises and in transit are insured ● Staff is trained regularly on the fire escape plans, housekeeping activities and other work place safety measures

Market Risk Factors

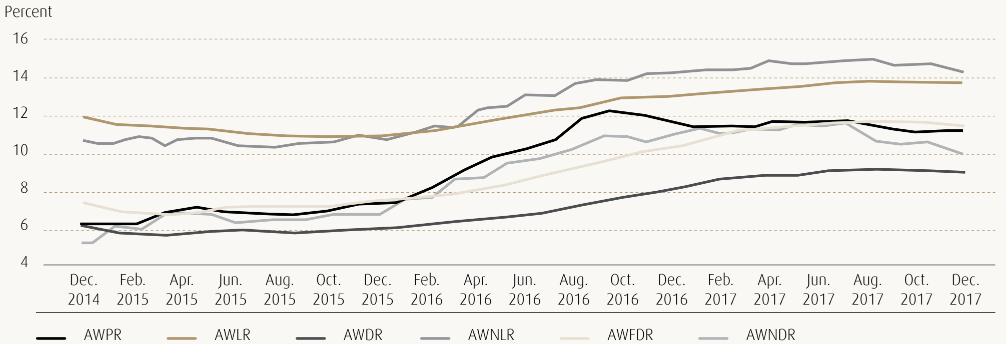
Market risk is losses incurred as a result of unfavourable movements in market factors such as interest rates, tradable equity prices, exchange rates and commodity prices. Probable loss exposures vary with the volatility of the underlying variable.

Interest rate risk

Interest rate risk is the risk that an investment's value will change due to changes in the absolute level of interest rates. Financial institutions act as financial intermediaries, hence are highly vulnerable to losses arising as a result of interest rate fluctuations. Interest rate fluctuations are external factors; hence it is beyond the control of the entity's management. Therefore risk objectives are set to manage the impact on the returns of the entity.

Risk Type	Likelihood	Consequence	Risk mitigation objectives	Steps taken to evade operational risk
Interest Rate Risk	High	Moderate	Maintain an optimal net interest spread	• Meticulous asset and liability management • Set risk tolerance level for interest spread and continuously review it in light of prevailing market trends • Continuous scanning of the changes in the market interest rates, and identifying trends and patterns in market fluctuations which helps in deciding future strategies • Carrying out yield curve analysis • Periodical review of the pricing of loans, leases, deposits and other products, based on the market trends and competitor rates • Identify optimum sources of funding in light of the current market trends, and setting risk parameters and budgetary targets to achieve them • Reprice assets and liabilities to make use of favourable trends in the market

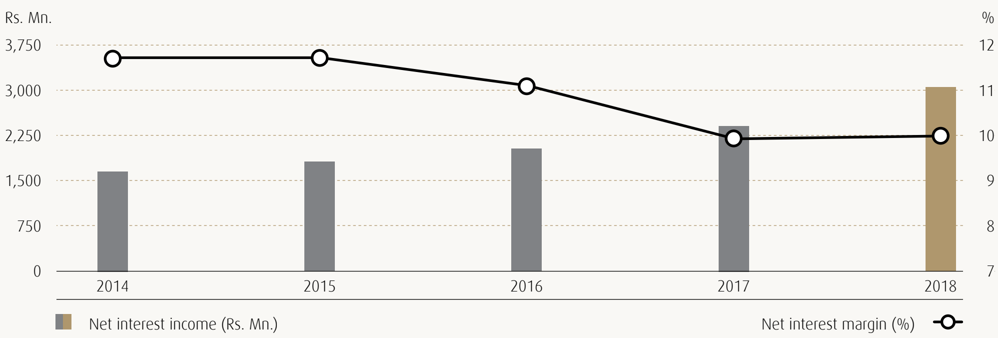
Commercial Bank Lending and Deposit Rates



Source: Central Bank of Sri Lanka - Annual Report 2017

Risk Type	Likelihood	Consequence	Risk mitigation objectives	Steps taken to evade operational risk
			Strike a balance between floating and fixed rated borrowings	● Floating rated loans enable the entity to re-price its liabilities in accordance with market trends, while fixed rated loans help to be resilient in a rising interest rate environment, hence optimal levels of fixed to floating rated funding is set to improve net interest margins ● Earning assets of Senkadagala Finance PLC, is primarily fixed rated, hence maintaining adequate levels of fixed rated funding is important, an optimal parameter is set for fixed rated funding ● Optimal level of fixed to floating rated borrowings helps to maximise profitability. The set parameters are regularly reviewed.
			Maintain an optimal gearing ratio	● Identifying and maintaining the optimum mix of equity and borrowing which gives a lower rate of Weighted Average Cost of Capital (WACC)

Net interest income

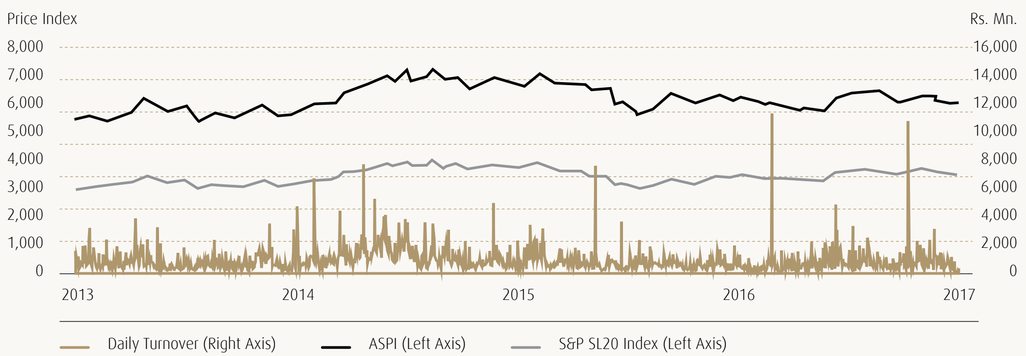


Equity risk

Equity risk is when an entity is exposed to losses due to volatility of exchange traded equity and debt instruments. A listed entity would face this risk with regard to its own capital as well as with its level of involvement in the securities markets. The likelihood of risk materialising is high, depending on the volatility of the market. Sensitivity to equity risk is dependent on the size of investment in the securities markets.

Risk Type	Likelihood	Consequence	Risk mitigation objectives	Course of action
Equity Risk	High	Moderate	Maintain the equity related risk at a minimum level	• Maintain equity investments within the risk tolerance level of the entity • Set stop-loss prices to minimise losses in turbulent market conditions • Closely monitor the market movement of invested equity instruments • The portfolio is marked to the market monthly to identify the impact of market trends

ASPI, S&P SL20 Index & Daily Turnover at the Equity Market



Source: Central Bank of Sri Lanka - Annual Report 2017

Risk Type	Likelihood	Consequence	Risk mitigation objectives	Course of action
			Maintain a diversified portfolio	• Invest in a variety of industries • Diversify the type of securities invested • The Company has sourced the services of Orion Fund Management to manage a section of its equity investment portfolio

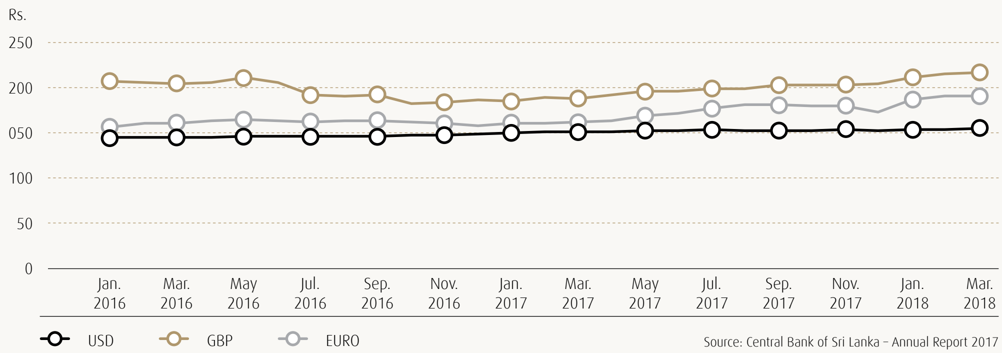
Foreign exchange risk

Foreign exchange risk is the materialisation of losses due to adverse movements in the foreign currency exchange rates. Senkadagala Finance commenced its foreign currency exchange business in the financial year 2012/13 and until such time the Company was not exposed to this risk. Since entering into a loan agreement with International Finance Corporation (IFC) for a USD borrowing, the exposure to foreign exchange risk increased. The Company took meticulous measures to manage foreign exchange risk throughout the loan period.

In March 2018, the Company obtained a fresh loan from IFC; however the Company was not exposed to any foreign exchange risk as the loan was disbursed in Rupees.

Risk Type	Likelihood	Consequence	Risk mitigation objectives	Course of action
Foreign Exchange Risk	High	Moderate	Minimise transaction losses	• The Company does not hold over-night positions of foreign currency purchased through its branch network daily • Systems are in place to track and monitor transactions regularly • Inform operational staff of counterfeit notes circulating in the market to evade external fraud • Swap cash flows to minimise the exchange risk exposure for major transactions

Exchange rate movement against major currencies



Source: Central Bank of Sri Lanka – Annual Report 2017

Risk Type	Likelihood	Consequence	Risk mitigation objectives	Course of action
			Minimise translation losses	• The Company has in place a locally procured hedge to lessen the effects of the foreign currency borrowing • Regular reviews are in place to ensure the efficiency of the hedge • New foreign borrowings are thoroughly reviewed to ensure compliance with internal risk tolerance levels

Regulatory and Compliance Risk

Regulatory and compliance risk is losses that could arise due to failure of the Company to comply with applicable rules, regulations and codes of conduct. The losses due to materialisation of this risk can be financial, loss of opportunity or damages to the reputation of the entity.

The likelihood and the consequence vary based on the nature of regulations, degree and the repercussion of non-compliance.

Due to its vulnerable nature, the finance business is highly regulated. Following are the primary supervisory bodies and the regulations prevailing over the entity:

- The Finance Business Act No. 42 of 2011
- Companies Act No. 07 of 2007
- Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka
- The Central Bank of Sri Lanka and regulations imposed thereby
- Continuous Listing Rules of the Colombo Stock Exchange
- Registrar of Companies
- Colombo Stock Exchange
- Securities and Exchange Commission and regulations imposed thereby
- Directions, Rules, Determinations, Notices and Guidelines applicable to Licensed Finance Companies
- Rules and regulations imposed by the Department of Inland Revenue
- Regulations imposed by other local and national authorities
- Accounting and other reporting standards issued by The Institute of Chartered Accountants of Sri Lanka
- Covenants imposed by investors and other influential bodies
- Internal policies and procedures

The Management has taken the following steps to mitigate regulatory and compliance risks to ensure sound governance:

- Incorporated limits and restrictions (e.g. LTV ratios, capital adequacies, etc.) enforced by the regulators into system controls
- Responsibility is assigned to the functional managers and department heads to maintain relevant ratios within the stipulated limits
- A compliance function is in place. The compliance officer who directly reports to the Board closely monitors and periodically reports of the status of conformity of the entity against applicable rules and regulations
- A report comprising regulatory ratios is submitted to the Integrated Risk Management Committee meeting and the Board meeting to ensure continuous compliance
- A quarterly compliance audit function is in place sourcing the expertise of Messrs Ernst & Young Advisory Services (Pvt) Ltd providing external assurance to the compliance function.

	Senkadagala Finance position	Regulatory requirement
Core capital ratio (%)	16.86	5.00
Total capital ratio (%)	17.65	10.00
Minimum core capital (Rs. Bn.)	5.02	1.50
Liquid assets to term deposits and CDs (%)	57.21	10.00
Liquid assets to savings deposits (%)	1,365.62	15.00
Liquid assets to unsecured senior borrowings (%)	124.75	5.00
Government securities to average deposits and borrowings (%)	8.21	7.50
Accommodations granted to an individual borrower as a % of capital funds	3.28	15.00

During this financial year, the Central Bank issued several regulatory controls affecting the NBFI sector. The Direction on the Loan to Value ratio for credit facilities in respect of Motor Vehicles was amended; the amended direction defined the vehicle categories for the purpose of the direction. Further amendments eased the LTV ratio for leases granted for unregistered electric vehicles. Towards the latter part of the financial year, a direction was issued outlining the framework for financial customer protection. In March 2018 a guideline was issued mandating all LFCs to obtain a Credit Rating, specifying recognised credit rating agencies for the purpose. Such directions would have a positive impact on the structure and the stability of NBFIs.

Strategic Risk

Strategic risk is losses arising due to strategic decisions, which may occur due to external or internal events. Examples of Internal events are misguided decisions causing financial losses, improper implementation of business decisions, etc. The external events such as unfavourable changes in underlying economic conditions, or unexpected moves of competitors could also lead to financial losses.

Systematic analysis of strategic decisions coupled with sound governance practices has enabled Senkadagala Finance to minimise the likelihood of materialisation of strategic risks. However, if materialised, the impact of such losses could be critical based on level of investment and business involvement.

Following controls are in place to safeguard the Company against strategic risk-related losses:

- The Vision statement and the Mission outline the general strategic direction of the entity. All strategic decisions and objectives are thoroughly reviewed against these
- Thorough analysis is done before strategic decision implementation and robust strategic planning and strict budgets are stipulated before commencement
- Feasibility studies are carried out to identify potential threats and drawbacks for various strategic initiatives
- A state-of-the-art Management Information System is in place. The MIS was internally developed tailored to the requirements of the Management and the business structure
- Periodic reviews and continuous control actions are undertaken to ensure the success of strategic decisions
- An overall business strategy including a four-year financial forecast is in place to govern the future direction of the Company. In the year 2018, this plan was updated to accommodate the expected growth trajectory for the immediate four years
- The entity has in place a continuous environmental scanning system, which maintains a watchful eye over changes in the macroeconomic conditions, potential trends and competitor behaviour
- Through regular meetings, the Board of Directors and the corporate management team monitor the progress of significant strategic initiatives

Reputation Risk

Reputation risk is the loss of earning, profitability, capital or brand image due to negative publicity. Tarnished reputation due to lapses in internal controls, failure to deliver up to customer expectations, system failures, non-compliance with regulatory requirements, unethical business practices, labour unrest, etc. leading to financial losses.

Systematic risk identification and effective management of risks have enabled Senkadagala Finance to mitigate potential reputation risk.

Financial Reports

Annual Report of the Board of Directors of Senkadagala Finance PLC

The Board of Directors of Senkadagala Finance PLC has pleasure in presenting the annual report together with the audited financial statements of the Company and the audited consolidated Financial Statements for the year ended 31 March 2018 to the shareholders, which was approved by the Board of Directors on 31 May 2018.

The details set out here provide information required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange and recommendations of best accounting practices.

Domicile and Legal form of the Company

Senkadagala Finance PLC is a public limited liability Company domiciled in Sri Lanka, incorporated under the Companies Act No. 51 of 1938 on 29 December 1968 bearing Registration No. PB 238 PQ and registered under the Finance Companies Act No. 78 of 1988 which was replaced by the Finance Business Act No. 42 of 2011. The Company was re-registered under the Companies Act No. 07 of 2007. The Company is listed in the Diri Savi Board of the Colombo Stock Exchange with effect from 22 March 2011.

The registered office of the Company is situated at 2nd Floor, 267, Galle Road, Colombo 03.

Vision and Mission

The Company's vision and mission are stated in page 4 of this Report.

Principal Activities and Nature of Operations

The principal lines of business of the Company include providing financial accommodation in the form of finance leases, hire purchase, commercial loans and personal loans. Additional lines of business include pawn brokcring, foreign exchange transactions, bill discounting, investment in money market instruments and the acceptance of term deposits, certificates of deposit and savings deposits.

The principal line of business of the subsidiary, Senkadagala Insurance Brokers (Pvt) Ltd. is insurance brokering activities.

On 25 August 2014 Senkadagala Finance acquired 100% ownership of Newest Capital Limited, a Specialised Leasing Company registered under the Finance Business Act No. 42 of 2011. Newest Capital Limited engages in investment activities.

There have been no significant changes in the principal activities of the Company and of the group during the financial year under review.

Management and Financial Review of Business

A detailed description and analysis of the operations of the Company for the year under review is contained in the Chairman's message (on pages 12 to 13), the Managing Director/CEO's review (on pages 16 to 17) and the Value Creation and Capital Formation (on pages 38 to 79) section. These reports together with the audited financial statements provide an overall assessment of the Company's performance during the financial year.

Branch Expansion and Future Developments

Senkadagala Finance PLC now has 54 branches and 41 service centres island wide. In light of the business growth in the recent past, the Company continued with its branch expansion, opening doors in five new locations, namely Bandaragama, Deniyaya, Mathugama, Wattegama and Welimada during the year.

The management is planning to open five more branches to reach 100 branch/centre target to coincide with the 50th year celebrations falling in December 2018.

Directors' Responsibility for Financial Reporting

The Financial Statements of the Company and the group duly approved by two directors are given on pages 139 to 221.

The directors are responsible for the preparation of Financial Statements, the maintaining of proper accounting records and disclosures regarding accounting policies and principles of the Company and the Group.

The directors are of the view that the Financial Statements presented give a true and fair view of the affairs of the Company as at 31 March 2018 and the profit of the year then ended and have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007, Finance Companies Act, No. 78 of 1988 which is replaced by the new Finance Business Act No. 42 of 2011 and the amendments to these acts and provide appropriate disclosures as required by the Central Bank of Sri Lanka and Listing Rules of the Colombo Stock Exchange.

Auditor's Report

The Auditors of the Company Messrs. KPMG performed the audit on the separate and the consolidated Financial Statements for the year ended 31 March 2018. The Auditor's Report issued thereon is given on pages 134 to138 of this annual Report.

Accounting Policies

The accounting policies adopted in preparing and presenting of these Financial Statements are given on page 147 to 164 of this annual Report.

The Company and the group prepared the Financial Statements for all periods up to and including the year ended 31 March 2018 in accordance with the Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by the Institute of Chartered Accountants of Sri Lanka, which has materially converged with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

Directors Interests

As required by the Section 192 (1) and (2) of the Companies Act all Directors have made declarations of the interests with the Company. The share ownership of Directors is disclosed on page 130 of this Report.

Remuneration and other benefits of Directors

Directors' remunerations in respect of the Company and the group for the financial year under review is Rs. 22,958,565 (2017 – Rs. 20,536,250).

Related Party Transactions

There were no related party transactions which exceeded the threshold limits stipulated in the Listing Rules of the Colombo Stock Exchange (CSE) on Related Party Transactions. However, the Directors have disclosed the transactions that could be classified as related party transactions in the presentation of Financial Statements and accordingly given in Note 45 on page 197 of this annual Report.

Donations

A sum of Rs. 3,746,000 (2017 – Rs. 4,293,982) was paid out by way of donations during the financial year under review.

Income

The income generated by the Company during the financial year comprises of the following:

	Company		Group	
	2018 Rs.	2017 Rs.	**2018 Rs.**	2017 Rs.
Interest income	**6,472,114,532**	4,825,712,446	**6,474,164,965**	4,827,546,479
Fee and commission income	**100,249,664**	138,664,254	**244,229,108**	258,611,679
Other operating income	**197,965,525**	173,759,290	**114,987,525**	112,003,682
Total	**6,770,329,721**	5,138,135,990	**6,833,381,598**	5,198,161,840

Further analysis of income is given in Note 4, 6 and 8 to 10 of the Financial Statements on pages 165 and 166 of this Report.

Profit and Appropriations

Details of appropriation of profit of the Company is given below:

	2018 (Rs.)	2017 (Rs.)
Profit before income taxation	1,357,415,691	1,119,133,119
Income taxation	(352,744,373)	(258,161,877)
Profit for the period	1,004,671,318	860,971,242
Other comprehensive income/(loss) net of income tax	(4,336,678)	(7,400,624)
Balance brought forward	2,339,158,221	1,716,486,135
Profit available for appropriation	3,339,492,861	2,570,056,753
Appropriated as follows;		
Transfers to statutory reserve fund	55,000,000	45,000,000
Dividends paid	213,076,679	185,898,532
Un-appropriated profit carried forward	3,071,416,182	2,339,158,221

Dividends

The directors recommended a final dividend of Rs. 0.95 per share for the financial year ended 31 March 2018. In accordance with the Direction No. 01 of 2013 the Company obtained approval of the Director of the NBFIs of the Central Bank of Sri Lanka for the final dividend.

The following dividends were declared and paid during the financial year:

Dividend payment	2018 Amount Rs.	2018 DPS Rs.	2018 Paid Date	2017 Amount Rs.	2017 DPS Rs.	2017 Paid Date
1st interim dividend paid	36,237,531	0.50	01.11.2017	39,136,533	0.60	24.11.2016
2nd interim dividend paid	68,851,308	0.95	21.02.2018	58,704,800	0.90	26.01.2017
3rd interim dividend paid	72,475,061	1.00	03.05.2018	39,136,533	0.60	07.04.2017
Final dividend proposed/paid	68,851,308	0.95	Subject to AGM approval	68,851,308	0.95	11.07.2017

The total dividend payout ratio amounted to 21.21% in 2018 compared to 21.59% of 2017.

Taxation

The Company accounts for deferred taxation under the liability method on all timing differences. Details are disclosed in Note 16 on page 168 and Note 38 on page 192 of this Report.

Reserves

The aggregate reserves of the Company as at 31 March 2018 amounted to Rs. 5,031 Mn., the aggregate reserves as at 31 March 2017 were Rs. 3,662 Mn. Movement in reserves during the year is given in Statement of Changes in Equity on page 143 of this Report.

The composition of the aggregate reserves is set out below:

	2018 (Rs.)	2017 (Rs.)
Stated capital	1,587,862,680	1,008,062,200
Statutory reserve fund	365,036,033	310,036,033
Available for sale reserve	7,171,473	4,361,183
Retained earnings	3,071,416,182	2,339,158,221
Total reserves	5,031,486,368	3,661,617,637

Capital Expenditure

The total capital expenditure for the year amounted to Rs. 359.1 Mn. (2016/17 – Rs. 640.9 Mn.).

Details of property, plant and equipment are available on pages 180 to 186 of this Report. Details relating to the depreciation charge for the year are also available on page 183 and 184.

Market Value of Free Hold Assets

The values of the free hold properties of the Company have been obtained from the reports issued by an external independent property valuer Mr K M U Dissanayake and Mr H N M Herath dated 31 March 2018 and 31 March 2017 respectively. The valuers have appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation has been carried out based on open market value of similar properties. These values have not been incorporated in the Financial Statements. Details of free hold property owned by the Company are given in note 28.2 and note 29.6 of the Financial Statement on pages 181 and 185 to this Report.

Issue of Shares and Debentures

Stated capital

Senkadagala Finance PLC has in issue 72,475,061 ordinary shares to the book value of Rs. 1,587.9 Mn. as at 31 March 2018.

During the year 7,247,506 new voting shares were issued at an issue price of Rs. 80/- per share by way of a rights issue. Subsequent to the proposal by the Board of Directors, the resolution pertaining to the issue was duly adopted by the shareholders at the EGM held on 30 March 2017. The rights were fully subscribed, 7,247,506 voting shares were listed in the Colombo Stock Exchange on 2nd May 2017.

The Company does not have any other category of shares in issue.

Details of the stated capital are given in Note 42 of the Financial Statements on page 196 of this report.

Debentures

Details of the debentures in issue as at 31 March 2018 are given in detail in Note 36 and Note 37 of the financial statements on pages 191 and 192 respectively. Further information on the listed debentures is given on page 74 of this Report.

Share Information

Information relating to earnings per share, dividends per share, net assets per share, market price per share and the distribution of shareholding is indicated on page 73, under shareholder information. The twenty largest shareholders as at 31 March 2018 together with an analysis of the shareholding are also indicated therein.

Equitable Treatment to Shareholders

The Company has taken all possible steps to ensure equitable treatment to all its shareholders.

Directors

The Board of Directors of Senkadagala Finance PLC consists of directors with financial and commercial experience. The qualifications and experience of the directors are detailed on page 82 of this Report.

The following were Directors of the Company during the year

- Mr W M R S Dias
- Dr P Ramanujam
- Mr L Balasuriya
- Dr A Balasuriya
- Mrs L Fernando
- Dr M Balasuriya
- Mr W A T Fernando
- Mr S D Bandaranayake
- Mr D T P Collure
- Mr Senanayakege R Pushpakumara

The following were Directors of the Subsidiary, Senkadagala Insurance Brokers (Pvt) Ltd. during the year:

- Mr L Balasuriya
- Dr A Balasuriya
- Mrs L Fernando
- Dr M Balasuriya
- Mr W A T Fernando
- Mr S D Bandaranayake

The following were Directors of the Subsidiary, Newest Capital Limited during the year:

- Mr L Balasuriya
- Dr A Balasuriya
- Mrs L Fernando
- Dr P Ramanujam
- Mr S D Bandaranayake

Board and Committee Meetings

A number of Board meetings, Audit Committee meetings, Remuneration Committee meetings and Integrated Risk Committee meetings were held during the year at the Registered Office of the Company. Members of each of these committees have attended the meetings on a regular basis. Details of the members and their attendance is given in pages 82 and 101 of this Report.

Recommended for Re-election

In accordance with the Finance Companies (Corporate Governance) Direction of No.03 of 2008, none of the Directors of the Company are coming up for re-election.

Directors and Shareholdings

The directors of the Company at the date of the report are shown below together with their respective shareholdings:

	2018		2017	
	Number of shares	% of holding	Number of shares	% of holding
Dr A Balasuriya	-	0.00	3,747,127	5.74
Dr A Balasuriya & Mr D Balasuriya	2,086,023	3.20	3,858	0.01
Dr A Balasuriya & Mr S Balasuriya	2,086,022	3.20	3,857	0.01
Dr M Balasuriya	4,172,046	6.40	3,754,842	5.76
Mrs L Fernando	-	0.00	3,141,113	4.82
Mrs L Fernando & Ms S A Fernando	1,166,232	1.79	2,572	0.00
Mrs L Fernando & Mr A R Fernando	1,166,231	1.79	2,571	0.00
Mrs L Fernando & Mr A L Fernando	1,166,231	1.79	2,571	0.00
Mr L Balasuriya & Mr S K Balasuriya	2,086,023	3.20	1,877,421	2.88
Mr L Balasuriya & Ms A S Balasuriya	2,086,022	3.20	1,877,420	2.88
Mr L Balasuriya – The Trustee of the Capitalisation Issue	15	0.00	15	0.00
Mr W A T Fernando	-	0.00	–	0.00
Dr P Ramanujam	-	0.00	–	0.00
Mr S D Bandaranayake	-	0.00	–	0.00
Mr D T P Collure	-	0.00	–	0.00
Mr W M R S Dias	-	0.00	–	0.00
Mr Senanayakege R Pushpakumara	-	0.00	–	0.00

Directors' Interests in Debentures

Details of Debentures held by the Directors of the Company are mentioned below:

As at 31 March	2018		2017	
	Number of Debentures	% of holding	Number of Debentures	% of holding
Mr. S D Bandaranayake	125,000	1	225,000	1

Environment

The Directors are of the belief that the Company does not engage in any form of activity that is detrimental to the environment. Compliance with all environmental regulations has been adhered to during the year.

Statutory Payments

The Directors are of the view that all statutory payments in relation to government agencies and employees have been made up to date.

Post Balance Sheet Events

The Board of Directors has declared and paid an interim dividend of Rs. 1.00 per share for the nine-month period ended 31 December 2017, on 3 May 2018. Further a final dividend of Rs. 0.95 per share for the year ended 31 March 2018, is recommended by the Board of Directors subject to the approval by the shareholders at the Annual General Meeting for the financial year ended 2017/18. In accordance with the LKAS 10 on "Events After the Reporting Period", the proposed dividends are not recognised as a liability in the Financial Statements as at year end.

Except as mentioned above there were no material events occurring after the reporting period that require adjustment to or disclose in the financial statements.

Appointment of Auditors

The Financial Statements of the year under review have been audited by Messrs. KPMG, Chartered Accountants, who offer themselves for re-appointment. A resolution will be proposed at the Annual General Meeting to re-appoint them as auditors and authorising the directors to resolve their remuneration.

Auditor's Remuneration, Other Fees and Payables

The Auditors, Messrs. KPMG was paid audit fees of Rs. 1,200,000 (2016/17 – Rs. 1,090,000) for the Company and Rs. 431,986 (2016/17 – Rs. 419,631) for the subsidiary companies for the period under review. In addition they were paid Rs. 1,470,876 (2016/17 – Rs. 2,592,222), for permitted non-audit related services. This information is disclosed as required by the Section 168 (1) of the Companies Act No. 7 of 2007.

Amounts pertaining to the audit fee of Rs. 1,200,000 of the Company and Rs. 431,986 of the subsidiaries was payable as at the year end.

As far as the Directors are aware, the auditors do not have any other relationship or interest in contract with the Company.

Risk Management

Specific steps taken by the Company in managing risks are detailed on pages 107 to 125 of this report.

Corporate Governance

The Board places great emphasis on maintaining effective corporate governance practices, policies and systems are structured accordingly and reviewed from time to time to enhance transparency and accountability. The report on corporate governance is given on pages 82 to 105 of the annual Report.

Internal Control

The Directors of the Company are responsible for setting out the policy regarding internal control. The set of internal control procedures laid down seeks to manage against material errors or omissions, losses, fraudulent practices and to safeguard assets and secure as far as is possible the accuracy and reliability of the records.

Employment Policies

The Company is an equal opportunity employer. In its goals and objectives, it seeks to achieve excellence and market orientation in its service. Continuous training and social participation amongst employees are encouraged.

A holistic approach prevails in the Company's strategic outlook where a participatory management style ensures that employees are involved in the decision-making process. Incentive schemes which are related to employee performance are one of the ways in which the Company ensures that rewards are directly related to performance. A Remuneration Committee ensures that a balance is struck between performance and related employee rewards structures.

The Company has also set up an in-house training facility in order to ensure that all employees meet certain standard requirements before job placement and also to enhance the existing skills of its staff. The Company had 745 employees as at 31 March 2018 (2017 – 690).

Going Concern

The Directors are satisfied that the Company has at its disposal adequate resources to continue in business in the foreseeable future; and hence the going concern concept is adopted in the preparation of the financial statements.

Compliance with Laws and Regulations

The Directors are of the belief that the Company has not engaged in any activities contravening the law and has complied with all applicable regulations.

By order of the Board of
SENKADAGALA FINANCE PLC

Sgd.
Managers and Secretaries (Private) Limited
Secretaries

Colombo
31 May 2018

Directors' Statement on Internal Control over Financial Reporting

Responsibility

In line with Section 10 (2) (b) of the Finance Companies Corporate Governance Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors presents this Report on Internal Control over Financial Reporting.

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

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

The Management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. The Management is continuously in the process of enhancing the documentation of the systems of Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an ongoing basis.

Confirmation

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

External Auditors Certification

The External Auditors have submitted a certification on the process adopted by the Directors on the System of Internal Controls over Financial Reporting. The matters addressed by the External Auditors will be considered and appropriate steps would be taken to rectify them in the future.

By order of the Board,

S D Bandaranayake
Director/Additional CEO

W M R S Dias
Chairman

W A T Fernando
Director/Chairman of the Board Audit Committee

Colombo
31 May 2018

Independent Auditors' Report

KPMG
(Chartered Accountants)
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To the Shareholders of Senkadagala Finance PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the Financial Statements of Senkadagala Finance PLC ('the Company") and the Consolidated Financial Statements of the Company and its subsidiaries ("the Group"), which comprise the Statement of Financial Position as at 31 March 2018, and the Statements of Income, Other Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, notes to the Financial Statements, including, a summary of significant accounting policies and other explanatory information as set out on pages 147 to 164.

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 31 March 2018 and 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 Lankan Auditing Standards ("SLAuSs"). Our responsibilities under those standards are further described in the Auditors' 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 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 Financial Statements and the 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.

KPMG

Key audit matters (continued)

Impairment for finance lease, hire purchase and other loans and receivables

Refer "Note 2.7 and 3.6 (Accounting policies) and "Notes 22 to 24. (Notes to the financial statements).

The key audit matter	Our responses
As at 31 March 2018, the Company reported net amounts of lease, hire purchases and other loans and advances (loans and advances) of Rs. 24,076,785,200, Rs. 204,689,531 and Rs. 3,968,818,838 respectively with a provision of Rs. 448,508,132 as impairment. For a loan or advance that is individually significant, the Company assesses it individually for impairment and for a loan or advance that is not individually significant, the Company assesses it collectively for impairment and includes it in a group of loans or advances with similar credit risk characteristics and collectively assesses them for impairment. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. The impairment loss for a loan and advance that is individually assessed is the difference between estimated discounted future cash flows and book value of the loan and advance. Such estimated cash flows include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors. Whilst the Company appoints external valuers for the valuation of certain property and other illiquid collateral, enforceability, timing and means of realisation also affect the ultimate collectability and thereby the amount of impairment allowances as at the reporting date. We identified assessing impairment of loans and advances to customers as a key audit matter because loans and advances to customers accounted for 77% of the Company's total assets and the assessment of impairment loss involved significant estimates and judgements.	Our audit procedures included: ● Evaluating and validating the design, implementation and operating effectiveness of key controls over timely identification of individual impaired loans and advances, estimates of future cash flows and valuation of collaterals for impaired loans and advances which are assessed on an individual basis, and selection of models and determination of key assumptions, parameters and risk adjustments for collective assessment; ● Performing credit assessment of a sample of loans and advances not being identified by management as impaired, challenging management's assessment by examining the underlying loan information and external evidence available; ● Reviewing the key assumption in the models such as forecasts, calculation and assumptions of future cash flows prepared by management by examining the underlying supporting evidence including external market data; ● Challenging the validity of the models used and assumptions adopted by the Company for the calculation of collective impairment allowances; ● Considering, as part of the procedures above, the nature of and reasons for any revisions to the key assumptions and input parameters in the models, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses and assessing key internal controls over the input of underlying data into the models. We compared the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the life cycle of overdue accounts from the specific credit event to downgrading the account to a non-performing contracts;

KPMG

Key audit matters (continued)

Impairment for finance lease, hire purchase and other loans and receivables	
The key audit matter	**Our responses**
	Our audit procedures included: ● Assessing the impairment allowances for individually impaired loans and advances by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples in industries vulnerable to the current economic slowdown. We also focused on loans with perceived higher risk and selected samples from non-performing loans, overdue but performing loans and borrowers with negative warning signs or adverse press coverage; ● Re-performing credit assessments for the selected individually impaired loans and advances by assessing the forecast of recoverable cash flows through inquiry, applying judgement and our own research. We evaluated the timing and means of realisation of collateral and considered other sources of repayment asserted by management. We also evaluated the consistency of management's application of key assumptions and compared them with our own data sources. Where available, we made use of post-reporting date information to evaluate credit quality with hindsight; ● Evaluating the experience, independence, competence and integrity of the external valuers engaged by the Company to value certain property and illiquid collateral. Where possible, we compared the valuations with externally derived data such as commodity prices and real estate valuations; ● Re-calculating the amount of collective impairment allowances to assess the application of the Company's methodology; ● Assessing the adequacy of disclosures in the consolidated financial statements in relation to impairment and credit risk.

KPMG

Key audit matters (continued)

IT systems and controls over financial reporting

The key audit matter	Our responses
The Company operates a large and the most complex IT systems for its day-to-day operation. Automated accounting procedures and IT environment controls, which include IT governance, controls over programmes development and changes, access to programmes and data and IT operations, are required to be designed and to operate effectively to ensure accurate financial reporting. In particular importance are system calculations, logic regarding significant accounts, including interest calculations, interfaces between business management systems and accounting systems and data migration to new systems. We identified IT systems and controls over financial reporting as a key audit matter because the Company is heavily dependent on IT systems for the processing and recording of significant volumes of transaction.	Our audit procedures included: ● assessing the design, implementation and operating effectiveness of general IT controls over the continued integrity of all major IT systems; ● examining the framework of governance over the Company's IT organisation and the controls over programme development and changes, access to programmes and data and IT operations, including compensating controls where required; ● evaluating the design, implementation and operating effectiveness of the significant accounts-related IT process controls by assessing the operating effectiveness of IT Application Controls, assessing the operating effectiveness of certain automated controls and system calculations which are relevant to the Company's compliance activities and assessing the consistency of data transmission and data migration; ● Assessing the availability and stability of key operating systems, taking into consideration the rapid development of businesses types and transactions volumes as well as IT projects that have a significant impact on business continuity; ● Testing the appropriateness of the access rights given to staff and segregation of duties between users within particular systems.

Other Information

Management is responsible for the other information. The other information comprises all the information included in the Annual Report, but does not include the Financial Statements and our Auditors' 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.

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.

KPMG

Auditors' 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 Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the 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 Auditors' 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 Auditors' 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 charge 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 Auditors' Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditors' Report is 3707.

KPMG

Chartered Accountants
Kandy,
Sri Lanka

31 May 2018

Income Statement

For the year ended 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Interest income	4	**6,472,114,532**	4,825,712,446	**6,474,164,965**	4,827,546,479
Interest expense	5	**(3,410,063,681)**	(2,402,304,655)	**(3,405,469,460)**	(2,399,178,562)
Net interest income		**3,062,050,851**	2,423,407,791	**3,068,695,505**	2,428,367,917
Fee and commission income	6	**100,249,664**	138,664,254	**244,229,108**	258,611,679
Fee and commission expense	7	**(36,525,468)**	(23,359,325)	**(36,525,468)**	(23,359,325)
Net fee and commission income		**63,724,196**	115,304,929	**207,703,640**	235,252,354
Net gain from trading	8	**7,152,560**	5,924,388	**7,152,560**	5,924,388
Net gain/(loss) from financial instruments designated at fair value through profit or loss	9	**2,015,455**	(6,016,377)	**2,015,455**	(6,016,377)
Other operating income	10	**188,797,510**	167,834,902	**105,819,510**	106,079,294
Total operating income		**3,323,740,572**	2,706,455,633	**3,391,386,670**	2,769,607,576
Impairment (charge)/reversal on individual impairment	11	**(83,927,799)**	43,125,021	**(83,927,799)**	43,125,021
Impairment charge on collective impairment	12	**(20,742,492)**	(68,697,646)	**(20,742,492)**	(68,697,646)
Other loan losses reversal	13	**49,160,690**	32,889,638	**49,160,690**	32,889,638
Net operating income		**3,268,230,971**	2,713,772,646	**3,335,877,069**	2,776,924,589
Personnel expenses	14	**(621,444,313)**	(518,573,018)	**(625,868,230)**	(522,382,836)
Depreciation of Property, Plant and Equipment		**(289,908,111)**	(251,232,461)	**(294,136,613)**	(255,996,502)
Amortisation of intangible assets		**(14,352,423)**	(14,501,318)	**(14,352,423)**	(14,501,318)
Other operating expenses	15	**(770,022,551)**	(649,172,483)	**(775,753,212)**	(654,257,782)
Operating profit before value added tax on financial services		**1,572,503,573**	1,280,293,366	**1,625,766,591**	1,329,786,151
Value added tax on financial services		**(215,087,882)**	(161,160,247)	**(215,087,882)**	(161,160,247)
Profit before income tax		**1,357,415,691**	1,119,133,119	**1,410,678,709**	1,168,625,904
Income tax expense	16	**(352,744,373)**	(258,161,877)	**(408,336,384)**	(299,697,706)
Profit for the year		**1,004,671,318**	860,971,242	**1,002,342,325**	868,928,198
Basic earnings per share	17	**13.97**	13.05	**13.93**	13.17

Figures in brackets indicate deductions.

Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Other Comprehensive Income

For the year ended 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Profit for the year	1,004,671,318	860,971,242	1,002,342,325	868,928,198
Other Comprehensive Income				
Items that will not be reclassified to profit or loss				
Acturial loss on defined benefit plans	(6,400,199)	(9,821,118)	(6,505,690)	(9,821,118)
Deferred tax effect on acturial loss	2,063,521	2,420,494	2,093,058	2,420,494
Items that are or may be reclassified to profit or loss				
Net change in fair value of available-for-sale financial assets	8,306,537	586,597	8,306,537	586,597
Reclassification adjustment for gain included in the income statement	(5,496,247)	–	(5,496,247)	–
	(1,526,388)	(6,814,027)	(1,602,342)	(6,814,027)
Other comprehensive income for the year net of tax	(1,526,388)	(6,814,027)	(1,602,342)	(6,814,027)
Total comprehensive income for the year net of tax	1,003,144,930	854,157,215	1,000,739,983	862,114,171

Figures in brackets indicate deductions.

Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Assets					
Cash and cash equivalents	19	**764,909,318**	604,224,835	**817,948,235**	620,729,074
Deposits with licensed commercial banks	20	**588,383,766**	2,424,623,839	**588,383,766**	2,424,623,839
Repurchase agreements		**2,899,624,179**	1,000,000,000	**2,899,624,179**	1,000,000,000
Financial assets held at fair value through profit or loss	21	**87,479,831**	80,032,551	**87,479,831**	80,032,551
Finance leases	22	**23,887,236,580**	20,014,694,207	**23,887,236,580**	20,014,694,207
Hire purchases	23	**162,468,190**	645,872,482	**162,468,190**	645,872,482
Other loans and receivables	24	**3,752,080,667**	3,097,021,373	**3,752,080,667**	3,097,021,373
Financial assets available for sale	25	**113,006,657**	79,700,121	**113,006,657**	79,700,121
Financial assets held to maturity	26	**967,518,989**	894,901,371	**967,518,989**	894,901,371
Investments in subsidiaries	27	**320,000,000**	320,000,000	**–**	–
Investment property	28	**379,280,895**	78,721,895	**281,660,383**	273,106,521
Property, plant and equipment	29	**1,366,616,928**	1,367,244,075	**1,371,811,835**	1,373,175,773
Intangible assets	30	**57,251,807**	70,924,853	**122,072,021**	135,745,067
Amounts due from related company	39	**–**	25,976	**–**	–
Current tax recoverable	31	**77,799,351**	64,822,514	**47,706,913**	46,858,845
Other assets	32	**680,106,263**	176,016,521	**680,374,041**	176,489,334
Total assets		**36,103,763,421**	30,918,826,613	**35,779,372,287**	30,862,950,558
Liabilities					
Due to banks	33	**6,008,726,566**	6,980,977,714	**6,060,439,800**	6,984,829,734
Deposits from customers	34	**9,507,133,790**	7,230,872,565	**9,465,455,334**	7,204,514,552
Other borrowings	35	**9,367,632,765**	6,762,753,851	**9,367,632,765**	6,762,753,851
Debt securities issued	36	**3,127,018,895**	3,683,045,483	**3,127,018,895**	3,683,045,483
Subordinated debentures	37	**1,272,876,786**	1,309,740,125	**1,272,876,786**	1,309,740,125
Deferred tax liabilities	38	**860,680,871**	607,702,150	**860,605,400**	610,885,348
Amounts payable to related company	39	**291,578,050**	–	**–**	–
Other liabilities	40	**555,520,066**	603,617,339	**559,772,416**	611,964,611
Employee benefits	41	**81,109,264**	78,499,749	**81,738,958**	78,848,705
Total liabilities		**31,072,277,053**	27,257,208,976	**30,795,540,354**	27,246,582,409

As at 31st March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Equity					
Stated capital	42	**1,587,862,680**	1,008,062,200	**1,587,862,680**	1,008,062,200
Statutory reserve fund	43	**365,036,033**	310,036,033	**369,997,079**	310,190,064
Available-for-sale reserve	44	**7,171,473**	4,361,183	**7,171,473**	4,361,183
Retained earnings		**3,071,416,182**	2,339,158,221	**3,018,800,701**	2,293,754,702
Total equity		**5,031,486,368**	3,661,617,637	**4,983,831,933**	3,616,368,149
Total liabilities and equity		**36,103,763,421**	30,918,826,613	**35,779,372,287**	30,862,950,558

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

It is certified that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007 and the Finance Business Act No.42 of 2011.

S D Bandaranayake
Additional Chief Executive Officer

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

Approved and signed for and on behalf of the Board.

W M R S Dias
Chairman

L Balasuriya
Chief Executive Officer/Managing Director

Colombo,
Sri Lanka

31 May 2018

Statement of Changes in Equity

	Stated capital Rs.	Statutory reserve fund Rs.	Available-for-sale reserve Rs.	Retained earnings Rs.	Total Rs.
Company					
Balance as at 1 April 2016	1,008,062,200	265,036,033	3,774,586	1,716,486,135	2,993,358,954
Total comprehensive income for the year					
Profit for the year	–	–	–	860,971,242	860,971,242
Other comprehensive income, net of tax	–	–	586,597	(7,400,624)	(6,814,027)
Total comprehensive income for the year	–	–	586,597	853,570,618	854,157,215
Transactions with equity holders recognised directly in equity					
Transfers to reserves	–	45,000,000	–	(45,000,000)	–
Dividends paid	–	–	–	(185,898,532)	(185,898,532)
Balance as at 31 March 2017	1,008,062,200	310,036,033	4,361,183	2,339,158,221	3,661,617,637
Balance as at 1 April 2017	1,008,062,200	310,036,033	4,361,183	2,339,158,221	3,661,617,637
Total comprehensive income					
Profit for the year	–	–	–	1,004,671,318	1,004,671,318
Other comprehensive income, net of tax	–	–	2,810,290	(4,336,678)	(1,526,388)
Total comprehensive income for the year	–	–	2,810,290	1,000,334,640	1,003,144,930
Transactions with equity holders recognised directly in equity					
Rights issue of shares	579,800,480	–	–	–	579,800,480
Transfers to reserves	–	55,000,000	–	(55,000,000)	–
Dividends paid	–	–	–	(213,076,679)	(213,076,679)
Balance as at 31 March 2018	1,587,862,680	365,036,033	7,171,473	3,071,416,182	5,031,486,368

	Stated capital Rs.	Statutory reserve fund Rs.	Available-for-sale reserve Rs.	Retained earnings Rs.	Total Rs.
Group					
Balance as at 1 April 2016	1,008,062,200	265,059,033	3,774,586	1,663,256,691	2,940,152,510
Total comprehensive income for the year					
Profit for the year	–	–	–	868,928,198	868,928,198
Other comprehensive income net of tax	–	–	586,597	(7,400,624)	(6,814,027)
Total comprehensive income for the year	–	–	586,597	861,527,574	862,114,171
Transactions with equity holders recognised directly in equity					
Transfers to reserves	–	45,131,031	–	(45,131,031)	–
Dividends paid	–	–	–	(185,898,532)	(185,898,532)
Balance as at 31 March 2017	1,008,062,200	310,190,064	4,361,183	2,293,754,702	3,616,368,149
Balance as at 1 April 2017	1,008,062,200	310,190,064	4,361,183	2,293,754,702	3,616,368,149
Total comprehensive income for the year					
Profit for the year	–	–	–	1,002,342,325	1,002,342,325
Other comprehensive income, net of tax	–	–	2,810,290	(4,412,632)	(1,602,342)
Total comprehensive income for the year	–	–	2,810,290	997,929,693	1,000,739,983
Transactions with equity holders recognised directly in equity					
Rights issue of shares	579,800,480	–	–	–	579,800,480
Transfers to reserves	–	59,807,015	–	(59,807,015)	–
Dividends paid	–	–	–	(213,076,679)	(213,076,679)
Balance as at 31 March 2018	1,587,862,680	369,997,079	7,171,473	3,018,800,701	4,983,831,933

Figures in brackets indicate deductions.

Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Cash Flows

For the year ended 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Cash flows from operating activities				
Interest and commission receipts	6,152,584,062	4,922,095,925	6,298,613,939	5,043,877,383
Interest payments	(3,371,849,640)	(2,203,788,690)	(3,367,255,419)	(2,200,662,597)
Recoveries of bad debts	59,340,255	82,116,115	59,340,255	82,116,115
Other operating income	27,690,503	33,986,747	36,062,503	41,473,162
Operating expenditure	(1,030,947,733)	(846,868,448)	(1,036,678,394)	(851,953,747)
Cash payments to employees	(604,931,628)	(506,741,244)	(609,180,298)	(510,421,042)
Operating cash flow before changes in operating assets and liabilities (Note A)	1,231,885,819	1,480,800,405	1,380,902,586	1,604,429,274
Changes in operating assets and liabilities				
Net funds advanced to customers	(3,729,955,265)	(6,868,790,219)	(3,729,955,265)	(6,868,790,219)
Deposits from customers	2,276,261,225	720,839,459	2,260,940,783	718,503,635
Deposits with licensed commercial banks	1,853,032,972	(1,166,415,508)	1,853,032,972	(1,166,415,508)
Government and other securities	(1,972,241,797)	(90,245,936)	(1,972,241,797)	(90,245,936)
Other assets	(501,535,902)	56,020,314	(503,884,707)	48,815,111
Other liabilities	(35,589,755)	100,712,831	(38,541,933)	99,354,922
	(2,110,028,522)	(7,247,879,059)	(2,130,649,947)	(7,258,777,995)
Net cash flow from operating activities before taxation	(878,142,703)	(5,767,078,654)	(749,747,361)	(5,654,348,721)
Taxes paid	(124,114,988)	(146,374,272)	(171,950,106)	(186,637,229)
Gratuity paid	(20,303,369)	(2,593,855)	(20,303,369)	(2,593,855)
Net cash used in operating activities	(1,022,561,060)	(5,916,046,781)	(942,000,836)	(5,843,579,805)
Cash flows from investing activities				
Net investment in trading securities	(3,775,513)	(600,963)	(3,775,513)	(600,963)
Net investment in financial assets available for sale	(25,000,000)	(60,000,001)	(25,000,000)	(60,000,001)
Dividends received on investments	94,268,382	73,834,412	2,918,382	2,734,412
Purchase of property, plant and equipment	(358,456,807)	(623,999,946)	(358,993,567)	(630,403,716)
Purchase of intangible assets	(679,377)	(16,867,226)	(679,377)	(16,867,226)
Proceeds from sale of property, plant and equipment	124,505,757	112,919,850	124,505,757	115,919,852
Net cash used in investing activities	(169,137,558)	(514,713,874)	(261,024,318)	(589,217,642)
Cash flows from financing activities				
Proceeds from rights issue	579,800,480	–	579,800,480	–
Securitised loans obtained	6,740,000,000	7,800,000,000	6,740,000,000	7,800,000,000
Repayment of loans	(5,082,045,291)	(2,914,219,680)	(5,082,045,291)	(2,914,219,680)
Debentures issued	–	3,000,000,000	–	3,000,000,000
Redemption of debenture	(585,753,500)	(1,134,246,500)	(585,753,500)	(1,134,246,500)
Dividends paid	(212,148,177)	(185,015,108)	(212,148,177)	(185,015,108)
Net cash generated from financing activities	1,439,853,512	6,566,518,712	1,439,853,512	6,566,518,712

Figures in brackets indicate deductions.

Notes to the Financial Statements form an integral part of these Financial Statements.

For the year ended 31 March	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
Net increase in cash and cash equivalents	248,154,894	135,758,057	236,828,358	133,721,265
Cash and cash equivalents at the beginning of the year	433,920,646	298,162,589	446,572,865	312,851,600
Cash and cash equivalents at the end of the year	682,075,540	433,920,646	683,401,223	446,572,865
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	764,909,318	604,224,835	817,948,235	620,729,074
Bank overdrafts	(82,833,778)	(170,304,189)	(134,547,012)	(174,156,209)
	682,075,540	433,920,646	683,401,223	446,572,865
Note A				
Reconciliation of operating profit				
Profit before income tax	1,357,415,691	1,119,133,119	1,410,678,709	1,168,625,904
Depreciation	304,260,534	265,733,779	308,489,036	270,497,820
Dividend receipts on investments	(94,268,382)	(73,834,412)	(2,918,382)	(2,734,412)
Profit on disposal of motor vehicles	(66,838,726)	(60,013,830)	(66,838,726)	(61,871,807)
Provision for defined benefit plan	16,512,685	11,831,774	16,687,932	11,961,794
Impairment charge of financial assets	104,670,291	25,572,626	104,670,291	25,572,626
Loan losses and write-offs	867,733	36,050,084	867,733	36,050,084
(Gain)/Loss on mark to market valuation of shares	(2,015,455)	6,016,377	(2,015,455)	6,016,377
Gain on sale of shares	(1,656,313)	(3,210,947)	(1,656,313)	(3,210,947)
Gains from available-for-sale financial assets	(5,496,247)	(2,713,441)	(5,496,247)	(2,713,441)
Loss on foreign currency balances	101	87	101	87
Interest accrued on loans and advances	(419,780,134)	(42,280,775)	(419,780,134)	(42,280,775)
Accrued interest on borrowings	45,350,468	131,332,532	45,350,468	131,332,532
Accrued interest on debentures	(7,136,427)	67,183,432	(7,136,427)	67,183,432
	1,231,885,819	1,480,800,405	1,380,902,586	1,604,429,274

Figures in brackets indicate deductions.

Notes to the Financial Statements form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Corporate Information

1.1 Domicile and legal form

Senkadagala Finance PLC is a public limited liability Company domiciled in Sri Lanka, incorporated under the Companies Act No. 51 of 1938 on 29 December 1968 and registered under the Finance Company Act No.78 of 1988 which was replaced by the Finance Business Act No. 42 of 2011. The Company has re-registered under the Companies Act No. 07 of 2007. The registered office of the Company is situated at 2nd Floor, No. 267, Galle Road, Colombo 03.

As a registered finance company, it is supervised by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

1.2 Number of employees

The number of employees of the Company at the end of the year was 745 (2017-690).

1.3 Consolidated Financial Statement

The Consolidated Financial Statements of Senkadagala Finance PLC for the year ended 31 March 2018 comprise those of the company (parent company) and its subsidiaries (together referred to as the "Group").

1.4 Principal activities and nature of operations

Company

The principal lines of business of the Company can be broadly classified under two categories – fund based and fee based. The fund based services include leasing, hire purchase finance, trade loans and pledge loans. The fee based services include Vehicle valuations etc.

Subsidiaries

The subsidiary companies and their principal line of business are as follows:

- Senkadagala Insurance Brokers (Pvt) Ltd.

During the year, the principal activity of the Senkadagala Insurance Brokers (Pvt) Ltd. was providing insurance brokering services. The Company holds 100% share capital of Senkadagala Insurance Brokers (Pvt) Ltd.

- Newest Capital Limited

The Company acquired 100% equity stake of Newest Capital Limited under the consolidation programme implemented by Central Bank of Sri Lanka. The principal activities of the Company was Finance Leasing business. However, Newest Capital Limited had not carried out any finance leasing business during the year under review.

1.5 Parent enterprise and ultimate parent enterprise

E W Balasuriya and Company Private Limited which is incorporated and domiciled in Sri Lanka is the immediate and ultimate parent of Senkadagala Finance PLC.

2. Basis of Preparation

2.1 Statement of compliance

The Financial Statements of the Company and the Group are prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) as issued by The Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007, Finance Companies Act No. 78 of 1988 which is replaced by the new Finance Business Act No. 42 of 2011 and the amendments to these acts and provide appropriate disclosures as required by the Central Bank of Sri Lanka and Listing Rules of Colombo Stock Exchange.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified format prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of Annual Audited Financial Statements of Non-Bank Financial Institutions.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Group and Company in accordance with the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards (SLFRSs and LKASs).

The Financial Statements of Senkadagala Finance PLC for the year ended 31 March 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 31 May 2018.

These Financial Statements include the following components:

- An Income Statement providing the information on the financial performance of the Company and Group for the year under review.
- A Statement of Other Comprehensive Income providing the other comprehensive income of the Company and Group for the Year under review.
- A Statement of Financial Position providing the information on the financial position of the Company and Group as at the year end.
- A Statement of Changes in Equity providing the information on all changes in shareholder's equity of the Company and Group during the year under review.
- A Statement of Cash Flows providing the information on the cash and cash equivalents generating ability of the Company and the Group and the utilisation of those cash flows.
- Notes to the Financial Statements comprising accounting policies used by of the Company and the Group.

2.3 Basis of measurement

The Financial Statements of the Senkadagala Finance PLC ("The Company") and consolidated subsidiaries ("Group") are prepared in Sri Lankan Rupees on a historical cost basis except for available-for-sale investments, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss, defined benefit obligation, all of which have been measured at fair value. No adjustments have been made for inflationary factors.

2.4 Functional and presentation currency

Items included in the Financial Statements of the Group and the Company are measured using the currency of the primary economic environment in which the Company operates. Financial Statements are presented in Sri Lankan Rupees, which is the Company and its Subsidiary's functional currency. There was no change in the Group's presentation and functional currency during the year under review.

2.5 Preparation of Financial Statements

The Company and Group presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement based on maturity is presented in Note 48. No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Income Statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.6 Materiality and aggregation

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 as permitted by the Sri Lanka Accounting Standard – LKAS 1 – Presentation of Financial Statements and Amendments to the LKAS 1 "Disclosures Initiative".

2.7 Significant accounting judgments, estimates and assumptions

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRS/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 expense. Actual amount may differ from these estimates.

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

Information about significant areas of estimation, uncertainty, critical judgments and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in Notes below:

2.7.1 Going concern

The Group's management has made an 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 the going concern basis.

2.7.2 Fair value of financial instruments

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in the following Notes:

- Note 28.2 – Investment Property
- Note 29.7 – Property, Plant and Equipment
- Note 50 A and B – Financial Instruments

2.7.3 Financial assets and liabilities classification

The Group classifies financial assets and liabilities into different accounting categories in certain circumstances,

- In classifying financial assets or liabilities at "Fair value through profit or loss" (FVTPL), the Group has determined that it has met the criteria for this designation as follows.

  Financial assets are classified as held for trading if:

  - they are acquired principally for the purpose of selling or repurchasing in the near term; or
  - they hold as a part of a portfolio that is managed together for short-term profit or position taking; or

- they form part of derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as per the Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments: Recognition and Measurement".

- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and the ability to hold the assets until their maturity date.
- In classifying financial assets as "available for sale" (AFS), the Group has determined that all non-derivative financial assets that are designated as available-for-sale or those financial assets not classified as loans and receivables.
- In classifying financial assets as "Loans and receivables", the Group has determined that all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

2.7.4 Impairment losses on loans and advances

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

Loans and advances have been assessed individually if such loans and advances are considered individually significant and all other loans and advances are then assessed collectively, in groups of assets with similar risk.

Characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan types, levels of arrears, type of the borrowers, industries, etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, prices indices, Inflation etc.). The impairment of financial assets is disclosed in more detail in Note 3.6.

2.7.5 Impairment of available-for-sale investments

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

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

2.7.6 Defined benefit obligation

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discounting rates, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

2.7.7 Useful Life of property, plant and equipment

The Group reviews the residual values, useful life and method of depreciation for property, plant and equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rate methods and hence subject to uncertainty.

3. Significant Accounting Policies

3.1 Basis of consolidation

The Financial Statements of the Company and Group comprise the Financial Statements of the Company and its subsidiaries for the year ended 31 March 2018. The Financial Statements of the Company's subsidiaries for the purpose of consolidation are prepared for the same reporting year as that of Senkadagala Finance PLC, using consistent accounting policies.

All intra–group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

3.1.1 Non-controlling Interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.1.2 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.1.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Income Statement. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Unrealised gains and losses are dealt under "Other Operating Income" in the Income Statement.

3.3 Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

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

(ii) Initial measurement of financial instruments

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

(iii) Classification and subsequent measurement of financial assets

At initial recognition financial assets are classified in to one of the following categories:

- At fair value through profit or loss account
  - Held for trading: or
  - Designated at fair value through profit or loss.
- Loans and receivables
- Available for sale: or
- Held to maturity

Subsequent measurement depends on the financial asset category.

(a) Financial assets held-for-trading

Financial assets held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in "Net gain/(loss) from financial instruments designated at fair value through profit or loss". Interest and dividend income or expense is recorded in "Other operating income" according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities and equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

(b) Financial assets designated at fair value through profit or loss

Financial assets classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis.
- The assets are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.
- Financial assets at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain/(loss) on financial instruments designated at fair value through profit or loss. Interest earned, dividend income on these assets are recorded in "Other operating income".

(c) Loans and receivables

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

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

When the Group is the lessor in a lease agreement that transfers substantially all the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Amount receivable under finance leases net of initial rentals received, unearned lease income and provision for impairment are classified as lease receivable and presented under "Finance lease" in the Statement of Financial Position.

A lease that does not transfer substantially all the risk and rewards incidental to ownership is classified as operating lease. Group does not have any operating leases as at the reporting date.

Subsequent to the initial measurement, Lease, Hire purchases and other loans and advances are subsequently measured at amortised cost using the EIR, less provision for impairment except when the Group recognises loans and receivable at fair value through profit or loss. Amortised cost is calculated by taking into account any discounts or premium on acquisition and fees and costs that are integral part of the EIR. The amortisation is included in Interest Income in the Income Statement. The losses arising from impairment are recognised in the Income Statement.

Loans whose original terms have been modified including those subject to forbearance strategies are considered rescheduled loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment and the loan is assessed accordingly.

(d) Available-for-sale financial investments

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

Insignificant investments in security that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the Income Statement as "Other operating income" when the right to receive has been established. The losses arising from impairment of such investments are recognised in the Income Statement.

(e) Held-to-maturity financial investments

Held-to-maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in "Interest income" in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement. If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

(iv) Classification and subsequent measurement of financial liabilities

At initial recognition financial liabilities are classified into one of the following categories:

- At fair value through profit or loss
  - Held-for-trading: or
  - Designated at fair value through profit or loss.
- At amortised cost

Subsequent measurement depends on the financial liability category.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities acquired principally for the purpose of selling or repurchasing in the near term or held as a part of a portfolio that is managed for short-term profit or position taking are classified as financial liabilities at fair value through profit or loss.

Gains or losses on liabilities held at fair value through profit or loss are recognised in the Income Statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

(b) Financial liabilities at amortised cost

Financial instruments issued by the Group that are not designated at fair value through profit or loss, are classified as liabilities under "due to banks", "Other borrowings", "debt securities issued" and "subordinated debentures" as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

After initial recognition, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

(v) Reclassification of financial assets

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

For a financial asset reclassified out of the "available-for-sale" category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

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

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

3.4 Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

(ii) Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

3.5 Repurchase agreements

Securities purchased under agreements to resell at a specified future date are not recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within "repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Interest income" and is accrued over the life of the agreement using the EIR.

3.6 Impairment of financial assets

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an "Incurred loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

(i) Loans and advances carried at amortised cost

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

Individually assessed lease, hire purchase, loans and advances

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

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and or
- a significant downgrading in credit rating by an external credit rating agency.

For those lease, hire purchases, loans and advances where objective evidence of impairment exists, impairment losses are determined considering the following factors:

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

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

Collectively assessed lease, hire purchase, loans and advances

Impairment is assessed on a collective basis in two circumstances:

- known cash flow difficulties experienced by the borrower; to cover losses which have been incurred but have not yet been identified on lease, hire purchase, loans and advances subject to individual assessment; and
- For homogeneous groups of lease, hire purchase, loans and advances that are not considered individually significant.

Incurred but not yet identified impairment

Individually assessed lease, hire purchase, loans and advances for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the reporting date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future.

As soon as information becomes available which identifies losses on individual loans within the Group, those loans are removed from the Group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

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

Homogeneous groups of lease, hire purchase, loans and advances

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

Write-off of loans and advances

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

Reversals of impairment

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

(ii) Available-for-sale financial investments

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

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

3.7 Recognition of income and expenses

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

(i) Interest and similar income and expense

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

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as "Interest income" for financial assets and 'Interest expense' for financial liabilities.

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

(a) Lease

In accordance with Sri Lanka Accounting Standard LKAS 17 – "Leases", recognition of finance income on leasing is accounted based on a pattern reflecting a constant periodic rate of return on capital outstanding. The excess of aggregate rentals receivable over the cost of leased assets constitutes the total unearned interest income at the commencement of the contract. The Group recognises the interest income from unearned income on the lease on an accrual basis over the term of the lease in proportion to the remaining balance of the lease.

(b) Hire purchase

Recognition of interest income from hire purchase facilities is similar to that of leases, which recognises interest income based on a pattern reflecting a constant rate of return on capital outstanding.

(c) Commercial loans and other loans and advances

Recognition of interest income from loans and advances is similar to that of leases, which recognises interest income based on a pattern reflecting a constant rate of return on the capital outstanding.

(d) Pawning (Gold Loans)

Interest on Pawning (gold loans) are recognised on an accrual basis over a maximum period of 12 months.

(ii) Fee and commission income

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

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services are not integral part of main source. These incomes are collected from the customers for reimbursement of expenses. These fees include commission income and finance charge, legal fees, valuation and document charges and are recognised when earned.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

(iv) Net gain from trading

Results arising from trading activities include all gains and losses from sale of financial assets and financial liabilities "held-for-trading".

3.8 Cash and cash equivalents

Cash and cash equivalents as referred to in the Statement of Cash Flow comprises cash on hand, non–restricted current accounts and balances on demand with an original maturity of three months or less.

3.9 Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the Income Statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with Sri Lanka Accounting Standard (SLFRS 8) Operating Segments.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Income Statement.

3.10 Property, plant and equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Land is not depreciated.

The depreciation rates and estimated useful lives of the different types of assets are as follows:

Class of asset	% per annum	Useful life
Buildings	5	20 years
Office equipment	10	10 years
Computers and other equipment	25	4 years
Furniture, fixtures and fittings	10	10 years
Motor vehicles	16.67	6 years
Generators	12.5	8 years

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

3.11 Intangible assets

The Group's other intangible assets include the value of computer software and License. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

The Class of intangible assets	Useful life	Amortisation method
Computer Software	8.34 Years	Straight line method

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

3.12 Investment property

Property held to earn rental income and property held for capital appreciation have been classified as investment property. Investment property are initially recognised at cost. Subsequent to the initial recognition, the investment properties are accounted using cost model.

Depreciation is calculated using the straight-line method to write down the cost of property to their residual values over their estimated useful lives. Land is not depreciated. Buildings are estimated to have a useful life of 20 years, the depreciation rate adopted is 5% per annum.

3.13 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiary or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement. Impairment losses relating to goodwill are not reversed in future periods.

3.14 Employee benefits

(i) Defined benefit plan

The cost of providing benefits under the defined benefit plan is determined separately using the Projected Unit Credit method. This method involves estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value.

The past service cost is recognised as an expense on a straight line basis over the period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to, a defined benefit plan, past service cost is recognised immediately.

The latest actuarial valuation was carried out as at 31 March 2018, by Piyal S. Gunatilleke F.S.A. (USA), a Fellow of the Society of Actuaries (USA), Member of the American Academy of Actuaries, Consulting Actuary.

The principal financial assumptions used in the valuation are;

Interest/Discount rate	10.5% p.a.
Basic salary increase for all grades	7.5% p.a.
Retirement age	55 years

The actuarial gain or losses are recognised in the income statement in the year in which they arise.

Funding arrangement

The gratuity liabilities are not externally funded.

Gratuity payments are made by the Group according to the Payment of Gratuity Act No. 12 of 1983. Accordingly the Group is liable to pay gratuity to employees who have completed a minimum of five year service in the Group at the rate of 50% of the last drawn salary for each completed year of service.

(ii) Defined contribution plan

The Group contributes to the following Schemes:

Employees' Provident Fund

The Group and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Employees' Provident Fund managed by the Central Bank of Sri Lanka.

Employees' Trust Fund

The Group contributes 3% of the employee's monthly gross salary excluding overtime to the Employees' Trust Fund maintained by the Employees Trust Fund Board of the Central Bank of Sri Lanka.

3.15 Provisions

Provisions are recognised 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 a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3.16 Taxes

(i) Current taxation

Current tax assets and liabilities consists of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in the Financial Statements.

(ii) Deferred taxation

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

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each reporting date and are recognised to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

(iii) Value added tax on financial services

Company's total value addition is subject to a 15% Value Added Tax as per Section 25 A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

(iv) Nation building tax on financial services

With effect from 1 January 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on Financial services.

(v) Crop insurance levy

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the Crop Insurance Levy was introduced with effect from 1st April 2013 and is payable to the National Insurance Trust Fund. Currently, the Crop Insurance Levy is payable at 1% of the profit after tax.

(vi) Withholding tax on dividends distributed by the Company

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised.

3.17 Deposit Insurance Scheme

As per the Direction No. 01 of 2010, Sri Lanka Deposit Insurance Scheme, which was effected from 1 October 2010 all licensed finance companies are required to pay an insurance premium calculated at the rate of 0.15% per annum payable monthly for all eligible deposits as at the end of the month. Eligible deposits includes all the time deposits held by Senkadagala Finance PLC except for;

- Deposit liabilities to member institutions
- Deposit liabilities to the Government of Sri Lanka inclusive of Ministers, Departments and Local Governments.
- Deposit liabilities to Directors, Key Management personnel and other related parties as defined by the Finance Companies (Corporate Governance) Direction No. 3 of 2008.
- Deposit liabilities held as collateral against any accommodation granted.
- Deposits falling within the meaning of abandoned property in terms of the Finance Companies Act, Funds which have been transferred to the Central Bank of Sri Lanka in terms of the relevant directions issued by the Monetary Board.

3.18 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing services (Business Segment).

In accordance with Sri Lanka Financial Reporting Standard SLFRS 8 – Operating Segments, segmental information is presented in respect of the Group. The segments comprise of financing and investing segments. Segment results, assets and liabilities include those items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprises mainly of head office expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

3.19 Events after the reporting date

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

In this regard, all material and important events that occurred after the reporting date have been considered and appropriate disclosures are made in Note 47 where necessary.

3.20 Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The details of the earnings per share are given in Note No. 17.

3.21 Maturity analysis

The Company has disclosed an analysis of assets and liabilities into relevant maturity baskets based on the remaining period as at the reporting date to the contractual maturity date.

3.22 Cash Flow Statement

The Cash Flow Statement has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS) – 7 on "Statement of Cash Flows". Cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The cash and cash equivalent include cash in hand, balances with banks, placements with banks, money at call and short notice and money market funds.

3.23 Commitments and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent Liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

All discernible risks are accounted for in determining the amount of all known liabilities. The Company's share of any contingencies and capital commitments of a subsidiary for which the Company is also liable severally or otherwise are also included with appropriate disclosures.

3.24 New accounting standards issued but not yet effective

A number of new standards and amendments to standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these consolidated Financial Statements. Accordingly, the following Accounting Standards have not been applied in preparing these financial Statements and the Group plans to apply these standards on the respective effective dates.

Accounting standard	Summary of the requirements	Possible impact on Consolidated Financial Statements
SLFRS 9 – "Financial Instruments"	SLFRS 9, issued in 2014 which replaces the existing guidance in LKAS 39 – "Financial Instruments: Recognition and Measurement" is effective for annual reporting periods beginning on or after January 1, 2018. The key aspects of SLFRS 9 are; **1. Classification – Financial assets** SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. SLFRS 9 includes three principal classification categories for financial assets – i.e. measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing LKAS 39 categories of Held to maturity, Loans and receivables and Available for sale. **2. Impairment – Financial assets, loan commitments and financial guarantee contracts** SLFRS 9 replaces the "Incurred Loss Model" in LKAS 39 with forward looking "Expected Loss Model" (ECL). This will require considerable judgement over how changes in economic factors affect ECL, which will be determined on a probability weighted basis.	SLFRS 9 is applicable to the group with effect from 1 April 2018 The most significant impact on the Finance Company's financial statements from the implementation of SLFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments within the scope of SLFRS 9. The Company has started the initial high level assessment of the potential impact on its Financial Statements for the year ended 31 March 2018, resulting from the application of SLFRS 9 with the assistance of an external consultant. The impact of the implementation of the standard is yet to be finalised. The Group does not expect significant impact on the Consolidated Financial Statements resulting from the application of SLFRS 9 on the other Group entities.

Accounting standard	Summary of the requirements	Possible impact on Consolidated Financial Statements
	SLFRS 9 requires loan loss to be recognised at an amount equal to either 12 month ECL or life time ECL. Lifetime ECLs are the ECLs that result from possible default events over the expected life of a financial instrument, whereas 12 months ECLs are the portion of the ECLs that results from default events that are possible within 12 months after the Reporting date. **3. Inputs into measurement of ECLs** The key inputs into measurement of ECLs are likely to be the term structures of the following variables which will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward looking information. ● Probability of Default (PD) are estimates at a certain date which will be calculated based on statistical models and assessed using rating tools tailored to the various categories of counterparties and exposures. ● Loss Given Default (LGD) is the magnitude to the likely loss if there is default. The Company estimates LGD parameters based on history of recovery rates of claims against defaulted counter parties. ● Exposure at Default (EAD) represents the expected exposure in the event of a default. The Company will derive the EAD from the current exposure to the counterparty and potential chances to the current amount allowed under the contract.	
SLFRS 15 – "Revenue from Contracts with Customers"	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. Entities will apply five-step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled.	The Group and the Company do not expect significant impact on its Financial Statements resulting from the application of SLFRS 15.

Accounting standard	Summary of the requirements	Possible impact on Consolidated Financial Statements
	SLFRS 15 replaces existing revenue recognition guidance, including LKAS 18 on "Revenue" and LKAS 11 on "Construction Contracts" and IFRIC 13 on "Customer Loyalty Programmes". SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.	
SLFRS 16 - "Leases"	SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019	The Group and the Company do not expect significant impact on its Financial Statements resulting from the application of SLFRS 16.

For the year ended 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

4. Interest Income

Cash and short-term funds		22,702,413	21,582,089	24,752,846	23,416,122
Fixed deposits		136,406,643	119,412,266	136,406,643	119,412,266
Repurchase agreements	4.1	85,313,932	63,068,093	85,313,932	63,068,093
Finance leases		4,320,975,353	3,205,692,967	4,320,975,353	3,205,692,967
Hire purchases		85,437,826	295,474,350	85,437,826	295,474,350
Personal loans		34,253,065	30,802,098	34,253,065	30,802,098
Commercial loans		601,710,389	252,611,261	601,710,389	252,611,261
Pawning advances		176,624,867	76,331,490	176,624,867	76,331,490
Fixed deposit loans		12,619,217	7,833,230	12,619,217	7,833,230
Financial assets – Held-to-maturity	4.1	99,981,236	88,819,320	99,981,236	88,819,320
Interest on delayed insurance premium		97,783,891	65,524,825	97,783,891	65,524,825
Interest on overdue rentals		798,305,700	598,560,457	798,305,700	598,560,457
		6,472,114,532	4,825,712,446	6,474,164,965	4,827,546,479

4.1 Notional tax credit for withholding tax on Government Securities on secondary market transactions

Section 137 of the Inland Revenue Act No. 10 of 2006 provides that a company which derives interest income from the secondary market transactions in Government Securities would be entitled to a notional tax credit (being one-ninth of net interest income), provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, the net interest earned by the Company from the secondary market transactions in Government Securities have been grossed up in the Financial Statements, with the resulting notional tax credit amounting to Rs.18,529,517/- (2017 – Rs.15,188,741/-).

For the year ended 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

5. Interest Expense

Due to banks	834,712,421	679,690,561	834,712,421	679,690,561
Deposits from customers	1,025,678,889	730,786,636	1,021,084,668	727,660,543
Securitisations	719,264,934	303,723,961	719,264,934	303,723,961
Commercial paper	219,284,279	122,528,969	219,284,279	122,528,969
Debt securities issued	423,757,564	378,190,536	423,757,564	378,190,536
Subordinated liabilities	187,365,594	187,383,992	187,365,594	187,383,992
	3,410,063,681	2,402,304,655	3,405,469,460	2,399,178,562

For the year ended 31 March	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.

6. Fee and Commission Income

Finance charges	49,835,835	53,979,708	49,835,835	53,979,708
Loan protection fee	37,898,029	70,405,168	37,898,029	70,405,168
Commission income	141,940	120,569	144,121,384	120,067,994
Legal fees	10,828,630	11,438,919	10,828,630	11,438,919
Inspection fees	1,545,230	2,719,890	1,545,230	2,719,890
	100,249,664	138,664,254	244,229,108	258,611,679

7. Fee and Commission Expense

Commission paid	26,346,582	13,661,730	26,346,582	13,661,730
Other	10,178,886	9,697,595	10,178,886	9,697,595
	36,525,468	23,359,325	36,525,468	23,359,325

8. Net gain from Trading

Equities	1,656,313	3,210,947	1,656,313	3,210,947
Financial assets available for sale	5,496,247	2,713,441	5,496,247	2,713,441
	7,152,560	5,924,388	7,152,560	5,924,388

9. Net gain/(loss) from Financial Instruments Designated at Fair Value through Profit or Loss

Financial assets designated at fair value through profit or loss	2,015,455	(6,016,377)	2,015,455	(6,016,377)
	2,015,455	(6,016,377)	2,015,455	(6,016,377)

10. Other Operating Income

Dividend income	94,268,382	73,834,412	2,918,382	2,734,412
Gain from sale of fixed assets	66,838,726	60,013,830	66,838,726	61,871,807
Rent income	4,573,913	3,506,933	19,990,913	17,714,933
Other income	23,005,959	30,372,076	15,960,959	23,650,491
Foreign exchange gain	110,530	107,651	110,530	107,651
	188,797,510	167,834,902	105,819,510	106,079,294

For the year ended 31 March	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.

11. Impairment Charge/ (Reversal) on Individual Impairment

Finance leases	20,341,740	(39,244,005)	20,341,740	(39,244,005)
Hire purchases	(1,428,539)	(25,297,447)	(1,428,539)	(25,297,447)
Commercial loans	65,016,036	21,418,231	65,016,036	21,418,231
Personnel loans	(1,438)	(1,800)	(1,438)	(1,800)
	83,927,799	(43,125,021)	83,927,799	(43,125,021)

12. Impairment Charge/ (Reversal) on Collective Impairment

Finance leases	(9,450,222)	55,839,521	(9,450,222)	55,839,521
Hire purchases	(5,940,658)	(3,615,058)	(5,940,658)	(3,615,058)
Commercial loans	36,263,119	1,774,567	36,263,119	1,774,567
Pawning advances	(32,175)	(200,067)	(32,175)	(200,067)
Other advances	(97,572)	14,898,683	(97,572)	14,898,683
	20,742,492	68,697,646	20,742,492	68,697,646

13. Other loan losses charge / (Reversal)

Direct write-offs	-	36,071,882	-	36,071,882
Net loss on sale of repossessed assets	9,311,832	13,176,393	9,311,832	13,176,393
Gain on auction of pawned articles	867,733	(21,798)	867,733	(21,798)
Recovery of loans previously written-off	(59,340,255)	(82,116,115)	(59,340,255)	(82,116,115)
	(49,160,690)	(32,889,638)	(49,160,690)	(32,889,638)

For the year ended 31 March		Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

14. Personnel Expenses

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Salaries and wages	402,983,324	342,943,555	405,917,984	345,686,975
Directors' emoluments	22,958,565	20,536,250	22,958,565	20,536,250
Employer's contribution to Employees' Provident Fund	48,206,239	41,809,801	48,543,997	42,114,074
Employer's contribution to Employees' Trust Fund	12,051,560	10,452,451	12,136,001	10,528,521
Contribution for defined benefit plan	16,512,685	11,831,774	16,687,932	11,961,794
Staff bonus	108,289,284	81,647,189	109,119,306	82,188,989
Other personnel costs	10,442,656	9,351,998	10,504,445	9,366,233
	621,444,313	518,573,018	625,868,230	522,382,836

15. Other Operating Expenses

	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
External Auditors' remuneration – Audit fee and expenses	1,200,000	1,090,000	1,631,986	1,509,631
Audit-related services	1,470,876	2,592,222	1,470,876	2,592,222
Internal Auditors' remuneration	5,400,000	5,400,000	5,400,000	5,400,000
Legal expenses	9,466,265	10,917,975	9,466,265	10,917,975
Contribution to deposit insurance scheme of CBSL	11,635,998	9,578,490	11,635,998	9,578,490
Other administrative expenses	98,836,922	85,587,920	100,216,432	87,078,060
Establishment expenses	543,487,908	455,892,567	544,470,808	456,592,512
Selling expenses	98,524,582	78,113,309	101,460,847	80,588,892
	770,022,551	649,172,483	775,753,212	654,257,782

16. Income Tax Expense

	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Current tax expense					
Current income tax charge	16.1	151,081,988	82,143,469	199,753,131	115,155,343
Over provision in respect of previous years		(53,379,857)	–	(53,379,857)	–
Withholding tax on intercompany dividends		–	–	10,150,000	7,900,000
		97,702,131	82,143,469	156,523,274	123,055,343
Deferred tax expense					
Origination and reversal of temporary differences		255,042,242	176,018,408	251,813,110	176,642,363
		352,744,373	258,161,877	408,336,384	299,697,706

For the year ended 31 March	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
16.1 Reconciliation of the total tax charge				
Net profit before tax	1,357,415,691	1,119,133,119	1,410,678,709	1,168,625,904
Adjustments				
Exempt/allowable income	(1,142,582,347)	(1,118,407,361)	(1,026,073,430)	(1,049,165,928)
Disallowable expenses	679,272,078	522,935,136	683,781,319	527,829,198
Allowable expenses	(354,526,895)	(375,146,191)	(354,718,860)	(380,211,693)
Loss on leasing business	–	144,854,829	(263,699)	144,191,601
Taxable income	539,578,527	293,369,532	713,404,039	411,269,082
Income tax rate (%)	28	28	28	28
Tax expense for the year	151,081,988	82,143,469	199,753,131	115,155,343
Income tax on profit for the year	151,081,988	82,143,469	199,753,131	115,155,343
Effective Tax Rate (%)	11.13	7.34	14.16	9.85

17. Basic Earnings Per Share

Basic earnings per share have been calculated by dividing the net profit for the year attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

For the year ended 31 March	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
Profit attributable to ordinary shareholders of the Company	1,004,671,318	860,971,242	1,002,342,325	868,928,198
Weighted average number of ordinary shares	71,932,177	65,960,449	71,932,177	65,960,449
Basic earnings per ordinary share	13.97	13.05	13.93	13.17

18. Dividend Per Share

Dividends per share is calculated by dividing dividends paid to ordinary shareholders of the Company, by the number of ordinary shares in issue.

For the year ended 31 March	Company	
	2018	2017
	Rs.	Rs.
3rd interim dividend paid (2016/17-Rs.0.60, 2015/16-Rs.0.60)	39,136,533	39,136,533
Final dividend paid (2016/17-Rs.0.95, 2015/16-Rs.0.75)	68,851,308	48,920,666
1st interim dividend paid (2017/18-Rs.0.50, 2016/17-Rs.0.60)	36,237,531	39,136,533
2nd interim dividend paid (2017/18-Rs.0.95, 2016/17-Rs.0.90)	68,851,308	58,704,800
Gross dividend paid to ordinary shareholders	213,076,679	185,898,532
Gross dividend per share	3.00	2.85

As at 31 March	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
19. Cash and Cash Equivalents				
Cash in hand held in local currency	383,722,941	151,653,097	383,747,941	151,678,097
Cash in hand held in foreign currency	67,466	36,301	67,466	36,301
Balances with licensed commercial banks	381,118,911	452,535,437	434,132,828	469,014,676
	764,909,318	604,224,835	817,948,235	620,729,074
20. Deposits with licensed Commercial Banks				
Fixed deposits	588,383,766	2,424,623,839	588,383,766	2,424,623,839
	588,383,766	2,424,623,839	588,383,766	2,424,623,839

20.1 Value of deposits pledged as security for facilities obtained from banks amounted to Rs. 218.9 Mn. as at 31 March 2018 (2017-419 Mn.).

As at 31 March		Company		Group	
		2018	2017	2018	2017
	Note	Rs.	Rs.	Rs.	Rs.
21. Financial Assets held at Fair Value through Profit or Loss					
Quoted equity	21.1	85,104,831	77,957,551	85,104,831	77,957,551
Quoted unit trust	21.2	2,375,000	2,075,000	2,375,000	2,075,000
		87,479,831	80,032,551	87,479,831	80,032,551

		Company						Group					
As at 31 March		2018			2017			2018			2017		
	Note	No. of shares	Cost Rs.	Market value Rs.	No. of shares	Cost Rs.	Market value Rs.	No. of shares	Cost Rs.	Market value Rs.	No. of shares	Cost Rs.	Market value Rs.
21.1 Quoted equity													
Bank, Finance and Insurance													
Central Finance Company PLC		46,266	243,207	4,621,973	46,266	243,207	3,988,129	46,266	243,207	4,621,973	46,266	243,207	3,988,129
National Development Bank PLC		693	4,390	92,238	668	500	93,253	693	4,390	92,238	668	500	93,253
Commercial Bank of Ceylon PLC		4,725	469,342	491,400	2,875	258,096	374,900	4,725	469,342	491,400	2,875	258,096	374,900
Beverage, Food and Tobacco													
Ceylon Tobacco PLC		3,100	142,017	3,224,000	3,100	142,017	2,699,790	3,100	142,017	3,224,000	3,100	142,017	2,699,790
Hotels and Travels													
Aitken Spence PLC		495	3,355	25,047	495	3,355	27,819	495	3,355	25,047	495	3,355	27,819
Manufacturing													
Royal Ceramics Lanka PLC		20	273	2,108	20	273	2,380	20	273	2,108	20	273	2,380
Diversified Holdings													
John Keells Holdings PLC		4,462	164,976	712,135	4,462	164,976	615,310	4,462	164,976	712,135	4,462	164,976	615,310
Hayleys PLC		113	7,175	22,679	113	7,175	29,945	113	7,175	22,679	113	7,175	29,945
Trading													
Lanka Indian Oil Corporation PLC		5,500	148,500	165,550	5,500	148,500	159,500	5,500	148,500	165,550	5,500	148,500	159,500
Portfolio Investment	21.1.1		68,818,704	75,747,700		63,602,015	69,966,525		68,818,704	75,747,700		63,602,015	69,966,525
			70,001,939	85,104,831		64,570,114	77,957,551		70,001,939	85,104,831		64,570,114	77,957,551

As at 31 March	Company					
	2018			2017		
	No. of shares	Cost Rs.	Market value Rs.	No. of shares	Cost Rs.	Market value Rs.
21.1.1 Portfolio investment						
Bank Finance and Insurance						
Ceylinco Insurance PLC (Non-voting)	10,000	1,560,322	10,000,000	10,000	1,560,322	8,200,000
Commercial Bank of Ceylon PLC	69	4,722	9,370	69	4,722	–
Lanka Ventures PLC	61,800	2,552,579	2,991,120	61,800	2,552,579	2,595,600
Seylan Bank PLC (Non-voting)	31,040	1,820,160	1,710,304	30,000	1,820,160	1,641,000
Hatton National Bank PLC (Non-voting)	29,279	5,348,333	5,457,606	24,708	4,553,753	4,570,980
People's Insurance Ltd	100,000	1,508,032	2,150,000	100,000	1,508,032	1,830,000
Beverage, Food and Tobacco						
Lanka Milk Foods (CWE) PLC	72,888	7,308,216	11,523,593	72,888	7,308,216	8,527,896
Chemicals and Pharmaceuticals						
CIC Holdings PLC (Non-voting)	90,000	3,823,735	3,645,000	90,000	3,823,735	5,616,000
Haycarb PLC	18,300	3,010,621	2,196,000	18,300	3,010,621	2,763,300
Plantation						
Kotagala Plantation PLC	10,000	556,151	118,500	10,000	556,151	101,000
Healthcare						
Ceylon Hospitals PLC (Non-voting)	43,838	1,609,492	3,178,255	43,838	1,609,492	3,151,952
Hotels and Travels						
Taj Lanka Hotels PLC	114,432	3,478,514	1,933,901	114,432	3,478,514	2,403,072
John Keells Hotels PLC	251,000	3,197,111	2,334,300	251,000	3,197,111	2,510,000
Investment Trusts						
Renuka Holdings PLC (Non-voting)	183,274	4,031,493	2,932,384	183,274	4,031,493	2,675,801
Land and Property						
C T Land Development PLC	5,000	111,570	259,156	5,000	111,570	220,000
Overseas Realty (Ceylon) PLC	160,000	3,683,802	2,896,000	160,000	3,683,802	3,232,000
Manufacturing						
ACL Cables PLC	40,000	2,496,906	1,640,000	20,000	1,243,018	1,090,000
Dipped Products PLC	47,500	5,868,703	4,061,250	47,500	5,868,703	3,610,000
Pelwatte Sugar Industries PLC	31,000	1,064,794	3,100	31,000	1,064,794	3,100
Ceylon Grain Eevators PLC	52,000	3,579,544	3,718,000	–	–	–
Power and Energy						
Resus Energy PLC	58,437	1,102,728	1,162,896	58,437	1,102,728	1,110,303
Lanka IOC PLC	219,949	5,130,291	6,620,465	219,949	5,130,291	6,378,521
Diversified Holdings						
Expolanka Holdings PLC	500,000	3,286,400	2,450,000	500,000	3,286,400	3,000,000
Melstacorp Limited	–	–	–	80,000	3,095,808	4,736,000
C T Holdings PLC	5,000	909,829	962,500	–	–	–
Telecommunications						
Dialog Axiata PLC	130,000	1,774,656	1,794,000	–	–	–
		68,818,704	75,747,700		63,602,015	69,966,525

21.2 Quoted unit trust

Namal Acuity Value Fund	25,000	1,250,000	2,375,000	25,000	1,250,000	2,075,000
		1,250,000	2,375,000		1,250,000	2,075,000

	Group					
	2018			2017		
	No. of shares	Cost Rs.	Market value Rs.	No. of shares	Cost Rs.	Market value Rs.
	10,000	1,560,322	10,000,000	10,000	1,560,322	8,200,000
	69	4,722	9,370	69	4,722	–
	61,800	2,552,579	2,991,120	61,800	2,552,579	2,595,600
	31,040	1,820,160	1,710,304	30,000	1,820,160	1,641,000
	29,279	5,348,333	5,457,606	24,708	4,553,753	4,570,980
	100,000	1,508,032	2,150,000	100,000	1,508,032	1,830,000
	72,888	7,308,216	11,523,593	72,888	7,308,216	8,527,896
	90,000	3,823,735	3,645,000	90,000	3,823,735	5,616,000
	18,300	3,010,621	2,196,000	18,300	3,010,621	2,763,300
	10,000	556,151	118,500	10,000	556,151	101,000
	43,838	1,609,492	3,178,255	43,838	1,609,492	3,151,952
	114,432	3,478,514	1,933,901	114,432	3,478,514	2,403,072
	251,000	3,197,111	2,334,300	251,000	3,197,111	2,510,000
	183,274	4,031,493	2,932,384	183,274	4,031,493	2,675,801
	5,000	111,570	259,156	5,000	111,570	220,000
	160,000	3,683,802	2,896,000	160,000	3,683,802	3,232,000
	40,000	2,496,906	1,640,000	20,000	1,243,018	1,090,000
	47,500	5,868,703	4,061,250	47,500	5,868,703	3,610,000
	31,000	1,064,794	3,100	31,000	1,064,794	3,100
	52,000	3,579,544	3,718,000	–	–	–
	58,437	1,102,728	1,162,896	58,437	1,102,728	1,110,303
	219,949	5,130,291	6,620,465	219,949	5,130,291	6,378,521
	500,000	3,286,400	2,450,000	500,000	3,286,400	3,000,000
	–	–	–	80,000	3,095,808	4,736,000
	5,000	909,829	962,500	–	–	–
	130,000	1,774,656	1,794,000	–	–	–
		68,818,704	75,747,700		63,602,015	69,966,525
	25,000	1,250,000	2,375,000	25,000	1,250,000	2,075,000
		1,250,000	2,375,000		1,250,000	2,075,000

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

22. Finance Leases

Gross investment in leases receivable within one year		11,002,229,122	9,114,156,521	11,002,229,122	9,114,156,521
Gross investment in leases receivable between one and five years		20,141,305,194	17,070,311,975	20,141,305,194	17,070,311,975
Gross investment in leases receivable in respect of non-performing leases		186,253,009	153,647,815	186,253,009	153,647,815
Repossessed lease receivable		141,321,392	72,218,665	141,321,392	72,218,665
Leases receivable in arrears		833,599,487	581,368,969	833,599,487	581,368,969
		32,304,708,204	26,991,703,945	32,304,708,204	26,991,703,945
Unearned lease income		(8,131,013,588)	(6,697,537,330)	(8,131,013,588)	(6,697,537,330)
Initial lease rental		(5,745,696)	(8,074,096)	(5,745,696)	(8,074,096)
Prepaid lease rentals		(91,163,720)	(92,741,210)	(91,163,720)	(92,741,210)
Net investment in finance leases		24,076,785,200	20,193,351,309	24,076,785,200	20,193,351,309
Impairment losses					
Provision for individual impairment	22.1	(74,596,916)	(54,255,176)	(74,596,916)	(54,255,176)
Provision for collective impairment	22.2	(114,951,704)	(124,401,926)	(114,951,704)	(124,401,926)
Net investment in finance leases after impairment		23,887,236,580	20,014,694,207	23,887,236,580	20,014,694,207

22.1 Movement in allowance for individual impairment

Balance at the beginning of the year		54,255,176	93,499,181	54,255,176	93,499,181
Charge/(Reversal) for the year	11	20,341,740	(39,244,005)	20,341,740	(39,244,005)
Balance at the end of the year		74,596,916	54,255,176	74,596,916	54,255,176
Gross amount of loans individually determined to be impaired		142,106,498	111,468,493	142,106,498	111,468,493

22.2 Movement in allowance for collective impairment

Balance at the beginning of the year		124,401,926	68,562,405	124,401,926	68,562,405
Charge/(Reversal) for the year	12	(9,450,222)	55,839,521	(9,450,222)	55,839,521
Balance at the end of the year		114,951,704	124,401,926	114,951,704	124,401,926
Total of individual and collective impairment		189,548,620	178,657,102	189,548,620	178,657,102

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

23. Hire Purchase

Gross investment in hire purchase receivable within one year		88,841,800	441,873,754	88,841,800	441,873,754
Gross investment in hire purchase receivable between one and five years		15,959,743	198,914,685	15,959,743	198,914,685
Gross investment in hire purchase receivable in respect of non-performing hire purchase		77,139,643	84,046,294	77,139,643	84,046,294
Repossessed hire purchase receivable		18,597,060	22,141,598	18,597,060	22,141,598
Hire purchase receivable in arrears		16,509,313	59,448,266	16,509,313	59,448,266
		217,047,559	806,424,597	217,047,559	806,424,597
Unearned hire purchase income		(10,761,010)	(105,988,601)	(10,761,010)	(105,988,601)
Prepaid hire purchase rentals		(1,597,018)	(4,972,976)	(1,597,018)	(4,972,976)
Net investment in hire purchase		204,689,531	695,463,020	204,689,531	695,463,020
Impairment losses					
Provision for individual impairment	23.1	(18,217,062)	(19,645,601)	(18,217,062)	(19,645,601)
Provision for collective impairment	23.2	(24,004,279)	(29,944,937)	(24,004,279)	(29,944,937)
Net investment in hire purchase after impairment		162,468,190	645,872,482	162,468,190	645,872,482

23.1 Movement in allowance for individual impairment

Balance at the beginning of the year		19,645,601	44,943,048	19,645,601	44,943,048
Reversal for the year	11	(1,428,539)	(25,297,447)	(1,428,539)	(25,297,447)
Balance at the end of the year		18,217,062	19,645,601	18,217,062	19,645,601
Gross amount of loans individually determined to be impaired		18,597,060	29,329,347	18,597,060	29,329,347

23.2 Movement in allowance for collective impairment

Opening balance		29,944,937	33,559,995	29,944,937	33,559,995
Reversal for the year	12	(5,940,658)	(3,615,058)	(5,940,658)	(3,615,058)
Closing balance		24,004,279	29,944,937	24,004,279	29,944,937
Total of individual and collective impairment		42,221,341	49,590,538	42,221,341	49,590,538

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

24. Other Loans and Receivables

	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Commercial loans	24.1	**2,145,243,113**	2,059,387,619	**2,145,243,113**	2,059,387,619
Personal loans	24.2	**113,333,306**	98,907,380	**113,333,306**	98,907,380
Pawning advances	24.3	**993,680,335**	548,402,600	**993,680,335**	548,402,600
Other advances	24.4	**499,823,913**	390,323,774	**499,823,913**	390,323,774
		3,752,080,667	3,097,021,373	**3,752,080,667**	3,097,021,373

24.1 Commercial loans

	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Gross investment in commercial loans receivable within one year		**1,357,835,882**	1,691,263,087	**1,357,835,882**	1,691,263,087
Gross investment in commercial loans receivable between one and five years		**1,051,613,984**	877,175,221	**1,051,613,984**	877,175,221
Gross investment in commercial loans receivable in respect of non-performing loans		**172,783,674**	11,494,846	**172,783,674**	11,494,846
Commercial loans receivable in arrears		**252,886,103**	42,365,815	**252,886,103**	42,365,815
		2,835,119,643	2,622,298,969	**2,835,119,643**	2,622,298,969
Unearned commercial loan income		**(545,515,097)**	(523,662,887)	**(545,515,097)**	(523,662,887)
Prepaid commercial loan rentals		**(10,890,949)**	(7,057,134)	**(10,890,949)**	(7,057,134)
Net investment in commercial loans		**2,278,713,597**	2,091,578,948	**2,278,713,597**	2,091,578,948
Impairment losses					
Provision for individual impairment	24.1.1	**(92,117,334)**	(27,101,298)	**(92,117,334)**	(27,101,298)
Provision for collective impairment	24.1.2	**(41,353,150)**	(5,090,031)	**(41,353,150)**	(5,090,031)
Net investment in commercial loans after impairment		**2,145,243,113**	2,059,387,619	**2,145,243,113**	2,059,387,619

24.1.1 Movement in allowance for individual impairment

	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Balance at the beginning of the year		**27,101,298**	5,683,067	**27,101,298**	5,683,067
Charge for the year	11	**65,016,036**	21,418,231	**65,016,036**	21,418,231
Balance at the end of the year		**92,117,334**	27,101,298	**92,117,334**	27,101,298
Gross amount of loans individually determined to be impaired		**106,821,903**	47,409,316	**106,821,903**	47,409,316

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
24.1.2 Movement in allowance for collective impairment					
Balance at the beginning of the year		**5,090,031**	3,315,464	**5,090,031**	3,315,464
Charge for the year	12	**36,263,119**	1,774,567	**36,263,119**	1,774,567
Balance at the end of the year		**41,353,150**	5,090,031	**41,353,150**	5,090,031

24.2 Personal loan

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Gross investment in personal loan receivable within one year		67,437,758	57,082,783	67,437,758	57,082,783
Gross investment in personal loan receivable between one and five years		130,640,286	118,687,726	130,640,286	118,687,726
Gross investment in personal loans receivable in respect of non-performing loans		55,317	–	55,317	–
Personal loan receivable in arrears		146,165	181,093	146,165	181,093
		198,279,526	175,951,602	198,279,526	175,951,602
Unearned personal loan income		(78,487,967)	(71,700,955)	(78,487,967)	(71,700,955)
Prepaid personal loan rentals		(6,458,253)	(5,341,829)	(6,458,253)	(5,341,829)
Net investment in personal loan		113,333,306	98,908,818	113,333,306	98,908,818
Impairment losses					
Provision for individual impairment	24.2.1	–	(1,438)	–	(1,438)
Net investment in commercial loans after impairment		113,333,306	98,907,380	113,333,306	98,907,380

24.2.1 Movement in allowance for individual impairment

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
Balance at the beginning of the year		**1,438**	3,238	**1,438**	3,238
Reversal for the year	11	**(1,438)**	(1,800)	**(1,438)**	(1,800)
Balance at the end of the year		**–**	1,438	**–**	1,438
Gross amount of loans individually determined to be impaired		**–**	5,440	**–**	5,440

As at 31st March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
24.3 Pawning advances					
Gross investment in pawning advances		926,538,387	515,216,509	926,538,387	515,216,509
Interest receivable from pawning advances		67,142,984	33,219,302	67,142,984	33,219,302
Net investment in pawning advances		993,681,371	548,435,811	993,681,371	548,435,811
Impairment losses					
Provision for collective impairment	24.3.1	(1,036)	(33,211)	(1,036)	(33,211)
Net investment in pawning advances after impairment		993,680,335	548,402,600	993,680,335	548,402,600
24.3.1 Movement in allowance for collective impairment					
Balance at the beginning of the year		33,211	233,278	33,211	233,278
Reversal of the year	12	(32,175)	(200,067)	(32,175)	(200,067)
Balance at the end of the year		1,036	33,211	1,036	33,211
24.4 Other advances					
Loans against fixed deposits		90,300,456	66,394,502	90,300,456	66,394,502
Discounting of cheques		490,000	490,000	490,000	490,000
Insurance		469,656,669	384,691,167	469,656,669	384,691,167
Staff debtors		19,370,628	17,180,175	19,370,628	17,180,175
Sundry debtors		3,272,811	4,932,153	3,272,811	4,932,153
		583,090,564	473,687,997	583,090,564	473,687,997
Impairment losses					
Provision for individual impairment	24.4.1	(1,906,394)	(1,906,394)	(1,906,394)	(1,906,394)
Provision for collective impairment	24.4.2	(81,360,257)	(81,457,829)	(81,360,257)	(81,457,829)
Net investment in other advances after impairment		499,823,913	390,323,774	499,823,913	390,323,774

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

24.4.1 Movement in allowance for individual impairment

Balance at the beginning of the year		1,906,394	1,906,394	1,906,394	1,906,394
Charge for the year	11	–	–	–	–
Balance at the end of the year		1,906,394	1,906,394	1,906,394	1,906,394
Gross amount of loans individually determined to be impaired		3,762,811	5,422,153	3,762,811	5,422,153

24.4.2 Movement in allowance for collective impairment

Balance at the beginning of the year		81,457,829	66,559,146	81,457,829	66,559,146
(Reversal)/Charge for the year	12	(97,572)	14,898,683	(97,572)	14,898,683
Balance at the end of the year		81,360,257	81,457,829	81,360,257	81,457,829
Total of individual and collective impairment		83,266,651	83,364,223	83,266,651	83,364,223

25. Financial Assets Available for Sale

Quoted units	25.1	5,696,077	5,696,077	5,696,077	5,696,077
Unquoted shares and units	25.2	107,310,580	74,004,044	107,310,580	74,004,044
		113,006,657	79,700,121	113,006,657	79,700,121

25.1 Quoted units

National Equity Fund		5,696,077	5,696,077	5,696,077	5,696,077
		5,696,077	5,696,077	5,696,077	5,696,077

25.2 Unquoted shares and units

Credit Information Bureau of Sri Lanka		90,586	90,586	90,586	90,586
Finance House Consortium (Pvt) Ltd		200,000	200,000	200,000	200,000
Senkadagala Hotels Limited		10,413,420	10,413,420	10,413,420	10,413,420
Guardian Acuity Equity Fund		48,357,806	34,818,021	48,357,806	34,818,021
Guardian Acuity Money Market Fund		36,358,420	17,718,720	36,358,420	17,718,720
Capital Alliance High Yield Fund		11,890,348	10,763,297	11,890,348	10,763,297
		107,310,580	74,004,044	107,310,580	74,004,044

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

26. Financial Assets Held to Maturity

Treasury bills	782,432,811	712,795,529	782,432,811	712,795,529
Treasury bonds	185,086,178	182,105,842	185,086,178	182,105,842
	967,518,989	894,901,371	967,518,989	894,901,371

27. Investments in Subsidiaries

Unquoted				
Senkadagala Insurance Brokers (Pvt) Ltd				
(2,000,000 Ordinary shares)				
Holding (%)	100	100		
Place of business	No. 437B,1st Floor, Katugastota Road, Kandy			
Cost	20,000,000	20,000,000		
Newest Capital Limited				
(150,000,000 Ordinary shares)				
Holding (%)	100	100		
Place of business	No. 267, Galle Road, Colombo 3			
Cost	300,000,000	300,000,000		
	320,000,000	320,000,000		

28. Investment Property

Cost or valuation				
Balance at the beginning of the year	87,782,655	87,782,655	287,885,424	287,885,424
Additions and transfer during the year	300,559,000	–	11,559,000	–
Balance at the end of the year	388,341,655	87,782,655	299,444,424	287,885,424
Accumulated depreciation				
Balance at the beginning of the year	9,060,760	8,757,722	14,778,903	11,470,727
Charge for the year	–	303,038	3,005,138	3,308,176
Balance at the end of the year	9,060,760	9,060,760	17,784,041	14,778,903
Carrying amount at the end of the year	379,280,895	78,721,895	281,660,383	273,106,521

28.1 Fully-depreciated investment property

The cost of fully depreciated Investment property of the Company which are still in use as at the Statement of Financial Position date is as follows:

As at 31 March	2018	2017
	Rs.	Rs.
Buildings	9,060,760	9,060,760

28.2 Information of freehold investment property of the Group

Location	Extent of land	Valuer	Date of valuation	Valuation	Cost 2018	Cost 2017
				Rs.	Rs.	Rs.
Land and building						
98, Dean's Road, Colombo 10	6.000 P	K M U Dissanayake	16.04.2017	60,600,000	3,500,000	3,500,000
12, Kotugodella Veediya, Kandy Lot 1	9.875 P	K M U Dissanayake	15.04.2017	86,500,000	7,542,068	7,542,068
12, Kotugodella Veediya, Kandy Lot 2	18.000 P	K M U Dissanayake	15.04.2017	76,700,000	70,679,827	70,679,827
98, Yatinuwara Veediya, Kandy	7.000 P	K M U Dissanayake	15.04.2017	55,700,000	6,060,760	6,060,760
30, Kynsey Road, Colombo 07	20.10 P	H M N Herath	18.03.2018	289,000,000	211,661,769	200,102,769
				568,500,000	299,444,424	287,885,424

Rental income from investment properties amounted to Rs. 15,717,000/- during the year (2017 – Rs. 14,508,000/-)

28.3 Measurement of fair value

(i) Fair value hierarchy

The fair value of properties set out above was determined by a report from an external independent property valuers, Mr K M U Dissanayake and Mr H N M Herath who valued the properties as at 31 March 2017 and 31 March 2018 respectively. The valuer has appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

These values have not been incorporated in the Financial Statements.

The fair value measurement for the above of Rs. 568,500,000/- has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

(ii) Valuation technique and significant unobservable inputs

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

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Market Comparable Method: This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property in this process outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for Land. Price per square foot for building depreciation rate.	Estimated fair value would increase (decrease) if; Price per perch increases (decreases). Price per square foot increases (decreases). Depreciation rate for building (decreases)/ increases.
Investment Method: This method involves capitalisation of the expected rental income at an appropriate rate of years purchase currently characterised by the real estate market.	Gross Monthly Rental Years Purchase (Present value of 1 unit per period Void Period)	Estimated fair value would increase (decrease) if; Gross Annual Rental increases (decreases). Years Purchase increases (decreases). Void Period (decrease)/ increases.

29. Property, Plant and Equipment

29.1 Company

	As at 01.04.2017	Additions	Transfer	Disposals	As at 31.03.2018
	Rs.	Rs.	Rs.	Rs.	Rs.
Cost					
Land	110,371,865	–	–	–	**110,371,865**
Buildings	35,949,773	–	–	–	**35,949,773**
Furniture, fittings and fixtures	444,934,653	34,651,999	–	(1,967,121)	**477,619,531**
Office equipment	348,643,984	14,613,073	–	–	**363,257,057**
Air conditioner	66,340,958	2,507,370	(158,190)	(414,357)	**68,275,781**
Computer and accessories	381,790,612	28,687,030	–	–	**410,477,642**
Facsimile machine	2,196,998	88,000	–	–	**2,284,998**
Generator	46,298,729	9,273,117	–	–	**55,571,846**
Motor vehicles	848,401,379	253,204,190	208,376	(142,228,050)	**959,585,895**
Photostat machine	12,364,026	94,860	–	–	**12,458,886**
Printers	38,671,651	3,778,168	–	–	**42,449,819**
	2,335,964,628	346,897,807	50,186	(144,609,528)	**2,538,303,093**

	As at 01.04.2017 Rs.	Charge for the year Rs.	Transfer Rs.	Charge on disposals Rs.	As at 31.03.2018 Rs.
Accumulated depreciation					
Buildings	7,665,690	1,984,538	–	–	9,650,228
Furniture, fittings and fixtures	238,439,974	32,411,708	–	(601,789)	270,249,893
Office equipment	137,740,435	32,611,455	–	–	170,351,890
Air conditioner	51,672,165	7,335,810	–	(414,357)	58,593,618
Computer and accessories	238,524,763	57,567,762	–	–	296,092,525
Facsimile machine	1,208,739	167,470	–	–	1,376,209
Generator	37,945,694	2,430,180	–	–	40,375,874
Motor vehicles	214,563,548	150,646,069	–	(85,926,365)	279,283,252
Photostat machine	10,037,791	1,010,929	–	–	11,048,720
Printers	30,921,754	3,742,202	–	–	34,663,956
	968,720,553	289,908,123	–	(86,942,511)	1,171,686,165
Net book value	1,367,244,075				1,366,616,928

29.2 Group

	As at 01.04.2017 Rs.	Additions Rs.	Transfer Rs.	Disposals Rs.	As at 31.03.2018 Rs.
Cost					
Land	110,371,865	–	–	–	110,371,865
Buildings	35,949,773	–	–	–	35,949,773
Furniture, fittings and fixtures	445,476,628	34,651,999	–	(1,967,121)	478,161,506
Office equipment	348,801,484	14,613,073	–	–	363,414,557
Air conditioner	66,440,228	2,507,370	(257,460)	(414,357)	68,275,781
Computer and accessories	382,360,512	28,687,030	–	–	411,047,542
Facsimile machine	2,251,878	88,000	–	–	2,339,878
Generator	46,298,729	9,273,117	–	–	55,571,846
Motor vehicles	854,705,879	253,740,950	208,376	(142,228,050)	966,427,155
Photostat machine	12,495,066	94,860	–	–	12,589,926
Printers	38,765,652	3,778,168	–	–	42,543,820
	2,343,917,694	347,434,567	(49,084)	(144,609,528)	2,546,693,649

	As at 01.04.2017 Rs.	Charge for the year Rs.	Transfer Rs.	Charge on Disposals Rs.	As at 31.03.2018 Rs.
Accumulated depreciation					
Buildings	7,665,690	1,984,538	–	–	9,650,228
Furniture, fittings and fixtures	238,777,147	32,499,344	–	(601,789)	270,674,702
Office equipment	137,798,553	32,627,211	–	–	170,425,764
Air conditioner	51,696,431	7,360,628	(49,084)	(414,357)	58,593,618
Computer and accessories	239,085,941	57,576,484	–	–	296,662,425
Facsimile machine	1,230,220	172,954	–	–	1,403,174
Generator	37,945,694	2,430,180	–	–	40,375,874
Motor vehicles	215,439,348	151,711,942	–	(85,926,365)	281,224,925
Photostat machine	10,089,115	1,024,033	–	–	11,113,148
Printers	31,013,782	3,744,174	–	–	34,757,956
	970,741,921	291,131,488	(49,084)	(86,942,511)	1,174,881,814
Net book value	1,373,175,773				1,371,811,835

29.3 Property, plant and equipment retired from active use

Following fully-depreciated property, plant and equipment of the Company were retired from active use as at the Statement of Financial Position date.

As at 31 March	2018 Rs.	2017 Rs.
Furniture, fittings and fixtures	139,480	3,604,685
Office equipment	–	73,300
Air conditioner	414,357	–
Computer and accessories	–	–
Facsimile machine	–	–
Photostat machine	–	149,000
Motor vehicles	–	3,304,167
Printers	–	–

29.4 Fully-depreciated property, plant and equipment

The cost of fully-depreciated property, plant and equipment of the Company which are still in use as at the Statement of Financial Position date is as follows:

As at 31 March	2018 Rs.	2017 Rs.
Buildings	–	–
Furniture, fittings and fixtures	121,498,591	101,964,575
Office equipment	39,608,461	24,107,889
Air conditioner	42,729,352	33,172,301
Computer and accessories	191,116,779	152,991,614
Facsimile machine	593,750	534,050
Generator	32,420,500	31,030,000
Motor vehicles	900,464	900,464
Photostat machine	8,845,626	7,522,626
Printers	26,771,630	22,632,294

29.5 Property, plant and equipment pledged as security for liability

There were no items of property, plant and equipment pledged as security for liabilities.

29.6 Information of freehold land and building of the Group

Location	Extent	Date of valuation	Valuation	Cost	Carrying value	Cost
				2018	2018	2017
			Rs.	Rs.	Rs.	Rs.
Land						
7/4, Mawilmada Road, Kandy	0 A. 1 R. 10.595 P	08.04.2017	27,827,250	7,779,960	7,779,960	7,779,960
Highway Park, Amunugama, Pothuhera	0 A. 5 R. 25.49 P	09.04.2017	39,310,000	26,229,354	26,229,354	26,229,354
92, Dean's Road, Colombo 10	0 A. 0 R. 8.00 P	16.04.2017	77,300,000	24,600,000	24,600,000	24,600,000
No. 255& 257 C, D, C 1/2, Stanley Thilakaratne Mawatha, Nugegoda	0 A. 0 R. 6.845 P	24.03.2018	62,513,716	51,762,551	51,762,551	51,762,551
			206,950,966	110,371,865	110,371,865	110,371,865
Building						
7/4, Mawilmada Road, Kandy	1,301 sq.ft.	08.04.2017	2,632,750	5,230,914	237,265	5,230,914
Highway Park, Amunugama, Pothuhera	680 sq.ft.	09.04.2017	1,190,000	4,482,010	918,633	4,482,010
Nos. 255 & 257 C, D, C 1/2, Stanley Thilakaratne Mawatha, Nugegoda	2,361 sq.ft.	24.03.2018	31,686,284	26,236,849	25,143,647	–
			35,509,034	35,949,773	26,299,545	9,712,924
Total			242,460,000	146,321,638	136,671,410	120,084,789

29.7 Measurement of fair value

(i) Fair value hierarchy

The fair value of properties set out above was determined by a report from an external independent property valuer, Mr K M U Dissanayake who valued the properties as at 31 March 2018. The valuer has appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

These values have not been incorporated in the Financial Statements.

The fair value measurement for the above of Rs. 242,460,000/- has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

(ii) Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of the freehold properties mentioned above, as well as the significant unobservable inputs used:

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Market Comparable Method: This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location, condition of specific property in this process outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	Price per perch for Land. Price per square foot for building depreciation rate.	Estimated fair value would increase (decrease) if; Price per perch increases (decreases). Price per square foot increases (decreases). Depreciation rate for building (decreases)/ increases.

30. Intangible Assets

30.1 Company

As at 31 March	Software 2018 Rs.	Software 2017 Rs.
Cost		
Balance at the beginning of the year	227,083,863	210,216,637
Additions during the year	679,377	16,867,226
Balance at the end of the year	227,763,240	227,083,863
Accumulated amortisation		
Balance at the beginning of the year	156,159,010	141,657,692
Amortisation for the year	14,352,423	14,501,318
Balance at the end of the year	170,511,433	156,159,010
Carrying amount	57,251,807	70,924,853

30.2 Fully-amortised Intangible assets

The cost of fully-amortised Intangible assets of the Company which are still in use as at the statement of financial position date is as follows:

As at 31 March	2018 Rs.	2017 Rs.
Software	121,434,587	102,356,828

30.3 Group

	License Rs.	Software Rs.	Total Rs.
Cost or valuation			
Balance at the beginning of the year	64,820,214	227,083,863	291,904,077
Additions during the year	–	679,377	679,377
Balance at the end of the year	64,820,214	227,763,240	292,583,454
Accumulated amortisation			
Balance at the beginning of the year	–	156,159,010	156,159,010
Amortisation for the year	–	14,352,423	14,352,423
Balance at the end of the year	–	170,511,433	170,511,433
Carrying amount at 31 March 2018	64,820,214	57,251,807	122,072,021
Carrying amount at 31 March 2017	64,820,214	70,924,853	135,745,067

31. Current tax recoverable

	Company		Group	
As at 31 March	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
Income tax				
Balance at the beginning of the year	113,999,924	49,769,121	100,649,945	37,068,059
Current income tax charge	(97,702,131)	(82,143,469)	(146,373,274)	(115,155,343)
Payments made during the year	41,071,735	112,414,097	77,977,505	144,329,506
Economic service charges	50,192,507	7,560,207	50,192,507	7,560,207
Withholding tax on interest income	32,850,746	26,399,968	33,630,094	26,847,516
Balance at the end of the year	140,412,781	113,999,924	116,076,777	100,649,945
Other tax liabilities	(62,613,430)	(49,177,410)	(68,369,864)	(53,791,100)
	77,799,351	64,822,514	47,706,913	46,858,845

32. Other Assets

Search fee and seizing charges receivable	(56,407)	765,516	(56,407)	765,516
Stock of gold specimen	259,200	259,200	259,200	259,200
Western Union MMBL	339,559	355,217	339,559	355,217
Prepaid building rent	65,991,901	59,842,290	65,991,901	59,842,290
Prepaid WHT on loans and debentures	32,146,708	40,618,635	32,146,708	40,618,635
Advance payments	564,765,028	58,305,427	564,765,028	58,305,427
Funds held at Orion Fund Management	6,840	2,772,638	6,840	2,772,638
Deposits	5,916,104	6,027,283	5,916,104	6,027,283
Cash cover	636,326	1,173,193	636,326	1,173,193
Other	10,101,004	5,897,122	10,368,782	6,369,935
	680,106,263	176,016,521	680,374,041	176,489,334

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

33. Due to Banks

Bank overdrafts	82,833,778	170,304,189	134,547,012	174,156,209
Asset securitised loans	5,925,892,788	6,810,673,525	5,925,892,788	6,810,673,525
	6,008,726,566	6,980,977,714	6,060,439,800	6,984,829,734

Securities pledged

Senkadagala Finance PLC has issued a promissory note amounting to Rs. 400,000,000/- as security for the loan obtained from DFCC Bank PLC.

Lease and hire purchase aggregate portfolio amounting to Rs. 4,772,542,356/- (2017- Rs. 4,910,042,254/-) have been pledged as security for the other bank loans.

In the ordinary course of business, the Company enters into transactions that result in the transfer of financial assets to third parties, The information above sets out the extent of such transfers and retained interest in transferred assets.

The Company has transferred future rental receivable of leases and hire purchases, but has retained substantially all credit risk associated with the transferred assets. Due to the retention of substantially, all the risk and rewards on these assets, the Company continues to recognise these assets within lease rental receivable and hire purchase receivable.

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

34. Deposits from Customers

Savings deposits		382,277,210	341,771,214	382,277,210	341,771,214
Certificates of deposit	34.1	7,729,774	10,548,068	7,729,774	10,548,068
Fixed deposits	34.2	9,117,126,806	6,878,553,283	9,075,448,350	6,852,195,270
		9,507,133,790	7,230,872,565	9,465,455,334	7,204,514,552

34.1 Certificates of deposit

Face value	7,800,000	10,800,000	7,800,000	10,800,000
Interest in suspense	(70,226)	(251,932)	(70,226)	(251,932)
	7,729,774	10,548,068	7,729,774	10,548,068

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
34.2 Fixed deposits					
Fixed deposits		8,834,580,054	6,650,391,472	8,793,650,731	6,625,833,092
Amortised interest payable		282,546,752	228,161,811	281,797,619	226,362,178
		9,117,126,806	6,878,553,283	9,075,448,350	6,852,195,270
35. Other Borrowings					
Commercial paper	35.1	1,057,693,978	1,917,447,375	1,057,693,978	1,917,447,375
Asset securitised loans	35.2	8,309,938,787	4,845,306,476	8,309,938,787	4,845,306,476
		9,367,632,765	6,762,753,851	9,367,632,765	6,762,753,851
35.1 Commercial paper					
Commercial paper capital outstanding		1,000,000,000	1,840,000,000	1,000,000,000	1,840,000,000
Amortised interest payable		57,693,978	77,447,375	57,693,978	77,447,375
		1,057,693,978	1,917,447,375	1,057,693,978	1,917,447,375
35.2 Asset securitised loans					
Assets securitisation loans capital outstanding		5,562,510,000	4,226,864,920	5,562,510,000	4,226,864,920
Borrowings from International Finance Corporation (IFC)		2,558,960,000	419,027,000	2,558,960,000	419,027,000
Amortised interest payable		188,468,787	199,414,556	188,468,787	199,414,556
		8,309,938,787	4,845,306,476	8,309,938,787	4,845,306,476

Securities pledged

Lease and hire purchase aggregate portfolio amounting to Rs. 6,938,770,694/- (2017 – Rs. 4,769,729,417/–) have been pledged as security for the above loans.

In the ordinary course of business the Company enters into transactions that result in the transfer of financial assets to third parties, The information above sets out the extent of such transfers and retained interest in transferred assets.

The Company has transferred future rental receivable of leases and hire purchases, but has retained substantially, all of the credit risk associated with the transferred assets. Due to the retention of substantially all the risk and rewards on these assets, the Company continues to recognise these assets within lease rental receivable and hire purchase receivable.

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
36. Debt Securities Issued				
As at the beginning of the year	3,585,753,500	1,720,000,000	3,585,753,500	1,720,000,000
New debt instruments issued	–	3,000,000,000	–	3,000,000,000
Redemptions of debentures	(585,753,500)	(1,134,246,500)	(585,753,500)	(1,134,246,500)
Balance before amortised interest payable	3,000,000,000	3,585,753,500	3,000,000,000	3,585,753,500
Amortised interest payable	127,018,895	97,291,983	127,018,895	97,291,983
As at the end of the year	3,127,018,895	3,683,045,483	3,127,018,895	3,683,045,483

As at 31 March	Interest payable	Year of issue	Year of maturity	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
36.1 Listed unsecured redeemable senior debentures							
2013/14 – Fixed rated 17.25% p a	Quarterly	2013/14	2017/18	–	585,253,500	–	585,253,500
2013/14 – Floating rated	Semi Annually	2013/14	2017/18	–	500,000	–	500,000
2016/17 – Fixed Rated 12.5% p.a	Semi Annualy	2016/17	2018/19	397,270,000	397,270,000	397,270,000	397,270,000
2016/17 – Floating rated	Semi Annualy	2016/17	2019/20	10,000	10,000	10,000	10,000
2016/17 – Fixed Rated 13.25% p.a	Semi Annualy	2016/17	2019/20	189,510,000	189,510,000	189,510,000	189,510,000
2016/17 – Floating rated	Semi Annualy	2016/17	2020/21	62,270,000	62,270,000	62,270,000	62,270,000
2016/17 – Fixed Rated 13.75% p.a	Semi Annualy	2016/17	2020/21	2,350,940,000	2,350,940,000	2,350,940,000	2,350,940,000
Amortised interest payable				127,018,895	97,291,983	127,018,895	97,291,983
				3,127,018,895	3,683,045,483	3,127,018,895	3,683,045,483

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.
37. Subordinated Debentures				
Balance before amortised interest payable	1,250,000,000	1,250,000,000	1,250,000,000	1,250,000,000
Amortised interest payable	22,876,786	59,740,125	22,876,786	59,740,125
As at the end of the year	1,272,876,786	1,309,740,125	1,272,876,786	1,309,740,125

Outstanding debentures as at 31 March 2018 consists of 12,500,000 (2017 – 12,500,000) Listed Unsecured Redeemable Subordinated Debentures of Rs. 100/- each issued by the Company in December 2013, details of which is given below:

	Interest payable	Year of issue	Year of maturity	Value (Rs.)	
				2018	2017
2013/14 – Fixed rated 15% p a	Quarterly	2013/14	2018/19	1,250,000,000	1,250,000,000

As at 31 March	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.

38. Deferred Tax Liabilities

Balance at the beginning of the year	607,702,150	434,104,236	610,885,348	436,663,479
Amount originating during the year – Income Statement	255,042,242	176,018,408	251,813,110	176,642,363
Amount originating during the year – Other comprehensive income	(2,063,521)	(2,420,494)	(2,093,058)	(2,420,494)
Balance at the end of the year	860,680,871	607,702,150	860,605,400	610,885,348

38.1 Reconciliation of net deferred tax liabilities

Deferred tax – liabilities				
Accelerated depreciation for tax purposes – Property, plant and equipment	113,272,424	103,287,696	113,373,267	106,633,082
Accelerated depreciation for tax purposes – Rentals receivable	770,119,041	601,822,010	770,119,041	601,822,010
	883,391,465	705,109,706	883,492,308	708,455,092
Deferred tax – Assets				
Retirement benefit obligation	22,710,594	21,979,930	22,886,908	22,068,340
Tax credits	–	75,427,626	–	75,501,404
	22,710,594	97,407,556	22,886,908	97,569,744
Net deferred tax liabilities	860,680,871	607,702,150	860,605,400	610,885,348

As at 31 March	Statement of Financial Position		Income Statement		Statement of Comprehensive Income	
	2018	2017	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Company						
Deferred tax liabilities on –						
Accelerated depreciation for tax purposes – Own Assets	113,272,424	103,287,696	(9,984,728)	(20,057,859)	–	–
Accelerated depreciation for tax purposes – Leased Assets	770,119,041	601,822,010	(168,297,031)	(180,854,578)	–	–
	883,391,465	705,109,706	(178,281,759)	(200,912,437)	–	–
Deferred tax assets on –						
Retirement benefit obligation	22,710,594	21,979,930	(1,332,857)	2,575,184	2,063,521	2,420,494
Tax credits	–	75,427,626	(75,427,626)	(35,726,019)	–	–
	22,710,594	97,407,556	(76,760,483)	(33,150,835)	2,063,521	2,420,494
Deferred tax effect on comprehensive income			(255,042,242)	(234,063,272)	2,063,521	2,420,494
Net deferred tax liabilities	860,680,871	607,702,150				
Group						
Deferred tax liabilities on –						
Accelerated depreciation for tax purposes – Own Assets	113,373,267	106,633,082	(6,740,185)	(22,873,935)	–	–
Accelerated depreciation for tax purposes – Leased Assets	770,119,041	601,822,010	(168,297,031)	(180,854,578)	–	–
	883,492,308	708,455,092	(175,037,216)	(203,728,513)	–	–
Deferred tax assets on –						
Retirement benefit obligation	22,886,908	22,068,340	(1,274,490)	2,296,877	2,093,058	2,420,494
Tax credits	–	75,501,404	(75,501,404)	(35,466,537)	–	–
	22,886,908	97,569,744	(76,775,894)	(33,169,660)	2,093,058	2,420,494
Deferred tax effect on comprehensive income			(251,813,110)	(236,898,173)	2,093,058	2,420,494
Net deferred tax liabilities	860,605,400	610,885,348				

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

39. Amount due to/(from) related company

Newest Capital Limited	291,578,050	(25,976)	–	–
	291,578,050	(25,976)	–	–

As at 31 March	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

40. Other Liabilities

Accured expenditure – Non-interest	8,766,000	1,540,000	9,123,898	1,864,834
Payable to suppliers	495,312,605	561,491,990	495,312,605	561,491,990
Dividend payable	6,265,873	5,337,371	6,265,873	5,337,371
Value added tax payable	1,682,363	10,005,605	5,352,565	12,967,793
Deposit insurance premium	1,100,000	833,087	1,100,000	833,087
Other liabilities	42,393,225	24,409,286	42,617,475	29,469,536
	555,520,066	603,617,339	559,772,416	611,964,611

As at 31 March	Note	Company 2018 Rs.	Company 2017 Rs.	Group 2018 Rs.	Group 2017 Rs.

41. Employee Benefits

Balance at the beginning of the year		78,499,749	59,440,712	78,848,705	59,659,648
Retirement benefit expense recognised in the Income Statement	41.1	16,512,685	11,831,774	16,687,932	11,961,794
Retirement benefit expense recognised in the Statement of Comprehensive Income	41.2	6,400,199	9,821,118	(6,505,690)	9,821,118
Benefits paid during the year		(20,303,369)	(2,593,855)	(20,303,369)	(2,593,855)
Balance at the end of the year		81,109,264	78,499,749	81,738,958	78,848,705

As at 31 March	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
41.1 Retirement benefit expense recognised in the Income Statement				
Current service cost	7,877,713	6,978,068	8,017,018	7,119,504
Interest cost	8,634,972	6,069,149	8,670,914	6,069,149
Total	16,512,685	13,047,217	16,687,932	13,188,653
41.2 Retirement benefit expense recognised in the Statement of Comprehensive Income				
Actuarial loss at the end of the year	6,400,199	9,821,118	6,505,690	9,821,118
	6,400,199	9,821,118	6,505,690	9,821,118

Mr Piyal S Goonathilake FSA(USA), a member of the American Academy of Actuaries has carried out an independent actuarial valuation of the defined benefit obligation as at 31 March 2018. The valuation was carried out using the Projected Unit Credit Acturial Cost Method, the method recommended by Sri Lanka Accounting Standard – LKAS 19 – Defined benefit obligations.

	2018	2017
Discount rate	10.5%	11%
Salary scale	7.5%	7.5%
Retirement age	55 Years	55 Years

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the Income Statement and employment benefit obligation for the year.

Increase/(Decrease) in discount rate	Increase/(Decrease) in salary increment rate	Sensitivity effect on income statement increase/(Reduction) in results for the year Rs.'000	Sensitivity effect on employment benefit obligation increase (Reduction) in the liability Rs.'000
+1%	–	3,921	(3,921)
-1%	–	(4,457)	4,457
–	+1%	(4,385)	4,385
–	-1%	3,926	(3,926)

As at 31 March	2018		2017	
	No. of shares	Value (Rs.)	No. of shares	Value (Rs.)

42. Stated Capital

Issued and fully paid shares				
At the beginning of the year	65,227,555	1,008,062,200	65,227,555	1,008,062,200
Rights issue	7,247,506	579,800,480	–	–
At the end of the year	72,475,061	1,587,862,680	65,227,555	1,008,062,200

In accordance with Companies Act No. 07 of 2007 the above shares do not have a par value.

	Company		Group	
As at 31 March	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.

43. Statutory Reserve Fund

Balance at the beginning of the year	310,036,033	265,036,033	310,190,064	265,059,033
Transfers during the year	55,000,000	45,000,000	59,807,015	45,131,031
Balance at the end of the year	365,036,033	310,036,033	369,997,079	310,190,064

The Reserve Fund is maintained in compliance with Direction No. 1 of 2003 Central Bank of Sri Lanka (Capital Funds) issued to finance companies.

As per the said Direction, every Licensed Finance Company shall maintain a Reserve Fund and transfer to such reserve fund out of the net profits of each year, after due provisions has been made for taxation and bad and doubtful debts on following basis:

Capital funds to deposit liabilities	% of transfer to reserve fund
Not less than 25%	5
Less than 25% and not less than 10%	20
Less than 10%	50

Accordingly, the Company and the Group has transferred an amount of Rs. 55,000,000/- and Rs. 59,807,015/- respectively, which is above the required 5% of its net profit after taxation to the reserve fund as the Company's and the Group's Capital Funds to deposit liabilities, belongs to not less than 25% category.

As at 31 March	Company		Group	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.

44. Available-for-Sale Reserve

	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Balance at the beginning of the year	4,361,183	3,774,586	4,361,183	3,774,586
Net gain/(loss) on remeasuring financial investments	8,306,537	(2,126,844)	8,306,537	(2,126,844)
Fair value (losses)/gains realised and reclassified to the Statement of Profit or Loss during the year	(5,496,247)	2,713,441	(5,496,247)	2,713,441
Balance at the end of the year	7,171,473	4,361,183	7,171,473	4,361,183

The available-for-sale reserve comprises the cumulative net change in fair value of financial investments available for sale until such investments are derecognised or impaired.

45. Related Party Transactions

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) – 24, Related Party Disclosures. Details of related party transactions are reported below:

Name of the Company	Nature of transaction	Transaction amount 2018 Rs.	Transaction amount 2017 Rs.	Balance outstanding as at 31 March 2018 Rs.	Balance outstanding as at 31 March 2017 Rs.
Parent company					
E W Balasuriya and Company (Private) Limited	Payment of rent expenses	(5,100,000)	(5,100,000)	–	–
	Dividend payment	(119,876,912)	(104,586,490)	–	–
	Reimbursement of expenses on IT related services	18,937,600	21,477,300	–	–
	Investment in Rights issue	326,195,680	–	–	–
	Net funds received/(paid)	220,156,368	(88,509,190)	–	–
Subsidiary					
Senkadagala Insurance Brokers (Pvt) Ltd.	Net investment in fixed deposits	15,320,443	2,335,823	41,678,456	26,358,013
	Deposit interest expense	(4,594,221)	(3,126,093)	–	–
	Rent income	300,000	300,000	–	–
	Dividend income	91,350,000	71,100,000	–	–
	Net funds received	102,376,222	70,609,730	–	–
	Balance payable	–	–	(41,678,456)	(26,358,013)

Name of the Company	Nature of transaction	Transaction amount 2018 Rs.	Transaction amount 2017 Rs.	Balance outstanding as at 31 March 2018 Rs.	Balance outstanding as at 31 March 2017 Rs.
Subsidiary					
Newest Capital Limited	Funds collected on behalf of Newest Capital Limited	(14,508,000)	(15,717,000)		
	Payment made on behalf of Newest Capital Limited	1,577,186	1,707,180		
	Reimbursement of expenses to Senkadagala Finance PLC	7,045,000	7,045,000		
	Net funds received	(5,885,814)	(6,964,820)		–
	Transfer of Investment property	(289,000,000)	–		
	Transfer of property, plant and Equipment	(50,187)	–		
	Transfer of Advanced received	3,627,000	–		
	Transfer of Insurance premium	(295,026)	–		
	Net balance of transfer payable	(285,718,213)	–		
	Balance Receivable/(Payable)	–	–	(291,578,050)	25,976
Company under common control					
Senkadagala Hotels Limited	Payment of rent expense	(803,719)	(668,439)	–	–
	Net funds paid	(803,719)	(668,439)	–	–

45.1 Transactions with Key Management Personnel (KMP) of the Company

According to Sri Lanka Accounting Standard – LKAS 24 Related Party Disclosures, Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly Senior Management Team, Deputy CEO, CEO and the other members of the Board of Directors of the Company (including Executive and Non-Executive Directors) and of the Ultimate Parent Company have been classified as Key Management Personnel of the Company.

For the year ended 31 March	2018 Rs.	2017 Rs.
45.1.1 Compensation of key Management Personnel		
Short-term Employee Benefits		
Board of Directors	22,958,565	20,536,250
Other Key Management Personnel	71,131,450	62,802,080

45.1.2 Post-Employment benefits to Key Management Personnel

The Key Management Personnel are entitled to gratuity as in the provisions laid down by the Payment of Gratuity Act No.12 of 1983 and such provision as at 31 March 2018 amounted to Rs. 20,845,000/- (2016/17 – Rs. 41,893,890/-)

As at 31 March	2018 Rs.	2017 Rs.
45.1.3 Deposits held by Key Management Personnel		
Deposits held with the Company	91,605,331	36,072,275

46. Commitments and Contingencies

46.1 Capital expenditure commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements amounted to the following:

As at 31 March	2018 Rs.	2017 Rs.
Approved but not contracted for	–	–
Approved and contracted for	7,855,176	6,839,390
	7,855,176	6,839,390

46.2 Contingent liabilities

The Company has undertaken a "Loan Protection Scheme" during the year with certain customers whereby the Company undertakes to insure a certain amount of the receivable balances of lease and hire purchase contracts with a third party insurance company for a fee collected upfront.The loss in case of death or permanent disability is covered through the insurance policy, however based on past experience the Company expects that the probable loss in the event of death and permanent disability would not result in an loss exceeding the insured amount.

Other than the matters disclosed above there were no material contingent liabilities which require adjustments to or disclosure in the Financial Statements as at the reporting date.

47. Events after the Reporting Period

The Board of Directors has declared and approved an interim dividend of Rs. 1.00 per share for the nine months year ended 31 December 2017, paid on 03 May 2018. Further a final dividend of Rs. 0.95 per share for the year ended 31 March 2018 is recommended by the Board of Directors subject to the approval from the shareholders at the Annual General Meeting for the financial year ended 2017/18. In accordance with the LKAS 10 on events after the reporting year the proposed dividends are not recognised as a liability in the Financial Statements as at year end.

There were no material events occurring after the reporting year that require adjustment to or disclose in the Financial Statements other than that what is disclosed above.

48. Maturity Analysis

48.1 Company

An analysis of the total assets employed and the total liabilities of the Company as at 31 March 2018, based on the remaining year from the reporting date to the respective contractual maturity dates is given below.

As at 31 March	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	More than 3 Years Rs.	Total as at 31st March 2018 Rs.
Interest earning assets					
Cash and cash equivalents	764,909,318	–	–	–	764,909,318
Deposit with licensed commercial banks	369,426,112	218,957,654	–	–	588,383,766
Investment in Government and other securities	3,682,056,990	–	–	185,086,178	3,867,143,168
Loans and advances	4,157,791,969	8,490,876,080	12,024,582,624	3,128,534,764	27,801,785,437
Total interest earning assets	8,974,184,389	8,709,833,734	12,024,582,624	3,313,620,942	33,022,221,689
Non-interest earning assets					
Financial assets held at fair value through profit and loss	87,479,831	–	–	–	87,479,831
Financial assets available for sale	96,606,574	2,278,431	3,417,646	10,704,006	113,006,657
Investment in subsidiaries	–	–	–	320,000,000	320,000,000
Property, plant and equipment	–	–	–	1,803,149,630	1,803,149,630
Other receivables	383,435,314	299,498,398	36,547,398	38,424,504	757,905,614
Total assets	9,541,706,108	9,011,610,563	12,064,547,668	5,485,899,082	36,103,763,421
Percentage as at 31.03.2018 (%)	26	25	33	15	100

As at 31 March	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	More than 3 Years Rs.	Total as at 31 March 2018 Rs.
Interest-bearing liabilities					
Deposits from customers	2,331,483,434	5,141,395,374	1,549,648,465	484,606,517	9,507,133,790
Bank overdrafts	82,833,778	–	–	–	82,833,778
Due to banks	671,555,208	2,078,370,318	2,953,173,958	222,793,304	5,925,892,788
Borrowings	544,597,326	2,737,787,670	4,497,648,051	1,587,599,718	9,367,632,765
Debentures	–	1,705,368,508	2,694,527,173	–	4,399,895,681
Total interest-bearing liabilities	3,630,469,746	11,662,921,870	11,694,997,647	2,294,999,539	29,283,388,802
Non-interest bearing liabilities	444,822,615	264,719,337	175,623,416	903,722,883	1,788,888,251
Total liabilities	4,075,292,361	11,927,641,207	11,870,621,063	3,198,722,422	31,072,277,053
Percentage as at 31.03.2018 (%)	11	33	33	9	86
Shareholders' funds	–	–	–	5,031,486,368	5,031,486,368
Total shareholders' funds and liabilities	4,075,292,361	11,927,641,207	11,870,621,063	8,230,208,790	36,103,763,421

48.2 Group

An analysis of the total assets employed and the total liabilities of the Group as at 31 March 2018, based on the remaining year from the reporting date to the respective contractual maturity dates are given below.

As at 31 March	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	More than 3 Years Rs.	Total as at 31st March 2018 Rs.
Interest earning assets					
Cash and cash equivalents	817,948,235	–	–	–	817,948,235
Deposit with licensed commercial banks	369,426,112	218,957,654	–	–	588,383,766
Investment in Government and other securities	3,682,056,990	–	–	185,086,178	3,867,143,168
Loans and advances	4,157,791,969	8,490,876,080	12,024,582,624	3,128,534,764	27,801,785,437
Total interest earning assets	9,027,223,306	8,709,833,734	12,024,582,624	3,313,620,942	33,075,260,606
Non-interest earning assets					
Financial assets held at fair value through profit and loss	87,479,831	–	–	–	87,479,831
Financial assets available for sale	96,606,574	2,278,431	3,417,646	10,704,006	113,006,657
Investment in subsidiaries	–	–	–	–	–
Property, plant & equipment, intangible assets and investment	–	–	–	1,775,544,239	1,775,544,239
Other receivables	347,159,056	304,521,390	32,712,869	43,687,639	728,080,954
Total assets	9,558,468,767	9,016,633,555	12,060,713,139	5,143,556,826	35,779,372,287
Percentage as at 31.03.2018 (%)	27	25	34	14	100

As at 31 March	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	More than 3 Years Rs.	Total as at 31st March 2018 Rs.
Interest-bearing liabilities					
Deposits from customers	2,300,107,196	5,131,093,156	1,549,648,465	484,606,517	9,465,455,334
Bank overdrafts	134,547,012	–	–	–	134,547,012
Due to banks	671,555,208	2,078,370,318	2,953,173,958	222,793,304	5,925,892,788
Borrowings	544,597,326	2,737,787,670	4,497,648,051	1,587,599,718	9,367,632,765
Debentures	–	1,705,368,508	2,694,527,173	–	4,399,895,681
Total interest-bearing liabilities	3,650,806,742	11,652,619,652	11,694,997,647	2,294,999,539	29,293,423,580
Non-interest-bearing liabilities	155,556,597	266,680,376	175,924,449	903,955,352	1,502,116,774
Total liabilities	3,806,363,339	11,919,300,029	11,870,922,096	3,198,954,891	30,795,540,354
Percentage as at 31.03.2018 (%)	11	33	33	9	86
Shareholders' funds	–	–	–	4,983,831,933	4,983,831,933
Total shareholders' funds and liabilities	3,806,363,339	11,919,300,029	11,870,922,096	8,182,786,824	35,779,372,287

49. Segment Report

As at 31 March	Leasing		Hire purchases		Pawning advances		Other advances	
	2018	2017	2018	2017	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Revenue								
External customers								
Interest	4,991,364,071	3,679,082,591	154,688,500	406,361,500	176,624,867	76,331,490	805,032,870	371,055,097
Trading	-	-	-	-	-	-	-	-
Commissions	-	-	-	-	-	-	-	-
Rent	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Other income	37,898,029	70,405,168	-	-	-	-	-	-
Total revenue	5,029,262,100	3,749,487,759	154,688,500	406,361,500	176,624,867	76,331,490	805,032,870	371,055,097
Profit before tax								
Taxation								
Profit after tax								
Segment Assets	23,887,236,580	20,014,694,207	162,468,190	645,872,482	993,680,335	548,402,600	2,758,400,332	2,548,618,773
Segment Liabilities	23,110,865,190	20,130,162,242	710,836,898	2,181,664,120	811,640,636	409,806,719	3,699,351,070	1,992,111,932
Information on Cash flows								
Operating activities	28,616,191	(2,582,626,854)	293,036,948	334,318,766	(16,280,426)	(91,944,715)	5,337,273	(459,164,134)
Investing activities	-	-	-	-	-	-	-	-
Capital expenditure	(240,159,747)	(415,905,052)	(1,633,438)	(13,421,221)	(9,990,357)	(11,395,798)	(27,732,665)	(52,960,261)
Financing activities	-	-	-	-	-	-	-	-
Net cash flow	(211,543,556)	(2,998,531,906)	291,403,510	320,897,545	(26,270,783)	(103,340,513)	(22,395,392)	(512,124,395)
Depreciation and amortisation	(247,549,463)	(213,831,068)	(1,683,699)	(6,900,310)	(10,297,760)	(5,858,971)	(28,585,999)	(27,228,689)

Investments		Insurance Brokering		Unallocated		Total	
2018	2017	2018	2017	2018	2017	2018	2017
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
346,454,657	294,715,801	–	–	–	–	6,474,164,965	4,827,546,479
9,168,015	(91,989)	–	–	110,530	107,651	9,278,545	15,662
–	–	144,121,384	120,067,994	–	–	144,121,384	120,067,994
19,990,913	17,714,933	–	–	–	–	19,990,913	17,714,933
2,918,382	2,734,412	–	–	–	–	2,918,382	2,734,412
66,838,726	61,871,807	–	–	78,170,654	91,789,008	182,907,409	224,065,983
445,370,693	376,944,964	144,121,384	120,067,994	78,281,184	91,896,659	6,833,381,598	5,192,145,463
						1,410,678,709	1,168,625,904
						(408,336,384)	(299,697,706)
						1,002,342,325	868,928,198
6,361,542,540	5,996,148,705	58,269,578	22,352,634	1,557,774,732	1,086,861,157	35,779,372,287	30,862,950,558
2,046,602,829	2,023,733,312	56,405,448	7,627,277	359,838,283	501,476,807	30,795,540,354	27,246,582,409
(989,793,575)	(2,785,970,591)	67,579,788	61,853,878	(330,497,035)	(320,046,155)	(942,000,836)	(5,843,579,805)
(25,857,131)	(57,866,552)	–	–	124,505,757	115,919,852	98,648,626	58,053,300
(63,958,275)	(124,599,882)	(536,760)	–	(15,661,702)	(28,988,728)	(359,672,944)	(647,270,942)
–	–	–	–	1,439,853,512	6,566,518,712	1,439,853,512	6,566,518,712
(1,079,608,981)	(2,968,437,025)	67,043,028	61,853,878	1,218,200,532	6,333,403,681	236,828,358	133,721,265
–	(303,038)	(1,198,546)	(1,734,639)	(19,173,569)	(14,641,105)	(308,489,036)	(270,497,820)

50. Financial Instruments – Fair Values

A. Accounting classifications and fair values – Company

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

As at 31 March 2018	Carrying Amount		
	Designated as FVTPL Rs.	Available-for-Sale Rs.	Loans and Receivables Rs.
Financial assets measured at fair value			
Investments in equity securities – quoted	85,104,831	–	–
Investments in unit trust – quoted	2,375,000	5,696,077	–
Investments in unit trust – unquoted	–	96,606,574	–
	87,479,831	102,302,651	–
Financial assets not measured at fair value			
Cash and cash equivalents	–	–	764,909,318
Deposit with licensed commercial Banks	–	–	588,383,766
Repurchase agreements	–	–	2,899,624,179
Loans and advances	–	–	27,301,961,524
Other advances	–	–	499,823,913
Investments in equity securities - unquoted	–	10,704,006	–
Treasury Bonds	–	–	–
Treasury Bills	–	–	–
	–	10,704,006	32,054,702,700
Financial liabilities not measured at fair value			
Due to banks	–	–	–
Deposits from customers	–	–	–
Savings deposits from customers	–	–	–
Other borrowings	–	–	–
Short term and floating rated borrowings	–	–	–
Debt securities issued	–	–	–
Subordinated debentures	–	–	–
	–	–	–

Carrying Amount			Fair Value			
Held-to-Maturity Rs.	Other Financial Liabilities Rs.	Total Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
–	–	85,104,831	85,104,831	–	–	85,104,831
–	–	8,071,077	8,071,077	–	–	8,071,077
–	–	96,606,574	–	–	96,606,574	96,606,574
–	–	189,782,482	93,175,908	–	96,606,574	189,782,482
–	–	764,909,318	–	–	–	–
–	–	588,383,766	–	–	–	–
–	–	2,899,624,179	–	–	–	–
–	–	27,301,961,524	–	–	–	–
–	–	499,823,913	–	–	–	–
–	–	10,704,006	–	–	–	–
185,086,178	–	185,086,178	191,990,964	–	–	191,990,964
782,432,811	–	782,432,811	781,505,191	–	–	781,505,191
967,518,989	–	33,032,925,695	973,496,155	–	–	973,496,155
–	6,008,726,566	6,008,726,566	–	–	–	–
–	9,124,856,580	9,124,856,580	–	–	9,341,484,219	9,341,484,219
–	382,277,210	382,277,210	–	–	–	–
–	864,650,046	864,650,046	–	–	883,737,065	883,737,065
–	8,502,982,719	8,502,982,719	–	–	–	–
–	3,127,018,895	3,127,018,895	–	–	3,096,319,007	3,096,319,007
–	1,272,876,786	1,272,876,786	–	–	1,288,858,155	1,288,858,155
–	29,283,388,802	29,283,388,802	–	–	14,610,398,446	14,610,398,446

As at 31 March 2017	Carrying Amount Designated as FVTPL Rs.	Available-for-Sale Rs.	Loans and Receivables Rs.
Financial assets measured at fair value			
Investments in equity securities – quoted	77,957,551	–	–
Investments in unit trust – quoted	2,075,000	5,696,077	–
Investments in unit trust – unquoted	–	63,300,038	–
	80,032,551	68,996,115	–
Financial assets not measured at fair value			
Cash and cash equivalents	–	–	604,224,835
Deposit with licensed commercial Banks	–	–	2,424,623,839
Repurchase agreements	–	–	1,000,000,000
Loans and advances	–	–	23,367,264,288
Other advances	–	–	390,323,774
Investments in equity securities - unquoted	–	10,704,006	–
Treasury Bonds	–	–	–
Treasury Bills	–	–	–
	–	10,704,006	27,786,436,736
Financial liabilities not measured at fair value			
Due to banks	–	–	–
Deposits from customers	–	–	–
Savings deposits from customers	–	–	–
Other borrowings	–	–	–
Short-term and floating rated borrowings	–	–	–
Debt securities issued	–	–	–
Subordinated debentures	–	–	–
	–	–	–

Carrying Amount			Fair Value			
Held-to-Maturity Rs.	Other Financial Liabilities Rs.	Total Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
–	–	77,957,551	77,957,551	–	–	77,957,551
–	–	7,771,077	7,771,077	–	–	7,771,077
–	–	63,300,038	–	–	63,300,038	63,300,038
–	–	149,028,666	85,728,628	–	63,300,038	149,028,666
–	–	604,224,835	–	–	–	–
–	–	2,424,623,839	–	–	–	–
–	–	1,000,000,000	–	–	–	–
–	–	23,367,264,288	–	–	–	–
–	–	390,323,774	–	–	–	–
–	–	10,704,006	–	–	–	–
182,105,842	–	182,105,842	176,542,106	–	–	176,542,106
712,795,529	–	712,795,529	710,393,556	–	–	710,393,556
894,901,371	–	28,692,042,113	886,935,662	–	–	886,935,662
–	6,980,977,714	6,980,977,714	–	–	–	–
–	6,889,101,351	6,889,101,351	–	–	7,101,917,072	7,101,917,072
–	341,771,214	341,771,214	–	–	–	–
–	1,684,024,010	1,684,024,010	–	–	1,608,787,328	1,608,787,328
–	5,078,729,841	5,078,729,841	–	–	–	–
–	3,683,045,483	3,683,045,483	–	–	3,782,838,523	3,782,838,523
–	1,309,740,125	1,309,740,125	–	–	1,321,310,888	1,321,310,888
–	25,967,389,738	25,967,389,738	–	–	13,814,853,811	13,814,853,811

B. Accounting classifications and fair values – Group

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

As at 31 March 2018	Carrying Amount		
	Designated as FVTPL Rs.	Available-for-Sale Rs.	Loans and Receivables Rs.
Financial assets measured at fair value			
Investments in equity securities – quoted	85,104,831	–	–
Investments in unit trust – quoted	2,375,000	5,696,077	–
Investments in unit trust – unquoted	–	96,606,574	–
	87,479,831	102,302,651	–
Financial assets not measured at fair value			
Cash and cash equivalents	–	–	817,948,235
Deposit with licensed commercial Banks	–	–	588,383,766
Repurchase agreements	–	–	2,899,624,179
Loans and advances	–	–	27,301,961,524
Other advances	–	–	499,823,913
Investments in equity securities - unquoted	–	10,704,006	–
Investments in unit trust - unquoted	–		–
Treasury Bonds	–	–	–
Treasury Bills	–	–	–
	–	10,704,006	32,107,741,617
Financial liabilities not measured at fair value			
Due to banks	–	–	–
Deposits from customers	–	–	–
Savings deposits from customers	–	–	–
Other borrowings	–	–	–
Short-term and floating rated borrowings	–	–	–
Debt securities issued	–	–	–
Subordinated debentures	–	–	–
	–	–	–

Carrying Amount			Fair Value			
Held-to-Maturity Rs.	Other Financial Liabilities Rs.	Total Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
–	–	85,104,831	85,104,831	–	–	85,104,831
–	–	8,071,077	8,071,077	–	–	8,071,077
–	–	96,606,574	–	–	96,606,574	96,606,574
–	–	189,782,482	93,175,908	–	96,606,574	189,782,482
–	–	817,948,235	–	–	–	–
–	–	588,383,766	–	–	–	–
–	–	2,899,624,179	–	–	–	–
–	–	27,301,961,524	–	–	–	–
–	–	499,823,913	–	–	–	–
–	–	10,704,006	–	–	–	–
	–	–	–	–	–	–
185,086,178	–	185,086,178	191,990,964	–	–	191,990,964
782,432,811	–	782,432,811	781,505,191	–	–	781,505,191
967,518,989	–	33,085,964,612	973,496,155	–	–	973,496,155
–	6,060,439,800	6,060,439,800	–	–	–	–
–	9,083,178,124	9,083,178,124	–	–	9,299,870,885	9,299,870,885
–	382,277,210	382,277,210	–	–	–	–
–	864,650,046	864,650,046	–	–	883,737,065	883,737,065
–	8,502,982,719	8,502,982,719	–	–	–	–
–	3,127,018,895	3,127,018,895	–	–	3,096,319,007	3,096,319,007
–	1,272,876,786	1,272,876,786	–	–	1,288,858,155	1,288,858,155
–	29,293,423,580	29,293,423,580	–	–	14,568,785,112	14,568,785,112

As at 31 March 2017	Carrying Amount		
	Designated as FVTPL Rs.	Available-for-Sale Rs.	Loans and Receivables Rs.
Financial assets measured at fair value			
Investments in equity securities – quoted	77,957,551	–	–
Investments in unit trust – quoted	2,075,000	5,696,077	–
Investments in unit trust – unquoted	–	63,300,038	–
	80,032,551	68,996,115	–
Financial assets not measured at fair value			
Cash and cash equivalents	–	–	620,729,074
Deposit with licensed commercial Banks	–	–	2,424,623,839
Repurchase agreements	–	–	1,000,000,000
Loans and advances	–	–	23,367,264,288
Other advances	–	–	390,323,774
Investments in equity securities – unquoted	–	10,704,006	–
Treasury Bonds	–	–	–
Treasury Bills	–	–	–
	–	10,704,006	27,802,940,975
Financial liabilities not measured at fair value			
Due to banks	–	–	–
Deposits from customers	–	–	–
Savings deposits from customers	–	–	–
Other borrowings	–	–	–
Short-term and floating rated borrowings	–	–	–
Debt securities issued	–	–	–
Subordinated debentures	–	–	–
	–	–	–

	Carrying Amount			Fair Value			
	Held-to-Maturity Rs.	Other Financial Liabilities Rs.	Total Rs.	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
	–	–	77,957,551	77,957,551	–	–	77,957,551
	–	–	7,771,077	7,771,077	–	–	7,771,077
	–	–	63,300,038	–	–	63,300,038	63,300,038
	–	–	149,028,666	85,728,628	–	63,300,038	149,028,666
	–	–	620,729,074	–	–	–	–
	–	–	2,424,623,839	–	–	–	–
	–	–	1,000,000,000	–	–	–	–
	–	–	23,367,264,288	–	–	–	–
	–	–	390,323,774	–	–	–	–
	–	–	10,704,006	–	–	–	–
	182,105,842	–	182,105,842	176,542,106	–	–	176,542,106
	712,795,529	–	712,795,529	710,393,556	–	–	710,393,556
	894,901,371	–	28,708,546,352	886,935,662	–	–	886,935,662
	–	6,984,829,734	6,984,829,734	–	–	–	–
	–	6,862,743,338	6,862,743,338	–	–	7,075,407,762	7,075,407,762
	–	341,771,214	341,771,214	–	–	–	–
	–	1,684,024,010	1,684,024,010	–	–	1,608,787,328	1,608,787,328
	–	5,078,729,841	5,078,729,841	–	–	–	–
	–	3,683,045,483	3,683,045,483	–	–	3,782,838,523	3,782,838,523
	–	1,309,740,125	1,309,740,125	–	–	1,321,310,888	1,321,310,888
	–	25,944,883,745	25,944,883,745	–	–	13,788,344,501	13,788,344,501

C. Measurement of fair values – Company

1. Valuation techniques and significant unobservable inputs used for Financial Instruments not measured at fair value

The following tables show the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Other liabilities **	Discounted cash flows using prevailing current market rates for similar financial instruments.	Average Effective interest rate based on the maturity of deposits liability. Interest rate varied from 10.40% to 16.47%	The estimated fair Value would increase (decrease) if there is any changes in rate of Sri Lanka Government Treasury Bill.
Corporate debt securities	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	N/A	N/A

*** Other liabilities consists of Due to Banks, Deposits from customers, borrowings and debentures*

The following is a list of financial instruments which have not been considered under the fair value measurement hierarchy, because the carrying amount of those financial instruments is a reasonable approximation of fair value since they are short-term in nature or reprice to current market rates frequently.

Assets	Liabilities
Cash and cash equivalents	Other liabilities
Repurchase agreements	Savings deposits from customers
Other advances	Short-term and floating rated borrowings
	Bank overdrafts

D. Measurement of fair values – Group

1. Valuation techniques and significant unobservable inputs used for Financial Instruments not measured at fair value.

The following tables show the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Other liabilities **	Discounted cash flows using prevailing current market rates for similar financial instruments.	Average Effective interest rate based on the maturity of deposits liability. Interest rate varied from 10.40% to 16.47%.	The estimated fair Value would increase (decrease) if there is any changes in rate of Sri Lanka Government Treasury Bill.
Corporate debt securities	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	N/A	N/A

*** Other liabilities consists of Due to Banks, Deposits from customers, borrowings and debentures*

The following is a list of financial instruments which have not been considered under the fair value measurement hierarchy, because the carrying amount of those financial instruments is a reasonable approximation of fair value since they are short-term in nature or reprice to current market rates frequently.

Assets

Cash and cash equivalents
Repurchase agreements
Other advances

Liabilities

Other liabilities
Savings deposits from customers
Short-term and floating rated borrowings
Bank overdrafts

51. Risk Management

51.1 Introduction

The Company's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. Risk is an integral component of the business model of any finance company. Accordingly, the purpose of risk management is that the institution properly identifies, measures and handles risk and prepares adequate reports on all these efforts so that the extent of risks which the Company has assumed have been compensated with adequate return.

With this in mind, the Company has established and operates mechanisms, which ensure the on-going assessment of relevant risk types on an individual basis and of the overall risk position of the organisation.

At Senkadagala Finance PLC, the board of directors approves the integrated Risk Management Policy, which sets the objectives, principles, processes and responsibilities for risk management within the Company. The policy sets guidelines for defining, quantifying, monitoring and reporting financial risks. The integrated Risk Management committee, which is a subcommittee of the board, is responsible for reviewing the effectiveness of risk control policies, procedures and regulations.

More specifically, the committee is responsible for ensuring

- Integrity and adequacy of the risk management function of the Company
- Adequacy of the Company's capital
- Risk exposures and risk profiles of the Company are within acceptable parameters and to make recommendations to the board of directors on any action required
- The compliance of the Company's operations with relevant laws, regulations and standards

The Company is primarily exposed to credit risk, market risk, liquidity risk, operational risk and regulatory risk.

51.2 Credit risk

Credit risk is the risk that a borrower is unable to meet its financial obligations to the lender. In order to manage credit risk, the Company has established robust policies for credit appraisal and the staff is regularly trained in evaluating creditworthiness of prospective clients, Senkadagala Finance PLC manages high-risk sectors through sector restrictions that require prior high-level clearance before taking on new exposures even for small amounts. Once credits facilities are funded, they are continually monitored to identify changes in risk profiles. Further, sourcing and approval of clients are segregated to achieve independence. Recovery and NPA management are also given greater emphasis and are aggressively monitored.

The company has undertaken for a fee received from certain customers that in the event of a death of a lessee the company will not pursue litigation on the outstanding due on the next of kin or legal heir of the deceased and release them from all legal encumberences. The company has mitigated this risk by obtaining an insurance policy to cover its exposure on the above.

Impairment assessment

The Company uses Net Flow Rate model for the recognition of losses on impaired financial assets. The losses can only be recognised when objective evidence of a specific loss event has been observed. This includes,

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation
- Observable data that suggest that there is a decrease in the estimated future cash flow from the loans

Individually assessed allowances

It is determined the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in financial difficulty. Projected receipts and the expected pay out should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances and for held to maturity debt investments that are not individually significant.

The collective assessment bases its analyses on historical experience. However, when there are significant market developments, macro economic factor changes has to be considered. These factors include, current level of bad debts, changes in law, changes in regulations and other customer data. The Company may use the aforementioned factors as appropriate to adjust the impairment allowances.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes in to account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data such as current economic conditions, unemployment levels and local or industry-specific problems. The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Company overall policy.

51.2.1 Credit quality by class of financial assets

As at 31 March 2018	Neither Past Due Nor Impaired Rs	Past Due But Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
Assets				
Cash and cash equivalents	764,909,318	–	–	764,909,318
Deposit with licensed commercial banks	588,383,766	–	–	588,383,766
Repurchase agreements	2,899,624,179			2,899,624,179
Financial investments – Fair value through profit & loss	87,479,831	–	–	87,479,831
Loans and advances	13,234,607,547	14,295,889,618	271,288,272	27,801,785,437
Financial investments – Available for sale	113,006,657	–	–	113,006,657
Financial investments – Held to maturity	967,518,989	–	–	967,518,989
Total Financial Assets	18,655,530,287	14,295,889,618	271,288,272	33,222,708,177

51.2.1.1 Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets

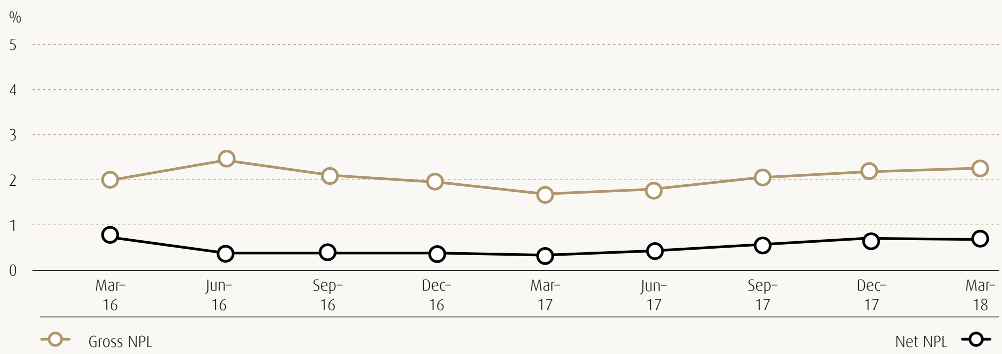
	Past Due But Not Impaired				
	Less than 30 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 91 days Rs.	Total Rs.
Loans and advances	5,474,941,621	4,203,695,586	4,160,708,048	456,544,363	14,295,889,618
	5,474,941,621	4,203,695,586	4,160,708,048	456,544,363	14,295,889,618

51.2.2 Non-performing asset ratio

Non-performing assets percentage movement which depicts the quality of the loan portfolio of the Company during the financial year.

The gross non-performing assets ratio includes loans and advances receivable net of interest in suspense which are in arrears for more than six months as the numerator and total advances net of interest in suspense as the denominator. To arrive at the Net Non-performing assets ratio specific provisions are deducted from the numerator of the above formula.

Non-performing asset ratio



51.2.3 Industry Analysis

The following table shows the risk concentration by industry for the components of the Statement of Financial Position as at 31 March 2018:

Sector wise Breakdown	Cash and Cash Equivalent and Sort-Term Deposit	Financial Investments - Held at fair value	Loans and Advances **	Financial Investments Available for Sale	Financial Investments - Held to Maturity	Total Financial Assets
Agriculture	–	118,500	1,614,068,280	–	–	1,614,186,780
Manufacturing	–	23,048,819	5,827,380,213	–	–	5,850,429,032
Construction	–	3,155,156	1,214,298,460	–	–	1,217,453,616
Financial Services	4,252,917,263	32,831,396	1,414,216,104	102,302,651	–	5,802,267,414
Trading	–	165,550	7,168,238,690	–	–	7,168,404,240
Retail	–	4,147,314	1,028,029,730	–	–	1,032,177,044
Government	–	–	–	–	967,518,989	967,518,989
Hotels	–	4,293,248	703,464,232	10,413,420	–	718,170,900
Services	–	19,719,848	8,832,089,728	290,586	–	8,852,100,162
Total	4,252,917,263	87,479,831	27,801,785,437	113,006,657	967,518,989	33,222,708,177

***Provincial breakdown for (01) Loans and advances (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows.*

Group reviews its geographical diversification on regular basis and sets long-term target in achieving a geographical well-diversified credit portfolio. Groups strategy on geographical diversification was executed through the establishment of distribution network of the Group. The geographical concentration is considered when selecting prospective location for new branches as well. The credit concentration of the economy is mostly affected by the wealth distribution of the country where high concentration was seen in the Western Province.

Province	Loans and Advances as at 31.03.2018
Central	3,039,749,767
Eastern	1,227,862,977
North Central	1,381,607,333
North Western	2,406,608,238
Northern	1,299,553,153
Sabaragamuwa	2,598,413,318
Southern	1,773,095,533
Uva	1,279,111,594
Western	12,795,783,524
Total	27,801,785,437

51.3 Liquidity risk and fund management

Liquidity risk is the risk of inadequate resources to meet financial obligations in time and in full, at an acceptable cost. As was seen in some registered finance companies in the recent past, liquidity risk can pose serious threats to the existence of finance companies. The Company understands the importance of a robust liquidity risk management policy and constantly monitors the liquidity position of the Company.

Further, It is the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit the risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. Therefore, the Company is not exposed to significant concentration risk.

51.3.1 Statutory liquid assets ratio

As per the requirements of Finance Companies (Liquid Assets) Direction No. 04 of 2013, Company has maintained minimum liquid assets, not less than 10% of the outstanding value of time deposits and face value of certificates of deposits; and 15% of the outstanding value of savings deposits received by the Company at a given day; and 5% of total outstanding borrowings excluding borrowings which are included in the capital funds of the finance company and borrowings which are secured by mortgage of any asset of the Company.

Further in accordance with the Finance Companies (Liquid Assets) Direction No. 04 of 2013 every Finance Company has to maintain assets in the form of approved securities equivalent to 7.5% of the average of month end total deposit liabilities and borrowings of the twelve months of the proceeding financial year.

As at 31 March 2018, the Company maintained Government Securities to Average Deposit liabilities and Borrowings ratio of 8.21% (2017-8.57%).

51.3.2 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2018.

	Less than 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	Over 03 Years Rs.	Total Rs.
Financial Assets					
Cash and cash equivalents	764,909,318	–	–	–	764,909,318
Deposits with licensed commercial banks	369,426,112	218,957,654	–	–	588,383,766
Repurchase agreements	2,899,624,179	–	–	–	2,899,624,179
Financial investments – Fair value through profit and loss	87,479,831	–	–	–	87,479,831
Loans and advances	4,157,791,969	8,490,876,080	12,024,582,624	3,128,534,764	27,801,785,437
Financial investments – Available for sale	96,606,574	2,278,431	3,417,646	10,704,006	113,006,657
Financial investments – Held to maturity	782,432,811	–	–	185,086,178	967,518,989
Total Financial Assets	9,158,270,794	8,712,112,165	12,028,000,270	3,324,324,948	33,222,708,177
Financial Liabilities					
Deposits from Customers	2,331,483,434	5,141,395,374	1,549,648,465	484,606,517	9,507,133,790
Bank overdraft	82,833,778	–	–	–	82,833,778
Debt instruments issued and other borrowed funds	1,216,152,534	6,521,526,496	10,145,349,182	1,810,393,022	19,693,421,234
Total Financial Liabilities	3,630,469,746	11,662,921,870	11,694,997,647	2,294,999,539	29,283,388,802
Total Net Financial Assets/ (Liabilities)	5,527,801,048	(2,950,809,705)	333,002,623	1,029,325,409	3,939,319,375

51.3.3 Capital management and capital adequacy

In order to be resilient in volatile economic conditions it's important to maintain an adequate capital base. Central Bank of Sri Lanka has laid down directions to promote the strengthening of the capital base of NBFIs.

In accordance with the Finance Companies (Capital Funds) Direction No. 01 of 2003, the Company transferred Rs. 45 million of net profits for the year, to the Statutory Reserve Fund. Since the capital base of the Company is greater that 25% of total deposit liabilities, only Rs. 45 Mn. which is greater than the required 5% of profits for the year was transferred to this reserve.

Further in accordance with the Finance Companies (Risk Weighted Capital Adequacy Ratio) Direction No. 02 of 2006, all the NBFIs are required to maintain, at all times its Capital at a level not less than 10% of its Risk Weighted Assets and the Core Capital at a level not less that 5% of Risk Weighted Assets. The ratios as at 31 March 2018 were 16.86% and as at 31 March 2017 were 14.19%. Detailed calculation is given below:

As at 31 March	2018 Rs.	2017 Rs.	Risk Weighting %	2018 Rs.	2017 Rs.
Risk Weighted Assets					
On-Balance Sheet-Total Assets	36,103,763,421	30,918,826,613		29,803,689,825	25,766,295,416
Cash and current accounts with banks	764,909,318	604,224,835	0	–	–
Deposits with banks	588,383,766	2,424,623,839	20	117,676,753	484,924,768
Sri Lanka government securities	3,867,143,168	1,894,901,371	0		–
Loans and Advances	27,801,785,437	23,757,588,062		26,604,471,340	23,043,882,142
Against deposits with the Company	203,633,762	165,303,320	0	–	–
Loans against gold and gold jewelery	993,680,335	548,402,600	0	–	–
Other loans and advances	26,604,471,340	23,043,882,142	100	26,604,471,340	23,043,882,142
Fixed assets	1,803,149,630	1,516,890,823	100	1,803,149,630	1,516,890,823
Other assets	1,278,392,102	720,597,683	100	1,278,392,102	720,597,683

Capital Base

As at 31 March	2018 Rs.	2017 Rs.
Tier 1: Core Capital		
Issued and paid up ordinary shares	**1,587,862,680**	1,008,062,200
Statutory reserve fund	**365,036,033**	310,036,033
Published retained profits	**3,071,416,182**	2,339,158,221
Total Tier 1 Capital	**5,024,314,895**	3,657,256,454
Tier 2: Capital		
Eligible revaluation reserves	**–**	–
Eligible general provisions	**–**	–
Approved hybrid capital instruments	**–**	–
Eligible approved unsecured subordinated term debt	**250,000,000**	500,000,000
Total Tier 2 Capital	**250,000,000**	500,000,000
Deductions		
Equity investments in unconsolidated financial and banking subsidiaries	**(15,374,011)**	(13,263,862)
Total Capital Base	**5,258,940,884**	4,143,992,592
Core capital ratio (minimum requirement 5%)		
Core Capital	**5,024,314,895**	3,657,256,454
Total Risk Weighted Assets	**29,803,689,825**	25,766,295,416
	16.86%	14.19%
Total capital ratio (minimum requirement 10%)		
Total Capital Base	**5,258,940,884**	4,143,992,592
Total Risk Weighted Assets	**29,803,689,825**	25,766,295,416
	17.65%	16.08%

During the 2013/14 financial year the Company Issued a Subordinated, Unsecured, Listed Debenture for a sum of Rs. 1,250 million. With the approval of the CBSL this was included in the capital base of the Company, it was expected to strengthen the capital base and to strike a balance between Tier 1 and Tier 2 capital. Accordingly as at 31 March 2018, only 20% of the said debenture, Rs. 250 Mn. is included under Tier 2 of the Company.

51.4 Market risk

Market risk is the risk of potential losses accruing through adverse fluctuation in market interest rates, equity prices and exchange rates. Of these markets risks, the more frequent and most likely is the risk of adverse fluctuation of interest rates. The effect of such adverse movements could have an immediate and direct bearing on the Company. The Company routinely assesses its assets and liability profile in terms of interest rate risk and depending on this assessment, necessary realignments in the assets and liability structure are undertaken. Overall authority for market risk management is vested in the Integrated Risk Management Committee (IRMC) of the Company.

51.4.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The board has established limits on the non-trading interest rate gaps for stipulated periods. The Company policy is to monitor positions on a daily basis and hedging strategies are used to ensure position are maintained within the established limits.

51.4.2 Currency risk

Currency risk is that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments dominated in a foreign currency. Intention of managing currency risk is to curtail the currency losses incurred due to foreign currency transactions. The Company monitors this on a daily basis however the company is not exposed to significant currency risk.

51.4.3 Equity price risk

Equity price risk is that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available for sale.

51.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems and from external events. Senkadagala Finance PLC manages operational risk in a variety of ways. These include maintaining a comprehensive system of internal controls including disaster recovery plans and business continuity plans, using technology to automate processes and reduce manual errors, Monitoring and analysing risk, events and trends, employing experienced staff, monitoring business activities by compliance and audit professionals, requiring education and training of employees, and emphasising the importance of management oversight.

The Company has in place a process of continuous internal audit utilising the services of Messrs. Ernst & Young, Advisory services.

51.6 Regulatory risk

Regulatory risk is the risk of non-compliance with applicable legislation, regulation and regulatory directives, Senkadagala Finance PLC manages day to day regulatory risk primarily by educating and training employees about regulatory requirements, establishing and maintaining appropriate policies and procedures, and monitoring for compliance. the Company has appointed a Compliance Officer for communicating regulatory requirements to each business unit, ensuring that business units have appropriate policies and procedures in place and that staff are trained to meet regulatory requirements and for tracking, escalating and reporting significant issues and finding to senior management and the Board.

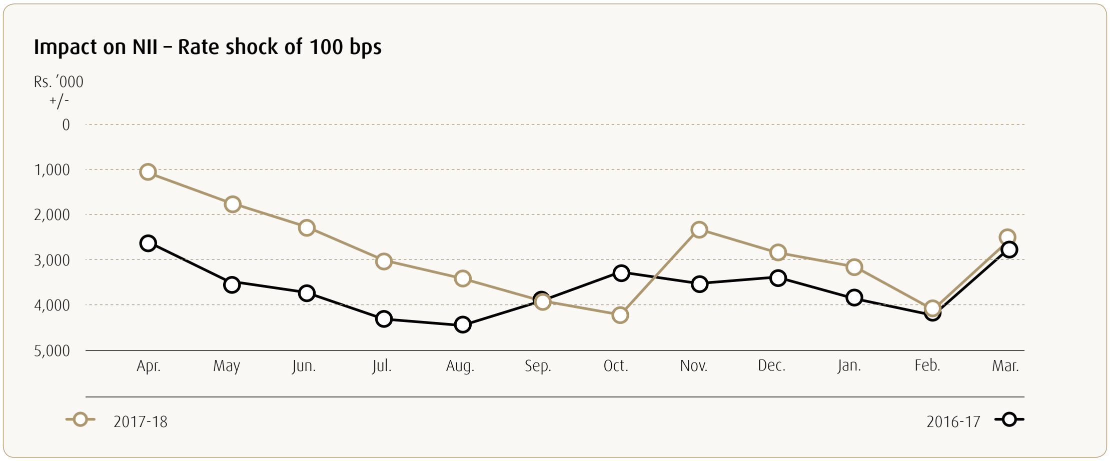
In this latter process, the Compliance Officer is supported and assisted by the Company's Internal Auditors, Messrs. Ernst & Young Advisory Services . who also report on any issues of non-compliance, with both internal and external regulations. Compliance with regulatory requirements is also documented through formal procedure manuals for each business unit.

51.6 Reputation risk

Reputation risk is the risk to earning, capital or brand arising from negative public or employee opinion. A company's reputation is a valuable business asset in its own right, essential to optimising shareholder value. Reputation risk cannot be managed in isolation from other forms of risks, since all risks can have an impact on reputation, which in turn can impact the brand, earning and capital. Credit, liquidity, interest rate, operational, and regulatory risk must all be managed effectively in order to safeguard the Company's reputation.

52. Sensitivity Analysis

The graph below depicts the sensitivity analysis carried out on the statement of financial position as at 31 March 2018 on the changes of interest rate right across the market in a hypothetical situation. The Company is exposed to sudden interest rate fluctuations due to the availability of short term and floating rate funding. The exposure will partly diminish by the short term, rate sensitive investments. The time horizon of the study is restricted to a 12 months period. The Company undertakes varying degrees of such rate shocks and evaluate them to ensure that the risk exposures are within the risk appetite of the company as compared to the anticipated market rate movements.



Sensitivity to projected Net Interest Income	100 bps parallel increase/ Decrease*	
	2018	2017
	Rs. '000	Rs. '000
As at 31 March	+/- 2,658	+/- 2,513
Average for the period	+/- 3,616	+/- 2,876
Maximum for the period	+/- 2,562	+/- 1,028
Minimum for the period	+/- 4,496	+/- 4,253

*- *Parallel increase in rates would have a positive impact on earnings whereas parallel decrease would have a negative impact.*

In arriving at the above result the Company considered only rate sensitive assets and liabilities.

Annexes

Ten Year Summary

	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2009 Rs. '000
Operating results										
Interest income	6,472,115	4,825,712	3,746,374	3,584,165	3,528,336	2,861,923	1,884,502	1,493,088	1,451,560	1,560,124
Interest expense	3,410,064	2,402,305	1,701,766	1,750,532	1,868,499	1,524,288	841,034	679,358	845,696	931,904
Net interest income	3,062,051	2,423,408	2,044,607	1,833,634	1,659,838	1,337,635	1,043,467	813,730	605,864	628,220
Other operating income	298,215	312,424	218,173	131,220	94,950	113,678	131,523	177,868	100,671	87,309
Profit before taxation and VAT	1,572,504	1,280,293	971,116	697,029	657,054	735,545	692,960	435,584	172,614	132,807
Profit before income taxation	1,357,416	1,119,133	882,550	647,444	622,417	680,482	634,872	349,626	138,485	113,583
Profit for the year	1,004,671	860,971	613,182	539,639	534,942	578,526	476,450	222,400	54,951	61,364
Dividends paid	213,077	185,899	166,330	107,625	214,901	132,886	127,016	63,508	19,212	29,886
Balance sheet										
Assets										
Cash and near cash items	5,220,436	4,923,750	3,496,397	2,796,849	2,073,101	1,860,837	1,277,793	617,647	659,489	379,798
Investments	200,486	159,733	98,637	103,701	86,912	69,047	61,299	66,126	37,742	32,305
Loans and advances	27,801,785	23,757,588	16,908,140	13,582,928	12,675,542	11,559,936	8,968,566	5,398,168	4,684,291	4,882,142
Investments in subsidiary	320,000	320,000	320,000	320,000	20,000	20,000	–	–	–	–
Property and equipment	1,803,150	1,516,891	1,194,663	1,122,864	857,732	629,823	557,758	429,969	422,658	401,969
Other assets	757,906	240,865	252,107	146,677	156,390	129,935	152,086	107,544	60,948	51,986
Total assets	36,103,763	30,918,827	22,269,945	18,073,018	15,869,676	14,269,579	11,017,502	6,619,454	5,865,128	5,748,200
Liabilities										
Deposits from customers	9,507,134	7,230,873	6,510,033	6,541,896	5,624,399	3,412,464	2,732,031	2,386,821	2,094,478	1,398,151
Borrowings	15,376,359	13,743,732	8,691,685	4,787,693	3,423,011	6,136,152	4,805,838	1,528,532	1,428,382	2,401,083
Debentures	4,399,896	4,992,786	3,059,849	3,579,737	4,157,346	2,618,281	1,771,753	1,425,524	1,090,000	840,000
Deferred tax liability	860,681	607,702	434,104	197,116	155,732	199,093	178,788	103,560	70,968	65,240
Dividends payable	6,266	5,337	4,454	6,280	57,295	3,648	2,427	1,684	1,340	1,016
Other liabilities	921,941	676,780	576,461	426,451	350,110	325,894	399,961	439,996	275,061	156,471
Total liabilities	31,072,277	27,257,209	19,276,586	15,539,171	13,767,894	12,695,532	9,890,798	5,886,117	4,960,228	4,861,961
Equity										
Stated capital	1,587,863	1,008,062	1,008,062	1,008,062	747,152	533,680	533,680	533,680	213,472	213,472
Statutory reserve fund	365,036	310,036	265,036	230,036	195,036	165,036	130,036	100,036	86,536	83,536
Other reserves	7,171	4,361	3,775	–	170,629	154,760	97,059	16,752	–	–
Retained earnings	3,071,416	2,339,158	1,716,486	1,295,749	988,966	720,571	365,928	82,870	604,892	589,231
Total equity	5,031,486	3,661,618	2,993,359	2,533,847	2,101,783	1,574,047	1,126,704	733,337	904,900	886,239
Total liabilities and equity	36,103,763	30,918,827	22,269,945	18,073,018	15,869,676	14,269,579	11,017,502	6,619,454	5,865,128	5,748,200

Key Ratios and Indicators

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Performance indicators										
Return on average total assets (%)	3.00	3.24	3.04	3.18	3.55	4.58	5.40	3.56	0.95	1.06
Return on average shareholders' funds (%)	23.11	25.87	22.19	23.28	29.11	42.84	51.23	27.15	6.14	7.04
Net interest margin (%)	9.93	9.87	11.12	11.78	11.78	11.30	12.83	14.33	11.43	11.89
Growth of Interest Income (%)	34.12	28.81	4.53	1.58	23.29	51.87	26.22	2.86	-6.96	23.83
Growth of profit for the year (%)	16.69	40.41	13.63	0.88	-7.53	21.42	114.23	304.73	-10.45	-74.55
Growth of loans and advances (%)	17.02	40.51	24.48	7.16	9.65	28.89	66.14	15.24	-4.05	1.94
New Advances disbursed Rs. '000	17,599,623	17,290,095	11,868,522	8,263,649	6,861,202	7,009,369	7,325,099	4,069,048	2,361,059	2,672,551
Net flow of Deposits Rs. '000	2,276,261	720,839	(31,863)	917,496	2,211,935	680,433	345,210	298,264	696,327	460,836
Borrowings obtained Rs. '000	6,740,000	7,800,000	5,499,710	3,382,550	1,860,000	3,703,345	4,568,600	1,020,910	1,005,723	1,251,489
Debentures issued Rs. '000	–	3,000,000	–	–	2,410,000	1,216,000	565,229	300,000	350,000	240,000
Capital expenditure incurred Rs. '000	359,136	640,867	351,403	473,130	407,514	213,881	243,266	103,066	103,682	116,993
Gross Non-performing asset ratio (%)*	2.28	1.64	2.02	4.30	3.48	1.07	1.18	2.30	4.31	3.53
Investor information										
Earnings per share (Rs.)	13.97	13.20	9.40	8.27	8.63	10.64	8.93	4.17	1.03	1.15
Dividends per share (Rs.)	3.00	2.85	2.55	1.65	3.66	2.49	2.38	1.51	0.90	1.40
Net assets per share (Rs.)	69.42	56.14	45.89	38.85	35.80	29.49	21.11	13.74	42.39	41.52
Interest cover (times)	1.29	1.47	1.52	1.31	1.29	1.38	1.57	1.33	1.06	1.07
Dividends cover (times)	4.72	4.63	3.69	5.01	2.49	4.35	3.75	3.50	2.86	2.05
Dividend payout ratio (%)	21.21	21.59	27.13	19.94	40.17	22.97	26.66	28.56	34.96	48.70
Capital and leverage				-0.58						
Core capital (%)	16.86	14.19	15.98	16.54	14.00	11.41	10.51	12.07	17.56	16.67
Total capital (%)	17.65	16.08	19.90	22.97	20.93	11.31	10.51	12.07	17.56	16.67
Equity as a % of total assets (%)	13.94	11.84	13.44	14.02	13.24	11.03	10.23	11.08	15.43	15.42
Equity as a % of total deposits and borrowings (%)	17.18	14.10	16.39	17.00	15.92	12.94	12.10	13.73	19.62	19.10
Growth of total assets (%)	16.77	38.84	23.22	13.88	11.21	29.52	66.44	12.86	2.03	-0.65
Growth of net assets (%)	37.41	22.32	18.13	20.56	33.53	39.70	53.64	-18.96	2.11	3.42
Earnings retention ratio (%)	78.79	78.41	72.87	80.06	59.83	77.03	73.34	71.44	65.04	51.30
Capital to total deposits (%)	52.92	50.64	45.98	38.73	37.37	46.13	41.24	30.72	43.20	63.39
Debt to equity ratio (times)	3.93	5.12	3.93	3.30	3.61	5.56	5.84	4.03	2.78	3.66
Liquidity										
Liquid assets as a % of total assets	14.46	15.92	15.70	15.48	13.06	13.04	11.60	9.33	11.24	6.61
Liquid assets as a % of total deposit liability	54.91	68.09	53.71	42.75	36.86	54.53	46.77	25.88	31.49	27.16
Operational										
Number of branches	54	49	39	39	39	39	30	30	30	30
Number of service centres	41	41	41	41	24	13	15	0	0	0
Number of pawning centres	26	18	13	11	11	6	1	0	0	0
Number of staff	745	690	627	601	492	414	347	235	213	211
Staff productivity (Rs. '000)	1,822	1,622	1,408	1,077	1,265	1,644	1,830	1,488	650	538

* *As per CBSL regulations*

Branch/Service Centre Network

Branches	Address	Telephone	Fax
Akuressa	No. 24/20, Predeshiya Sabha Road, Akuressa	041-2285060	041-2285065
Aluthgama	No. 168, Galle Road, Kaluwamodara, Aluthgama	034-2270573	034-2270578
Ampara	No. 778 A, D S Senanayaka Mawatha, Ampara	063-2224057	063-2224093
Anuradhapura	No. 561/4, New Bus Stand, Anuradhapura	025-2237969	025-2237989
Aturugiriya	No. 303, Godagama Road , Athurugiriya	011-2185888	011-2185889
Badulla	No. 2, Riverside Road, Badulla	055-2224401	055-2224407
Bandaragama	No. 91, Panadura Road, Bandaragama.	038-2293903	038-2293924
Colombo 03	2nd Floor, 267, Galle Road, Colombo 3	011-2301301	011-2301937
Dambulla	No. 357, Matale Road, Dambulla	066-2285530	066-2285535
Dehiaththakandiya	F-74, New Town , Dehiattakandiya	027-2050800	027-2050805
Deniyaya	No. 54, Main Street, Deniyaya.	041-2273891	041-2273896
Embilipitiya	No. 325 B, Ratnapura Road, Pallegama, Embilipitiya	047-2261991	047-2261996
Galle	No. 143, Colombo Road , Kaluwella, Galle	091-2248111	091-2248116
Gampaha	No. 560 A, Colombo Road, Gampaha	033-2233555	033-2233560
Gampola	No. 42, Panabokka Mawatha, Gampola	081-2350100	081-2351850
Homagama	No. 94/1 (First Floor) Highlevel Road, Homagama	011-2857878	011-2857880
Horana	No. 246, Panadura Road, Horana	034-2262770	034-2262776
Ja-Ela	No. 67 , Negombo Road, Ja-Ela	011-2247861	011-2247866
Jaffna	No. 62/3, New Stanley Road, Jaffna	021-2219960	021-2219965
Kaduruwela	No. 292, Saw Mill Junction, Kaduruwella	027-2224739	027-2224743
Kaduwela	No. 482/5/A, Colombo Road, Kaduwela	011-2538180	011-2538186
Kandy	No. 12, Kotugodella Veediya, Kandy	081-2201201	081-2201207
Katugastota	No. 437B, 1st & 2nd Floor, Katugastota Road, Kandy	081-2213860	081-2213867
Kegalle	No. 243, Colombo Road, Kegalle	035-2221277	035-2221281
Kelaniya	No. 457, Kandy Road, Dalugama, Kelaniya	011-2914714	011-2914887
Kirindiwela	No. 27/16/1, Nugahenawatta, Kirindiwela.	033-2247851	033-2247856
Kotahena	No. 178 (Third Floor) George R De Silva Mawatha, Colombo 13	011-2441261	011-2441267
Kuliyapitiya	No. 74/1/1, Hettipola Road, Kuliyapitiya	037-2284630	037-2284635
Kurunegala	No. 34, Kandy Road, Kurunegala	037-2220402	037-2220405
Maharagama	No. 16/1/A, High Level Road, Maharagama	011-2896888	011-2896052
Maho	No. 234 , Moragollagama Road, Maho	037-2275320	037-2275324
Matale	No. 97, 97 A, King's Street, Matale	066-2222954	066-2222960
Matara	No. 558, Anagarika Dharmapala Mawatha, Pamburana, Matara	041-2233891	041-2233896
Mathugama	No. 146, Aluthgama Road, Mathugama.	034-2295000	034-2295005
Mawanella	No. 10 (First Floor) Rankothdiwela, Mawanella	035-2247626	035-2247655
Mawathagama	No. 174 "Thissa Saw Mill", 7th Mile Post, Kurunegala Rd, Mawathagama	037-2296443	037-2296448
Mount Lavinia	No. 246, 1/1, Galle Road, Ratmalana South, Mount Lavinia	011-2715001	011-2715002
Narammala	No. 285, Uyanwatta Road, Narammala	037-2249892	037-2249897
Negombo	No. 149, 1st Floor, Rajapakse Broadway, Negombo	031-2223456	011-2223462
Nittambuwa	No. 538/3, 38 Kilometre Post, Malwatta, Nittambuwa	033-2297030	033-2297035
Nugegoda	No. 257 C, Stanley Thilakaratne Mawatha, Nugegoda	011-2856600	011-2856650
Nuwara Eliya	No. 26, Upper Lake Road, Nuwara Eliya	052-2224123	052-2224128
Panadura	No. 229, Galle Road, Panadura	038-2243990	038-2243995
Pelawatte	No. 1,067, Pannipitiya Road, Battaramulla	011-2774140	011-2774145
Piliyandala	No. 91B , 93 , Colombo Road , Piliyandala	011-2615740	011-2615745
Pothuhera	No. 175, Kurunegala Road, Pothuhera.	037-2237783	037-2237784
Puttalam	Level 1, No. 1, Kurunegala Road, Puttalam	032-2266783	032-2266789
Ratnapura	No. 19, Kudugalawatte, Ratnapura	045-2226890	045-2226895
Thambuttegama	No. 185/158 , Regina Junction, Thambuttegama	025-2275472	025-2275478
Vavuniya	No. 8, 1st Cross Street, Vavuniya	024-2226340	024-2226345
Wattala	No. 264, Negombo Road, Wattala	011-2949611	011-2949616
Wattegama	No. 79, Kandy Road, Wattegama.	081-2476331	081-2476350
Welimada	No. 17, Haputhale Road, Welimada.	057-2245684	057-2245690
Wennappuwa	No. 272, Chilaw Road, Wennappuwa	031-2245226	031-2245271

Service Centres	Address	Telephone	Fax
Ambalangoda	No. 118B, Galle Road, Ambalangoda	091-2254901	091-2254906
Avissawella	No.19, Kudagama Road, Avissawella	036-2222800	036-2222805
Balangoda	No. 281, Colombo Road, Balagahamula, Balangoda	045-2289533	045-2289537
Bandarawela	No. 68, Dharmavijaya Mawatha, Bandarawela	057-2222675	057-2222679
Batticaloa	No. 221 (Ground & First Floor), Trinco Road, Batticaloa	065-2229200	065-2229205
Chavakachcheri	No. 15, Kandy Road, Chavakachcheri	021-2270951	021-2270956
Chilaw	No. 53, Kurunegala Road, Chilaw	032-2224043	032-2224048
Dehiwala	No. 121, Galle Road, Dehiwala	011-2732456	011-2732460
Digana	No. 2,004/18/7, Kandy Road, Digana	081-2376623	081-2376643
Eheliyagoda	No. 320, Main Street, Eheliyagoda	036-2257341	036-2257346
Elpitiya	No. 42, Ambalangoda Road, Elpitiya	091-2290485	091-2290495
Galewela	No. 87/3A, Kurunegala Road, Galewela	066-2288025	066-2288075
Giriulla	No. 101, Negombo Road, Giriulla	037-2288700	037-2288770
Hanwella	No. 40, Pahala Hanwella, Hanwella	036-2252190	036-2252195
Hingurakgoda	No. 9, Airport Road, Hingurakgoda	027-2245680	027-2245685
Jampettah Street	No. 124, Jampettah Street, Colombo 13	011-2380804	011-2380809
Kadawatha	No. 316 H, Kandy Road, Kadawatha	011-2929010	011-2929090
Kalmunai	No. 202, Baticaloa Road, Kalmunai	067-2226860	067-2226865
Kalutara	First floor, No. 443,443/1, Galle road, Kalutara	034-2227101	034-2227106
Kekirawa	No. 55, Main Road, Kekirawa	025-2263234	025-2263239
Kilinochchi	Opposite Commercial Bank, Kandy Road, Kilinochchi	021-2283720	021-2283725
Kohuwala	No. 210, Dutugemunu Street, Kohuwala	011-2890800	011-2890805
Mahiyanganaya	No. 109/1, Padiyathalawa Road , Mahiyanganaya	055-2258280	055-2258285
Maradana	No. 92, Deans Road, Colombo 10, Maradana	011-2683600	011-2683222
Minuwangoda	No. 12, Weyangoda Road, Minuwangoda	011-2295177	011-2295189
Mirigama	No. 71, Negombo Road, Meerigama	033-2276868	033-2276911
Monaragala	No. 112, Wellawaya Road, Monaragala	055-2055421	055-2055426
Moratuwa	No. 18, New Galle Road, Moratuwa	011-2644249	011-2644254
Nelliady	No. 58/1, Point Pedro Road, Nelliadi	021-2261430	021-2261435
Nikaweratiya	No. 245/A , Puttalam Road, Nikaweratiya	037-2260117	037-2260217
Pilimathalawa	No. 96/07, Colombo Road, Pilimathalawa	081-2579622	081-2579623
Ragama	No. 46B, Kadawatha Road, Ragama	011-2953992	011-2953993
Rambukkana	Nos. 63 & 67, Mawanella Road, Rambukkana	035-2266650	035-2264655
Seeduwa	No. 394, Negombo Road, Seeduwa	011-2251863	011-2251869
Tangalle	35, Sea Road, Tangalle	047-2241902	047-2241907
Tissamaharama	No. 60, Palliyawatta Road, Thissamaharama	047-2239925	047-2239930
Trincomalee	No. 346, (Ground Floor) Main Street, Trincomalee	026-2225115	026-2225119
Warakapola	No. 211C, Colombo Road, Warakapola	035-2267020	035-2267022
Wariyapola	No. 141, Kurunegala Road, Wariyapola	037-2268880	037-2268885
Wellawatte	Nos. 55, 55A, 55B, Manning Place, Wellawatte	011-2363634	011-2363680
Wellawaya	No. 72, Ella Road, Wellawaya	055-2274194	055-2274198

GRI Content Index

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G4-LA16	Grievances about labour practices	66	
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Financial Sector Disclosures

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Notice of Meeting

NOTICE IS HEREBY GIVEN that the 49th Annual General Meeting of Senkadagala Finance PLC will be held at the Registered Office of the Company, 2nd Floor, No. 267, Galle Road, Colombo 03, on 29 June 2018 at 10.00am for the following purposes:

1. To receive and consider the Statement of Accounts for the year ended 31 March 2018 with the Annual Report of the Board of Directors and Auditors' Report thereon.
2. To declare a final dividend of Rs. 68,851,307.95 (Rs. 0.95 per share) to the shareholders of the Company as recommended by the Board of Directors.
3. To reappoint the Auditors, Messrs KPMG, Chartered Accountants and authorise the Board of Directors to determine their remuneration.
4. To authorise the Board of Directors to determine donations for the year 2018/19.

By Order of the Board of
Senkadagala Finance PLC

Sgd.
Mrs C Salgado
Managers and Secretaries (Private) Limited
Secretaries

Colombo,
Sri Lanka

31 May 2018

Form of Proxy

I/We, the undersigned...

of..being a member/members* of

Senkadagala Finance PLC hereby appoint –

Mr Lakshman Balasuriya of Colombo	or failing him*
Dr Asoka Balasuriya of Kandy	or failing him*
Dr Mahendra Balasuriya of Colombo	or failing him*
Mrs Lakshmi Fernando of Colombo	or failing her*
Mr Widanalage Ajith Terrence Fernando of Colombo	or failing him*
Dr Prathap Ramanujam of Colombo	or failing him*
Mr Sanath Divale Bandaranayake of Colombo	or failing him*
Mr Don Tilak Padmanabha Collure of Colombo	or failing him*
Mr Wadugamudalige Marius Ravindra Sirilal Dias of Colombo	or failing him*
Mr Senanayakege Raja Pushpakumara of Colombo	or failing him*

Mr/Mrs/Dr...

of ....as my/ our* proxy to attend and vote at the 49th Annual General Meeting of the Company to be held at the Registered Office of the Company, 2nd Floor, No. 267, Galle Road, Colombo 03 on 29 June 2018 at 10.00am and at any adjournment thereof.

		For	Against
1.	To receive and consider the Statement of Accounts for the year ended 31 March 2018 with the Annual Report of the Board of Directors and Auditors' Report thereon.		
2.	To declare a final dividend of Rs. 68,851,307.95 (Rs. 0.95 per share) to the shareholders of the Company as recommended by the Board of Directors.		
3.	To reappoint the Auditors, Messrs. KPMG, Chartered Accountants and authorise the Board of Directors to determine their remuneration.		
5.	To authorise the Board of Directors to determine donations for the year 2018/19.		

Signed on this..day of...2018.

....

Signature   NIC/PP/Co. Reg. No.

Note

*Please delete the inappropriate words.

Instructions on completing the Form of Proxy are set out on the reverse.

Instructions for completion of Form of Proxy

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. Please indicate clearly how your proxy should vote on the Resolution. If no indication is given, the proxy in his/her discretion will vote as he/she thinks fit.
3. In the case of a company/corporation, the proxy must be under its common seal, which should be affixed and attested in the manner prescribed by its Articles of Association.
4. The completed Form of Proxy should be deposited at the Registered Office of the Company at Senkadagala Finance PLC, 2nd Floor, No. 267, Galle Road, Colombo 03, 48 hours before the time appointed for the meeting.

Corporate Information

Name of Company
Senkadagala Finance PLC

Date of Incorporation
29 December 1968

Legal Status

- Listed public limited liability company incorporated on 29 December 1968. The Company re-registered under the Companies Act No. 07 of 2007.
- Approved and registered under the Finance Business Act No. 42 of 2011.
- Approved and registered under the Finance Leasing Act No. 56 of 2000.

Company Registration Number
PB 238 PQ

Taxpayer Identification Number (TIN)
104028349

Registered Office
2nd Floor, 267, Galle Road,
Colombo 03,
Sri Lanka
Tel: 011-2301301
Fax: 011-2301937
SWIFT code: SENFLKLX
Email: info@senfin.com
Website: www.senfin.com

Stock Exchange Listing

- 72,475,061 ordinary shares of the Company are listed in the "Diri Savi" Board of the Colombo Stock Exchange with effect from 22 March 2011
- 12,500,000 subordinate, unsecured, redeemable debentures of Rs. 100 each – December 2013 to December 2018 with fixed rate interest payments
- 3,972,700 senior, unsecured, listed, redeemable, rated Debenture of Rs. 100 each – November 2016 to November 2018 with fixed rate interest payments
- 1,895,200 senior, unsecured, listed, redeemable, rated Debenture of Rs. 100/- each – November 2016 to November 2019 with fixed and floating rate interest payments
- 24,132,100 senior, unsecured, listed, redeemable, rated Debenture of Rs. 100/- each – November 2016 to November 2020 with fixed and floating rate interest payments are listed in the Main Board of the Colombo Stock Exchange

Credit Rating
Fitch Ratings Lanka Ltd. affirmed BBB+ (lka) with a stable outlook, in 2017

Board of Directors

Mr W M R S Dias
FCIBC (Lon), LL.B
Hubert H Humphrey Fellow
Chairman

Dr P Ramanujam
BSc (Hons), MSc. PhD in Economics
Independent Non-Executive Director

Mr L Balasuriya
BSc (Lon), MSc (Lancaster)
Managing Director/CEO

Dr A Balasuriya
BSc (Lon), PhD (Lon)
Executive Director – Operations

Dr M Balasuriya
BVSc
Executive Director – Planning

Ms L Fernando
BSc (Hons)
Executive Director – Human Resources

Mr W A T Fernando
FCMA (UK), MA (Colombo)
Independent Non-Executive Director

Mr S D Bandaranayake
BSc (University of Sri Lanka)
Executive Director – Additional CEO

Mr T Collure
BSc (Colombo), MPA (USJ)
Independent Non-Executive Director

Mr Senanayakege R Pushpakumara
FCA, B Com (Special) (USJ), PG Dip. (B Mgt.)
Independent Non-Executive Director

Secretaries
Managers and Secretaries (Pvt) Ltd.
8, Tickell Road, Colombo 08

Auditors
KPMG
Chartered Accountants
32A,
Sir Mohamed Macan Markar Mawatha,
Colombo 03

Legal Consultants
FJ & G de Saram
Attorneys-at-Law
216, De Saram Place,
Colombo 10

Internal Auditors
Ernst & Young Advisory Services (Pvt) Ltd.
839/2, Peradeniya Road, Kandy

Bankers
Commercial Bank of Ceylon PLC
Hatton National Bank PLC
Sampath Bank PLC
National Development Bank PLC

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